

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	2001 First Quarter Financial Report
DEPARTMENT:	City Manager's Office
PRESENTED BY:	Debbie Tarry, Finance Director Patti Rader, Senior Budget Analyst Steve Oleson, Budget Analyst

EXECUTIVE / COUNCIL SUMMARY

The following financial report provides an overview of the expenditure and revenue activity for the first quarter of 2001. It also includes revised revenue projections for year 2001. The 2001 First Quarter Financial Report has been attached to provide detailed analysis of revenue and expenditure activity by the City during the first quarter.

After the first quarter, most funds are close to their expected revenues. As detailed below, revenue projections have been revised upward in the General Fund. We will closely monitor revenues during the second quarter to determine if these revised projections are still appropriate.

Permit revenue in the Development Services Fund for first quarter was below both 2001 projections and 2000 first quarter collections. Permit activity during the first quarter is down nationally due to the economic slowdown. Staff will continue to monitor permit activity.

All funds are experiencing large under-expenditures at this time. We do, however, expect that expenditures will start to level off during the second quarter as most seasonal work begins.

General Fund

Based upon 2000 revenue collections, recent utility rate increases, and other factors, Projected General Fund annual revenue, budgeted at \$23,353,556, has been increased by \$1,018,578 to a revised total of \$24,372,134. Trends have been established for each revenue category to determine the expected collections for each quarter. The trends are based upon the history of collections within Shoreline combined with the experience of similar cities as surveyed. For example, to determine the quarterly trends for Natural Gas Utility tax, we reviewed our 2000 history and the three-year averages from other cities that have been collecting utility tax for several years. Although these revenue projections are made based on current trends, they are subject to change as more information on economic trends becomes available throughout the year.

General Fund revenues for the first quarter were \$4,728,999. This is \$128,811 below revised quarterly projected revenues of \$4,857,811 that are based on the projected revenue base of \$24,372,134. At this time we believe the variance is due to late utility tax franchise fee payments. Total expenditures during the same period were \$2,276,005, also under projected quarterly expenditures of \$4,767,409 by \$2,491,404.

Development Services Fund

The Development Services Fund first quarter revenues of \$339,741 were \$105,111 below projected quarterly revenues of \$444,852. First quarter revenues during the same period in 2000 were \$108,574 higher at \$448,315. Expenditures for the first quarter of \$383,127 are also below projections of \$443,345 by \$60,218.

Street Fund

The Street Fund had first quarter revenues of \$839,753 that were \$5,225 over projected quarterly revenues of \$834,528. Street Fund first quarter expenditures were \$522,223 or \$389,317 below projections of \$911,540.

Surface Water Management Fund

First quarter revenues in this fund equaled \$109,504, which were \$38,818 below projected revenues of \$148,322. Expenditures equaled \$1,120,702, or \$247,656 under projected expenditures of \$1,368,358.

Capital Funds

Both revenues and expenditures in the General, Roads, and Surface Water Capital Funds are below projections so far this year. Many capital projects are ramping up now with construction continuing through the summer and fall. Therefore most project expenditures will occur later in the year. Since grant revenue is usually received as a reimbursement for project expenditures, we will not see this revenue until more project work is completed and reimbursement is requested from the granting agencies.

RECOMMENDATION

No action is required. Staff recommends that the City Council review the 2001 First Quarter Financial Report.

Approved By:

City Manager  City Attorney 

BACKGROUND / ANALYSIS

General Fund

During the first quarter of 2001, actual revenues were \$4,728,999. This was \$128,812 or 2.7% below revised quarterly projections of \$4,857,811. First quarter expenditures of \$2,276,005 were \$2,491,404 or 52.2% below projections of \$4,767,409. The chart below outlines the City's General Fund position after the first quarter of year 2001. It compares the adopted 2001 Budget, the Year-end Projections, First Quarter Projections and the Actual First Quarter revenues and expenditures.

	2001 Adopted Budget	2001 Projections	Revisions from Adopted Budget	First Quarter Projections	First Quarter Actuals	1 st Qtr. Variance between Actuals and Projections
Beginning Fund Balance	\$3,817,767	\$4,653,627	\$835,860	\$5,243,711	\$5,243,711	0
Revenues	\$20,936,200	\$21,954,778	\$1,018,578	\$3,939,215	\$3,812,042	(\$127,173)
Transfers-In	2,417,356	2,417,356	\$0	918,595	916,957	(1,638)
Subtotal Revenues	\$23,353,556	\$24,372,134	\$1,018,578	\$4,857,810	\$4,728,999	(\$128,811)
Total Resources	\$27,171,323	\$29,025,761	\$1,854,438	\$10,101,521	\$9,972,710	(\$128,811)
Expenditures	\$20,548,590	\$19,822,100	(\$726,490)	\$4,767,409	\$2,276,005	(\$2,491,404)
Transfers-Out	5,141,750	5,141,750	\$0	765,152	765,152	0
Total Expenditures	\$25,690,340	\$24,963,850	(\$726,490)	\$5,532,561	\$3,041,157	(\$2,491,404)
Ending Fund Balance	\$1,480,983	\$4,061,911	2,580,928	\$4,568,960	\$6,931,553	\$2,362,593

General Fund Revenues

Based upon 2000 revenue collections, recent utility rate increases, and other factors, the projected General Fund revenues of \$23,353,556 have been increased by \$1,018,578 to \$24,372,134. Revenue collection trends have been established for each revenue category to determine the expected portion of annual collections for each quarter. The trends are based upon the history of collections within Shoreline combined with the experience of similar cities as surveyed. This is necessary because many revenues are not collected equally throughout the year. For example, to determine the quarterly trends for Natural Gas Utility tax we reviewed the timing of our 2000 collections as well as collection trends (i.e. timing of payments) of other cities that have collected utility tax for a number of years.

General Fund revenues during the first quarter of 2001 were \$4,728,999. This is below projected first quarter revenues of \$4,857,810 by \$128,811 or 2.7%. Historically first quarter collections account for just over 20% of the City's annual revenue even though 25% of the year has elapsed. Many revenue accounts receive no collections during the first quarter e.g. gambling tax, grants that reimburse the City for approved expenditures (since billing as not yet occurred), and fees from park programs that are offered later in the year.

Property tax collections of \$249,754 exceeded projections of \$212,184 by \$37,570 or 17.7%. No change has been made in the 2001 projected revenue in this category as the adopted budget for this tax is based upon the property tax levy adopted by Council. Only 98% of the levy is expected to be collected due to an anticipated 2% rate of

delinquencies. During the first quarter of each year, the City typically receives only 3% of the annual collections, since the first property tax payment is not due until April 30th.

Sales tax collections of \$922,857 were received during the first quarter. This is \$37,679 or 4.3% over projected revenue of \$885,178. Historically, the City could expect to receive about 18% of the total annual collections during the first quarter. No revisions have been made to the 2001 projections in this category even though first quarter collections are ahead of projections. Revenue received to date represents taxes paid in December and January. While those collections were ahead of the prior year, we are waiting for future collections to see if the current slowdown in the economy will have any affect on sales tax.

Local Criminal Justice Sales Tax of \$295,842 exceeded projections of \$268,884 by \$26,958 or 10%. Projections for this revenue had not been revised yet as it follows a pattern somewhat similar to sales tax.

State Revenue of \$1,598,198 exceeded projections of \$1,575,160 by \$23,038 or 1.5%. First quarter revenue represents nearly 78% of the total expected 2001 collections. During the first quarter, the City received \$1,444,827 from the State for local government assistance (I-695). 2001 projections for this category have not been revised.

Utility Tax and Franchise Fee revenue was \$506,110. This is \$164,082 below quarterly projections of \$670,192. Final collections in this category for 2000 were \$437,269 over projections made in July 2000, but still below the year 2000 adopted budget. As a result of the 2000 final collection experience and the recent rate increases by utilities, we expect revenues to exceed the 2001 budget by \$933,932 for a total annual projection of \$3,583,377. This growth can be attributed somewhat to the auditing efforts by the City in assuring that all utility services being provided to Shoreline residents are being taxed and payments are remitted to Shoreline.

Natural Gas tax revenue of \$195,144 was slightly behind revised projections of \$215,275 by \$20,131 or 9.4%. Projected revenues for this tax have been increased over the amended budget by \$196,551. Puget Sound Energy (PSE) had a rate increase of approximately 27% last August. This rate increase was included in the adopted budget. Since then, PSE has raised rates again in January of 2001 by about 24.5%. The revised projections include this second rate increase. No other increases are planned for 2001. We will continue to monitor this tax to see the full impact of the rate increases and conservation efforts.

Telephone/cellular tax revenue of \$124,693 is \$40,307 under revised quarterly projections of \$165,000. Some telephone/cellular service providers remit on a monthly basis while others remit quarterly. Therefore, no quarterly payments are reflected in the first quarter revenue since payments were not due until April 30. 2001 revenue projections for this tax have been increased by \$405,000 to a total of \$1,000,000. This reflects the City's collection experience during 2000. The interesting point is that the \$1,000,000 projection is nearly evenly distributed between telephone and cellular. Projected telephone revenue is \$525,000 and cellular is \$475,000. This seems to

correlate with changing habits of users of telecommunication technology. More and more people are using their cellular phones as their primary means of communication.

Contract payments collected from Seattle City Light (SCL) of \$82,045 are \$81,331 less than revised projections of \$163,376. Reported first quarter revenue only includes one monthly payment for January. The February payment of \$68,966 was not received until April. Once this payment is included, this revenue source is within \$12,365 of the quarterly projection. Projected revenue from these payments was increased by \$180,735 to reflect both year 2000 experience and recent rate increases. Seattle City Light has already increased rates twice during 2001. The first rate increase of approximately 15% went into effect in January. This was followed with a rate increase of 20% in March. SCL has indicated that they might increase rates two more times during 2001. It is our understanding that these fee increases are surcharges that will expire in three years. This is the length of time required by SCL to retire all of the debt issued to purchase additional power to meet the increased demand. If this is the case, the City would be financially prudent in treating the taxes collected from the surcharges as "one-time" revenue and not make on-going operating expenditures dependent upon these revenues. Staff intends to continue monitoring the impacts of the SCL fee increases and will bring forward a recommendation at the Council Budget Retreat in August.

Cable TV Utility tax and franchise fee revenue of \$8,936 was \$576 less than revised quarterly projections of \$9,512. Cable TV providers pay a 1% utility tax and a 5% franchise fee to the City. The utility tax is remitted to the City on a monthly basis while the franchise fee is paid quarterly. Therefore, no franchise fee payment is made during the first quarter since it is not due until April 30. Revenue projections for 2001 were increased by \$97,539 to a total of \$407,614. This amount equals actual 2000 collections.

Sanitation revenues of \$21,135 were \$1,515 over projections of \$19,620. Projections in this category have not been revised.

Franchise fees from Seattle Public Utilities (SPU) Water and Sewer Departments of \$74,157 were \$23,252 below projections of \$97,409. Projected 2001 revenue has been increased by \$54,007. This is a one-time increase to include five quarters of franchise fee payments. In 2000, SPU did not make a fourth quarter payment to the City until after the year 2000 had been closed. Therefore, in 2001, the City will record five quarters of revenue for these two franchise fees. Since these revenues are for the period of October through December, water and sewer consumption typically is less than the remainder of the year. We should see this revenue level off as the year progresses. We are not sure what impact conservation efforts may have on the water franchise payment due to the ongoing drought.

Gambling tax is not received during the first quarter of the year. Taxes for the first quarter are not due until April 30. Projections for this category in 2001 have not changed from the adopted budget.

Parks and Recreation Fee revenue of \$74,389 was below projections of \$109,694 by \$35,305. We will continue to monitor these collections. Both the recreation and aquatic programs are being impacted by capital improvement projects.

Transfers From Other Funds into the General Fund during the first quarter occurred as projected at \$918,595.

General Fund Expenditures

Departmental expenditures during the first quarter were \$2,276,005, or \$2,491,404 below projected expenditures of \$4,767,409. Currently, quarterly projections for expenditures are assumed to be 25% of the expenditure budget. This can be problematic because some programs such as Parks Maintenance, General Programs, Teen Programs, Recycling, occur on a seasonal basis. We hope to work with each department during 2001 to establish quarterly spending patterns to enable the City to better monitor expenditures during the year. At this time, no General Fund department has reached the 25% level of expenditure. Many programs issue contracts during the year, which are not paid in equal installments. This too tends to impact the expenditures more heavily at the end of the year. Transfers to other funds of \$765,152 occurred as projected.

Development Services Fund

The Development Services Fund first quarter revenues of \$339,741 were \$105,111 below projected quarterly revenues of \$444,852. First quarter revenues during the same period in 2000 were \$108,574 higher at \$448,315. Revenues are lower than expected in building permits, residential land use permits, residential ROW use construction, residential plan check fees, and residential SEPA fees. It is possible that some developers are taking a "wait and see" approach and may be putting some 2001 planned activity on temporary hold until they regain confidence in the strength of the local economy.

Expenditures for the first quarter of \$383,127 are below projections of \$443,345 by \$60,218. Most of the under-expenditure is in the Professional Services account, as most contract work is just getting underway and has not yet been billed.

Street Fund

The Street Fund had first quarter revenues of \$839,753. This is \$5,225 over projected revenues of \$834,528. Street Fund first quarter expenditures were \$522,223 or \$389,317 below projections of \$911,540. Again, projected expenditures were based upon spending 25% of the annual budget. This is not practical for this fund, as so much of the work in this fund is performed on a seasonal basis. The budget staff will be working with Public Works to establish a spending trendline for this fund to enable the better monitoring of expenditures.

Surface Water Management Fund

First quarter revenues in this fund equaled \$109,504. This is \$38,818 below projected quarterly revenues of \$148,322. The largest revenue source for this fund is surface water fees paid by residents along with their property tax. Therefore, since property tax payments are not due until April 30, only about 4% of the budget is expected to be collected during the first quarter.

Expenditures equaled \$1,120,702 or \$247,656 or under projected expenditures of \$1,368,358. The 2001 budget for this fund included funding for new positions. It has taken most of the first quarter to recruit and fill these new positions, therefore, an under-expenditure has occurred in the salary and benefit accounts. The 2001 budget also included additional funding for professional services. Much of this contract work is just getting underway.

Capital Funds

Both revenues and expenditures in the General, Roads, and Surface Water Capital Funds are below projections so far this year. Many capital projects are ramping up now with construction continuing through the summer and fall. Expenditures in these funds are directly related to project activity. If the progress of projects lags than we would expect to see a corresponding under-expenditure. Therefore most project expenditures will occur later in the year.

Capital projects are mostly funded through existing fund balance, transfers from operating funds like the General and Surface Water Management Funds, and grants from other agencies. Since grant revenue is usually received as a reimbursement for project expenditures, we will not see this revenue begin to flow into the City until more project work is completed and reimbursement is requested from the granting agencies. Also, transfers from the General Fund are being made on an as needed basis as project expenditures are made within the Capital Funds.

The only revenue source that fluctuates is the Real Estate Excise Tax (REET). This is a 0.5% tax collected on real estate transactions. The first 0.25% is used by the General Capital Fund and the second 0.25% is used by the Roads Capital Fund. Collections of the REET through the first quarter equal \$305,310. This represents over 25% of the budget for 2001. During the last two years, the first quarter percentage of total tax collected averaged 16.5%. This indicates strong real estate sales during the first quarter in Shoreline.

SUMMARY

In general, most funds are close to their projected revenues. We will closely monitor revenues during the second quarter, particularly within the General Fund, to determine if our revised projections are still appropriate. We will also be watching permit revenue in the Development Services Fund since first quarter revenues were below projections.

All funds are experiencing large under-expenditures at this time. We do, however, expect that expenditures will start to level off during the second quarter as most seasonal work begins.

RECOMMENDATION

No action is required. Staff recommends that the City Council review the 2001 First Quarter Financial Report.

ATTACHMENTS

2001 First Quarter Financial Report