

Memorandum

To: City Council

From: Sonja Springer, Financial Services Manager

Via: John J. Caulfield, City Manager

Date: December 13, 2007

Subject: Third Quarter Financial Report

INTRODUCTION:

Attached is the Third Quarter 2007 Financial Report reflecting all revenue and expenditures incurred through September 30, 2007. This report includes all of the City's 24 funds, as well as the beginning and ending fund balances of each fund and historical information back to 2004. The report also reflects the 2007 budget amendments that were considered and adopted by the Council on May 21, 2007, but it does not include the 2007 budget amendments that were approved after September 30, on November 19.

Revenues and expenditures for the City's funds are tracking consistent with the 2007 revised budget and the six-year financial forecast.

GENERAL FUND:

As of the end of the third quarter of 2007, General Fund operating revenues totaled \$10,876,613, which is 76% of the revised 2007 budgeted operating revenue. General Fund operating expenditures totaled \$9,859,598 at the end of the third quarter, which is 72% of the revised budget of \$13,673,405.

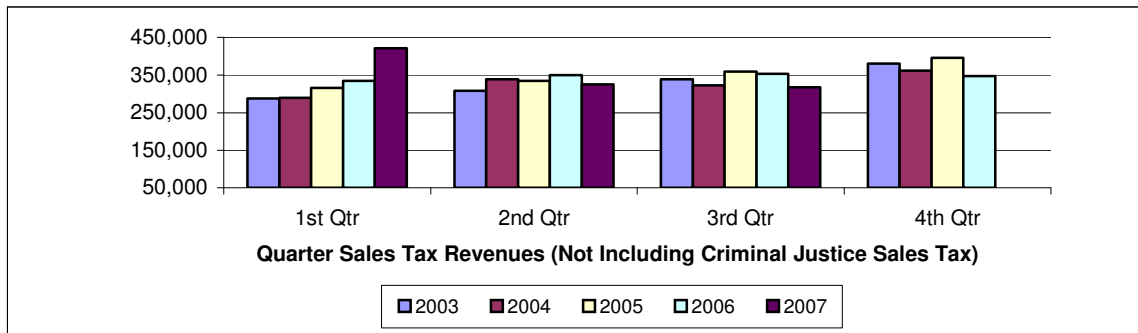
The Ending Fund Balance as of September 30, 2007 totals \$4,395,141, of which \$179,436 is reserved for outstanding encumbrances (commitments on contracts), \$321,953 is reserved for contingencies (2% of General Fund operating expenditures), and \$672,383 is set aside as reserves (5% of General Fund operating expenditures). This leaves a net ending fund balance of \$3,221,369 which is projected to be invested in the City's capital improvement program between 2007 and 2012.

General Fund Revenues

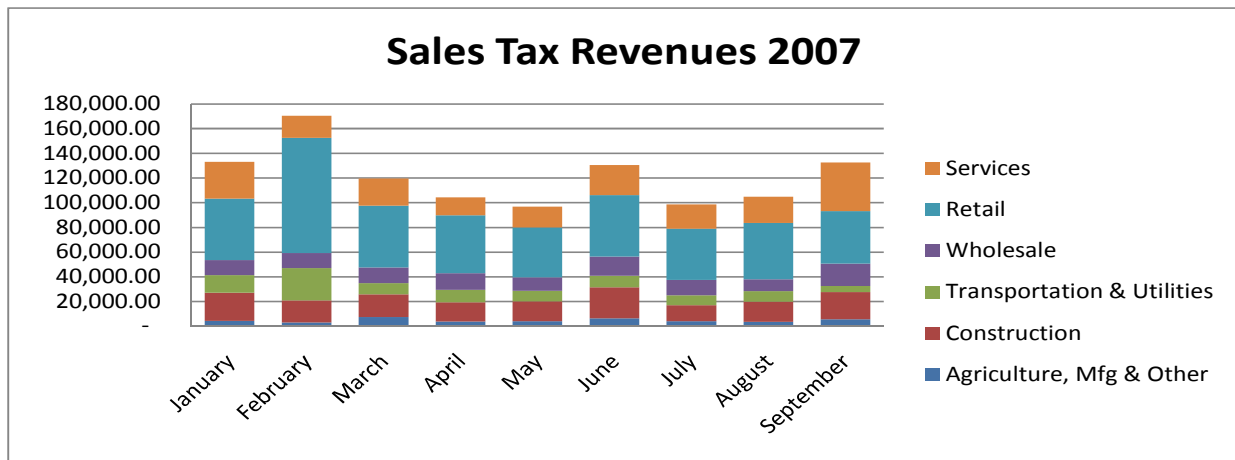
Most of the property tax revenues are received during the months of May and October. To more accurately reflect the City's financial status as of the end of the third quarter, a property tax estimate has been accrued (recorded as a revenue) at 75% of the adopted budget. Sales tax revenues include revenues for sales that occurred during the first nine months of the year and

were accrued to reflect the appropriate month the revenue was earned. Sales tax revenues for the first nine months total 70.6% of the adopted budget, or \$1,309,719.

As the chart below indicates, third quarter 2007 sales tax revenues are lower than they have been for the past three years. We will carefully monitor our sales tax revenues in 2007, as our largest sales tax payer, CompUSA, closed its store in Mountlake Terrace during the second quarter. While the city's sales tax revenues will be below projections for 2007, other General Fund revenues are expected to be higher than budgeted which will fill the gap in operating revenues for 2007.



The chart below shows the monthly sales tax revenues for 2007, by type. The chart does not include criminal justice sales tax revenues received totaling \$245,854 which are distributed to the City based upon population. The sales tax received from retail sales represents 42% of all sales tax revenues, while sales tax from construction totals 19% of all sales tax received in 2007.



Gas and electric utility taxes are at 96% and 76% of the adopted budget, respectively. Cable franchise and cable utility taxes are at 95%, and 93% of the adopted budget, respectively. City utility taxes, which reflect 10% of water, sewer and storm water revenues, are at 70% of budget at the end of the third quarter.

Admission taxes totaled \$104,235 for the first nine months. This reflects only 64.5% of the adopted budget and is indicative of fewer sales at the Mountlake 9 Theatre, possibly due to the new Loews 16 theatre in Lynnwood.

Gambling tax revenues total \$1,199,361 through the third quarter, or 80% of the adopted 2007 budget of \$1,500,000. The gambling tax revenues received during the third quarter are consistent with previous years, with the exception of the taxes from bingo which is lower than previous years, as the gambling tax rate on bingo activities decreased from 5% to 2.5% effective April 1 of this year.

City Assistance funding from the State of Washington totaling \$81,059 was received through the third quarter of 2007. This funding, established by State Senate Bill #6050, allocates a portion of the State's real property excise tax to replace a portion of the financial assistance eliminated following Initiative 695.

The City received \$78,000 of golf course rent through the third quarter.

Transport fees are above expectations coming in at \$229,808 through the third quarter. These revenues reflect receipts from 2006 billings for transport services, and nine months of transport fees collected by Fire District 1 in 2007. Fire District 1 expects to collect approximately \$85,000 in transport fees for the last three months of the year, which would exceed the total 2007 budget by \$33,000.

Home monitoring revenues are substantially below estimates, totaling \$22,344 or only 30% of the adopted budget due primarily to personnel changes for this service.

Investment interest revenues are at 88% of the adopted budget, totaling \$206,464 through the third quarter.

Revenues from judgments and narcotics seizures total \$54,768 which is well over the budgeted amount of \$15,300. Transfers of the balances of the closed Local Improvement District (LID) Fund occurred during the third quarter, totaling \$14,492.

General Fund Expenditures

General Fund operating expenditures were at 72% of the revised budget overall, totaling \$9,859,598 through the third quarter. Encumbrances for outstanding contracts total \$179,436 as of September 30.

The City Manager operating expenditures were at 79% of the revised budget as of the end of the third quarter, due to payment of publications, subscriptions and memberships that were paid during the first part of the year.

The Municipal Court operating expenditures were only at 57% of the revised budget, due to delayed billings for court and jail costs.

The Property Management budget was 78% expended at the end of the second quarter. The 2007 budget does not include budget for utilities at the library, however these costs are being incurred and paid out of the Property Management budget. In addition, severance pay for the janitors was paid for out of the Property Management budget. On November 19 the Council approved budget amendments of \$45,000 and \$28,000, respectively, to cover these two items. As these amendments were approved after the third quarter, they are not included in this report.

The Parks budgeted operating expenditures were at only 70% of budget, or \$562,579 at the end of the third quarter. There are outstanding encumbrances (contracts) of \$86,843 at September 30 which would bring the Parks budget to 80% expended, which is typical for the third quarter. This is due to the increased activities and associated costs that were incurred during the summer months.

All other departments (City Council, Administrative Services, Police, Fire and Community Development) are all expending close to 75% of their revised 2007 budget at the end of the third quarter.

Operating transfers to the Street Fund, Recreation Fund and the Debt Service Fund have occurred as needed to replenish these funds. A large transfer to the Debt Service Fund will occur during the fourth quarter to replenish the fund for bond payments due December 1.

STREET FUND:

Street Fund operating revenues are at 75.3% of the revised budget. Street Fund operating expenditures are only at 69.7% of the adopted budget, with outstanding encumbrances of \$11,086.

RECREATION PROGRAMS FUND:

The Recreation Program Fund is slightly behind revenue projections, at 70.4% of the revised budget. Expenditures through the third quarter are 73.6% of the revised budget. While the cost recovery rate is at 78% at the end of the third quarter, it will most likely be at 80% by the end of the year, which is below the projected 82%.

REAL ESTATE EXCISE TAX FUND:

The Real Estate Excise Tax revenues are higher than expected at this time of year at 92% of budget, totaling \$582,255 for the first nine months. This revenue has slowed down recently due to the slowing real estate market. However, we should still exceed the total \$630,485 budgeted for 2007. A large transfer to the Debt Service Fund will occur during the fourth quarter to replenish the fund for bond payments due December 1.

UTILITY FUNDS:

Storm Water

Storm Water revenues are at 71% of the revised budget as of the end of the third quarter. The Storm Water operating expenditures were at 66% of budget.

Sewer

Sewer operating revenues were at 69% of budget and sewer utility operating expenditures were at 62.7% of the budget.

Water

Water Utility operating revenues were at 69.7% of budget and operating expenditures were at 65.7% of budget.

ATTACHMENT:

Third Quarter 2007 Financial Report Detail