

MEMORANDUM

March 23, 2018

To: John Williams, City Manager
From: Cindy Jensen, Finance Director
Subject: 2017 Year-End Budget Revenue and Expenditure Report

I am pleased to submit the City of Moses Lake's 2017 year-end actual results compared to budgeted Revenue and Expenditure Report for all city funds. Balances shown are subject to final adjustments made as a result of the year-end closing process, which will not be officially concluded until the State Auditor's work is completed this summer.

Overall, Citywide 2017 budget performance has produced a stable revenue position, while departmental expenditures have been restrained below authorized budget levels. General Fund revenue exceeded budget by \$1.8 million, with expenditures coming in below budget by \$230 thousand, but because the budget was set to use fund balance of about \$1.9 million, actual results produced a slight increase in Fund Balance. Total revenue for all funds is \$61.8 million, while total expended is \$57.2 million, adding \$4.6 million to citywide reserve balances. Most of this increase came in the capital improvement funds as the water/wastewater utilities are between major projects.

This report is summarized by type of fund, and reported by functional type, and includes the following sections:

- **City-Wide Overview**
- **General Fund Revenue Analysis**
- **General Fund Expenditure Analysis**
- **Other Funds Analysis**
- **Fund Balances**
- **Exhibit I**—Fund Detail that supports the Summaries

Revenue Comparison
(Budget vs. Actual--100% of year)

	2016		2017	
	Actual	Amended Budget	Actual	Percent Rec'd
General Fund	\$ 22,020,733	\$ 21,056,900	\$ 22,905,631	108.8%
Operating/Enterprise Funds	29,160,770	28,875,400	30,144,616	104.4%
Capital Improvement Funds	4,126,242	3,740,000	6,384,654	170.7%
Risk Mgmt/Employee Benefit	549,970	451,100	463,598	102.8%
Debt Service Funds	2,293,888	2,099,400	2,099,400	100.0%
Total City Revenues	\$ 58,151,603	\$ 56,222,800	\$ 61,997,899	110.3%

Expenditure Comparison
(Budget vs. Actual--100% of year)

	2016		2017	
	Actual	Amended Budget	Actual	Percent Rec'd
General Fund	\$ 21,429,139	\$ 22,968,300	\$ 22,751,072	99.1%
Operating/Enterprise Funds	27,539,174	29,897,500	29,037,605	97.1%
Capital Improvement Funds	3,253,928	6,010,000	3,437,028	57.2%
Risk Mgmt/Employee Benefit	502,944	573,500	573,811	100.1%
Debt Service Funds	2,445,437	2,099,300	2,098,756	100.0%
Total City Expenditures	\$ 55,170,622	\$ 61,548,600	\$ 57,898,272	94.1%

Note: No additional interfund loans were made in 2017.

General Fund Revenue Analysis

General Fund Revenues					
	2016	2017		16 vs 17	
	Actual	Amended Budget	Actual	Percent Rec'd	Percent Change
310 Taxes					
Property Tax	\$ 6,558,157	\$ 6,000,000	\$ 6,794,195	113.2%	3.6%
Sales Tax	5,982,989	5,300,000	6,780,787	127.9%	13.3%
Utility Tax	3,161,553	3,491,200	3,664,902	105.0%	15.9%
Gambling Tax	298,597	296,000	304,522	102.9%	2.0%
Other Taxes	88,140	76,000	82,321	108.3%	-6.6%
REET Allocation	355,872	20,000	28,128	140.6%	-92.1%
Subtotal-Taxes	16,445,308	15,183,200	17,654,854	116.3%	7.4%
320 Licenses & Permits	873,328	517,200	702,065	135.7%	-19.6%
330 Intergovernmental Revenues	319,451	195,000	337,732	173.2%	5.7%
340 Charges for Goods & Services	3,042,024	3,040,200	2,973,225	97.8%	-2.3%
350 Fines and Penalties	445,815	467,000	350,733	75.1%	-21.3%
360 Miscellaneous Revenues	345,846	304,300	386,541	127.0%	11.8%
390 Other Financing Resources	548,930	1,350,000	500,482	37.1%	-8.8%
Total General Fund Revenues	\$ 22,020,702	\$ 21,056,900	\$ 22,905,632	108.8%	4.0%

Property Tax – This source of revenue grew by about 3.6% year over year, which represents the 1% increase in the base levy, new construction of about 2.5%, and an improvement in Grant County’s collection rate. The budget was set significantly below the expected levy because of the potential for a large taxpayer to protest their assessed value, which, fortunately, did not happen.

Sales Tax – Although the budget was conservatively estimated, sales tax receipts came in strong, bolstered by strong construction activity. This major revenue source ended the year 13.3% ahead of 2016 actual.

Utility Tax – This revenue source experiences fluctuations either from rate adjustments or fluctuations in usage. The major increase over prior year is the result of increasing the basic utility tax rate charged for internal (i.e. City) utilities, including Water, Wastewater, Solid Waste, and Stormwater from 8% to 10% at the beginning of 2017. The increase in underlying utility fees affect these amounts, as well as the beginning of Solid Waste service to a major industrial user 10 years after annexation (effective in September, 2017). Taxes tied more to the price of raw energy (i.e. Electric and Natural Gas) have seen some fluctuation with the underlying energy prices, with both trending upward in 2017. Telephone communications tax was flat year over year, which is expected as more households abandon their land lines, and phone plans emphasize the purchase of data versus phone service.

Gambling Taxes—This revenue stream just slightly exceeded both budget and prior year actual. Council reduced the card game tax rate over the next five years, and the first reduction took place in the last quarter received.

Licenses and Permits – This revenue is generated by the development community, and is difficult to budget because it is volatile by nature. Even though 2017 exceeded the budget estimate, it was still below 2016 actual results.

Intergovernmental Revenue – The major component of intergovernmental revenue is State-shared revenue. In 2017, the State Legislature restored the Liquor Excise Tax distribution that was greatly reduced in 2014.

Charges for Goods and Services primarily consist of:

- Fees charged for Parks and Recreation Programs;
- The City Administrative fee charged to funds for the services provided by the executive branch and finance;
- Engineering services charged both to internal projects and external developers; and
- School Resource Officers reimbursed by Moses Lake School District

Although there was some fluctuation among accounts and categories, overall this revenue source came in just slightly below budget and prior year actual primarily because Parks and Recreation discontinued their concession operations, and just contracted out to receive a percentage of the vendor sales, which is recorded in Miscellaneous Revenue.

Fines and Penalties consist almost entirely of fines generated by the red-light camera program. 2017 actual came in below both the budget and prior year actual, because 2 of the 4 cameras were not working for about half of the year. (Service was restored early in 2018.)

Miscellaneous Revenues include interest earnings on investments and facility rentals. This category exceeded budget and prior year actual primarily because of the concession change-over described above.

Other Financing Resources is made up primarily of a transfer from the Water Department of excess maintenance and operating charges as authorized by RCW 35.23.535. Even though this was budgeted to be \$1,350,000, because of the increases in other General Fund revenues we were able to constrain this transfer to only \$500,000 in 2017 which is the same as 2016.

Summary --Overall, 2017 General Fund revenue of \$22,905,632 grew by \$884,930 or 4.0% over the 2016 actual of \$22,020,702. The major components of that growth were in the categories of Sales Tax (new construction), and Utility Taxes (an increase in the internal tax rate from 8% to 10%).

General Fund Expenditure Analysis

General Fund Expenditures

	2016		2017	
	Actual	Amended Budget	Actual	Percent Spent
Legislative	\$ 392,014	\$ 412,100	\$ 400,835	97.3%
Executive	943,252	814,300	846,194	103.9%
Finance	873,725	1,093,000	1,047,279	95.8%
Community Development	1,300,623	1,313,800	1,287,056	98.0%
Legal	190,137	178,100	153,223	86.0%
Misc. Services	1,869,681	2,482,700	2,468,358	99.4%
Library	130,311	122,000	122,614	100.5%
Engineering	1,704,435	1,924,000	1,723,204	89.6%
Parks & Recreation	5,040,131	5,420,200	5,241,040	96.7%
Police	5,859,000	6,120,500	6,085,890	99.4%
Fire	3,125,830	3,087,600	3,362,272	108.9%
Total General Fund Expenditures	\$21,429,139	\$ 22,968,300	\$ 22,737,965	99.0%

Since General Fund is over 57% staffing, events effecting total payroll have a significant impact on budgets. Position vacancies may start out being an “overage” because of the cashout of earned accrued leave balances, but then can produce savings when the position is vacant for any length of time. Most variances in individual divisions are the result of position vacancies.

The Executive division experienced the cashout of two longtime employees, resulting in a budget overage of about \$32,000. This overage was “covered” by underspending in both Legislative and Legal divisions. The Fire Department exceeded budget by about \$275,000, primarily due to paying for some Ambulance expenditures that the separate fund couldn’t cover. We were able to do that this year because of salary savings in other divisions in General Fund and the growth in Sales Tax revenue.

Overall, General Fund expenditures were still below the 2017 budget by about \$230,000 or 1%, even with the additional Ambulance expenditures noted above. Without the ambulance subsidy, General Fund would have been about \$505,000 or 2.2% below the authorized budget.

Other Funds Analysis

Other Funds Revenues and Expenditures

Revenues	2016	2017		16 vs 17	
	Actual	Amended Budget	Actual	Percent Rec'd	Percent Change
Operating/Enterprise Funds	\$29,160,770	\$ 28,875,400	\$ 30,144,616	104.4%	3.4%
Capital Improvement Funds	4,126,242	3,740,000	6,384,654	170.7%	54.7%
Risk Mgmt/Employee Benefit	549,970	451,100	463,598	102.8%	-15.7%
Debt Service Funds	2,293,888	2,099,400	2,099,400	100.0%	-8.5%
Subtotal-Revenue	\$36,130,870	\$ 35,165,900	\$ 39,092,268	111.2%	8.2%
Expenditures					
Operating/Enterprise Funds	\$27,539,174	\$ 29,897,500	\$ 29,037,605	97.1%	5.4%
Capital Improvement Funds	3,253,928	6,010,000	3,437,028	57.2%	5.6%
Risk Mgmt/Employee Benefit	502,944	573,500	573,811	100.1%	14.1%
Debt Service Funds	2,445,437	2,099,300	2,098,756	100.0%	-14.2%
Subtotal-Expenditures	\$33,741,483	\$ 38,580,300	\$ 35,147,200	91.1%	4.2%

Year end results generally performed as expected, with revenue meeting or slightly exceeding budget, and expenditures constrained under budget. Variances in capital funds are related to timing of major projects.

Funds under budget by more than 5%

Other Operating/Enterprise:

- **Grants and Donations** Fund includes revenue for designated purposes, and was underspent by about \$85,000 primarily due to timing of program expenditures, such as the purchase of specialized police equipment and the canine program.
- **Paths and Trails** fund included \$38,000 for appropriate projects, such as bike lane marking. These funds were not used in 2017.
- **Stormwater** does not have a separate capital fund, so the capital projects are in the operating fund. This fund was underspent by about \$240,000 primarily because of the timing of capital projects.
- **Ambulance** fund was underspent by about \$187,000 because ongoing revenue was not supporting the expenditures, and the Fire department covered some of this cost. The revenue budget included \$800,000 for an interfund loan which was not executed because General Fund had the capacity to cover the costs. If the loan is removed from the revenue budget, Ambulance operating revenue exceeded budget by about \$520,000, but it still

wasn't enough to cover expenses. This fund still used \$100,000 fund balance in 2017. Rate changes in 2018 were designed so the fund can about break even in 2018.

- **Building Maintenance** also combines operating and capital. This fund was underspent by almost \$400,000 primarily because of the delay in constructing the covered storage/shelter at the Public Works complex, along with some carpeting and fencing—these projects are re-budgeted in 2018.

Capital Improvement:

- **Street Repair/Reconstruction** fund was below budget by about \$213,000 because of the timing of projects.
- **Water Rights** fund only had \$800,000 budgeted to be the source of an interfund loan for the Ambulance fund. Since this loan was not executed, the \$800,000 was not spent.
- **Water/Sewer Construction** was underspent by \$1,560,000 as several projects were in various stages of completion. Unspent project budgets will be carried-forward into the 2018 budget as non-lapsing appropriations.

Funds Exceeding Budget:

- **Tourism Activities** fund exceeded budget by \$723, because administrative expenses were accidentally left out of the mid-year appropriation which only included the program budgets that were all 100% spent.
- **Sanitation (Solid Waste)** fund ended 2017 about \$184,000 over budget. The budget adjustment done close to year-end still under-estimated the expenses for landfill and hauling for the new annexation area that went into effect in September. Revenues came in better than budget by about \$54,000, but the fund still ended up using \$155,000. With increased costs for the recycling and yard waste programs in 2018, it is likely that this fund will not break-even again in 2018. The cost of service study contracted to be completed by mid-summer will present options for rates for full funding.
- **Airport** fund exceeded their budget by \$3,634 for 2 different reasons—1) additional City staff time spent on the grounds and facility to address concerns, and 2) two annual liability insurance premiums were included in this year, one at the beginning of the year, and one at the end of the year. This is only a \$22,100 budget, with very little contingency, so anything out of the ordinary cannot be absorbed. Total expenditures were still less than total revenues, so no fund balance was used in 2017.
- **Central Services** just slightly exceeded budget by less than \$1,000. This was primarily because repairs and replacement of failed computer equipment exceeded the contingency.
- **Risk Management** fund is not technically constrained by the budget, because this fund needs to pay liability insurance and deductibles based on claims processed. We try to estimate those expenses to maintain an adequate cash balance for emergencies, but the 2017, actual results exceeded the budget by about \$9,000.

Fund Balance Analysis

	Change in Fund Balance				
	1/1/2017 Beginning Balance	2017 Actual Revenue	2017 Actual Expenditures	12/31/17 Ending Balance	Ending Bal as % of Expend.
General Fund	\$ 3,677,360	\$ 22,905,631	\$ 22,751,072	\$ 3,831,919	16.8%
Operating/Enterprise Funds	6,238,826	30,144,616	29,037,605	7,345,837	25.3%
Capital Improvement Funds	6,187,749	6,384,654	3,437,028	9,135,375	
Risk Mgmt/Employee Benefit	1,162,008	463,598	573,811	1,051,795	
Debt Service Funds	1,496,085	2,099,400	2,098,756	1,496,729	
Total City Fund Balances	\$18,762,028	\$61,997,899	\$57,898,272	\$22,861,655	

Fund Balances (or reserves) are prudent to maintain in order to address cash flow fluctuations (i.e. property tax is only collected twice a year in April and October); to respond to emergencies; to match grant opportunities that may arise; and to allow Council some ability to try new programs. The 2017 actual results of expenditures and revenues netted an overall increase in total City fund balances of about \$4.1 million.

General Fund added about \$155,000, bringing the total fund balance to \$3.8 million or 16.8% of the actual 2017 expenditures. The Government Finance Officers Association (GFOA) recommends that General Fund maintain a 60 day reserve or 16.7%. General Fund ended 2017 meeting that target.

Operating/Enterprise Funds added about \$1.1 million to reserves, with the largest increases being in Tourism Activities and Equipment Rental. Current year lodging taxes are allocated at the end of the year and are budgeted in the next year, and the allocation for the ballfield lighting project was deferred to 2018. The transfer to Equipment Rental from various operating funds was increased at year end as reserve balances and budgets allowed, in order to enhance building the replacement fund. The largest uses of fund balance was Sanitation (Solid Waste) and Ambulance. The Solid Waste rate increase in September of 2017 just barely covered the contract increases. Council has authorized a cost of service study which will be ready in the July/August timeframe in time to set the September 1 rates. The Sanitation fund ended with a negative fund balance of about \$92,000 because of the year end accounts payable, but has a positive cash balance at year end. The Ambulance Fund used about \$100,000 of its beginning balance to end the year with about \$159,000. As discussed earlier, all the related expenses were not charged to this fund, and rate adjustments made at the beginning of 2018 are expected to bring this fund into

balance, although it may not add to the fund balance. Recommended fund balances using the target of 16.7% would be just under \$700,000 in the Sanitation Fund, and about \$442,000 in the Ambulance Fund.

Capital Funds increased their fund balances by \$2,947,626, with most of this in the Water/Wastewater capital fund. As discussed earlier, capital fund balances can fluctuate based on the timing of significant projects. A typical pattern is to grow the fund balance for a few years, and then spend it down on a major project.

Risk Management/Employee Benefit Reserve Funds carry reserves primarily for the general liability program and the Firemen's Relief and Pension Fund.

In the **Debt Service** funds payments were made as expected, and fund balances are virtually unchanged. Bond issues often have covenants to maintain minimum reserve balances. Revenue bonds typically require one year of debt service payments to remain in reserves. The ending balance of about \$1.5 million is in compliance with required covenants.

CITY OF MOSES LAKE
2017 Actual vs. Budget Variance

	1/1/2017 Actual Begin. Fund Bal	2017 Budget- Amended Revenues	2017 YTD Actual Revenues	2017 Revenue Variance	2017 Amended Budget	2017 YTD Actual Expenditure	2017 Expend Variance	2017 (Use) Gain of Fund Balance	12/31/2017 Ending Fund Balance
General Fund									
Legislative					412,100	400,835	11,265		
Executive					814,300	846,194	(31,894)		
Finance					1,093,000	1,047,279	45,721		
Community Development					1,313,800	1,288,780	25,020		
Legal					178,100	153,223	24,877		
Misc. Services					2,482,700	2,468,358	14,342		
Library					122,000	122,614	(614)		
Engineering					1,924,000	1,724,863	199,137		
Parks & Recreation					5,420,200	5,250,325	169,875		
Police					6,120,500	6,086,149	34,351		
Fire					3,087,600	3,362,452	(274,852)		
Total General Government Funds	3,677,360	21,056,900	22,905,631	1,848,731	22,968,300	22,751,072	217,228	154,559	3,831,919
Other Operating/Enterprise									
Tourism Activities -102	541,892	510,000	685,833	175,833	250,700	251,423	(723)	434,410	976,302
Grants & Donations -103	401,463	345,500	378,684	33,184	334,100	249,005	85,095	129,679	531,142
Paths & Trails - 114	94,157	2,000	2,807	807	38,000	-	38,000	2,807	96,964
Streets - 116	492,757	1,922,600	2,233,200	310,600	2,093,300	2,083,898	9,402	149,302	642,059
Transportation Benefit District - 170			51,216	51,216			-	51,216	51,216
Water/Wastewater Operating - 410	2,137,987	12,671,900	13,071,100	399,200	13,220,200	13,169,226	50,974	(98,126)	2,039,861
Sanitation -490	63,013	3,970,000	4,023,663	53,663	3,994,500	4,178,472	(183,972)	(154,809)	(91,796)
Stormwater -493	307,703	820,000	907,820	87,820	1,022,400	781,898	240,502	125,922	433,625
Airport - 495	86,414	27,000	26,934	(66)	22,100	25,734	(3,634)	1,200	87,614
Ambulance - 498	260,378	2,596,700	2,317,432	(279,268)	2,605,900	2,418,850	187,050	(101,418)	158,960
Central Svc - 517	283,223	530,400	534,028	3,628	544,000	544,965	(965)	(10,937)	272,286
Equipment Rental -519	482,833	2,775,700	3,154,197	378,497	2,347,900	2,308,030	39,870	846,167	1,329,000
Build Maint -528	1,087,006	2,703,600	2,757,702	54,102	3,424,400	3,026,104	398,296	(268,402)	818,604
Total Other Operating/Enterprise	6,238,826	28,875,400	30,144,616	1,269,216	29,897,500	29,037,605	859,895	1,107,011	7,345,837

CITY OF MOSES LAKE
2017 Actual vs. Budget Variance

	1/1/2017 Actual Begin. Fund Bal	2017 Budget- Amended Revenues	2017 YTD Actual Revenues	2017 Revenue Variance	2017 Amended Budget	2017 YTD Actual Expenditure	2017 Expend Variance	2017 (Use) Gain of Fund Balance	12/31/2017 Ending Fund Balance
Capital Improvement									
Street Repair/reconst -119	209,523	1,190,000	1,643,764	453,764	1,530,000	1,316,624	213,376	327,140	536,663
Parks & Recreation Improvement-314	105,768	-	-	-	-	-	-	-	105,768
Park Mitigation Capital Proj-315	322,474	-	90,890	90,890	-	-	-	90,890	413,364
Water Rights - 471	1,656,798	50,000	-	(50,000)	800,000	-	800,000	-	1,656,798
Water/Sewer Construction-477	3,893,186	2,500,000	4,650,000	2,150,000	3,680,000	2,120,404	1,559,596	2,529,596	6,422,782
Total Capital Improvement	6,187,749	3,740,000	6,384,654	2,644,654	6,010,000	3,437,028	2,572,972	2,947,626	9,135,375
Risk Mgmt/Employee Benefit Reserves									
Unemployment Compensation - 501	84,459	-	779	779	36,500	28,388	8,112	(27,609)	56,850
Risk Management -503	747,179	423,100	428,628	5,528	515,000	524,076	(9,076)	(95,448)	651,731
Firemen's Relief & Pension - 611	330,370	28,000	34,191	6,191	22,000	21,347	653	12,844	343,214
Total Employee Benefit Reserves	1,162,008	451,100	463,598	12,498	573,500	573,811	(311)	(110,213)	1,051,795
Debt Service									
Equip Leases-275	482	-	-	-	-	482	(482)	(482)	-
GOB 2006-281	-	-	-	-	-	-	-	-	-
GOB 2016 Refunding-286	184,755	235,600	235,600	-	235,600	235,889	(289)	(289)	184,466
Water-Sewer 2011 Bond-450	7,381	564,800	564,800	-	564,800	564,475	325	325	7,706
Bond Reserve-2011 451	567,600	-	-	-	-	-	-	-	567,600
Water-Sewer 2004 Bond-452	7,894	672,800	672,800	-	672,800	672,350	450	450	8,344
Water-Sewer 2004 Bond Reserve-453	701,500	-	-	-	-	-	-	-	701,500
Water-Sewer Leases-483	-	-	-	-	-	-	-	-	-
PWTF W/S Debt Serv - 485	19,132	579,000	579,000	-	579,000	578,382	618	618	19,750
GOB 2006 Redemption Parks - 486	-	-	-	-	-	-	-	-	-
2015 GO Bond Redempt- 487	7,341	47,200	47,200	-	47,100	47,178	(78)	22	7,363
Total Debt Service	1,496,085	2,099,400	2,099,400	-	2,099,300	2,098,756	544	644	1,496,729
Total City Budget	18,762,028	56,222,800	61,997,899	5,775,099	61,548,600	57,898,272	3,650,328	4,099,627	22,861,655