

October, 2006



Finance Department Third Quarterly Report

General Fund Status

The General fund's cash balance the end of this quarter is: \$1,240,505 versus \$2,227,412 last year for the same time period.

Our total collections for General fund year to date are \$10,005,572 versus this time last year at \$9,757,048.

Whereas the expenditures to date are \$10,502,457 versus \$9,287,416 last year for the end of the third quarter.

As you can see that the revenue is up by only approximately 3%, while the expendi-

tures are up over 12%. We can no longer rely upon property tax for our main revenue, therefore we have to rely upon sales and use tax more than ever. But as reported later in this report our sales tax is showing a slowing.

We know that our tax system puts us in a vicarious boom or bust mode, and these numbers are indicating we are at the end or a lull in our construction season.

Our total general fund

budget is 71% collected at the three-quarters point, while the expenditure side is 73% spent.

The primary "boom" stream of revenues are from the construction. It effects the sales tax, B&O taxes, and the development fee/charges. You will see the year-to-date numbers later in this report and we are very concerned about both the sales tax and the local business and occupation tax.

GENERAL FUND DEPARTMENTS BUDGET UPDATE

Department	% of budget	Y-T-D	2006 Budget	Y-T-D 2005	2005 Budget
Development Services	73.08	\$878,251	\$1,201,786	\$765,263	\$1,115,497
Executive	75.71	167,416	221,118	159,471	216,761
Legal	71.96	189,314	263,099	163,665	218,471
Finance	76.24	1,294,019	1,698,757	1,180,036	1,535,273
Fire	70.26	2,033,283	2,894,132	1,880,355	2,523,188
Legislative	86.11	109,034	126,626	93,352	118,662
Parks & Recreation	67.16	689,556	1,026,680	585,134	861,644
Personnel - General Services	68.95	195,478	283,517	181,553	265,414
Police	71.61	2,567,469	3,585,545	2,313,412	3,252,915
Planning & Facilities	71.91	1,078,200	1,499,430	1,029,270	1,451,328
Public Works-Engineering & Street	61.33	911,285	1,378,089	804,349	1,187,427
Total	73.33	\$10,113,305	\$14,178,779	\$9,155,860	\$12,465,580

Inside this issue:

Property Tax	2
Retail Sales & Use Tax	2
Business Taxes	2
Development Fees	2
R.E.E.T.	3
Utility Taxes	3
Hotel-Lodging Tax	3
Tumwater Valley Golf Course Golf	4
Public Works	5
Departmental Issues	6

The increase in the Implicit Price Deflator (IPD) is 3.419%, while the increase of the August consumer Price index (CIP) for the US average is 3.8% and the Seattle-Tacoma Bremerton (Thurston County) is 4.9%.

Property Tax

Property tax collections are exactly as we anticipated them at this point. Year-to-date collections are at 55% and at the exact percentage collected last year for the third quarter. (54%)

We have finalized most all of the Mayor's preliminary budget for 2007, but have not received the property tax information from the County Assessor.

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.

2005	2006
\$1,665,304	\$1,802,998

Retail Sales & Use Tax

This tax stream is not at all where we would have hoped by this time of year. Last year at this time we had collected \$3,195,877, whereas this year it is: \$3,091,088 nearly \$105,000 less. That is over 3% less. Apparently, we are the only city/town in Thurston County with a negative number for sales tax growth. We knew if retail did not grow, or we had any large competition with the retail, and the fact that we have started showing a downward trend of the our construction activity we would have trouble. All are happening. When we look at the detail numbers we are showing a substantial decrease in our new construction activity categories, and, this last month we now also have an impact on our "base" or our "on-going" sales tax from the fact that we

have competition (additional inventory) of one of our large retailers now located in Lacey. This past month was the first month ever for that large retailer to show negative growth in their numbers.



Because of past initiatives and State Legislative actions, our revenue diversification has substantially changed. We can no longer depend on property tax as the largest category of revenue, we have to depend more and more on sales and use tax.



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 \$1,115,793, which is below our budget and at just 65%; whereas last year, at this time we had collected \$1,135,090.

When we look at the detail of this reve-

nue we see a significant portion of the decrease is due to construction activity, as we have stated before, and because this revenue is only paid by the quarter we are unable to see if we have similar issues as we have with the sales tax, for the impact on the new retail in Lacey. So we, again have to be very cautious, but we are not optimistic that we will achieve the budget estimates.

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 local business and occupation tax issues with the business community. We have made significant strides, but we still have issues to resolve that will greatly impact the viability of this revenue in the future.

Apportionment is the most significant impact forth coming, but also the business community is talking about not wanting each of the cities collecting this tax to continue, that the collection will be turned over to some other single entity, yet to be defined. That also will negatively impact 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 "one-time" revenues and the activity can actually carryover into another year. The fact that there is an increase is very promising for our future.

Type	2005	2006
Building Permits	\$429,018	\$381,152
Plan Checks	225,277	304,848
Miscellaneous	242,476	328,215
Total	\$896,771	\$1,014,215

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 a good revenue stream of utility tax because of the construction

Utility	2003	2004	2005	2006
Electric	\$805,642	\$641,225	\$708,814	\$760,140
Natural Gas	202,754	232,754	293,795	354,413
Water	114,320	119,415	111,099	132,737
Sewer	165,087	139,225	150,225	158,335
Storm	31,726	32,274	34,838	35,932
Telephone	316,090	349,176	353,211	389,960
Solid Waste	73,734	77,134	78,180	81,902
Total	\$1,706,353	\$1,591,203	\$1,730,162	\$1,913,419

growth in the office industry and single-family homes. We are seeing an increase of over 10%.

There is still a small loss of electrical and sewer usage from the Brewery

closure, but as we add to our inventory that loss is being made up. We had hoped the Brewery property would be on its way to re-development but we have seen nothing as to date.

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

Year	Tax
2003	\$127,445
2004	130,097
2005	149,028
2006	\$163,601

in 1998, and to be used solely for paying for tourist promotion, acquisition and/or maintenance of tourism-related facilities.

In past years our concern has been that our primary program is operating with larger outflows than the inflows. But we have been making strides, but our operating

expenses year to date for the primary program is: \$97,626 and the revenue to support that program is \$81,005. This is still nearly \$17,000 short from the goal.

Our fund balance policy is at \$250,000, although right now it is \$176,511. That allows for the annual revenue plus the interest earned on the fund balance to carry the main program.

Another one of the goals was to enhance the "donations", year-to-date we have collected 7,798, the largest amount in recent history. Also, sale of merchandise is doing well at \$1,780.

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 \$657,665 year-to-date versus \$782,332 last year. This is showing a significant slowing of activity, but because we knew the volatility of this revenue source we did a conservative forecast.



Tumwater Valley Golf Course

The Tumwater Valley Golf Course has been a member of the city family for 10 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.

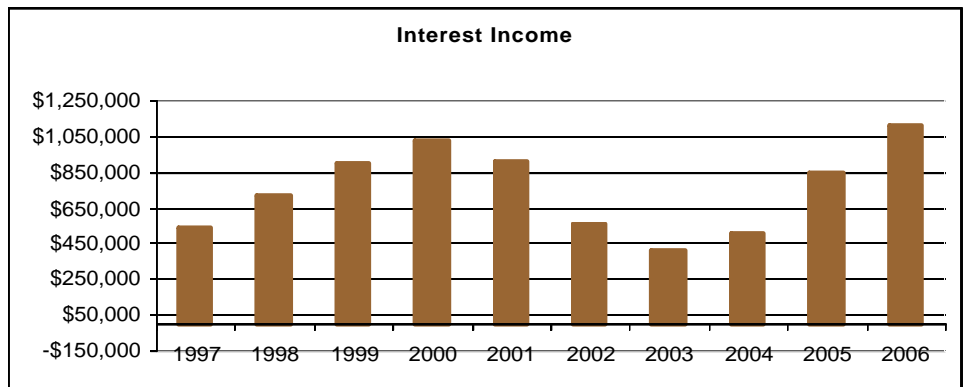
Because of the seasonal nature of this activity we have a line of credit with the sewer fund that is borrowed against and then paid back over the year. That line of credit is down to \$283,555 against a \$1,000,000 limit.

Type	2003	2004	2005	2006	% of budget
Green Fees	\$469,494	\$471,006	\$508,878	487,084	77.9
Pro Shop	97,209	140,256	143,382	134,094	74.5
Cart Rental	106,302	118,930	123,142	123,635	98.4
Driving Range	59,591	61,214	64,210	61,009	67.8
Restaurant Lease	30,242	35,298	33,552	33,631	86.2
Miscellaneous	12,633	18,545	7,594	19,506	79.1
Total Revenues	\$775,471	\$845,249	\$880,758	\$859,959	82.4
Operations	\$342,078	449,192	\$472,527	\$455,932	81.7
Maintenance	317,639	360,675	248,730	327,121	75.5
Debt	290,707	318,542	177,577	285,571	75.0
Total Expenses	\$950,424	\$1,128,409	\$898,834	\$1,068,624	82.3

Interest Income

The FED kept the overnight at 5.25% at its last two meetings. At the end of the third quarter, our interest income has exceeded our budget projects.

The last few years interest income was not a viable revenue for us, but the interest rates, are once again, getting to a point of being viable. This is an additional resource to sustain our programs.



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	2003	2004	2005	2006	% of Budget
Ball Field User Fees	\$11,575	\$9,255	\$4,010	\$7,112	47.4
Park User Fees	4,325	4,725	4,825	4,975	99.5
Recreation & Class Fees	78,245	71,828	74,117	89,355	87.6
Total	\$94,145	\$85,808	\$82,952	\$101,442	83.2

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>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	
WATER	\$8,580,574	\$9,494,293	\$1,921,506	\$2,181,721	\$7,312,572
SEWER	9,933,040	9,894,484	3,741,694	5,469,386	5,469,386
STORM	2,715,563	2,799,008	637,958	628,309	2,170,699
TOTAL	\$21,229,177	\$22,187,785	\$6,301,158	\$8,279,416	\$14,952,657

Utility Funds

WATER

The Water Fund, has connection fees to date collected of \$409,360, whereas last year at this time that amount was \$771,056. 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” resource.

The water sales are over 16% higher than last year at this time at \$2,013,089, whereas last year at this time we had collected \$1,691,164. That is 79% of the budget. This shows the hot summer season and the increased inventory.

The capital program of the fund has

expended \$444,265 to date, primarily for the improvements to the existing reservoirs. This will provide for improved water quality.

SEWER

The city’s portion of the sewer service collections for this fund are just slightly ahead at \$858,750 as last year’s collections up through the 3rd quarter were: \$805,973.

The connection fees this year are way behind last year at this time. This year’s collections are: at \$218,300 versus \$553,260 last year. Again, another indication of the construction activity dropping.

\$1,129,812 of the \$3,790,000 in con-

struction projects has been spent to date. Which is primarily on the annual system rehabilitation and Littlerock Road interceptor 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: \$591,754 whereas last year’s to date number was \$571,212.

\$685,000 in project funds are budgeted for this utility this year. As of this date \$72,302 has been spent and primarily on the Crites Pond rejuvenation, and oversizing projects in cooperation with developers.



Departmental Issues

The Financial Services division of the Finance Department has yet to have the 2005 annual audit from the Washington State Auditors Department. We expect it within the next 45 days as they need to have the audit completed by year end. This year has been one of change, we started our migration from our old "pre-dos" financial system to the new upgraded windows based system. Although it is very intuitive, it is a huge change to our operations and staff's learning curve from previous procedures.

We have completed to date the General Ledger; payroll; accounts payable; annual report writer; human resources; budget and position budgeting. We have yet to complete the cashing and utility billing. They are scheduled at year-end and into the next year.

The Municipal Court function of the Department continues to spark lots of activity. Several staff have a vari-

ety of duties to cover this function. We have budgeted \$200,500 in fines and collected \$166,845, which is just over 83%. 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. In addition, the court found 325 cases to be guilty and dismissed 496 cases.

Asset Management (aka: Equipment Rental & Replacement) Program has two divisions: Information Technology and the Shop division. Information Technology is the division that is part of the Finance Department. We continue to acquire replacement computers, printer, telephones, etc. And every day we have new, old and unique issues. We have also been very busy this year with all of the software upgrades that require additional input and workload from this division. Security has become a major portion of what we do every day and continues to be challenging in staying on top of what is going on in the industry.

The other division, the Shop, is or 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 2007 year. Everything is purchased through 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 only one active lawsuit at this time.

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. Our annual assessments (premiums) are based upon worker hours, claims/lawsuit activity, and the insurance industry's environment. The Finance Director serves as the City's Risk Manager and is on the board of the WCIA.

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.

2007 Budget process has started. The Management Team has submitted their budget requests and base budgets. Mayor has met with the department directors. The Local Tax Advisory Committee (LTAC) and HSRC have met and made their recommendations. We already know the process is very challenging this will be the 5th year, Mayor will be submitting a "hold the line" budget to the Council. We have yet to receive our property tax statement that includes the new construction number for 2006. So we are almost ready to present the "preliminary" budget to the Council and proceed with our process.