

MEMORANDUM

DATE: October 22, 2019
TO: Morgan Smith, City Manager; City Council
FROM: Finance Department
SUBJECT: September 2019 Financial Report



INTRODUCTION: Finance staff are experimenting with a new format for the monthly financial report, designed to improve readability and increase attention to key trends. This report presents information in two categories: Tax-Supported and Utility Funds. Generally, tax-supported funds' revenues are supported by tax inflows, while utility funds generate revenue by charging fees for services. Table I shows which funds fall into each of the two categories.

TAX-SUPPORTED FUNDS: Revenues in tax-supported funds were \$523,000 (1.3%) higher year-to-date (YTD), while expenditures were \$294,000 (1.4%) lower compared to the same timeframe in 2018. Staff are closely monitoring trends in the following key revenues and expenditures:

- YTD sales tax revenue was \$451,000 (13%) higher in 2019. Revenue from the construction and retail trade industries accounted for 36% and 30% of total sales tax revenue and increased 16% and 11%, respectively, compared to last year.
- REET revenue was \$325,000 (14%) lower so far in 2019. YTD transaction volume was 17% lower, the average selling price was 3% lower, and September 2019 revenue was 13% below the 5-year September average.
- Revenues generated by building and development services (B&DS) fees were \$339,000 (25%) lower so far compared to 2018. Revenue levels vary depending on the complexity, volume, and stage of development activity on the Island.
- Federal and State grant funding was \$674,000 (101%) higher YTD 2019, and included grants for the Miller Road, Fletcher Bay Road, and Wyatt Way projects, as well as for port security.
- Professional services expenditures, including expenditures for services related to planning, environmental studies, finance, recruiting, legal advice, and capital projects, were \$490,000 (4%) higher so far in 2019.
- The City's financial forecast indicates revenues in tax-supported funds will exceed the 2019 budgeted amount by \$2.6 million (5%) at year-end 2019, and expenditures will be \$20 million (33%) below budget. Expenditures are lower than budget due to personnel vacancies (the average vacancy rate YTD was 9%) as well as delays in spending on major capital projects, including the Police and Court facility, and Wyatt Way.

UTILITY FUNDS: YTD revenues in the City's utility funds were \$735,000 (14%) higher, while expenditures were \$18,000 (0.3%) lower compared to the same period in 2018. Staff are closely monitoring trends in the following key revenues and expenditures:

- Water connection fee revenues were \$170,000 (61%) lower so far this year, with a 33% decrease in transaction volume, while sewer connection fee revenues were \$108,000 (62%) higher. This revenue source varies depending development activity and is largely supported by subdivision development.
- Capital expenditures in the utility funds were collectively \$190,000 (22%) lower YTD 2019 compared to 2018.
- Salaries and benefits costs in the utility funds were higher by \$95,000 (5%) due to an increase in staffing levels in 2019.
- The City's current financial forecast indicates utility fund revenues will exceed the 2019 budgeted amount by \$442,000 (5%) at year-end, and expenditures will be \$4.9 million (35%) below budget. Expenditures are underrunning the budget due to delays in spending on capital projects in all three utility funds.

Table 1

FUND No.	FUND NAME	2019 STARTING FUND BALANCE	YTD 2019 REVENUES	2018 REVENUES	YTD 2019 EXPENSES	2018 EXPENSES	SEPT. 2019 ENDING FUND BALANCE	RESERVES
<i>Tax-Supported</i>								
001	General Fund	\$ 18,565,810	\$ 13,740,947	\$ 13,153,209	\$ (11,954,983)	\$ (12,458,958)	\$ 20,351,775	\$ 5,633,000
101	Street Fund	\$ 264,921	\$ 2,370,339	\$ 1,978,359	\$ (1,884,585)	\$ (2,399,999)	\$ 750,676	N/A
103	REET Fund	\$ 777,649	\$ 2,089,063	\$ 2,397,448	\$ (1,507,982)	\$ (1,373,675)	\$ 1,358,730	N/A
104	Civic Impr. Fund	\$ 302,403	\$ 246,243	\$ 179,173	\$ (164,506)	\$ (110,957)	\$ 384,140	N/A
171	Trans. Benefit Fund	\$ 825,699	\$ 364,429	\$ 325,878	\$ (400,000)	\$ (399,500)	\$ 790,128	N/A
173	Trans. Impact Fund	\$ 303,458	\$ 139,821	\$ 204,924	\$ (216,072)	\$ (24,000)	\$ 227,207	N/A
301	Capital Const. Fund	\$ 3,591,488	\$ 1,508,134	\$ 1,958,369	\$ (2,339,012)	\$ (1,664,633)	\$ 2,760,611	N/A
407	Building Svcs. Fund	\$ 325,784	\$ 2,301,349	\$ 2,039,363	\$ (2,306,872)	\$ (2,048,240)	\$ 320,261	N/A
<i>Utility</i>								
401	Water Fund	\$ 7,713,900	\$ 1,136,287	\$ 1,126,719	\$ (1,255,128)	\$ (1,025,512)	\$ 7,595,059	\$ 831,661
402	Sewer Fund	\$ 6,377,475	\$ 3,284,811	\$ 2,723,931	\$ (3,220,957)	\$ (3,425,059)	\$ 6,441,328	\$ 1,731,847
403	Storm Water Fund	\$ 1,771,357	\$ 1,613,669	\$ 1,449,154	\$ (1,279,642)	\$ (1,323,708)	\$ 2,105,384	\$ 831,661

NOTES:

The City has adopted reserve policies for the General Fund and the Utility Funds (Water, Sewer, and Storm Water). The General Fund reserve amount consists of a \$1 million emergency reserve plus 25% of ongoing revenues, totalling \$5.6 million. Please see page 25 of the 2019-2020 Adopted Budget for further information. Utility reserves are calculated as 1% of each utility's capital assets at net book value, plus 60 days of operating costs for Water and Sewer, and 120 days of operating costs for Storm Water.

Monthly revenue and expense amounts may include non-cash transactions.