



FINANCE & ECONOMIC DEVELOPMENT COMMITTEE

AUGUST 3, 2016

8:00 AM

COUNCIL CHAMBERS

1. **2016 BUDGET AMENDMENT ORDINANCE**
TROY WOO, FINANCE DIRECTOR
(STAFF REPORT ATTACHED)
2. **2016 MID-YEAR FINANCIAL SUMMARY**
TROY WOO, FINANCE DIRECTOR
(STAFF REPORT ATTACHED)



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
August 3, 2016

SUBJECT: 2016 Budget Amendments

RECOMMENDATION: Upon review and concurrence, recommend full City Council adoption of the ordinance.

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

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Draft Ordinance](#)
2. [Summary for the Proposed Ordinance](#)

FISCAL NOTE: As outlined in staff report.

PRIOR REVIEW: Finance and Economic Development Committee on July 6, 2016.

BACKGROUND:

Throughout the year adjustments to the budget become necessary because of City Council actions, activity levels that were not anticipated during budget development, and grant awards (or other receipts of outside funding). Historically, the budget has been amended once per year prior to the development of the next year's proposed budget document. Staff has provided periodic budget amendment updates to the Finance and Economic Development Committee to help maintain the integrity of the budget and to provide more timely information. This committee has already received specific alerts on significant budget amendments and an overall update at its July 2016 meeting. To facilitate full City Council adoption prior to the development of the 2017 Budget document, staff is requesting committee review and recommendation for full Council adoption during September.

The following are significant budget amendments that have been identified since the adoption of the 2016 Budget. The full details of the proposed amendments are attached to the proposed ordinance as exhibit "A".

Current Expense Fund (General Fund)

- An additional \$25,000 is recommended to fund the Lacey 50th Anniversary events.
- In a continued show of support for the community's veterans, the City Council authorized the expansion of the Lacey Veterans Outreach Center. The startup and initial operating costs are expected to be \$90,000.

Street Fund (General Fund)

- During 2015, the City Council authorized the LED street lighting replacement program, which will convert the street lighting system to LED lighting over a 10-year period. To take advantage of a Puget Sound Energy (PSE) LED lighting grant, a bulk purchase was made near the end of 2015. For accounting purposes, the bulk purchase will need to be expensed in the year the inventory is installed. To account for the use of inventory in 2016, a \$100,000 amendment is required.

Building Improvement Fund

- A public art subcommittee has been established as part of the 50th Anniversary Planning Committee. There is an adopted committed public art reserve of \$23,106 in the Building Improvement Fund. It is expected that the committee will recommend a total project cost for the 2017 Budget.
- The City Hall roof required preventive maintenance. \$61,972 is requested for roof cleaning, leak repairs, and cleaning and coating of single ply membrane roofs.

Capital Equipment Fund

- \$125,000 is requested to complete the Parks Security Camera project. This project will install security cameras at Long Lake Park, Rainier Vista Community Park, and the Regional Athletic Complex (RAC).

Stormwater M&O Fund

- The 2016 Washington State Legislative session eliminated funding for the previously awarded \$310,121 Stormwater Grant for the operations and purchase of a new street sweeper. To offset the revenue loss, salaries, benefits, and capital outlay will be reduced.

Water Capital Fund

- A memorandum of understanding with the Squaxin Tribe regarding Budd Inlet and Deschutes Watershed Restoration requires \$166,666 for water rights mitigation. At the time of budget development, the timing of the project was unknown given the

unresolved City of Yelm court case. The ruling has been made, so the water rights mitigation projects will now proceed.

- Completion of the Skokomish/Tanglewilde waterline replacement project requires an amendment of \$370,000. The project was expanded, beyond the original scope, to replace all aging mains and services within the neighborhood in order to minimize the disruption to the residents. The College to Brentwood waterline replacement project was delayed from 2015 to 2016 to ensure adequate funds were available for the expanded Skokomish/Tanglewilde project.
- Unanticipated issues emerged during design of the Westside VFD (variable frequency drive) and Generator project. Issues include addition of a sound wall to mitigate generator noise, resolving Puget Sound Energy site transformers and primary site power lines, and additional design for panel specifications. The Westside VFD and Generator project requires an additional \$100,000.

Wastewater Capital Fund

- \$1,610,008 is requested for the installation of Shady Lane Sewer. At the May 12 City Council Meeting, the City Council authorized the Shady Lane/Hicks Lake water and wastewater capital improvement contract. The wastewater component of the project was not originally contemplated by the 2016 Budget. However, this opportunity to take advantage of the economies of scale provided by the scheduled and budgeted water project will allow for the elimination of septic tanks systems consistent with the City Council's intent and commitment to the Septic-to-Sewer program concept.
- \$124,557 is required for the completion of the Liftstation #2 (Westlake Drive) capital improvement project. The property purchase necessary for the project was delayed from 2015 to 2016.

Stormwater Capital Fund

- Thurston County and the City of Lacey have agreed to share costs for a Hicks Lake feasibility study relating to the outfall to Pattison Lake. The City's share is \$50,000.
- To minimize the construction impacts to residents, the 25th Avenue Stormwater Improvements construction is being coordinated Brentwood water, wastewater, and street overlay. The timing is earlier than originally planned in the Stormwater Comprehensive plan, so an additional \$95,000 is required.

It is requested that the Finance and Economic Development Committee review the proposed amendments and recommend full City Council adoption of the proposed amendments to the 2016 adopted budget.

ADVANTAGES:

1. The proposed adjustments to the 2016 Budget reflects more accurately the necessary requirements of each fund or adjustments made by City Council action.
2. The proposed adjustments maintain a balance between the anticipated revenues and expenditures of each of the funds amended.

DISADVANTAGES:

1. Generally, budget adjustments must use cash reserves to compensate for expenditures that may exceed budget estimates by the end of the budget year.

ORDINANCE NO. XXXX

CITY OF LACEY

AN ORDINANCE AMENDING THE 2016 FISCAL YEAR BUDGET ADOPTED BY ORDINANCE NO. 1483 BY REVISING THE BUDGETED AMOUNTS FOR THE CURRENT EXPENSE, CITY STREET, ARTERIAL STREET, LODGING TAX, BUILDING IMPROVEMENT, CAPITAL EQUIPMENT, PARKS AND OPEN SPACE, WATER M&O, WASTEWATER M&O, STORMWATER M&O, WATER CAPITAL, WASTEWATER CAPITAL, STORMWATER CAPITAL, AND EQUIPMENT RENTAL FUNDS AND APPROVING A SUMMARY FOR PUBLICATION.

WHEREAS, there is a need for additional expenditures to be budgeted within the Current Expense, City Street, Arterial Street, Lodging Tax, Building Improvement, Capital Equipment, Parks and Open Space, Water M&O, Wastewater M&O, Stormwater M&O, Water Capital, Wastewater Capital, Stormwater Capital, and Equipment Rental Funds for expenditures which could not be contemplated at the time of adopting the 2016 fiscal year budget; and

WHEREAS, revenues, as shown on Exhibit "A" attached hereto, are available from the sources indicated on said Exhibit for the making of said expenditures; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, as follows:

Section 1. The 2016 fiscal year budget and Ordinance No. 1483 adopting said budget are hereby amended by making those certain changes to the 2016 fiscal year budget set forth on Exhibit "A", attached hereto and made a part hereof as though fully set forth herein and for all purposes considered to be a portion of this ordinance.

Section 2. The City Clerk and the codifiers of this ordinance are authorized to make necessary corrections to this ordinance including, but not limited to, the correction of scrivener's/clerical errors, references, ordinance numbering, section/subsection numbers and any references thereto.

Section 3. The summary attached hereto is hereby approved for publication.

PASSED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, on this 8th day of September, 2016.

Approved as to form:

Mayor

City Attorney

ATTEST:

City Clerk

DRAFT

SUMMARY FOR PUBLICATION

ORDINANCE NO. XXXX

CITY OF LACEY

The City Council of the City of Lacey, Washington, passed on September 10, 2015, Ordinance No. XXXX entitled **“AN ORDINANCE AMENDING THE 2016 FISCAL YEAR BUDGET ADOPTED BY ORDINANCE NO. 1483 BY REVISING THE BUDGETED AMOUNTS FOR THE CURRENT EXPENSE, CITY STREET, ARTERIAL STREET, LODGING TAX, BUILDING IMPROVEMENT, CAPITAL EQUIPMENT, PARKS AND OPEN SPACE, WATER M&O, WASTEWATER M&O, STORMWATER M&O, WATER CAPITAL, WASTEWATER CAPITAL, STORMWATER CAPITAL, AND EQUIPMENT RENTAL FUNDS AND APPROVING A SUMMARY FOR PUBLICATION.”**

A section by section summary of this ordinance is as follows:

Section 1 revises the amounts which were budgeted for revenues and expenditures within the funds listed above by the 2016 fiscal year budget which had been adopted by Ordinance No. 1483. The reason for revising the budgeted amounts is the fact that there exists a need for additional expenditures within those funds which could not be contemplated at the time of adopting the 2016 fiscal year budget.

Section 2 provides provisions for corrections.

Section 3 approves this summary.

A copy of the full text of this ordinance will be mailed without charge to any person requesting the same from the City of Lacey.

City Clerk

Published: September 12, 2016

2016 Budget Amendments - Ordinance No. XXXX Exhibit "A"

Account Numbers	Account Description	2016 Budget	Budget Amendment	2016 Budget as Amended	Comments
Current Expense Fund					
Revenues					
1-0000-308-0000	Beginning Cash	160,058	168,475	328,533	Cash Reserves
1-0000-338-2700	NTPS Security Contract	135,000	5,000	140,000	NTPS contract increase
1-0000-397-1002	Transfer In 109 Fund	48,500	1,834	50,334	Transfer private donations for the Fleetwood-Himes Homestead Site Historic Marker
Total Current Expense Fund Revenues		34,242,531	175,309	34,417,840	
Expenditures					
1-0301-573-4912	Special Events	42,780	25,000	67,780	Lacey's 50th Anniversary Events
1-0302-519-4950	Miscellaneous / Military Support	60,000	90,000	150,000	Expansion of Lacey Veterans Outreach Center
1-0502-514-1006	Salaries - Part-Time	-	30,000	30,000	Public Records limited-term employee
1-0502-514-2001	Employer Paid Benefits	27,270	7,500	34,770	Public Records limited-term employee
1-2106-521-1005	Salaries - Overtime	47,150	3,056	50,206	Labor contract holiday hours cash out provision
1-2107-521-1005	Salaries - Overtime	335,175	5,323	340,498	Labor contract holiday hours cash out provision
1-2108-521-1005	Salaries - Overtime	24,088	629	24,717	Labor contract holiday hours cash out provision
1-3701-558-4920	Special Projects	10,000	10,000	20,000	Mapping professional services relating to the Comprehensive Plan update
1-7410-575-3102	Small Tools & Equipment	1,762	3,301	5,063	Installation of Fleetwood-Himes Homestead Site Historical Marker
1-7410-575-4101	Professional Services - Other	600	500	1,100	Participation with Thurston County's historic journal project
Total Current Expense Fund Expenditures		34,242,531	175,309	34,417,840	
City Street Fund					
Revenues					
101-0000-308-0000	Beginning Cash	600,000	56,626	656,626	
101-0000-367-1001	Contributions	-	45,000	45,000	Puget Sound Energy (PSE) LED light conversion grant reimbursement
Total City Street Fund Revenues		3,504,352	101,626	3,605,978	
Expenditures					
101-4204-542-3201	Electrical Supplies	119,500	100,000	219,500	Accounting transaction for LED Replacement program inventory
101-4206-542-6003	Capital Outlays - Improvements	-	10,000	10,000	Transfer budget appropriations for the purchase of salt supplies storage bin materials
101-4209-542-3102	Small Tools and Equipment	-	813	813	Jackhammer replacement
101-4209-542-4815	Repair and Maintenance - Grounds	12,000	(10,000)	2,000	Transfer bud. approp. for the purchase of salt supplies storage bin materials
101-4210-542-3102	Small Tools and Equipment	500	813	1,313	Jackhammer replacement
Total City Street Fund Expenditures		3,504,352	101,626	3,605,978	

Account Numbers	Account Description	2016 Budget	Budget Amendment	2016 Budget as Amended	Comments
Arterial Streets Fund					
Revenues					
102-0000-308-0000	Beginning Cash	337,876	55,000	392,876	Cash reserves
102-0000-367-2700	Private Source/Developers	99,000	5,000	104,000	Panorama speed control
Total Arterial Streets Fund Revenues		9,237,323	60,000	9,297,323	
Expenditures					
102-4101-595-9001	Capital Projects / Preliminary Engineering	367,375	32,250	399,625	IJR Phase 3, temporary speed control
102-4101-595-9003	Capital Projects / Road Way	6,857,704	25,500	6,883,204	Demolition at 4436 Pacific Avenue, temporary speed control
102-4101-595-9005	Capital Projects / Construction Engineering	749,744	2,250	751,994	Temporary speed control
Total Arterial Streets Fund Expenditures		9,237,323	60,000	9,297,323	
Lodging Tax Fund					
Revenues					
109-0000-308-0000	Beginning Cash	31,600	1,834	33,434	Cash Reserves
Total Lodging Tax Fund Revenues		458,600	1,834	460,434	
Expenditures					
109-0401-597-1101	Transfers Out 001 Fund	48,500	1,834	50,334	Transfer private donations for the Fleetwood-Himes Homestead Site Historic Marker
Total Lodging Fund Expenditures		458,600	1,834	460,434	
Building Improvement Fund					
Revenues					
301-0000-308-0000	Beginning Cash	316,379	94,799	411,178	Committed Reserves and cash reserves
Total Building Improvement Fund Revenues		323,379	94,799	418,178	
Expenditures					
301-0101-514-6003	Capital Outlay - Improvements	45,000	17,827	62,827	City Hall security fencing phase 2
301-0101-514-6004	Capital Outlay - Buildings	271,379	61,972	333,351	City Hall roof repair and maintenance
301-0101-514-6004	Capital Outlay - Buildings	333,351	15,000	348,351	City Hall front counter workstation improvements
Total Building Improvement Fund Expenditures		323,379	94,799	418,178	
Capital Equipment Fund					
Revenues					
302-0000-308-0000	Beginning Cash	911,179	164,142	1,075,321	Cash Reserves
Total Capital Equipment Fund Revenues		1,757,963	164,142	1,922,105	
Expenditures					
302-0102-519-6410	Capital Outlays / Police	-	11,680	11,680	Police scheduling software
302-0102-519-6410	Capital Outlays / Police	11,680	6,436	18,116	Automated external defibrillators (AED) - Nisqually Tribe Grant funded
302-0102-519-6416	Capital Outlays / Parks and Recreation	3,402	125,000	128,402	Parks security camera project - Long Lake, Rainier Vista, RAC
302-0102-519-6416	Capital Outlays / Parks and Recreation	128,402	3,500	131,902	Storage container to preserve logs from old school house
302-0102-519-6416	Capital Outlays / Parks and Recreation	131,902	5,174	137,076	Automated external defibrillators (AED) - Nisqually Tribe Grant funded
302-0102-519-6417	Capital Outlays / City Streets	14,608	6,316	20,924	Double-acting hydraulic dump body for vehicle #293
302-0102-519-6417	Capital Outlays / City Streets	20,924	4,000	24,924	Replace 43-year old thermoplastic/button machine trailer
302-0102-519-6417	Capital Outlays / City Streets	24,924	2,036	26,960	Reader board replacement after accident

Account Numbers	Account Description	2016 Budget	Budget Amendment	2016 Budget as Amended	Comments
Total Capital Equipment Fund Expenditures		1,757,963	164,142	1,922,105	

Parks & Open Space Fund					
Revenues					
303-0000-308-0000	Beginning Cash	1,290,929	25,000	1,315,929	Cash Reserves
Total Parks & Open Space Fund Revenues		1,861,752	25,000	1,886,752	
Expenditures					
303-0106-576-6003	Capital Outlays / Capital Improvements	242,288	25,000	267,288	Demolition of house at Pleasant Glade Park
Total Parks & Open Space Fund Expenditures		1,861,752	25,000	1,886,752	

Water Fund					
Revenues					
401-0000-308-0000	Beginning Cash	38,262	3,200	41,462	Cash Reserves
Total Water Fund Revenues		11,021,048	3,200	11,024,248	
Expenditures					
401-3403-534-4811	Repairs and Maintenance/Telemetry	23,000	3,200	26,200	Supervisory Control and Data Acquisition (SCADA) software upgrade
Total Water Fund Expenditures		11,021,048	3,200	11,024,248	

Wastewater Fund					
Revenues					
402-0000-308-0000	Beginning Cash	-	3,200	3,200	Cash Reserves
Total Wastewater Fund Revenues		14,540,495	3,200	14,543,695	
Expenditures					
402-3503-535-4811	Repairs and Maintenance/Telemetry	2,500	3,200	5,700	Supervisory Control and Data Acquisition (SCADA) software upgrade
Total Wastewater Fund Expenditures		14,540,495	3,200	14,543,695	

Stormwater Fund					
Revenues					
403-0000-334-0313	State Grant/Department of Ecology	310,121	(310,121)	-	State Budget reduction of Street Sweeper purchase and operator grant
Total Stormwater Fund Revenues		3,245,821	(310,121)	2,935,700	
Expenditures					
403-4203-538-1001	Salaries and Wages	357,236	(50,460)	306,776	State Budget reduction of Street Sweeper operator grant
403-4203-538-2001	Employer Paid Benefits	184,960	(17,661)	167,299	State Budget reduction of Street Sweeper operator grant
403-4203-538-6001	Capital Outlays - Equipment	242,000	(242,000)	-	State Budget reduction of Street Sweeper purchase grant
Total Stormwater Fund Expenditures		3,245,821	(310,121)	2,935,700	

Account Numbers	Account Description	2016 Budget	Budget Amendment	2016 Budget as Amended	Comments
Water Capital Fund					
Revenues					
410-0000-308-0100	Estimated Beginning Cash / Construction Cash	10,410,764	666,666	11,077,430	Cash Reserves
Total Water Capital Fund Revenues		16,713,340	666,666	17,380,006	
Expenditures					
410-3418-534-9001	Preliminary Engineering	2,020,893	14,750	2,035,643	Westside VFD
410-3418-534-9005	Construction Engineering	633,368	50,000	683,368	Westside VFD
410-3418-534-9013	Construction of Utilities	7,643,539	601,916	8,245,455	Deschutes Watershed, Tanglewilde waterline, Britton Pkwy RPBA, Westside VFD
Total Water Capital Fund Expenditures		16,713,340	666,666	17,380,006	
Wastewater Capital Fund					
Revenues					
411-0000-308-0100	Estimated Beginning Cash / Construction Cash	576,343	1,734,565	2,310,908	Cash reserves
Total Wastewater Capital Fund Revenues		11,030,735	1,734,565	12,765,300	
Expenditures					
411-3518-535-9001	Preliminary Engineering	1,155,476	120,751	1,276,227	Shady Lane Sewer
411-3518-535-9005	Construction Engineering	523,076	130,092	653,168	Shady Lane Sewer
411-3518-535-9013	Construction of Utilities	6,116,791	1,483,722	7,600,513	Shady Lane Sewer, Liftstation #2 (Westlake Drive)
Total Wastewater Capital Fund Expenditures		11,030,735	1,734,565	12,765,300	
Stormwater Capital Fund					
Revenues					
412-0000-308-0000	Beginning Cash	296,000	145,000	441,000	Cash reserves
Total Stormwater Capital Fund Revenues		1,509,310	145,000	1,654,310	
Expenditures					
412-4218-542-9001	Preliminary Engineering	205,000	50,000	255,000	Hick Lake outfall feasibility study
412-4218-542-9004	Capital Projects / Storm Drainage	1,060,050	87,875	1,147,925	Brentwood stormwater improvements (25th Loop)
412-4218-542-9005	Construction Engineering	85,950	7,125	93,075	Brentwood stormwater improvements (25th Loop)
Total Stormwater Capital Fund Expenditures		1,509,310	145,000	1,654,310	
Equipment Rental Fund					
Revenue					
501-0000-308-0000	Beginning Cash	240,087	27,635	267,722	Cash reserves
501-0000-369-4000	Court Fees/Judgements	-	37,676	37,676	Insurance proceeds
Total Equipment Rental Fund Revenues		2,543,522	65,311	2,608,833	
Expenditures					
501-4801-548-6001	Capital Outlay-Equipment	10,000	11,119	21,119	Stage I Vapor Recovery System - ORCAA requirement
501-4801-548-6002	Capital Outlay-Replacement	240,087	14,608	254,695	Reader board replacement after accident
501-4801-548-6002	Capital Outlay-Replacement	254,695	37,676	292,371	Replace police vehicle #385 - accident insurance proceeds
501-4801-548-6002	Capital Outlay-Replacement	292,371	1,908	294,279	Replace gas-powered jackhammer
Total Equipment Rental Fund Expenditures		2,543,522	65,311	2,608,833	

Account Numbers	Account Description	2016 Budget	Budget Amendment	2016 Budget as Amended	Comments
Drug Unit					
Revenues					
504-0000-369-4000	Judgments/Forfeiture and Seizure	250,000	282,700	532,700	Increase to seizure funds
Total Drug Unit Revenues		527,380	282,700	810,080	
Expenditures					
504-2106-521-3102	Supplies / Small Tools & Equipment	10,000	20,000	30,000	Increase to equipment purchases
504-2106-521-4924	Drug Education	25,000	30,000	55,000	Increase to seizure pass through to State
504-2106-508-8000	Ending Cash	158	232,700	232,858	Ending cash
Total Drug Unit Expenditures		527,380	282,700	810,080	



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
August 3, 2016

SUBJECT: 2016 Mid-Year Financial Report

RECOMMENDATION: Review Mid-Year Financial Report

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

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Revenue and Expenditure Reports for the Quarter Ending June 30, 2016](#)

FISCAL NOTE:

PRIOR REVIEW: None

BACKGROUND:

The 2016 mid-year financial report has been completed. The report focuses on the General Fund. The revenue and expenditure summaries are attached.

GENERAL FUND EXPENDITURES

As of June 30, 2016, total General Fund Expenditures were \$21,102,306 or 49.6 percent of the adopted 2016 Budget. This is a total increase of \$1,234,665 or 6.2 percent compared to the mid-year 2015 total expenditure level. Expenditures at June 30, 2015 were 50.8 percent of the total 2015 General Fund Budget. The majority of the 2016 increase is due to one-time transfers between funds to establish the City Council committed reserve fund for strategic investment. These transfers amounted to \$1,060,000. After removing the impacts of the one-time transfers, the total mid-year 2016 expenditures increased \$174,665 or 0.9 percent compared to the previous year. This variance was anticipated by the adopted 2016 Budget.

Although all mid-year expenditure categories show variances from the previous year, only the most significant or noteworthy variances are described below.

- The City Council's expenditures were \$69,330 higher than the previous year. Military support expenditure increased \$43,761 due to the higher financial commitment to the South Sound Military and Communities Partnership (SSMCP) and the expansion of the Lacey Veterans Outreach Center. Lacey's 50th Anniversary increased expenditures by \$15,633.
- Payment timing differences for district court (\$43,002) and jail services (\$41,760) resulted in lower mid-year 2016 Contracted Services expenditures.
- The Police Department's mid-year expenditures declined \$441,547 compared to last year. The Criminal Justice Fund experienced a similar increase. This is a result of establishing the City Council's 2015 adopted committed reserves. Salaries and benefits were adjusted between the funds to re-prioritize the Council adopted committed reserves to establish the Strategic Investment reserves.
- Mid-year expenditures increased \$118,020 in the Public Works – Engineering Department. Salaries and benefits increased \$98,016.
- The Public Works – Parks Maintenance Department's expenditures increased \$72,143. Right of Way maintenance increased \$22,397 and irrigation increased \$29,075 due a warmer and dryer Spring.
- The impacts of the aforementioned one-time transfers to establish the City Council's Strategic Investment reserves can be seen in the mid-year expenditures for the Street and Capital Equipment Funds. Transfers of \$500,000 and 560,000 were transferred from the Street Fund and Capital Equipment Fund, respectively.
- The Street Fund experienced increases due to timing differences relating to street lighting electricity (\$132,135).

Additional details are provided in the attached expenditure summaries for the General Fund departments and other funds.

GENERAL FUND REVENUES

As of June 30, 2016, total General Fund Revenues were \$24,591,943 or 57.8 percent of the adopted budget. Last year at this same time, revenues were 55.9 percent of budget. Mid-year General Fund revenues increased \$2,725,293 compared to the previous year. The aforementioned one-time transfers had a similar impact on revenues. Removing the impacts of the transfers, the General Fund revenue changes to a positive variance of \$1,665,293 or 7.6 percent. The overall revenue collections are consistent with budget projections.

- Through June 2016, \$3,211,333 of property taxes have been collected. This is equal to 56.8 percent of the annual property tax budget. This is an increase of \$116,871 compared to the previous year. A combination of the one percent increase, new construction credit, refund levy, and an annexation contribute to the increase.
- 2016 sales tax receipts totaled \$4,926,403 at the end of June. This is \$512,543 or 11.5 percent higher than last year. Please note that sales tax receipts from two of the six months collected will be accrued back to 2015 when the sales activity actually took place. The following table shows the year-to-date top 20 sales tax sources.

	Year-To-Date			Last 12 Months
	This Year	Last Year	% Chg	
General Merchandise Stores	988,851	953,365	3.7	1,932,110
Food Services and Drinking Places	497,016	451,115	10.2	984,136
Construction of Buildings	426,794	269,418	58.4	885,483
Building Material and Garden Equipment and Supplies	304,542	285,039	6.8	652,300
Specialty Trade Contractors	263,286	232,240	13.4	561,269
Sporting Goods, Hobby, Musical Instrument, and Books	288,699	281,250	2.6	559,997
Miscellaneous Store Retailers	208,471	191,782	8.7	407,435
Merchant Wholesalers, Durable Goods	166,302	147,197	13.0	368,943
Telecommunications	175,697	171,959	2.2	348,340
Motor Vehicle and Parts Dealers	161,112	140,423	14.7	339,234
Electronics and Appliance Stores	135,934	133,335	1.9	262,564
Food and Beverage Stores	115,076	121,050	-4.9	244,935
Repair and Maintenance	123,580	111,977	10.4	238,432
Clothing and Clothing Accessories Stores	123,760	127,071	-2.6	231,200
Professional, Scientific, and Technical Services	120,469	61,305	96.5	202,503
Nonstore Retailers	92,820	79,260	17.1	167,852
Administrative and Support Services	69,737	72,739	-4.1	159,099
Furniture and Home Furnishings Stores	69,099	63,456	8.9	141,836
Health and Personal Care Stores	60,762	56,881	6.8	122,100
Rental and Leasing Services	59,816	47,513	25.9	116,286
	\$ 4,451,822	\$ 3,998,375		\$ 8,926,053

The top 20 sources provide 90.4 percent of all sales tax. The largest sales tax category, "General Merchandise Stores", is experiencing a year-to-date 3.7 percent increase compared to 2015. The categories related to construction and housing continue to report positive results. This is consistent with strong single-family residential building permit activity and the North Thurston School District voter approved bond capital improvement program. Sales tax is the General Fund's largest source of revenue, so close monitoring of sales tax collections will continue.

- The General Fund business & occupation (B&O) tax mid-year revenues total \$1,160,702 or 61.3 percent of budget estimate. B&O taxes increased \$163,910. B&O tax collections have the same basis as sales tax, so B&O taxes are likely to be following the same positive trend curve. In addition, the new business licensing

partnership with the State is likely improving compliance with the City's B&O tax requirements.

- Utility tax collections for the mid-year were \$293,751 higher than the previous year. Electricity and natural gas utility taxes experienced the most significant increases. This past winter's weather patterns were normal after a very mild winter during the previous year, so increased heating is the main reason for the increase to energy use. Utility tax from electricity and natural gas increased \$208,388 compared to the previous year. Telephone Utility Tax was \$27,738 lower than the previous year. It is assumed that households continue to eliminate land line phones due to broader use of cellular phones, which reduces overall consumption. In addition, larger portions of cell phone bills are related to data, which is exempt from local utility taxes. Utility tax collections from water, sewer, and stormwater increased \$117,092, which is consistent with adopted rate increases and a growing number of households.
- \$1,071,083 of non-business license (includes building, mechanical, plumbing, and electrical permits fees) revenues have been collected. This is \$395,267 higher than the previous year. The majority of the permit categories are experiencing increases. Building permits are experiencing the largest increase.

195 single-family residential permits were issued as of June 30. This is higher than the 151 single-family residential permits issued through mid-year of 2015. It was projected that 250 permits will be issued by year-end. Based on the mid-year issuances and historical activity, permits are on pace to exceed the projection. Building permit activity indicates future one-time sales tax increases, ongoing property, and utility tax increases.

- Mid-year transfers-in increased \$1,068,525. The increase is a result of the aforementioned one-time \$1,060,000 Strategic Investment committed reserve transfers.

UTILITY FUNDS

Mid-year 2016 operating expenditures for the City's utilities were within projections. The Water Utility Maintenance and Operations Fund expenditures were \$1,055,097 or 19.6 percent higher in 2016. The annual transfer to the Water Capital Fund increased \$844,002. Wastewater Utility Maintenance and Operations Fund expenditures were \$766,056 or 12.1 percent higher in 2016. The primary reasons for the increase are higher transfers for LOTT revenue collection and to the Wastewater Capital Fund. The Stormwater Maintenance and Operations Fund expenditures were \$348,084 or 23.3 percent higher than the previous year. Higher transfers to the Stormwater Capital Fund were the primary reason for the increase.

Operating revenues for the utilities are meeting projections and consistent with approved rate increases and customer growth. Total water revenues were \$730,195 higher than mid-year of 2015. Through June 2016, water sales were \$588,743 higher than the 2015 water

sales. Wastewater total revenues were \$458,985 higher than the previous year. Wastewater sales for mid-year were \$175,341 higher than 2015 and LOTT sales were \$293,787 higher than 2015 through mid-year. Stormwater revenues were \$157,484 higher than 2015. Stormwater sales increased \$158,668.

CONCLUSION AND FORECAST

At the half point of the budget year, revenues and expenditures are generally occurring as expected. The most significant departures from the budget projections is the stronger than anticipated sales tax collections and building permit fees due to higher construction activity. The increase does not warrant change of course from the adopted budget or long-range projections. More than half of the sales tax increase is generated from new construction and housing related categories. A significant portion of the new construction activity relates to the North Thurston Public Schools' voter-approved bond capital improvement program projects. The elevated construction sales taxes are expected to continue through 2017. At this time, there are no indicators that the elevated level of construction will continue beyond 2017, so the conservative approach is to consider the increase from construction activity to be one-time in nature. Without significant increases to retail sales or new construction projects to replace the school district's capital improvement program, the 2018 sales tax projection will decrease and significant budget deficits could return.

Recognizing past annual deficits and the potential one-time nature of the construction sales tax increase, development of the City's second Six-Year Strategic Financial Plan is nearing completion. The plan is expected to provide the following benefits:

- Long-term outlook and perspective on the City's future financial condition.
- Information to make short-term budget decisions and the forward insight of the long-term impacts of current policy decisions.
- A financial model that allows for real time adjustments for flexibility and recognizes that budgets are dynamic documents.
- Guidance for budget actions and policy directives that will address the anticipated deficits.

The Six-Year Strategic Financial Plan is scheduled to be completed in advance of the development of the 2017 Budget.

Each of the City's three labor contract terms includes 2017, so the City's commitments are known. The current contracts include maintenance of benefits and the cost of living adjustments (COLA) equal to 90 percent of the mid-year Seattle/Tacoma/Bremerton CPI-W with a minimum COLA of two percent and a maximum of four percent for American Federation of State, County and Municipal Employees (AFSCME) and a minimum COLA of two percent and maximum of five percent for the Lacey Police Management Association and Lacey Police Officers' Guild. The medical benefit increases have been lower due to the Association of Washington Cities (AWC) Benefit Trust change to self-insurance on

January 1, 2014. The long-term rate increase outlook is seven percent compared to ten percent previously. The preliminary 2017 rate projections indicates four to six percent increases for the Regence plans and two to five percent increases for the Group Health plans. No increases are projected for dental, vision, and life insurance plans. The cost of labor will continue to be the City's largest expenditure challenge. Labor is the City's most important asset, but it is the most expensive to maintain.

2016 is final year that the Street Overlay Program is funded through City Council committed reserves. Preservation of the City's street system is a top priority of the City Council, so the Lacey Transportation Benefit District was established by Ordinance No. 1485 on January 28, 2016. City Council has indicated its preference to seek voter approval of a 2/10 of one percent sales tax proposal in a February 2017 Special Election to fund maintenance of Lacey's local street system.

The State will need to address the McCleary K-12 education funding mandate in the next biennial budget. It is estimated \$3 to \$5 billion will be needed to address the McCleary funding mandate. In addition, there is currently a \$750 million operating deficit projected for the 2017-19 biennium. The following Washington city impacts were included in this year's supplemental budget, but were vetoed by the Governor.

- Funding for the Municipal Research and Services Center (MRSC) was almost reduced to devastating levels. Thankfully, the budget compromise did not sweep any additional funding from liquor revenues, which preserves the MRSC funding.
- The compromised budget does not increase the direct cost to cities for law enforcement cadet training. Early versions of the budget included increases.
- The proposal to merge the LEOFF 1 (Law Enforcement Officers and Fire Fighters) and TRS 1 (Teacher's Retirement System) retirement plans was not included in the compromise. LEOFF 1 is fully funded, while TRS 1 is not. Merging the two retirement plans has the potential to negatively impact the City's funding of LEOFF 1.

These issues are expected to be in jeopardy in the next biennial budget. In addition, due to the magnitude of the State's budget deficit, local governments will be in danger of losing State-shared revenues. The City's most significant State-shared revenues include liquor excise tax and revolving fund and criminal justice funding. The 2016 Budget includes \$535,682 from these revenue sources. The State's budget process is likely to be long and the City's budget process could include a degree of uncertainty.

The early 2017 Budget projections indicate similar balancing efforts as the adopted 2016 Budget. 2017 sales taxes are projected to continue to include higher new construction collections and other revenue sources are expected to grow. However, the expenditures necessary to preserve the service levels Lacey's citizens have come to appreciate and expect are projected to grow as quickly as the revenue projections.

It is recommended that the 2017 Budget be approached with caution and continued conservatism. If the recent new construction trend is one-time in nature, 2018 could be financially challenging. Lacey's conservative budget approach has served its citizens well as illustrated with its ability to maintain service levels during the "Great Recession" and subsequent slow recovery.

City of Lacey
Monthly Revenue Summary
June 2016

Revenues: <u>General Fund</u>	2015 Amended Budget	YTD 6/30/2015 YTD Actual	2015 YTD % of Budget	2016 Amended Budget	YTD 6/30/2016 YTD Actual	2016 YTD % of Budget	2016-2015 YTD Variance
Taxes:							
Property	5,422,899	3,094,462	57.1%	5,650,871	3,211,333	56.8%	116,871
Sales	7,811,185	4,413,860	56.5%	8,373,364	4,926,403	58.8%	512,543
Business & Occupation	1,873,258	996,792	53.2%	1,893,858	1,160,702	61.3%	163,910
Admissions	275,000	138,440	50.3%	275,000	148,461	54.0%	10,022
Utility - Electric	2,026,752	998,818	49.3%	2,054,309	1,207,206	58.8%	208,388
Utility - Natural Gas	771,108	483,707	62.7%	714,079	455,968	63.9%	(27,738)
Utility - Solid Waste	320,214	169,929	53.1%	357,506	203,489	56.9%	33,560
Utility - Telephone	1,280,432	601,458	47.0%	1,278,607	563,908	44.1%	(37,550)
Utility - Water/Sewer/Storm	2,109,196	1,086,708	51.5%	2,263,577	1,203,800	53.2%	117,092
Excise - Forest/Leasehold	5,000	81	1.6%	500	89	17.7%	8
Gambling	392,100	233,833	59.6%	400,100	222,876	55.7%	(10,957)
Total Taxes	22,287,144	12,218,088	54.82%	\$23,261,771	13,304,235	57.19%	1,086,147
Penalties & Interest	250	20	8.0%	250	-		(20)
Franchises	625,000	323,149	51.7%	650,000	347,041	53.4%	23,893
Licenses & Permits	936,345	711,031	75.9%	1,051,700	1,107,912	105.3%	396,881
Inter-Governmental:							
Criminal Justice	-	7,549		-	2,292		(5,258)
Traffic Safety	5,000	2,904	58.1%	5,000	-		(2,904)
Liquor Excise	86,561	50,746	58.6%	203,869	110,282	54.1%	59,536
Liquor Profits	397,456	198,586	50.0%	396,232	199,211	50.3%	625
Other State Entitlements	-	-		17,451	8,726	50.0%	8,726
Inter-Gov. Service Charges	236,110	55,286	23.4%	234,768	9,584	4.1%	(45,702)
Other Grants	76,500	1,448	1.9%	69,500	414	0.6%	(1,034)
Total Inter-Governmental	801,627	316,520	39.48%	\$926,820	330,508	35.66%	13,989
Service Charges:							
General Government	32,250	22,430	69.5%	35,000	20,830	59.5%	(1,600)
Security of Persons/Property	52,500	3,625	6.9%	23,500	2,415	10.3%	(1,210)
Economic Environment/Plan Checking	318,000	299,401	94.2%	344,500	565,349	164.1%	265,948
Culture and Recreation	870,138	376,301	43.2%	988,326	381,204	38.6%	4,903
Total Service Charges	1,272,888	701,757	55.13%	\$1,391,326	969,798	69.70%	268,041
Interfund Charges:							
Engineering Services	2,628,459	1,056,026	40.2%	2,638,953	1,170,797	44.4%	114,771
Park Maintenance	293,752	61,164	20.8%	377,650	184,757	48.9%	123,593
Water Resources	1,565,694	780,136	49.8%	1,601,515	821,369	51.3%	41,233
Other Interfund Charges	200,000	14,389	7.2%	-	-		(14,389)
Total Interfund Charges	4,687,905	1,911,715	40.78%	\$4,618,118	2,176,924	47.14%	265,209
Violations	750,000	361,496	48.2%	525,000	176,375	33.6%	(185,120)
Interest Earnings	80,000	25,485	31.9%	55,000	53,777	97.8%	28,292
Other Miscellaneous	113,450	21,433	18.9%	43,550	20,499	47.1%	(934)
Contributions	56,100	62,284	111.0%	57,600	44,845	77.9%	(17,439)
Financing	-	33,726		-	-		(33,726)
Transfers	434,647	434,647	100.0%	1,501,338	1,503,172	100.1%	1,068,525
Beginning Cash	610,225	-		160,058	-		-
Total Current Expense Fund Revenues	32,655,581	17,121,351	52.43%	\$34,242,531	20,035,087	58.51%	2,913,736
Criminal Justice Fund	730,215	370,800	50.8%	1,485,525	405,479	27.3%	34,679
Community Buildings Fund	530,943	101,178	19.1%	514,583	117,117	22.8%	15,939
Regional Athletic Complex Fund	1,055,676	732,324	69.4%	1,059,126	726,040	68.6%	(6,284)
Street Fund	2,888,097	2,597,141	89.9%	3,504,352	2,656,196	75.8%	59,055
Capital Equipment Fund	1,288,073	943,856	73.3%	1,757,963	652,024	37.1%	(291,832)
Total General Fund Revenues	39,148,585	21,866,650	55.86%	\$42,564,080	24,591,943	57.78%	2,725,293

Revenues:	2015	YTD	2015	2016	YTD	2016	2016-2015
<u>Other Funds</u>	<u>Amended</u>	<u>3/31/2015</u>	<u>YTD % of</u>	<u>Amended</u>	<u>3/31/2016</u>	<u>YTD % of</u>	<u>YTD</u>
	<u>Budget</u>	<u>YTD Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>YTD Actual</u>	<u>Budget</u>	<u>Variance</u>
Arterial Street Fund	8,213,144	1,473,295	17.9%	9,237,323	2,316,521	25.1%	843,226
Lodging Tax	439,000	188,837	43.0%	458,600	193,834	42.3%	4,996
Community Block Grant	200	31	15.5%	200	39	19.7%	8
General Obligation Bond	2,060,856	9,972,693	483.9%	2,026,525	1,164,941	57.5%	(8,807,751)
LID Debt	1,398,017	426,215	30.5%	1,047,803	59,852	5.7%	(366,362)
Building Improvement	466,157	173,897	37.3%	323,379	48,328	14.9%	(125,569)
Parks & Open Space	661,823	643,811	97.3%	886,752	501,262	56.5%	(142,549)
Regional Athletic Complex Capital	726,500	397,839	54.8%	901,500	444,189	49.3%	46,350
Water Utility	9,839,257	5,026,290	51.1%	11,021,048	5,756,485	52.2%	730,195
Wastewater Utility	13,769,434	6,988,908	50.8%	14,540,495	7,447,893	51.2%	458,985
Stormwater Utility	2,636,873	1,350,280	51.2%	3,245,821	1,507,764	46.5%	157,484
Reclaimed Water	400	152	38.1%	400	189	47.4%	37
Water Capital	9,686,752	4,068,260	42.0%	16,713,340	5,626,773	33.7%	1,558,513
Wastewater Capital	6,405,043	1,690,544	26.4%	11,030,735	2,429,422	22.0%	738,878
Stormwater Capital	2,027,194	548,893	27.1%	1,509,310	1,030,149	68.3%	481,256
Reclaimed Water Capital	3,000	1,872	62.4%	3,500	3,676	105.0%	1,804
Water Debt Service	6,155,431	516,564	8.4%	4,022,965	514,685	12.8%	(1,879)
Wastewater Debt Service	5,527,752	-		4,801,748	-		-
Stormwater Debt Service	1,751,921	101,957	5.8%	1,751,686	101,726	5.8%	(232)
Equipment Rental	2,538,763	1,220,190	48.1%	2,543,522	1,180,189	46.4%	(40,002)
Information Management	1,886,027	815,308	43.2%	1,905,736	845,899	44.4%	30,591
Total Revenues	115,342,129	57,472,486	49.83%	\$130,536,468	55,765,758	42.72%	(1,706,729)

City of Lacey
Monthly Expenditure Summary
June 2016

Expenditures:	2015	YTD	2015	2016	YTD	2016	2016-2015
<u>General Fund</u>	<u>Amended</u>	<u>6/30/2015</u>	<u>YTD % of</u>	<u>Amended</u>	<u>6/30/2016</u>	<u>YTD % of</u>	<u>YTD</u>
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
City Council	272,390	163,061	59.9%	341,974	232,391	68.0%	69,330
Contracted Services	2,407,932	787,175	32.7%	2,627,314	662,621	25.2%	(124,554)
City Manager	519,297	267,956	51.6%	539,446	265,435	49.2%	(2,521)
Public Affairs/Human Resources	1,209,931	520,916	43.1%	1,261,143	553,180	43.9%	32,264
Finance	828,952	423,071	51.0%	848,165	431,031	50.8%	7,960
Legal & Judicial	583,649	242,591	41.6%	594,585	297,408	50.0%	54,816
Common Facilities Overhead	1,652,148	873,835	52.9%	1,677,690	834,939	49.8%	(38,896)
Police	9,001,830	4,355,226	48.4%	8,393,461	3,913,679	46.6%	(441,547)
Public Works - Support SVC	84,229	37,167	44.1%	78,437	35,981	45.9%	(1,186)
Public Works - Engineering	2,829,217	1,351,070	47.8%	2,940,140	1,469,090	50.0%	118,020
Public Works - Parks Maint.	2,541,925	1,116,063	43.9%	2,590,606	1,188,206	45.9%	72,143
Public Works - Facilities Maint.	451,257	189,755	42.1%	492,971	174,582	35.4%	(15,174)
Planning & Community Dev.	2,186,129	1,029,079	47.1%	2,176,334	1,062,554	48.8%	33,475
Public Works - Water Resources	1,300,694	611,418	47.0%	1,335,552	629,090	47.1%	17,672
Parks & Recreation	2,360,216	968,567	41.0%	2,551,850	997,205	39.1%	28,638
Transfers Out	4,425,785	4,139,048	93.5%	5,792,863	3,941,037	68.0%	(198,011)
Total Current Expense Fund:	32,655,581	17,075,999	52.29%	\$34,242,531	16,688,428	48.74%	(387,571)
Criminal Justice Fund	730,215	396,326	54.3%	1,485,525	733,656	49.4%	337,330
Community Buildings Fund	530,943	235,218	44.3%	514,583	226,748	44.1%	(8,470)
Regional Athletic Complex	1,055,676	491,327	46.5%	1,059,126	514,093	48.5%	22,767
Street Fund	2,888,097	1,309,925	45.4%	3,504,352	2,053,485	58.6%	743,560
Capital Equipment Fund	1,288,073	358,847	27.9%	1,757,963	885,896	50.4%	527,048
Total General Fund Expenditures	39,148,585	19,867,641	50.75%	\$42,564,080	21,102,306	49.58%	1,234,665
Expenditures:							
<u>Other Funds</u>							
Arterial Street Fund	8,213,144	1,523,830	18.6%	9,237,323	662,566	7.2%	(861,265)
Lodging Tax	439,000	261,368	59.5%	458,600	248,458	54.2%	(12,910)
Community Block Grant	200	-	0.0%	200	-	0.0%	-
General Obligation Bond	2,060,856	8,932,359	433.4%	2,026,525	265,263	13.1%	(8,667,096)
LID Debt	1,398,017	-	0.0%	1,047,803	-	0.0%	-
Building Improvement	466,157	129,505	27.8%	323,379	75,372	23.3%	(54,133)
Parks & Open Space	661,823	664,790	100.4%	886,752	646,568	72.9%	(18,222)
Regional Athletic Complex Capital	726,500	627,402	86.4%	901,500	578,528	64.2%	(48,874)
Water Utility	9,839,257	5,378,399	54.7%	11,021,048	6,433,496	58.4%	1,055,097
Wastewater Utility	13,769,434	6,313,546	45.9%	14,540,495	7,079,602	48.7%	766,056
Stormwater Utility	2,636,873	1,492,757	56.6%	3,245,821	1,840,841	56.7%	348,084
Reclaimed Water	400	-	0.0%	400	-	0.0%	-
Water Capital	9,686,752	1,756,972	18.1%	16,713,340	3,031,116	18.1%	1,274,145
Wastewater Capital	6,405,043	578,162	9.0%	11,030,735	586,446	5.3%	8,284
Stormwater Capital	2,027,194	723,510	35.7%	1,509,310	877,971	58.2%	154,462
Reclaimed Water Capital	3,000	-	0.0%	3,500	-	0.0%	-
Water Debt Service	6,155,431	79,186	1.3%	4,022,965	136,542	3.4%	57,356
Wastewater Debt Service	5,527,752	-	0.0%	4,801,748	-	0.0%	-
Stormwater Debt Service	1,751,921	16,023	0.9%	1,751,686	23,495	1.3%	7,473
Equipment Rental	2,538,763	887,139	34.9%	2,543,522	610,555	24.0%	(276,583)
Information Management	1,886,027	731,867	38.8%	1,905,736	598,153	31.4%	(133,715)
Total Expenditures	115,342,129	49,964,456	43.32%	\$130,536,468	44,797,279	34.32%	(5,167,177)