



Agenda Bill No. 17-124

TO: Mayor Guier and City Council Members

FROM: Richard A. Gould, City Administrator

MEETING DATE: November 6, 2017

SUBJECT: Motion to approve the 2017 Third Quarter financial reports

ATTACHMENTS: 2017 Third Quarter Financial Reports, which include a cash flow report, an investment report and the Third Quarter Summary Financial Report. Also included is a narrative for the quarterly report.

Previous Council Review Date:

Summary: City Finance Staff has reviewed the third quarter financial reports. The Mayor has as well. Department heads will be meeting with the City Administrator this coming week to go over their areas of management and to identify areas to monitor over the final two months. The Finance Committee discussed the 2017 third quarter financial reports at the meeting on the 25th of October. This year cash flow shows an increase of \$403K which is primarily caused by the repayment of Interlocal funds transferred to the City of Sumner in 2012 (\$579K). This was for the Valentine Road Capital Project and is now in the LID6 Reserve Fund. If we remove this, then the impact on cash position through three quarters is \$173K down over the first 9 months. However, remember that this is due to the purchase of the Baguio Property (\$492K) and if you net this out then the cash flow would have increased by \$319K.

Recommendation/Action: Staff recommends that the City Council approve the 2017 third quarter financial reports.

Motion for Consideration: I move to approve the 2017 Third Quarter Financial Reports as reviewed by the Mayor and City staff.

Budget Impact: N/A

Alternatives: N/A

2017 Proposed Preliminary Budget Synopsis Update

The proposed preliminary budget is the earliest (rough) draft of the 2017 Budget. Staff presents this budget with some input from the City Council but with oversight from the Mayor. The goal is to balance the funds, though some funds may not be balanced due to projects which include grant matching funds that are included in the fund balance brought forward or as is the case with the General Fund projects budgeted in 2016 but not fully paid for until 2017. An example of this would be the Valentine Ave Rd Project Fund (308).

The budget process includes three iterations of the budget, this proposed preliminary budget, the preliminary budget (November) and the *final* budget (December). During this process staff will be using the 2016 projected yearend financial reports to calculate the starting fund balances in 2017. The methodology used to prepare this iteration of the 2017 budget are based upon: (1) conservatism for projecting 2017 revenues, (2) prior year trends (looking at 2015 and 2016), (3) economic indicators (CPI and other related trends), and (4) staff/intergovernmental source data (such as AWC Salary Survey and projected labor contract negotiation increases along with range and step changes related to experience).

The General Fund is projected to have more expenditures than revenues (\$86K) in 2017 due to two factors: (1) an estimated reduction in most revenues of 2% (factored into the projections for the tax revenues). This is due primarily to a possible recession beginning later in 2017 though this is still only speculation, and (2) Two significant projects; the City Center needs and assessment study and the City Hall generator project, “spilling over” into 2017. These two projects total about \$375,000 and were budgeted for 2016 completion. However these projects are now known to reach completion in 2017. The amount of the cost to be budgeted in 2017 is estimated to be \$240,000. This is an increase over initial projections of \$190,000. This contributes significantly to the rise in expenditures exceeding revenues in 2017. However, the initial projected 2016 ending Fund balance of \$2.135M has now been revised to \$2,327M an increase of \$192K. We are still waiting for the 2017 liability insurance costs and health benefit costs for the union employees (we have used a place holder of a 5% increase). We have also accounted for a possible increase due to the uniform negotiations as the current contract (CBA) expires on June 30, 2017. We should have the benefit numbers by the time we have prepared the preliminary budget in early November.

The Street Fund (101) is projected to see a \$140K decrease in 2017 due to conservative real estate excise tax (REET) estimates along with an increase in road maintenance. This could be offset by the funding of the Transportation Benefits District (TBD) with licensing, which would provide \$50K in 2017 and then approximately \$100K in 2018.

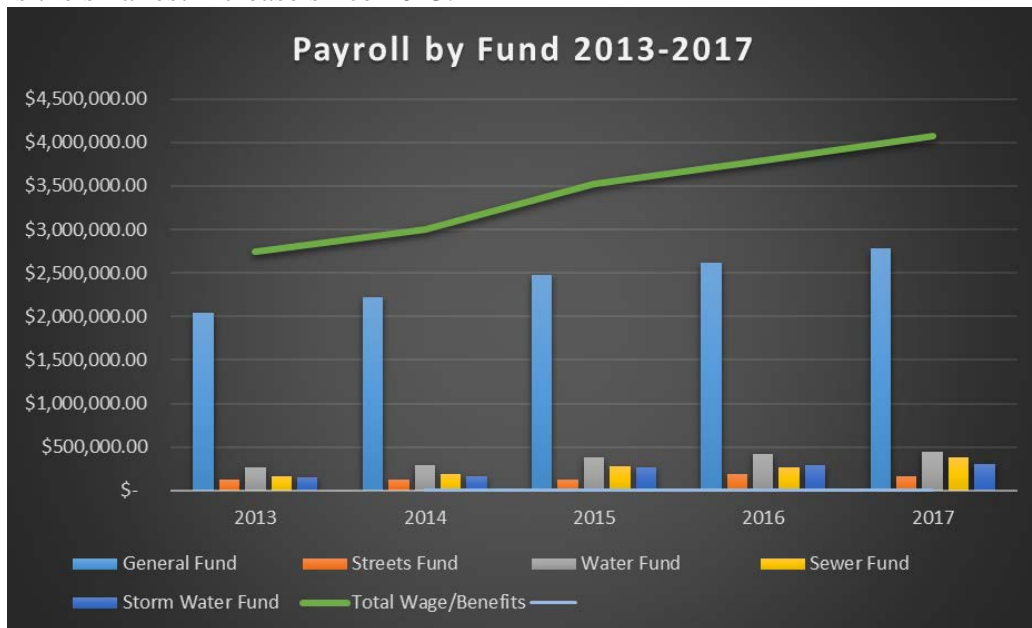
The Municipal Capital Improvement Fund (300) will be transferring \$100K to help offset the cost of two projects, the Civic Center needs and assessment study along with the generator project for the City’s Civic Center. This is appropriate as the fund was first established for funding municipal capital improvement projects. This causes the fund to see a \$96.5K decrease in 2017.

The Roads Capital Improvement Fund (301) experiences greater activity due to the proposed Milwaukee Street upgrades (\$1M) and TIB-preservation of roads (\$482K) that will be grant driven. The Valentine Road Project Fund (308) is over expended by \$21K due to projected expenses late in 2016 not getting settled until 2017. The Stewart Capital Fund (310) will be down in 2017 approximately \$27,450 due to final expenses on the project. The Fire Capital Improvement Fund (333) shows appropriation of \$30K for upgrades to fire hydrants. Some of this will be offset by the receipt of impact fees (approximately \$7,500).

The Water (401) fund projects expenditures to exceed revenues by \$30K in 2017. This is after an increase in average rates of \$15.73 per household/business. Jim Morgan and I have reduced the expenditures in this fund significantly. The Sewer Fund (402) rates are proposed to increase from \$63.25 to \$72.47 to cover current expenditures and the Stormwater Fund (409) projects its rates to increase from \$13.25 to \$16.50 in 2017 to cover annual expenditures.

The Water Capital Fund (406) projects a \$107K decrease due to the water meter project and other smaller projects being completed (the public works building and design for example). The Stormwater Facility Fund (410) also projects a significant loss in 2017 of \$79.5K due to the public works building and design along with other as of yet unidentified capital projects (\$100K).

Payroll costs will increase by 7.4% in 2017 over those of 2016. The increase is due to the cost of living, the projected police contract negotiations and individual range and step increases. The addition of a public works crew member and having a third sergeant for the entire year also play into this increase over 2016. This is the smallest increase since 2013.



The proposed preliminary budget for 2017 shows projected revenues to be \$18.2M and expenditures at \$18.6M for a \$449K decrease in the City’s cash position. Staff continues to review and research these numbers over the month of October to identify this decrease and report back to Council.

Included with this proposed preliminary budget are the year to date financial reports for 2016 (through September 30) and the 2015 budget and actual yearend numbers.

Richard A. Gould
 City Administrator

	2016 Projected End Balance	2017	2017	2017	
	Beginning Fund Balance	Revenue	Expense	End Fund Balance	Increase/(Decrease)
General Fund	\$ 2,327,233.10	\$ 4,749,685.56	\$ 4,835,723.79	\$ 2,241,194.87	\$ (86,038.23)
General Fund Equipment Reserve	\$ 10,575.71	\$ 120,150.00	\$ 67,000.00	\$ 63,725.71	\$ 53,150.00
General Fund Cumulative Reserve	\$ 382,249.49	\$ 1,500.00	\$ -	\$ 383,749.49	\$ 1,500.00
Street Fund	\$ 461,459.29	\$ 482,800.00	\$ 622,328.11	\$ 321,931.18	\$ (139,528.11)
Tourism Fund	\$ 140,853.49	\$ 13,225.00	\$ 17,500.00	\$ 136,578.49	\$ (4,275.00)
Municipal Capital Improvements Fund	\$ 438,050.01	\$ 3,500.00	\$ 100,000.00	\$ 341,550.01	\$ (96,500.00)
Road Capital Improvements	\$ 176,657.06	\$ 2,363,180.00	\$ 2,528,670.00	\$ 11,167.06	\$ (165,490.00)
Parks Capital Improvement Fund	\$ 120,467.42	\$ 42,800.00	\$ 29,300.00	\$ 133,967.42	\$ 13,500.00
Valentine Road Project Fund	\$ 250,682.84	\$ 1,528,599.40	\$ 1,550,000.00	\$ 229,282.24	\$ (21,400.60)
West Valley Highway Capital Imp	\$ 549.54	\$ 420,003.00	\$ 416,830.00	\$ 3,722.54	\$ 3,173.00
Stewart/Thornton Ave Rd Project	\$ 36,374.94	\$ 50,050.00	\$ 77,500.00	\$ 8,924.94	\$ (27,450.00)
Fire Capital Improvement	\$ 56,731.00	\$ 6,500.00	\$ 30,000.00	\$ 33,231.00	\$ (23,500.00)
Water Fund	\$ 281,310.67	\$ 1,443,086.58	\$ 1,473,142.21	\$ 251,255.04	\$ (30,055.63)
Sewer Fund	\$ (109,697.57)	\$ 2,313,719.58	\$ 2,191,102.44	\$ 12,919.57	\$ 122,617.14
Garbage Fund	\$ 286,637.33	\$ 21,000.00	\$ 20,000.00	\$ 287,637.33	\$ 1,000.00
Water Capital Improvement Fund	\$ 464,534.62	\$ 2,568,600.00	\$ 2,676,000.00	\$ 357,134.62	\$ (107,400.00)
Sewer Cumulative Fund	\$ 465,732.92	\$ 578,750.00	\$ 483,750.00	\$ 560,732.92	\$ 95,000.00
Stormwater Fund	\$ 744,044.43	\$ 915,647.50	\$ 865,850.19	\$ 793,841.74	\$ 49,797.31
Stormwater Facility Fund	\$ 338,902.01	\$ 132,500.00	\$ 212,000.00	\$ 259,402.01	\$ (79,500.00)
Pierce County Water Area Fund	\$ 199,763.37	\$ 50,200.00	\$ 33,000.00	\$ 216,963.37	\$ 17,200.00
Utilities Equipment Reserve Fund	\$ 466,379.83	\$ 172,500.00	\$ 200,000.00	\$ 438,879.83	\$ (27,500.00)
Customer Deposits Fund	\$ 5,160.00	\$ -	\$ -	\$ 5,160.00	\$ -
Developer Deposits Fund	\$ 69,235.78	\$ 17,900.00	\$ 18,743.25	\$ 68,392.53	\$ (843.25)
Pacific Court	\$ 61,294.60	\$ -	\$ -	\$ 61,294.60	\$ -
Algona Court Fund	\$ 16,093.13	\$ 199,870.00	\$ 196,350.00	\$ 19,613.13	\$ 3,520.00
	\$ 7,691,275.00	\$ 18,195,766.62	\$ 18,644,789.99	\$ 7,242,251.63	\$ (449,023.37)

Investment Schedule
LGIP Cash and Investment Balances
September 30, 2017

Instrument Type	Settlement Date	Investment Cost	Yield To Maturity	Maturity Date	Annualized Interest	Annualized Interest at LGIP rate (.4694%)
FNMA (Fannie Mae)	11/21/14	992,712	1.2430%	05/21/18	12,339.41	4,998.58
FICO STRIP PRN-3	01/15/15	598,038	0.9733%	11/30/17	5,820.50	3,011.29
FFCB-Fed Farm Credit	04/07/16	1,002,902	1.1230%	04/07/20	11,262.59	5,049.89
FFCB-Fed Farm Credit	08/16/16	1,002,378	1.4400%	08/16/21	14,434.24	5,047.25
FNMA (Fannie Mae)	09/07/16	1,002,737	1.1500%	08/23/19	11,531.48	5,049.06
FHLB-Fed Home Loan Bank	01/10/17	987,409	1.7703%	10/26/20	17,480.10	4,971.87
Certificates of Deposit		33,942				170.91
Sub Total		5,620,119			72,868.33	28,298.83

Average Maturity (days)				332		
Average Yield to Maturity			1.2966%			\$ 44,569.50
State Investment Pool		1,070,259	0.5035%	1		
Total Investments		6,690,378				

Note: Yield to Maturity for the State Investment Pool is a 12 month average.

Portfolio Diversification

<u>Instrument Type</u>	<u>Percentage</u>	<u>Amount</u>
Certificate of Deposit	1%	33,942.12
FFCB-Fed Farm Credit	15%	1,002,902.44
FNMA (Fannie Mae)	15%	992,712.00
FICO STRIP	9%	598,038.30
FFCB-Fed Farm Credit	15%	1,002,378.00
FNMA (Fannie Mae)	15%	1,002,737.22
FHLB-Fed Home Loan Bank	15%	987,409.00
State Investment Pool	16%	1,070,259.11
Total Investments	100%	6,690,378.19

Cash inBank	
General Account	1,457,358.26
Columbia Webstone	
Petty Cash	1,865.00
Columbia Court	48,813.61
Sweep Account	
Net Cash in Bank	1,508,036.87

Total Cash	8,198,415.06
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