



CITY OF
BAINBRIDGE ISLAND

MEMORANDUM

DATE: May 14, 2020
TO: Morgan Smith, City Manager; City Council
FROM: Finance Department
SUBJECT: March 2020 Financial Report

INTRODUCTION: On March 25, 2020 the Governor released guidance for his “Stay Home, Stay Healthy” order for all State residents and businesses amid the COVID-19 pandemic. The worldwide pandemic will have significant ramifications to both global as well as State and local economies. Due to the sudden and extensive impacts, most local governments will likely see their revenues decrease. In particular, the City of Bainbridge Island and other municipalities are expected to witness modest to large drops in sales tax, real estate excise, lodging, parking, gas, and other revenues in the near future. These revenues comprise the majority of resources the City uses for providing services to the public. Since most large revenue streams have a one to two month delay in receipting at the City, the effects will not begin to be felt until May and June of 2020 and will continue to be difficult to forecast for the remainder of 2020 and beyond. This monthly report largely reflects activity showing minimal impacts of COVID-19 through March of 2020. The City Manager and Staff will be providing an update to the City’s revenue and expense forecasts and discussing impacts to City services at an upcoming Council meeting in May.

This report presents a comparison of year-to-date (YTD) financial information between the current year and prior year in two categories: tax-supported funds 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, and includes revenue, expenditure, and fund balance data by fund.

TAX-SUPPORTED FUNDS: Revenues in the City’s tax-supported funds were \$145,000 (2.1%) lower in the first quarter (Q1) of 2020, and expenditures were \$9.5 million (141%) higher compared to Q1 2019. This substantial increase in expenditures reflects the purchase of the City’s new Police & Court facility, which was recorded in January 2020 as an \$8.9 million expenditure in the Capital Construction Fund (\$8 million was transferred in from the General Fund and \$900,000 was transferred in from the Real Estate Excise Tax (REET) Fund in December 2019). Police & Court facility funding aside, expenditures in the tax-supported funds were \$600,000 (8.8%) higher compared to Q1 2019 due to increases in professional services, vehicle purchases, communications, supplies, and the City’s Coronavirus response. Staff are closely monitoring trends in the following revenues and expenditures:

- Sales tax revenue through the end of March at \$1.3 M was \$27,000 (2%) lower in 2020 compared to Q1 2019. Revenue from the construction and retail trade industries accounted for 33% and 32% of total 2020 sales tax revenue, respectively. Revenue from retail trade increased 7%, while revenue from construction decreased 10% compared to Q1 2019.

- REET revenue through the end of March at \$518,000 was \$165,000 (47%) higher in 2020 compared to Q1 2019. 2020 transaction volume was 15% higher, and the average selling price was 27% higher (most of the latter increase was due to the \$8.9 million sale of the Harrison building, purchased by the City for the new Police & Court facility).
- Revenue generated by building and development services (B&DS) fees through the end of March at \$192,000 was \$48,000 (20%) lower in 2020 compared to Q1 2019. Revenue levels vary depending on the complexity, volume, and stage of development activity on the Island.
- Local car tab fees totaling \$162,790 continue to be collected in the transportation benefit fund and show a 67% increase over the prior year through March. These revenues cannot be spent until the legality of Initiative I-976 is decided in the court system. If the initiative is allowed to move forward, the City will need to return the monies to the Washington State Department of Licensing for a refund. It is expected the Washington State Supreme Court will finalize a decision later in 2020.
- Federal and State grant funding through the end of March at \$346,000 was \$58,000 (14%) lower in 2020 compared to Q1 2019. Funding included grants for the Miller Road, Wyatt Way, STO, and Olympic Drive projects.
- Expenditures for professional services through the end of March at \$518,000 were \$297,000 (117%) higher in 2020 compared to Q1 2019. 2020 expenditures included professional services for planning, legal matters, and providing community services.
- 2020 expenditures directly related to the City's Coronavirus response including labor, supplies, and computer equipment, totaled \$284,000 at the end of March.

UTILITY FUNDS: Revenues in the City's utility funds were \$339,000 (23%) higher in Q1 2020, and expenditures were \$390,000 (30%) higher compared to Q1 2019¹. Staff are closely monitoring trends in the following key revenues and expenditures:

- Water and sewer connection fee revenues through the end of March 2020 were at \$126,000 compared to \$14,000 in Q1 2019. This revenue source varies depending on development activity and is largely supported by subdivision development.
- Revenue from stormwater fees through the end of March at \$497,000 was \$239,000 (93%) higher in 2020 compared to Q1 2019. This reflects a change in the fee-collection process in 2020, and revenue is expected to finish the year at normal levels.
- Capital expenditures in the utility funds through the end of March at \$346,000 were collectively \$307,000 higher in 2020 compared to Q1 2019. Expenditures included \$210,000 of system upgrades and equipment purchases, as well as the payment of a \$126,000 capital settlement (charged to the Sewer Fund) related to the Village pump station project.

¹ The City's three utility funds are individually self-supporting, generating revenue by charging for services provided. While utility revenue figures are delivered collectively in parts of this report, it should be noted that revenue from one utility cannot be used to support the expenditures of another utility. Please see Table I for additional details on each of the City's three utility funds.

Table 1

FUND No.	FUND NAME	2020 STARTING FUND BALANCE	YTD 2020 REVENUES	2019 REVENUES	YTD 2020 EXPENSES	2019 EXPENSES	MAR. 2020 ENDING FUND BALANCE	RESERVES
<i>Tax-Supported</i>								
001	General Fund	\$ 13,668,501	\$ 4,213,042	\$ 4,366,004	\$ (4,834,936)	\$ (4,346,901)	\$ 13,046,607	\$ 5,633,000
101	Street Fund	\$ 458,246	\$ 823,021	\$ 777,854	\$ (611,793)	\$ (712,881)	\$ 669,473	N/A
103	REET Fund	\$ 751,954	\$ 522,374	\$ 356,879	\$ (305,260)	\$ (650,327)	\$ 969,068	N/A
104	Civic Impr. Fund	\$ 408,247	\$ 59,091	\$ 63,041	\$ (67,447)	\$ (6,250)	\$ 399,892	N/A
171	Trans. Benefit Fund	\$ 935,509	\$ 162,790	\$ 95,939	\$ (400,000)	\$ -	\$ 698,299	N/A
173	Trans. Impact Fund	\$ 178,041	\$ 28,965	\$ 26,203	\$ (117,000)	\$ (100,000)	\$ 90,006	N/A
301	Capital Const. Fund	\$ 19,914,534	\$ 549,492	\$ 493,673	\$ (9,106,318)	\$ (130,807)	\$ 11,357,708	N/A
407	Building Svcs. Fund	\$ 333,525	\$ 466,890	\$ 791,897	\$ (793,924)	\$ (797,429)	\$ 6,491	N/A
		\$ 36,648,558	\$ 6,825,664	\$ 6,971,490	\$ (16,236,679)	\$ (6,744,595)	\$ 27,237,544	\$ 5,633,000
<i>Utility</i>								
401	Water Fund	\$ 7,649,605	\$ 338,833	\$ 287,965	\$ (431,304)	\$ (343,404)	\$ 7,557,134	\$ 831,661
402	Sewer Fund	\$ 6,316,023	\$ 977,761	\$ 920,679	\$ (890,965)	\$ (557,583)	\$ 6,402,820	\$ 1,731,847
403	Storm Water Fund	\$ 2,702,737	\$ 508,208	\$ 276,567	\$ (385,519)	\$ (416,470)	\$ 2,825,426	\$ 831,661
		\$ 16,668,365	\$ 1,824,802	\$ 1,485,210	\$ (1,707,788)	\$ (1,317,456)	\$ 16,785,379	\$ 3,395,168

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.

-January 2020 beginning fund balances are subject to change through April 2020 due to the ongoing development of the annual financial report.