



Date: May 6, 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, Shailesh Shere, Corey Delikat

From: Sarina Carrizosa, *Finance Director*

Subject: 2018 Year-End Financial Report (unaudited)

Attached please find the Year-End 2018 Budget Status Report for your review. This report covers the Year-to-Date information for 2018, along with comparatives to previous years' data. Please note the City's audit is not complete and therefore there is potential for the reports to change.

We are continuing the use of the "traffic light" indicators to allow for a quicker, easier assessment of revenues and expenditures. The definitions of what qualify a revenue or expenditure to be considered "green" or "red" are shown below.

Traffic Light Color	Symbol	Revenue	Expenditures
Green		<100%	>100%
Red		>100%	<100%

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.

General Fund:

Revenues – General Fund revenues saw increases in nearly every category resulting in a 5.4% increase for the year. This was primarily the result of taxes of all types ending the year much higher than anticipated in the budget. There was also a one-time accounting change that occurred at year end where taxes collected in 2018, but received in January and February of 2019 were accrued into 2018. This will eliminate the two month lag seen in the past for state shared taxes and sales tax, but resulted in a one-time increase to General Fund revenues of just over \$822,000. This change was recommended by the State Auditor's Office during the City's last audit. On a 12 month basis revenue in the General Fund still came in approximately 1.5% higher than expected.

Property taxes – Property tax collections are slightly higher than anticipated for the year. The City received just over 100% of expected property taxes.

Sales Taxes – City sales taxes for a 12 month basis are well over revenue expectations. Regular City sales taxes are 9.5%, or \$303,122, over budget for the year. The Eastern Urban Growth Area (EUGA) taxes fell slightly short of the budget at the end of the year, however

the budget was raised significantly in this area in 2018 after several years of EUGA tax exceeding budget expectations.

Utility Taxes –

- Despite reductions expected in taxes collected from the industrial area electric utility tax revenues were a little less than 3% above budget for the year primarily due to residential usage being much higher than expected.
- Utility taxes collected from water was slightly under budget due to less consumption than anticipated.
- Wastewater utility taxes collected was nearly \$100,000 over budget. This was largely due to over collection in residential and commercial.
- Solid Waste collections finished the year 3.0% below budget; however revenues collected were 24% higher than in the previous year.
- Due to a large increase in collected waste at the Solid Waste Transfer Station the budget for utility taxes was amended to reflect this upturn in the third quarter of the year. At year-end the amended budget fell short by just \$1,900.
- Stormwater utility taxes are 3.1%, or approximately \$5,300 over budget for the second year. Stormwater fees are assessed on property owners and are collected through the Clallam County tax bill.

Telephone Taxes – After several years of significant decline telephone tax finished the year 9.8% above the budget amount. This indicates the effects of households switching from landlines to cell phones has smoothed out and this tax may now be more stable and easier to predict in the future.

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 resulted in \$210,400 less being allocated to utilities than was projected in the budget.

Expenditures

- Total expenditures for the General Fund were \$368,200, or nearly 2%, below budget. This was due primarily to staffing vacancies as well as contracts that were unfinished at year-end. These unfinished contracts will carry into the 2019 budget.
- Interfund payments for services were over budget due to work performed by the utilities for General Fund departments. This has become a trend that has continued for several years and will be further analyzed and amended in future budgets.
- The General Fund revenues less expenditures ended the year with a net increase in fund balance of \$787,218. This was mostly attributed to the one-time accounting change for taxes as well as one-time savings from personnel vacancies.

Special Revenue Funds:

Lodging Tax Fund #101 – This fund was affected by the accrual of taxes received in the first two months of 2018. The overall one-time increase resulted in an addition of \$74,721 to reserves. On a 12 month basis revenues in the Lodging Tax fund continue to exceed budget expectations by 31% or \$180,151 over budget. Expenditures slightly exceeded expectations as well due to unanticipated event grant expenses that were carried forward from 2017 into 2018.

Street Fund #102 - Revenues in the Street fund came in higher than anticipated in the budget as a result of a one-time accrual of Motor Vehicle Fuel tax that increased revenues \$64,833. On a 12 basis revenues in the Street fund fell short of the budget by \$43,026 primarily as a result of interdepartmental billings for work performed by Street employees for street sweeping. Expenses ended the year \$141,142 under budget due to savings in supplies needed in all areas and in contracted work.

Real Estate Excise Tax #1 & #2 (REET#1 & REET#2) – Revenues in both REET funds completed the year more than \$280,000 over budget. Expenditures consist of transfers for debt and capital and as a result are fully expended for the year.

PenCom #107 – PenCom revenues were \$244,807 (8.6%) over budget due to higher 911 tax collections than anticipated. Expenditures were \$181,445 (6.3%) under budget as a result of staffing vacancies. At year-end there were four open positions in Pencom.

Business Improvement Fund #165 – This fund is used to collect revenues for the Port Angeles Downtown Association for parking. 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 allows for consistent budgeting and spending in this fund. In 2018, both revenues and expenditures were slightly lower than budget.

Port Angeles Housing Fund #172 – This fund is used to finance housing rehabilitation and building in the City limits. While under budget in revenues and expenditures, these amounts are related to contracts and resulting grants to Peninsula Housing Authority.

Code Compliance Enforcement Fund #175 – This fund was created in 2018 to fund 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. No spending has occurred to date.

Debt Service Funds:

2016 LTGO Fund #215 – Property acquisition for the parking structure (Niichel property) continues to carry a \$1 million balloon payment due in 2021, without an early payoff option. The sale of this property to the Lower Elwha Klallam Tribe occurred in 2018. Proceeds were placed into reserves for payment of this loan; however, early estimates show the reserves will still be approximately \$300,000 short for payment in 2021. Locating funding sources to bridge this gap has been included in the City's 2019 Workplan.

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. In this fund revenues fell short due to uncollected monies for parks improvements from organizations at year end. Spending was also below budget due to unfinished capital projects that will carry into 2019.

Transportation Benefit District #312 – In 2018 the budget was amended to move projects that were transportation in nature from Governmental Capital Projects into the newly adopted

Transportation Benefit District fund. In this fund revenues fell short due to uncollected grant monies at year end. 2018 was the first year for collection of the extra .02% in sales tax for the TBD. On a 12 month basis \$693,601 was collected in TBD tax. Spending was also below budget due to unfinished capital projects that will carry into 2019.

Parks Capital Fund #316 – Revenues received were more than double the budget coming in \$14,188 higher than expected. This increase was due to rental of facilities.

Utilities and Enterprise Funds:

Electric Fund #401 – Revenues in the Electric fund ended the year 1.68% over budget as a result of higher consumption for residential and commercial customers despite revenues from industrial transmission finishing the year significantly lower than budget (64.8% under budget). Income from investments were \$151,200 above the budget from favorable market conditions. Expenditures were 11.4% under budget due to less than anticipated power purchased from BPA in addition to personnel vacancies in 2018.

Water Fund #402 – Revenues and expenditure in the Water fund fell short of budget expectations at the end of 2018. Revenues finished the year 3.1% below budget due to less consumption than anticipated both in residential and commercial. Expenditures were 9.26% below budget as a result of savings. The majority of expenditure savings in this fund were in professional services primarily for the Elwha mitigation. Additionally, savings occurred in allocations to the General Fund for work performed due to staffing vacancies, as well as savings in repairs and maintenance.

Wastewater Fund #403 – Revenues were significantly over budget in 2018 due to increased consumption from residential and commercial customers. Expenditures were under budget by 4.84% (\$337,967) due to savings in professional services and allocated costs to the General fund as a result of staffing vacancies.

Solid Waste Fund #404 – The Solid Waste fund ended the year over budget for both revenues and expenditures primarily as a result of higher volumes of waste brought into the Transfer Station and the corresponding increase in contractual services with Waste Connections.

Stormwater Fund #406 – Stormwater fees are assessed on property tax billings and as a result are largely received in the spring and winter. The City received 3.76% (\$79,943) over revenues budgeted partially due to over collection of Stormwater fees as well as the receipt of a capital grant late in 2018. The Stormwater revenues were also affected by the one-time accounting changes and accruals by \$12,348. Expenditures were under budget 11.89% (\$253,399), due to lower professional fees, less maintenance, and less interdepartmental billings being expensed than anticipated due to delayed projects.

Medic 1 Fund #409 – Revenues were 5.42% (\$151,850) over budget at the end of 2018 due to increased transport services. Expenditures were \$91,779 under budget due to staffing vacancies.

Harbor Clean -Up Fund #413 – This fund has 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 2018 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. At year-end revenues

were 24.8% (\$207,312) lower than expected and expenses were \$133,840 under budget due decreased power purchased in 2018 and the related revenue received for Conservation incentives.

Utilities Capital Funds:

All Capital Utility funds –

- Revenues in Electric, Water, Wastewater and Stormwater capital funds are the result of a funding transfer 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.
- All utility capital funds were well under anticipated spending, indicating projects will carry into future years.

Internal Service Funds:

Equipment Service Fund #501 – Revenues ended the year \$60,755 higher than anticipated as a result of unexpected operating charges. Expenditures finished the year lower than expected due to capital vehicle replacements that were carried into 2019.

Information Technology Fund #502 – Revenues and expenditures were both under budget in 2018. The IT fund bills other departments for the amount it spends. The revenue is adjusted to reflect the amounts billed to departments. In 2018, IT was re-structured and several capital projects were carried into 2019. Additionally, savings in software were also identified.

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 2018. Similar to the IT Fund this fund only spends amounts collected by other funds for services. The savings in 2018 was the result of unspent budget for workers compensation.

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. Capacity is not expected to be reached for many years. Revenues exceeded the budget by \$2,300, or 57% in 2018.

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, 2018 the fund had four former employees and one surviving spouse covered by this plan. The City funds a portion of expenses using the premium tax on fire insurance collected by the state to offset the costs. Expenditures in the fund continue to far exceed revenues causing the City to draw down investment funds to keep a healthy fund balance. Should expenditures continue to outweigh revenues the General Fund will need to cover any additional expenses incurred. The City will continue to closely monitor the activities in the fund and regularly update the actuarial as new information is received.