

Memorandum

To: City Council

From: Arlene Fisher, City Manager
Sonja Springer, Finance Director

Date: April 3, 2014

Subject: 2013 Fourth Quarter Financial Report

Introduction

As part of its fiduciary responsibility to the community, the City Council has chosen to review the City's finances each quarter. These quarterly reviews look at revenues and expenditures of each operating fund, as well as reserve balances and changes in the local and regional economy that have an effect on long-term financial planning.

Reviewing the City's finances on a regular basis, and posting the review on the City's website, highlights two of the City Council's six adopted goals:

- Protect and enhance the City's financial health and stability while maintaining appropriate and essential public services in a cost effective manner.
- Develop and implement more effective communication and outreach with the community.

A presentation at the April 3rd City Council work session will include a look at financial data, as well as performance measures that are tracked on a quarterly basis. This 2013 Fourth Quarter review looks at the following funds in terms of their performance through 2013, as well as any unique performance during the 2013 fourth quarter itself:

- General Fund
- Street Operating Fund
- Recreation Fund
- Debt Service Fund
- Fleet Management Fund
- Hotel/Motel Tax Fund
- Solid Waste Service Fund
- Storm Water Utility Fund
- Sewer Utility Fund
- Water Utility Fund
- Real Estate Excise Tax Fund
- Street Construction Fund
- Capital Improvement Fund

Overall, the City's finances remain solidly in line with the adopted Six-Year Financial Forecast by holding expenditures to the limits of revenues, and identifying economic trends early so that the City can adjust accordingly to maintain flexibility.

With no exception, all of the City's funds ended the year with better financial results than were forecasted and budgeted in the City's Revised 2013 Budget.

General Fund

General Fund revenues are used to pay for the following programs:

- City Council
- City Manager
- Administrative Services
- Community & Economic Development
- Fire (contracted through Fire District 1)
- Municipal Court (Snohomish County)
- Parks & Property Management
- Police

As of the end of fourth quarter 2013, General Fund revenues stand as follows:

- Property tax revenue reflects 99.7% of what the City levied for collection in 2013.
- Sales tax collections for the year exceeded our projections, coming in at 112% of the budget. This increase in sales tax represents an improvement to the economy, including increases in construction activity within the City. Sales tax revenues totaled \$2,013,858 for the year, which is \$213,858 over the Revised Budget and \$113,858 over the most recent financial forecast that projected \$1,900,000 of sales tax revenues.
- Utility taxes are slightly under budget, at 98% of the total, totaling \$3,056,096 for the year. Most of the variance is attributable to lower utility tax revenues from the City's utilities, as Water Utility service revenues were lower than projected.
- Gambling tax revenues are at 95% of the budget as of the end of the fourth quarter. The closure of the Palace Casino on September 30 affected gambling tax revenues which totaled \$1,137,493, or \$62,507 under the \$1,200,000 annual budget.
- Business and animal license revenues exceeded the budget by \$28,767 and \$2,919 respectively. Business license revenues include some 2014 fees, as the renewal statements were mailed out and in some cases, paid before the end of 2013. Animal license revenues increased due to increased communication and enforcement of the City's pet licensing requirements.
- Building permit revenues exceeded the annual budget by almost \$162,287. Combined with the other development services fees, the revenues are 117% of the annual budget of \$720,000. This is a reflection of increased development activity in the City.

All other General Fund Revenues are as projected through the fourth quarter, with total operating revenues at 101% of the 2013 Revised Budget and exceeding the budget by \$134,472.

Total General Fund Operating Expenditures are under budget by \$542,107, or 96% of the \$14,394,327 2013 Revised Budget. Cost savings totaling \$562,142 were achieved by the following departments' operating budgets within the General Fund in 2013:

- City Council: \$10,646
- Administrative Services: \$46,716
- Municipal Court & Jail Services: \$4,727
- Police: \$101,590
- Fire: \$84,190
- Community & Economic Development: \$59,683
- Property Management: \$121,965
- Parks Services: \$74,759
- Street Operations: \$57,866

The City Manager Department was the only department that exceeded its operating budget, by a little over \$20,000 as a result of absorbing the costs of a special election in 2013 that was not originally included in the Adopted Budget.

Overall, the City ended 2013 with a General Fund ending fund balance of \$1,896,962, which is \$674,956 over the revised ending fund balance. This amount represents costs savings achieved in 2013 as well as increased sales tax and development revenues during the year.

The General Fund ending fund balance is \$544,501 over the projected ending fund balance of \$1,352,461 in the Six Year Financial Forecast that was updated in August, 2013. This updated forecast includes budget in the General Fund for rent for the Interim City Hall beginning in 2014.

Street Operating Fund

The Street Operating Fund covers the maintenance of the City's public right-of-ways, including streets, sidewalks, traffic signals, street lighting and signage. This involves maintenance to more than 60 miles of City streets, 400 City-owned street lights, 15 traffic signals, 3,000 signs, 50 miles of sidewalk, and the maintenance of all crosswalks and other pavement markings. Vegetation maintenance is another significant responsibility, including the mowing of more than 19 miles of planting strips.

The County's Road Impact Fee from the Southwest Recycling and Transfer Station (SWRTS) is no longer being paid on a quarterly basis. The quarterly fee was discontinued as of June 30, and replaced with a new agreement that calls for a larger \$200,000 mitigation payment in 2014 that will fund Street Construction in the Street Construction Fund.

Street Operating Fund expenditures though the fourth quarter represent 88% of the total 2013 budget, or \$93,221 under the Revised 2013 budget. Expenditure savings in the Street Operating Fund include street light electricity cost savings, which ended the year almost \$17,000 under the Revised 2013 Budget, mostly due to the installation of LED streetlights.

The cost savings in the Street Operating Fund resulted in net savings to the General Fund of \$81,700. The transfer from the General Fund to cover Street Operating expenditures totaled \$389,835, or \$81,700 less than the Revised 2013 Budgeted transfer of \$471,535.

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.

The Recreation Fund ended the year with an 81% cost recovery ratio, just under the budgeted 83% cost recovery percentage.

Recreation Fund operating revenues for 2013 totaled 91% of the Revised 2013 Budget.

- Revenues from Aquatics programs are at 84% of budget, with Recreation swim only at 74% of the 2013 budget. Swim instruction revenues total \$791,754, or over 90% of the total budget.
- Athletic Fitness program revenues are at 93% of the budget as of the end of the fourth quarter.
- Youth program revenues exceeded the annual budget by almost \$9,000. Revenues from the very successful Kids Krew child care program exceeded the budget by \$74,140.

Total Recreation Operating Expenditures at the end of 2013 are at 92% of the Revised 2013 Budget, which is consistent with the Operating Revenues.

Despite the lower than budgeted revenues, the Recreation Fund did not require funds from the General Fund in 2013 beyond what was initially budgeted. This was accomplished by controlling expenditures. The General Fund subsidy (transfer) to the Recreation Fund totaled the budgeted amount of \$563,911.

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) budgeted revenues were transferred to the Debt Service Fund to pay for the City's debt payments. Additional funding for debt comes from the General Fund and the Recreation Fund.

In 2013, the Debt Service 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 resulting in a savings of \$45,000 in 2014. This will reduce the transfer required from the General Fund by \$45,000 in 2014. This was included in the Budget Modifications approved by the City Council on November 18, 2013.

The expenditures in the debt service fund are on schedule with the debt service payments due and paid in 2013.

Fleet Management Fund

The Fleet Management Fund covers the cost of maintaining, repairing and replacing vehicles and equipment. The Fleet Management Fund receives its revenue from charges to other funds (e.g., charging the Water Utility Fund to maintain utility vehicles, as well as charges to the Cities of Brier and Shoreline for maintenance to their vehicles.

Total operating revenues in the Fleet Management Fund through the fourth quarter are at 98% of the 2013 Revised Budget. The sale of surplus vehicles and other equipment totals \$98,238 and exceeded the annual budget by \$5,238.

Expenditures total 97% of the 2013 Revised Budget at the end of the year.

At the end of 2013 the Fund has an ending fund balance of \$831,552, or \$8,556 over the Revised Budget of \$822,996. This fund balance represents reserves set aside to replace vehicles in coming years.

Hotel/Motel Tax Fund

Lodging tax revenue exceeded the Revised Budget by \$8,764, a positive sign that the economy is improving in our City. These dollars are restricted by State law for use in tourism promotion.

As a result of the increase in projected revenues, the ending fund balance is \$22,452, or \$8,802 over the Revised Budget of \$13,650.

Solid Waste Service Fund

This fund is used to pay for low income residents' garbage services. In recent years the City received many more qualified residents' applications for free garbage service than what was

budgeted. Budget amendments were needed to increase the funding for these services for our low income residents during the years 2009, 2010, 2011 and 2012.

In 2013, we are finally beginning to see a trend downward in the need and in the number of qualified applicants for this program. This again is a very positive sign of an improving economy in the City. Expenditures for free garbage service to our residents decreased from \$50,987 in 2012 to \$45,000 in 2013, or \$6,000 under the total Revised Budget of \$51,000.

Storm Water Utility Fund

The Storm Water Utility Fund covers the cost of maintaining the City's natural and developed storm and surface water conveyance system in a manner that protects water quality, enhances habitat, controls flooding, and complies with state and federal regulatory requirements. This includes public education and outreach, inspection of commercial and multifamily housing sites for proper operation and maintenance of storm water treatment and control facilities, identification of illicit discharges to the storm water system, spill cleanup response for accidental discharges, and a water quality monitoring program for Lake Ballinger. 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.

Most revenue in the Storm Water Utility Fund is based on a flat rate, and is therefore steady throughout the year. Storm Water operating revenues totaled \$1,694,671 or 94% of the Revised 2013 Budget at the end of the fourth quarter.

Storm Water operating expenses totaled 97% of the Revised 2013 Budget at the end of the fourth quarter.

The Town Center Regional Storm Water Facility project, with a budget of \$1,240,000 in 2013, is well under way. Other storm water projects that were not completed in 2013 were approved for budget modification carryovers to 2014 at the November 18, 2013 council meeting.

Sewer Utility Fund

The Sewer Utility Fund covers the expense of providing sanitary sewer service to the community. This involves the maintenance, repair, replacement and upgrade of a sewer collection system that includes approximately 70 miles of mains and 30 miles of laterals, four lift stations and 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.

As of the end of the fourth quarter, total sewer operating revenues were at 99% of the Revised 2013 Budget. Other sewer revenues, which include connection fees for new developments, exceeded the annual budget by over \$92,000, due to the new developments in the City.

Sewer operating expenses total 91% of the Revised 2013 Budget at the end of the year. Sewer construction projects that were not completed in 2013 were approved for budget modification carryovers to 2014 at the November 18, 2013 City Council meeting.

Water Utility Fund

The Water Utility Fund covers the expense of providing potable water to the community. The City purchases its water wholesale from the Alderwood Water and Wastewater District, which receives the water from the City of Everett.

The Water Utility Fund covers the cost of maintaining, replacing and upgrading 79 miles of water mains, three water reservoirs, 850 hydrants, 2,700 system valves and 5,900 service connections. The Fund is also responsible for administering a cross-connection and backflow prevention program and routine sampling of the water to insure all standards are met.

Despite a dry summer the City saw lower-than-budgeted water consumption. Revenues in the Water Utility Fund are at 89% of the Revised 2013 Budget as of the end of the fourth quarter. However, water service revenues are 4% higher than water service revenues in 2012.

There are at least two explanations for the lower-than-budgeted water consumption:

- The replacement of virtually all residential 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.

Operating expenditures total 92% of the Revised 2013 Budget at the end of the fourth quarter. At the end of 2013, water supply purchases were at 85% of the budget, which is consistent with the lower water sales.

Water construction projects that were not be completed in 2013 were approved for budget modification carryovers to 2014 at the November 18, 2013 City Council meeting.

Real Estate Excise Tax (REET) Fund

As a result of the sale of a large commercial building in the City, the REET taxes were substantially more than the original Adopted 2013 budget, with taxes totaling \$498,108 for the year, exceeding the Revised 2013 budget by \$98,108.

The REET fund's ending fund balance at the end of 2013 is \$199,307, or \$96,498 more than the Revised 2013 budget.

Street Construction Fund

The Street Construction Fund covers capital construction projects to provide, preserve, and improve street, pedestrian, bicycle, and traffic control facilities. The ongoing revenue sources for this fund are a portion of the City's allocation of the Motor Vehicle Fuel Tax, traffic impact fees and interest that accrues on funds in the account. Additional funding is provided by state and federal grants and appropriations, loan proceeds, interagency financial participation, and real estate excise tax (REET). Transportation Benefit District (TBD) funds are transferred into the Street Construction Fund to pay for Main Street design and construction costs.

Because 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 other funds.

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). The typical projects include street pavement overlays and seal coats, sidewalk and sidewalk ramp construction, bicycle route signing and striping, street reconstruction, and traffic control system upgrades and installations.

At this time, construction revenues and expenditures are consistent with budgeted programs in the TIP and TCFIP. Street construction projects that were not be completed in 2013 were approved for budget modification carryovers to 2014 at the November 18, 2013 City Council meeting.

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 these capital projects or purchases that are not covered in other funds. Examples of projects covered in the CIP Fund include public safety equipment, recreation and park improvements, and information technology purchases. (Utility and street improvements are not included in the CIP Fund because those capital improvements are covered in other Funds specific to their funding restrictions.)

The CIP Fund is funded in part from the General Fund based on the long-term capital budget needs of the various City departments and the Recreation programs. Revenues also include transfers from the Real Estate Excise Tax (REET) and unreserved Strategic Reserve Funds and investment interest.

The Interim City Hall costs were budgeted and paid for out of the CIP Fund from 2009 to 2013, as these costs were originally considered one time or temporary costs. Beginning in 2014, the Interim City Hall rent and operating costs are budgeted and paid for out of the General Fund, in the Property Management department.

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. That aside, however, 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 grant recently received by Snohomish County for playground equipment at Evergreen Park.

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.

Conclusion

In summary, the City's fourth quarter finances highlight three things: (1) the City remains on target financially in providing cost-effective services, programs and projects identified by the Mountlake Terrace community; (2) 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, and (3) there are strong indicators that the economy is improving in the City of Mountlake Terrace.