

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: 2006 First Quarter Financial Report
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

Attached is the 2006 first quarter financial report. This report summarizes first quarter financial activities for the City's operating funds: General, Streets, and Surface Water Utility. The City's capital funds have not had enough revenue or expenditure activity to warrant any discussion at this time. This report is provided to keep the Council informed of the financial issues and the financial position of the City. The Executive Summary section of the report provides a high level overview. More detailed information on specific revenue and expenditures is provided following the Executive Summary.

FINANCIAL IMPACT:

The following table provides a summary of the financial results for the City's operating funds for the first quarter of 2006:

Revenues						Expenditures				
Operating Funds	2006 Budget	1st Quarter Projected	1st Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance Actuals v. Projected	2006 Budget	1st Quarter Projected	1st Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance Actuals v. Projected
General Fund	\$29,091,217	\$3,552,540	\$3,564,941	\$12,401	0.35%	\$29,091,214	\$5,330,419	\$5,481,444	\$151,026	2.83%
Streets	\$2,996,980	\$596,235	\$620,662	\$24,427	4.10%	\$2,469,877	\$745,374	\$578,312	-\$167,062	-22.41%
SWM OPS	\$5,179,067	\$156,609	\$158,547	\$1,938	1.24%	\$4,982,116	\$1,051,541	\$1,017,717	-\$33,824	-3.22%
Totals	\$37,267,264	\$4,305,384	\$4,344,150	\$38,766	0.90%	\$36,543,207	\$7,127,333	\$7,077,473	-\$49,860	-0.70%

RECOMMENDATION

No action is required by the Council. This item is provided for informational purposes.

Approved By: City Manager  City Attorney ____

ATTACHMENTS

Attachment A – 2006 First Quarter Financial Report



2006 First Quarter Financial Report

Prepared by the Finance Department

for the

Fiscal Year January 1, 2006 – December 31, 2006

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EXECUTIVE SUMMARY

General Fund

First Quarter 2006 actual revenue collections were \$3,564,941, \$12,401 or 0.35% above projected first quarter revenue of \$3,552,540. At this time revenues are tracking right at projections, however we do see opportunities for revenue growth for 2006 in utility tax, franchise fees and in permit fee revenues.

Through the first three months of 2006 we expect to receive only 12% of budgeted 2006 revenues and as a result it is too early to project any significant revenue trends. This is due in large part to the many revenue sources that pay on a quarterly basis and none of those payments are received in the first quarter. These revenues are namely gambling tax, cable TV franchise, water franchise and some larger telephone providers that pay utility tax. Nonetheless it is still encouraging that the City is on the positive side of the revenue picture.

Actual first quarter expenditures were \$5,481,444, \$151,026 or 2.83% above projections of \$5,330,419. At this time the only expenditure trend we are concerned about is jail costs. 2006 projected expenditures have not been revised at this time however we do anticipate we will have to increase projected jail costs in the very near future.

Street Fund

First quarter 2006 actual revenue collections were \$620,662, \$24,427 or 4.1% above projected first quarter revenue of \$596,235, due to better than expected Right Of Way fee revenue.

Actual first quarter expenditures were \$578,312, \$167,062 or 22.41% below projected expenditures of \$745,374. This is due to a delay in King County billing for street work and Seattle City Light billing for street lights.

Surface Water Utility

First quarter 2006 actual revenue collections were \$158,547, just \$1,938 slightly above projected revenue of \$156,609. Very little revenue activity occurs for the utility in first quarter, as the City's Storm Drainage fee which accounts for the majority of revenue is due twice a year in April and October.

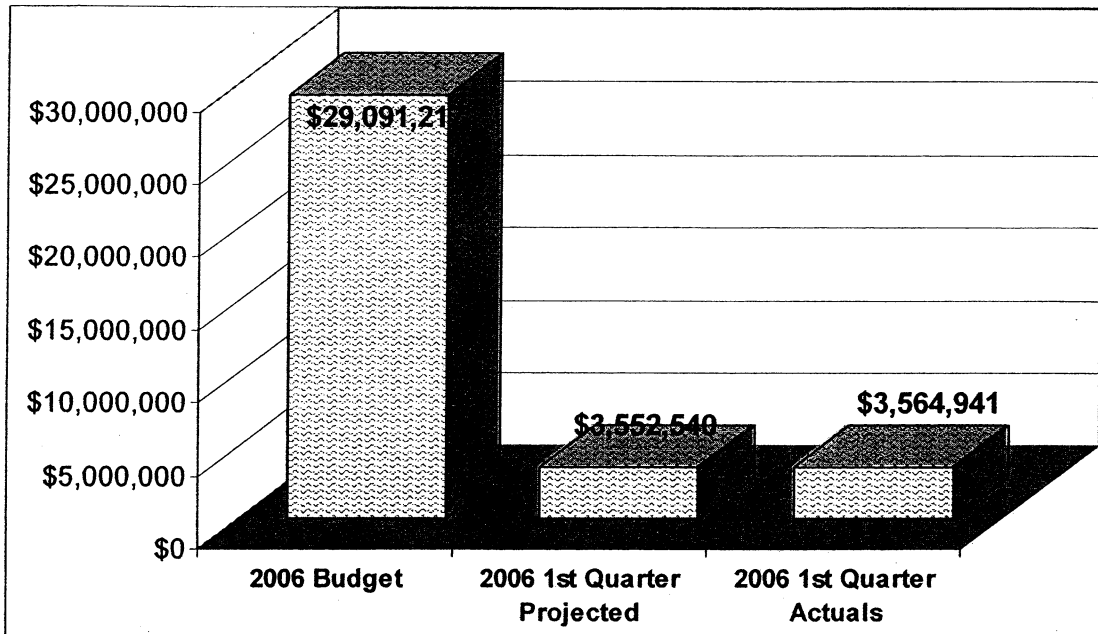
Actual first quarter expenditures were \$1,017,717, \$33,824 or 3.22% below projected expenditures of \$1,051,541.

Summary of Key Operating Funds

The following table provides a summary of the financial results for the City's three operating funds for first quarter of 2006. At this time other City funds do not have enough revenue or expenditure activity to warrant any discussion.

Revenues						Expenditures				
Operating Funds	2006 Budget	1st Quarter Projected	1st Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance Actuals v. Projected	2006 Budget	1st Quarter Projected	1st Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance Actuals v. Projected
General Fund	\$29,091,217	\$3,552,540	\$3,564,941	\$12,401	0.35%	\$29,091,214	\$5,330,419	\$5,481,444	\$151,026	2.83%
Streets	\$2,996,980	\$596,235	\$620,662	\$24,427	4.10%	\$2,469,877	\$745,374	\$578,312	-\$167,062	-22.41%
SWM Utility	\$5,179,067	\$156,609	\$158,547	\$1,938	1.24%	\$4,982,116	\$1,051,541	\$1,017,717	-\$33,824	-3.22%
Totals	\$37,267,264	\$4,305,384	\$4,344,150	\$38,766	0.90%	\$36,543,207	\$7,127,333	\$7,077,473	-\$49,860	-0.70%

General Fund Revenue



First Quarter 2006 actual revenue collections were \$3,564,941, \$12,401 or 0.35% above projected first quarter revenue of \$3,552,540. At this time revenues are tracking right at projections, however we do see opportunities for revenue growth for 2006 in utility tax, franchise fees and in permit fee revenues.

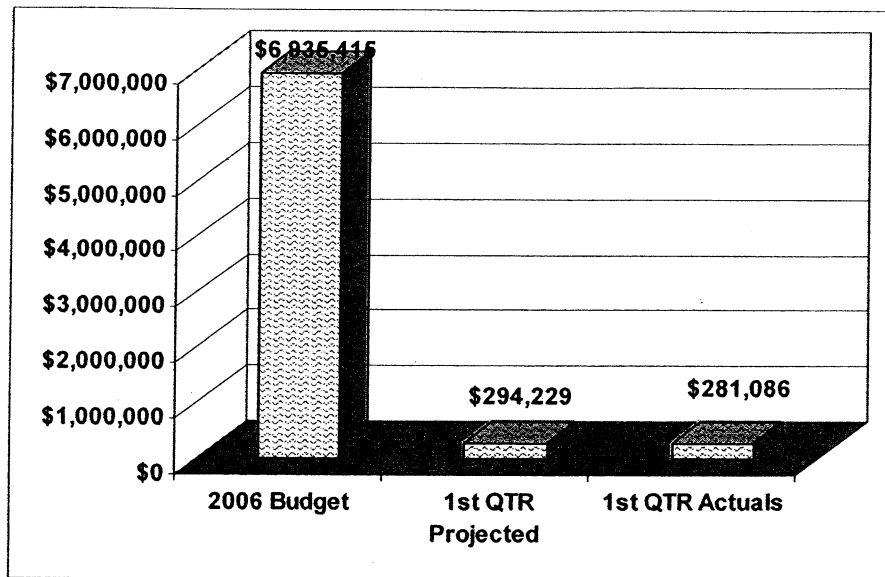
Through the first three months of 2006 we expect to receive only 12% of budgeted 2006 revenues and as a result it is too early to project any significant revenue trends. This is due in large part to the many revenue sources that pay on a quarterly basis and none of those payments are received in the first quarter. These revenues are namely gambling tax, cable TV franchise, water franchise and some larger telephone providers that pay utility tax. Nonetheless it is still encouraging that the City is on the positive side of the revenue picture.

To develop an accurate forecasting system 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 and the factoring of variables such as rate changes, economic conditions and usage. This is necessary because many revenues are not collected equally throughout the year.

The chart below details each revenue category for the General Fund for first quarter of 2006. The first column is the adopted 2006 revenue amount. The second column represents the anticipated first quarter projected revenue. The third column displays the actual revenue received through the first quarter. The fourth column shows the variance between first quarter projections and actual collections. The last column displays the variance in percentage terms.

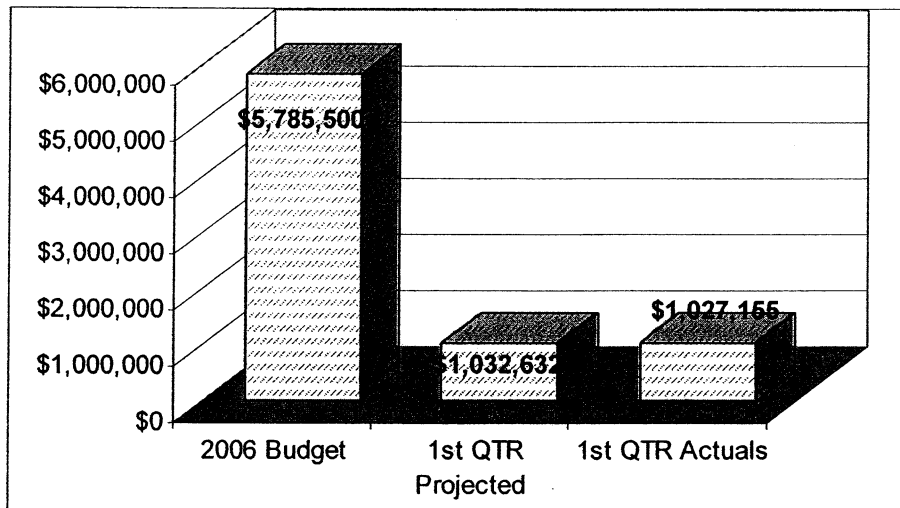
Revenue Source	2006 Budget	2006 1st Quarter Projected	2006 1st Quarter Actuals	\$\$ Variance Actuals v. Projected	% Variance
Budgeted Fund Balance	\$1,993,581	\$0	\$0	\$0	0.00%
Property Tax	\$6,935,415	\$294,229	\$281,086	-\$13,143	-4.47%
Sales Tax	\$5,785,500	\$1,032,632	\$1,027,155	-\$5,477	-0.53%
Criminal Justice Sale Tax	\$1,100,687	\$279,997	\$298,298	\$18,301	6.54%
Utility Tax/Franchise Fee Category					
Natural Gas Utility Tax	\$850,000	\$200,515	\$246,893	\$46,378	23.13%
Sanitation Utility Tax	\$331,000	\$50,950	\$49,825	-\$1,125	-2.21%
Cable TV Utility Tax	\$480,000	\$16,256	\$8,025	-\$8,231	-50.63%
Telephone/Cell Utility Tax	\$1,480,000	\$152,440	\$173,416	\$20,976	13.76%
Water Franchise Fee	\$500,000	\$50,000	\$55,573	\$5,573	11.15%
Sewer Franchise Fee	\$636,500	\$159,125	\$159,250	\$125	0.08%
Storm Drainage Utility Tax	\$162,500	\$6,894	\$7,418	\$524	7.60%
Cable TV Franchise Fee	\$96,000	\$0	\$8,127	\$8,127	0.00%
Utility Tax/Franchise Fee Subtotal	\$4,536,000	\$636,180	\$708,527	\$72,347	11.37%
Electricity Contract Payment	\$850,000	\$255,000	\$112,060	-\$142,940	-56.05%
Gambling Tax	\$2,930,500	\$0	\$1,000	\$1,000	100.00%
State Revenue	\$720,593	\$170,844	\$168,810	-\$2,034	-1.19%
Permit Revenue	\$1,145,155	\$246,678	\$306,049	\$59,371	24.07%
Parks & Recreation Revenue	\$950,828	\$193,030	\$234,200	\$41,170	21.33%
Fines & Licenses/Forfeitures	\$35,530	\$6,352	\$7,261	\$909	14.31%
Grants & Misc. Revenue	\$583,587	\$57,174	\$62,907	\$5,733	10.03%
Investment Interest	\$320,000	\$79,463	\$56,628	-\$22,835	-28.74%
Transfers-In	\$1,203,841	\$300,960	\$300,960	\$0	0.00%
Total General Fund Revenue	\$29,091,217	\$3,552,540	\$3,564,941	\$12,401	0.35%

Property Tax Revenue



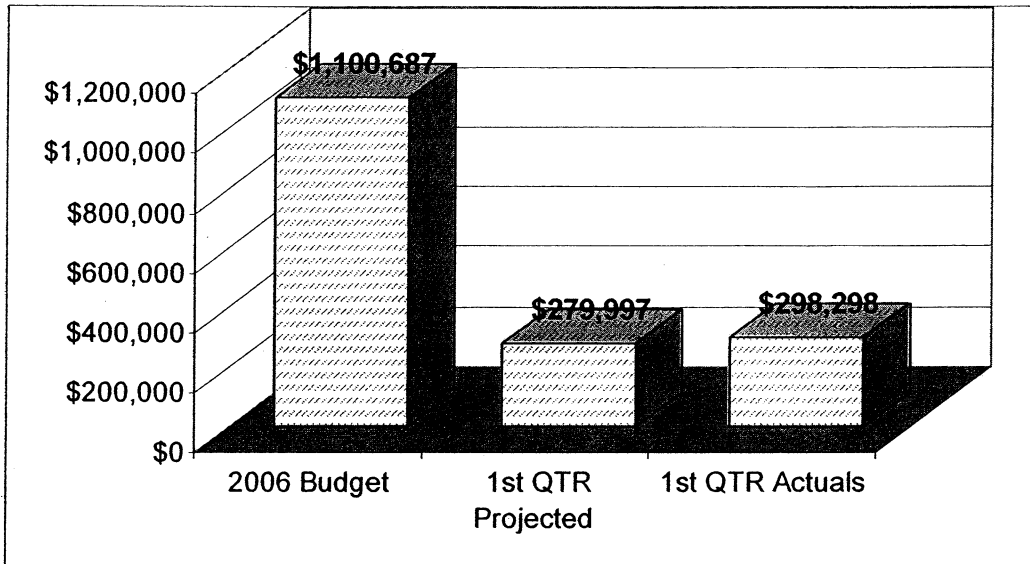
During the first quarter of each year, the City typically receives only 4% of the annual collections, since the first property tax payment is not due until April 30th.

Sales Tax Revenue



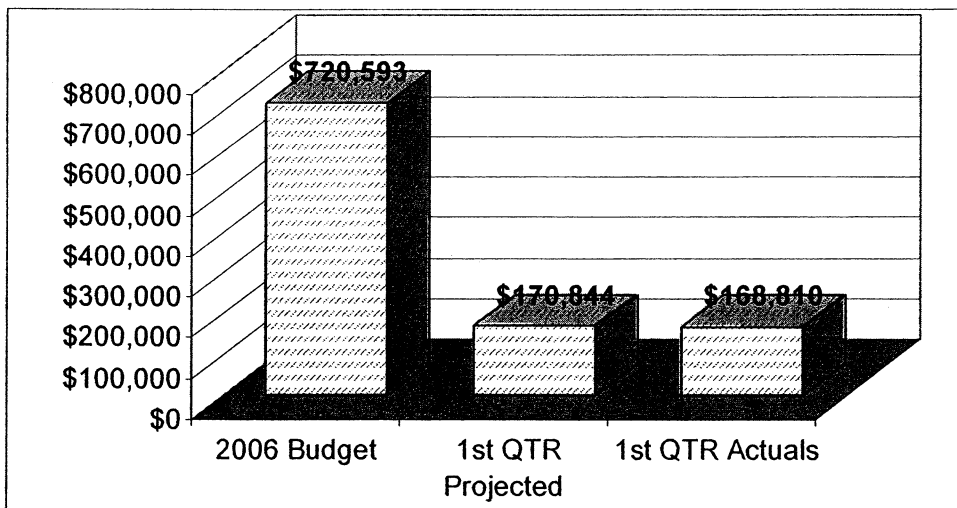
Actual sales tax revenue came in at \$1,027,155 or 0.53% below projections. First quarter sales tax revenue includes only December 2005 and January 2006 revenue due to the two-month time lag for the State Department of Revenue to process the tax returns. Despite the negative revenue trend we do anticipate that sales tax revenue will at the very least meet its budgeted target.

Criminal Justice Sales Tax Revenue



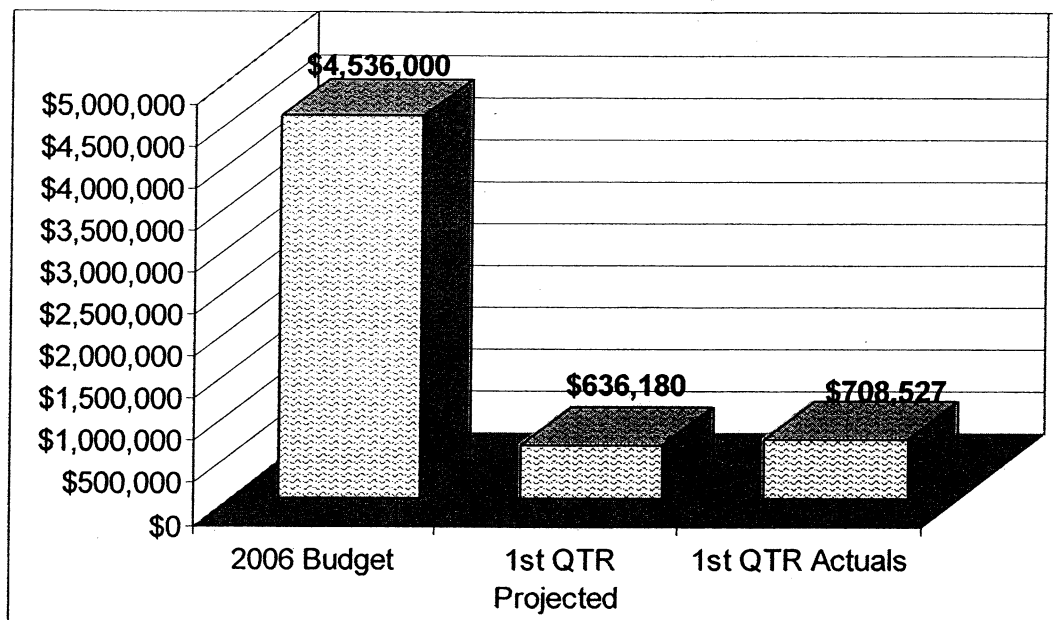
Local Criminal Justice Sales Tax of \$298,298 is ahead of projected revenue of \$279,997 by \$18,301 or 6.54%. This category differs from sales tax because it results from a distribution by the County and is collected on a countywide basis. The distribution amount is based on a city's population and the amount of sales tax collected through all of King County.

State Revenue



State Revenue of \$168,810 is just slightly below projections of \$170,844 by \$2,034 or 1.19%.

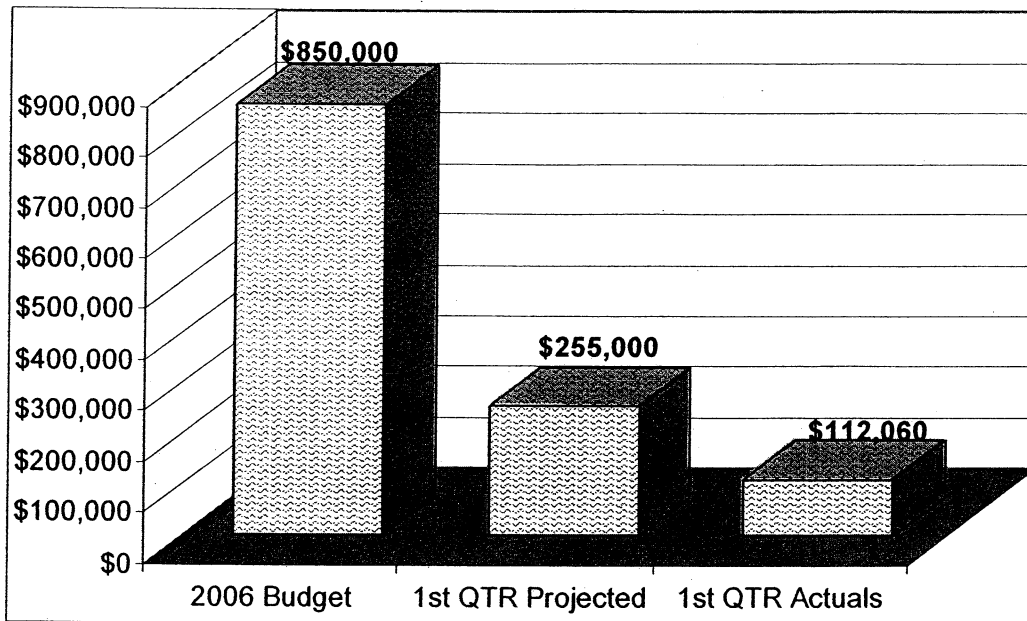
Utility Tax and Franchise Fee Revenue



Utility tax and franchise fee revenue of \$708,527 is above projected revenue of \$636,180 by \$72,347 or 11.37%, due to better than expected revenue in natural gas (\$46,378) and telephone/cell phone (\$20,976). At this time no adjustments are being made in projected revenue. We are optimistic that revenues in this category will remain strong and an adjustment could be made when more revenue is received.

Utility Tax and Franchise Fees	2006 Budget	1st QTR Projected	1st QTR Actuals	\$\$ Variance Actuals v. Projected	% Variance
Natural Gas Utility Tax	\$850,000	\$200,515	\$246,893	\$46,378	23.13%
Sanitation Utility Tax	\$331,000	\$50,950	\$49,825	-\$1,125	-2.21%
Cable TV Utility Tax	\$96,000	\$16,256	\$8,025	-\$8,231	-50.63%
Telephone/Cell Utility Tax	\$1,480,000	\$152,440	\$173,416	\$20,976	13.76%
Water Franchise Fee	\$500,000	\$50,000	\$55,573	\$5,573	11.15%
Sewer Franchise Fee	\$636,500	\$159,125	\$159,250	\$125	0.08%
Storm Drainage Utility Tax	\$162,500	\$6,894	\$7,418	\$524	7.60%
Cable TV Franchise Fee	\$480,000	\$0	\$8,127	\$8,127	100.00%
Total Utility Revenue	\$4,536,000	\$636,180	\$708,527	\$72,347	11.37%

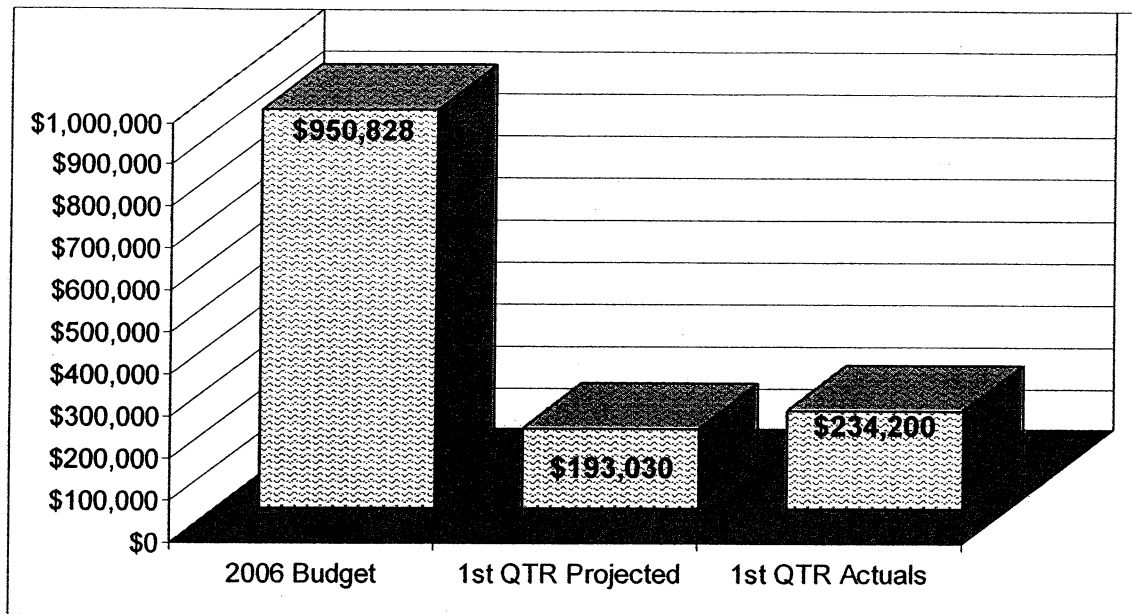
Electrical Contract Payment



The City has an agreement with Seattle City Light that provides for the payment of 6% of the revenue earned from the power portion of electric revenues from Shoreline rate payers. Electric rates are composed of power costs and distribution costs. The power costs represent approximately 50% of the electric rate revenues.

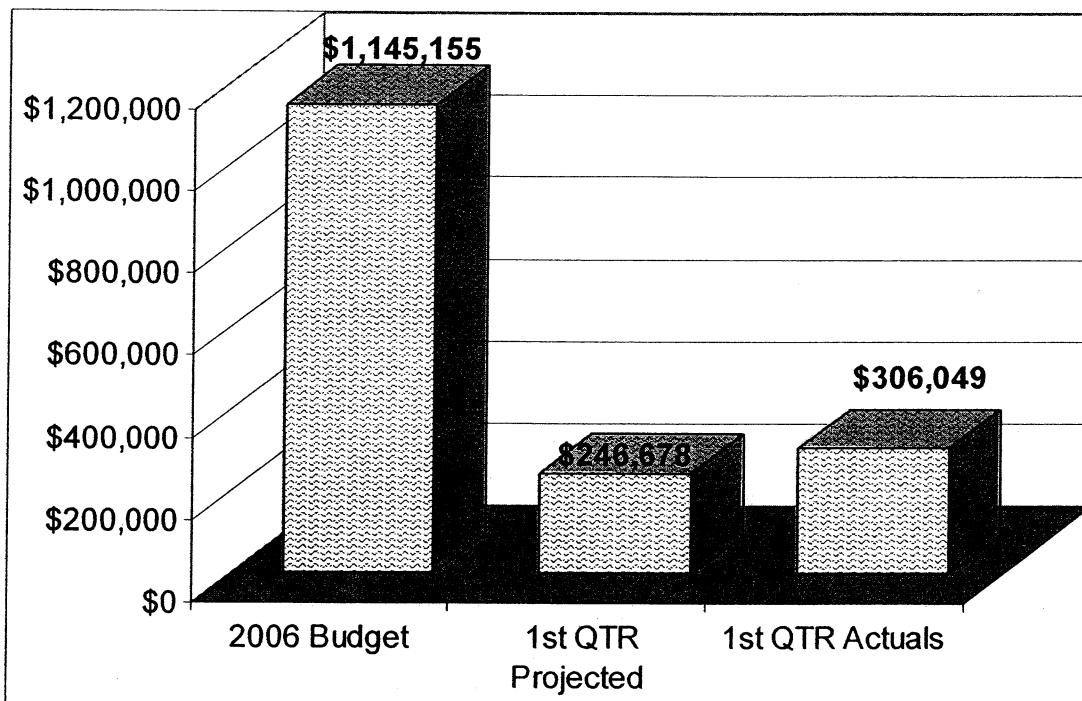
Electrical contract payment revenue of \$112,060 is below projected revenue of \$255,000. The variance is a result of the timing of payments rather than a decrease in revenue. This represents payment for January only.

Parks and Recreation Fee Revenue

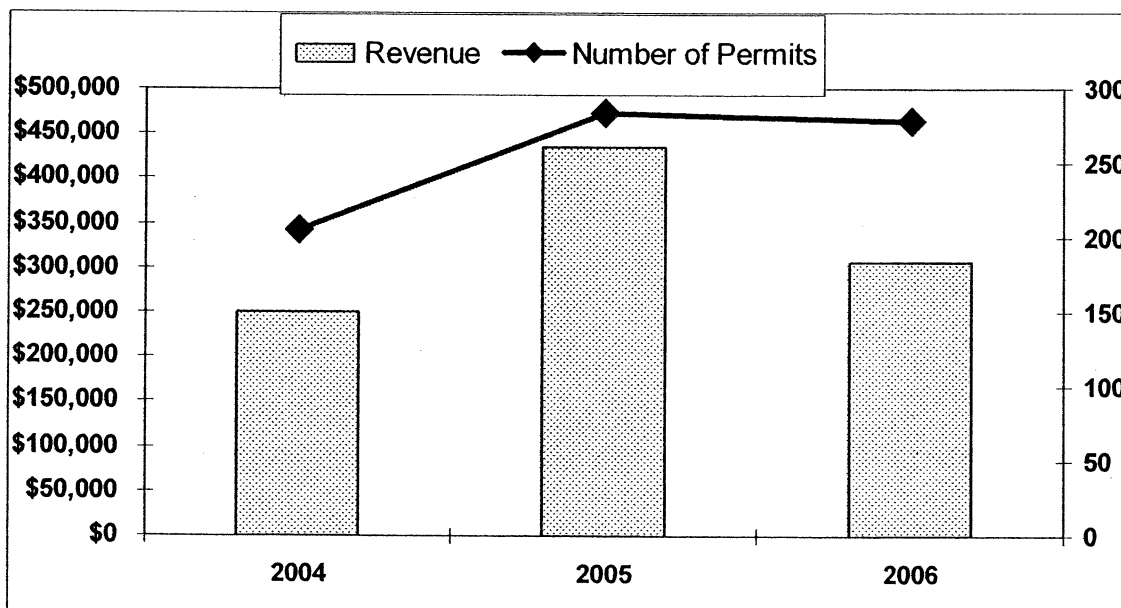


Parks and Recreation Fee revenue of \$234,200 was above projections of \$193,030 by \$41,170 or 21.33%. This increase is due to stronger than expected revenue from the pool and facility rentals.

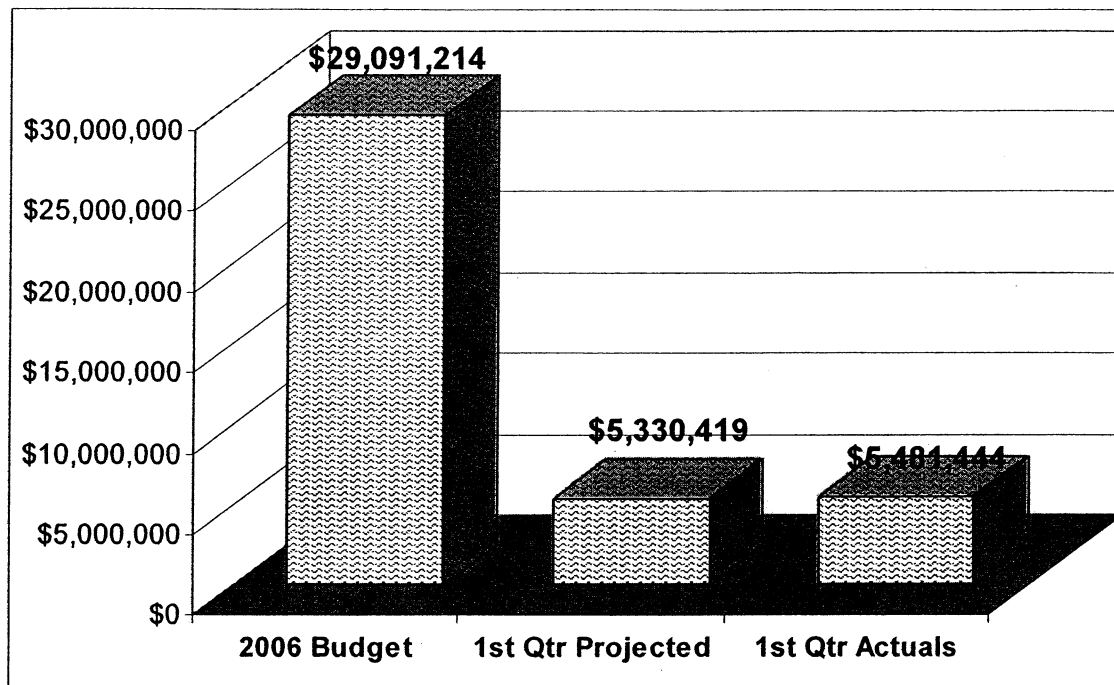
Permit Revenue



Permit revenue of \$306,049 was above projections of \$246,678 by \$59,371 or 24.07%. Driving this first quarter variance is an increase in the number of building permits, plan checks, and mechanical permits processed during the first quarter. It is interesting to note that for the first quarter of 2006 the average value of building permits and plan check fees is running at \$1,410 and in 2005 that average was \$2,766. This difference is the primary reason 2006 revenue is lagging behind 2005. The graph below illustrates permit revenue and the number of permits processed for first quarter 2004 – 2006.

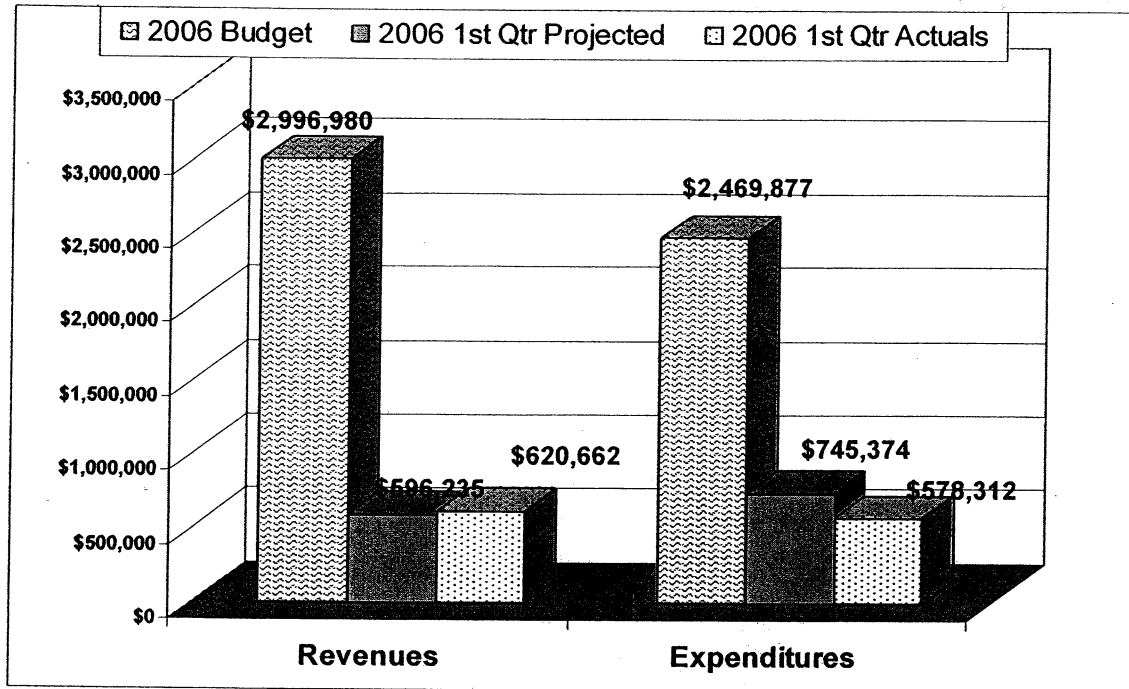


General Fund Expenditures



Departmental expenditures for first quarter were \$5,481,414, \$151,026 or 2.83% above projected expenditures of \$5,330,419. Of this \$151,026 variance \$89,176 is due to increases in jail costs, we anticipate that jail costs will continue to exceed budget throughout 2006 and as a result a budget adjustment will be necessary. The remainder of the expenditure variance is a result of faster than expected activity and is not a result of on-going cost increases.

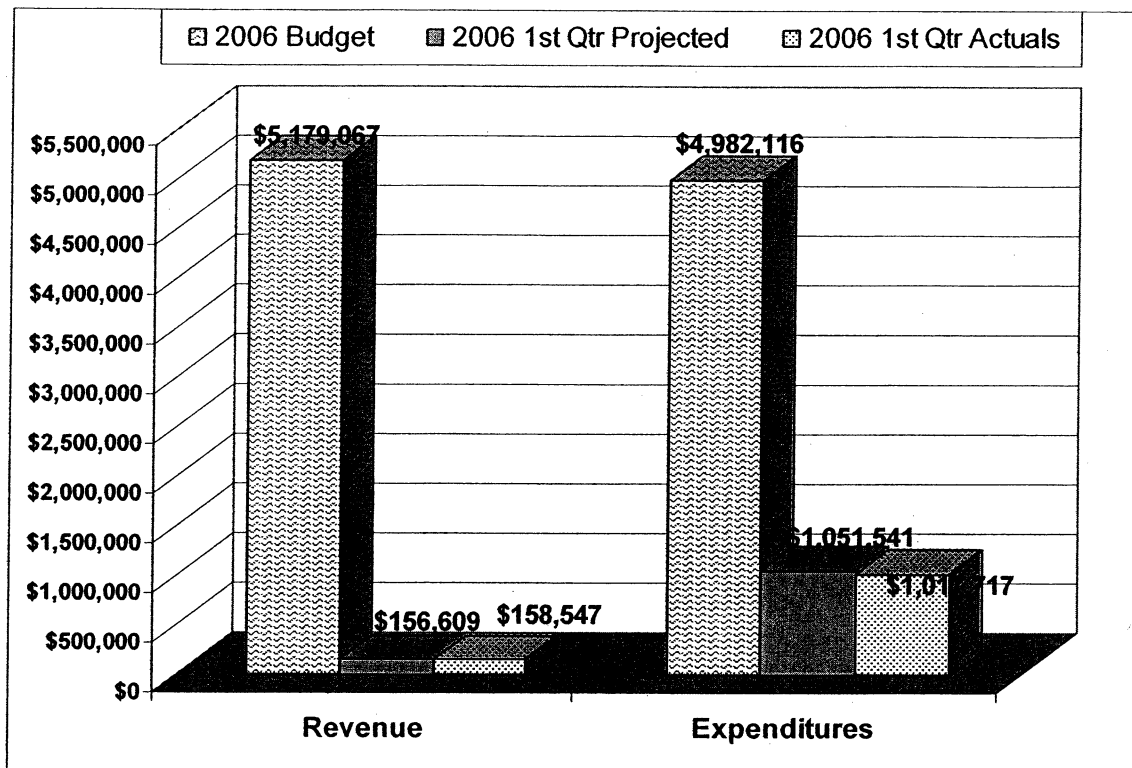
Street Fund



First quarter 2006 actual revenue collections were \$620,662, \$24,427 or 4.1% above projected first quarter revenue of \$596,235, due to better than expected Right Of Way fee revenue.

Actual first quarter expenditures were \$578,312, \$167,062 or 22.41% below projected expenditures of \$745,374. This is due to a delay in King County billing for street work and Seattle City Light billing for street lights.

Surface Water Utility



First quarter 2006 actual revenue collections were \$158,547, just \$1,938 slightly above projected revenue of \$156,609. Very little revenue activity occurs for this fund in first quarter, the City's Storm Drainage fee which accounts for the majority of revenue are not paid until April and October.

Actual first quarter expenditures were \$1,017,717, \$33,824 or 3.22% below projected expenditures of \$1,051,541.

City of Shoreline
Cash and Investments
March 31, 2006

The City's investment policy adheres to strict standards prescribed by federal law, state statutes, local ordinances, and allows the City to develop an investment model to maximize its investment returns within the primary objectives of safety and liquidity.

Our yield objectives are very important and, pursuant to policy, the basis used by the City to determine whether the market yields are being achieved is through the use of a comparable benchmark. Our benchmark has been identified as the annual average of the Washington State Local Government Investment Pool, which has been the City's primary mode of investment prior to adopting our Investment Policy.

Our in-house investment activity is illustrated in the following table for the period January 01, 2005 through March 31, 2006. The table contains significant data on each investment instrument including a column representing annualized interest utilizing actual yield rates. As a comparison we have also displayed a column illustrating annualized interest had all our investments remained in the State Pool:

LGIP Cash and Investment Balances March 31, 2006						
Instrument Type	Settlement Date	Investment Cost	Yield To Maturity	Maturity Date	Annualized Interest	Annualized Interest at LGIP rate (3.6770%)
FHLB (Fed Home Loan Bank)	05/24/05	2,000,000	3.2500%	05/24/07	65,000.00	73,540.00
FNMA (Fannie Mae)	05/27/05	2,499,000	4.0410%	05/17/07	100,984.59	91,888.23
FNMA (Fannie Mae)	06/21/05	1,987,022	3.7120%	06/02/06	73,758.26	73,062.80
FNMA (Fannie Mae)	06/21/05	1,957,324	3.8020%	09/29/06	74,417.46	71,970.80
FHLB (Fed Home Loan Bank)	06/21/05	1,985,024	3.9000%	12/14/06	77,415.92	72,989.32
FHLB (Fed Home Loan Bank)	07/25/05	1,990,200	4.2617%	01/00/00	84,816.35	73,179.65
FHLB (Fed Home Loan Bank)	07/27/05	2,000,000	3.7000%	12/23/48	74,000.00	73,540.00
FHLB (Fed Home Loan Bank)	01/05/06	2,003,400	5.0000%	11/21/07	100,170.00	73,665.02
FHLB (Fed Home Loan Bank)	01/06/06	4,000,000	5.0000%	01/28/08	200,000.00	147,080.00
FHLMC (Freddie Mac)	01/05/06	3,956,800	3.6250%	02/15/07	143,434.00	145,491.54
FHLMC (Freddie Mac)	01/05/06	1,994,600	4.6250%	10/05/07	92,250.25	73,341.44
Sub Total		26,373,370			1,086,246.83	969,748.80
Average Maturity (days)				478		
Average Yield to Maturity			4.12%			
State Investment Pool		18,314,601	3.68%	1		
Total Investments		44,687,971				

Note: Yield to Maturity for the State Investment Pool is a 12 month average.

The above annualized interest columns illustrate a significant gain through the use of our in-house investment process as compared to holding our total portfolio within the State investment Pool at an average yield of 3.68%. Based on the annualized interest the City's investment portfolio has an average yield of 4.12%, nearly 44 basis points greater than our benchmark. In dollars this can equate to nearly \$116,498.03 in annualized investment interest revenue.

The following table illustrates the City's portfolio diversification by instrument type at March 31, 2006:

Portfolio Diversification

<u>Instrument Type</u>	<u>Percentage</u>	<u>Amount</u>
Certificate of Deposit	0%	0.00
FHLMC (Freddie Mac)	17%	5,951,400.00
FNMA (Fannie Mae)	22%	6,443,346.00
FHLB (Fed Home Loan Bank	27%	13,978,623.60
State Investment Pool	34%	18,314,601.01
Total Investments	100%	44,687,970.61