

March 14, 2011

TO: Department Heads, Administrator, Mayor and Finance and Administration  
Committee, Council  
From: Rob Orton  
Subject: Finance Report January 2011

This analysis attempts to give readers a snapshot of three areas of interest: budget performance, major revenue sources and cash and investment holdings.

The City's overall budget performance in January is summarized in the following table:

<b>City of Snoqualmie</b>				
<b>Budget Performance</b>				
<b>2011</b>				
	Budget	Year-To-Date	%	% of Year
Fund Groups	2011	1/31/2011	Expended	Elapsed
<b>GENERAL FUNDS</b>	<b>11,147,773.00</b>	<b>716,036.66</b>	<b>6.4%</b>	
<b>SPECIAL REVENUE FUNDS</b>	<b>3,928,428.00</b>	<b>119,712.92</b>	<b>3.0%</b>	
<b>DEBT SERVICE FUNDS</b>	<b>3,690,845.00</b>	<b>-</b>	<b>0.0%</b>	
<b>CAPITAL PROJECTS FUNDS</b>	<b>9,988,927.00</b>	<b>601,321.26</b>	<b>6.0%</b>	
<b>ENTERPRISE FUNDS</b>	<b>9,577,397.00</b>	<b>289,385.06</b>	<b>3.0%</b>	
<b>INTERNAL SERVICE FUNDS</b>	<b>2,437,893.00</b>	<b>325,709.01</b>	<b>13.4%</b>	
<b>GRAND TOTALS:</b>	<b>40,771,263.00</b>	<b>2,052,164.91</b>	<b>5.0%</b>	<b>8.33%</b>

The budget figures, above, do not include beginning fund balances—strictly operating budgets. Nor are the general fund's three reserve accounts shown.

At the end of January, the reserve fund balances were \$2,978,000 (the contingency reserve, limited to \$.375/\$1000 of assessed value, needs to be adjusted from \$755,000 to \$702,000. This is fixed by a transfer from this reserve to the operating reserve and is planned in 2011).

The relationship of expenses to percent of the year elapsed is merely an indicator. Much of the city operating budget has level expenditures and is not subject to a great deal of variation. Overtime, employment of seasonal workers, prepayments and weather related trends in Water and Waste water utilities are examples of exceptions.

The "Internal Service Funds" funds are ahead of the expense trend in January. Lump sum payments for comprehensive insurance premiums in the Risk Management fund and tool acquisition in the Equipment Rental fund are the reasons.

As the major general fund and real estate excise taxes are of interest to many, the following table examines these:

<b>CITY OF SNOQUALMIE</b>					
<b>2010-2011 Analysis of Major Fund Revenue Sources</b>					
		Year-To-Date	Year-To-Date		
		1/31/2010	1/31/2011	\$ Change	% Change
Total General Fund Revenues		1,714,865.82	1,764,041.28	49,175.46	2.87%
Less: Beginning Fund Balance		(1,138,955.66)	(1,287,859.14)		
= Operating Revenue		575,910.16	476,182.14	(99,728.02)	-17.32%
Major Revenue Sources					
Property Taxes		24,210.69	7,847.29	(16,363.40)	-67.59%
Sales Taxes		146,369.85	143,571.70	(2,798.15)	-1.91%
B&O Taxes		39,401.52	29,330.21	(10,071.31)	-25.56%
Utility Taxes		192,630.67	228,613.11	35,982.44	18.68%
Total		402,612.73	409,362.31	6,749.58	1.68%
Other General Fund Revenues		173,297.43	66,819.83	(106,477.60)	-61.44%

### **Property Taxes**

There is nothing remarkable to report about property taxes. There are invariably uncollected cash balances accrued by the County that will filter to us throughout the fiscal period.

Obviously, the “banner” months for property taxes are May and November and follow the major collection periods for these assessments.

### **Sales taxes**



The above history includes criminal justice as well as “regular” sales tax and represents the month of November 2010 as there is a two month lag in reporting. The actual business tax base revenue is \$128,000 versus \$132,000 for the comparable period in 2010 (November 2009). This is a decline of 2.6%.

At 30% of the total, the construction sector continues to dominate tax receipts although it declined 40% between the two periods (from \$64,000 to \$38,000).

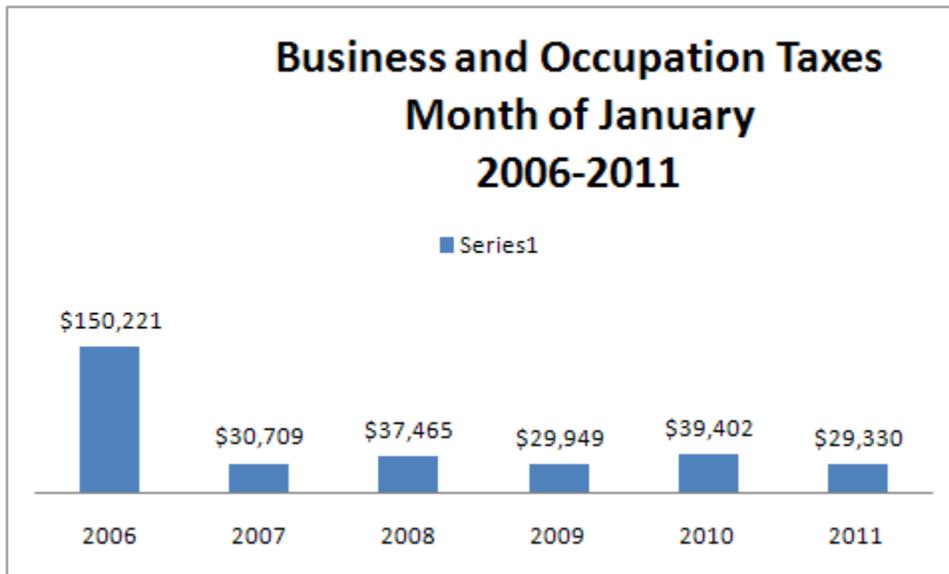
Taxes from firms categorized as new single family home construction fell to \$2,500 from \$9,600 last year.

True to most recent history, the PSE hydro plant construction project remains the single largest source of tax income---nearly 13% of receipts.

Encouraging news comes from Wholesale Trade ( resale of lumber, hardware, durable goods), Professional Services (largely computer systems), Information (wireless telephone) and Accommodations (food and lodging) which all showed improvement over 2009-10 although not enough to eclipse the overall decline.

Results may be attributable to a successful holiday season (Thanksgiving), general economic recovery or, in the case of construction, weather related trends.

### **Business and Occupation Taxes**



Business and Occupation (B and O) receipts---which in January 2011 are the 4<sup>th</sup> quarter of 2010-- fell off by \$10,000 between the two years. The graph above recounts January receipts over a six year period. Large receipts in 2006 may be an anomaly.

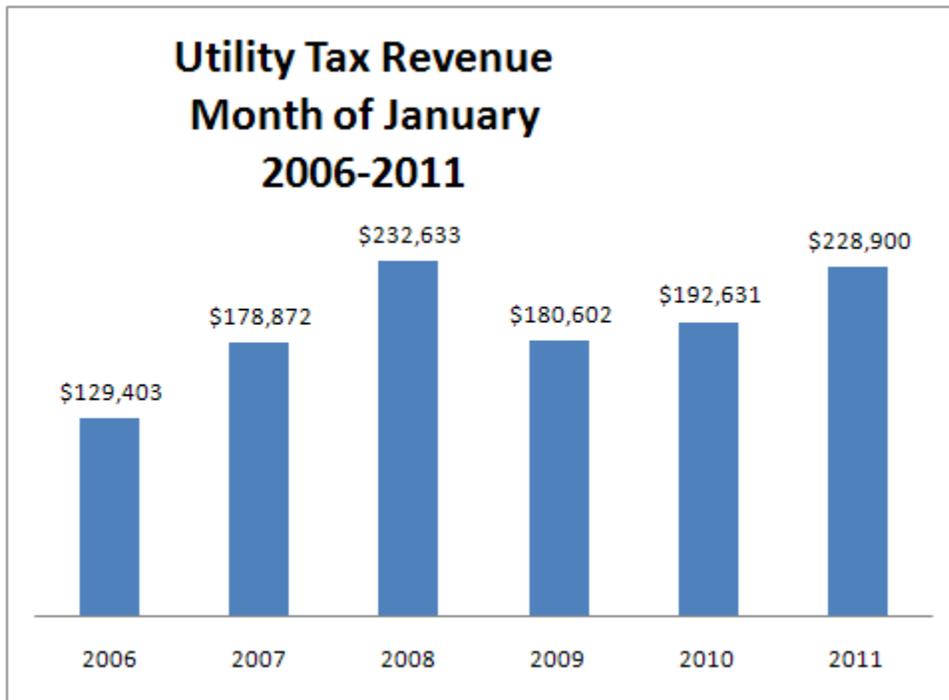
B and O tax analysis is handicapped as our financial information system was not designed to support complete accounting for it (only about 40 cities in Washington have a local B and O tax).

Our Information Technology department “carved out” a piece of the database that enabled us to observe business category changes on an annual basis (at year-end) but not quarterly.

This, we are left to speculate as to the reasons behind variations.

Taxable sales could be hurt by recession, closing firms, sales falling below the taxable thresholds (\$5,000) or businesses failing to file.

### **Utility tax revenue**



Utility taxes--- derived from a 6% tax on sales from city-owned utilities, state regulated utilities (gas, power, cable and telephone) and solid waste collection---show an increase of \$36,000 over the comparable period in 2010.

Cash received in January is normally 4<sup>th</sup> quarter 2010 collections, or the month of December, for those agencies reporting monthly.

The apparent increase is more related to timing of receipts than an identifiable trend. The exceptions are electricity and gas sales which rose about 1%, due it appears, to added accounts and cooler weather.

### **Real Estate Excise Taxes (REET)**



REET taxes, as with other January receipts, are attributed to the month previous and in December, are marked by the now well-known sales transactions between Quadrant, Highfield Homes, Ridgestone Builders and Centex. These, and another large block sale by Quadrant, amounted to \$41 million and account for nearly 75% of the revenue in January (an interesting side note is there is an occasional history of single large lot sales that appear in the REET data. One in 2008 was for \$26 million)

Removing the large sales from 2010 data reveals that 32 “normal” lots or properties were sold in December at an average price of \$444,000. This compares to December 2009 during which 33 properties were sold at an average of \$467,000. The price reduction is not unexpected.

#### Lodging Tax Receipts (Hotel/Motel Tax)



New to the report this month is a chart of lodging tax receipts. The month of January (November 2010) shows an increase of \$1,200 over last year and is positively related to the increase in retail sales seen in the accommodations and food services sector in general.

One may conclude that the 2010 holiday season was favorable—suggesting that companies have been effective in attracting “shoulder season” visitors to our area.

The last component of financial status is cash and investments. At the end of January, we stood as follows:

<b>City of Snoqualmie</b>									
<b>Cash &amp; Investment Report</b>									
<b>For the month ending January 31, 2011</b>									
<b>Checking Account - KeyBank</b>		\$	2,792,695						
<b>Checking Account - Bank of Amer</b>		\$	2,221,326						
<b>LGIP Account (0.23% Jan 11)</b>		\$	6,335,857						
<b>Investment Account</b>		\$	3,167,570						
		<b>\$</b>	<b>14,517,448</b>						

The City’s cash position improved by about \$623,000 since December end. Of course, this is a snapshot of the last day of the month and can change appreciably.

Our modest investment portfolio, composed of cash in State Treasurer’s account (LGIP) and some government agency securities (“investment account”), yielded slightly above 1%.

This return is buoyed by the agency investments as the LGIP Pool yielded only .23% in January—falling below the federal funds rate---the usual benchmark for the Treasurer.

The State pool is 60% invested in agency securities.

Not many alternatives exist. Treasury securities of comparable maturities to our expiring agency bonds have maturities two to three years out. Moderate term certificates of deposit (which have no secondary market) are not much better.

The City has recently moved “idle” cash from the two commercial banking accounts into the Treasurer’s pool which will slightly improve performance.

Of course, lackluster investment returns means lower interest cost on the borrowing side. This is good news for our upcoming sale of the 2011 infrastructure bonds.

The City is in a good financial position. If there is a caution at all it is that our revenue base is vulnerable to economic uncertainty and being helped along by some large, non-recurring tax events.

Please contact me if you have questions.

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Rob Orton