

# Memorandum

To: City Council

From: Arlene Fisher, City Manager  
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Date: June 11, 2015

Subject: First Quarter Financial Report and Performance Measures

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## 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 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 first quarter of 2015. This review looks at the following funds in terms of their performance during the first three months of 2015:

- General Fund
- Street Operating Fund
- Recreation Fund
- Storm Water Utility Fund
- Sewer Utility Fund
- Water Utility Fund
- Real Estate Excise Tax Fund
- Street Construction Fund

Overall, the City's finances remain 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. There are, however, two areas to note in this report. First, gambling tax revenue continues to decline, and as such will need to be monitored closely so that revenue and/or expenditure adjustments in the General Fund can be made to stay on target with the Financial Forecast.

Second, you will read in this staff report that the maintenance closure of the pool at the Pavilion has led to less revenue than forecasted in the first three months of the year. This will likely require a higher transfer from the General Fund to the Recreation Fund toward the end of the year.

### **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 2015, General Fund revenues were as follows:

- Sales tax collections for the quarter came in slightly below projections, totaling \$530,996 or 23% of the Revised Budget.
- Utility taxes were slightly below projections, at 24% of the annual budget, totaling \$743,231 for the quarter. Gas and electric utility taxes were at 28% of the budget which reflects a colder part of the year when more energy is used. Telephone utility taxes have been steadily declining since 2010 as people eliminate their land line telephones; they total 18% of the budget for the first three months.
- Gambling tax revenues were well below budget and projections, totaling \$219,326 or only 18% of the Revised Budget. The closure of the Palace Casino on September 30, 2013 has affected gambling tax revenues, and gambling activity at the remaining two casinos have decreased from previous years.
- Development fees totaled \$144,034 or 17% of the annual budget. Development fee revenues should increase over the next nine months as development gets underway.
- State shared and intergovernmental revenues were 20% of the Revised Budget, and should be close to budget by the end of the year, after billings to Sno-Isle Library for building maintenance costs are processed.
- Fines and forfeitures were below projections, at 18% of the revised budget.
- Passport applications and revenues continue to be above estimates and previous years. After the first three months of the year, revenues are already over 53% of the annual budget.

All other General Fund Revenues are close to 25% of the Revised Budget for 2015, with total operating revenues at 23% of the 2015 Revised Budget.

Total General Fund operating expenditures were 25% of the Revised Budget. The City's 2015 insurance with WCIA was paid in full during the first quarter of 2015 as required. The General Fund portion of this bill was \$253,191. If only 25% of this bill was recognized in the first quarter, almost \$190,000 would be expensed during the remainder of the year. Adjusting for this \$190,000 one time charge, total operating expenditures would have been \$3,369,832 or 23.7% of the Revised Budget at the end of the first quarter.

The City's General Fund Ending Fund Balance of \$263,972 is below the Revised Budget Ending Fund Balance of \$494,203. As stated above, a large part of this difference is the \$190,000 for the WCIA Insurance bill that relates to the other nine months of the year.

### **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 first quarter represent 21% of the total 2015 budget. The fund shows an ending fund balance of \$46,764 which will be needed during the second quarter as more street maintenance activities occur.

### **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 84 percent of its overall cost through user fees; the remaining 16% of the cost for recreation programs is funded by the General Fund.

The Recreation Fund ended the first quarter with a 65% cost recovery ratio, due to the closure of the pool from January 11 through February 19<sup>th</sup> while the pool liner was being replaced. While this reduction of revenue was partially offset with less staffing (no part time staff worked during this time) the impact of the pool closure to the cost recovery rate was substantial.

Recreation Fund operating revenues for the quarter totaled 19% of the Revised 2015 Budget.

- Revenues from Aquatics programs are at 14% of budget.
- Athletic Fitness program revenues are over 18% of the budget as of the end of the first quarter.
- Youth program revenues are over 26% of the budget. Revenues from the very successful Kids Krew child care program were over 27% of the annual budget at the end of the first quarter.

Total Recreation Operating Expenditures at the end of the first quarter of 2015 were at 24% of the Revised 2015 Budget.

As a direct result of the pool closure, the Recreation Fund ended the first quarter with a negative \$111,552 ending fund balance. The fund balance will slowly be replenished during the remainder of the year, but the Recreation Fund will more than likely require an additional transfer above the budgeted amount from the General Fund by the end of the year.

### **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, and spill cleanup response for accidental discharges. 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 \$410,381 or 23% of the Revised 2015 Budget at the end of the first quarter.

Storm Water operating expenses, not including debt service, totaled 19.8% of the Revised 2015 Budget at the end of the first quarter.

Storm operating revenues exceeded operating expenses by \$128,610 for the first quarter. These funds will be used to pay for future debt service payments, which are due in June and December.

The Storm Water Utility Fund ends the first quarter with a total ending fund balance of \$3,218,706 with \$1,912,334 designated for budgeted storm water construction projects, and the remainder included in reserves and encumbrances (outstanding contracts).

### **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 2015 Budget.

Sewer operating expenses, not including debt service, also totaled 23% of the Revised 2015 Budget at the end of the first quarter.

Sewer operating revenues exceeded operating expenses by \$191,188 for the first quarter. These funds will be used to pay for future debt service payments, which are due in June and December.

The Sewer Utility Fund ends the first quarter with a total ending fund balance of \$2,694,124 with \$2,155,363 designated for budgeted sewer construction projects, and the remainder included in reserves and encumbrances (outstanding contracts).

### **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 2015 Budget as of the end of the first quarter.

Operating expenses, not including debt service, total 19% of the Revised 2015 Budget at the end of the first quarter.

Water operating revenues exceeded operating expenses by \$129,855 for the first quarter. These funds will be used to pay for future debt service payments, which are due in June and December.

The Water Utility Fund ends the first quarter with a total ending fund balance of \$5,137,959 with \$2,815,684 designated for budgeted sewer construction projects, and the remainder included in reserves and encumbrances (outstanding contracts).

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

Real Estate Excise Tax revenues totaled \$86,749 for the quarter. While this represents only 20% of the Revised Budget, it is higher than our projections for the first three months of the year by \$11,709. REET revenues are projected to increase during the next three quarters and should be at or above the budget of \$425,000 by the end of the year.

#### **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 \$1,204,681 at the end of the first quarter, which includes over \$3,287,633 of outstanding encumbrances, (contracts). This creates a negative fund balance reserved for future street construction projects. However, this amount will become positive as grant revenues are received to cover the future contract expenditures.

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

## **ATTACHMENT**

- First Quarter Financial Report (Detailed)