

# Memorandum

To: City Council

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

Date: June 16, 2014

Subject: First Quarter Financial Report and Performance Measures

---

## 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 June 16 City Council work session will include a look at financial data, as well as performance measures that are tracked on a quarterly basis for the First Quarter of 2014. This review looks at the following funds in terms of their performance, as well as any unique performance during the 2014 first quarter itself:

- General Fund
- Street Operating Fund
- Recreation Fund
- Debt Service Fund
- Fleet Management Fund
- Hotel/Motel Tax 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.

## **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 first quarter 2014, General Fund revenues stand as follows:

- Sales tax collections for the year exceeded our projections, coming in at 29% 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 \$573,543 for the quarter.
- Utility taxes are slightly under the forecast, at 25% of the annual budget, totaling \$770,477 for the quarter.
- Gambling tax revenues are at 21% of the budget as of the end of the first quarter. The closure of the Palace Casino on September 30 2013 affected gambling tax revenues.
- Development fees for the first quarter total \$118,144 or 14% of the annual budget. Typically development fee revenues are higher during the second and third quarters of the year, so we expect they should be close in line to the budget by the end of the year.
- Passport applications and revenues are way above estimates and previous years. As of the end of the 1<sup>st</sup> quarter, revenues are at 80% of the annual budget, or \$15,956. This revenue represents a total of 510 passports issued during the first three months of the year, as compared to the first quarter 2013 when 179 passports were issued. This represents a 285% increase from 2013 levels. Other passport agencies have either reduced their hours or closed to passport processing, including the Lynnwood Post Office and the cities of Brier and Edmonds. The passport customers are now coming to Mountlake Terrace to apply for their passports.

All other General Fund Revenues are as projected through the first quarter, with total operating revenues at 24% of the 2014 Revised Budget.

General Fund operating expenditures are at 25% of budget at the end of the first quarter. All of the City's WCIA insurance costs are paid during the first quarter, as well as many memberships and dues. So, while the budget is already 25% expended through the first quarter, we expect total expenditures to be slightly less than budget by the end of the year.

Overall, the City ended the first quarter 2014 with a healthy General Fund balance that was above target at of \$1,555,328.

### **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.

Street Operating Fund expenditures though the first quarter represent 22% of the total 2014 budget. Typically expenditures will increase during the second and third quarters of the year within the Street Operating fund, as summer work begins on street maintenance.

### **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% of the cost for recreation programs is funded by the General Fund.

The Recreation Fund ended the first quarter with an 82% cost recovery ratio, just under the budgeted cost recovery percentage.

Recreation Fund operating revenues for the first quarter of 2014 totaled 22.5% of the Revised 2014 Budget.

- Revenues from Aquatics programs are at 20% of budget.
- Athletic Fitness program revenues are at 21% of the budget as of the end of the first quarter.
- Youth program revenues are at 28% of the budget. Revenues from the very successful Kids Krew child care program were over 38% of the annual budget at the end of the first quarter.

Total Recreation Operating Expenditures at the end of the first quarter of 2014 are at 23% of the Revised 2014 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 during the first quarter beyond what was initially budgeted. This was accomplished by controlling expenditures. The General Fund subsidy (transfer) to the Recreation Fund for first quarter totaled the budgeted amount of \$127,085.

### **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 2014, 40% of the City's Real Estate Excise Tax (REET) budgeted revenues will be 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.

There were no expenditures in the debt service fund during the first quarter of 2014 as all debt service payments are due either June 1 or December 1 of each year.

### **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 City of Shoreline for maintenance to their vehicles.

Total operating revenues in the Fleet Management Fund through the first quarter are at 19% of the 2014 Revised Budget. Fleet overhead charges are billed to the other departments at the end of the year, which will bring the revenues closer to the annual budget by the end of the year.

Operating expenditures total 24% of the 2014 Revised Budget at the end of the year.

### **Hotel/Motel Tax Fund**

Lodging tax revenue totals 27% of the Revised Budget at the end of the first quarter, a positive

sign that the economy is improving in our City. These dollars are restricted by State law for use in tourism promotion.

### **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 (not including debt service) totaled \$391,594 or 22% of the Revised 2014 Budget at the end of the first quarter.

Storm Water operating expenses also totaled 22% of the Revised 2014 Budget at the end of the first quarter.

### **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 first quarter, total sewer operating revenues were at 23% of the Revised 2014 Budget. Other sewer revenues, which include connection fees for new developments, were at 168% of the annual budget due to the new developments in the City.

Sewer operating expenses, not including debt service, total 25% of the Revised 2014 Budget at the end of the first quarter.

### **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.

Operating revenues in the Water Utility Fund are at 20% of the Revised 2014 Budget as of the end of the first quarter. Water service revenues, which total 19% at the end of the first quarter will increase during the second and third quarters of the year as water consumption typically increases during the summer months.

Operating expenditures total 19% of the Revised 2014 Budget at the end of the first quarter.

#### **Real Estate Excise Tax (REET) Fund**

REET revenues total \$78,143 for the first quarter, or almost 20% of the annual budget, which is typical for this time of year before the busy real estate sales season in the spring and summer months.

#### **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.

The ending fund balance totals \$1.7 million at the end of the first quarter, which results in a negative, non-committed fund balance of \$894,640. This negative amount exists because all of the outstanding encumbrances (contracts) totaling \$2.2 million are charged against the fund balance, whereas not all of the revenues from grants, Public Works Trust Fund Loans, etc., have been billed nor realized by the end of the first quarter. The negative balance is basically created due to a timing issue between future expenditures and revenues not yet recorded. By the end of the year the fund will be close to the budgeted fund balance.

### **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 investment interest.

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 increased transfer from the General Fund and the additional capital expenditure budget that was approved at the June 2 council meeting are included in the Revised 2014 CIP Fund budget.

### **CONCLUSION**

In summary, the City’s first 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 continuing to improve in the City of Mountlake Terrace.

### **ATTACHMENT**

- First Quarter Financial Report