

MEMORANDUM

August 14, 2018

To: John Williams, City Manager
From: Cindy Jensen, Finance Director
Subject: 2018 2nd Quarter Budget Revenue and Expenditure Report

I am pleased to submit the City of Moses Lake's 2018 second quarter actual results compared to budgeted revenue and expenditure report for all city funds. Beginning Fund 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 fall.

Overall, the City budget is performing as expected through the second quarter of 2018. At the end of the second quarter 2018, we are seeing typical variances tied to position vacancies and the timing of annual dues/assessments. Some of the operational activity that was slower in the first quarter because of the winter months have picked up in the summer. Capital projects are still underspent because of long lead-in times that are typical of this activity.

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**
- **Exhibit I—Fund Detail that supports the Summaries**

City-Wide Overview

Revenue Comparison (Budget vs. Actual--50% of year)

| | 2017 | 2018 | | Percent Rec'd |
|----------------------------|----------------------|----------------------|----------------------|------------------|
| | Actual | Amended Budget | Actual | |
| General Fund | \$ 11,136,812 | \$ 21,995,470 | \$ 11,844,902 | 53.9% |
| Operating/Enterprise Funds | 13,735,662 | 30,344,100 | 15,501,089 | 51.1% |
| Capital Improvement Funds | 2,887,913 | 6,470,000 | 2,783,209 | 43.0% |
| Risk Mgmt/Employee Benefit | 260,970 | 558,600 | 318,121 | 56.9% |
| Debt Service Funds | 1,496,451 | 2,261,750 | 1,636,661 | 72.4% |
| Total City Revenues | \$ 29,517,808 | \$ 61,629,920 | \$ 32,083,982 | 52.1% |

Expenditure Comparison (Budget vs. Actual--50% of year)

| | 2017 | 2018 | | Percent Spent |
|--------------------------------|----------------------|----------------------|----------------------|------------------|
| | Actual | Amended Budget | Actual | |
| General Fund | \$ 11,852,875 | \$ 23,838,199 | \$ 12,133,359 | 50.9% |
| Operating/Enterprise Funds | 13,216,824 | 33,084,008 | 14,492,165 | 43.8% |
| Capital Improvement Funds | 834,419 | 7,460,000 | 938,363 | 12.6% |
| Risk Mgmt/Employee Benefit | 510,009 | 628,500 | 535,222 | 85.2% |
| Debt Service Funds | 808,968 | 2,269,650 | 575,573 | 25.4% |
| Total City Expenditures | \$ 27,223,095 | \$ 67,280,357 | \$ 28,674,682 | 42.6% |

General Fund Revenue Analysis

General Fund Revenues As of June 30, 2018 - 50% of year

| | 2017 | | 2018 | | 17 vs 18 |
|------------------------------------|----------------------|----------------------|----------------------|---------------|----------------|
| | Actual | Amended Budget | Actual | Percent Rec'd | Percent Change |
| 310 Taxes | | | | | |
| Property Tax | \$ 3,682,374 | \$ 6,535,000 | \$ 3,780,052 | 57.8% | 2.7% |
| Sales Tax | 3,126,740 | 6,000,000 | 3,173,186 | 52.9% | 1.5% |
| Utility Tax | 1,796,953 | 3,507,000 | 1,802,986 | 51.4% | 0.3% |
| Gambling Tax | 154,832 | 252,000 | 152,856 | 60.7% | -1.3% |
| Other Taxes | 40,382 | 76,000 | 47,629 | 62.7% | 17.9% |
| REET Allocation | 28,128 | - | - | | |
| Subtotal-Taxes | 8,829,409 | 16,370,000 | 8,956,709 | 54.7% | 1.4% |
| 320 Licenses & Permits | 362,683 | 611,000 | 394,989 | 64.6% | 8.9% |
| 330 Intergovernmental Revenues | 164,300 | 402,000 | 220,524 | 54.9% | 34.2% |
| 340 Charges for Goods & Services | 1,436,594 | 3,172,370 | 1,612,865 | 50.8% | 12.3% |
| 350 Fines and Penalties | 123,688 | 616,000 | 355,011 | 57.6% | 187.0% |
| 360 Miscellaneous Revenues | 219,656 | 324,100 | 304,805 | 94.0% | 38.8% |
| 390 Other Financing Resources | 482 | 500,000 | - | 0.0% | |
| Total General Fund Revenues | \$ 11,136,812 | \$ 21,995,470 | \$ 11,844,903 | 53.9% | 6.4% |

Property Tax – The first half of the Property Tax assessment is due to the Grant County Treasurer by April 30, and the second half is due October 31. The budget was set based on assumptions of new construction and collection rates, and then discounted because of the potential for a large taxpayer to protest their assessed value. At this point in time we have no indication that property taxes would not come in as anticipated.

Sales Tax – This major revenue source ended 2017 13.3% ahead of 2016 actual, and was conservatively set well below the 2017 actual assuming some of the construction that caused the large increase will taper off. Through the 2nd quarter, sales tax was up 1.5% over the prior year, which puts it well ahead of this year's budget estimate.

Utility Tax – This revenue source experiences fluctuations either from rate adjustments or fluctuations in usage. Second quarter results are relatively flat compared to the prior year. Rate increases were offset by a reduction in Electric and Natural Gas usage (since the 2017 winter was more severe than 2018), along with the continuing downward trend in telephone utility taxes.

Gambling Taxes—This revenue stream is historically higher in the first half of the year. It should be noted that Council reduced the card game tax rate over the next five years, so this is expected to trend below the prior year actual.

Licenses and Permits – This revenue is generated by the development community, and is difficult to budget because it is volatile by nature. 2018 2nd quarter results are exceeding the budget estimate, and trending above 2017 actual results. This trend is a positive indicator of future construction-related sales tax.

Intergovernmental Revenue – The major component of intergovernmental revenue is State-shared revenue. In mid-2017, the State Legislature restored the Liquor Excise Tax distribution that was greatly reduced in 2014, which is why this revenue is well ahead of the 2017 second quarter, but on target to meet or slightly exceed the 2018 budget.

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

This revenue source is just above the 50% mark through half the year.

Fines and Penalties consist almost entirely of fines generated by the red-light camera program. 2017 actual was low in the second quarter, because 2 of the 4 cameras were not working. The 2018 budget was amended to include a partial year collection of fines from the new cameras authorized by Council, although they have not yet been fully installed.

Miscellaneous Revenues include interest earnings on investments and facility rentals. This category is exceeding budget and prior year actual primarily because of an improvement in the interest rate environment, along with a higher balance available for investing. Interest is recorded in General Fund throughout the year and is allocated out to applicable funds at year-end, so this is ahead of budget now but will end the year close to the budget estimate.

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. As this is a contingency, we don't anticipate accessing this revenue unless it is needed at year-end.

Summary --Overall, the second quarter 2018 General Fund revenue came in at \$11,844,903 which is 53.9% of the total year budget. It is above the 50% mark primarily due to the conservative nature of the budget estimates. Total revenue grew by \$708,091 or 6.4% over the second quarter 2017 actual of \$11,136,812. This growth was spread among several categories.

General Fund Expenditure Analysis

General Fund Expenditures As of June 30, 2018 - 50% of Year

| | 2017 | 2018 | | 17 vs 18 |
|--|----------------------|----------------------|----------------------|---------------|
| | Actual | Amended Budget | Actual | Percent Spent |
| | | | | Change |
| Legislative | \$ 209,495 | \$ 409,852 | \$ 208,791 | 50.9% |
| Executive | 417,038 | 965,296 | 464,759 | 48.1% |
| Finance | 511,273 | 1,072,190 | 507,144 | 47.3% |
| Community Development | 656,156 | 1,373,741 | 621,964 | 45.3% |
| Legal | 83,652 | 187,500 | 49,991 | 26.7% |
| Misc. Services | 1,651,800 | 2,443,190 | 1,720,619 | 70.4% |
| Library | 67,529 | 122,600 | 65,813 | 53.7% |
| Engineering | 909,790 | 1,828,798 | 868,801 | 47.5% |
| Parks & Recreation | 2,422,835 | 5,341,572 | 2,563,267 | 48.0% |
| Police | 3,020,103 | 6,686,337 | 3,284,432 | 49.1% |
| Fire | 1,903,204 | 3,407,123 | 1,777,778 | 52.2% |
| Total General Fund Expenditures | \$ 11,852,875 | \$ 23,838,199 | \$ 12,133,359 | 50.9% |

In total, General Fund Expenditures for the second quarter are 0.9% above the 50% mark, and are up by 2.4% compared to the prior year. This increase consists primarily of the 2018 COLA adjustment for salaries.

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 major component in the Miscellaneous Services budget is the General Fund transfers to Streets and Debt Service funds. The transfers are accelerated in the 1st half of the year to Streets has sufficient funding for summer maintenance efforts and debt service funds have adequate balances to make payments when due.

The Police budget includes the contract payments to Redflex. Through 6 months we have paid Redflex \$153,703 and have collected \$330,350 in ticket revenue, netting \$176,647 in the first half of 2018. It should be noted that these numbers reflect the "status quo" since the new lights authorized by Council at the beginning of 2018 have not yet been installed and activated.

Fire has purchased much of their equipment in the first half of the year, which pushed them slightly over the 50% mark. Their overtime was close to the 50% mark through June.

Other Funds Analysis

Other Funds Revenues and Expenditures

As of June 30, 2018 - 50% of Year

| | 2017 | 2018 | | 17 vs 18 | |
|------------------------------|---------------------|----------------------|----------------------|---------------|----------------|
| | Actual | Amended Budget | Actual | Percent Rec'd | Percent Change |
| Revenues | | | | | |
| Operating/Enterprise Funds | \$ 13,735,662 | \$ 30,344,100 | \$ 15,501,089 | 51.1% | 12.9% |
| Capital Improvement Funds | 2,887,913 | 6,470,000 | 2,783,209 | 43.0% | -3.6% |
| Risk Mgmt/Employee Benefit | 260,970 | 558,600 | 318,121 | 56.9% | 21.9% |
| Debt Service Funds | 1,496,451 | 2,261,750 | 1,636,661 | 72.4% | 9.4% |
| Subtotal-Revenue | \$18,380,996 | \$ 39,634,450 | \$ 20,239,080 | 51.1% | 10.1% |
| Expenditures | | | | | |
| Operating/Enterprise Funds | \$ 13,216,824 | \$ 33,084,008 | \$ 14,492,165 | 43.8% | 9.6% |
| Capital Improvement Funds | 834,419 | 7,460,000 | 938,363 | 12.6% | 12.5% |
| Risk Mgmt/Employee Benefit | 510,009 | 628,500 | 535,222 | 85.2% | 4.9% |
| Debt Service Funds | 808,968 | 2,269,650 | 575,573 | 25.4% | -28.9% |
| Subtotal-Expenditures | \$15,370,220 | \$ 43,442,158 | \$ 16,541,323 | 38.1% | 7.6% |

Second quarter 2018 results generally performed as expected. Variances in capital funds are related to timing of major projects, as well as capital components in operating funds (such as Building Maintenance capital projects). Debt Service funds primarily only have interest payments due in the first half of the year—principal payments are typically scheduled for later in the year so the fund can build up the necessary balance. (The exception is Public Works Trust Fund Loans that are due by June 30.) Property and liability insurance premiums are due at the first of the year, so the Risk Management fund is almost 92% spent already.

The Solid Waste Fund ended 2017 with a negative fund balance of about \$92,000. Revenue is coming in as expected (i.e. 50.8%), and expenditures are below 50% primarily because interfund loans are due later in the year and the June hauling bill was paid in July so this fund ended the second quarter with a balance of about \$256,000. (It should be noted that the monthly hauling bill runs about \$225,000.) The Cost of Service Study is about completed, and will be a topic of Council discussion in the near future.

The Ambulance Fund revenue is below 50% primarily because the budgeted grant revenue has not been received, coupled with the lag time in the billing process. Expenditures were also running below budget because of the timing of interfund loan repayments and capital outlay. At the end of the 2nd quarter, the Ambulance Fund was virtually breaking even.

Therefore, it looks like the policy changes made for these two funds for the 2018 budget is working to at least cover current operating costs, although repaying the interfund loans and rebuilding adequate reserve levels will continue to stress these operations. We will continue to monitor both of these funds.

Overall, second quarter results are performing as expected. Most variances from the 50% mark are related to timing. Stated in a different way, there are no “red flags” in the second quarter operating results that I feel would require operating modifications. In the first half of the year, \$3.4 million was added to citywide fund balances, and all funds had positive fund balances at June 30, 2018. It should be noted that even though the report shows that General Fund used \$288,457 of beginning balance through the first 6 months, if the transfers out were done ratably throughout the year General Fund expenditures would have been less by about \$500,000 which would have resulted in a gain of fund balance of about \$200,000. General Fund is about breaking even through the first half of 2018.

CITY OF MOSES LAKE
2018 Actual vs. Budget Variance
 2nd Quarter 2018

50% of year completed

| | 1/1/2018 Actual Begin. Fund Bal | 2018 Budget- Amended Revenues | 2018 YTD Actual Revenues | % Received | 2018 Amended Budget | 2018 YTD Actual Expenditure | % Expended | 2018 (Use) Gain of Fund Balance | 6/30/2018 Ending Fund Balance |
|---|---------------------------------------|-------------------------------------|--------------------------------|---------------|---------------------------|-----------------------------------|---------------|---------------------------------------|-------------------------------------|
| General Fund | \$ 3,831,919 | \$ 21,995,470 | \$ 11,844,902 | 53.9% | 23,838,199 | 12,133,359 | 50.9% | \$ (288,457) | \$ 3,543,462 |
| Legislative | | | | | \$ 409,852 | \$ 208,791 | 50.9% | | |
| Executive | | | | | 965,296 | 464,759 | 48.1% | | |
| Finance | | | | | 1,072,190 | 507,144 | 47.3% | | |
| Community Development | | | | | 1,373,741 | 621,964 | 45.3% | | |
| Legal | | | | | 187,500 | 49,991 | 26.7% | | |
| Misc. Services | | | | | 2,443,190 | 1,720,619 | 70.4% | | |
| Library | | | | | 122,600 | 65,813 | 53.7% | | |
| Engineering | | | | | 1,828,798 | 868,801 | 47.5% | | |
| Parks & Recreation | | | | | 5,341,572 | 2,563,267 | 48.0% | | |
| Police | | | | | 6,686,337 | 3,284,432 | 49.1% | | |
| Fire | | | | | 3,407,123 | 1,777,778 | 52.2% | | |
| Total General Fund | \$ 3,831,919 | \$ 21,995,470 | \$ 11,844,902 | 53.9% | 23,838,199 | 12,133,359 | 50.9% | \$ (288,457) | \$ 3,543,462 |
| Other Operating/Enterprise | | | | | | | | | |
| Tourism Activities -102 | 976,302 | 565,000 | 256,700 | 45.4% | 638,200 | 206,249 | 32.3% | 50,451 | 1,026,753 |
| Grants & Donations -103 | 531,142 | 344,492 | 311,195 | 90.3% | 151,100 | 89,179 | 59.0% | 222,016 | 753,158 |
| Paths & Trails - 114 | 96,964 | 2,000 | 1,121 | 56.1% | 31,000 | - | 0.0% | 1,121 | 98,085 |
| Streets - 116 | 642,059 | 1,993,688 | 1,295,341 | 65.0% | 2,412,718 | 1,099,406 | 45.6% | 195,935 | 837,994 |
| Transportation Benefit District - 170 | 51,216 | 940,000 | 257,551 | 27.4% | 900,000 | - | 0.0% | 257,551 | 308,767 |
| Water/Wastewater Operating - 410 | 2,039,861 | 12,275,900 | 6,007,749 | 48.9% | 12,904,729 | 7,180,606 | 55.6% | (1,172,857) | 867,004 |
| Sanitation -490 | (91,796) | 4,340,000 | 2,205,064 | 50.8% | 4,364,243 | 1,857,484 | 42.6% | 347,580 | 255,784 |
| Stormwater - 493 | 433,625 | 840,000 | 449,192 | 53.5% | 1,203,016 | 483,143 | 40.2% | (33,951) | 399,674 |
| Airport - 495 | 87,614 | 27,000 | 26,524 | 98.2% | 23,400 | 11,316 | 48.4% | 15,208 | 102,822 |
| Ambulance - 498 | 158,960 | 2,819,610 | 1,248,257 | 44.3% | 2,866,099 | 1,259,575 | 43.9% | (11,318) | 147,642 |
| Central Svc - 517 | 272,286 | 545,610 | 297,800 | 54.6% | 652,092 | 333,308 | 51.1% | (35,508) | 236,778 |
| Equipment Rental -519 | 1,329,000 | 2,513,200 | 1,431,098 | 56.9% | 2,966,007 | 1,357,643 | 45.8% | 73,455 | 1,402,455 |
| Build Maint -528 | 818,604 | 3,137,600 | 1,713,497 | 54.6% | 3,971,404 | 614,256 | 15.5% | 1,099,241 | 1,917,845 |
| Total Other Operating/Enterprise | 7,345,837 | 30,344,100 | 15,501,089 | 51.1% | 33,084,008 | 14,492,165 | 43.8% | 1,008,924 | 8,354,761 |

CITY OF MOSES LAKE
2018 Actual vs. Budget Variance
 2nd Quarter 2018

50% of year completed

| | 1/1/2018 Actual Begin. Fund Bal | 2018 Budget- Amended Revenues | 2018 YTD Actual Revenues | % Received | 2018 Amended Budget | 2018 YTD Actual Expenditure | % Expended | 2018 (Use) Gain of Fund Balance | 6/30/2018 Ending Fund Balance |
|--|---------------------------------------|-------------------------------------|--------------------------------|---------------|---------------------------|-----------------------------------|---------------|---------------------------------------|-------------------------------------|
| Capital Improvement | | | | | | | | | |
| Street Repair/reconst -119 | 536,663 | 2,780,000 | 496,219 | 17.8% | 2,980,000 | 623,076 | 20.9% | (126,857) | 409,806 |
| Parks & Recreation Improvement-314 | 105,768 | 890,000 | - | 0.0% | 600,000 | 8,937 | 1.5% | (8,937) | 96,831 |
| Park Mitigation Capital Proj-315 | 413,364 | - | 97,250 | | - | - | - | 97,250 | 510,614 |
| Water Rights - 471 | 1,656,798 | - | 89,740 | | - | - | - | 89,740 | 1,746,538 |
| Water/Sewer Construction-477 | 6,422,782 | 2,800,000 | 2,100,000 | 75.0% | 3,880,000 | 306,350 | 7.9% | 1,793,650 | 8,216,432 |
| Total Capital Improvement | 9,135,375 | 6,470,000 | 2,783,209 | 43.0% | 7,460,000 | 938,363 | 12.6% | 1,844,846 | 10,980,221 |
| Risk Mgmt/Employee Benefit Reserves | | | | | | | | | |
| Unemployment Compensation - 501 | 56,850 | - | - | | 41,500 | 23,518 | 56.7% | (23,518) | 33,332 |
| Risk Management -503 | 651,731 | 528,600 | 288,330 | 54.5% | 545,000 | 500,760 | 91.9% | (212,430) | 439,301 |
| Firemen's Relief & Pension - 611 | 343,214 | 30,000 | 29,791 | 99.3% | 42,000 | 10,944 | 26.1% | 18,847 | 362,061 |
| Total Employee Benefit Reserves | 1,051,795 | 558,600 | 318,121 | 56.9% | 628,500 | 535,222 | 85.2% | (217,101) | 834,694 |
| Debt Service | | | | | | | | | |
| Equip Leases-275 | - | - | - | | - | - | - | - | - |
| GOB 2006-281 | - | - | - | | - | - | - | - | - |
| GOB 2016 Refunding-286 | 184,466 | 377,300 | 323,401 | 85.7% | 383,500 | - | 0.0% | 323,401 | 507,867 |
| Water-Sewer 2011 Bond-450 | 7,706 | 562,850 | 307,010 | 54.5% | 563,250 | - | 0.0% | 307,010 | 314,716 |
| Bond Reserve-2011 451 | 567,600 | - | - | | - | - | - | - | 567,600 |
| Water-Sewer 2004 Bond-452 | 8,344 | 670,000 | 365,450 | 54.5% | 671,400 | - | 0.0% | 365,450 | 373,794 |
| Water-Sewer 2004 Bond Reserve-453 | 701,500 | - | - | | - | - | - | - | 701,500 |
| Water-Sewer Leases-483 | - | - | - | | - | - | - | - | - |
| PWTF W/S Debt Serv - 485 | 19,750 | 576,000 | 576,000 | 100.0% | 576,000 | 575,573 | 99.9% | 427 | 20,177 |
| GOB 2006 Redemption Parks - 486 | - | - | - | | - | - | - | - | - |
| 2015 GO Bond Redempt- 487 | 7,363 | 75,600 | 64,800 | 85.7% | 75,500 | - | 0.0% | 64,800 | 72,163 |
| Total Debt Service | 1,496,729 | 2,261,750 | 1,636,661 | 72.4% | 2,269,650 | 575,573 | 25.4% | 1,061,088 | 2,557,817 |
| Total City Budget | \$ 22,861,655 | \$ 61,629,920 | \$ 32,083,982 | 52.1% | \$67,280,357 | \$ 28,674,682 | 42.6% | \$ 3,409,300 | \$26,270,955 |