

# City of Mountlake Terrace

Third Quarter 2013

Financial Report

November 25, 2013

# Overview

- Reviewing the City's finances on a regular basis, and posting the review on the City's website, highlights the City Council's goals of:
  - Protect and Enhance the City's Financial Health and Stability;
  - Develop and Implement more effective Communication and Outreach with the Community
  - Maintain appropriate and essential Public Services in a cost effective manner
- The City remains on target with the Six-Year Financial Forecast to continue providing cost-effective services, programs and projects for the community;
- This has been accomplished through the City Council's adherence to a practice of living within our financial means.

# Overview (continued)

- Tonight's review looks at several of the City's funds in terms of their performance during the three-month period of the quarter itself, as well as Year-to-Date.
  - General Fund
  - Recreation Fund
  - Capital Improvement Fund
  - Street Fund
  - Street Construction Fund
  - Enterprise Funds
    - Water Utility Fund
    - Wastewater Utility Fund
    - Stormwater Utility Fund
- To give you an idea of what the General Fund covers, we're going to start in reverse of how the funds are listed above.

# Enterprise (Utility) Funds

- These are funds with revenues from user rates and fees.
  - Like a business enterprise, these funds cover their own costs, without help from outside funds.
  - By and large, under Washington law these revenues cannot be used to subsidize programs other than those related to the utility.
- The City operates three utilities:
  - Water
  - Wastewater (Sewer)
  - Stormwater
- Rates in each utility are made up of three components:
  - The first portion covers maintaining and operations;
  - A second portion pays debt on funds previously borrowed to make repairs and upgrades; and
  - The last portion of rates goes towards replacing and upgrading the system.

# Water Utility Fund

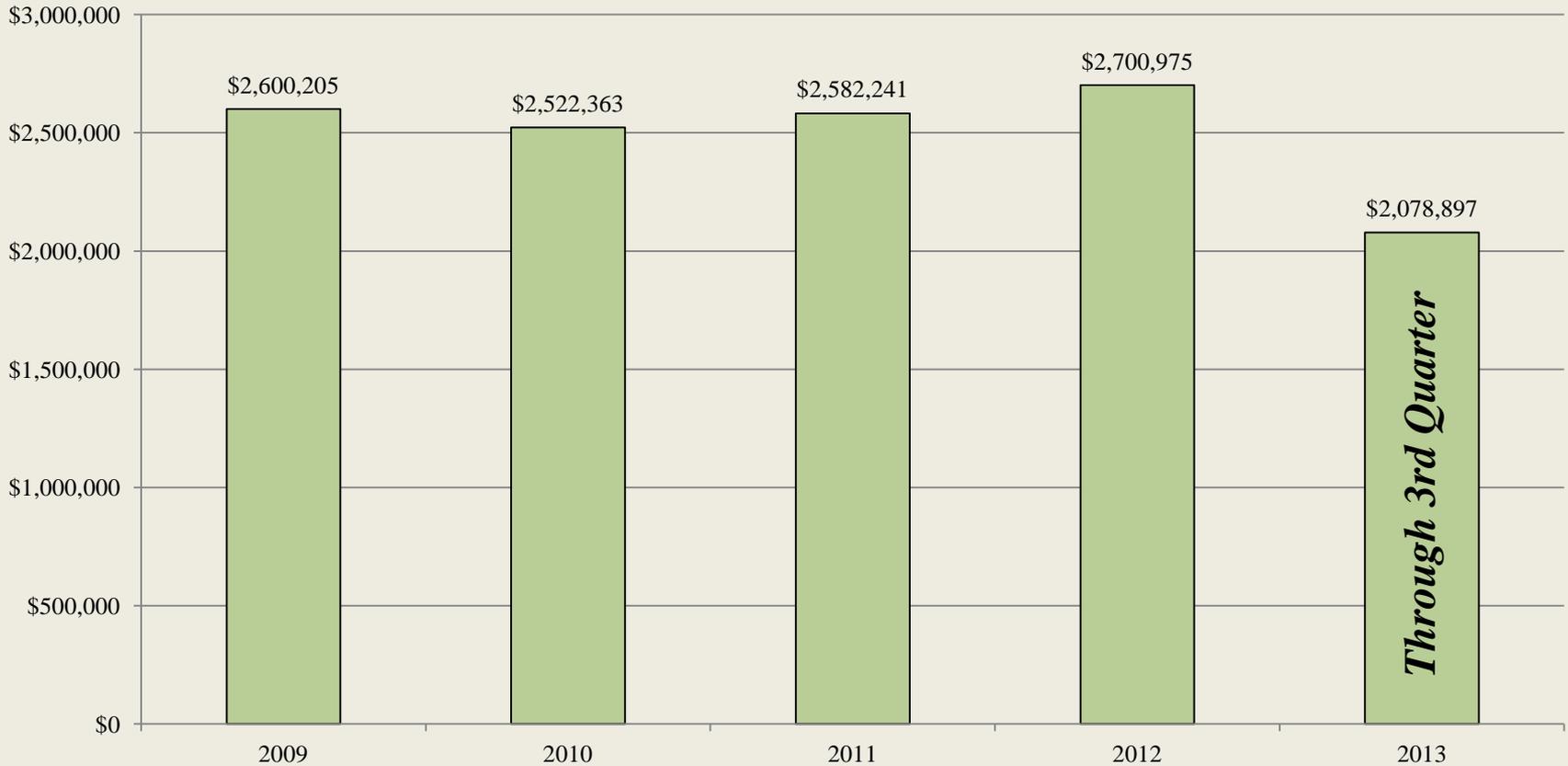
- The Water Utility Fund covers the expense of providing potable water to the community.
  - 79 miles of water mains
  - Three water reservoirs
  - 850 hydrants
  - 2,700 system valves
  - 5,900 service connections.
  - Cross-connection and backflow prevention program
  - Sampling of the water to insure all standards are met
  - Capital improvements and replacements

# Water Utility Fund (continued)

- During a typical 3<sup>rd</sup> Quarter, the Water Utility Fund will see higher revenues as customers use more water for lawns and landscaping during these drier summer months.
- At the same time, a typical 3<sup>rd</sup> Quarter in the Water Utility Fund will see higher expenditures as these summer months are the height of the construction season.
- Despite a dry 2013, the third quarter saw water supply purchases at only 65% of the Revised 2013 Budget.
  - This number would typically be 75% or higher at the end of the 3<sup>rd</sup> Quarter.
  - There are at least two explanations for the lower-than-budgeted water consumption:
    - The replacement of water meters over the past two years has eliminated a lot of leaks that were occurring through the older meters; and
    - The Ballinger Golf Course used a large amount of water for irrigation of the greens. With the closure of the Course, water consumption has been reduced.

# Water Utility Fund (continued)

## Annual Water Utility Rate Revenue



# Water Utility Fund (continued)

- Total water operating expenses, not including debt service payments, total 70% of the Revised 2013 Budget at the end of the 3<sup>rd</sup> Quarter.
- The bottom line is that the Water Utility Fund is operating within the forecast, as expenditures are at pace with the revenue.

# Wastewater (Sewer) Utility Fund

- The Wastewater Utility Fund covers the expense of providing sanitary sewer service to the community.
  - 70 miles of mains
  - 30 miles of laterals
  - Four lift stations
  - 1,400 manholes
- The majority of wastewater treatment services are provided by the Wastewater Treatment Plant in Edmonds, of which Mountlake Terrace is part-owner.
  - Smaller amounts of wastewater flows to King County METRO via Brier and Shoreline.
- The Wastewater Utility Fund is also the funding source for capital improvements to the City's wastewater collection system, and for the City's share of the cost of capital improvements to the Wastewater Treatment Plant.

# Wastewater Utility Fund (continued)

- Wastewater Utility Fund **revenues** are somewhat steady throughout the year
  - Rates are typically based on a flat rate derived on a customer's lowest water use of the year, which is typically in the winter.
- Wastewater Utility Fund **expenses** are typically higher in the 3<sup>rd</sup> Quarter than the other quarters of the year, as these summer months are the height of the construction season when the City is paying contractors to repair and replace portions of the Utility's infrastructure.

# Wastewater Utility Fund (continued)

- Revenues
  - Wastewater service revenues are at 71% of the Revised 2013 Budget as of the end of the 3<sup>rd</sup> Quarter.
  - Other wastewater revenues, which include connection fees for new developments, have exceeded the annual budget by almost \$30,000 at the end of the 3<sup>rd</sup> Quarter, due to the new developments in the City.
- Expenditures
  - Wastewater operating expenses, not including debt service payments, total 68% of the Revised 2013 Budget at the end of the 3<sup>rd</sup> Quarter.

# Wastewater Utility Fund (continued)

## Annual Wastewater Utility Rate Revenue



# Stormwater Utility Fund

- The Stormwater Utility Fund covers the cost of maintaining the natural and developed storm and surface water conveyance system.
  - These actions come about under regulatory requirements through the National Pollution Discharge Elimination System (NPDES) Phase II permit issued by the Washington State Department of Ecology.
- Work includes:
  - Public education and outreach
  - Inspection of commercial and multifamily housing sites for proper operation and maintenance of stormwater treatment and control facilities
  - Identification of illicit discharges to the stormwater system
  - Spill cleanup response for accidental discharges
  - Water quality monitoring for Lake Ballinger

# Stormwater Utility Fund (continued)

- As with the Wastewater Utility Fund, Stormwater revenue is based on a flat rate, and as such revenue is steady throughout the year.
- Also like the Wastewater Utility Fund, Stormwater Utility Fund expenses are typically higher in the 3<sup>rd</sup> Quarter than the other quarters of the year, as these summer months are the height of the construction season when the City is paying contractors to repair and replace portions of the Utility's infrastructure.

# Stormwater Utility Fund (continued)

- Stormwater Revenues total \$1,179,138 or 68% of the Revised 2013 Budget through the 3<sup>rd</sup> Quarter.
- Stormwater Operating Expenses, not including debt service payments, total 72% of the Revised 2013 Budget at the end of the 3<sup>rd</sup> Quarter.
- While Operating Revenues exceed Operating Expenses by \$164,349 at the end of the 3<sup>rd</sup> Quarter, this amount will decrease.
  - Debt service payments are made on December 1st, with the amount being closer to the budgeted \$52,699 at the end of the year.
  - The Town Center Regional Storm Water Facility project, with a budget of \$1,240,000 in 2013, was advertised and open to bidders in November. The award of the contract for this project will be reviewed at the December 2nd Council meeting.

# Stormwater Utility Fund (continued)

## Annual Stormwater Utility Rate Revenue



# Street Construction Fund

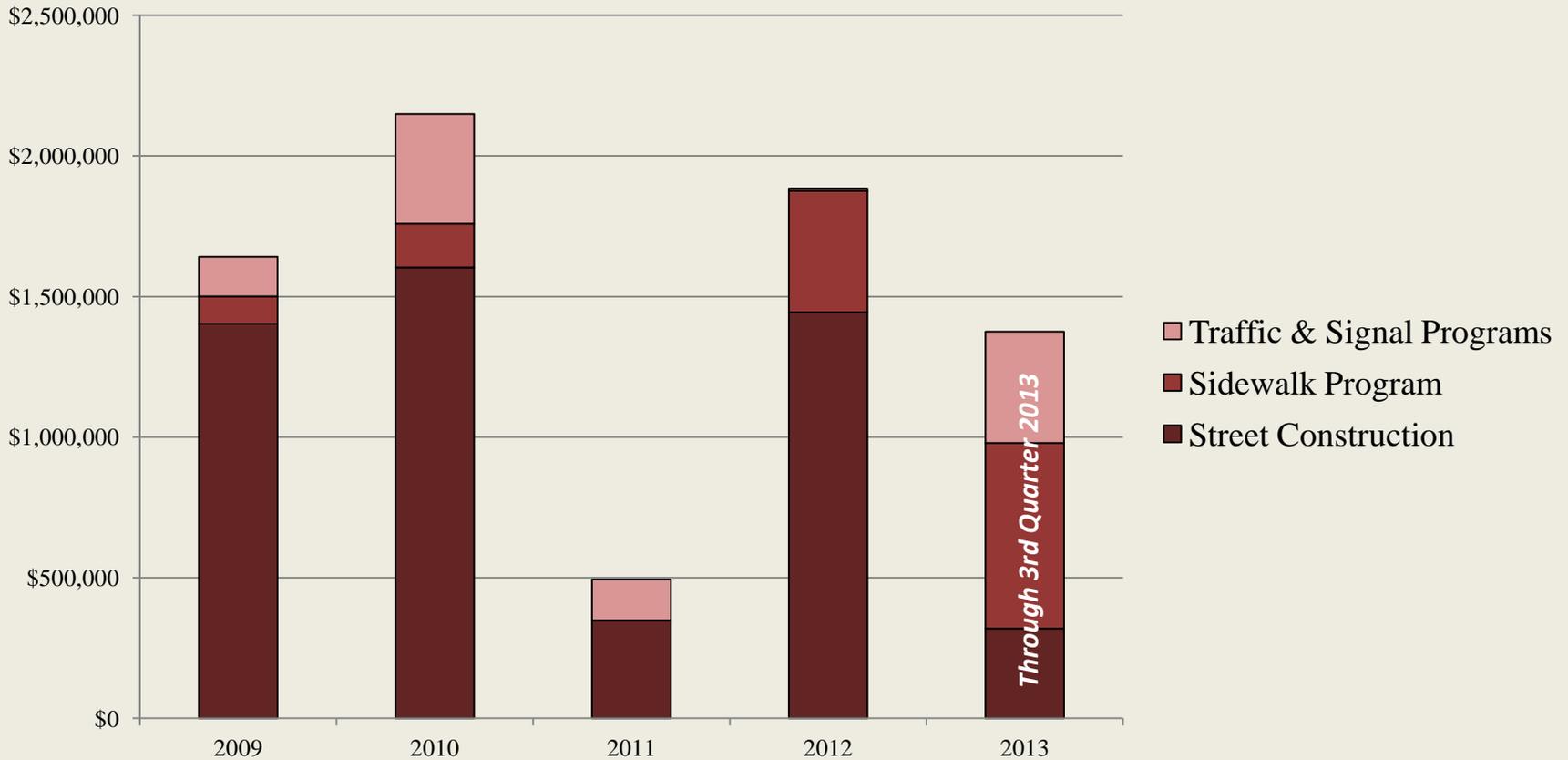
- The Street Construction Fund covers projects to provide, preserve, and improve street, pedestrian, bicycle, and traffic control facilities.
  - A portion of the City's allocation of the Motor Vehicle Fuel Tax
  - Traffic impact fees
  - Interest that accrues on funds in the account.
  - State and federal grants and appropriations
  - Loan proceeds
  - Interagency financial participation
  - Real Estate Excise Tax (REET).
- Because so much of these funds are restricted by law to be used only for street construction, and not street maintenance, they are kept in a fund that is separate from the Street Operations (Maintenance) Fund.

# Street Construction Fund (continued)

- The capital projects supported by the fund are those identified in the Transportation Capital Facilities and Improvement Program (TCFIP) and the Transportation Improvement Program (TIP).
  - Street pavement overlays
  - Seal coats
  - Sidewalk and sidewalk ramp construction
  - Bicycle route signing and striping
  - Street reconstruction
  - Traffic control system upgrades
- A typical 3<sup>rd</sup> Quarter in the Street Construction Fund will see higher expenditures than the other quarters of the year, as it is the height of the construction season.

# Street Construction Fund (continued)

## Annual Street Construction Expenditures



# Street Operations Fund

- The Street Fund covers the maintenance of the City's public right-of-ways:
  - More than 60 miles of City streets
  - 400 City-owned street lights
  - 15 traffic signals
  - 3,000 signs
  - 50 miles of sidewalk
  - Numerous crosswalks and other pavement markings
  - Vegetation maintenance for more than 19 miles of planting strips and brush control along unimproved right-of-ways.

# Street Operations Fund (continued)

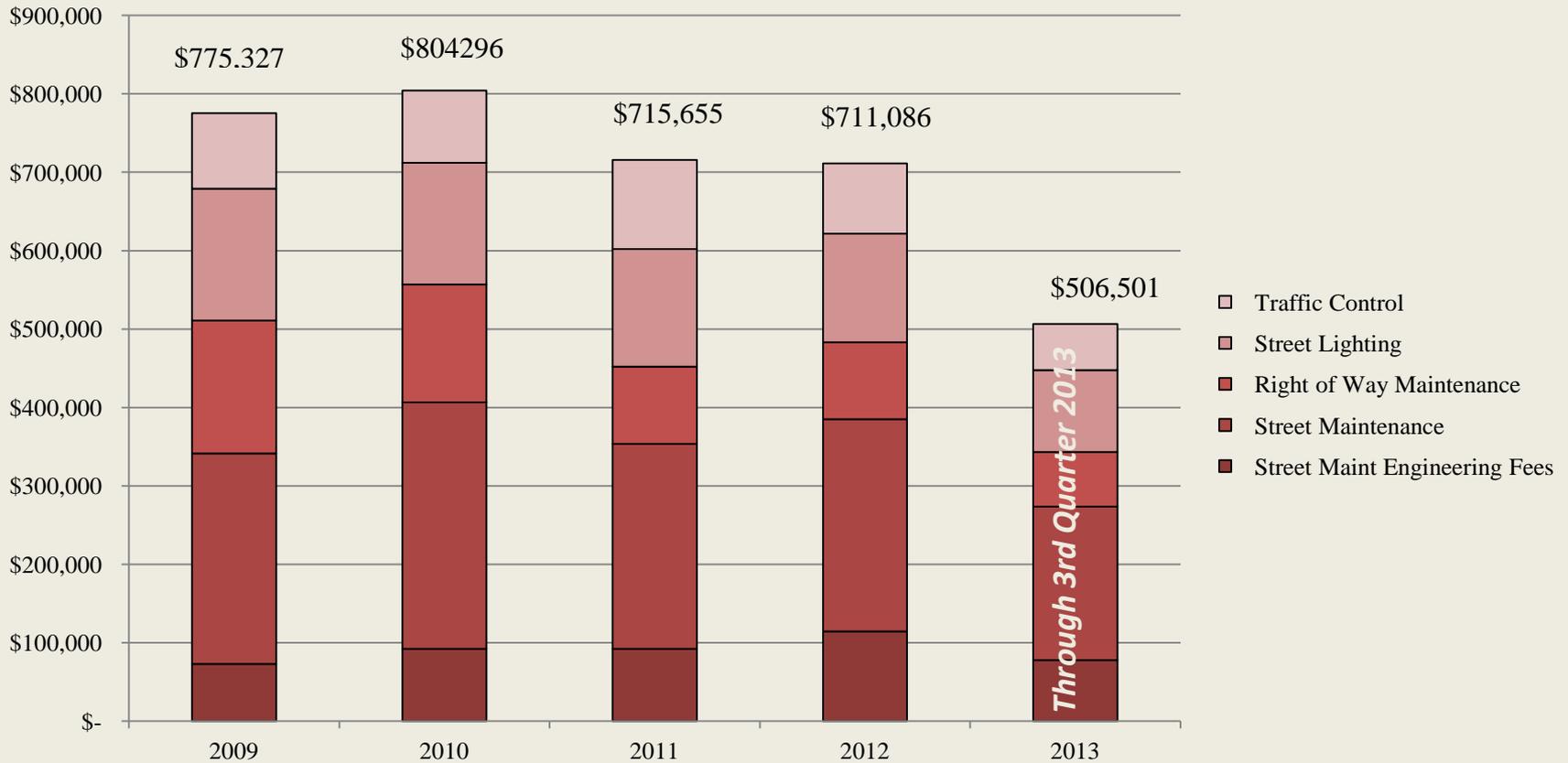
- As with the Street Construction Fund, revenues to the Street Operations Fund are typically stable
- Higher street operations expenditures are incurred during the 3<sup>rd</sup> Quarter, when compared to the other quarters of the year, as more work is completed during the 3<sup>rd</sup> Quarter:
  - For example, restriping roads and crosswalks can only occur during dry weather, and is therefore scheduled for the 3<sup>rd</sup> Quarter.
- Unique to the 3<sup>rd</sup> Quarter of 2013 is that it is the first quarter in which the County's Road Impact Fee from the Southwest Recycling and Transfer Station (SWRTS) is no longer being paid on a quarterly basis.
  - The fee was discontinued as of June 30, and replaced with a \$200,000 mitigation payment in 2014.

# Street Operations Fund (continued)

- Street Fund Operating revenues are at 70% of the 2013 budget as of the end of 3<sup>rd</sup> Quarter.
  - Motor Vehicle Fuel tax is only 71% of budget due to less fuel consumption.
- Street Operating expenditures through the 3<sup>rd</sup> Quarter represent 65% of the total 2013 budget.
  - However, invoices from Snohomish County for road work projects had not been received nor paid as of the end of the quarter (September 30).
- There will be some Street Operating Fund expenditure savings in 2013, but the ending fund balance will be very close to budget at the end of 2013 due to the projected decreased revenue.

# Street Operations Fund (continued)

## Annual Street Operating Fund Program Expenditures



# Fleet Management Fund

- The Fleet Management Fund charges other City funds for the cost of maintaining, repairing and replacing vehicles and equipment.
  - Because this fund receives its revenue from other funds within the organization (e.g., the Stormwater Fund pays the Fleet Management Fund to repair the street sweeper), Fleet Management is referred to as an “internal” fund.
- The Fleet Management Fund also receives revenue for maintaining vehicles for the Cities of Brier and Shoreline.

# Fleet Management Fund (continued)

- Revenues in the Fleet Management Fund through the 3<sup>rd</sup> Quarter are at 65% of the 2013 Revised Budget.
  - These revenues will be closer to 100% of the budget by the end of the year, when overhead costs are allocated to departments.
  - The sale of surplus vehicles and other equipment totals \$70,226 through the end of the 3<sup>rd</sup> Quarter, or 76% of the Revised 2013 Budget.
    - In early November (the 4<sup>th</sup> Quarter) additional vehicles and equipment were sold at auction and generated an additional \$28,012 in revenue.
      - As a result, by the end of the year, sales of surplus vehicles and equipment will exceed the annual budget of \$90,000 by over \$8,000.
- Expenditures total 72% of the 2013 Revised Budget at the end of the 3<sup>rd</sup> Quarter.
  - The budget to replace equipment in 2013 would have been exceeded by approximately \$70,000 by year-end due to the need to purchase equipment to maintain Ballinger Park, including a large Toro Mower.

# Capital Improvement Project (CIP) Fund

- The City defines a “capital” project to be any project or purchase that has a cost of more than \$5,000, and has an estimated useful life of three years or more.
  - The Capital Improvement Project (CIP) Fund covers capital projects or purchases that aren’t covered elsewhere (such as those in a utility fund).
- Examples of projects covered in the CIP Fund include
  - Public safety equipment
  - Recreation and park improvements
  - Information technology purchases
- The CIP Fund receives transfers from the General Fund based on the long-term capital budget needs of the various City departments and the Recreation programs.

# Capital Improvement Project (CIP) Fund (continued)

- With the exception of grant-funded projects or purchases, activity in the CIP Fund has declined over the course of the recession as the City's limited funds are used for maintaining programs and services rather than replacing capital.
  - The City continues to receive grant dollars for park improvements and expansion, leveraging relatively small amounts of the community's dollars into larger improvements funded from other sources.
    - One example of this is the Emergency Operations Center (EOC), which is mostly funded by a Federal grant.
- Both the revenues from the Grant and the Capital Expenditures budgets were approved to carryover to 2014 with the 2014 Budget Modifications that were approved on November 18.

# Recreation Fund

- The Recreation Fund covers the revenues and expenditures of the City's award-winning recreation services, including Aquatics, Athletics/Fitness, Youth and General Recreation Programs.
  - The Fund has a target of recovering 83 percent of its overall cost through user fees; the remaining 17 percent of the cost for recreation programs is funded by the General Fund.
- A typical 3<sup>rd</sup> Quarter in the Recreation Fund will see the highest level of revenues and expenditures of the year, as the July-September period reflects the height of activity in terms of pool use, youth camps and sport leagues.

# Recreation Fund (continued)

- Total operating revenues through the 3<sup>rd</sup> Quarter are 71% of the Revised 2013 Budget.
  - Revenues from Aquatics programs are at 65% of budget
    - Swim instruction revenues total \$609,475, or over 69% of the total budget.
  - Athletic Fitness program revenues are at 82% of the budget as of the end of the 3<sup>rd</sup> Quarter.
  - Youth program revenues through the 3<sup>rd</sup> Quarter are at 76% of the annual budget.
- Expenditures at the end of the 3<sup>rd</sup> Quarter are at 71% of the Revised 2013 Budget, consistent with the Operating Revenues.
- As of the end of the 3<sup>rd</sup> Quarter, the Recreation Fund has achieved a cost recovery ratio of 88% before debt service costs, and 82% after the cost of debt service.
- By the end of the year as seasonal summer revenues discontinue, the Recreation Fund will end the year close to the budgeted ending fund balance and General Fund subsidy.

# Recreation Fund (continued)

## Annual Recreation Fund Program Revenues



# Debt Service Fund

- The Debt Service Fund accounts for the payment of principal and interest on general long-term debt used to pay for public improvements.
  - In 2013, two-thirds of the City's Real Estate Excise Tax (REET) revenues are transferred to the Debt Service Fund.
  - Additional funding for debt comes from the General Fund and the Recreation Fund.
- During this 3<sup>rd</sup> Quarter, the Fund saw two changes:
  - On October 8, 2013 the City refinanced the Bond Anticipation Note (BAN) that was used to pay the Interim City Hall rent.
    - The budget to pay this debt off over the next seven years is included in the City's Modified 2014 Budget and is also included in the City's Six Year Financial Forecast.
  - On October 24, 2013 the City refinanced older debt from 2001 and 2003, and as a result, there will be a budget savings of \$45,000 in 2014.

# General Fund

- At this point, we've covered the utility, street, capital, fleet, debt and recreation operations.
- All other programs and services come under the General Fund:
  - City Council
  - City Manager
  - Administrative Services
  - Community & Economic Development
  - Fire (contracted through Fire District 1)
  - Municipal Court (contracted through Snohomish County)
  - Parks & Property Management
  - Police

# General Fund (continued)

## Revenues in the General Fund:

- Property Tax-General
- Property Tax-EMS
- Sales Tax
- Legislative Backfill
- Utility Tax-Gas
- Utility Tax-Garbage
- Utility Tax/ Franchise-Cable
- Utility Tax-Telephone
- Utility Tax-Electric
- Utility Tax-Water/Sewer/Storm
- Admission Tax-Theatre
- Gambling Tax-Bingo/Pulltab
- Gambling Tax-Mini Casino
- Business Licenses
- Building Permits
- Engineering Fees
- Planning, Zoning, Subdivision Permits
- Animal License
- Liquor Excise Tax
- Liquor Board Profits
- Motor Vehicle Tax
- Criminal Justice Funds
- Grants
- Payments from Other Governments
- PUD Privilege Tax
- Golf Course Contract
- Emergency Medical Service Transport
- Solid Waste Admin Fee
- Off duty Officers Reimbursement
- Home Detention
- Records Charge
- Passport Filing
- Housing Authority
- Other Charges for Service
- Fines and Forfeitures

# General Fund (continued)

- Revenues during a typical 3<sup>rd</sup> Quarter are marked by lower utility tax revenue from electricity and gas utilities, as the warmer months of July-September result in less need for heating homes.
- Unique to 2013 3<sup>rd</sup> Quarter revenues was the closing of the Palace Casino on September 30.
  - This marks the likelihood the City will be under the \$1,200,000 annual gambling tax budget at the end of the year.

# General Fund (continued)

- Property tax revenue reflects 75% of what the City has levied for collection in 2013
  - However the actual property tax receipts come primarily in May and November, one month after the April 30 and October 31 tax payment deadlines. The City will have collected 100% of its property tax levies by the end of 2013.
- Sales tax collected through the 3<sup>rd</sup> Quarter have exceeded our projections, coming in at 78% of the budget.
  - This increase in sales tax represents an improvement to the economy, including increases in construction activity within the City.
  - If this trend continues, we are forecasting that sales tax will be over budget by approximately \$100,000 at the end of 2013.
- Utility taxes are slightly under budget, at 71% of the total
  - We anticipate utility tax revenues to be close to budget by the end of 2013, as the colder weather sets in and gas and electric utility tax revenues increase.

# General Fund (continued)

## Annual General Fund Operating Revenues



# General Fund (continued)

## 2012 Tax Revenue from Natural Gas & Electricity



# General Fund (continued)

- Gambling tax revenues are at 76% of the budget as of the end of the 3<sup>rd</sup> Quarter.
  - However, with the closure of the Palace Casino on September 30 the City may be under the \$1,200,000 annual budget at the end of the fourth quarter of 2013.
- Building permit revenues have already exceeded the annual budget by almost \$40,000.
  - Combined with the other development services fees, the revenues are over 80% of the annual budget of \$579,000.
- All other General Fund Revenues are as projected through 3<sup>rd</sup> Quarter, with total operating revenues at 74% of the 2013 Revised Budget.

# General Fund (continued)

- Total General Fund Operating Expenditures are under budget, at 72% of the \$14,394,327 2013 Revised Budget.
- We project that the City will end 2013 with an ending fund balance of \$1,352,461, which is \$125,422 over the adopted ending fund balance.
  - This amount represents costs savings achieved in 2013 as well as increased sales tax revenue during the year.
- These additional dollars are included in the 2014 Beginning Fund Balance in order to pay a portion of the 2014 rent on Interim City Hall

# CONCLUSION

- As has been the norm for Mountlake Terrace over the past several years, the City's 3<sup>rd</sup> Quarter finances highlight two things:
  - The City remains on target financially in providing cost-effective services, programs and projects identified by the Mountlake Terrace community; and
  - the City Council has adhered to a policy of ensuring these programs and projects will be able to be maintained for years to come by living with our financial means.