



Date: April 20, 2020

To: Mayor Dexter, Deputy Mayor Carr, Councilmember French, Councilmember McCaughan, Councilmember Meyer, Councilmember Schromen-Wawrin, Councilmember Suggs, City Manager West

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

From: Sarina Carrizosa, *Finance Director*

Subject: 2020 Year-End Financial Report (unaudited)

This report provides an overview of the year-to-date financial information for 2020, along with comparatives to previous years' data. High level information will be included in this report, with specific financial reports provided as a supplemental attachment for your reference when reviewing this report. Please note the City's audit is not complete and therefore there is potential for the reports to change. Additionally, specific information on spending and revenue information can also be found on the Open Budget portal of the City's website here: <http://openbudget.cityofpa.us/#!/year/default>, or by clicking on the "Open Data and Public Records" icon on the City's website and following the link for "Open Budget."

For easy reference the "Budget at a Glance" chart demonstrates the percent change for each major fund at year end compared to the amended 2020 Budget. Revenue changes highlighted in green indicate the year-end actual amounts were either in line with, or surpassed, budget expectations. Expenditure items in green were at or below budget at the end of 2020. Items highlighted in red exceeded budgeted expenses or did not meet revenue expectations. When reviewing year-end amounts attention to overall revenues less expenditures is the best way to determine fund stability. For example, if revenues are greater than, or equal to expenditures the fund balance will increase, or remain the same. However, if expenditures exceed revenues the fund balance will be impacted negatively.

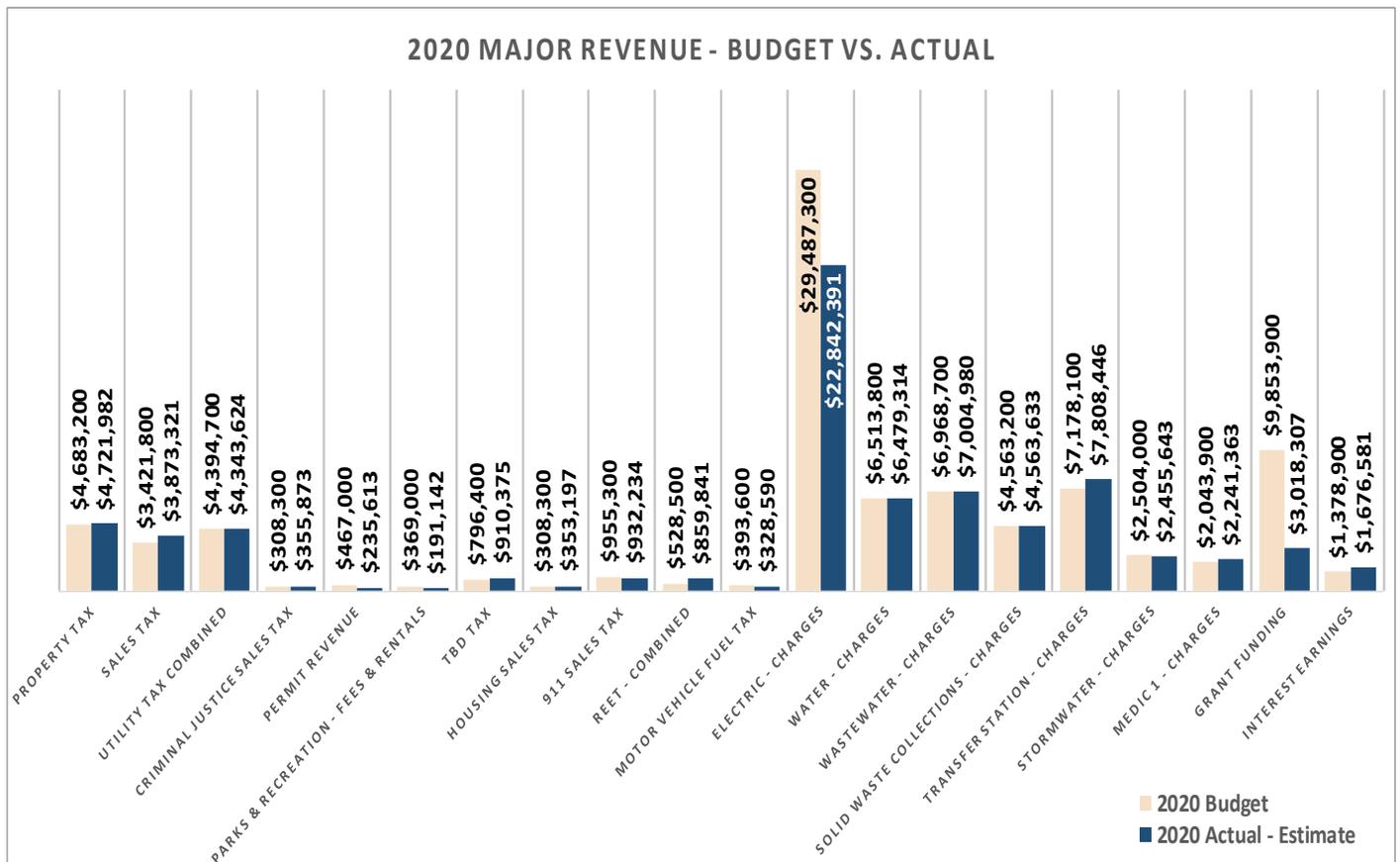
BUDGET AT A GLANCE		
% CHANGE 2020 ACTUAL TO BUDGET		
	REVENUE	EXPENSES
GENERAL FUND	4.71%	6.11%
LODGING TAX FUND	28.34%	32.58%
STREET FUND	3.16%	14.26%
REET I & II COMBINED	-62.69%	12.94%
PENCOM FUND	-0.02%	12.29%
PORT ANGELES HOUSING FUND	25.90%	49.45%
DEBT SERVICE FUNDS - COMBINED	-0.08%	0.05%
ELECTRIC UTILITY FUND	21.39%	23.57%
WATER UTILITY FUND	-0.29%	11.74%
WASTEWATER UTILITY FUND	-0.94%	5.82%
SOLID WASTE UTILITY FUND	-4.57%	1.97%
STORMWATER UTILITY FUND	1.34%	10.69%
MEDIC 1 UTILITY FUND	-11.27%	0.64%
HARBOR CLEAN-UP FUND	63.19%	63.24%
CONSERVATION FUND	45.24%	32.94%
EQUIPMENT SERVICES	0.56%	55.07%
INFORMATION TECHNOLOGY	8.67%	26.41%
SELF-INSURANCE	14.88%	14.03%
GOVERNMENTAL CAPITAL FUNDS	29.03%	46.50%
TRANSPORTATION BENEFIT DISTRICT	60.30%	33.14%
UTILITY CAPITAL PROJECTS	1.85%	30.37%
TOTAL CITYWIDE ALL FUNDS	10.44%	17.72%

Citywide Funds:

2020 was a challenging year for many reasons, as the City navigated through an unprecedented pandemic that involved moving employees to home based work, changes to the work place and prioritizing the needs of our community during this difficult time the hard work of the past was brought to the forefront to guide the City financially. Years of conservative budgeting, sound financial policies and building stable reserves allowed the City to not only provide assistance to our community but do so while staying on firm financial footing. The COVID-19 pandemic impacted each area of the City as is demonstrated in the end of year budget status report. Careful attention to City needs, spending patterns and implementation of a hiring

freeze demonstrated savings at year-end in all funds. While revenue collection was under budget expectations in many funds at the end of 2020 the ability of City staff to determine needs and identify savings whenever possible kept operating funds balanced with the expenses. Revenue trends are discussed in more detail throughout this report and a major revenue chart is included at the bottom of this section for easy comparison of budget to actual amounts for these revenue sources. Expenditures Citywide saw similar patterns of savings in personnel costs resulting from the hiring freeze initiated in March of 2020 as well as less spending in travel and training, utilities expenses, repairs and maintenance and project spending. Funds that were primarily capital in nature saw many projects carry into 2021, with corresponding grant revenue reimbursement delayed as a result. Revenues in the internal service funds also did not meet budget expectations due to budget savings that were realized in the transfers for services from other funds. In total, though there are lasting effects from the pandemic, 2020 was a financially sound year for the City due to proactive measures that took place early in the year that allowed fund balances to remain within the thresholds outlined in the financial policies.

Though 2020 may have come to an end the COVID-19 pandemic has not and staff will continue to monitor the City budget to ensure consistency and sustainability. The full effects and long-term impacts of the pandemic are not yet known, and it is imperative the City approaches spending and the use of excess reserves with caution to ensure the foundation we have worked hard to build remains intact. Likewise, it will be a main priority of staff to continue to find ways to assist our residential and business communities that are still in need. This vigilant approach will allow the City to continue to operate as normally as possible in 2021 and will keep the potential long-term financial impacts of this emergency situation from escalating.



General Fund:

Revenues – General Fund revenues fell short of projections in all major categories except for taxes, resulting in an overall decrease as compared to the budget by 2.7% at the end of the year. The revenue shortfall in the General Fund was directly related to the impacts of the COVID-19 pandemic, with trends that were untypical for what is ordinarily seen in this fund. While the majority of these trends from the pandemic are not expected to continue as we move further into 2021 some may become new patterns in the future, such as an increase in taxes collected from online sales. However, expenditures at year-end did not exceed revenues despite the lower than expected revenue collection, allowing for this fund to remain stable in 2021. Each major revenue source in the General Fund is discussed further below.

Property taxes – Property tax collections were slightly higher than anticipated for the year. The City received \$38,782 more additional tax in this area than expected due to revenues from new construction.

Sales Taxes – City sales taxes for a 12-month basis are well over revenue expectations at year-end. Regular City sales taxes are 13.2%, or \$451,521, over budget for the year. An increase of 6.7% from the 12-month period prior. Increases to tax revenue were mainly in the construction, online sales and technology services categories. Each of these categories has seen increases in the last few years, however the effects of the pandemic escalated this increase in collection for 2020 as we saw previous trends change with a push to online spending, and a significant decrease in food and accommodation tax collection. This category previously was one of the largest sources of tax collection and is expected to increase in 2021 as compared to 2020 as businesses are able to re-open later in the year. Sales tax trend changes by category in 2020 as compared to 2019 are indicated below:

- Retail Trade increased 16.1%
- Construction increased 7.7%
- Accommodation and Food Services decreased 25.3%
- Wholesale Trade increased 6.2%
- Manufacturing decreased 17.4%
- Other services increased 21.7%
- Information increased 15.5%

Utility Taxes –

- Utility taxes collected in the electric, water, wastewater, solid waste collection and stormwater utilities all fell slightly short of budget expectations, finishing the year a total of \$102,087, or 2.7% under budget collectively. This was related to changes in usage due to the pandemic.
- The Solid Waste Transfer Station saw a significant increase to revenue collection for the fourth year, resulting in a \$51,012 increase to the utility tax collected in the General Fund.

Telephone Tax – This tax has seen unsteady changes in the last several years due to the effects of households switching from landlines to cell phones, making the tax collection highly unpredictable. Collection in 2020 saw an additional \$58,000 decrease compared to budget, or 8.8% lower as compared to 2019, indicating this revenue source could be declining once again after a few years of stability.

Charges for Goods and Services – In the General Fund allocations make up the majority of charges for goods and services. Lower staffing levels from vacancies as well as decreased spending resulted in \$1,062,091, or 10.5%, less being allocated to utilities at the end of the year than was projected in the budget.

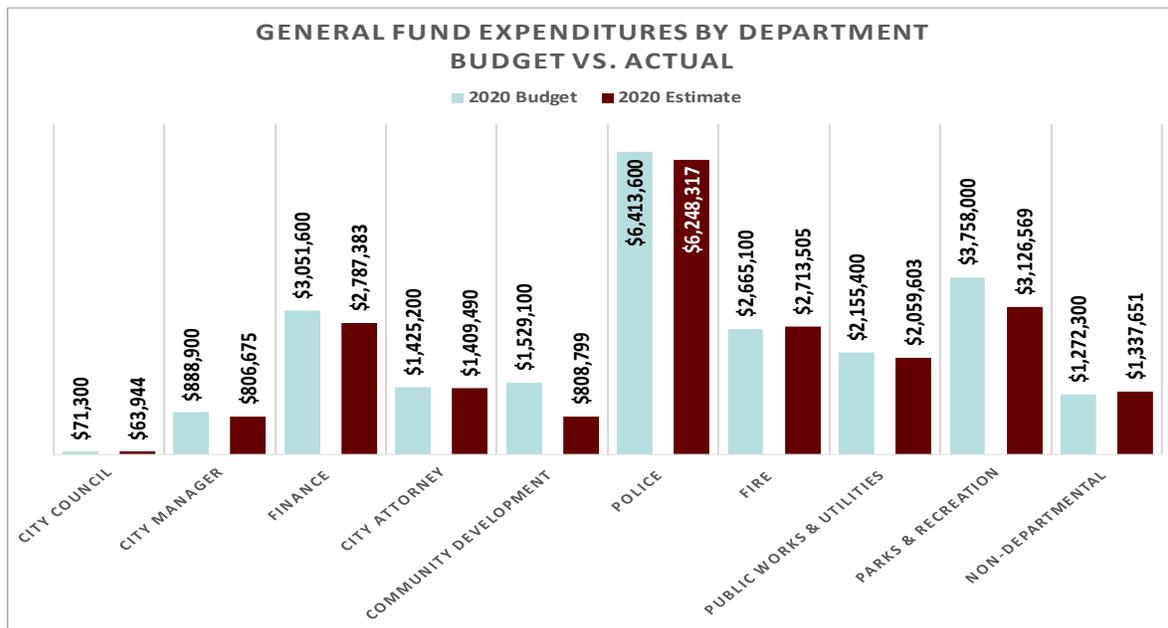
Building Permits and Fees – In 2020, the City saw a substantial decrease in building permit revenue resulting from delays in construction due to the pandemic. Permit revenue fell 48.4%, or \$231,387 below budget projections.

Parks and Recreation Fees and Rental Income – One of the most significantly impacted areas of the City’s budget in 2020 was in the Parks and Recreation collection of sporting event fees and facility rentals. The year ended 51.8% lower than budget expectations. As the State starts to move into less restrictive phases it is expected these revenues will start to see an increase, though this increase is not expected prior to mid-year 2021.

Expenditures

- Total expenditures for the General Fund were \$1,868,564, or slightly over 8%, below budget. This was due primarily to staffing vacancies held open to offset pandemic related revenue loss in multiple departments as well as corresponding decreases to services for sporting events and facilities as well as decreases in expected IT services rendered during 2020. Additionally, \$589,500 will carry into 2021 for an opportunity fund grant for the Waterfront Center that due to timing constraints was not distributed in 2020.
- The General Fund revenues less expenditures ended the year with an estimated net increase in fund balance of \$450,000 as a result of higher than anticipated tax revenue collection and personnel savings resulting from vacancies, bringing the fund balance to an estimated 37.1% at year end. (Please note that approximately \$1.4 million from General Fund reserves is planned for use on one-time projects in the 2021 Budget, this includes carry over of grant and project spending from 2020 and will reduce the total percentage of the General Fund reserve in the amended 2021 to an estimated 30.5%.) Any excess fund balance spending should be carefully considered until more about the long-term effects of the pandemic are known.

The chart below shows the change in expenditures from the 2020 Budget to actual amounts for each department in the General Fund.



Special Revenue Funds:

Lodging Tax Fund #101 – This was one of the most impacted funds by the COVID-19 pandemic. Revenue in recent years had been increasing steadily from year to year until 2020. This fund saw

a 28.3%, \$200,561, lower revenue collection than budget expectations in 2020. Current economic trends indicate that 2021 should see higher volumes of Lodging Tax than 2020, but it is not expected that 2021 will see the same historic amounts for this tax collection as in previous years. Expenditures were slightly lower than anticipated primarily due to events that were delayed or cancelled and a reduction in marketing services needed which offset slightly to keep this fund from depleting reserves further.

Street Fund #102 - Revenues in the Street fund came in \$54,530 lower than anticipated in the budget as a result of motor vehicle fuel tax falling 16.5% below the budget. However, expenses ended the year \$245,207 under budget due to savings in personnel costs due to staffing vacancies and repairs and maintenance. The net of the revenues and expenditures is estimated at \$196,977. This means the Street fund balance will not be negatively impacted by the revenue shortfall in 2020 and the 25% fund balance requirement will remain in place keeping this fund stable.

Real Estate Excise Tax #1 & #2 (REET#1 & REET#2) – Revenues in both REET funds combined completed the year more than \$320,000 over budget. This is the sixth year this collection has remained higher than budget, and will be closely monitored for potential sustainable increases to revenue in this fund. Expenditures consist of transfers approved for debt and capital and as a result are fully expended for the year.

PenCom #107 – Revenue in the PenCom fund was slightly above the budget projections despite the county wide sales tax collection for 911 services falling 2.4% below the budget expectations. This is largely due to collection of E911 tax on phone services finishing the year overbudget. PenCom revenues for capital reimbursement were also under budget due to incomplete projects in 2020. Expenditures continue to be significantly under budget largely due to extremely low staffing levels in PenCom and unfinished capital projects. Year-end expenses were \$427,795, or 12.3% under budget at year end.

Business Improvement Fund #165 – This fund is used to collect revenues for the Port Angeles Downtown Association for parking and downtown improvements. Expenditures consist of an agreed upon payment to the Association for events and clean up. The amount of businesses downtown and the amount of the recurring charges varies very little. This in turn typically allows for consistent budgeting and spending in this fund. In 2020, City Council elected to waive the second through fourth quarter business improvement fees to assist Port Angeles businesses that were not able to operate as usual due to the precautions in place from the pandemic. Expenditures were slightly below budget at year-end.

Port Angeles Housing Fund #172 – This fund is used to finance housing rehabilitation and building for low income residents in the City limits. While under budget in revenues and expenditures, these amounts are related to contracts and resulting CDBG grants that will carry into the 2021 Budget for funding to support our community with rental assistance. As with other sales tax related revenue the housing tax that began in April of 2020 exceeded expectations by 14.6%, with a total collection amount of \$353,197.

Code Compliance Enforcement Fund #175 – This fund accounts for actions taken by the city regarding blighted properties. A \$50,000 transfer from the General Fund was used as a start-up for the fund. In 2020, there was little activity associated with this fund and as a result this fund was within the budget projections at the end of the year.

Debt Service Funds:

2016 LTGO Fund #215 – Property acquisition for the parking structure (Niichel property) carries a \$1 million balloon payment due in 2021, without an early payoff option. With the sale of this property revenues in this fund consist of investments only. In 2020, the General Fund also transferred \$350,000 in anticipation of the balloon payment in 2021. This payment was made in March of 2021 as scheduled and completes the debt associated with this property. This fund will be closed in 2021.

LTGO Bond Fund #216 – This bond provided capital for the Landfill Bluff Stabilization Project. While considered a governmental debt, the debt service is paid with a transfer from the Solid Waste Fund. As a result this fund ended the year on budget for revenues and expenditures.

LTGO Bond Fund #217 – This refunding bond provided funding to extend service into the Western Urban Growth Area (WUGA). Approximately 82% of the total debt service is paid by Electric, Water, and Wastewater utilities. With the remaining 18% coming from the General Fund. As revenues consist of transfers in and expenditures only consist of principal and interest payments the year ended on target.

General Government Capital Projects Funds:

Capital Improvement Fund #310 – Due to changing priorities capital projects do not follow a spending pattern from year to year. This was particularly clear in 2020 as the pandemic shifted City priorities, staffing capacity and hindered the City's ability to obtain needed supplies and services for the completion of these projects. In this fund revenues fell short by 29.0% due to unreceived insurance funding that was expected in the budget as well as uncollected grant and donation revenue for park improvements from organizations at year end. Spending was also below budget due to unfinished capital projects that will carry into 2021. Funding for each project approved in the 2020 Budget will be held in reserves and carried into 2021 for use on these unfinished projects.

Transportation Benefit District #312 – Tax collection in the Transportation Benefit District (TBD) was 60.3% under collected in 2020 due to grant revenue that has not yet been received. These grants will carry into 2021 for project completion. However, the TBD tax collected exceeded budget expectations by 14.3% (\$113,975). Spending in this fund was below budget by \$579,747, or 33.1% due to projects that were delayed as a result of the impacts of the shutdown from the pandemic. The funding for these unfinished projects remains in this fund for completion and were included in the first budget amendment.

Parks Capital Fund #316 – Revenues in this fund fell short of budget expectations by 40.7% due to a decrease in facility rental fees collected as a result of the shutdown that occurred during the pandemic. This trend is expected to continue into the early portion of 2021, but is not expected to continue long-term. Expenditures finished the year on budget in this fund.

Utilities and Enterprise Funds:

Electric Fund #401 – Revenues in the Electric fund ended the year 21.4% under budget as a result of less consumption by the City's industrial customer than anticipated. This customer category fell 78.9% short of budget expectations. Additionally, revenue followed an untypical trend in this utility fund as compared to previous years resulting from the COVID-19 pandemic. Residential consumption finished the year 4.7% above budget while commercial consumption was 5.5% below

budget; however, the two offset at year-end keeping the overall budget at expectations. Expenditures were 11.4% under budget due to less than anticipated power purchased from BPA for the City's industrial customer and the corresponding decrease in taxes paid, in addition to continued personnel vacancies in 2020.

Water Fund #402 – Revenues finished the year in the water fund slightly over budget as a result of investment earnings not expected in the budget resulting from favorable market conditions. As noted in the Electric fund residential usage was higher than budget expectations (5.0%) while commercial saw a decrease (8.2%) in the water fund as well. This was not significant overall as the changes in the two categories offset by the end of the year. Expenditures were 11.7% below budget as a result of savings from personnel vacancies, minor repairs and maintenance, and professional services in the industrial water division.

Wastewater Fund #403 – Revenues were over budget (\$67,320) in 2020 due to higher collection of investment income than expected. Additionally, this fund saw the same patterns as the Water and Electric funds for usage, with residential collection significantly above budget and the commercial revenue falling below budget. At the end of the year these revenue sources offset providing fund stability. Expenditures were under budget by 5.8% (\$420,189) due to savings in administrative services from the General Fund and the IT fund for services provided, as well as repairs and maintenance, machinery and equipment and staffing vacancies.

Solid Waste Fund #404 – Revenue in the Solid Waste fund ended the year over budget primarily as a result of higher volumes of waste brought into the Transfer Station. Revenue in this fund ended the year \$549,974, or 4.6% higher than budget expectations. Expenditures in the Solid Waste Fund were 2.0% below budget largely due to unspent professional services in the Post Closure division and lower than expected administrative services charged from other funds (such as the General fund and the IT Fund) for services rendered for the Solid Waste division.

Stormwater Fund #406 –The City received 1.3% (\$35,620) less revenue than budgeted in this fund primarily due to unreceived grant revenue at year end. Expenditures were also under budget by 10.7% (\$262,923), due to lower professional fees and less utility expenses than anticipated.

Medic 1 Fund #409 – Revenues were 11.3% (\$332,462) over budget at the end of 2020 due to increased transport services and grants received for the Community Paramedicine program. Expenditures finished the year slightly under budget.

Harbor Clean -Up Fund #413 –This fund includes 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 were significantly under budget at the end of 2020 indicating both invoices and reimbursements for this project are behind.

Conservation Fund #421 – Contract payments from Bonneville Power Association for conservation activities make up nearly 100% of the revenue for this fund. This revenue is tied to the amount of power purchased. At year-end revenues were 45.2% (\$217,340) lower than expected and expenses were \$202,320 under budget due decreased power purchased in 2020 and the related revenue received for conservation incentives. Expenditures were lower than budget expenses due to decreased spending for incentives and from savings for a planned retirement. This vacant position is not planned to be filled in 2021.

Utilities Capital Funds:**All Capital Utility funds –**

- Revenues in Electric, Water, Wastewater and Stormwater capital funds are the result of a funding transfers from each of the pertaining utilities. Solid Waste and CSO capital funds also receive a surcharge to pay for debt service in addition to the transfer from the utilities. Transfers are made in each budget year regardless of spending to keep rates stable and predictable. It is not uncommon for revenues to stay in reserves until a project is fully funded and ready for implementation. Due to the transfer of funds on a yearly basis revenues in these funds are in line with the budget expectations.
- All projects included in the budget are approved in the Capital Facilities Plan.
- All utility capital funds were well under anticipated spending, indicating projects will carry into future years. The need to carry many of these projects into 2021 was related to the effects of the pandemic. Many supplies and services needed to finish these projects were not available for much for 2020, and as a result capital projects were unable to move forward as scheduled.

Internal Service Funds:

Equipment Service Fund #501 – Revenues ended the year primarily on-target as compared to the budget due to transfers for vehicle replacements and charges for services remaining in place in 2020. Expenditures finished the year well under budget due to capital vehicle replacements that were carried into 2021 due to delays in manufacturing as a result of the pandemic.

Information Technology Fund #502 – Revenues and expenditures were both under budget in 2020. The IT fund charges other departments for the expenditures incurred while operating and maintaining the City's IT infrastructure. Revenue in the IT fund is adjusted at year-end to reflect the amounts billed to funds for actual expenditures of the IT fund. In 2020, savings were realized as compared to the budget due to carrying several IT capital projects into 2021 as well as changes to software.

Self-Insurance Fund #503 – This fund accounts for property/casualty insurance, workers compensation, and health insurance coverage. Revenues and expenditures were both under budget for 2020 by over 14%. Similar to the IT Fund, this fund only spends amounts collected by other funds for services. The savings in 2020 was the result of unspent budget for employee insurance due to staffing vacancies.

Permanent & Trust Funds:

Cemetery Endowment Fund #601 – A portion of the purchase price for gravesites is collected and placed in this fund maintenance of the cemetery after it is at capacity. Capacity is not expected to be reached for many years. Revenues surpassed the budget by \$255 in 2020.

Firemen's Pension Fund #602 – This fund pays for retired pre-LEOFF employee medical and salary costs based on existing agreements. As of December 31, 2020 the fund had three former employees and one surviving spouse covered by this plan. In 2020, the investment earnings in this fund greatly exceeded expectations, by more than \$45,000, and spending was considerably reduced due to long-term care costs that were no longer needed and movement of certain insurance costs into the General Fund to align with the Governmental Accounting Standards Board (GASB) changes. The result of which moved \$25,099 into the fund balance at the end of the year.