



CITY OF
BAINBRIDGE ISLAND

FINANCE AND ADMINISTRATIVE SERVICES DEPARTMENT
MEMORANDUM

Date: March 3, 2023
To: Blair King, City Manager; City Council
From: DeWayne Pitts, Finance Director
Subject: December 2022 Financial Report

EXECUTIVE SUMMARY:

This report is the final monthly financial report for 2022. The overall financial condition of the City remains strong with modest growth in certain key revenues led by property, sales, and utility taxes; the City's three largest tax supported revenue streams. The general fund balance grew \$3.6 from January to December closing the year at \$22.4 million. This balance was bolstered by about \$1.8 million in unspent encumbered contracts and other unfinished work that will carry over into 2023. These carryover amounts will increase actual budget expenditures in 2023 and lower the 2023 fund balance by a corresponding amount. Notwithstanding the carryover items, ending 2022 fund balance would have been \$20.6 million or \$1.8 million higher than in January.

The last quarter of 2022 has seen a significant drop off in both real estate excise and building, development, and services revenue. Real estate excise taxes experienced record setting totals in 2021 with over \$4.2 million in revenue. These revenues are used to fund capital projects, street maintenance and debt service. The building, development and services revenue have also decreased despite fee increases that were effective in September and had not been raised in over 15 years. Seasonal revenue fluctuations in these revenues are not unusual, but with high interest rates, inflation and other uncertainty, it is possible this trend will continue. If that proves to be the case, the City may need to reevaluate the services and anticipated spending that these funds support in 2023 and 2024.

Please note that December 2022 ending results are not finalized and are subject to change through April 2023 when the external financial audit is completed by the Washington State Auditor's office.

TABLE 1 - SUMMARY OF YEAR-TO-DATE FUND ACTIVITY (UNAUDITED)

FUND NAME	2022 STARTING FUND BALANCE	YTD 2022 REVENUES	YTD 2021 REVENUES	YTD 2022 EXPENSES	YTD 2021 EXPENSES	YTD 2022 TRANSFERS	YTD 2021 TRANSFERS	DEC 2022 ENDING FUND BALANCE	RESERVES
Tax Supported Funds									
General Fund	\$ 18,763,694	\$ 21,610,914	\$ 20,211,559	\$ (16,413,504)	\$ (14,672,799)	\$ (1,527,988)	\$ (2,582,564)	\$ 22,433,116	\$ 6,776,447
Street Fund	\$ 127,501	\$ 1,067,746	\$ 843,452	\$ (3,201,663)	\$ (3,686,427)	\$ 2,099,502	\$ 2,942,428	\$ 93,086	N/A
REET Fund	\$ 2,540,049	\$ 3,885,236	\$ 4,230,391	\$ -	\$ -	\$ (4,612,739)	\$ (4,218,540)	\$ 1,812,546	N/A
Civic Impr. Fund	\$ 534,667	\$ 398,681	\$ 316,727	\$ (382,068)	\$ (186,324)	\$ -	\$ -	\$ 551,280	N/A
Affordable Housing Fund	\$ 511,214	\$ 839,581	\$ 46,787	\$ (18,360)	\$ (6,875)	\$ 100,000	\$ 101,125	\$ 1,432,435	\$ 59,171
ARPA Fund	\$ 5,085	\$ 83,156	\$ 5,085	\$ -	\$ -	\$ -	\$ -	\$ 88,240	N/A
General Obligation Bond Fund	\$ 6,661	\$ 611,324	\$ 617,323	\$ (1,554,534)	\$ (1,556,994)	\$ 941,734	\$ 942,394	\$ 5,185	N/A
Trans. Benefit Fund	\$ 1,331,727	\$ 669,592	\$ 665,662	\$ -	\$ (64,666)	\$ (540,000)	\$ (460,000)	\$ 1,461,319	N/A
Trans. Impact Fund	\$ 87,832	\$ 112,243	\$ 159,344	\$ -	\$ -	\$ -	\$ (250,000)	\$ 200,076	N/A
Capital Const. Fund	\$ 11,086,267	\$ 1,079,199	\$ 1,959,526	\$ (5,723,262)	\$ (2,965,146)	\$ 1,739,908	\$ 2,010,200	\$ 8,182,113	N/A
Building Svcs. Fund	\$ 8,829	\$ 1,246,083	\$ 1,361,608	\$ (3,062,209)	\$ (2,825,065)	\$ 1,790,832	\$ 1,456,207	\$ (16,465)	N/A
	\$ 35,003,525	\$ 31,603,755	\$ 30,417,464	\$ (30,355,600)	\$ (25,964,297)	\$ (8,750)	\$ (58,750)	\$ 36,242,931	\$ 6,835,618
Utility Funds									
Water Fund	\$ 6,709,801	\$ 1,957,669	\$ 1,564,225	\$ (2,954,751)	\$ (2,030,960)	\$ 8,750	\$ 8,750	\$ 5,721,469	\$ 445,725
Sewer Fund	\$ 5,572,633	\$ 4,964,987	\$ 7,564,106	\$ (5,008,092)	\$ (8,035,901)	\$ -	\$ -	\$ 5,529,528	\$ 1,213,625
Storm Water Fund	\$ 4,753,738	\$ 3,086,452	\$ 2,837,481	\$ (2,265,508)	\$ (1,902,453)	\$ -	\$ -	\$ 5,574,681	\$ 655,077
	\$ 17,036,172	\$ 10,009,107	\$ 11,965,812	\$ (10,228,351)	\$ (11,969,314)	\$ 8,750	\$ 8,750	\$ 16,825,678	\$ 2,314,427

INTRODUCTION:

The information presented shows a comparison and analysis 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 fund revenues are supported by tax inflows, while utility funds generate revenue by charging fees for services. Table 1 (attached) shows which funds fall into each of the two categories, and includes revenue, expenditure, and fund balance data by fund. Additional supplemental information in Table 2 (attached) provides total spending on the \$7.1 million American Rescue Plan Act (ARPA) projects identified as Council priorities in September of 2021.

TAX-SUPPORTED FUNDS:

Revenues of \$31.6 million in the City's tax-supported funds were \$1.2 million or 3.9% higher through December 2022 versus 2021. Increases in Sales and Use Tax, Housing, B&O, Private Utility, and Commercial Parking Tax are offset by decreased grant revenues, Building & Development fee revenues, and Real Estate Excise revenues through December.

Expenditures were \$4.4 million higher through December 2022 compared to 2021 due to increases in capital spending, salaries and benefits, professional services, and insurance.

Staff are closely monitoring trends in the following revenues and expenditures:

- General Fund sales tax revenue through December was \$7 million, an increase of \$573,000 or 9% over 2021. Revenue from the construction and retail trade industries each accounted for 30% and 34% of the year-to-date sales tax revenue, respectively.
- General Fund utility tax revenue through December is \$3.6 million, an increase of \$446,000 or 27% over 2021. This is primarily attributed to timing of payments, but also due to an increase of the monthly average electric utility tax payment of \$14,000 a month.
- Business and Occupation tax revenue was \$683,000, an increase of \$112,000 or 20% compared to 2021. Much of this revenue is collected in April, thus increases throughout the remainder of the year are unlikely to be material.
- Housing related sales tax revenue in the Affordable Housing Fund through December was \$669,000, an increase of \$623,000 or 1,331% over 2021 due to an ordinance increasing the City's sales tax rate 1/10th of 1 percent which went into effect January 2022 and collections on this tax began in March. Other revenues into this fund include Housing Trust Fund subsidy repayments from sold properties of \$170,000 and a sales tax credit of \$46,000.
- Real Estate Excise Tax (REET) revenue through December was \$3.8 million, a decrease of \$385,000 or 9% from 2021. The volume of property sales through December was down 25%, while the average sales price increased by \$255,000 or 21% when compared to 2021 Bainbridge property sales for the same period. There was a significant property sale of \$65.5 million in August 2022 which is bringing up the average sales price. Omitting this outlier, the average sales price through December increased \$137,000 or 11% to \$1.3 million.
- Street Fund revenue through December was \$1,067,746, a \$224,000 increase or 27% more than 2021. This came from increases in commercial parking lot taxes collected, a revenue source that is slowly recovering from the record lows caused by the pandemic. Street

fund expenditures through December decreased \$485,000 to \$3.2 million, compared to 2021. This is primarily attributed to equipment purchases by the Street fund in 2021.

- Revenues generated by building and development services were \$1,246,000 million through December, a decrease of 8% or \$116,000 lower than 2021. Reduced Plan Checking, Zoning, Planning Review fees, and Building Permit fees, partially offset by an increase in Planning/Development fees are the main factors in the overall change from 2021. A rate increase was implemented in September 2022 based on the results of the FCS Building and Development rate study. Despite the rate increases, revenues have continued to decline. This means that additional general fund transfers are needed to support the funds expenditures. Year-to-date general fund transfers total \$1.8 million.
- Capital Construction received grant revenues of \$1,079,000 million through December, compared to \$1.8 million in 2021. Capital spending began picking up in early summer, with spending of \$4.7 million exceeding 2021 by \$2.1 million or 80%. Capital salaries and benefits through December were \$182,000 and other Capital spending of \$5.5 million was primarily on four capital projects: Police & Court Facility, Sportsman Club & New Brooklyn Intersection, Madison Ave Sidewalk Improvements, and Eagle Harbor Phase II.
- Transfers out of REET were to Streets, debt service, and to fund capital projects for Senior Community Center Renovations, Eagle Harbor Phases I & II, Madison Ave Sidewalk Improvements, Sportsman Club/New Brooklyn, and City Hall Lower Parking Lot Retrofit.

UTILITY FUNDS:

Revenues of \$10 million in the City's utility funds were \$1 million or 12% higher through December compared to 2021. Operating and capital expenditures of \$10.2 million were \$1.3 million or 15% higher compared to the same time frame in 2021¹. Sewer had debt refinancing of \$3 million dollars in September of 2021. The proceeds and expenditures related to the refinancing have been omitted in the year over year comparison of this report.

Staff are closely monitoring trends in the following key revenues and expenditures:

- Water operating revenues through December were \$1.6 million, an increase of \$67,000 or 4% versus 2021. Charges for water services have decreased about 4%, while connection revenues are up 24% compared to 2021. Other inflows include \$326,000 in loan proceeds for the water tank. Operating costs of \$1.8 million were \$501,000 or 38% more than in 2021, with salaries, supplies, professional services, and repairs being the largest contributors to the increase. Capital expenditures year-to-date total is \$1.1 million for total expenditures of \$2.95 million.
- Sewer operating revenues through December totaled \$4.5 million, an increase of \$39,000 or 0.8% over 2021. Operating costs were \$3.3 million, an increase of \$347,000 or 12% from 2021, with increases in repair, supplies, utilities, professional services, and salary spending compared to 2021. Capital expenditures year-to-date total is \$401,000 for total expenditures of \$5 million.

¹ The City's three utility funds are individually self-supporting, generating revenue by charging for services provided. Please see Table 1 for additional details on each of the City's three utility funds.

- Storm and Surface Water Management revenues through December were \$3 million, an increase of \$120,000 or 4% compared to 2021, due to rate increases in storm water management fees. Operating costs increased 29%, or \$490,000 compared to 2021. Increases in annual drainage program costs, insurance, professional services, project permit fees, and salaries were factors in the spending increase.

ARPA ACTIVITY:

As of December 2022, the City has received all installments of the American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF). The final installment of \$3.5 million was received July 5, 2022. The following activity has taken place out of the ARPA fund:

- Transfer of \$250,000 in May to the General Fund for the Emergency Hub Solar Panels/Batteries. As of the end of December, this project has incurred \$22,000 in total expenditures. An additional \$104,000 was redirected by Council from the Beneficial Reuse project to the emergency hub panel project at the October 25th, 2022, Regular Business Meeting, increasing the committed total of the project to \$354,000.
- Transfer of \$96,000 in May to the Sewer Fund for the Wastewater Beneficial Reuse feasibility study. As of the end of December, this project has incurred approximately \$38,000 in total expenditures. At the October 25th Regular Business Meeting, \$104,000 of the allocated project total was shifted to the emergency hub solar panel project decreasing the committed amount remaining to \$896,000 for this project.

Additional commitments for these funds include the following:

- Affordable Housing Project – Wyatt & Madison: \$2,000,000
- Sustainable Transportation Plan – Madison Avenue Project: \$2,000,000
- Affordable housing Capital set-aside: \$1,750,000
- ADA Transition Plan: \$62,000

Table 2: American Rescue Plan Act (ARPA) Spending through December 31, 2022.

<u>Project List</u>	<u>Amount Committed</u>	<u>Amount Spent/Encumbered</u>	<u>Amount Remaining</u>
Wastewater Beneficial Reuse (01192)	896,000	42,088	853,912
HUB Solar Panels (01215)	354,000	21,563	332,438
Madison Ave - Sustainable Transp 2023 (01088)	2,000,000	-	2,000,000
Affordable Housing - HRB	2,000,000	-	2,000,000
Affordable Housing Set Aside	1,750,000	-	1,750,000
ADA Transition Plan (01218)	61,885	-	61,885
Total	7,061,885	63,651	6,998,235