

Staff Report



To: Mayor Muhlfeld and City Councilors
 From: Dana Smith, Finance Director *Dana*
 Date: January 27, 2017
 Re: 2nd Quarter (Mid-Year) Financial Report for Fiscal Year 2017

This quarterly financial report provides a summary version of the financial results of the City during the second quarter of fiscal year 2017. The first section is an overview of the City's financial condition specifically related to property tax supported funds. Subsequent sections provide further analysis and details of the second quarter ended December 31, 2016.

Financial Condition – Property Tax Supported Funds

An analysis of available cash in property tax supported funds provides an effective insight into the City's financial condition. The following table lists the FY15 second quarter cash balance in column (a), the FY16 second quarter cash balance in column (b) and the FY17 second quarter cash balance in column (c) for comparison purposes.

	Cash Balance in Property Tax Supported Funds			
	<i>a</i>	<i>b</i>	<i>c</i>	<i>d (c-b)</i>
	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	One Year
	Cash Balance	Cash Balance	Cash Balance	Change
General	\$1,136,767	\$1,132,294	\$1,318,254	\$185,960
Parks & Recreation	(\$24,691)	(\$131,126)	(\$8,405)	\$122,721
Law Enforcement	(\$2,890)	(\$9,635)	\$13,911	\$23,546
Library	\$74,633	\$103,328	\$109,556	\$6,228
Fire & Ambulance	\$217,949	\$293,681	\$150,013	(\$143,668)
	<u>\$1,401,768</u>	<u>\$1,388,542</u>	<u>\$1,583,329</u>	<u>\$194,787</u>

Total cash in property tax supported funds as of December 31, 2016, increased by \$194,787 or 14% compared to the balance on December 31, 2015. The significant increase in both the General Fund and Parks & Recreation Fund was offset by the decrease in the Fire & Ambulance Fund. The changes in each property tax supported fund from the prior year second quarter and the first quarter of FY17 are discussed in detail below.

General Fund – The General Fund cash balance compared to a year ago has increased by \$185,960 or 16.4%. The increase in cash balance is mostly due to the increase in property tax relief from the Resort Tax and the related timing difference of that revenue being recorded in the General Fund. As shown on the first page of the spreadsheet (J9), property tax revenue decreased from the prior year, but it is offset by a much larger transfer-in of cash restricted for property tax relief (J16). The transfer also resulted in a 17% increase in revenues compared to the prior year at this time, which will even out over remainder of the year. It is important to remember that the FY17 budget does allow for a spend-down of cash in the General Fund so this higher cash balance will decrease during next six months.

Parks & Recreation Fund – The Parks & Recreation Fund continues to see improvement in cash balance even though the balance is -\$8,405. Compared to December 31, 2015, the fund has seen an increase in cash of 88%, or \$122,721. In addition, Whitefish Legacy Partners will be submitting a payment soon for operating and maintenance expenditures made in the first half of this fiscal year. Taking into consideration the \$18,716 due from Whitefish Legacy Partners, the cash balance for the Parks & Recreation Fund would be \$10,311. The improvement noted this year is likely attributed to the changes from the ice rink management contract that was effective in November 2015. The ice rink not only had significant startup costs each season, but also had unforeseen maintenance costs that would come up throughout the year. In the first quarterly report of FY17, cash was projected to be positive by the third quarter and this is still the case.

Law Enforcement Fund – The Law Enforcement Fund cash balance has decreased from the first quarter as expected, but it is \$23,546 higher than the prior year. Revenues continue to exceed expenditures and at a higher rate than the prior year. Furthermore, a grant reimbursement and matching funds from Whitefish School District were received in January for expenditures that were made during the second quarter that totaled \$16,451. It is important to remember, however, that projected ending cash balance for FY17 is very low for the Law Enforcement Fund at \$765. So, like the General Fund, cash will likely decrease during the last half of FY17.

Library Fund – The Library Fund continues have slight growth in cash balance. Revenues are tracking less than the prior year, but the change is not significant. While the FY17 budget provides for a spend-down of cash balance, historically the Library has not had to use the full \$36,500 of contingency. Thus, there will likely be some savings at the end of the fiscal year.

Fire & Ambulance Fund – The Fire and Ambulance Fund ended the second quarter of FY17 with a lower cash balance than the prior year second quarter by \$143,668, or 49%. The first reason for the decrease in cash balance is that the fund started the year off with about \$109,000 less than the prior year due to the budgeted spend-down of cash in the FY16 Budget and the delayed receipt of cash from ambulance service charges. The second reason is the decrease in the amount that revenues exceeded expenditures for the first half of the year. Expenditures were about the same while revenues were down 2%. While the FY17 budget provides for cash balance to an increase over the course of the year, cash will likely not increase as much as expected due to an increase in ambulance accounts receivables and write-offs, a likely result of the delay in ambulance billing last year. On a good note, however, the recent rate increase in ambulance fees should help re-coup some of the loss since it was not included in the FY17 budget.

Summary of Property Tax Supported Funds – Overall the increase in the total cash balance from the prior year second quarter is reasonable and anticipated. The City's property tax funds remain in generally good condition and are following the adopted budget. Expenditures are tracking as projected and revenues are following the budget and expected trend when more property tax relief is utilized in place of property tax revenue.

Financial Highlights

- **Municipal court fines and forfeitures are 59% of the FY17 budget** compared to only 42% of the FY16 budget during the same six-month period. More importantly, municipal court fines and forfeitures are holding steady at **39% higher than the prior year**. The specific cause of this increase is hard to identify, but multiple factors including the very successful in-house prosecution, mostly full staffing of the Police Department, an increase in call volumes, and an increase in citations issued are likely factors affecting these figures.

- License and permit revenues in the Building Code Fund are down about 21% from the prior year and are at 40% of the FY17 budget. While these figures are lower than the previous year, it is important to remember that last year was a very strong year with a significant amount commercial and residential activity. Improvement could occur during the last half of the fiscal year as the weather improves, but it is difficult to predict.
- Impact fee revenue is also down from the prior year's second quarter by 28%, but the revenue is 57% of the budget for FY17. Impact fees follow the building permit trend so this decrease is not surprising. The total 57% of budgeted revenue is further broken down among the various impact fees as follows: Paved Trails (96% of budget), Park Maintenance Building (63% of budget), Emergency Service Center (54% of budget), City Hall (51% of budget), and Stormwater (47% of budget).
- As of December 31, 2016, planning fees were at 65% of the expected revenue for FY17. Planning fees are often a leading indication of future building permit activity.
- Zoning plan review fees are down from the prior year by about \$12,700 and are only at 39% of the FY17 budget, which is the main reason for decreased charges for services in the General Fund.
- **Resort Tax collections are 65% of the FY17 budget** after the second quarter. A large portion of the increase is noted in lodging, which is due to the addition of two new hotels in downtown. Assuming this trend continues into the last half of this fiscal year, there may be additional property tax relief above the normal 25% in FY18. Any amount collected over the budgeted amount must be returned to taxpayers as additional property tax relief.
- Water impact fees and wastewater impact fees are at 59% and 53% of the FY17 budget, respectively. However, compared to the second quarter of FY16, water impact fees are down 17% and wastewater impact fees are down 18%. Again, like other impact fees, these follow the building permit trends too.
- **Ambulance Service Charges are 50% of the budget and up 100%, or \$291,431.** This significant increase is mainly due to the prior year's delay in billing for ambulance services creating a lower than normal revenue in FY16. During the second quarter of FY17 ambulance rates were increased based on an internal rate study so revenues should continue to increase. The hope, however, is that the revenues (billings) will turn into amounts collected and will not be written-off as uncollectible. Collections are being closely monitored each month to ensure the external billing company continues to be the best and most effective option for the City.

Expenditure Review

Total expenditures by most funds were at or below the typical percentage of budget authority to be used (39-50%) as of December 31, 2016. Four funds that were not in this expected range are described below.

- The Resort Tax Fund was higher than prior years (81% of budgeted expenditures) due to the timing of the W 7th Street Project.
- The Impact Fee Fund was also higher than the prior year due to the timing of paved trail projects.

- The Solid Waste Fund, even with limited activity due to the changes in the contract with North Valley Refuse (NVR), has used more than the typical budget authority by mid-year. The increased use of budget authority for the Solid Waste Fund is due to the necessary payment made to NVR relating to deposits held for future refuse accounts during the building permit process. However, it is unlikely that a budget amendment will be necessary.
- The Parkland Acquisition & Development Fund is over budget by \$17,387.27, or 145% of the \$38,226 approved expenditure budget. This overage is due to a budgeting error. When preparing the budget, I did not correctly account for change orders that had taken place throughout the Skye Park Bridge project. However, there was adequate cash remaining for the project to pay for these expenditures. The Parkland Acquisition & Development Fund will need a budget amendment at year-end.

In addition to the fund totals, a review of line-items revealed very few issues again this quarter. The timing of weather and scheduled programs can skew the percentage of budget used at the end of the first quarter. For example, more trail work and construction projects are done in the first part of the fiscal year during the summer months. We will continue to monitor repair and maintenance expenses as this tends to be one of the more heavily used line-items, but most are within a reasonable amount at mid-year.

Additional Detailed Analysis

The following discussion further highlights the attached three spreadsheets.

General Fund Revenue (line 9 to 17)

Total General Fund revenues are 63% of budget and have increased by 17% from the prior year second quarter. As described earlier, the increase is mostly in property tax relief transfers from Resort Tax, which is offset by a 12% decrease in property tax revenue at mid-year. Another notable increase that was also described earlier is the increase in Fines and Forfeitures of 39%. Furthermore, the investment earnings in the General fund have increased 83%, or \$5,376, which is also the case for all funds with investment earnings. The improvement in the investment earnings is mostly due to the State of Montana's Short-term Investment Pool (STIP) experiencing an increase in rates from 0.10% to the current rate of 0.76%.

General Fund Expenditures, Net Revenue, & Cash (line 20 to 34)

Total General Fund expenditures are on track at 48% of the FY17 budget.

The General Fund cash balance was \$1,318,254 compared to \$1,132,294 at the end of the prior year's second quarter (see J33). The graph on page 1 of the spreadsheets shows the General Fund cash balance trends for the past three years, the FY17 trend through mid-year, and the FY17 trend had the property tax relief transfer from Resort Tax been made in November. As depicted on the graph, December, January, June, and July are months that tend to have higher cash balances due to the collection of property taxes. In FY17 the budget for the General Fund relies more on property tax relief from Resort Tax (transfers-in) than in the past. Due to the change in revenues, cash balance in the General Fund would have been negative in October if the transfer was not made a month earlier than normal.

The FY17 budget allows the spend-down of General Fund cash of \$105,244, which, although not ideal, is an improvement from the prior year. It is important as we begin the FY18 budget season that building cash reserves to a minimum of 12% or more, mostly in the General Fund, is considered to ensure an adequate cash balance throughout the year and safeguard the City against another unpredictable economic downturn.

Other Property Tax Supported Funds (p.2, line 71 to 97)

The funds supported by property taxes have continued to have expenditures exceed revenues like prior years (see H35). Combined revenues and expenditures for the property tax supported funds, other than the General Fund, were both at 42% of the FY17 budget.

When compared to a year ago, these funds experienced an overall minimal increase in cash with detailed discussion above. Also, compared to the prior year, overall revenues and expenditures are down. The decrease in expenditures and revenues is mostly due to changes in the Parks & Recreation Department as a result of contracting out the management of the ice rink.

Other Tax, Fee, & Assessment Supported Funds (p.2, line 103 to 144)

These funds located on the second half of the second page of the spreadsheet, receive no general property tax support.

Resort Tax collections are 65% of budgeted revenues at the end of the second quarter. Compared to the prior year there is a sizeable increase in revenue. This increase can be attributed to an increase in businesses operating within the City, specifically lodging accommodations. Additionally, one month of FY16 was at the original 2% rate. July 2015 collections were for Resort Tax collected by businesses in June 2015, which was before the rate increased. Expenditures are also significantly higher due to the timing of the W. 7th Street Reconstruction Project. At the end of the quarter, the Resort Tax cash balance restricted for street improvements totaled \$185,486 and cash balance restricted for Trail and Park Improvements totaled \$266,315.

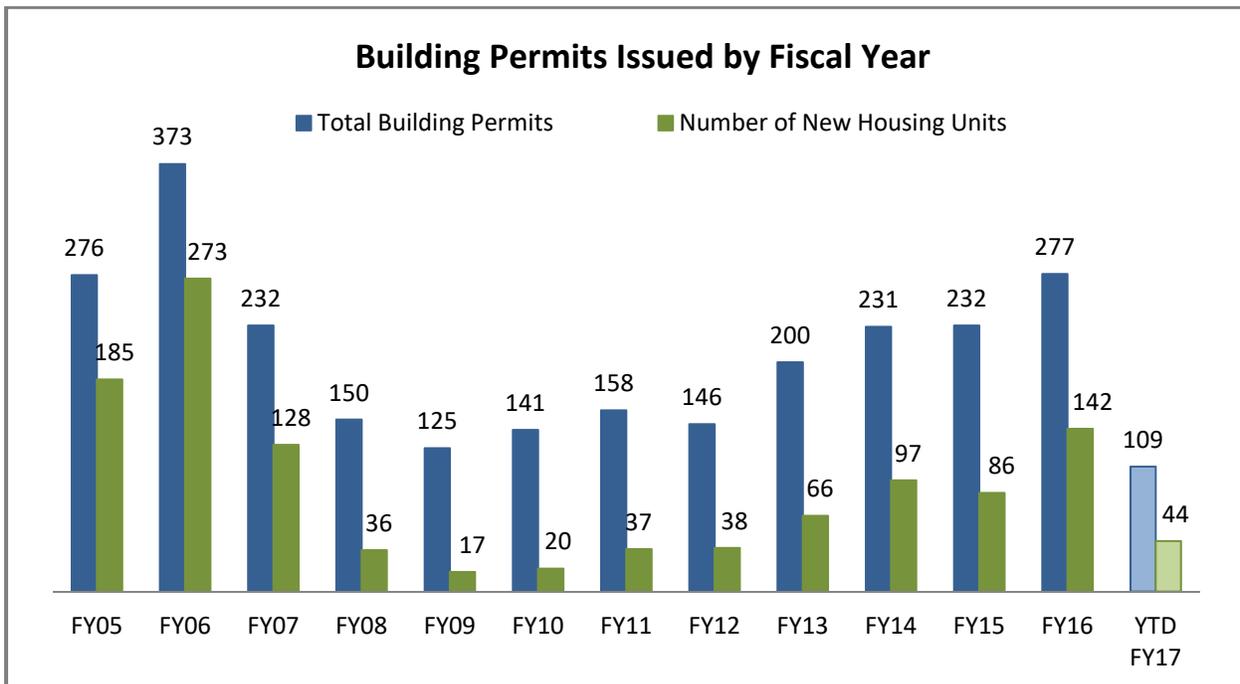
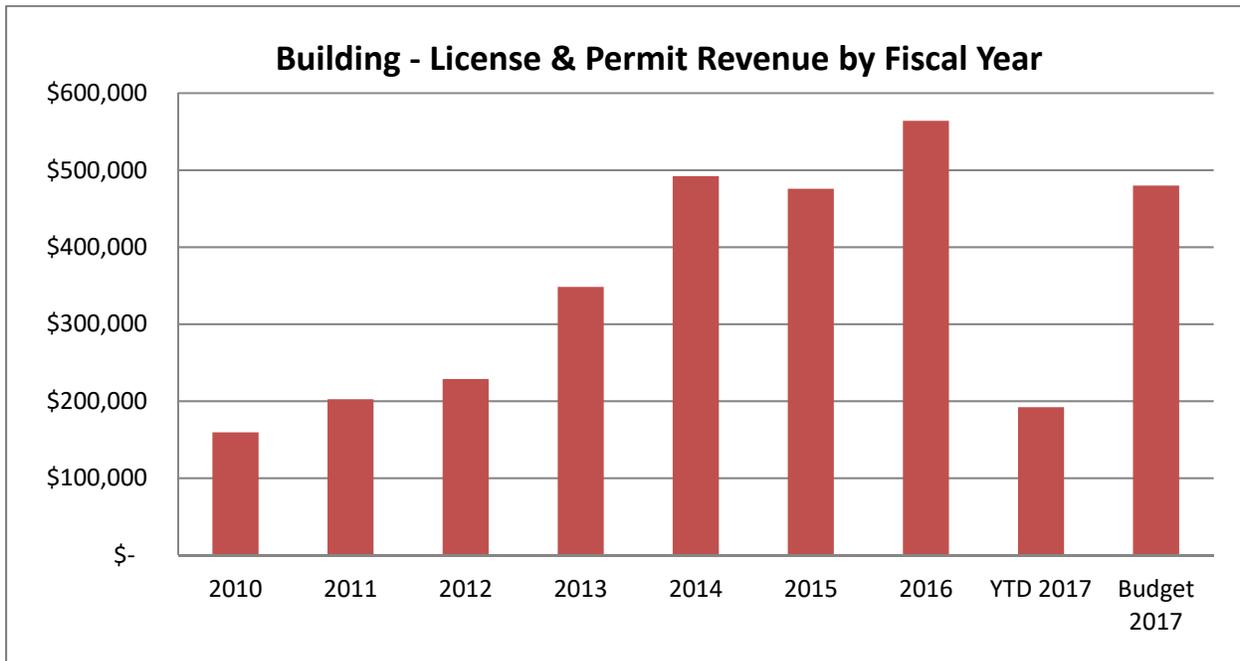
Street and Alley operations continue to be in good financial condition. Revenues have remained flat and expenditures have decreased significantly. The decrease in expenditures (see J111) through the second quarter was anticipated because two years' worth of street overlay projects were completed during the summer of 2015 (FY16) and no major overlay projects have been completed in FY17 to-date. Snow related maintenance is also on budget even with the amount of snow we have received this year.

During the second quarter, the *Tax Increment Financing District (TIF) Fund* continued to have an expected, but significant decrease in cash balance of 52% or \$1,275,312. This significant decrease was mostly the result of the FY16 year-end transfer of cash from the TIF Fund to the City Hall and Parking Structure Fund which was earmarked as a partial funding source for the project. Overall the TIF fund had revenues exceeding expenditures at the end of the second quarter of FY17, which is an improvement from prior years. However, a spend-down of cash in this fund is budgeted for FY17, but that does include a \$500,000 contingency that has not been used as of January 27, 2017.

Impact Fee revenues have decreased \$47,226 (see J121) compared to the second quarter of FY16. It is important to remember that FY16 was a significant building year with commercial and residential building permits reaching numbers that we saw in 2005 (see graph on next page). The current figures are trending slightly less than FY15, but are still 57% of the budget overall. During the second quarter, 50% of all budgeted transfers for impact fees were recorded since we are now 50% through the year. Projects that have used impact fees in FY17 include final amounts paid for Skye Park Bridge, the City Hall and Parking Structure project, and other paved trail extensions.

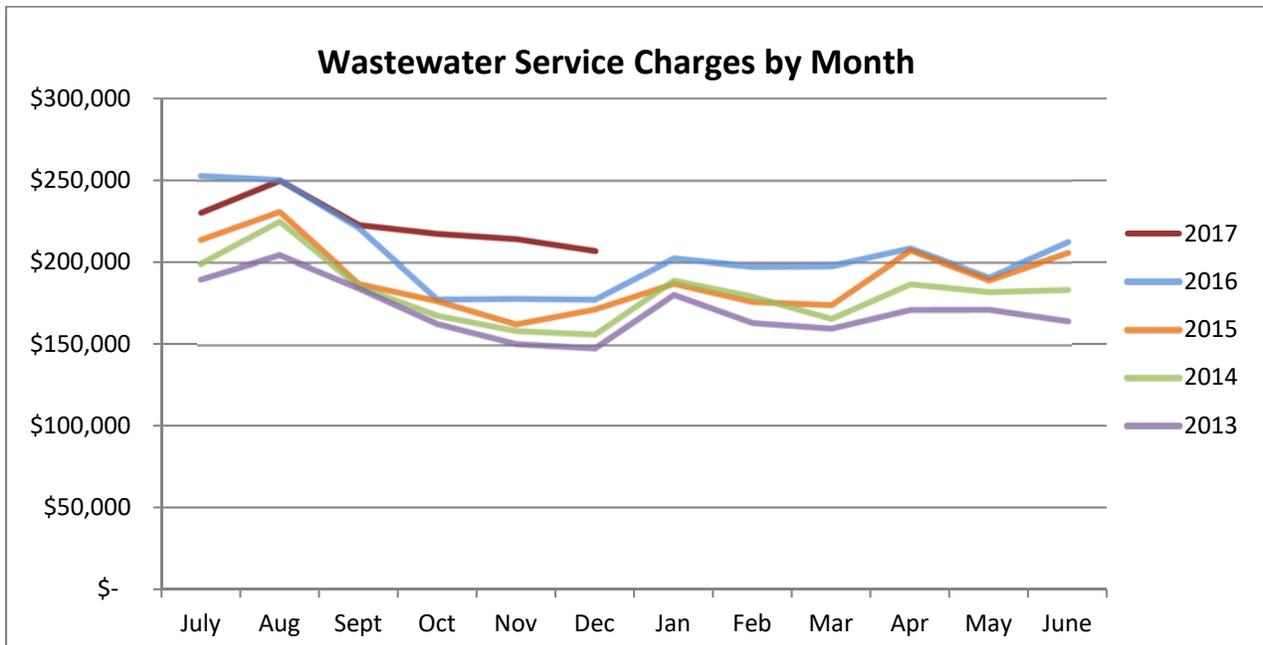
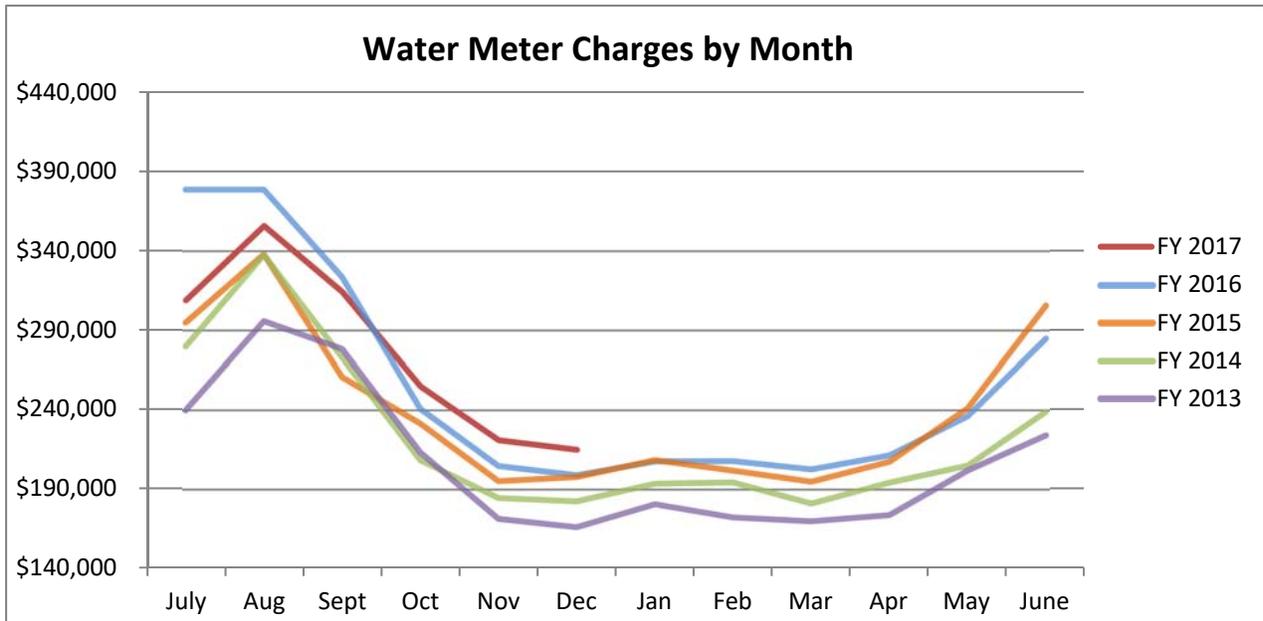
Both *Street Lighting Funds #1 (Residential) and #4 (Commercial)* have seen improvement in cash balance from the prior year. The Commercial Street Lighting Fund cash balance increased 778%, or \$17,882. The increase noted this quarter is mostly due to the department not making bulk purchases of supplies. Furthermore, revenues have increased because of the 10% increase in the assessment that was approved with the FY17 Budget.

The *Building Code Fund* cash balance has increased by 97% from the second quarter of FY16. This increase occurred because of a higher beginning balance due to the improved building activity in FY16 and the Fund no longer being indebted to the General Fund. As discussed earlier, revenue has taken a slight down-turn in Whitefish and from the contract with Columbia Falls. Building permit revenue is only 40% of the FY17 Budget, which is slightly less than expected. However, revenues may improve come spring time, when weather improves. The timing of future development in FY17 is hard to predict, but considering last year was an amazing year it will be difficult for building revenue to meet the prior year figures.



Enterprise Funds (p.3)

Metered water sales are down 3%, or \$54,694, while wastewater service charges are up 7%, or \$85,112. The decline in revenue in the first quarter for both funds is likely attributable to the decreased consumption of water by customers during this past summer because of lower temperatures and the wet nature of the summer months compared to the prior year. With the rate increase that went into effect October 1, 2016, metered water sales have started to exceed the prior year. It will take a few months to fully reverse the lower revenue in the first quarter, but it is expected that metered water sales will be higher than the prior year by the end of FY17. Unlike water sales, wastewater service charges are up 7% and have already recovered from the first quarter. The increase in revenue is mostly due to a larger rate increase this past fall, which is one of the first steps as we prepare to finance the design and construction of the new wastewater treatment plant.



Capital expenditures in the Water and Wastewater Funds are lower than the prior year second quarter and will vary based on the projects in progress. During the second quarter, capital expenditures include the Columbia Avenue Bridge Project, the shop expansion, the Birch Point Lift Station Project, and the Wastewater I & I Project.

With the change in management of billing for refuse services, the Solid Waste Fund has seen a decrease in cash, revenues and expenditures as anticipated. Cash remaining in the fund will continue to cover costs associated with recycling and any other expenditures that are related to refuse service until a time comes that the fund is deemed unnecessary.

Capital Project Funds (p.3, line 191 to 194)

The City Hall and Parking Structure Fund has continued to see activity increase from prior years. Currently expenditures are 46% of the budget and will continue to increase so that most of the budget is spent by May 2017. In January, the Special Improvement District 167 bonds were issued as one of the final funding mechanisms for this project. The total spent on the City Hall and Parking Structure project as of January 27, 2017, totals \$11,252,413.

Debt Summary

The City continues to have no general obligation bonds outstanding. As mentioned above, in January 2017, the City closed on the Special Improvement District 167 Bonds used to finance a portion of the new parking structure. These new bonds are not shown in the debt summary below since closing took place after December 31st.

<u>Description of Long-Term Liability</u>	<u>Balance as of December 31, 2016</u>	<u>Balance as of June 30, 2016</u>	<u>Change</u>
TIF 2015 Refunding (ESC)*	\$ 5,845,000	\$ 7,183,000	\$(1,338,000)
TIF 2016 (City Hall/Parking Structure)*	\$ 9,800,000	\$ 9,800,000	0
Water Revenue Bonds*	\$ 2,174,000	\$ 2,423,000	(249,000)
Water Revenue Bond – Haskill Basin C.E.*	\$ 7,547,000	\$ 7,863,000	(316,000)
Wastewater Revenue Bonds*	\$ 3,811,563	\$ 3,488,563	323,000
SID 166 Bond*	\$ 655,000	\$ 655,000	0
Ice Rink Loan	\$ 31,950	\$ 47,862	(15,912)
Ambulance Loan	\$ 77,729	\$ 93,070	(15,341)
Police Vehicle Loan	\$ 2,744	\$ 5,488	(2,744)
Fire Engine Loan	\$ 391,229	\$ 414,716	(23,487)
Fire Pumper Loan	\$ 167,000	\$ 181,739	(14,739)
Fire SCBA Loan	\$ <u>208,041</u>	\$ <u>230,453</u>	<u>(22,412)</u>
TOTAL	<u>\$30,711,256</u>	<u>\$32,385,891</u>	<u>\$1,674,635</u>

**Revenue bonds secured by and repaid by future revenues or assessments.*

Financial Outlook

Overall the City's finances remain in generally good condition with minor areas to monitor during the remainder of the fiscal year. The City is continuing to feel the effects of the recession lifting with additional City staff positions added in FY17, an increase in return on our investments, the continuation of a strong building environment, and Resort Tax collections increasing despite the Canadian exchange rate not seeing much improvement.

As we enter the early stages of the 5-Year Capital Improvement Plan update and preparations for the FY18 Budget, we look forward to the positive effects from the two-year reappraisal cycle for FY18 that should increase our taxable values that will allow for continued improvement of the City finances and increase possibilities for growth.

If you have any questions regarding this quarterly update or would like additional information, please email me at dsmith@cityofwhitefish.org or call me at 406-863-2405.



City of Whitefish
 Quarterly Financial Review
 Second Quarter of Fiscal Year 2017
 October 1, 2016 - December 31, 2016

50% of Fiscal Year Complete

General Fund Revenues	YTD Dec 31, 2014		YTD Dec 31, 2015		YTD Dec 31, 2016		Chng Prev YR	% Chng Prev Yr
	Dollars	% of Budget	Dollars	% of Budget	Dollars	% of Budget		
	Property Taxes	\$1,019,473	50%	\$1,093,058	50%	\$959,825		
Total Licenses and Permits	\$33,929	56%	\$35,354	55%	\$35,572	53%	\$219	1%
Intergovernmental Revenue	\$409,425	50%	\$420,349	50%	\$436,277	50%	\$15,928	4%
Charges for Services	\$141,430	59%	\$126,835	56%	\$116,780	47%	(\$10,055)	-8%
Fines and Forfeitures	\$102,554	45%	\$92,399	42%	\$128,744	59%	\$36,345	39%
Miscellaneous	\$2,978	19%	\$9,458	17%	\$909	2%	(\$8,549)	-90%
Investment Earnings	\$7,900	53%	\$6,487	43%	\$11,863	49%	\$5,376	83%
Resort Tax Transfer In	\$668,831	100%	\$679,023	100%	\$1,182,354	100%	\$503,331	74%
Total General Fund Revenues	\$2,386,520	58%	\$2,462,961	58%	\$2,872,323	63%	\$409,361	17%
General Fund Expenditures								
Municipal Court	\$133,446	45%	\$132,823	45%	\$139,167	47%	\$6,344	5%
Prosecution Services	\$39,256	36%	\$0	0%	\$0	0%	\$0	0%
Administrative Services	\$36,785	46%	\$47,008	44%	\$46,121	42%	(\$887)	-2%
Legal Services	\$19,044	45%	\$33,964	32%	\$24,674	43%	(\$9,290)	-27%
Community Planning	\$151,030	38%	\$161,731	43%	\$161,216	39%	(\$516)	0%
Transfer to Park Fund	\$374,919	54%	\$325,619	50%	\$336,290	50%	\$10,671	3%
Transfer to Law Enforcement Fund	\$942,500	50%	\$1,042,500	50%	\$1,078,500	50%	\$36,000	3%
Transfer to Fire Fund	\$407,500	50%	\$417,500	50%	\$417,500	50%	\$0	0%
Transfer to Library Fund	\$17,186	50%	\$17,186	50%	\$17,186	50%	\$0	0%
Cemetery/Other	\$36,944	45%	\$32,659	33%	\$26,599	23%	(\$6,060)	-19%
Total General Fund Expenditures	\$2,158,610	49%	\$2,210,990	48%	\$2,247,252	48%	\$36,262	2%
General Fund Revenues Less Expenditures	\$227,910		\$251,971		\$625,071		\$373,099	148%
General Fund Operating Cash Balance	\$1,136,767		\$1,132,294		\$1,318,254		\$185,960	16%
Prop Tax Supported Funds (no General) Net	(\$31,382)		(\$99,196)		(\$8,757)		\$90,439	
Prop Tax Supported Funds (no General) Cash	\$265,001		\$256,248		\$265,075		\$8,827	
Total General & Prop Tax Supported Funds Net	\$196,528		\$152,775		\$616,314		\$463,539	
Total General & Prop Tax Supported Funds Cash	\$1,401,768		\$1,388,542		\$1,583,329		\$194,787	

