



15728 Main Street, Mill Creek, WA 98012

Administration 425-745-1891

Police 425-745-6175

All Other Departments 425-551-7254

DATE: October 18, 2018
TO: Mayor and Council
THROUGH: Bob Stowe, Interim City Manager
FROM: Peggy Lauerman, Director of Finance and Administration
SUBJECT: Financial Reports for the period ending September 30, 2018

Attached for your review is the City's budget status report as of September 30, 2018.

I am pleased to report that the results of citywide funds show a surplus of \$1,227,102 through the 7th quarter of the 2017-2018 biennium.

The General Fund's operating deficit of \$416,181 for this period is a timing difference as the City expects to collect \$3,683,000 in property tax and previously forecasted an operating surplus of \$574,000. The City is analyzing the forecast to determine the magnitude of additional budget amendments which may affect these anticipated results.

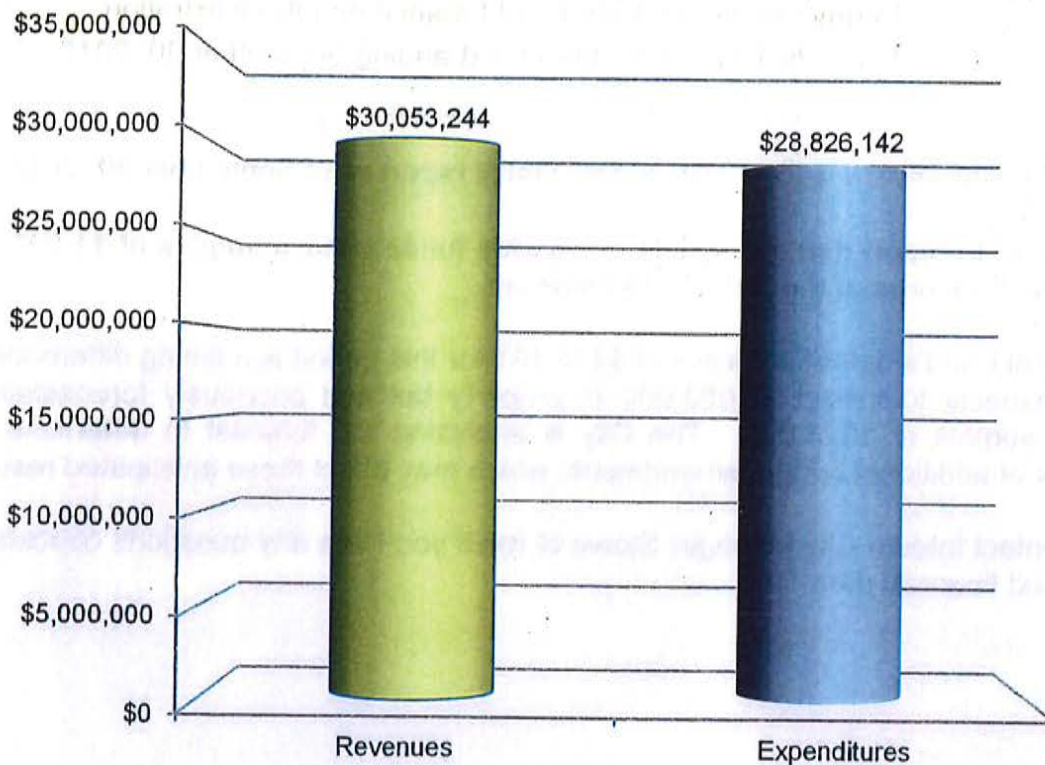
Please contact Interim City Manager Stowe or me if you have any questions concerning the attached financial data.

**City of Mill Creek
2017-2018 Budget Status Report
For the Quarter Ending, September 30, 2018
Executive Summary**



On September 30, 2018, the City concluded the seventh quarter of the 2017-2018 biennium. The budget period described in this report is 88% complete.

**Citywide Revenues vs Expenditures
as of September 30, 2018**



Notable Highlights

Property and EMS tax for the biennium have increased substantially over the previous biennium due to increased levy amounts for 2015, 2016 and 2017. The table below shows the levy percentages since 2015. As a result, the current biennium has had a substantial increase in revenue of approximately \$1,064,000 over the same period in the previous biennium.

	2015	2016	2017	2018
Regular Property Tax Levy	2.00%	3.00%	0.95% *	1.00%
EMS Tax Levy	12.29%	1.00%	31.00%	1.00%

*Limited by Implicit Price Deflator

Other impacts to 2017-2018 revenues vs same period in 2015-2016:

General Fund

- Sales tax \$ 1,110,945
- Passports \$ 356,955
- Fines & Penalties \$ 107,029
- Interest \$ 131,183
- Development Services \$ (243,830)
- REET transfer to GF \$ (160,000)

Other Funds

- REET \$(337,992)
- Park and Road Mitigation \$(1,464,722)
- Grants(CIP) Awards: \$ 1,826,000

City Wide Funds

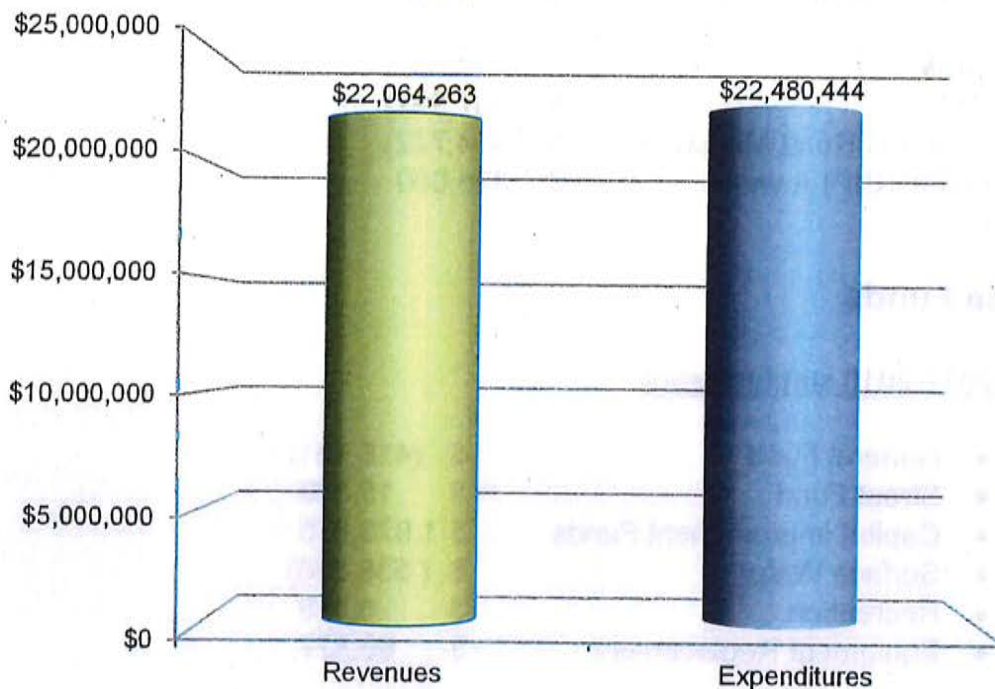
City wide 2017-2018 surplus/deficit

- General Fund \$ (416,181)
- Street Fund \$ 15,340
- Capital Improvement Funds \$ 1,973,655
- Surface Water \$ (538,838)
- Recreation \$ 6,718
- Equipment Replacement \$ 96,577

Budget vs Actual Figures		Inflow/Outflow	2017-18 Amended Budget	% of Budget
City Wide Total	Inflow	\$ 30,053,244	\$ 40,548,600	74.1%
	Outflow	\$ 28,826,142	\$ 42,170,952	68.4%
General Fund	Inflow	\$ 22,064,263	\$ 25,029,600	88.2%
	Outflow	\$ 22,480,444	\$ 25,029,600	89.8%
Street Fund	Inflow	\$ 889,831	\$ 1,016,446	87.5%
	Outflow	\$ 874,491	\$ 1,016,446	86.0%
Capital Improvement Funds	Inflow	\$ 4,051,491	\$ 11,298,032	35.9%
	Outflow	\$ 2,077,837	\$ 12,242,064	17.0%
Surface Water	Inflow	\$ 1,289,419	\$ 1,476,000	87.4%
	Outflow	\$ 1,828,257	\$ 1,248,735	146.4%
Recreation	Inflow	\$ 995,908	\$ 1,225,000	81.3%
	Outflow	\$ 989,190	\$ 1,225,000	80.8%
Equipment Replacement	Inflow	\$ 265,811	\$ -	0.0%
	Outflow	\$ 169,234	\$ -	0.0%

General Fund

General Fund Revenues vs Expenditures as of September 30, 2018



I. ECONOMIC INFORMATION

The Washington economy is expanding at a rapid pace. Recent employment and income data were revised higher since the June forecast. Washington's unemployment rate reached an all-time low in August. The series extends back to 1976. Seattle home prices continue to rise but growth may be slowing and recent housing construction has been below the June forecast. Washington exports are rising and manufacturing is growing. Seattle area consumer price inflation is well above the national average due to higher shelter cost inflation.

The September economic forecast for Washington State is generally higher than the forecast adopted in June. The State Economic and Revenue Forecast Council now expects Washington nonfarm payroll employment to grow 2.9% this year compared to 2.5% in the June forecast. It also expects employment growth to average 1.2% per year in 2019 through 2023, which is slightly stronger than the 1.1% per year expected in the June forecast.

In addition, the Council expects 43,800 housing units authorized by building permits this year, down from 45,400 in the June forecast. However, the Council also expects permits to average 42,800 in 2019 through 2023, up from 42,400 in the June forecast.

Finally, the Council expects the all-items Seattle CPI to rise 3.0% this year, down from 3.3% in the June forecast. Seattle area inflation is anticipated to average 2.2% per year in 2019 through 2023, down slightly from 2.3% in the June forecast.

II. GENERAL FUND - REVENUES

The General Fund's operating deficit as of September 30 was \$ (416,181). This is a temporary deficit as the City anticipates collecting nearly \$3,700,000 in property tax in Q4 2018. Revenue inflows totaled 88.2% of the biennial projection, while expenditure outflows amounted to 89.8%.

Sales tax, building/development services, passports and interest are contributing to this positive variance.

	Through 9/30/2018	% of Budget	2017-2018 Amended Budget
Revenues			
Property Tax-Regular	11,951,145	76.4%	15,634,356
Sales Tax	6,005,723	105.7%	5,683,550
Licenses & Permits	1,232,611	93.5%	1,318,250
Grants/Intergovernmental	708,432	92.4%	767,054
Charges for Services	1,486,084	137.7%	1,079,120
Fines	350,455	100.1%	350,000
Miscellaneous	329,814	173.6%	190,000
Transfers In	-	-	7,270
Total Resources	22,064,263	88.2%	25,029,600

The City has received \$5,016,130 in sales tax revenue exclusive of public safety and criminal justice sales tax for the first seven quarters of the biennium. Of this amount, tax related to retail trade has outpaced any of the other categories of sales tax with a total of \$2,013,710. Construction sales tax of \$1,054,401 follows retail trade sales tax.

Charges for services continue to outperform the budget which is largely driven by development services and passports.

Investment interest has outperformed expectations as a result of steadily climbing interest rates in the Local Government Pool. The City's net interest earning rate was 2.0612% compared to .5057% in December, 2016.

III. GENERAL FUND - EXPENDITURES

General Fund outflow as was \$22,480,444 or 89.8% of the biennium budget.

	Through 9/30/2018	% of Budget	2017-2018 Amended Budget
Expenditures			
Legislative	294,939	206.4%	142,897
City Manager	1,370,419	93.3%	1,468,647
Finance & Administration	1,225,738	85.8%	1,428,673
Information Technology	663,321	81.2%	817,375
Police	8,727,408	92.1%	9,475,826
Fire Services	6,653,651	88.0%	7,557,900
Non-Department	854,606	82.0%	1,041,850
Community Development	1,180,744	80.2%	1,472,014
Public Works	1,509,618	92.9%	1,624,418
Total Expenditures	22,480,444	89.8%	25,029,600

Projections for the remainder of the year are currently being re-analyzed as a result of the termination costs related to the City Manager. The City also anticipates requesting additional appropriations related to the impact of unwinding the consolidation of the equipment replacement fund with the CIP Fund.

IV. OTHER MAJOR FUNDS

REET

	Inflow/Outflow	2017-18 Budget	% of Budget
Inflow	\$ 3,190,956	\$ 1,520,000	209.9%
Outflow	\$ 33,194	\$ 3,046,032	1.1%

Tax collection from the sale of properties continues to perform well with revenue of \$2,257,142 or 150% collected. This is great news as we look at our CIP and future infrastructure needs.

An analysis of the Park Fund revealed amounts had been transferred to this fund from REET during the period 2000-2010. Statutes require money be returned if the original intent of the funding no longer exists. As a result, a transfer of \$641,000 (includes accumulated interest) was made back to the REET Fund in June.

Throughout the period 2011-2014, transfers totaling \$160,000 were made to the Equipment Replacement Fund (EQRF) from REET for the anticipated replacement of the MCSP turf. This type of expenditure does not qualify as rolling stock and therefore should

not have been transferred: This was corrected in June.

CIP

	Inflow/Outflow		2017-18 Budget		% of Budget
Inflow	\$	200,872	\$	582,032	34.5%
Outflow	\$	154,126	\$	1,016,032	15.2%

The CIP Fund has been revised from what was originally presented in the 2017-2018 biennial budget approved in November 2016. At the time the budget was presented, the CIP and the Equipment Replacement Fund (EQRF) were collapsed into one fund. The EQRF was originally set up by an ordinance and was not properly dissolved. In addition, the CIP is meant to track projects and not intended to account for capital assets considered rolling stock such as police cars, street sweepers, computers etc. These types of assets are commonly accounted for in an Internal Service Fund which is considered best practices.

A formal budget amendment will be proposed to correct the revenue and expenditures for these two funds.

PARKS

As mentioned above, the Park Fund had received amounts during 2000-2010 that were not utilized for their original intent and as a result these funds were transferred back to REET. Included in the inflows above are additional awards of \$200,000 from Snohomish County for Mill Creek Sports Park turf project and Exploration Park. These amounts will be included in an upcoming budget amendment.

	Comm. Parks	Exploration Park	Other Neighborhood Parks	Total
Fund Balance	1,952,430	148,410	724,997	\$2,825,837

ROAD IMPROVEMENT FUND

	Inflow/Outflow		2017-18 Budget		% of Budget
Inflow	\$	573,487	\$	8,027,000	7.1%
Outflow	\$	1,099,707	\$	6,860,000	16.0%

The inflows as presented above include additional grant awards that were not included in the original budget. A formal budget amendment will be made to include funds from WSDOT and Snohomish County for a total increase in revenue of \$1,300,000.

EQUIPMENT REPLACEMENT FUND

This fund was created in 1991 to accumulate replacement funds for City-owned vehicles and equipment. Individual departments owning and operating vehicles/equipment pay into this fund based on specific depreciation schedules.

As mentioned previously, this fund was erroneously consolidated with the CIP Fund. A budget amendment will be presented to accommodate inflows and outflows for this fund that were previously reported in the CIP Fund.

A budget amendment will also include an increase in appropriations for the General Fund, City Streets and Surface Water Fund to allow for payments into this fund and will be calculated retroactively for the entire biennium.

SURFACE WATER FUND

The Surface Water Fund is an enterprise fund that provides services to the public for a fee that makes the entity self-supporting. The fund balance at September 30, 2018 was \$66,520.

Expenditures incurred for the Sweetwater Ranch Storm Project totaled \$841,000 and depleted the reserves for this fund. As a result, a loan of \$500,000 will be executed on October 1st which will facilitate cash flow needs of routine operations along with increased expenditures for a rate analysis and design package in connection with future surface water infrastructure repairs. Quarterly payments for principal and interest are scheduled to be \$43,033.

BALANCE SHEET

Cash and Investments

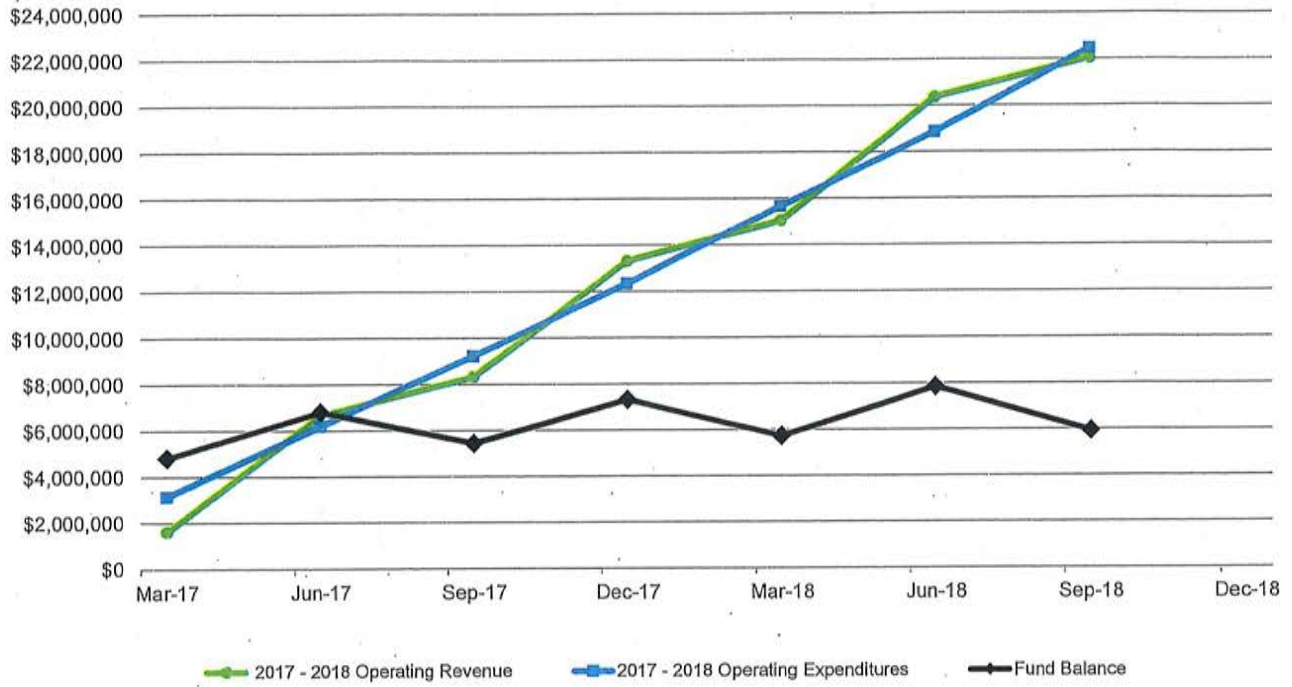
The City's cash and investment balances were \$431,048 and \$18,483,908 respectively. The City invests in U.S. Government Securities and the Local Government Investment Pool (LGIP). As of September 30, 2018, the City had \$5,250,892 invested in securities and \$13,233,016 invested in the LGIP.

The City will continue to monitor cash flow needs for CIP before investing in longer term securities.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The City does not accrue accumulated unpaid vacation and associated employee-related costs when earned by the employee and are not reflected in the financial statements. The value of these absences is \$ \$579,315 on September 30, 2018.

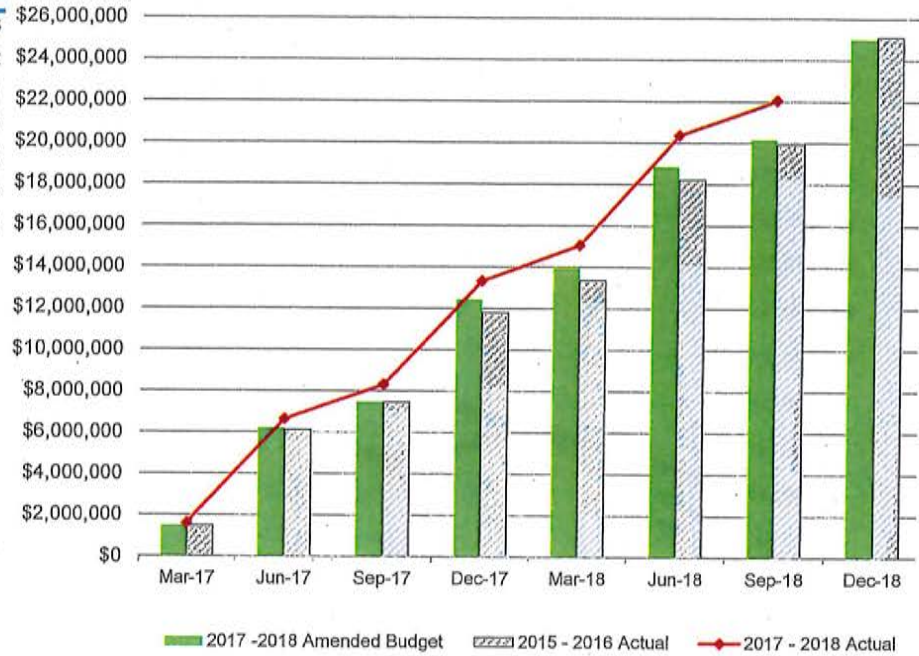
General Fund Revenues, Expenditures and Fund Balance



General Fund Revenues and Expenditures

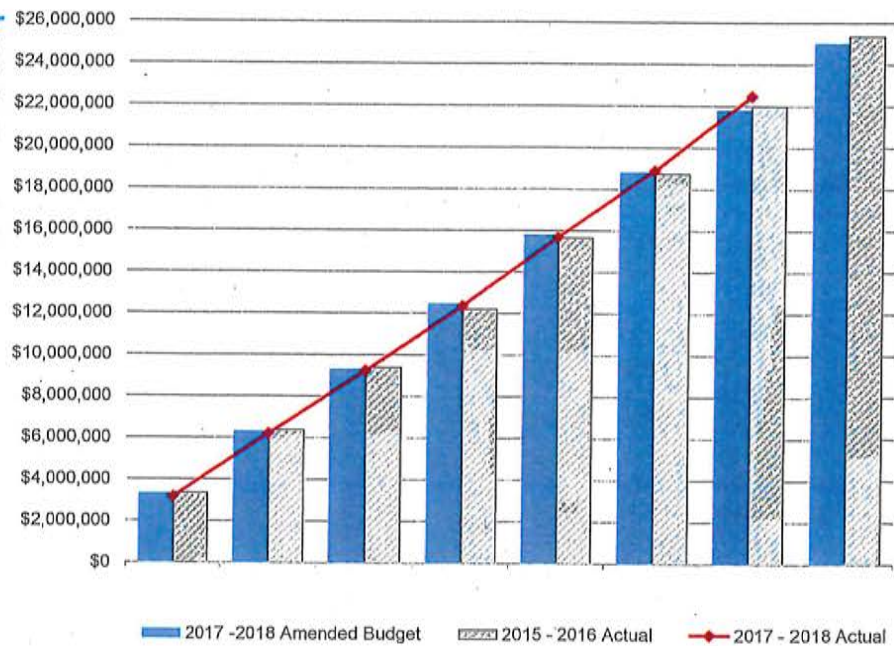
General Fund Revenues

	2017 -2018 Amended Budget	2017 - 2018 Actual	
Mar-17	\$1,502,438	\$1,627,223	\$26,000,000
Jun-17	\$6,238,733	\$6,659,072	\$24,000,000
Sep-17	\$7,509,914	\$8,331,171	\$22,000,000
Dec-17	\$12,461,571	\$13,342,550	\$20,000,000
Mar-18	\$13,966,427	\$15,072,078	\$18,000,000
Jun-18	\$18,873,599	\$20,383,729	\$16,000,000
Sep-18	\$20,184,221	\$22,064,263	\$14,000,000
Dec-18	\$25,029,600		\$12,000,000



General Fund Expenditures

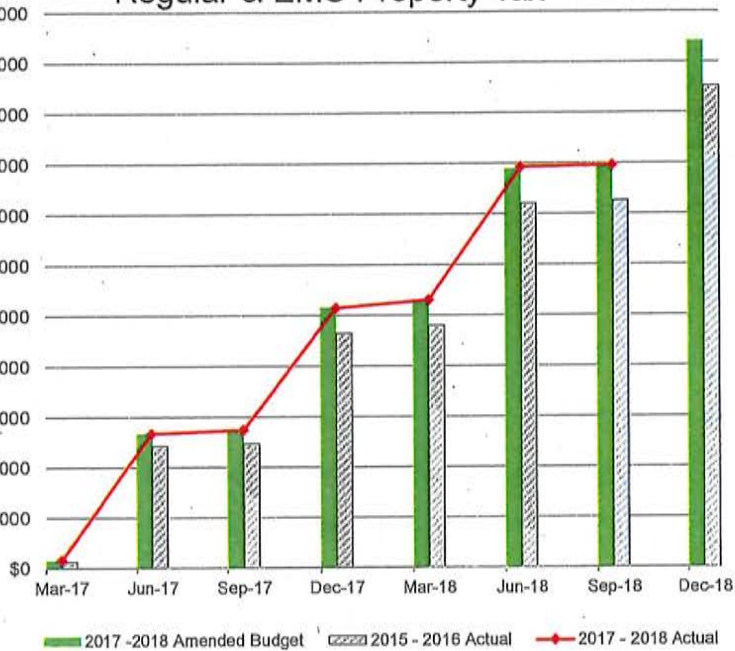
	2017 -2018 Amended Budget	2017 - 2018 Actual	
Mar-17	\$3,318,978	\$3,171,580	\$26,000,000
Jun-17	\$6,331,708	\$6,215,283	\$24,000,000
Sep-17	\$9,328,045	\$9,242,028	\$22,000,000
Dec-17	\$12,491,653	\$12,373,642	\$20,000,000
Mar-18	\$15,836,965	\$15,699,211	\$18,000,000
Jun-18	\$18,834,477	\$18,892,792	\$16,000,000
Sep-18	\$21,835,788	\$22,480,444	\$14,000,000
Dec-18	\$25,029,600		\$12,000,000



General Fund Revenues

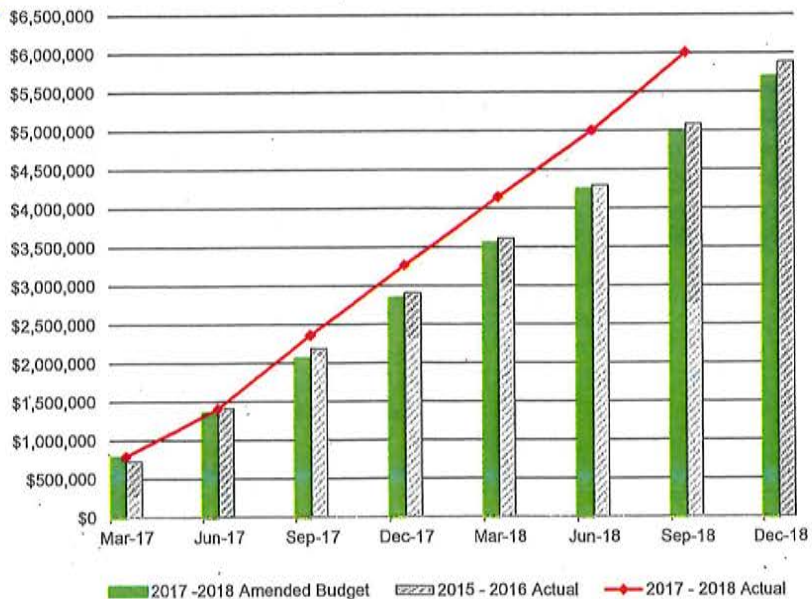
	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$235,077	\$243,476
Jun-17	\$4,020,340	\$4,016,712
Sep-17	\$4,160,043	\$4,117,981
Dec-17	\$7,761,275	\$7,737,917
Mar-18	\$7,989,594	\$7,973,780
Jun-18	\$11,839,531	\$11,895,418
Sep-18	\$11,981,246	\$11,951,145
Dec-18	\$15,634,356	

Property Tax Revenues Regular & EMS Property Tax



	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$774,577	\$792,003
Jun-17	\$1,347,232	\$1,405,324
Sep-17	\$2,056,620	\$2,360,652
Dec-17	\$2,835,890	\$3,265,031
Mar-18	\$3,548,947	\$4,146,402
Jun-18	\$4,237,991	\$5,000,096
Sep-18	\$4,976,273	\$6,005,723
Dec-18	\$5,683,550	

Sales Tax Revenues Retail, Public Safety & Criminal Justice

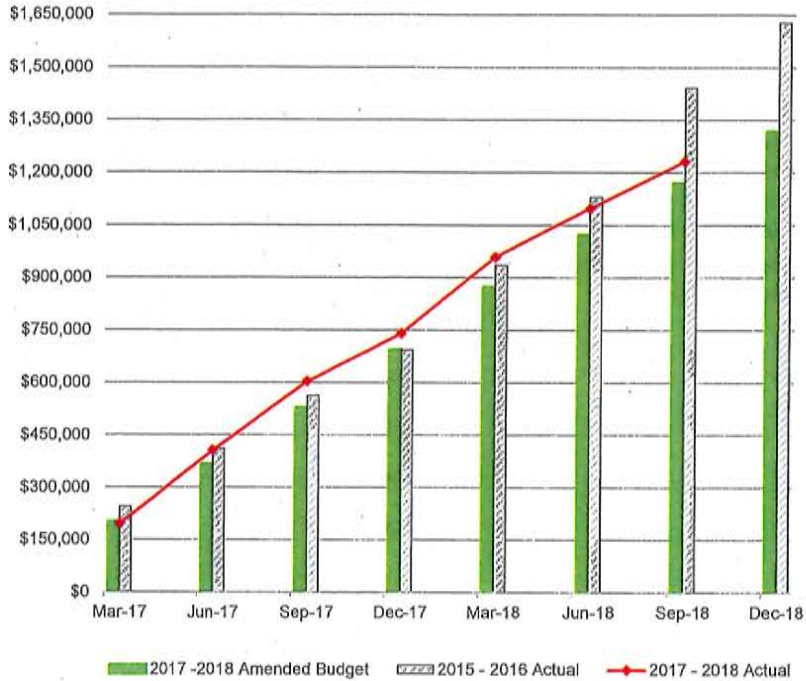


Sales tax excludes \$185,000 of construction sales tax which is designated to the capital improvement fund.

General Fund Revenues

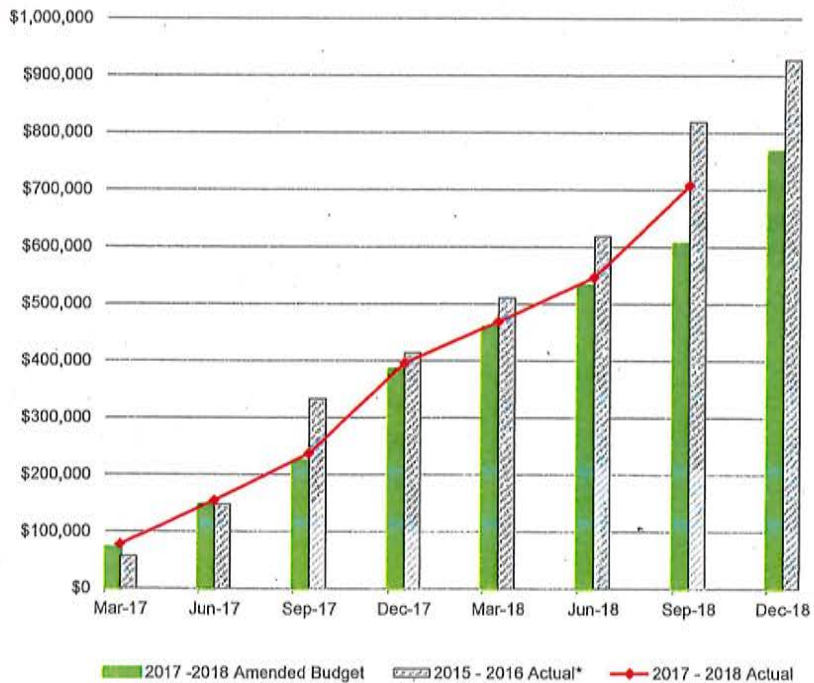
	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$202,129	\$196,786
Jun-17	\$367,247	\$407,438
Sep-17	\$528,381	\$604,368
Dec-17	\$693,514	\$741,192
Mar-18	\$873,948	\$959,757
Jun-18	\$1,022,295	\$1,099,425
Sep-18	\$1,170,272	\$1,232,611
Dec-18	\$1,318,250	

License & Permit Revenues



	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$71,806	\$78,061
Jun-17	\$147,678	\$154,939
Sep-17	\$223,550	\$237,583
Dec-17	\$384,917	\$396,415
Mar-18	\$458,659	\$469,461
Jun-18	\$532,401	\$547,371
Sep-18	\$606,142	\$708,432
Dec-18	\$767,054	

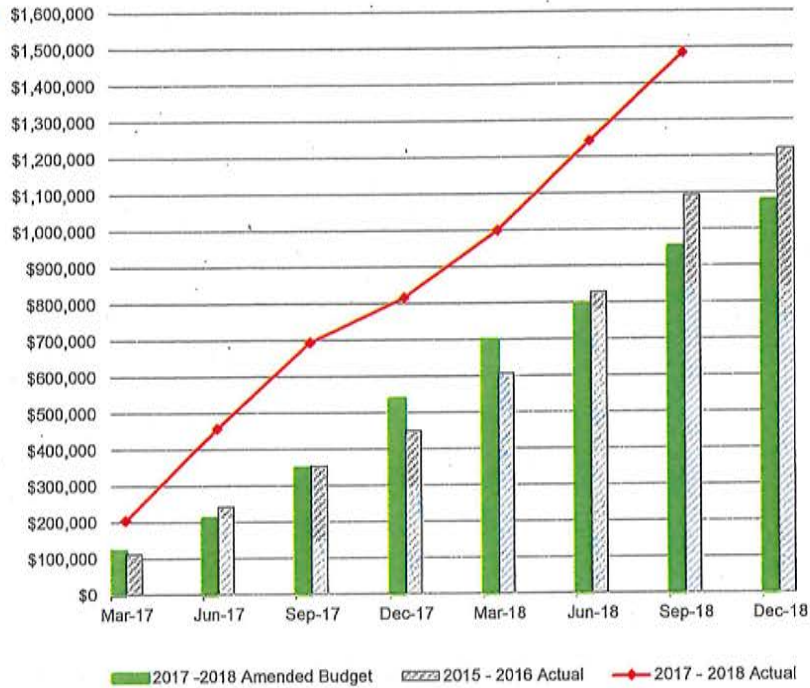
Intergovernmental & Grant Revenues



General Fund Revenues

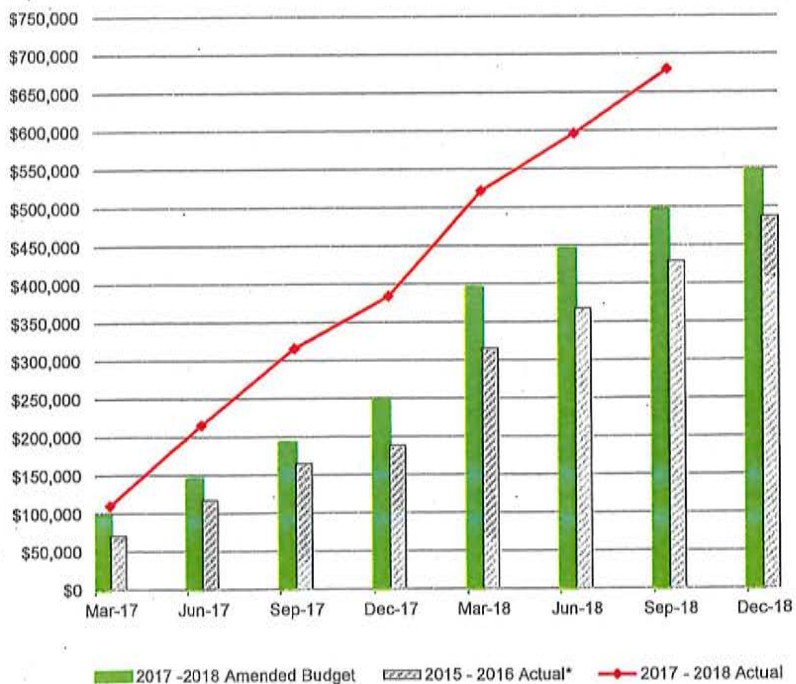
	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$121,726	\$206,206
Jun-17	\$211,653	\$459,369
Sep-17	\$349,279	\$694,756
Dec-17	\$539,205	\$817,627
Mar-18	\$699,884	\$1,000,931
Jun-18	\$795,363	\$1,245,000
Sep-18	\$953,641	\$1,486,084
Dec-18	\$1,079,120	

Charges For Services



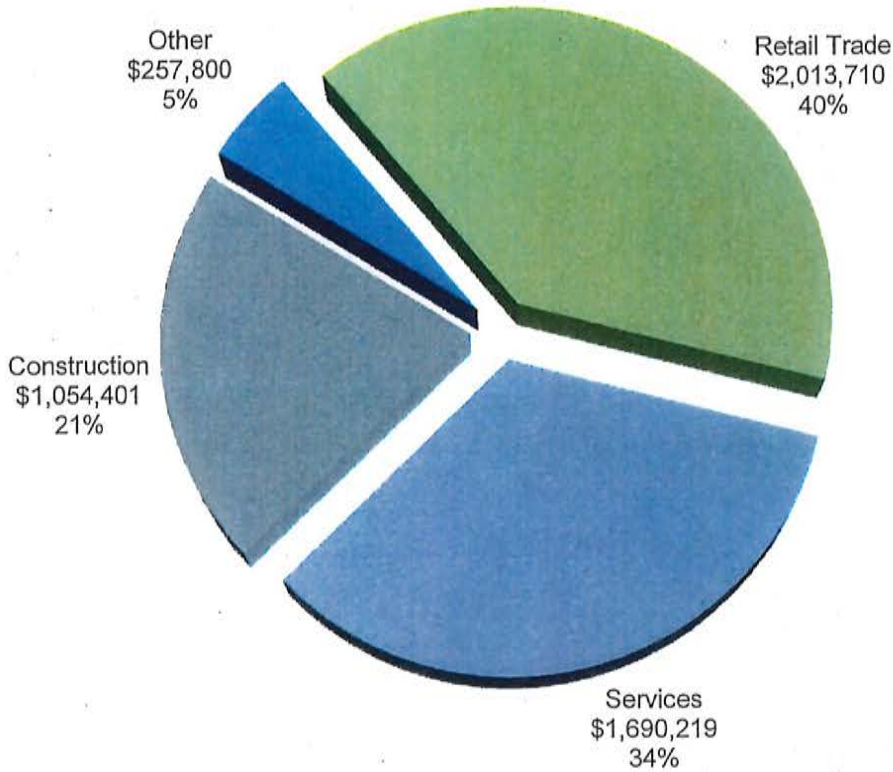
	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$97,124	\$110,213
Jun-17	\$144,583	\$215,289
Sep-17	\$192,041	\$315,831
Dec-17	\$246,770	\$384,369
Mar-18	\$395,395	\$521,746
Jun-18	\$446,020	\$596,419
Sep-18	\$496,645	\$680,383
Dec-18	\$547,270	

Fines & Miscellaneous Revenues



General Fund Revenues

Retail Sales Tax Revenues



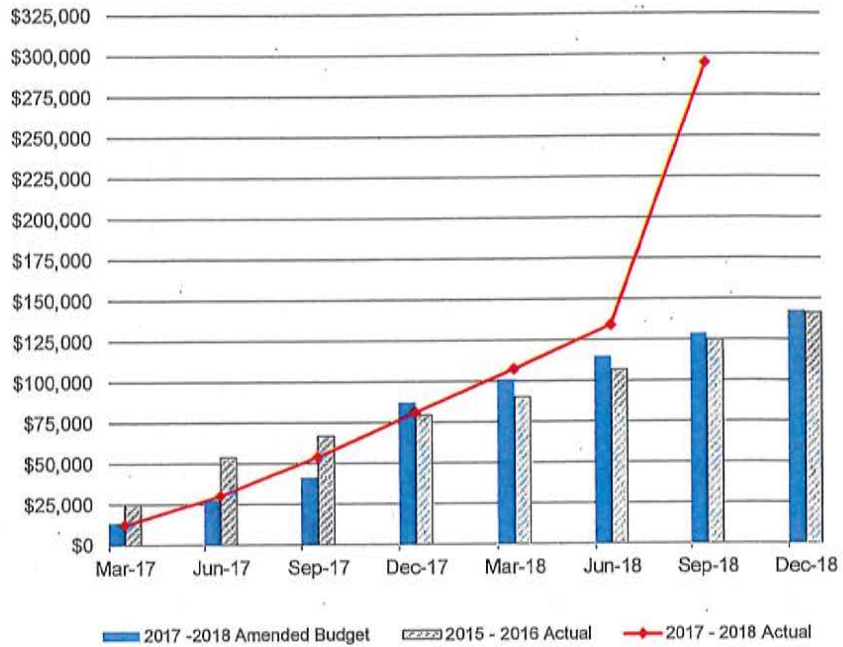
	Retail Trade	Services	Construction	Other	Total
Mar-17	\$271,886	\$218,538	\$109,115	\$43,271	\$642,810
Jun-17	\$251,036	\$217,031	\$149,206	\$37,538	\$654,811
Sep-17	\$298,160	\$233,574	\$208,318	\$48,613	\$788,666
Dec-17	\$270,156	\$231,258	\$196,674	\$43,540	\$741,628
Mar-18	\$302,921	\$240,261	\$131,433	\$43,610	\$718,225
Jun-18	\$278,048	\$256,009	\$122,033	\$41,228	\$697,318
Sep-18	\$341,502	\$293,549	\$137,622	\$55,861	\$828,533
Total	\$2,013,710	\$1,690,219	* \$1,054,401	\$257,800	\$5,016,130

*185,000 was posted directly to CIP Fund

General Fund Expenditures

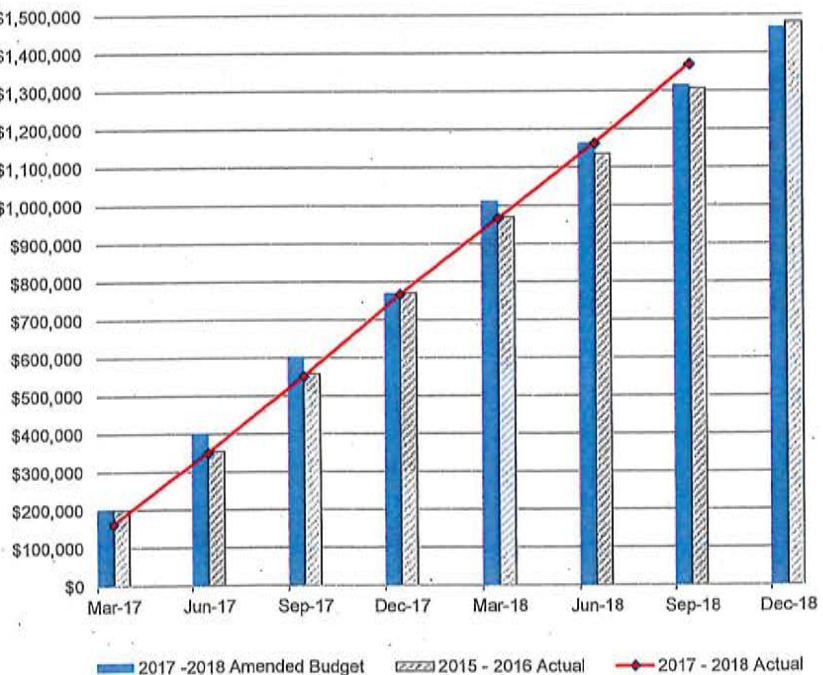
Legislative Expenditures

	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$13,862	\$12,602
Jun-17	\$27,724	\$30,309
Sep-17	\$41,586	\$54,077
Dec-17	\$87,448	\$81,314
Mar-18	\$101,310	\$107,658
Jun-18	\$115,173	\$134,258
Sep-18	\$129,035	\$294,939
Dec-18	\$142,897	



	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$201,297	\$162,804
Jun-17	\$402,594	\$350,118
Sep-17	\$603,891	\$550,469
Dec-17	\$770,920	\$767,717
Mar-18	\$1,012,852	\$966,237
Jun-18	\$1,164,784	\$1,162,199
Sep-18	\$1,316,715	\$1,370,419
Dec-18	\$1,468,647	

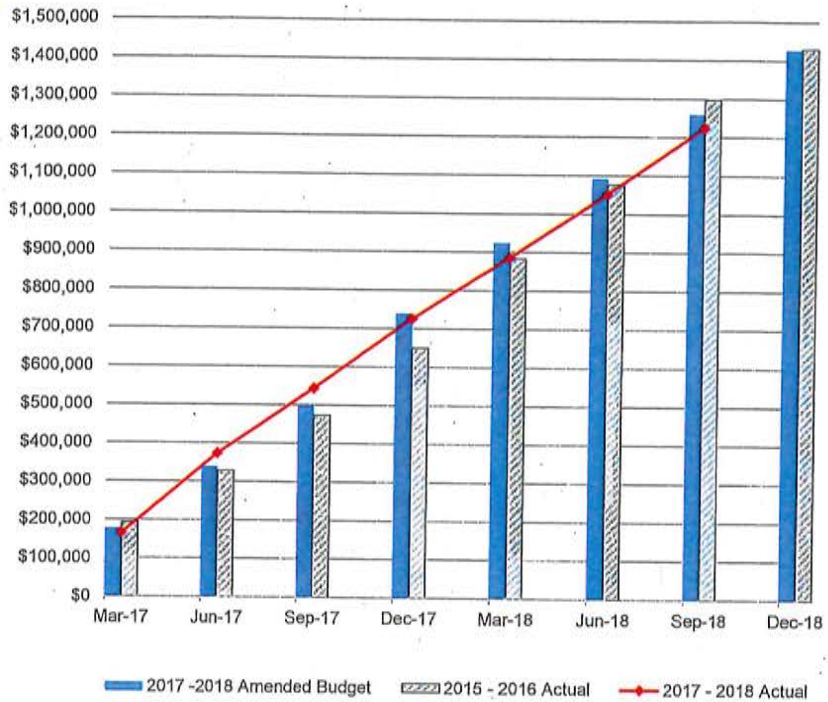
City Manager Expenditures



General Fund Expenditures

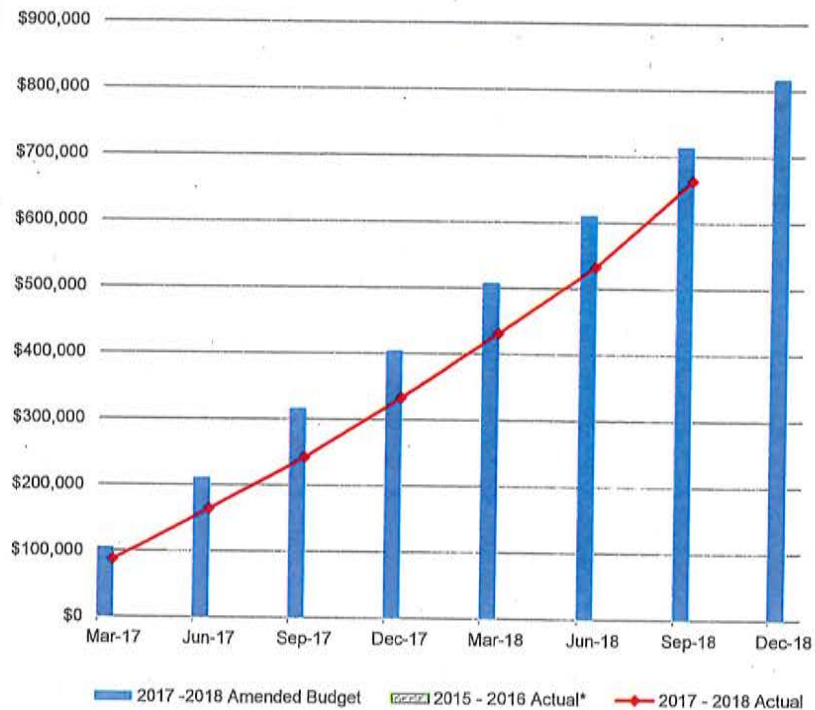
	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$178,100	\$166,209
Jun-17	\$339,200	\$374,408
Sep-17	\$500,299	\$544,802
Dec-17	\$740,667	\$726,796
Mar-18	\$925,419	\$886,557
Jun-18	\$1,093,170	\$1,052,605
Sep-18	\$1,260,922	\$1,225,738
Dec-18	\$1,428,673	

Finance Expenditures



	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$105,433	\$87,802
Jun-17	\$210,866	\$164,145
Sep-17	\$316,299	\$242,684
Dec-17	\$404,732	\$332,943
Mar-18	\$507,893	\$431,230
Jun-18	\$611,054	\$532,683
Sep-18	\$714,214	\$663,321
Dec-18	\$817,375	

Information Technology Expenditures

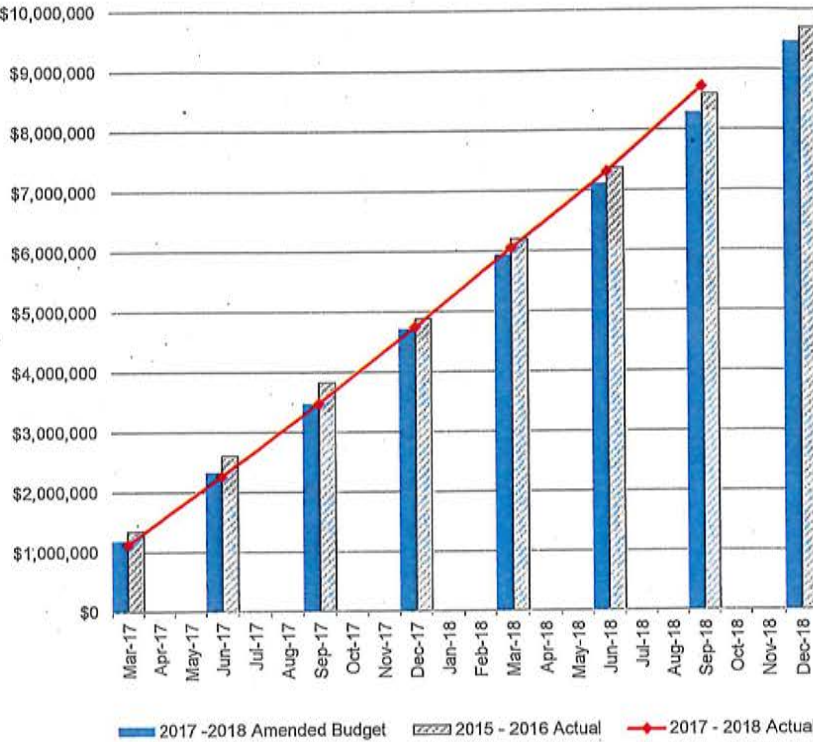


IT was not a separate department in the 2015-2016 biennium and cost are selected in

General Fund Expenditures

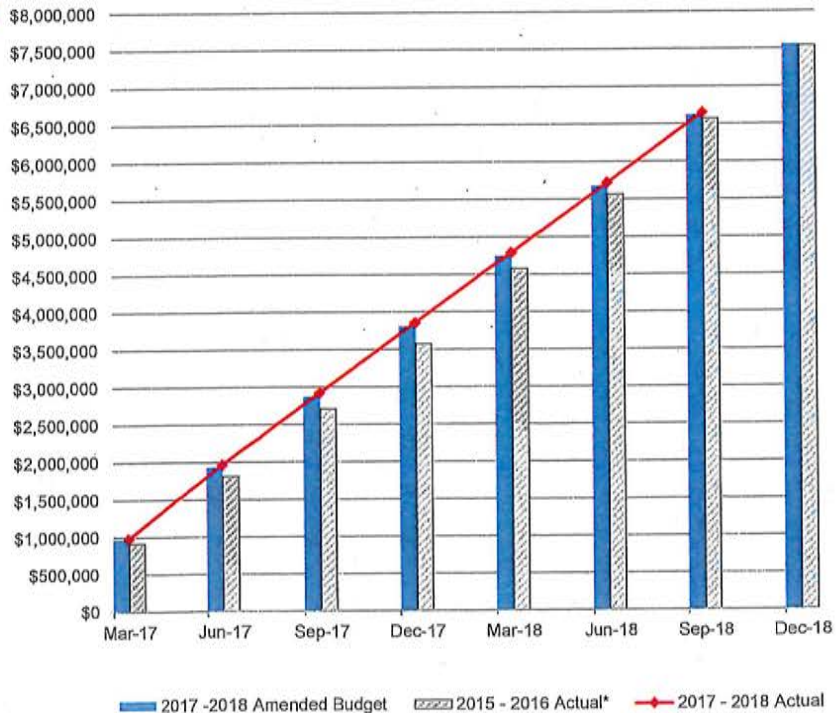
	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$1,192,446	\$1,128,602
Jun-17	\$2,335,892	\$2,265,074
Sep-17	\$3,479,337	\$3,482,937
Dec-17	\$4,723,083	\$4,754,032
Mar-18	\$5,947,944	\$6,061,381
Jun-18	\$7,123,805	\$7,321,442
Sep-18	\$8,299,665	\$8,727,408
Dec-18	\$9,475,826	

Police Expenditures



	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$966,188	\$982,977
Jun-17	\$1,932,375	\$1,968,687
Sep-17	\$2,870,063	\$2,920,507
Dec-17	\$3,807,450	\$3,855,972
Mar-18	\$4,745,138	\$4,792,949
Jun-18	\$5,682,825	\$5,723,424
Sep-18	\$6,620,513	\$6,653,651
Dec-18	\$7,557,900	

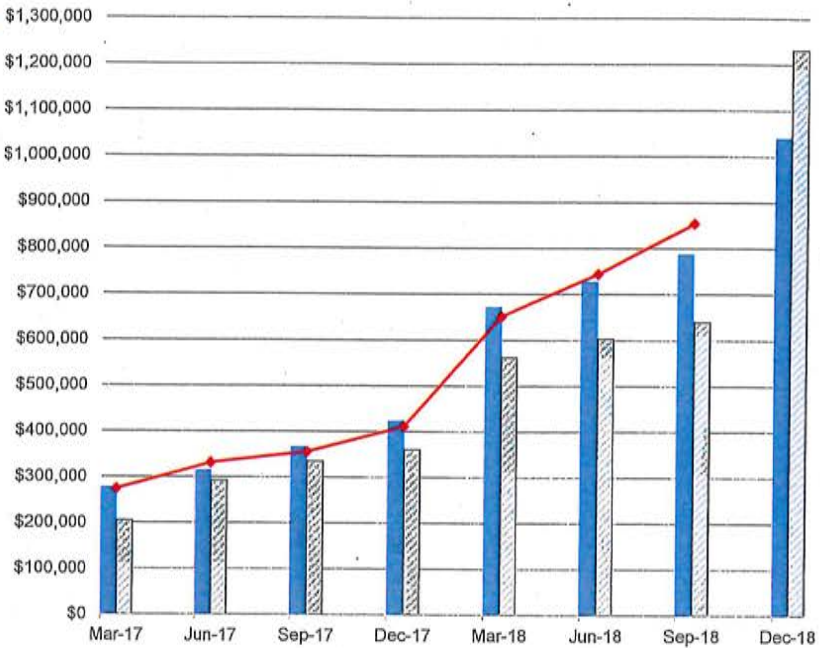
Fire Expenditures



General Fund Expenditures

	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$278,542	\$275,364
Jun-17	\$316,836	\$332,539
Sep-17	\$367,238	\$356,772
Dec-17	\$424,910	\$411,806
Mar-18	\$672,970	\$652,013
Jun-18	\$729,230	\$745,037
Sep-18	\$789,290	\$854,606
Dec-18	\$1,041,850	

Non-Department Expenditures

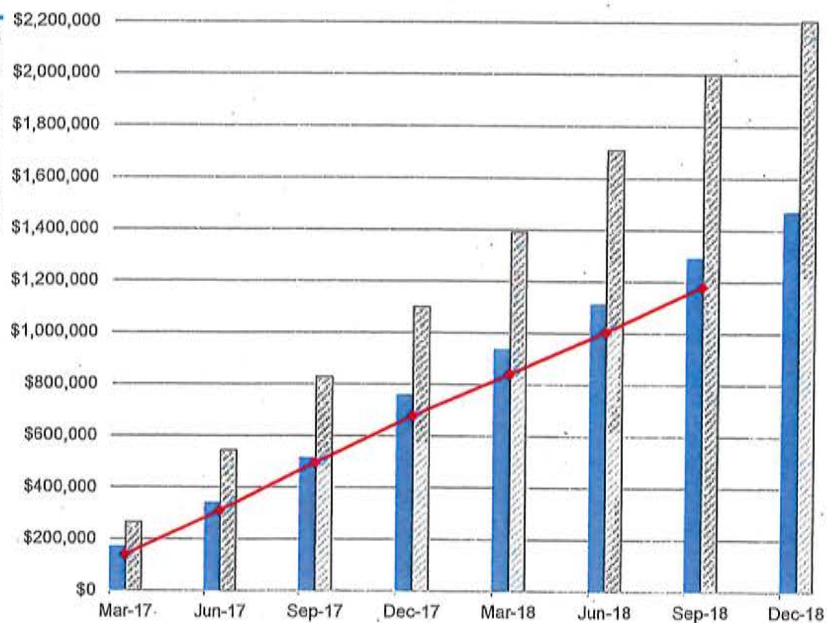


■ 2017 -2018 Amended Budget
 2015 - 2016 Actual*
 —●— 2017 - 2018 Actual

A transfer from the GF to CIP for \$480,000 was made at the end of 2015-2016.

	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$171,888	\$140,363
Jun-17	\$343,776	\$310,793
Sep-17	\$515,663	\$497,012
Dec-17	\$761,049	\$679,115
Mar-18	\$938,790	\$841,621
Jun-18	\$1,116,532	\$1,005,783
Sep-18	\$1,294,273	\$1,180,744
Dec-18	\$1,472,014	

Community Development Expenditures

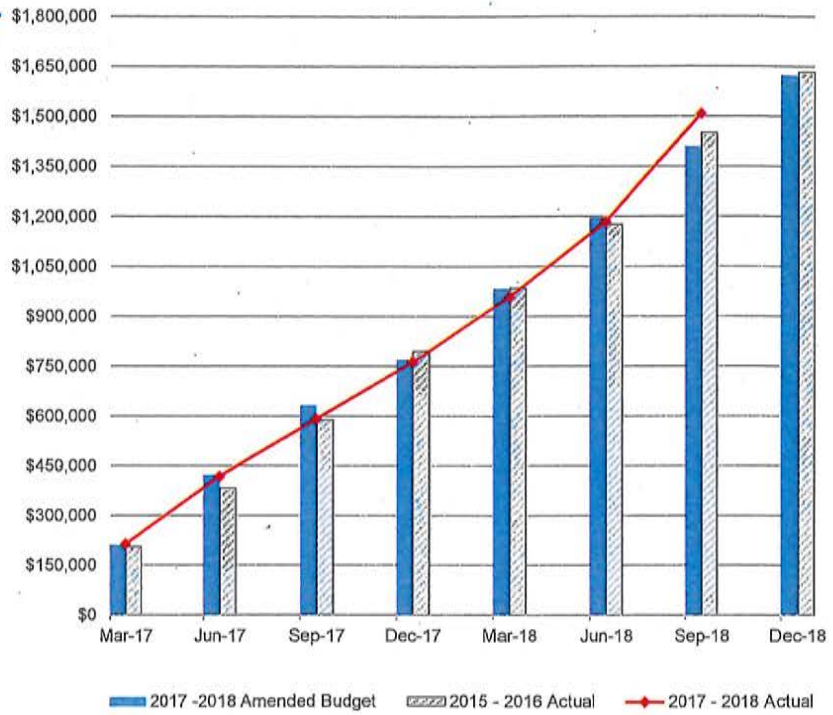


■ 2017 -2018 Amended Budget
 2015 - 2016 Actual*
 —●— 2017 - 2018 Actual

General Fund Expenditures

	2017 -2018 Amended Budget	2017 - 2018 Actual
Mar-17	\$211,223	\$214,858
Jun-17	\$422,446	\$419,210
Sep-17	\$633,669	\$592,767
Dec-17	\$771,394	\$763,947
Mar-18	\$984,650	\$959,566
Jun-18	\$1,197,906	\$1,185,169
Sep-18	\$1,411,162	\$1,509,618
Dec-18	\$1,624,418	

Public Works Expenditures



Cash and Investments Balances

	9/30/2018	12/31/2017
Cash Bank Accounts ⁽¹⁾	\$ 431,048	\$ 546,168
State Local Government Investment Pool (LGIP)	\$13,233,016	\$ 12,296,489
US Government Agency Securities ⁽²⁾	\$ 5,250,892	\$ 7,229,784
Total Cash and Investment Holdings	\$18,914,956	\$ 20,072,441

(1) Reflects General Ledger balances, not actual bank cash balances.

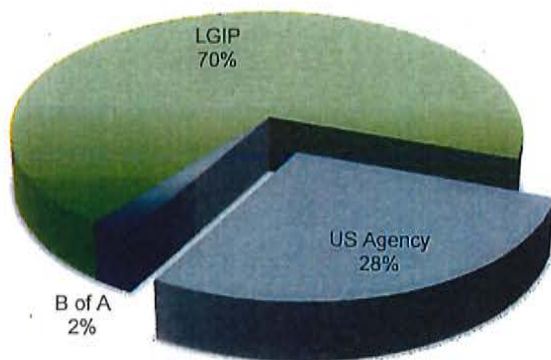
(2) Investments are reported at original cost

Cash and Investments By Fund

	General	REET	CIP	Parks	Roads	Surface Water	Equipment Replacement	Other	Totals
Securities	3,751,758	999,134	-	500,000	-	-	-	-	5,250,892
LGIP	2,180,521	3,581,907	370,880	2,342,099	2,169,532	65,029	1,650,278	872,769	13,233,016
Cash	4,342	27,684	1,005	23,739	50,441	1,491	2,508	319,838	431,048
Totals	5,936,621	4,608,725	371,886	2,865,838	2,219,973	66,520	1,652,787	1,192,607	18,914,957

Investment Summary

Cash and Investments by Category



■ B of A ■ LGIP ■ US Agency

Security Type

US Agency - Original Cost	\$ 5,250,892
Local Government Investment Pool (LGIP)	\$ 13,233,016
Bank of America Checking	\$ 431,048
Total Investment Portfolio	\$ 18,914,956