



# Finance Department Third Quarterly Report

## General Fund Status

The General fund's cash balance the end of this quarter is: \$1,732,294 versus \$1,439,470 last year for the same time period.

Our total collections for General fund year to date are \$9,103,537 versus this time last year at \$8,628,009. Whereas the expenditures to date are \$8,939,360 versus \$8,411,218 last year for the end of the third quarter.

We know that our tax system puts us in a vicarious boom or bust mode, and these numbers are indicating we are still enjoy-

ing the boom mode. Our total general fund budget is 76% collected at the three-quarters point, while the expenditure side is 74% spent.

The primary "boom" stream of revenues are from the construction. It effects the sales and B&O taxes, and the development fee/charges.

This puts us financially in a good fiscal place, but our concern is, these additional revenues we are realizing, are not from any retail establishments, but are due to construction.

And that construction is the siting of State agencies, therefore we will be unable to sustain this revenue growth.

In other words when the construction is complete, we will not have the sales and B&O tax stream we are seeing. Nor the revenue from development.

There will be a small amount of increased revenue in our property tax, but once the new construction is put on the books, we are flattened by the 1% lid.

### GENERAL FUND DEPARTMENTS BUDGET UPDATE

Department	% of budget	Y-T-D	2004 Budget	Y-T-D 2003	2003 Budget
Development Services	73.0	\$710,934	\$973,380	\$671,833	\$958,225
Executive	73.9	152,877	206,851	147,683	194,677
Legal	72.8	151,741	208,341	159,950	182,639
Finance	75.3	1,100,633	1,462,536	1,041,598	1,370,090
Fire	71.2	1,756,706	2,465,607	1,711,839	2,511,055
Legislative	78.0	91,598	117,493	89,882	100,519
Parks & Recreation	69.5	543,272	781,304	544,528	726,422
Personnel - General Services	73.8	184,062	249,424	168,401	256,498
Police	74.3	2,323,111	3,126,129	2,195,331	2,931,579
Planning & Facilities	79.8	1,026,363	1,286,959	899,666	1,259,432
Public Works-Engineering & Street	77.7	886,062	1,140,577	760,587	1,071,745
Total	74.3	\$8,927,359	\$12,018,601	\$8,388,297	\$11,562,881

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The July implicit price deflator for personal consumption expenditures has been established by the Department of Commerce as 2.387 percent increase over the July of 2003 index number. This was reported in the September issue of the Survey of Current Businesses.

## Property Tax

Property tax collections are exactly as we anticipated them at this point. Year-to-date collections are at 57% and at the exact percentage collected last year for the third quarter. (57%)

We have finalized most all of the Mayor's preliminary budget for 2005, and have received the property tax information from the County Assessor. Our new construction number for 2005, is almost exactly as we expected it to be.

The 2nd half of property tax does not arrive until November, but we have no reason to believe we will not achieve the budgeted amount.

2003	2004
\$1,635,686	\$1,701,087

## Retail Sales & Use Tax

Even though, we put the budget together with a very aggressive projected increase of sales tax revenue of over 7%, we have exceeded that projection. To date we have collected: \$2,666,245, which is 85.8% of our budget projection. Last year at this point in the year we had collected: \$2,623,720.

Although, collections are good, as we stated earlier, we have to continue to be cautious as the line share of the revenue category is from construction, which will eventually slow down or stop.

The good news is the main stream portion, which includes the retail sales tax is stable.

## Council Contingency Reserve

There has been minimal activity out of the Contingency Reserve so far this year. We have only processed two draws this year. One for management training (\$4,244) the other for additional insurance premium (\$7,100). The insurance is an estimated quote until the end of the year and when the final bill came for the entire city we were \$7,100 short.

The balance of the Contingency Reserve now is: \$57,464.



## Local Business and Occupation Tax

The City's Business & Occupation tax is charged to all businesses that do business in the city, whether or not they are located here. The rate is 1/10 of 1% on the gross receipts and if you are engaged in the business of rendering any type of service the rate is 2/10 of 1%.

As of the end of this quarter we have collected \$1,028,582, which is just over our budget projection. Our budget projection would have us at 75% of budget collected and we are at 79% of budget collections. Last year, at this time we had collected \$869,366.

When we look at the detail of this revenue we see a significant portion of it is due to construction activity, as we have stated before. So we, again have to be very cautious how we handle this "one-time" money.

We are seeing the "base" or the "on-going" portion of the revenue as stable, no significant increase, but we are happy to report that the stream is maintaining.

We were fortunate as the Finance Director continues to be a member of the *Municipal Tax Work Group* that was

assigned by the Governor to work amongst all of the stakeholders and resolve a single ordinance to provide the business community and the cities a viable resolution. That resolution was made with the new Model Ordinance, but we continue to have some stakeholders that are still unresolved.

So we expect some changes in the future and at this time we are unable to tell you what those will be. Unfortunately, we are expecting them to be a negative impact to us.

## Development Fees

Development Fees include all of the fees, and permits charged, other than Impact like fees, to anyone that develops property in the City. Those include: building permits, street plan checks & inspections, utility plan checks and inspections, platting & zoning fees, street vacations and building plan check & inspection fees.

This is where the growth activity shows the most and first. We are seeing why Development Services Department is so very busy. But, we must remember these fees/charges are "on-time" revenues and the activity can actually carryover into another year.

Type	2003	2004
Building Permits	245,395	473,909
Plan Checks	152,309	292,476
Miscellaneous	97,652	183,943
<b>Total</b>	<b>\$495,356</b>	<b>\$950,328</b>

# Utility Taxes

The City of Tumwater imposes a utility tax on telephones, telegraph, electrical energy, natural gas, brokered natural gas, solid waste, water, sanitary sewerage, and storm drainage at the rate of 6 percent.

Council policy direction is that one-half (3%) is to be for the support of general fund and the other half is for the capital improvement fund. There is another division, by dividing the three percent (3%) that goes into the capital program. One third of the three percent (1%) goes for transportation program and two-thirds (2%) of the three percent (3%) goes for the General Governmental portion of the CFP. This reporting is for the entire amount collected.

We have had some, interesting changes in this revenue stream. The first, is the

Utility	2001	2002	2003	2004
Electric	732,020	647,038	805,642	641,225
Natural Gas	328,448	288,268	202,754	232,754
Water	91,371	102,359	114,320	119,415
Sewer	166,970	167,342	165,087	139,225
Storm	26,515	27,101	31,726	32,274
Telephone	273,042	318,190	316,090	349,176
Solid Waste	54,252	51,080	73,734	77,134
<b>Total</b>	<b>\$1,672,618</b>	<b>\$1,601,378</b>	<b>\$1,706,353</b>	<b>\$1,591,203</b>

loss of the Brewery, that has impacted significantly our historical revenue stream of electrical, natural gas, and sewer. But, because of the construction and growth in the office industry we

are seeing an increase in telephone, water, and solid waste. We have yet to recover from the loss of the Brewery, but the loss is not as significant as we originally had estimated.

# Lodging Tax Status

The sole source of revenue for this program that supports the core "Historical Activities" and "Tourism Activities" is the Hotel/Motel tax. This is a 4% tax on the cost of renting a room in a Hotel or Motel within the city. The first 2% is derived by taking 2% of the state's 6.5% sales tax and rebating it back to the community for local programs to promote tourism and the additional 2%, that was authorized in 1998, and to be used solely for paying for tourist promotion, acquisition and/or maintenance of tourism-related facilities.

Right now the immediate concern is

that our primary program is operating with larger outflows than the inflows.

Lodging Tax	2001	2002	2003	2004
<b>Original—2%</b>	\$51,762	\$60,192	\$63,650	\$65,546
<b>Additional— 2%</b>	53,716	57,722	63,795	64,551
<b>Total</b>	<b>\$105,478</b>	<b>\$117,914</b>	<b>\$127,445</b>	<b>\$130,097</b>

The operating expense year to date for the primary program is: \$97,473 whereas the revenue to support that program as you can see from the above table is: \$65,546.

One of the policies for viability of this fund, is that the fund balance should be maintained at \$250,00. That allows for the annual revenue plus the interest earned on the fund balance to carry the main program. Currently, our fund balance is \$130,098. Last year, at this time the fund balance was: \$132,757. One of the goals was to enhance the "donations", so \$15,000 was budgeted, and we have only received \$1,915 so far this year.

# REAL ESTATE EXCISE TAX (REET)

Other than utility tax real estate excise tax (R.E.E.T) is the other major funding source for the Capital Improvement Fund. This tax is levied on the all sales of real estate at the rate one-half percent. All of this revenue goes toward the Transportation portion of the Capital Facilities Plan (CFP). State law has restrictions on how these monies are spent, "streets" is one

of the qualifiers. We have collected \$715,857 year-to-date versus \$502,140 last year. This amount is way above our budget projections at 94%. With the sale of the Brewery properties, current construction, and interest rates as they had been this past year we are not too surprised.



# Tumwater Valley Golf Course

The Tumwater Valley Golf Course has been a member of the city family for 8 years now. We acquired the course in May of 1996. Since that time we have spent considerable time and money in getting the course up to "par". Both the course and the equipment were in bad disrepair. It was allowed to degrade considerably over the years. In fact, the equipment was fully depleted along with the carts, so new carts and golf course equipment were purchased.

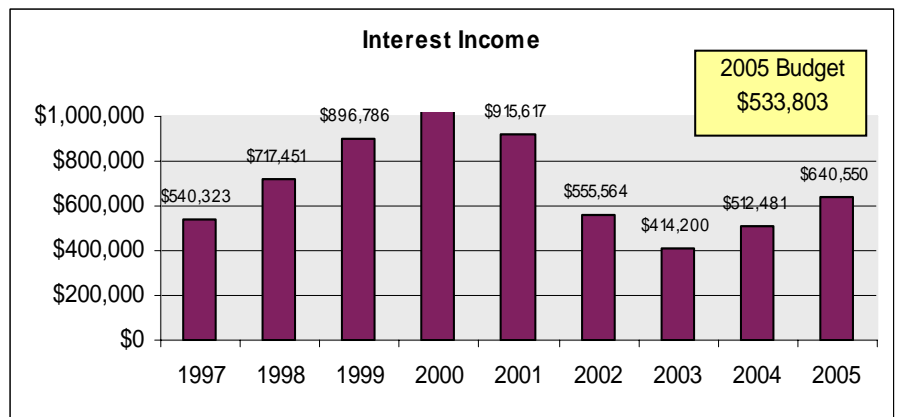
Many big capital projects have been done including; the completion of the cart paths, complete new electrical system, upgrade and replacement of the course's sprinkler system, just to name a few.

Because of the seasonal nature of this activity we have a line of credit with the sewer fund that is borrowed against and then paid back over the year. That line of credit is at \$749,390 against a \$1,000,000 limit.

Type	2001	2002	2003	2004	% of budget
<b>Green Fees</b>	\$422,731	\$460,724	\$469,494	\$471,006	75.4
<b>Pro Shop</b>	105,512	118,733	97,209	140,256	103.9
<b>Cart Rental</b>	70,540	113,255	106,302	118,930	90.6
<b>Driving Range</b>	69,850	58,558	59,591	61,214	97.6
<b>Restaurant Lease</b>	22,471	30,936	30,242	35,298	88.02
<b>Miscellaneous</b>	17,217	17,421	12,633	18,545	83.6
<b>Total Revenues</b>	\$708,321	\$799,627	\$775,471	\$845,249	89.8
<b>Operations</b>	\$330,919	\$319,271	\$342,078	449,192	89.3
<b>Maintenance</b>	274,795	331,632	317,639	360,675	84.4
<b>Debt</b>	411,072	311,018	290,707	318,542	88.2
<b>Total Expenses</b>	<b>\$1,016,786</b>	<b>\$961,921</b>	<b>\$950,424</b>	<b>\$1,128,409</b>	<b>88.2</b>

## Interest Income

Last year, the FED began to raise rates, and is expected to continue to raising them this year. During this phase of the market cycle, the short during of the LGIP (local government investment pool with the State Treasurer) will allow it to keep pace with increasing rates. Interest revenue through the third quarter is now 120% of the budgeted amount.



## Cultural & Recreational Fees

The revenue here is for all of the recreation and cultural class fees. These fees range from program activity classes, instructional classes, day and over night trips, tours, and special events. Along with those we have collections for the use of the ball fields and the park shelter at the Historical Park.

Over the years, the importance of the recreational activities has come to the forefront of the city operations.

Type	2001	2002	2003	2004	% of Budget
<b>Ball Field User Fees</b>	\$9,510	\$8,405	\$11,575	\$9,255	123.4
<b>Park User Fees</b>	3,075	2,925	4,325	4,725	105.0
<b>Recreation &amp; Class Fees</b>	54,429	70,120	78,245	71,828	70.5
<b>Total</b>	\$67,014	\$84,450	\$94,145	\$85,808	75.4

The Department strives to provide services that are creative, beneficial and responsive to the needs of our community thereby improving and enhancing the overall quality of life.

The major focus is that portion of the program to fulfill the goal of providing programs to ensure our youth get a good start in life.



	Inflows		Outflows		Year-to-date Fund Balance
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	
WATER	\$6,250,804	\$7,512,934	\$1,913,625	\$1,820,059	\$5,692,876
SEWER	9,056,162	9,397,857	3,797,103	3,726,710	5,671,147
STORM	2,387,939	2,463,658	521,138	560,187	1,903,471
TOTAL	\$17,694,905	\$19,374,449	\$6,231,866	\$6,106,956	\$13,267,494

## Utility Funds

### WATER

The Water Fund, has connection fees to date collected of \$749,888, whereas last year at this time that amount was \$679,289. This is another sign of the construction activity, our average over the past few years has been \$325,000 in this category, and again a “one-time” money.

The water sales are just over 5% higher than last year at this time at \$1,871,189, whereas last year at this time we had collected \$1,779,683. That is 79% of the budget. We are very confident we will meet the budget projection.

The capital program of the fund has expended \$231,009 to date, primarily

for the Boston bridge, and the South West Well development.

### SEWER

The city’s portion of the sewer service collections for this fund are just slightly ahead at \$713,395 as last year’s collections for the 3rd quarter were: \$692,284.

The connection fees this year are way ahead of that collected. This year’s collections are: at \$577,290 versus \$421,049 last year. Again, another indication of the construction activity. We only budgeted \$300,000, because that has been our normal activity.

\$245,0169 of the \$675,000 in construction projects has been spent to

date. Which is primarily on the South Connection and Deschutes Ridge pump Station projects.

### STORM

Collections in the storm drain fund for monthly fees have a very small variable from year to year. This year to date collections are: \$543,386 whereas last year’s to date number was \$528,361.

\$257,000 in project funds are budgeted for this utility this year. As of this date \$73,471 has been spent and primarily on the Salmon Creek Basin, and over-sizing projects in cooperation with developers.



# Departmental Issues

The Financial Services division of the Finance Department has just gone thru the throws of the 2003 audit from the Washington State Auditors Department. We primarily had one auditor this year with a periodic helper over the course of five weeks. They just left last week, and as yet we have not heard of any recommendations, nor any other issues to note. The Exit should be within the next few weeks and it will, of course, be based upon the Mayor's schedule. At that time any recommendations the SAO has on any issues will be discussed at length and all departments will be notified of any changes or alternations to our current operating procedures.

Last week, we had another batch of Auditors show up. These two individuals are from the Department of Revenue. We are periodically audited from them on an array of issues. They are primarily looking to make certain on those "revenue" issues that we charge, where applicable sales and use tax. Then on the "expense" side they are verifying we pay sales and use tax where appropriate. For now I have nothing of note, I frankly, believe we are in a very good position.

The payroll conversion is still happening it also has been more difficult than originally planned. We had hoped to be done by now, but we continue to march The

Municipal Court, function of the Department continues to spark lots of activity. Several staff have a variety of duties to cover this function. We have budgeted \$200,500 in fines and only collected \$85,088, which is just over 42%.

Our activity includes this quarter 641 infractions; 29 driving under the influence; and 217 criminal (traffic and non-traffic) cases filed with the court.

We held 471 hearings; 205 arraignments and 581 pre-trials before the Court.

**Asset Management (aka: Equipment Rental & Replacement)** Program has two divisions the Information Technology division. That division is really under the gun, so to speak, as we continue to acquire replacement computers, printer, telephones, etc. And every day we have new, old and unique issues. We are still working on the stability of the wireless network between the City, Olympia, and CapCom for the public safety division of the city.

We had to upgrade the voice-mail and the conversion did not go as well as we had expected. Some of the issues for the upgrade were security and contingency planning. But, in short, it was converting from a "DOS" environment to a "Windows" based system.

The other division is the Shop for all of the "rolling-stock" (cars, trucks, etc.) and they are very busy. We are almost in the position to start ordering replacement vehicles for the 2005 year. Everything is purchased thru the State and the window for ordering is very narrow.

The Risk Management portion of the Department has had average level of activity this past quarter. We have had 62 incidents filed since the first of the year. We have had 11 claims filed, but only 3 were paid, for \$1,437.21, the others were denied.

We have already met all of our Compact requirements established by the WCIA (Washington Cities Insurance Authority). Those include, payment of assessment on time; city risk management audit; and two mandatory (city-wide) training sessions.

The WCIA self-insures to a \$10 Million layer and then group purchases the "excess" layer from the Insurance Industry. Considering what has happened on several levels with the insurance industry rates for 2004 and beyond will be tenuous. Annual assessments (premiums) are based upon worker hours, claims/lawsuit activity, and the insurance industry's environment. The Finance Director now serves as the President of the organization.

The City Clerk's Office continues to provide excellent service in the maintenance of the city's television reader board and more importantly serving as the city's web page master.

This division of the department continues to provide service to the Administration for the city council agenda preparation and dissemination.

Another major project is continuing to put all our records, current and archived, on a city-wide imaging system. All of the departments are on this system now and many are working on their files concurrently with the City Clerk's files.

We are excited because the technology has now allowed us to provide the City Council packets "on-line" and not only very cost effective, but more widely disseminated.

2005 Budget process has started. The Management Team has submitted their budget requests and base budgets. Mayor has meet with the department directors. The Local Tax Advisory Committee (LTAC) has met and made their recommendations. And we are waiting for the HSRC process to be completed next week.

We already know the process is very challenging this will be the 4th year, Mayor will be submitting a "hold the line" budget to the Council. We have received our property tax statement that includes the new construction number for 2005. So we are almost ready to present the "preliminary" budget to the Council and proceed with our process.