

Memorandum

To: City Council

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

Date: December 11, 2014

Subject: Third 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 December 11 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 Third Quarter of 2014. This review looks at the following funds in terms of their performance, as well as any unique performance during the 2014 third 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 third quarter 2014, General Fund revenues stand as follows:

- Sales tax collections for the year exceeded our projections, coming in at 79% of the budget. This increase in sales tax represents an improvement to the economy, including increases in construction activity within the City.
- Utility taxes are slightly under the forecast, at 70% of the annual budget, totaling \$2,164,007 for the first nine months of the year.
- Gambling tax revenues are at 53% of the budget as of the end of the third quarter. The closure of the Palace Casino on September 30 2013 affected gambling tax revenues.
- Development fees through the third quarter total \$398,076 or 49% of the annual budget. Development fee revenues are lower than projected so far in 2014.
- Passport applications and revenues are way above estimates and previous years. As of the end of the 3rd quarter, revenues are at 232% of the annual budget, or \$46,457. This represents almost a 300% 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 close to projections through the third quarter, with total operating revenues at 71% of the 2014 Revised Budget.

General Fund operating expenditures are also at 71% of budget at the end of the third quarter. All General Fund departments are under 75% of budget, with the exception of Community and Economic Development, which is 76% expended. Included in the 2014 Budget Amendments Ordinance is a proposed increase of \$50,000 to fund a land use attorney and a Project Coordinator for the Gateway Project Development within the Community and Economic Development budget.

Overall, the City ended the third quarter 2014 with a healthy General Fund balance of \$1,315,022.

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 through the third quarter represent 60% of the total 2014 budget. The Fund required only 47% or \$142,727 of the budgeted transfer of \$303,765 from the General Fund to cover operating expenditures through the third quarter.

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 85 percent of its overall cost through user fees; the remaining 15% of the cost for recreation programs is funded by the General Fund.

The Recreation Fund ended the third quarter with an 81% cost recovery ratio, mostly due to less than projected revenues.

Recreation Fund operating revenues for the third quarter of 2014 totaled 65% of the Revised 2014 Budget.

- Revenues from Aquatics programs are at 57% of budget.
- Athletic Fitness program revenues are at 62% of the budget as of the end of the third quarter.
- Youth program revenues are at 80% of the budget. Revenues from the very successful Kids Krew child care program were over 87% of the annual budget at the end of the third quarter.

Total Recreation Operating Expenditures at the end of the third quarter of 2014 are at 67% of the Revised 2014 Budget, which is consistent with the Operating Revenues.

The Recreation Fund required additional funding from the General Fund to cover expenditures and as a result 79% of the budgeted transfer was required from the General Fund to cover operating expenditures through the third quarter. This represents an additional transfer of \$21,871 from the General Fund through the third quarter.

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 third quarter are at 57% 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 68% of the 2014 Revised Budget at the end of the third quarter.

Hotel/Motel Tax Fund

Lodging tax revenue totals 95% of the Revised Budget, totaling \$18,692 at the end of the third 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 totaled \$1,239,169 or 68% of the Revised 2014 Budget at the end of the third quarter.

Storm Water operating expenses, not including debt service, totaled 67% of the Revised 2014 Budget at the end of the third 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 third quarter, total sewer operating revenues were at 76% of the Revised 2014 Budget. Other sewer revenues, totaling \$156,909, which include connection fees for new developments, were at 506% of the annual budget due to the new developments in the City.

Sewer operating expenses, not including debt service, total 63% of the Revised 2014 Budget at the end of the third 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 66% of the Revised 2014 Budget as of the end of the third quarter.

Operating expenditures, not including debt service, total 63% of the Revised 2014 Budget at the end of the third quarter.

Real Estate Excise Tax (REET) Fund

REET revenues total \$398,787 through the third quarter, or almost 100% of the annual budget, due to an increase of sales of real estate during the summer months. We project that by the end

of the year, REET revenues will be close to \$490,000, which is \$90,000 over the Revised Budget and \$40,000 over the Six Year Financial Forecast of \$450,000.

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 \$1.367 million at the end of the third quarter, which results in a negative, non-committed fund balance of \$15,923. This negative amount exists because all of the outstanding encumbrances (contracts) totaling \$984,500 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 third quarter. In addition, the funding from the Public Works Trust Fund Loan for the Main Street was delayed to 2015.

Included in the proposed 2014 Budget Amendments is an increase of \$105,000 to the transfer from the Transportation Benefit District (TBD) Fund to cover Main Street expenditures. There will not be a negative balance by the end of the year if the budget amendment is approved and additional funds are transferred from the TBD fund in 2014.

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 totaling \$85,000. This grant is currently not included in the Revised 2014 budget; a budget amendment to grant revenues and grant expenditures related to this grant are included in the proposed budget amendments.

CONCLUSION

In summary, the City's third 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

- Third Quarter Financial Report