



FINANCE & ECONOMIC DEVELOPMENT COMMITTEE

DECEMBER 2, 2015

8:00 AM

COUNCIL CHAMBERS

- 1. BUSINESS LICENSING SERVICE UPDATE**
STEPH TONELLATO, CUSTOMER SERVICE SUPERVISOR
(VERBAL REPORT – NO ATTACHMENT)

- 2. BUDGET DISCUSSION**
TROY WOO, FINANCE DIRECTOR
(VERBAL REPORT – NO ATTACHMENT)

- 3. 3RD QUARTER FINANCIAL REPORT**
TROY WOO, FINANCE DIRECTOR
(STAFF REPORT ATTACHED)



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
November 4, 2015

SUBJECT: 2015 Third Quarter Financial Report

RECOMMENDATION: Review 2015 Third Quarter Financial Report

STAFF CONTACT: Scott Spence, City Manager 
Troy Woo, Finance Director 

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Revenue/Expenditure Report for the Quarter Ending September 30, 2015](#)

FISCAL NOTE:

PRIOR REVIEW: None

BACKGROUND:

The 2015 third quarter financial report has been completed. This summary report focuses on the General Fund. The revenue and expenditure summaries are attached.

GENERAL FUND EXPENDITURES

As of September 30, 2015, total General Fund Expenditures were \$27,946,075 or 70.4 percent of the amended 2015 Budget. This is a total increase of \$366,910 or 1.3 percent compared to the 2014 third quarter total expenditure level. Expenditures at September 30, 2014, were 71.6 percent of the total 2014 General Fund Budget. The majority of the increase is a result of increases to salaries and benefits, increased indigent defense costs relating to the new standards, capital equipment purchases, one-time capital transfers, and a decrease from a one-time transfer from the Street Fund to the Arterial Street (capital) Fund for the Smart Corridors project that took place in 2014.

Although all third quarter expenditure categories show variances from the previous year, only the most significant variances are explained below.

- The Contracted Services Department decreased \$60,634 compared to 2014 due to timing differences to contract payments for district court and jail services. The most significant variance within this department is the \$148,847 increase incurred to comply with the new indigent defense standards.
- The Police Department and Criminal Justice Fund experienced a combined increase of \$214,778 due to higher salaries and benefits.
- An increase of \$252,231 was experienced by the Community Development Department. Professional services increased \$76,513 for the consultant development of the form-based code. Salaries and benefits increased \$183,788 primarily due to the Economic Development Coordinator position and being fully staffed.
- Third quarter Current Expense Fund transfers-out increased \$142,223. Utility tax transfers to the Street, Capital Equipment, and Parks and Open Space Funds increased \$27,441. One-time capital transfers for the website/data management project and old M&O Shop roof and gutter replacement totaled \$100,000.
- The Street Fund's third quarter expenditures decreased \$878,203 because of a 2014 one-time \$1.0 million capital reserve transfer to the Arterial Street fund for the Smart Corridor (traffic controllers) project.
- The Capital Equipment Fund experienced a \$202,699 increase through the third quarter. A combination of one-time transfers and increased capital equipment purchases and projects contributed to the increase. \$63,000 of one-time transfers was completed for the Child Care Center roof replacement and Council Chambers audio/visual improvement project. The increased significant capital equipment purchases include resurfacing ball courts and the replacement of the Records Management System (RMS) servers.

The expenditure summary portion of the attached report details the expense activity by department and fund.

GENERAL FUND REVENUES

As of September 30, 2015, total General Fund Revenues were \$30,126,979 or 75.9 percent of the adopted budget. Last year at this same time, revenues were 73.2 percent of budget. Third quarter General Fund revenues increased \$1,934,796 compared to the previous year. The level of revenue increases is consistent with the revenue budget projections with the exception of sales taxes.

- \$3,126,356 of property taxes has been collected through the third quarter of 2015. This is equal to 57.7 percent of the annual property tax budget. The total property tax increase is expected to be \$173,374. The projected increase is due to a combination of the one percent increase, new construction credit, and the refund levy.
- 2015 sales tax receipts totaled \$6,951,465 at the end of September. This is \$825,565 or 13.5 percent higher than last year. Increases to the construction and housing related categories are the main reasons for the significant increases. Major education building investments have been made in the community. The following table shows the year-to-date top 20 sales tax sources.

	<u>Year-To-Date</u>			<u>Last 12</u>
	<u>This Year</u>	<u>Last Year</u>	<u>% Chg</u>	<u>Months</u>
General Merchandise Stores	1,454,772	1,402,348	3.7	1,883,189
Food Services, Drinking Places	689,945	658,603	4.8	915,177
Construction of Buildings	494,038	234,079	111.1	633,779
Building Material and Garden	474,843	413,097	14.9	621,534
Sporting Goods, Hobby, Books	414,954	415,879	-0.2	556,978
Specialty Trade Contractors	384,443	296,710	29.6	523,793
Miscellaneous Store Retailers	311,202	285,904	8.8	418,626
Wholesale Trade, Durable Goods	253,286	193,335	31.0	325,334
Motor Vehicle and Parts Dealer	234,716	227,836	3.0	312,276
Telecommunications	220,663	205,789	7.2	286,875
Electronics and Appliances	213,717	187,605	13.9	278,484
Food and Beverage Stores	188,445	187,800	0.3	251,678
Repair and Maintenance	168,423	157,939	6.6	223,493
Clothing and Accessories	177,714	132,156	34.5	218,998
Administrative and Support Svc	115,873	96,171	20.5	152,198
Nonstore Retailers	112,483	96,464	16.6	144,597
Professional, Scientific, Tech	106,357	81,349	30.7	131,783
Furniture and Home Furnishings	96,981	89,646	8.2	129,686
Health and Personal Care Store	89,879	71,863	25.1	112,065
Rental and Leasing Services	<u>76,840</u>	<u>74,694</u>	2.9	<u>103,079</u>
	6,279,574	5,509,268		8,223,621

The top 20 sources provide about 90.3 percent of all sales tax. The “Construction of Buildings” is experiencing a 111.1 percent increase. The largest sales tax category, “General Merchandise Stores”, is experiencing a 3.7 percent increase compared to 2014. The “Sporting Goods, Hobby, Books” category is the only top 20 category that experienced a year-to-date decline. The categories related to housing are all reporting positive results.

Sales tax collection, which is the General Fund's largest source of revenues, will continue to be closely monitored for changes that may warrant a departure from the current projections.

- The General Fund business & occupation (B&O) tax revenues total \$1,441,504 or 77.0 percent of budget estimate. B&O taxes increased \$35,693 or 2.5 percent.
- The third quarter utility tax collections were \$301,737 higher than the previous year. Each category experienced increases consistent with expected consumption patterns and utility rate increases. The utility taxes from water, sewer, and storm activities increased \$186,197. The dry and warm summer had a positive effect on water sales.
- Non-business license (includes building, mechanical, plumbing, and electrical permits fees) revenues have been collected at 116.7 percent of the budget estimate. This is a \$179,358 or 19.6 percent increase compared to last year. All building improvement permit categories are experiencing increases. Building permits, the largest single non-business license category, experienced a third quarter increase of \$102,714 or 16.5 percent.

There have been 239 single-family residential permits issued as of September 30. This was slightly lower than the 248 single-family residential permits issued through the third quarter of 2014. It was projected that 225 permits will be issued by year-end, so the projection has already been met. Building permit activity is an indicator of future property, sales, and utility tax growth.

- The Street Fund third quarter revenues decreased as the 2014 new treatment of utility taxes caused a discrepancy of \$159,337.

UTILITY FUNDS

Operating expenditures for the utilities are within projections, but higher than the previous year due to higher annual transfers to capital funds and higher production and operating costs due to higher water sales.

- The Water Utility Maintenance and Operations Fund expenditures were \$362,403 higher than through the third quarter of 2014. Transfers to the capital fund and higher production costs and excise taxes from increased water sales contributed to the increase.
- Wastewater Utility Maintenance and Operations Fund expenditures were \$668,727 higher in 2014. Higher transfers to LOTT make up the majority of the increase. The primary reasons for the remaining increase are higher transfers to the capital fund and higher STEP system maintenance costs.
- The Stormwater Maintenance and Operations Fund expenditures were \$228,744 higher than the previous year due to higher levels of transfers to its capital fund.

Operating revenues for the utilities are meeting projections and consistent with approved rate increases and higher summer water sales.

- Total water revenues were \$1,020,552 higher than the third quarter of 2014. Water sales through June were \$977,540 higher than the 2014 water sales.
- Wastewater revenues were \$542,435 higher than the previous year. Wastewater sales were \$218,320 higher than 2013 and LOTT sales were \$374,056 higher than 2014. This is consistent with the respective rate increases and higher water sales, which is the basis for commercial wastewater charges.
- Stormwater revenues were \$217,670 higher than 2014. \$204,983 of the increase is due to increased Stormwater sales. This is consistent with the adopted Stormwater rate increase.

CONCLUSION AND FORECAST

The third quarter financial indicators have not changed significantly from the mid-year indicators.

The year-to-date sales tax collections have significantly changed the immediate-term financial outlook. The majority of the increase is attributed to strong construction activity from the education sector and single-family homes. Through September, these categories account for 63.3 percent of the sales tax increases. Construction began this upward trend in June 2014 with the most significant increases beginning with the April 2015 sales/construction activity. June 2014, the “Construction of Buildings” category was the seventh largest source of sales taxes. Currently, it is the third largest. General retail sales tax has not followed the same trend as construction. Its growth pattern did not begin until three months ago. The construction trend is expected to continue based on the voter-approved North Thurston School District’s bond capital improvement program. Based on the most current update of the program, construction will remain strong through 2017. The trend for general retail sales is less certain with a shorter growth pattern and no sustained growth patterns following the Great Recession.

The 2016 sales tax projection includes a 7.3 percent increase. The majority of the increase is based on the more certain construction expectation. General retail sales are projected to grow 2.0 percent in 2016 based on a shorter and less reliable trend.

Similar to recent past years, the consensus was State-shared revenues were in jeopardy of reduction due to the State’s budget challenges. The adopted State budget not only preserves historic levels of State-shared revenues, it provides some new sources of shared revenue. The City is expected to receive over \$1.3 million from State-shared revenues. Liquor excise tax funding will be restored to the pre-liquor privatization levels. Previous State budgets shifted 50 percent of liquor excise tax distributions to the State’s general fund budget. The new shared revenues include reformed marijuana taxation and new fuel

tax distributions. The new shared revenues are not significant amounts, but much appreciated and were not expected.

Staff will continue to closely monitor and track the revenue trends, so the city can respond timely and appropriately if revenue shortfalls materialize.

During 2015, the City Council and staff developed the framework for the City's first six-year strategic financial plan. It is expected that the final form of the plan will be accepted by the City Council during the first half of 2016. The year-to-date expenditures and 2016 projections are consistent with the six-year financial plan model, but year-to-date sales tax has changed the revenue outlook for 2016. The sales tax projection for 2016 has allowed two of three identified projected 2016 deficit solutions to be deferred to 2017 or beyond.

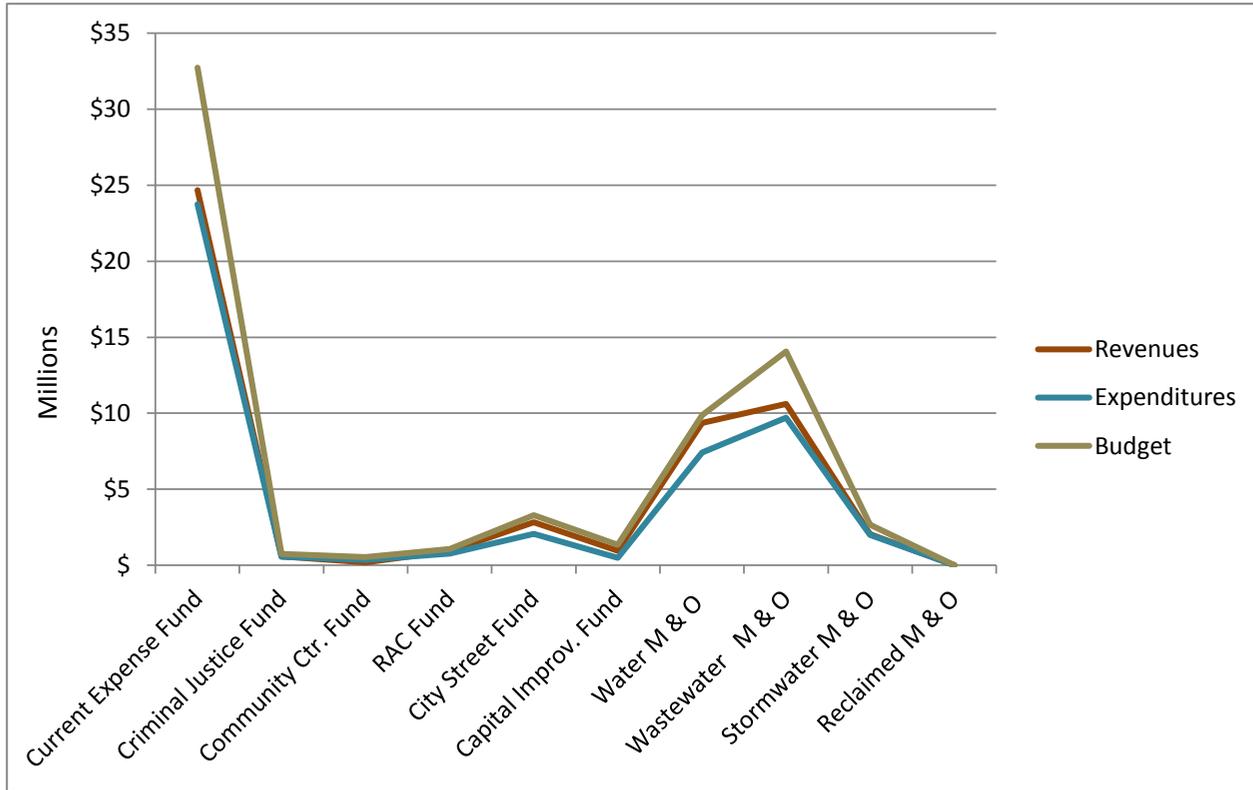
The six-year model will be updated to reflect the 2016 Adopted Budget near the end of the year. While the 2016 outlook is positive, it is not expected that the long-term deficit projections will change significantly. 2017 is still likely to be facing a projected deficit. Based on expenditure projections, 2016 sales tax will need to continue to grow seven to ten percent above the 2016 sales tax projections, which would be similar to what occurred in 2015. This additional unexpected sales tax growth would need to occur despite a projection, which includes sizable new construction level adjustments. In addition, what will happen in 2018 when the North Thurston School District voter-approved bond projects are substantially completed? The 2018 sales tax projection could include a reduction if there are not construction projects to replace the school district's significant capital improvement program.

Fortunately, the 2016 Proposed Budget is positive relative to past budgets and the majority of the projected 2016 deficit balancing actions will be deferred for use in future years.

The balanced 2016 Budget was presented to the City Council by the City Manager on October 22, 2015. The remaining 2016 Budget Calendar follows:

- | | |
|--------------------|---|
| November 12, 2015: | 2016 Revenue Sources Public Hearing |
| November 19, 2015: | Public Hearing on Proposed 2016 Budget
Adoption of 2015 Levy Rates for 2016 Collection |
| December 3, 2015: | Final Public Hearing on Proposed 2016 Budget |
| December 17, 2015: | 2016 Budget Adoption |

City of Lacey
Revenue/Expenditure Report
Selected Operating Funds
September 30, 2015



	2015 Amended Budget	2015 Actual Revenue	Budget Balance	Percent Received
REVENUES				
General Fund				
Current Expense Fund	\$ 32,742,143	\$ 24,675,489	\$ 8,066,654	75.36%
Criminal Justice Fund	730,215	580,776	149,439	79.53%
Community Center Fund	530,943	173,698	357,245	32.71%
Regional Athletic Complex Fund	1,067,001	925,067	141,934	86.70%
City Street Fund	3,288,097	2,813,818	474,279	85.58%
Capital Improvement Fund	1,346,460	958,131	388,329	71.16%
Total General Fund	\$ 39,704,859	\$ 30,126,979	\$ 9,577,880	75.88%
Enterprise Funds				
Water Utility				
Maintenance & Operations	\$ 9,869,727	\$ 9,367,380	\$ 502,347	94.91%
Wastewater Utility				
Maintenance & Operations	14,069,434	10,615,288	3,454,146	75.45%
Stormwater Utility				
Maintenance & Operations	2,651,750	2,034,760	616,990	76.73%
Reclaimed Water Utility				
Maintenance & Operations	400	229	171	57.25%

City of Lacey
Revenue/Expenditure Report
Selected Operating Funds
September 30, 2015

	2015 Amended Budget	2015 Actual Expenditures	Budget Balance	Percent Expended
EXPENDITURES				
General Fund				
Current Expense Fund				
Council	\$ 282,390	\$ 214,711	\$ 67,679	76.03%
Contract Services	2,607,932	1,173,777	1,434,155	45.01%
City Manager	538,797	398,356	140,441	73.93%
Public Affairs/Human Resources	1,209,931	790,338	419,593	65.32%
Finance	828,952	618,983	209,969	74.67%
City Attorney	583,649	386,023	197,626	66.14%
Common Facilities	1,685,875	1,134,202	551,673	67.28%
Police	9,001,830	6,363,514	2,638,316	70.69%
PW-Support Services	84,229	54,051	30,178	64.17%
PW-Engineering	2,829,217	2,043,923	785,294	72.24%
PW-Parks Maintenance	2,547,760	1,927,118	620,642	75.64%
PW-Facilities Maintenance	451,257	313,067	138,190	69.38%
Community Development	2,186,129	1,544,945	641,184	70.67%
PW-Water Resources	1,300,694	924,984	375,710	71.11%
Parks & Recreation	2,377,716	1,730,985	646,731	72.80%
Transfers Out	4,225,785	4,139,048	86,737	97.95%
Total Current Expense Fund	\$ 32,742,143	\$ 23,758,025	\$ 8,984,118	72.56%
Criminal Justice Fund	\$ 730,215	\$ 546,054	\$ 184,161	74.78%
Community Center Fund	530,943	341,377	189,566	64.30%
Regional Athletic Complex Fund	1,067,001	766,401	300,600	71.83%
City Street Fund	3,288,097	2,055,141	1,232,956	62.50%
Capital Improvement Fund	1,346,460	479,077	867,383	35.58%
Total General Fund	\$ 39,704,859	\$ 27,946,075	\$ 11,758,784	70.38%
Enterprise Funds				
Water Utility				
Maintenance & Operations	\$ 9,869,727	\$ 7,424,317	\$ 2,445,410	75.22%
Wastewater Utility				
Maintenance & Operations	14,069,434	9,698,317	4,371,117	68.93%
Stormwater Utility				
Maintenance & Operations	2,651,750	1,995,817	655,933	75.26%
Reclaimed Water Utility				
Maintenance & Operations	400	-	400	0.00%