



**Date:** September 17, 2019




**To:** Mayor Bruch, Deputy Mayor Dexter, Councilmember French, Councilmember Kidd, Councilmember Merideth, Councilmember Moran, Councilmember Schromen-Wawrin, City Manager West

**Cc:** William Bloor, Allyson Brekke, Brian Smith, Ken Dubuc, Thomas Hunter, Corey Delikat

**From:** Sarina Carrizosa, *Finance Director*

**Subject:** 2019 Second Quarter Budget Status Report

Attached please find the second quarter 2019 Budget Status Report for your review. This report covers the first six months of 2019, along with comparatives to previous years' data. For a quicker, easier assessment of revenues and expenditures "traffic light" indicators are being used on the financial summaries attached. The definitions of what qualify a revenue or expenditure in all areas to be considered "green", "yellow" or "red" are shown below.

Traffic Light Color	Symbol	Revenue	Expenditures
Green		<50%	>=50%
Yellow		>=50% to < 60%	>=45%
Red		>=60%	<45%

**General Fund:**

**Revenues** – General Fund revenues in the first half of 2019 continue to follow a different trend than in past years due to the accrual of sales tax received in January and February that was collected in November and December. Due to the two month lag of receiving this revenue the City's financials will show no collection in January and February each year with three months posting into December. Comparing March – June of 2018 to 2019 sales tax revenues are coming in slightly lower than in 2018, but they are still on target for the 2019 budget.

Property tax revenue is currently exceeding budget expectations by 7.2%. This could be the result of more payments being made in the beginning of the year, or the result of new growth. However, more will not be known until November, when the second half of property tax is collected.

Additionally, many taxes are collected on a quarterly, or yearly basis, and as a result there tends to be a lag in revenue collection in the first part of the year. An example of this is telephone tax, with December being the strongest month for collection of this revenue source. Overall, revenues in the General Fund, while slightly behind budget are not of concern as many of these revenues are expected to balance and meet budget expectations in the last part of the year.

#### **Utility Taxes –**

- All taxes are either meeting budget expectations or are currently exceeding budget goals for the first half of the year. Solid Waste transfer station and Electric utility tax are both exceeding the half year budget mark. These increases are largely attributed to the increased consumption due to the large snow storm in February and an increased amount of self-haulers to the landfill (an 11.9% increase from planned budget amounts). All indicators show that utility tax as a whole will likely be over budget by year end.

#### **Expenditures**

- Total expenditures for the General Fund are 2.43% under budget for the first half of the year. All areas are under budget except intergovernmental payments for services. This is due to the timing of when these payments are made and is not of concern. This expenditure category is expected to remain in budget by the end of the year. Staffing vacancies, as well as underspending for contracts that are seasonal in nature, continue to be the main source of savings in the General Fund.

#### **Special Revenue Funds:**

**Lodging Tax Fund #101** – The Lodging Tax fund was also affected by the accrual of taxes received in the first two months of 2019 as well. March to June 2019 compared to 2018 shows that this tax has increased since this time last year. Showing more tourism trends within the City. Expenditures are on track in this fund.

**Street Fund #102** – Revenues and expenditures remain slightly below budget expectations at the end of the second quarter. However, expenditures are not exceeding revenues, allowing the fund to balance. Revenues collected from Motor Vehicle Excise Taxes are somewhat seasonal in nature and could pick up in the late summer and early fall month. This fund will be monitored in the coming months.

**Real Estate Excise Tax #1 & #2 (REET#1 & REET#2)** – Revenues in both funds are slightly lower than budget expectations; however, the first two months of the year are usually low due to the timing of taxes received. 2019 is not expected to see the same revenue generation as 2018, but REET is currently on track to meet revenue expectations for the year. Expenditures consist of debt and transfers for capital and as a result the budget is usually expended by mid-year so the low budget balances in both funds are not concerning.

**PenCom #107** – PenCom tax revenues continue to remain high in 2019. Compared to June of 2018 tax revenues are 4.8% higher in 2019 and are expected to exceed the budget by year end. Expenditures in PenCom are under budget largely due to significant staffing shortages.

**Business Improvement Fund #165** – This fund is used to collect revenues for the Port Angeles Downtown Association for parking and downtown improvements. Year-to-date revenues are on target. Expenditures are approved by Council, to date in 2019 there has not been any requested spending from the Downtown Association.

**Port Angeles Housing Fund #172** – This fund is used to finance housing rehabilitation and building in the City limits. Very little activity has occurred to date due to timing. A Community Development Block grant is expected for the Shore Aquatic Center. Once this grant is received spending can occur.

#### **Debt Service Funds:**

The City currently has three bonds, the 2016 LTGO Fund #215 for property acquisition for the parking structure (Niichel property), the LTGO Bond Fund #216 for capital related to the Landfill Bluff Stabilization Project, and the LTGO Bond Fund #217 which provided funding to extend service into the Western Urban Growth Area (WUGA). The revenues in these accounts are primarily transfers in from related utilities and the General Fund and as a result are right on budget. Spending consists only of payments for interest and principal. Little spending has occurred to date owing to the timing of when payments are due. The bond for the Niichel property which has a \$1,000,000 balloon payment due in 2021, will be addressed during the 2020 Budget cycle.

#### **General Government Capital Projects Funds:**

**Capital Improvement Fund #310 & Transportation Benefit District #312** – Revenues are high in both funds owing to a grant received for Race Street and insurance recovery for the Parks building that was destroyed in the December windstorm. Both of these revenues were unexpected in 2019 and will be included in the second budget amendment. Owing to the seasonal nature of capital projects the expenditures for capital projects are low. This will change as we move into the third quarter of the year.

#### **Utilities and Enterprise Funds:**

**Electric Fund #401** – Electric revenues continue to remain slightly higher than anticipated despite the reduced consumption in the industrial transmission, with expenditures lower than expected due to staffing vacancies.

**Water Fund #402** – Revenues at the mid-year mark are aligned with the budget at 50.47% collected. Expenditures are approximately 6% under budget due to timing of debt payments.

**Wastewater Fund #403** – Revenues are slightly over budget for mid-year in the Wastewater fund at first half of the year. Expenditures remain low due to timing of debt payments. As the year progresses, expenditures should align with the budget.

**Solid Waste Fund #404** – The Solid Waste fund is on track with revenues in the second quarter with 51.3% collected thus far. Expenditures are under budget as a result of timing of payments, however, this fund is expected to be fully expended at year end.

**Stormwater Fund #406** – Revenues are significantly over budget compared to what is expected in the first half of the year. This is directly related to the collection of property taxes and could balance later in the year. Expenditures are also under budget due to savings in the first part of the year in all categories.

**Medic 1 Fund #409** – Ground Emergency Medical Transport (GEMT) revenues in the first half of the year are 43.9% higher than was anticipated in the budget. This is causing the 4.6% increase to the Medic 1 revenue budget. Expenditures are on budget for the second quarter with challenges remaining in overtime time costs due to staffing vacancies. However, the fund is expected to finish the year on budget.

**Harbor Clean -Up Fund #413** – This fund provides insurance coverage for the majority of costs associated with the Harbor Remedial Investigation/Feasibility Study. Expenses are paid with insurance reimbursement following resulting in timing differences. Revenues and expenditures remain significantly under budget indicating both invoices and reimbursements for this project continue to remain below expectations.

**Conservation Fund #421** – Contract payments from Bonneville Power Association for conservation activities make up nearly 100% of the revenue for this fund. Decreased power purchases have resulted in revenues and corresponding expenditures being below budget.

### **Utilities Capital Funds:**

#### **All Capital Utility funds –**

- As we have moved into the spring and start of summer capital projects and spending have picked up. This has caused an increase in transfers in most areas as well.
- Surcharge collection in both the Solid Waste and CSO funds are both meeting budget expectations.

### **Internal Service Funds:**

**Equipment Service Fund #501** – Equipment Services revenues remain high due to proceeds collected from the sale of surplus vehicles, charges for labor and services, and higher than anticipated interest collection. Expenditures are much lower than anticipated

(27.2% below budget), but should align with the budget as more vehicles begin to be replaced in accordance with the budget.

**Information Technology Fund #502** – Revenues received in IT are transfers in from other departments for services and as a result are currently meeting budget expectations. Expenditures are about 19.7% below budget in the second quarter as a result of capital spending that has not yet occurred.

**Self-Insurance Fund #503** – This fund accounts for property/casualty insurance, workers' compensation, and health insurance coverage. Similar to the IT Fund this fund only spends amounts collected by other funds for services. Expenditures in the self-insurance fund are 5.2% higher than revenues at the end of the second quarter as a result of timing of payments in comparison to collection of insurance or workers compensation from departments, which occurs on a bi-weekly or monthly cycle. This is normal in this fund.

#### **Permanent & Trust Funds:**

**Cemetery Endowment Fund #601** – A portion of the purchase price for gravesites and related items is collected and placed in this fund for the maintenance of the cemetery after it is at capacity. Investment interest revenues are currently 24% above expectations for the year. Expenditures cannot occur until the cemetery has reached capacity.

**Firemen's Pension Fund #602** – This fund pays for retired pre-LEOFF employee medical and salary costs based on existing RCW and agreements. Interest collection is far exceeding the budget and has surpassed budget expectations for the year. Spending in this fund has slowed and is expected to be under budget at the end of 2019.