

Memorandum

To: City Council

From: Sonja Springer, Financial Services Director

Via: John J. Caulfield, City Manager

Date: April 3, 2008

Subject: Fourth Quarter Financial Report (Preliminary 2007 Year-End Close-Out)

INTRODUCTION:

This financial report is intended to provide an overview of financial activity that has taken place through December 2007. The report focuses mainly on activity incurred in the following funds: General, Street, Recreation, Real Estate Excise Tax, and Utility (Storm Water, Sewer & Water).

The Sources and Uses Financial Report (Attachment) capture the financial activity and reflects all revenue and expenditures incurred between 2004 through 2007. This report includes all of the City's 24 funds, as well as the beginning and ending fund balances of each fund and historical detail back to 2004. The report also reflects the 2007 budget amendments that were considered and adopted by the Council on May 21, 2007, and the additional 2007 budget amendments that were adopted on November 19.

In summary, 2007 was another successful year for the City of Mountlake Terrace, both from an operational perspective and financial one. Overall, revenues and expenditures for the City's funds are tracking consistent with the 2007 revised budget and the six-year financial forecast.

As we enter 2008, the national economy continues to slow caused most recently by problems in the housing and credit markets. The good news is that while our regional economy in the Puget Sound has also slowed recently, our region may avoid a recession buoyed by a weak dollar and a strong foreign demand for Washington State exports. We will continue to monitor our revenue collections closely (e.g., sales tax, real estate excise tax).

GENERAL FUND:

As of the end of the fourth quarter of 2007, General Fund operating revenues totaled \$14,479,771, which is \$197,867 or 1.4% over the 2007 budgeted operating revenue of \$14,281,904. General Fund operating expenditures totaled \$13,444,323 at the end of the fourth quarter, which is 98% or \$306,017 below the revised budget of \$13,750,340.

The Ending Fund Balance as of December 31, 2007 totals \$3,921,680, of which \$146,132 is reserved for outstanding encumbrances (commitments on contracts), \$321,953 is reserved for

contingencies (2% of General Fund operating expenditures), and \$672,383 is set aside as reserves (5% of General Fund operating expenditures).

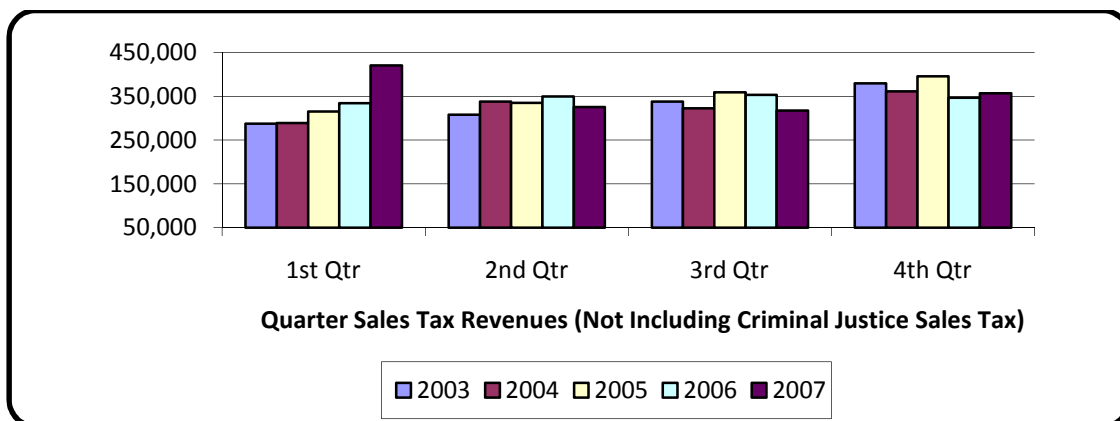
A few projects that were budgeted in 2007 were not completed in 2007, and in May we will be requesting to carryover these unspent funds to 2008. These projects total \$138,200 in the General Fund (tentative estimate).

After subtracting this carryover amount, there is a net ending fund balance of \$2,643,012 which is projected to be invested in the City's capital improvement program between 2008 and 2012. The net effect, after contingencies, reserves and encumbrances, is a 2007 ending fund balance that is \$384,963 above the 2008 budget and six year financial forecast.

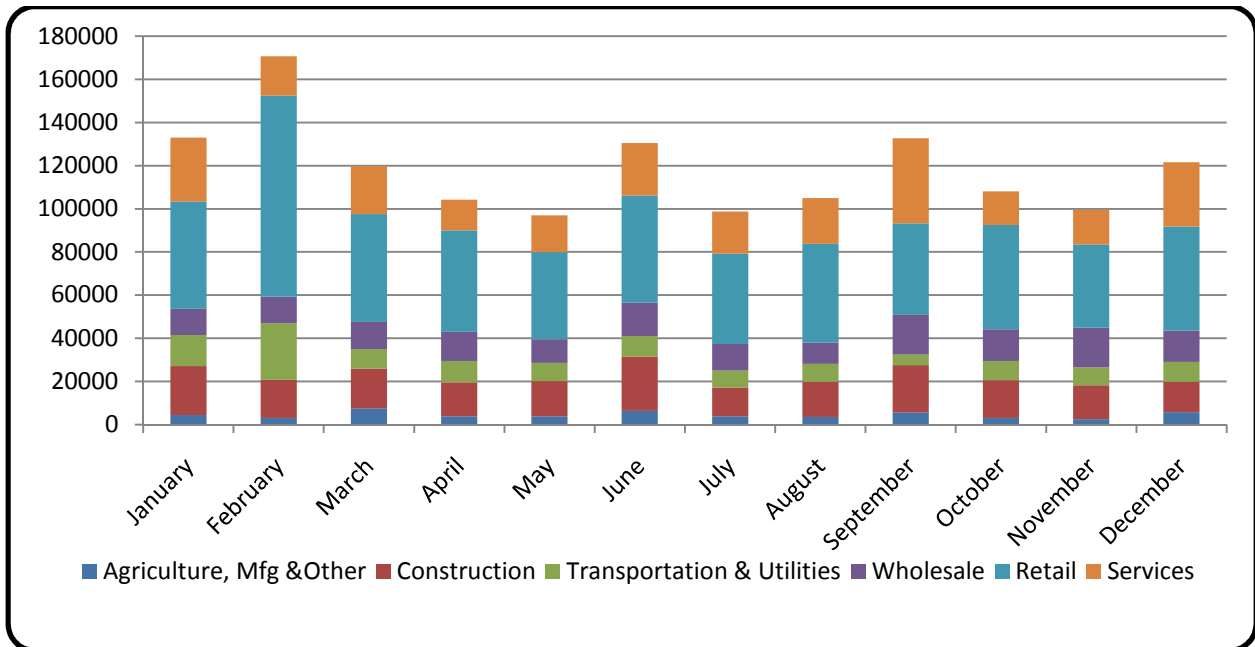
General Fund Revenues

Property tax revenues were slightly below budget, coming in at 97.5% of the adopted budget. The difference between the budget and what was actually received in 2007 reflects a lag in collection of property taxes. Sales tax revenues totaled \$1,756,581 for the year, or \$97,419 under the annual budget. This decrease is mostly attributable to the loss of the largest sales tax payer in the City, CompUSA.

As the chart below indicates, fourth quarter 2007 sales tax revenues were slightly higher than the fourth quarter of 2006, but they are lower than the other previous three years. The charts below do not include criminal justice sales tax revenues received totaling \$335,913 which are distributed to the City based upon population



The chart below shows the monthly sales tax revenues for 2007, by type. The sales tax received from retail sales represents 42% of all sales tax revenues, while sales tax from services totals 19% and sales tax from construction represents 15% of all sales tax received in 2007.



Gas utility taxes exceeded the budget by \$75,217 and electric utility taxes exceeded the annual budget by \$11,894. Cable franchise fees are \$48,032 over budget and cable utility taxes are \$39,487 over the adopted budget. Telephone utility taxes exceeded the budget by \$81,048. City utility taxes, which reflect 10% of water, sewer and storm water revenues, are at 97% of budget at the end of the fourth quarter, less than budget due to less water consumption than projected.

Admission taxes totaled \$133,324 for the year. This reflects only 82.5% of the adopted budget and is indicative of fewer ticket sales at the Mountlake 9 Theatre, possibly due to the new Loews 16 theatre in Lynnwood. This revenue has been decreasing over the past 3 years, after peaking at \$212,425 in 2004.

Gambling tax revenues total \$1,609,601 through the fourth quarter, or \$109,601 over the adopted 2007 budget of \$1,500,000. Although this is higher than budgeted, gambling tax revenues received in 2007 are \$71,664 less than the gambling tax revenues received in 2006. Gambling tax from punch boards and pull tabs decreased by \$23,716 from 2006, tax from card rooms decreased by \$28,791 and gambling tax from bingo and raffles decreased by \$19,157. The gambling tax rate on bingo activities decreased from 5% to 2.5% effective April 1 of last year.

City Assistance funding from the State of Washington totaling \$105,553 was received through the fourth quarter of 2007, which is the maximum amount distributed to a city. This funding, established by State Senate Bill #6050, allocates a portion of the State's real estate excise tax to replace a portion of the financial assistance eliminated following Initiative 695.

While engineering fees are \$109,555 below budget, plan check and zoning fees are \$93,872 over budget. Total development fee revenues which include building permits, plan check and zoning fees and engineering fees, are \$20,393 below the adopted 2007 budget.

The City received \$84,000 of golf course rent through the fourth quarter. Per the terms of the lease due to the inclement weather in December, 2007, the City did not charge Hardy Golf for December's rent of \$3,000 due to the severe flooding from the December 3, 2007 storm event.

Transport fees are above expectations coming in at \$311,483 through the fourth quarter. These revenues reflect one-time receipts from 2006 billings for transport services, and transport fees collected by Fire District 1 in 2007. Transport fee revenues exceeded the budget by \$30,483.

Home monitoring revenues were substantially below estimates, totaling \$34,904 or only 41% of the adopted budget due primarily to a personnel vacancy that manages this service.

Investment interest revenues are \$72,018 above the adopted budget, totaling \$307,416 through the fourth quarter.

Revenues from judgments and narcotics seizures total \$192,163, well over the budgeted amount of \$15,300. Revenues associated with narcotics are required by law to be spent on drug enforcement (training, supplies and education). With this in mind, a portion of the narcotics seizure revenues will be requested to be carried over and used to purchase tasers and other non-lethal defensive weapons in 2008.

General Fund Expenditures

General Fund operating expenditures were at 98% of the revised budget overall, totaling \$13,444,323 through the fourth quarter, which reflects sound financial and management policies practiced by the City. Encumbrances for outstanding contracts total \$146,132 as of December 31.

The Municipal Court operating expenditures were at only 87% of the revised budget, under-expended by almost \$99,000. Due to a position vacancy, there were salary and benefit savings of \$20,600. South District Court fees were \$26,000 less than budgeted, fees totaling \$16,000 were received from inmates to offset public defender and court costs, jail costs were \$12,100 less than budgeted, attorneys' fees and interpreter services were \$12,200 under budget, and the rental of home monitoring equipment was below budget by \$11,200.

While it appears that the Administrative Services budget is over-expended at December 31, the department has \$6,830 of unspent budget in the "one-time expenses" category, ending the year with a remaining budget balance of \$2,045.

The Parks budgeted operating expenditures were at only 85% of budget, or \$688,783 at the end of the fourth quarter. There are outstanding encumbrances (contracts) of \$76,906 at December 31 which would bring the Parks budget to 95% expended as of December 31.

All other departments (City Council, City Manager, Property Management, Police, Fire and Community Development) had all expended 92% to 99% of their revised 2007 operating budget at the end of the fourth quarter.

Operating transfers to the Street Fund, Recreation Fund and the Debt Service Fund have occurred as needed to finance these funds.

Included in the "one-time expenses" category are several projects that were not completed in 2007 and have budget remaining that will be requested to be carried over into 2008. These projects include economic vitality and marketing (\$30,000), a business welcome packet (\$5,000) and funding for an arts and cultural plan (\$20,000).

STREET FUND:

Street Fund operating revenues exceed the annual budget by \$7,180. Street Fund operating expenditures are only at 97% of the adopted budget, with outstanding encumbrances of \$1,531.

RECREATION PROGRAMS FUND:

An additional transfer of \$89,421 was needed to fund the Recreation Programs Fund due to less than expected recreation program revenues received in 2007. The Recreation Programs Fund had lower revenues than projected, ending the year at 91.4% of the revised operating revenue budget. Due to inclement weather conditions during 2007, the unanticipated failure of the main pool pump and warranty repairs to the pool liner, the pool and the pavilion had to be closed for several weeks and this resulted in decreased revenues. In addition, the Madrona Elementary school site was not available for youth and preschool camp programs last summer, so revenues from preschool and youth camps were much lower than expected. Another factor that contributed to reduced revenues was the shortened summer program as a result of schools getting out one week later last summer.

Expenditures through the fourth quarter are 95.6% of the revised budget. Bank fees from customers' usage of credit cards totaling almost \$50,000 were incurred and charged to the Recreation Fund. 2007 was the first year that these fees were allocated to the Recreation Fund. Previously these fees were offset by interest earnings and not charged directly to the Recreation Fund. The cost recovery rate is at 78% at the end the year, mostly due to lower than projected program revenues.

REAL ESTATE EXCISE TAX FUND:

The Real Estate Excise Tax (REET) revenues are higher than expected, exceeding the budget by \$62,616 for the year, totaling \$693,101. This revenue has since slowed in 2008 down due to the slowing real estate market. Given the slowdown in the real estate market, we will be monitoring this revenue source very closely. The attached Summary of Sources and Uses document reflects the cyclical variation in this revenue source.

During 2004, REET revenues totaled \$631,427, increasing to \$732,827 and \$966,611 in 2005 and 2006, respectively. The upturn we experienced in 2005 and 2006 reflect primarily one-time commercial sales, which can generate significant REET revenue with just one sale versus single-family residential sales. Our REET budget estimates are based on historical REET revenues

received, however, even with this refinement, annual estimates are vulnerable to certain fundamental economic changes that do not occur at the same point every year.

UTILITY FUNDS:

Storm Water

Storm Water operating revenues are at 94% of the revised budget as of the end of the fourth quarter. The Storm Water operating expenditures were at 93% of budget. The net operating revenues over operating expenditures totaled \$574 for the year.

Sewer

Sewer operating revenues were at 91% of budget as of the end of the fourth quarter. Water consumption in 2007 was lower than expected in 2007, most likely due to some vacant commercial space in the City, so both water utility and sewer utility revenues were less than budgeted. Sewer utility operating expenditures were at 94% of the budget. The net operating revenues over operating expenditures totaled \$312,716 for the year.

Water

Water Utility operating revenues were at 96% of budget and operating expenditures were at 97% of budget. Water consumption was lower than expected in 2007, as a result, revenues were less than projected. The net operating revenues over operating expenditures totaled \$167,040 for the year.

ATTACHMENT:

Fourth Quarter 2007 Financial Report Detail

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