



Date: November 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, Thomas Hunter, Corey Delikat

From: Sarina Carrizosa, *Finance Director*

Subject: 2019 Third Quarter Budget Status Report

Attached please find the third quarter 2019 Budget Status Report for your review. This report covers the first nine 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		Less than 27% of the budget remaining	Greater than 25% of the budget remaining
Yellow		Greater than or equal to 27% to less than or equal to 32% of the budget remaining	Less than or equal to 25% to greater than or equal to 22% of the budget remaining
Red		Greater than 32% of the budget remaining	Less than 22% of the budget remaining

General Fund:

Revenues – General Fund revenues as of September 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. Sales tax revenues have exceeded budget expectations as the revenue from summer months begin to be collected. When comparing March - September of 2018 to 2019 sales tax revenues are coming in slightly lower (0.43%) than in 2018, however early indicators show this revenue source will likely exceed expectations by the end of the year.

Property tax revenue continues to exceed budget expectations by approximately 9.4%. A 4.1% increase from September of last year. The remaining amount of property tax will not be collected until November, but it is expected that this revenue source will exceed budget expectations. This is likely the result of new growth in the City.

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. Particularly as the last half of property tax, the largest revenue source in the General Fund, is collected in November

Utility Taxes –

- Utility taxes revenues are on track for this point of the year in all utilities. Electric utility tax collection is slightly lower than budget at the end of the third quarter, but this is expected as summer months are typically lower in consumption. This is expected to rise at the end of the year as temperatures cool and consumption increases. In addition, Solid Waste Transfer Station utility tax has almost met expected budget levels. This is primarily attributed to large construction projects currently occurring in the City that have increased the amount of waste crossing the scales at the transfer station. All indicators currently show that utility tax as a whole will exceed budget by year end.

Expenditures

- Total expenditures for the General Fund are 3.49% under budget year to date. Staffing vacancies continue to be the main source of savings in the General Fund. As year-end draws closer and vacancies remain the amount of savings in the General Fund will continue to grow. Staff is currently recruiting for all open positions and is hopeful the vacancies in the General Fund will be filled in the near future.

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 September 2019 compared to 2018 shows that this tax has increased 1.51% since this time last year. Though this increase is small, due to the higher than expected collection of this tax for several years, this can be a good indicator that tourism trends within the City continue to increase. Expenditures are lower than budgeted; however, this is not out of the ordinary for this fund due to the seasonal nature of event grants and capital spending.

Street Fund #102 – Revenues and expenditures remain below budget expectations at the end of the third quarter. Expenditures also remain below revenues keeping the fund from using reserves. Revenues collected from Motor Vehicle Excise taxes, the second largest revenue source in this fund, increased in the third quarter and are expected to meet budget expectations in October and November as well. Currently this tax revenue is about 4.2% below budget expectations.

Real Estate Excise Tax #1 & #2 (REET#1 & REET#2) – Revenues in both funds saw significant increases in collection in the third quarter and have nearly surpassed the yearly budget. REET is currently on track to exceed the revenue budget; however, 2019 is not

expected to see the same revenue generation as 2018. Expenditures consist of debt and capital transfers and as a result it is not concerning for the budget to be expended early.

PenCom #107 – As in the last several years PenCom tax revenues continue to be over collected for this time of the year. 911 sales tax revenues are 7.2% higher than anticipated at the end of the third quarter. Expenditures in PenCom remain under budget resulting from 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 by year-end 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. As a whole the majority of spending has occurred in these funds because of the timing of when payments are due and as a result the low remaining expenditure balances are not concerning. The bond for the Niichel property which has a \$1,000,000 balloon payment due in 2021, has been addressed in the 2020 Preliminary Budget.

General Government Capital Projects Funds:

Capital Improvement Fund #310 & Transportation Benefit District #312 – Revenues in the capital fund includes transfers, grants and insurance recoveries. In the Transportation Benefit District revenues include a grant received for Race Street and TBD sales tax collected. The TBD tax is currently lower than budgeted due to the accrual of taxes received in January and February, although this tax is expected to meet budget expectations once the full year of taxes is received. Capital projects in this fund have picked up, but not all invoicing has been processed and therefore expenditures for capital projects are low for the year. This is expected to change as the year finishes.

Utilities and Enterprise Funds:

Electric Fund #401 – Electric revenues dipped below budget in the third quarter due to decreased consumption, as well as, lower than anticipated consumption in the industrial transmission. In the residential and commercial areas consumption will likely increase during the winter months causing revenue collection to increase. Expenditures are 9.4% lower than expected due to staffing vacancies and decreased power purchased from BPA as compared to the budgeted amount.

Water Fund #402 – Revenues are exceeding the budget at the end of the third quarter by 4.9% and are expected to meet or slightly exceed end of year revenue expectations. Expenditures are approximately 3.7% under budget due to timing of debt payments.

Wastewater Fund #403 – Revenues are slightly over budget (3.8%) in the third quarter in the Wastewater fund. Expenditures remain low due to timing of debt payments. As the year progresses, expenditures should align with the budget as all other spending in this fund is on track with the budget expectations.

Solid Waste Fund #404 – The Solid Waste fund is exceeding budget expectations by 5.6% with 80.6% of revenues collected thus far. This revenue increase is attributed to the large amount of waste being hauled to the transfer station from major construction projects currently occurring in the City. Expenditures are under budget as a result of timing of payments for debt and contracts, but this fund is expected to be fully expended at year end.

Stormwater Fund #406 – Revenues in the Stormwater fund are directly related to the collection of property taxes and though they are under budget in the third quarter this will balance as property tax payments are collected in November. Revenues in this fund are expected to meet budget at year end. Expenditures are also under budget due to lower than anticipated charges for services from Equipment Services and timing of contracts.

Medic 1 Fund #409 – Ground Emergency Medical Transport (GEMT) revenues have nearly tripled the amount expected in the budget at the end of September. The excess revenue will be held in reserves to bring the fund balance up to the recommended minimum of 25% and any additional amount will be required for use on Medic 1 expenses only. Challenges remain in overtime time costs due to staffing vacancies. Additionally, this Budget will need amended in the last quarter of the year to reflect negotiated salary changes for the IAFF union. This amendment will keep the Medic 1 budget on track for year-end.

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 continued to result in revenues and corresponding expenditures being below budget.

Utilities Capital Funds:

All Capital Utility funds –

- Revenues as a whole in these funds are well above budget as a result of the transfer of funding from utilities, REET and the General Fund for planned projects. These transfers occur once rather than over the course of the year and accordingly meet budgeted revenues early in the year.
- Surcharge collection in both the Solid Waste and CSO funds are both exceeding budget expectations.
- Expenditures in these funds continue to be well below budget as a whole. This is in part due to the heavy work load relating to street capital projects that are tracked in the Transportation Benefit District fund.

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 (20.36% below budget), but should align with the budget as more vehicles begin to be replaced in accordance with the budget. However, if replacements are unable to occur before the end of 2019 the budget for these replacements will carry into 2020 as part of the first budget amendment.

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 significantly below budget in the third quarter as a result of capital spending that has not yet occurred and yearly maintenance contract implementation that will occur in the final quarter of the year.

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. Spending in this fund continues to remain higher than revenues collected 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 for 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 23% 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 salary and long-term care costs based on existing RCW and agreements. Interest collection is far exceeding the budget and has significantly surpassed budget expectations for the year. Costs for medical insurance were moved into the General Fund per new accounting standards. To offset this cost the Fire Premium tax received from the State was also moved into the General Fund. Spending in this fund continues to decline and is currently expected to be under budget at the end of 2019.