



# Finance Department

## Second Quarter Report

**MRSC – Finance Advisor Tracy Dunlap – City of Kirkland (April 2010) Short and long term perspectives** – *While the tough times are by no means over, I thought I'd share a few observations resulting from an unprecedented 18-24 months (or longer) of financial strain. Government organizations have a variety of structures in which they manage budget and finances – they can be centralized (for example, detailed work focused in Finance) or de-centralized (for example, detailed work focused in the departments), the budget office can be part of finance or can reside in the Chief Executive's office, and so on. However, there are common ideas for finance and budget professionals to help create a culture to help manage through adversity: It is easy to get wrapped up in the challenges of the here and now. With bad financial and economic news bombarding us daily, we still need to keep our sights on the longer-term implications of our actions to address today's challenges. For example, many agencies set aside reserves in the good times for use if things turn bad and it is totally appropriate to tap reserves that were designated for that purpose during hard times. However, it is imperative that there be a clear understanding that **replenishing those reserves has to be of the highest priority when things turn around.** In addition, it is also important to ensure that actions are taken to bring revenues and expenditures into balance so that you don't "hit the wall" when reserves run out. Reserves should help you make a planned and phased transition to the "new normal" or until things turn around.*

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This year's budget has been a challenge with shortfalls in revenue in some areas and increases in other areas. Sales tax revenue through June is at 41.99% down 8.01%. I projected rather conservatively on the sales tax revenue and it's still lower than projected. Sales tax revenue is received on a two month delay, making it hard to forecast the decline or increase if any. The city lost a few businesses that went out of operation, and a couple new businesses are opening soon. Ramblin Jack's Rib Eye, Napavine Pizza Co. (Sahara's Pizza) and Frank's Barber Shop are new to Napavine.

The legislature recently approved 14.7 million dollars in funding to TIB for arterial streets and preservation; \$4.7 million in preservation and \$10 million for small city arterial streets which the city has submitted applications for funding street projects. The main sources of funding for the Street Fund are 50% of property taxes, gas tax from the state and utility tax from city owned utilities.

We will need to monitor the fund balances throughout the year to ensure financial stability of the city. If revenues continue to decline in 2010, the city will need to look at reducing expenditures.

*Mary Todd, Clerk-Treasurer*

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# ❖ General Fund Status

The General Fund ended the second quarter with a cash & investment balance of \$161,422. Of this balance there are restricted funds totaling \$98,949 consisting of the Rush Road Latecomers Fees collected and \$1,309 in donations for the skate park. Taking into consideration these restricted revenues in the general fund, it leaves the available ending second quarter balance at \$61,164. Receipts for General Fund through June total \$344,539 compared to June 2009 of \$293,325. The reason for the increase is the internal transfers for facilities rent of city hall in the amount of \$35,400 and Rush Road Latecomers Fees in the amount of \$42,469.



General Fund expenditures through June ended at \$302,714 compared to \$325,197 through June 2009. Part of the reason for the reduced expenditures is the decreased staffing in Court and the Police Department.

## GENERAL FUND DEPARTMENTS BUDGET UPDATE

Department	YTD 2010	% Budget	YTD 2009	% Budget
Elections	\$ -	0.00%	\$ 1,741	174.00%
Municipal Court	\$ 33,157	44.68%	\$ 56,283	54.40%
Finance/Admin	\$ 19,357	48.21%	\$ 14,435	42.04%
Legal	\$ 1,670	11.13%	\$ 7,931	55.78%
Personnel	\$ 10,753	39.83%	\$ 9,772	39.97%
Central Services	\$ 1,333	86.42%	\$ 1,849	48.65%
Law Enforcement	\$ 113,335	40.38%	\$ 143,813	43.35%
Prisoner Costs	\$ 6,638	21.21%	\$ 13,989	49.96%
Emergency Services	\$ 1,974	25.00%	\$ 2,001	27.79%
Pollution Control	\$ -	0.00%	\$ -	0.00%
Animal Control	\$ 67	8.07%	\$ 36	7.20%
Community Development	\$ 24,803	46.00%	\$ 19,902	43.26%
Parks/Recreation	\$ 8,479	47.64%	\$ 5,589	68.57%
Non-Expenditures	\$ 37,075	44.74%	\$ 48,052	100.06%
Debt Service	\$ 35,073	51.47%	\$ -	0.00%
Transfers	\$ 9,000	100.00%	\$ -	0.00%
Payroll Account	\$ -	0.00%	\$ (195)	
<b>Total General Fund</b>	<b>\$ 302,714</b>	<b>42.55%</b>	<b>\$ 325,197</b>	<b>49.46%</b>

In 2009 there were no loans to USDA Rural Development or Lending Network to purchase city hall. However, the lease was charged to each individual department during the time of the lease agreement. During the first half of 2009 there were substantial legal fees for GMA proceedings. In 2010 more salaries were charged to Finance and Administration at the recommendation of the Auditor's Office for the Clerk's Office. Central Services consist of janitorial services, and AWC membership fees. The janitorial services were removed from the 2010 budget which is now done by volunteers. Civil Service

was moved to the Police Department’s budget as required by the BARS Manual. The AWC membership fee is a one-time fee that is billed at the beginning of the year.

## ➤ Property Tax

June 2008	June – 2009	June – 2010
\$119,032	\$130,287	\$128,874



The first half of year’s property taxes is due April 30<sup>th</sup> and received by the city by May 10<sup>th</sup>. It is typical that property taxes are settled at closing of the sale and remitted to the city the month following the sale. This year’s property taxes are a little above the anticipated revenues through June at 52.82%. There is \$130,452 remaining in property taxes to be collected through 2010. Of this amount \$13,340 are from prior year taxes in delinquent status. Property taxes are split 50/50 between the general fund and the street fund.

## ➤ Utility Taxes

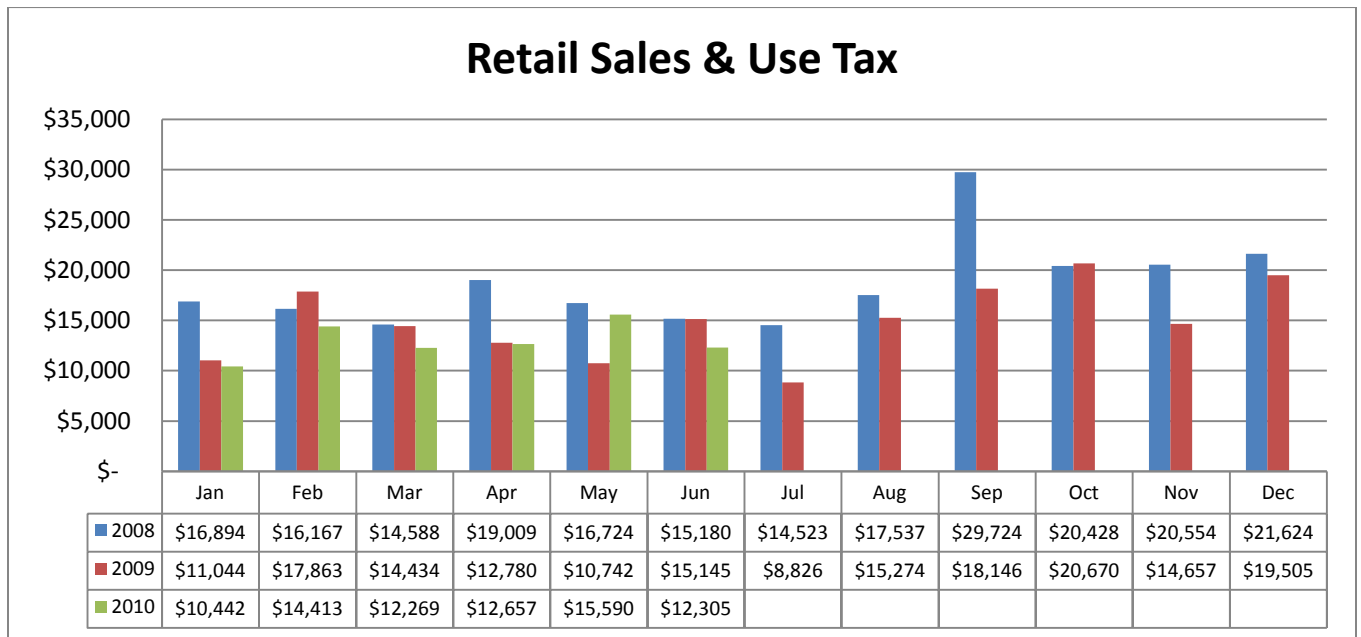
The city of Napavine imposes a utility tax of 5% on telephones, cellular telephones, electric, cable TV and city owned utilities. The city owned utility tax revenues is designated to the street fund for street projects. The figures used are through the second quarter of each year stated in the table below.

Utility	2008	2009	2010
Electricity	\$28,654	\$28,537	\$29,006
Cable TV	\$1,532	\$708	\$1,263
Telephone	\$15,319	\$18,062	\$19,331
<b>TOTAL GENERAL FUND</b>	<b>\$45,505</b>	<b>\$47,307</b>	<b>\$49,600</b>

City Owned Utility Taxes	2008	2009	2010
<b>Total Tax Revenue</b>	<b>\$15,965</b>	<b>\$17,409</b>	<b>\$21,452</b>

## ➤ Retail Sales & Use Tax

Sales tax revenue has been a victim of the reduction in economic activity from the 1st quarter of 2009 and continues today. Sales tax is received on a two-month delay from the time the sales occur. The first half of revenue represents sales from November 2009 through April 2010. Compared to last year, the receipts are lower by \$4,332 and \$14,824 below the anticipated revenue through June. We should be at 50% of the anticipated revenue but we are at 41.99% which is 8% below the anticipated sales tax revenue for 2010.



## ➤ Real Estate Excise Tax

REET 1 is the first quarter percent of excise tax imposed on the sale of real property and dedicated to local capital projects identified by RCW 82.46.010(2)(6). REET 2 is second quarter percent of additional excise tax on sale of real property. Proceeds are used solely for financing capital projects specified in the capital facilities plan. Proceeds are placed into Capital Improvement and Project Planning Funds equally.

YTD – 2008	YTD – 2009	YTD – 2010
\$20,185	\$8,652	\$15,761



## \*\*Street Fund

The Street fund ending cash and investment balance at the end of the second quarter is \$39,112 compared to \$36,972 during the same time period of 2009. Street revenues mainly consist of property tax; city owned utility tax and unrestricted gas tax revenue from the state. Total receipts at the end of the 2<sup>nd</sup> quarter of 2010 are \$105,769 which is 50.74% of the anticipated revenue. Currently we are on track of the anticipated revenues for 2010. Expenditures in the street fund comprise of salaries, maintenance of roads, traffic and pedestrian services and administration. Through the second quarter of 2010, the traveled road expenditures totaled \$36,577 which is 32.56% of the appropriated expenditures. Traffic and pedestrian services mainly consisting of expenditures for street lighting, snow and ice control, sidewalks and light maintenance the second quarter expenditures totaled \$11,782 which is 47.13% of the appropriated expenditures. Administration is comprised of clerical salaries, benefits, supplies, services, rent, training and flags and banners. The 2<sup>nd</sup> quarter expenditures totaled \$15,499.77 which is 54.91% of the appropriated expenditures. The scheduled transfers and interfund loan payments have been made with the exception of the \$10,000 transfer to Internal Service. With anticipated street repair expenditures, the transfer has been placed on hold until the exact amount of expenditures is known. The city received \$15,000 in 2006 from a private source for the stormwater improvement. In 2010 the city budgeted \$7,500 of this revenue source, which \$10,612 was expended during the first half of 2010 to complete 75% the storm drain project on SE Second Avenue. The overall total of street expenditures through June 2010 is \$103,884, which is 47.76% of the appropriated expenditures. If the revenue continues to be a shortfall throughout the year it will be advisable to reduce expenditures accordingly.

Revenue Source	YTD – 2008	YTD – 2009	YTD – 2010
Property Tax	\$59,516	\$65,144	\$64,437
Utility Tax	\$15,965	\$17,409	\$21,452
Unrestricted Gas Tax	\$16,403	\$16,382	\$17,384

## \*\*Enterprise Funds - Water

The water fund ending cash and investment balance for the second half of 2010 is \$217,967 compared to \$235,302 from the same time period of 2009. The city owned water fund revenue sources are water services, meter sales, and fees to the customer for late fees, shut off fees, NSF fees, etc. Through the first half of 2010 the water fund has received a total of \$170,971 in receipts or 41.48% of the anticipated revenue. By the end of June we should be 50% of anticipated revenues.



Revenue Source	2008	2009	2010
Water Services	\$126,716	\$129,533	\$153,227
Water Connections	\$9,600	\$6,650	\$5,100
Late Charges	\$7,960	\$8,193	\$9,296

Shut off fees	\$680	\$750	\$724
City Admin Garbage	\$1,125	\$1,137	\$1,226
Investment Interest	\$5,778	\$1,801	\$500

The investment interest percentage rate has drastically declined since 2008. The second quarter of 2010 the interest rate has started to rise, which the current interest rate is .3364%, and increase of .0769% from March 2010.

The first half of 2010 expenditures for the water fund consisted of the following expenses:

Expenditure	2009	% Budget	2010	% Budget
Engineering Service	\$1,638	81.88%	\$0	0.00%
Salaries & Benefits	\$69,870	56.98%	\$62,796	50.28%
General Admin	\$13,590	27.87%	\$16,838	31.68%
Maint & Operations	\$24,666	15.12%	\$13,846	7.98%
Debt Services	\$53,702	97.80%	\$41,957	76.28%
Transfers	\$23,771	100%	\$31,500	93.28%
Well #6	\$220	0.44%	\$60,728	121.46%
Total Expenditures	\$189,456	40.17%	\$227,666	45.51%

In 2009 the city employed a public works clerk part-time and salaries were more distributed in the water fund during 2009. After the finding from the Auditor's Office salaries in public works were assigned based on the job duties of the employees. The increase in expenditures in the water fund is from the drilling and capping of Well #6.

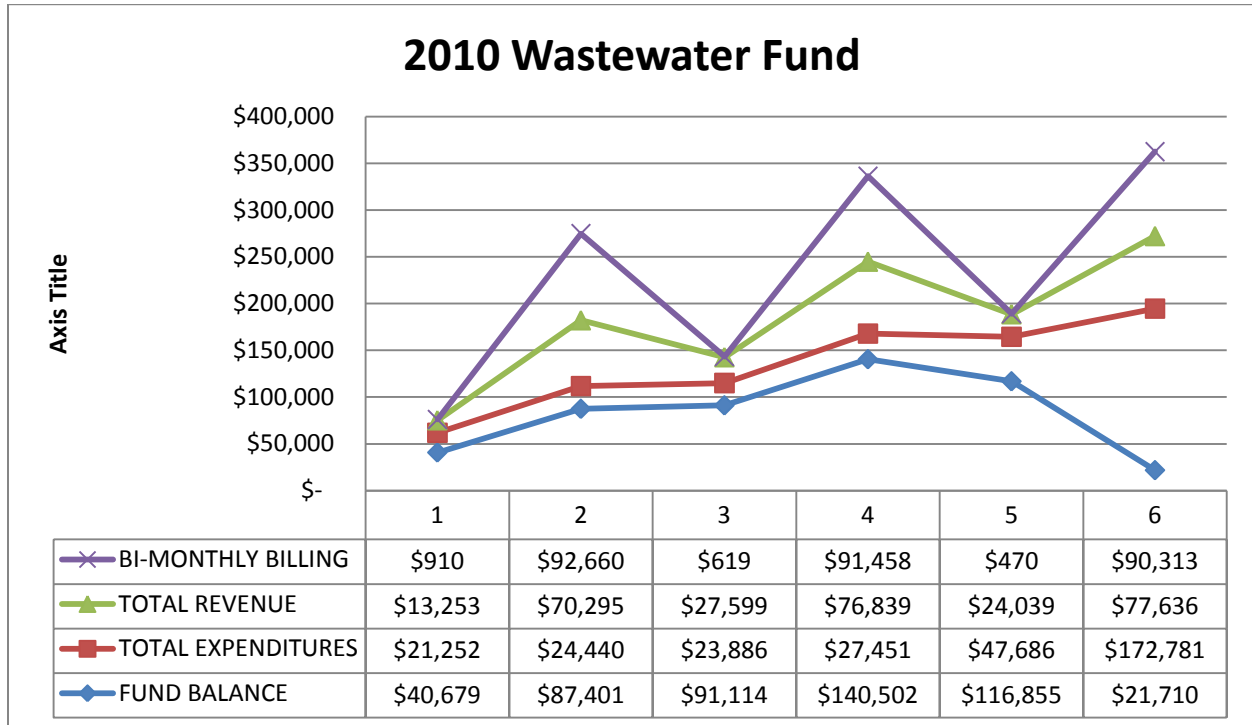
## \*\*Sewer Fund

The ending cash and investment balance for sewer fund through June 2010 is \$21,710 compared to \$59,490 in the same time period of 2009. The city purchased 12% ownership of the Regional Treatment Plant at the end of 2007. At the beginning of 2008 the city started paying \$208,100 in two increment payments for this ownership. By not raising the sewer rates in 2008 it has depleted the cash reserves for the sewer fund. The revenue sources for the sewer fund are services, hookups and investment interest.



EXPENDITURES 2010	Jan	Feb	Mar	Apr	May	June	YTD Totals
SALARIES & BENEFITS	\$ 9,623	\$ 8,878	\$ 9,076	\$11,139	\$ 9,042	\$ 9,004	\$ 56,763.03
MAINT & OPERATION	\$11,629	\$ 15,561	\$14,810	\$16,312	\$17,143	\$ 15,990	\$ 91,445.77
DEBT SERVICE	\$ -	\$ -	\$ -	\$ -	\$ -	\$167,787	\$ 167,786.66
OTHER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$21,500	\$ (20,000)	\$ 1,500.00
TOTAL EXPENDITURES	\$21,252	\$ 24,440	\$23,886	\$27,451	\$47,686	\$172,781	\$ 317,495.46

The transfers to the Internal Service Fund and Capital Improvement Fund were reversed to create a positive balance in the wastewater fund. The wastewater fund will need extra monitoring of the revenues and expenditures for the remaining year to ensure a positive cash flow in this fund. If revenues continue to decline further cuts will be necessary in the wastewater fund. Until a time when revenues are sufficient to cover the second payment of \$104,016.88 due in December for the regional wastewater treatment facilities the transfers will have to be delayed.



The year to date from January 1, 2009 through June 30, 2009 revenues and expenditures are detailed in the table below.

WASTEWATER FUND 2009	JUN
BI-MONTHLY BILLING	\$ 187,430
REVENUE	
WASTEWATER SERVICE	\$ 223,435
WASTEWATER CONNECTIONS	\$ 8,000
OTHER REVENUE	\$ 1,265
TOTAL REVENUE	\$ 232,700
EXPENDITURES	
SALARIES & BENEFITS	\$ 68,915
MAINT & OPERATION	\$ 77,664
DEBT SERVICE	\$ 168,341
OTHER EXPENDITURES	\$ 11,500
TOTAL EXPENDITURES	\$ 326,420
FUND BALANCE	\$ 59,490

Below is a chart of the cash flow for 2010. In January and June our expenditures exceeded our revenues. In February and August we have debt service to USDA for payment on the loan for purchasing city hall. The Lending Network loan is paid monthly. The debt service for the wastewater fund is due in June and December consisting of loans with Public Works Trust Fund and 12% ownership of the Regional Wastewater Treatment Plant. The debt service for the water fund is also due in June consisting of loans with the Public Works Trust Fund, and USDA. The loan with Dept of Ecology is due in April. The city will need to be cautious of exceeding expenditures over revenues if we want to remain fiscally sound over these difficult economic times.

