

Memorandum

To: City Council

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

Date: April 2, 2015

Subject: Fourth Quarter 2014 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 April 2 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 fourth quarter of 2014. This review looks at the following funds in terms of their performance in 2014:

- General Fund
- Street Operating Fund
- Recreation 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.

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 2014 (and 2014 total), General Fund revenues were as follows:

- Sales tax collections for the year exceeded the budget, coming in at \$155,592 over the Revised Budget. This increase in sales tax represents an improvement to the economy, including increases in construction activity within the City. The highest sales tax payer in 2014 was a construction company, with 17% of total sales tax coming from construction activity.
- Utility taxes were slightly below the budget, at 96% of the annual budget, totaling \$2,971,978 for the year. Gas utility taxes were below budget due to a milder winter, and telephone utility taxes have been steadily declining since 2010 as people eliminate their land line telephones. Solid waste and cable utility taxes were both 108% of the Revised Budget, which reflects the slight increase in population in the City.
- Gambling tax revenues were below budget, totaling \$908,734 or only 73% of the Revised Budget. The closure of the Palace Casino on September 30, 2013, affected gambling tax revenues.
- Development fees totaled \$616,659 or 75% of the annual budget. Development fee revenues were lower than projected in 2014.
- Due to a one time increase in fees from our solid waste service provider, cable and solid waste franchise fees in 2014 were over 120% of budget, totaling \$695,560. Solid waste service fees were \$94,839 over the Revised Budget of \$215,000 totaling \$309,839.
- State shared and intergovernmental revenues were 110% of the Revised Budget, mostly due to the higher funding received from the State in the form of "City Assistance." The City received \$98,635 in City Assistance from the State; the Revised Budget for this was only \$58,701. This higher level of funding is forecasted to continue over the next six years.
- Fines and forfeitures were below budget by \$60,332, and below previous years' revenues.
- Passport applications and revenues are way above estimates and previous years. As of the end of the year, revenues are at 280% of the annual budget, totaling \$55,906. This represents almost a 245% 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 the Revised Budget for 2014, with total operating revenues at 97% of the 2014 Revised Budget.

Most General Fund departments were close to 100% of their Revised Budget, with the following two exceptions:

- The Fire budget was over-spent by \$501,465. This was due to the recording of an invoice from Fire District 1 for the retroactive salary increases of firefighters dating back to 2011. It was necessary to record the remaining amount due to Fire District 1 (\$511,045) in the 2014 accounting records as this invoice was for 2013-2014 services. While the City has until the end of 2016 to pay this invoice, the entire balance due was expensed in 2014.
- The Property Management budget was under-spent by \$226,672. Savings of over \$100,000 were achieved from the negotiation of the new lease agreement for the Interim City Hall, savings of over \$55,000 were achieved from reduced utility expenses and another \$21,000 of savings were achieved from lower custodial costs.

The detailed Fourth Quarter Financial Report shows that the total General Fund expenditures were \$16,068,729, exceeding the total Expenditure budget of \$15,991,686 by \$77,043. However, when the City submits its final report to the State Auditor's office, the City will reduce its total expenditures by the amount allocated and reimbursed by the City's other funds. With total General Fund expenditures reduced by \$1,659,278, (the amount reimbursed by other funds), the City's expenditures will be well below the 2014 Revised General Fund Expenditure Budget.

The City's General Fund Ending Fund Balance of \$699,884 is substantially below the Revised Budget Ending Fund Balance of \$1,243,152. This decrease is a direct result of recording the \$511,014 balance due to Fire District One. The Contingency portion of the Ending Fund Balance was used, as well as a portion of the 5% Reserve Ending Fund Balance. If the \$511,014 invoice was expensed when it will be paid in 2015 and 2016, the Ending Fund Balance as of the end of 2014 would have been a total of \$1,210,898, much closer to the budgeted \$1,243,152.

The General Fund Ending Fund Balance will be replenished in 2015 and 2016 as the retroactive Fire District invoice has already been expensed in 2014. In 2015 and 2016 there will be a budget savings of \$255,507 for each year which will replenish the Ending Fund Balance in the General Fund.

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 fourth quarter represent 83% of the total 2014 budget. The Fund required only 58% or \$174,727 of the budgeted transfer of \$303,765 from the General Fund to cover operating expenditures through the end of the year.

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 year with an 80% cost recovery ratio, mostly due to less than projected revenues.

Recreation Fund operating revenues for the year totaled 83% of the Revised 2014 Budget.

- Revenues from Aquatics programs are at 72% of budget.
- Athletic Fitness program revenues are at 78% of the budget as of the end of the fourth quarter.

- Youth program revenues are at 103% of the budget. Revenues from the very successful Kids Krew child care program were over 122% of the annual budget at the end of the fourth quarter.

Total Recreation Operating Expenditures at the end of the fourth quarter of 2014 were at 87% of the Revised 2014 Budget.

The Recreation Fund required additional funding from the General Fund to cover expenditures in 2014. As a result, \$581,218 (or \$72,878 over the budgeted transfer of \$508,340) was required from the General Fund to cover operating expenditures for the 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 fourth quarter were 93% of the 2014 Revised Budget. Fleet services to the City of Shoreline's vehicles generated \$55,396 of revenue in 2014.

Operating expenditures total 88% of the 2014 Revised Budget at the end of the year. Fuel costs were \$47,252 under the Revised Budget. The Fleet Management Fund's total expenditures for the year, including expenditures for equipment replacement were \$1,121,365; just \$1,149 under the Revised Budget of \$1,122,514.

Hotel/Motel Tax Fund

Lodging tax revenue exceeded the Revised Budget by \$6,442, totaling \$26,191 at the end of the fourth quarter, a positive sign that the economy is improving in our City. These dollars are restricted by State law for use in tourism promotion. The year ended with a healthy fund balance of \$27,223 in the Hotel/Motel Tax Fund.

Solid Waste Service Fund

The City assists lower income residents with the payment of their garbage bills through this Fund. The Fund receives a portion of the solid waste utility tax received by the City. Expenditures in the Fund in 2014 totaled \$40,600 which was below the \$50,000 Revised Budget and below what was expended in 2013 by \$4,400. The decrease in expenditures resulted because there were fewer residents that were qualified for the lower income program than in the previous years. This is a positive sign of the growing economy.

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 \$1,798,154 or 99% of the Revised 2014 Budget at the end of the fourth quarter.

The Storm Water operating revenues include a regional storm water utilization fee of \$74,994 received from Vineyard Park, which represents a pro-rated share of the Town Center Regional Storm Water Facility, and is a direct benefit from constructing the Regional Storm Water Detention facility.

Storm Water operating expenses, not including debt service, totaled 91% of the Revised 2014 Budget at the end of the fourth quarter.

Utility bond revenue proceeds of \$2,307,419 that were received at the end of December for future Storm construction projects, contributed to the large ending fund balance of \$3,194,297 at the end of the year.

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 102% of the Revised 2014 Budget. This includes \$164,064 in connection fees for new developments, an amount that was 529% of the annual budget for this revenue item.

Sewer operating expenses, not including debt service, total 89% of the Revised 2014 Budget at the end of the fourth 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 89% of the Revised 2014 Budget as of the end of the fourth quarter.

Operating expenses, not including debt service, total 92% of the Revised 2014 Budget at the end of the fourth quarter.

Utility bond revenue proceeds of \$3,912,581 that were received at the end of December for future Water construction projects, contributed to the large ending fund balance of \$5,442,527 at the end of the year.

Real Estate Excise Tax (REET) Fund

REET revenues totaled \$509,290 for the year, exceeding the Revised Budget by \$108,170 and also exceeding the financial forecast of \$450,000. The ending fund balance of \$218,597 is \$57,914 over the projection included in the financial forecast and the 2015 Adopted beginning fund balance.

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.

The ending fund balance totals \$1,432,163 at the end of the fourth quarter, which includes over \$650,000 of outstanding encumbrances, (contracts) that will be carried over to pay for unfinished projects in 2015.

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. This City also received a \$237,500 Federal Grant for the construction of the new Emergency Operations Center (EOC). The EOC was completed in 2014 for a total cost of \$307,779.

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) while revenues and expenditures are very tight and close to the budget, there are also strong indicators that the economy is continuing to improve in the City of Mountlake Terrace.

ATTACHMENT

- Fourth Quarter Financial Report (Detailed)