



CITY OF
BAINBRIDGE ISLAND

MEMORANDUM

DATE: September 25, 2020
TO: Morgan Smith, City Manager; City Council
FROM: Finance Department
SUBJECT: August 2020 Financial Report

NOTE RELATED TO COVID IMPACTS:

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. At the Special Council Meeting on May 12, 2020, City Manager, Morgan Smith, and Deputy City Manager, Ellen Schroer, gave a presentation on the City’s forecasted 2020 fiscal impacts of COVID-19. The forecast presented an estimated 17% drop in tax supported revenues compared to the 2020 budget totaling a reduction of approximately \$4.5 million. Cost saving measures of \$2.7 million were implemented to partially mitigate the revenue decreases. The remaining gap of \$1.8 million anticipated the use of fund balance to cover the difference. A revised forecast was presented September 22, 2020 which decreased the revenue loss from \$4.5 million to \$2.5 million; an improvement of \$2.0 million from the May forecast. Cost savings measures remain in place. Expenditure reductions are now expected to cover nearly all the current year revenue loss, leading to a more modest reduction in fund balance than originally forecast in May.

INTRODUCTION:

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 1 shows which funds fall into each of the two categories, and includes revenue, expenditure, and fund balance data by fund.

TAX-SUPPORTED FUNDS:

Operating revenues in the City’s tax-supported funds were \$1.4 million (6.7%) lower through the month of August 2020 compared to the same time frame in 2019, and expenditures were \$8.4 million (46.2%) higher through the month of August 2020 compared to the same time frame in 2019. Three main contributing factors to decreased revenue are as follows: non-recurring grant revenue accounts for \$577,000 or 41% of the decrease, \$374,000 or 27% is due to decreased revenue in the Building and Development Services Fund, and \$363,000 or 26% is due to decreased Street Fund revenue. The increase in expenditures reflects the purchase of the Harrison Building, which will be retrofitted to become the City’s new Police & Court facility. The purchase of this facility was recorded in January 2020 as an \$8.9 million expenditure in the Capital Construction Fund. Police & Court facility expense aside, expenditures in the tax-supported funds were \$434,000 (2.4%) lower compared to 2019. Staff are closely monitoring trends in the following revenues and expenditures:

- Sales tax revenue through the end of August at \$3.0 million was \$277,000 or (8%) lower in 2020 compared to YTD August 2019. Revenue from the construction and retail trade industries accounted for 30% and 37% of 2020 sales tax revenue, respectively. Revenue from retail trade increased 6%, while revenue from construction decreased 19% compared to YTD August 2019.
- REET revenue through the end of August at \$2.0 million was \$212,000 (11%) higher in 2020 compared to YTD August 2019. Volume is down 3% with 436 properties sold, while the average selling price is up 16% at \$976,100.
- Revenue generated by building and development service (B&DS) fees through the end of August at \$559,000 was \$374,000 (40%) lower in 2020 compared to 2019 reflecting the March 23rd State Stay Home Order in response to the COVID-19 pandemic. Revenue levels vary depending on the complexity, volume, and stage of development activity on the Island. The building and development services rate study will be completed in the fall and will change rates and fees to reflect current costs of service and market conditions.
- Local car tab fees totaling \$407,000 continue to be collected in the transportation benefit fund and show a 36% increase over the prior year through August due to a fee increase implemented in 2019. These revenues cannot be spent until the legality of Initiative I-976 is decided in the court system. If the initiative is upheld, the City will 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 August at \$761,000 was \$577,000 (43%) lower in 2020 compared to YTD August 2019. Funding received in 2020 included grants for Miller Road, Wyatt Way, Sound-To-Olympics, Olympic Drive, and Sportsman Club and New Brooklyn projects.
- Expenditures for professional services through the end of August at \$1,599,000 were \$103,000 (7%) higher in 2020 compared to end of August 2019. 2020 expenditures included professional services for legal matters, providing community services, and B&DS rate study.
- 2020 expenditures directly related to the City's Coronavirus response including labor, supplies, and computer equipment, totaled \$903,000 at the end of August.
- The City was awarded a Federal \$1,103,400 CARES (Coronavirus Aid, Relief and Economic Security) grant from the State of Washington to help the City mitigate the public health costs of the Coronavirus. Revenues for the reimbursement of costs are expected to be received starting in September and throughout the final quarter of 2020 when the grant period ends.

UTILITY FUNDS:

Revenues in the City's utility funds were \$32,000 (.6%) lower YTD August 2020, and expenditures were \$142,000 (3%) lower compared to YTD August 2019¹. The decrease in expenditures is mainly due to variation of capital project spending. Staff are closely monitoring trends in the following key revenues and expenditures:

- Water and sewer connection fee revenues through the end of August 2020 were at \$190,000 compared to \$241,000 at the end of August 2019. This revenue source varies depending on development activity and is largely supported by subdivision development.
- Revenue from stormwater fees through the end of August at \$1,625,000 was \$152,000 (10%) higher in 2020 compared to the same time frame in 2019. This reflects a change in the fee-collection process in 2020, and revenue is expected to finish the year at normal levels.

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.

- Capital expenditures in the utility funds through the end of August at \$395,000 were collectively \$135,000 lower in 2020 compared to 2019. Expenditures included \$269,000 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.

Table 1

FUND No.	FUND NAME	2020 STARTING FUND BALANCE	YTD 2020 REVENUES AND TRANSFERS	2019 REVENUES AND TRANSFERS	YTD 2020 EXPENSES AND TRANSFERS	2019 EXPENSES AND TRANSFERS	AUGUST 2020 ENDING FUND BALANCE	RESERVES
<i>Tax-Supported</i>								
001	General Fund	\$ 13,668,501	\$ 12,244,466	\$ 12,773,499	\$ (11,728,053)	\$ (10,766,563)	\$ 14,184,914	\$ 5,633,000
101	Street Fund	\$ 458,246	\$ 1,275,246	\$ 2,163,398	\$ (1,609,060)	\$ (1,671,595)	\$ 124,432	N/A
103	REET Fund	\$ 751,954	\$ 2,093,161	\$ 1,887,839	\$ (939,833)	\$ (1,288,540)	\$ 1,905,283	N/A
104	Civic Impr. Fund	\$ 408,247	\$ 111,954	\$ 197,579	\$ (127,227)	\$ (149,825)	\$ 392,975	N/A
171	Trans. Benefit Fund	\$ 935,509	\$ 412,002	\$ 302,280	\$ (400,000)	\$ (400,000)	\$ 947,511	N/A
173	Trans. Impact Fund	\$ 178,041	\$ 72,500	\$ 133,316	\$ (117,000)	\$ (216,072)	\$ 133,541	N/A
301	Capital Const. Fund	\$ 19,914,534	\$ 1,708,650	\$ 1,506,807	\$ (9,750,338)	\$ (1,688,554)	\$ 11,872,846	N/A
407	Building Svcs. Fund	\$ 333,525	\$ 1,713,130	\$ 2,074,265	\$ (2,036,656)	\$ (2,081,286)	\$ 10,000	N/A
		\$ 36,648,558	\$ 19,631,108	\$ 21,038,983	\$ (26,708,165)	\$ (18,262,434)	\$ 29,571,502	\$ 5,633,000
<i>Utility</i>								
401	Water Fund	\$ 7,649,605	\$ 892,116	\$ 951,144	\$ (980,818)	\$ (1,107,342)	\$ 7,560,902	\$ 396,789
402	Sewer Fund	\$ 6,316,023	\$ 2,839,060	\$ 2,904,949	\$ (2,967,682)	\$ (2,913,001)	\$ 6,187,401	\$ 1,731,847
403	Storm Water Fund	\$ 2,702,737	\$ 1,645,036	\$ 1,551,891	\$ (1,087,391)	\$ (1,157,987)	\$ 3,260,382	\$ 831,661
		\$ 16,668,365	\$ 5,376,212	\$ 5,407,984	\$ (5,035,891)	\$ (5,178,330)	\$ 17,008,685	\$ 2,960,297

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.

-Transportation Benefit Fund 2020 revenues, approximately \$407,000, cannot be spent until the legality of Initiative I-976 is decided in the court system.