

Staff Report



To: Mayor Muhlfeld and City Councilors
 From: Dana Smith, Assistant City Manager/Finance Director
 Date: April 30, 2019 *Dana*
 Re: 3rd Quarter Financial Report for Fiscal Year 2019

This quarterly financial report provides a summary version of the financial results of the City during the third quarter of Fiscal Year 2019 (FY19). 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 third quarter ended March 31, 2019.

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 FY17 third quarter cash balance in column (a), the FY18 third quarter cash balance in column (b) and the FY19 third 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>
	Mar 31, 2017	Mar 31, 2018	Mar 31, 2019	One Year
	Cash Balance	Cash Balance	Cash Balance	Change
General	\$908,513	\$1,175,963	\$1,521,873	\$345,910
Parks & Recreation	\$21,382	\$112,057	(\$15,812)	(\$127,869)
Law Enforcement	\$16,009	\$62,812	\$116,618	\$53,806
Library	\$92,862	\$84,421	\$46,653	(\$37,768)
Fire & Ambulance	\$134,079	\$45,319	\$56,562	\$11,243
	\$1,172,845	\$1,480,572	\$1,725,894	\$245,322

Total cash in property tax supported funds as of March 31, 2019 increased by \$245,322 or 16.6% compared to the balance on March 31, 2018. The changes in each fund are described in detail below.

General Fund – The General Fund cash balance compared to a year ago has increased by \$345,910 or 29.4%. The increase in cash balance is primarily due to the General Fund starting the fiscal year off with more cash than the prior year of over \$200,000. Furthermore, the FY19 Budget provided for cash reserves to remain primarily in the General Fund as opposed to the other property tax supported funds to allow more flexibility. The increase in cash reserves in the General Fund is offset by the decrease in cash reserves of other property tax supported funds.

Parks & Recreation Fund – Historically, the Parks & Recreation Fund has had a positive cash balance by the third quarter. While a significant decrease in cash may seem alarming at face value, the reason for the decrease is due to a one-time capital equipment purchase of a bucket truck and related equipment for the Urban Forestry Program. Revenues will be collected during the remainder of the year to bring cash balance back to a break-even point with a small amount of reserves. Furthermore, \$32,474 will be

collected for the operations and maintenance of the Whitefish Trail. Overall the FY19 Budget provides for a spend-down of cash reserves for capital equipment, but there are no immediate concerns currently regarding the decrease in cash balance for this fund. It is projected that the fund will end the year with a positive cash balance that is higher than budgeted due to prudent spending by the department.

Law Enforcement Fund – Cash balance increased by \$53,806, or 86% over the prior year third quarter. The increase is mostly due to revenue collected during the first three quarters exceeding expenditures. However, during the last quarter we anticipate the purchase of the budgeted patrol vehicle and an unexpected payment of \$28,000 to the Montana Retirement System which was required due to an enrolling error in the early 2000's. Grant revenue collection is also a concern since some may not be collected by year-end, which could impact the anticipated cash reserves at year-end unless adequate savings are realized. The anticipated year-end cash reserves for FY19 are estimated to come in around \$17,565.

Library Fund – The Library Fund has continued to see a decrease in cash balance during the third quarter. The decrease of \$37,768 in cash balance is due to the fund starting the year off with about \$28,000 less in cash reserves than in FY18. The decrease in cash balance is not a concern at this time since the Fund is tracking as expected compared to the FY19 Budget. The budget does allow for a spend-down in cash balance to address potential capital improvement projects and needed repairs to the aging facility. However, it is expected that the Library will have year-end cash reserves come in higher than budgeted for FY19.

Fire & Ambulance Fund – The Fire and Ambulance Fund ended the third quarter of FY19 with a slightly higher cash balance than the prior year by \$11,243, or +24.8%. While the budget provides for a slight increase in cash reserves, the primary factor causing this increase is the delay in wage changes for the firefighter union members since the collective bargaining agreement has not been finalized for FY19. However, net ambulance revenues continue to grow, we still anticipate some minor growth in cash balance by year-end.

Summary – Overall the City's property tax supported funds remain in good financial condition with cash reserves overall increasing by \$245,322, or 16.6%. Increasing cash reserves to an amount closer to 20% will help ensure the City is prepared for the next economic down-turn and we should strive to eliminate temporary instances of negative cash balance in any fund in the next budget.

Financial Highlights

- The Resort Tax collections are 87% of the FY19 Budget after the third quarter and 7% higher than March 31, 2018. While most of the increase continues to be seen in lodging and bars/restaurants, retail continues to increase as well. It is assumed that this trend will continue through year-end. As a result, there will be additional property tax relief in FY20 since any amount collected over the budgeted amount must be returned to taxpayers as additional property tax relief.
- Ambulance Service Charges are 84% of the budget and up 17%, or \$183,839 (J88). The increase in revenue is the result of the automatic rate increase that was effective July 1st based on the Consumer Price Index for U.S. All Urban Consumers – Medical Care Services and increased calls for service.
- License and permit revenues in the Building Code Fund (H134) are up about 32% from the prior year third quarter and total 101% of the FY19 Budget. The first three quarters of FY19 have proven to be very strong and it is anticipated to continue throughout the last quarter. Columbia Falls Contract Revenue is 94% of the budget, but that is still down 8% from the third quarter of FY18 (J136).

- Impact fee revenue is also up from the prior year's third quarter by 123% and the revenue is 196% of the budget for FY19. The budget for FY19 provided for an increase in revenue from FY18, but it has been exceeded by a significant amount. Furthermore, impact fees follow building permits, so this increase is not surprising based on the strong commercial and residential growth. The revenue collected totaling 196% of budgeted revenue is further broken down among the various impact fees as follows: Paved Trails (219% of budget), Park Maintenance Building (334% of budget), Emergency Service Center (211% of budget), City Hall (183% of budget), and Stormwater (130% of budget). While impact fee rates have changed as of January 1, 2019, those changes are likely minimal due to having exceeded the budget by mid-year.
- Water impact fees are at 159%, while wastewater impact fees are at 153% of the FY19 Budget. Again, like other impact fees, these follow the building permit trends too and are higher than the prior year's third quarter.
- As of March 31, 2019, zoning plan review fees were at 103% of the expected revenue for FY19, while planning fees were at 110% of the budget.
- Investment earnings continue to increase and exceed the prior year second quarter. While investment earnings are a great source of income, it does mean borrowing funds generally comes at a higher cost.
- We continue to see growth in the Municipal Court Fines and Forfeitures. As of March 31, 2019, fines and forfeitures revenue were 12% higher than the prior year and 79% of the budget.

Expenditure Review

Total expenditures by fund were at or below the anticipated percentage of budget authority to be used (50-78% for most funds) as of March 31, 2019, except for anticipated deviations due to the timing of capital projects. The timing of weather and programs can skew the percentage of budget used at the end of the third quarter, as well as the need to purchase capital equipment earlier in the fiscal year. For example, trail work and street reconstruction are done in the first part of the fiscal year during the summer months and then picks up again in the last quarter.

In addition to the fund totals, a review of line-items revealed a few issues. We will continue to monitor operating supplies, repair and maintenance expenses, and overtime as these tend to be more heavily used line-items, but most are within a reasonable amount and continue to be offset by other savings within each fund. We have addressed any needed corrections in the FY20 Proposed Budget.

Additional Detailed Analysis

The following discussion further highlights the attached three spreadsheets.

General Fund Revenue (line 9 to 17)

Total General Fund revenues are 82% of the FY19 Budget and have increased 5% from the third quarter of FY18. The increase in revenue is primarily noted in business license revenue, investment earnings, and property tax relief from Resort Tax. Overall, revenue is tracking along with the budget.

General Fund Expenditures, Net Revenue, & Cash (line 20 to 33)

Total General Fund expenditures are on track at 75% of the FY19 Budget. Expenditures have increased 3% over the prior year at this time, which is mostly due to the increase in transfers to other property tax supported funds that was appropriated in the FY19 Budget and an increase in wages and benefits.

The General Fund cash balance was described in the beginning of this report. The graph on the first page of the spreadsheet shows the General Fund cash balance trends for the past four years and the current fiscal year. December, January, June, and July are months that tend to have higher cash balances due to the collection of property taxes. As mentioned before, building cash reserves to 20% (mostly in the General Fund) is important to ensure an adequate cash balance throughout the year and to be prepared for economic changes.

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

Overall, the funds supported by property taxes had expenditures exceed revenues at the end of the third quarter. Furthermore, when compared to a year ago, these funds experienced an overall decrease in cash with detailed discussion above. Compared to the prior year revenues have increased, but at a lower rate than expenditures.

Other Tax, Fee, & Assessment Supported Funds (p.2 line 99 to 143)

The funds on the second half of the second page of the spreadsheet, receive no general property tax support, but the funds may be fully or partially funded by maintenance assessments that are included on a property owner's tax bill.

Resort Tax collections are 87% of the budgeted revenues as of March 31, 2019. Compared to the prior year there is a decent increase in revenue of about 7%. Expenditures on the other hand are significantly higher due to the timing of the Somers Avenue Project, design and engineering of State Park Road, and other approved capital projects.

Street and Alley operations continue to be in good financial condition. Revenues increased by 5%, or \$57,802 (J108), while expenditures decreased by 6%, or \$56,053, compared to the third quarter of FY18. The decrease in expenditures is due to timing of capital projects.

At the end of the third quarter, the *Tax Increment Fund's* cash balance came in 12%, or \$246,620 (J112), less than the prior year. With the purchase of the Edgewood property for the LIHTC project and increased work on the Depot Park Improvements Project, expenditures in the third quarter exceed the prior year by 34%. Overall, however, expenditures are tracking as anticipated. Revenues have increased from the prior year by 7%, which is driven primarily by increased property tax revenue for the District.

Impact Fee Fund revenues have increased 123%, or \$244,838 (J119), compared to the third quarter of FY18. This increase is due to increased commercial and residential development projects. Cash balance has increased significantly as well due to both growth in revenues and starting the year off with more cash reserves than the prior year. These funds often fluctuate due to the timing of impact fee eligible projects and development within the City.

Both *Lighting District Funds* have seen small increases in assessment and are tracking like the prior year. We are starting to see some significant savings in electric costs as noted in the expenditure savings of over \$25,000 (J130) so far this year.

The *Building Code Fund* cash balance has increased by about 94% compared to the third quarter of FY18. This increase is partially due to the fund starting the year off with a cash balance that was \$86,000 more than the start of FY18. Furthermore, revenues from building activities in Whitefish and Columbia Falls continue to grow. The three quarters of FY19 has seen the continuance of a strong commercial and residential development environment.

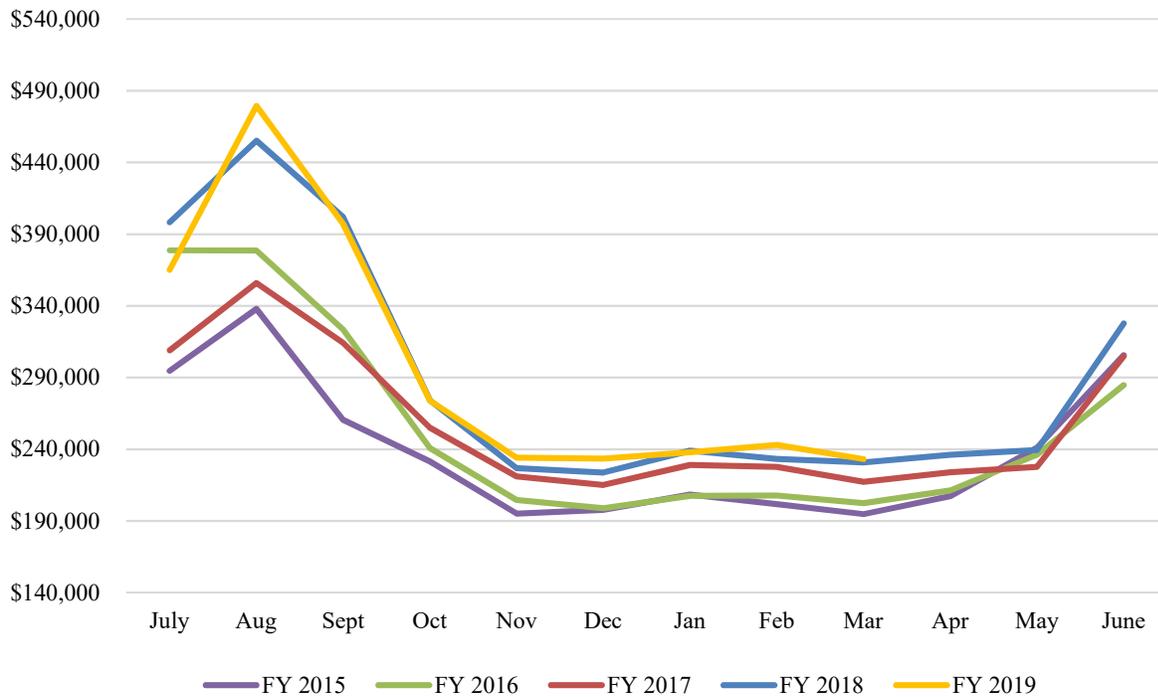
In FY19 an increase in the maintenance assessment of \$50 per property was budgeted so that we could start working toward making the *Stormwater Fund* self-balancing. With the increase, the assessment is still lower

that the pre-recession figures, and much lower when adjusted for the Consumer Price Index increases that should have been included. Due to the increase in assessments, revenue has increased 293%(J141). However, most of that is quickly offset by increased costs for personnel associated with stormwater maintenance and capital projects. As a reminder, the personnel costs were re-allocated from the Streets and Alley Fund.

Enterprise Funds (p.3, line 148 to 182)

Metered water sales remained flat during the third quarter, while wastewater service charges were up 10%, or \$247,106. Wastewater rates were increased significantly in October 2017 and 2018 to prepare for the Wastewater Treatment Plant Upgrade Project. However, water rates were increase at a much smaller rate due to know projects at the time of the rate increase. Both water and wastewater revenues will continue to grow throughout this year due to the approved rate increase that went into effect as of October 1, 2018.

Water Meter Charges by Month



Capital expenditures in the Water is lower than the prior year, while Wastewater has increased and continues to exceed the prior year as of March 31st. These amounts, however, will vary based on the projects in progress. Through the third quarter, capital expenditures included the water tank project, public works shop building improvements, Flathead Avenue extension project, final expenditures for the Central Avenue reconstruction project, and continued design and engineering for the wastewater treatment plant upgrade. Expenditures are anticipated to increase during the last quarter as weather improves and allows for more projects to be completed.

Summary

Overall the City's finances remain in good condition with areas to monitor during the remainder of the fiscal year. The City is continuing to see increased returns on our investments, strong development, and increased collections from Resort Tax. FY19 has been a great year.

The economic outlook for calendar year 2019 remains positive with continued steady growth likely. Furthermore, forecasts of an economic recession seem to be delayed until the third quarter of 2020 or by the first quarter of 2021. However, economist continue to have concern about whether growth will continue or become stagnant before then.

As we are finalizing the proposed 5-Year Capital Improvements Plan and the FY20 Proposed Budget, we look forward to presenting and discussing the budget with you. The FY20 Proposed budget provides for the expected levels of service from our citizens and visitors, growth in cash reserves, and addresses some significant capital projects, like the Wastewater Treatment Plant Upgrade, that has been in the works for quite a few years now.

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