

# Staff Report



To: Mayor John Muhlfeld and City Councilors  
 From: Dana Smith, Finance Director *Dana*  
 Date: January 21, 2016  
 Re: 2nd Quarter (Mid-Year) Financial Report for Fiscal Year 2016

This quarterly financial report provides a summary version of the financial results of the City during the second quarter of fiscal year 2016. 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, 2015.

## 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 FY14 second quarter cash balance in column (a), the FY15 second quarter cash balance in column (b) and the FY16 second quarter cash balance in column (c) for comparison purposes.

	<b>Cash Balance in Property Tax Supported Funds</b>			
	<i>a</i>	<i>b</i>	<i>c</i>	<i>d (c-b)</i>
	Dec 31, 2013 Cash Balance	Dec 31, 2014 Cash Balance	Dec 31, 2015 Cash Balance	One Year Change
<b>General</b>	\$1,158,818	\$1,136,767	\$1,132,294	(\$4,473)
<b>Parks &amp; Recreation</b>	(\$104,639)	(\$24,691)	(\$131,126)	(\$106,435)
<b>Law Enforcement</b>	\$29,614	(\$2,890)	(\$9,635)	(\$6,745)
<b>Library</b>	\$23,138	\$74,633	\$103,328	\$28,695
<b>Fire &amp; Ambulance</b>	\$292,149	\$217,949	\$293,681	\$75,732
	\$1,399,080	\$1,401,768	\$1,388,542	(\$13,226)

Total cash in property tax supported funds as of December 31, 2015 decreased by \$13,226 or 0.9% compared to the balance on December 31, 2014. The decrease in the General Fund, Parks & Recreation Fund, and Law Enforcement Fund was largely offset by the increase in the Library and Fire & Ambulance Funds. The changes in each property tax supported fund from the prior year second quarter are discussed in detail below.

*General Fund* – The General Fund cash balance compared to a year ago has decreased by \$4,473 or 0.4%. However, expenditures and revenues are tracking as expected with about 3% growth over the prior year. Therefore, the decrease noted is largely due to budget anticipating the spend-down of cash on-hand in the General Fund and starting the year with a slightly lower cash balance than in FY15.

*Parks & Recreation Fund* – The Parks & Recreation Fund continues to have a negative cash balance as of December 31, 2015. Although a negative cash balance is typical for the Parks & Recreation Fund at the end of the second quarter, compared to last year the cash balance for the second quarter of FY16 is \$106,435 lower. Unexpected costs, lower transfers from the General Fund (property tax support), the transition of the ice rink management, and timing of revenue collections for other programs have all contributed to the negative cash balance. Specifically, the ice rink required significant equipment repairs as approved by the City Council. As of December 31, 2015, expenditures exceed revenues by \$105,154 for the ice rink, but due to the management contract that amount will be reduced to a \$45,000 loss. In addition, Whitefish Legacy Partners will be submitting a payment for expenditures made this fiscal year, which have resulted in a negative cash balance of \$15,673 and is included in the total negative cash balance of the Parks & Recreation Fund.

*Law Enforcement Fund* – The Law Enforcement Fund had a negative cash balance of \$9,635 as of December 31, 2015. Although revenues exceeded expenditures for the quarter by \$23,569, the reversal of the short-term loan from the General Fund in the first quarter had the cash balance revert to a negative balance again. Grant monies are expected to be received in the coming month for expenditures that were made during the second quarter (COPS Grant) totaling \$16,479. Projected ending cash balance for FY16 was also very low at \$5,664 and will likely still be the case come year-end.

*Library Fund* – The Library Fund continues to have a solid cash balance with revenues exceeding cash balance.

*Fire & Ambulance Fund* – The Fire and Ambulance Fund ended the second quarter of FY16 with a higher cash balance than the prior year second quarter by \$75,735, or 34.7%. This is largely due to revenues exceeding expenditures, budgeted salary increases for firefighters not being in effect until January 2016 (timing of union negotiations), and the increase in the budgeted transfer from the General Fund for FY16 increasing \$20,000, or 2.5%.

*Summary* – Overall the decrease in the total cash balance from the prior year second quarter is minimal when looking at all property tax supported funds. Expenditures are tracking as expected with some deviations that are discussed in further detail below. Revenues are following the budget and the anticipated trend, with some minor delays in collections due to the timing of programs and grant revenue collections. The City finances remain in generally good condition with areas to monitor during the remainder of the fiscal year.

### **Financial Highlights**

- The Columbia Falls Building Code Contract revenues collected through the second quarter of FY16 are 2% higher than the prior second quarter and are already at 84% of the FY16 budget.

- License and permit revenues in the Building Code Fund are down by 8% for the same period last year and are at 46% of the FY16 budget. It is important to note that the City Hall and Parking Structure permits have not been paid yet, but are expected to be paid by the contractor in the next few weeks. The total building permit fees (not including impact fees) for the City Hall and the Parking Structure/Retail space total approximately \$38,570 and \$44,877, respectively.
- Impact Fees are at 71% of the budgeted revenue for FY16 and are tracking similar to FY13 due to the large building projects in the City. The 71% of budgeted revenue is further broken down among the various impact fees as follows: Paved Trails (42% of budget), Park Maintenance Building (42% of budget), Emergency Service Center (80% of budget), City Hall (76% of budget), and Stormwater (60% of budget). These figures do not include impact fees for the City Hall and the Parking Structure project which will total about \$17,378 and \$66,367, respectively (including water and wastewater impact fees).
- Zoning Plan Review Fees, Conditional Use Fees, and Architectural Review Fees all continue to generate revenue above expectations. Total fees collected are already 59%, 69%, and 91% of the budgeted revenue to be received in FY16.
- The Resort Tax collections depict an increase of 44%, but that is skewed by the increase in the Resort Tax rate from 2% to 3% as of July 1, 2015. Year-to-date the Resort Tax collections are at 57% of the FY16 budget. On a comparative 2% basis, Resort Tax is up 1.28% or \$13,977.
- Water and Wastewater Impact Fee revenue continues to track higher than expected. Water Impact Fees are at 79%, while Wastewater Impact Fees are at 62% of the FY16 budget. These figures do not include the anticipated impact fees collected from the City Hall and Parking Structure project.
- Ambulance Service Charges are down 27% from the prior year first quarter, or \$216,656. This significant decrease is the result of ambulance billing being delayed due to the lack of available staff time. The preparation, packing, and moving of City Hall have all contributed to this timing issue, as well as, the new setup of the interim location. Currently the City has well over 300 calls that have yet to be billed so that revenue has not been recorded to date. Staff is working to correct this issue and we expect better revenue counts by the end of the third quarter.

### **Expenditure Review**

Total expenditures in the majority of funds at the end of the second quarter were at or below the expected percentage of budget authority to be used (50%), except the Residential Light District #1 (63%), the Commercial Light District #4 (65%), Stormwater Fund (63%), Parkland Acquisition & Development (90%), Whitefish Trail Construction Fund (55%), and the Parks & Recreation Fund (55%).

The Stormwater Fund, Parkland Acquisition & Development Fund, and Whitefish Trail Fund had higher expenditures during the second quarter of FY16 due to the timing of capital projects such as stormwater improvements, Skye Park bridge, and trail improvements. Therefore, the percentage of budgets will vary and are deemed reasonable. Furthermore, to benefit from discounts available for bulk purchases, both Lighting Districts have also had an increase in repair and maintenance supplies. Additional purchases throughout the remainder of the fiscal year should be minimal. The Parks & Recreation Fund during the past three years has expended anywhere from 49% to 55% of its budgeted authority by the end of the second quarter. This higher expenditure total in the first half of the fiscal year is expected due to the higher amount of maintenance needed at city parks and properties in the summer, repairs at the ice rink, and the timing of operations of city beach and summer camp.

In addition to the fund totals, a review of line-items revealed the following potential issues that will be monitored throughout this year since they are significantly higher than expected by the end of the second quarter:

- General Fund
  - Overtime in the Administrative Services account and the Cemetery Services account is higher than expected at 104% and 96% of the budget, respectively. Although the dollar amount is small, the budget had been increased from the prior year and it would typically be expected that 50% of the budget be expended at this time. The primary reason for this increase in overtime was the prepping, packing, and moving of City Hall. Since the first quarter, less overtime has been incurred. In addition, it was noted that 14% of the recorded overtime in the Administrative Services account was directly related to the Whitefish Local Government Study Commission which has adequate budget available in other expenditure lines under the Administrative Services account to offset the overtime costs incurred. Though these line-items are higher than expected, the total for both accounts are below 50% of the total budget.
- Street and Alley Fund/Wastewater Fund
  - The Contracted Workers line-item in the Street fund is at 180% and the Wastewater Fund is at 245% of the budget. The total charged to these accounts, however, is offset in each fund by savings in the salaries and wages and employer contributions line-items. These line-item differences are related to the customer service clerk position in public works that has not been filled to-date, but for which temporary help continues to be needed. Both funds are still within the expected expenditure trends through the second quarter.
- Parks & Recreation Fund
  - City Parks & Properties
    - The Utility Services line-item was at 111% at the end of the second quarter. This overage is somewhat attributed to additional parks and properties being added to the Parks Department, as well as the need to irrigate park properties more heavily from July through September due to the unusually dry summer.

- Other Purchased Services was at 116% of the budget for FY16 at the end of the second quarter. The primary use of this was for equipment rentals, construction debris taken to the County land fill, and engineering services for Armory Park.
  - The Contracted Workers account was also higher than expected, especially since no budget was identified for this line-item. Based on discussions with the Parks & Recreation Director, however, contracted labor was necessary due to issues filling Seasonal/Temporary positions at the City. The total Seasonal/Temporary line-item was at 55% and when taking into account the \$25,211 of Contracted Workers that is in a different line-item, Seasonal/Temporary wages would be 97% of the budget. The prior year did not follow this trend. Another issue compounding this is that the budget for Seasonal/Temporary workers in the City Parks & Properties activity was decreased by \$12,000 due to a re-allocation of Seasonal/Temporary wages.
  - Overall the City Parks & Properties account is at 69% of the expenditure budget which is higher than expected. Staff is aware of these concerns and overages and are monitoring all expenditures of the Department closely.
- City Beach
    - The Repairs and Maintenance Services account was 98% of the budget at the end of the second quarter. These expenditures will likely increase when City Beach operations startup again for the summer of 2015, but this has been the trend for the past two years.
- Community Ice Rink
    - Repair and Maintenance Services was 165% of the budget. Due to the numerous equipment issues at the facility, this overage was expected when reviewing accounts. However, these expenditures were not expected at the time of budget preparation. In addition, to proceed with transferring the management of the facility, these expenditures were necessary so the City could turn over a functioning facility to the new management group. It is estimated that \$60,000 in unexpected repairs were necessary. The management agreement (effective November 22, 2015) provides that payments from the management group to the City will provide enough revenue to for expenditures to exceed operational revenues by \$45,000 (a portion of the unexpected repairs) at the end of FY16.

- Youth Programs
  - Seasonal/Temporary wages was 208% of the budget at the end of the second quarter. This higher than expected amount is likely due to the budget being decreased by \$5,200 based on the re-allocation of Seasonal/Temporary wages among the different activities of the Parks & Recreation Department with no changes made in staffing at the program level. This will be an item that needs to be corrected in preparing the budget for FY17.
- Summer Camp
  - Seasonal/Temporary wages account was 83% of the budget, but this is expected due to the timing of the summer camp program. This line-item continues to track similar to prior years.
- Fire and Ambulance Fund
  - Repair & Maintenance Services is at 95% of the budget at the mid-year point for Ambulance Services. Despite purchasing new fire and ambulance vehicles/equipment during the past few years, some of the fleet is very old and is requiring additional repairs. Since these costs will likely increase during the second half of FY16 we will monitor the line-item and Fund closely. As of December 31, 2015 the total Fund expenditures total only 38% of the budget.
- Building Codes Fund
  - The Contracted Workers line-item is 183% of the budget, which is expected since the department needed additional help due to staffing issues, a delay in hiring the new position, and an increase in workload. Although expected, this should be monitored throughout the year and will likely see a minimal increase due to filling the new position budgeted in FY16. Overall the Fund is only 38% of the budget.
- Street Light Districts #1 (Residential) and #4 (Commercial)
  - The Repair and Maintenance Supplies line item is at 107% and 106% of the budget, respectively, with each Fund at 63% and 65% at the end of the second quarter. This is primarily due to bulk purchases to take advantages of discounts and to stock inventory to use when repairs are needed. The Department is aware of the budget constraints due to the bulk purchases in the first half of FY16.

### **Additional Detailed Analysis**

The following discussion further highlights the attached three spreadsheets.

***General Fund Revenue (line 9 to 17)***

Total General Fund revenues are 58% of budget and have increased by 3% from the prior year second quarter. The increase is primarily noted in property tax revenue with some varying changes in the other revenue types and is expected since the FY16 budget provides for an increase in property tax revenue over the prior year. Miscellaneous revenue is also higher than the prior year second quarter, but this type of revenue varies year to year. Despite an overall increase in revenue, Municipal Fines & Forfeitures revenue is down by 10% or \$10,155 compared to a year ago.

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

Total General Fund expenditures are on track at 48% of the FY16 budget.

The General Fund cash balance was \$1,132,294 compared to \$1,136,767 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. December, January, June, and July are months that tend to have higher cash balances due to the collection of property taxes. Building cash reserves to a minimum of 12% or more each year is important to ensure an adequate cash balance throughout the year, which was also the direction received from the City Council during the budget process for the FY16 Budget.

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

The funds supported by property taxes have continued to have expenditures exceed revenues similar to prior year at the end of the second quarter (see H35). When compared to a year ago, these funds experienced an overall decrease in cash with detailed discussion above. Also compared to the prior year, overall revenues and expenditures are down. The decrease in revenue is higher than the decrease in expenditures and is primarily driven by ambulance revenues being down due to billing delays.

***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 at 57% of the budgeted revenues as of the end of the second quarter of FY16. Compared to the prior year there is a significant increase, but this is expected since the Resort Tax rate was increased from 2% to 3% as of July 1, 2015.

*Street and Alley* operations are in good financial condition even though expenditures exceeded revenues. The increase in expenditures (see J111) through the second quarter was expected since two years' worth of street overlay projects were completed this summer.

During the first quarter, the *Tax Increment Fund* had a significant decrease in expenditures of 62% or \$584,563. This significant decrease was the result of the last \$750,000 payment being made to the school FY15. However, during the second quarter a transfer of \$2,250,080 from the Tax Increment Fund to the City Hall/Parking Structure Construction Fund was recorded based on the FY16 Budget.

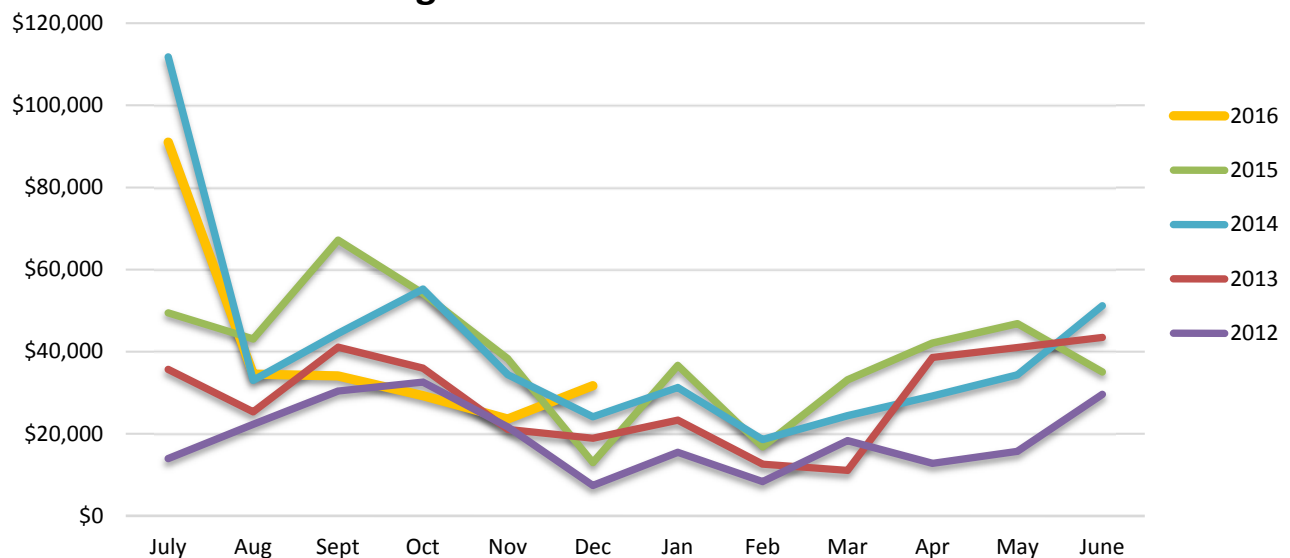
*Impact Fee* revenues have increased \$37,934 (see J121) compared to the second quarter of FY15. This increase is due to the numerous building projects in the City. The current figures are trending with FY13 when impact fees were paid for the new high school building. During the second quarter, 50% of all budgeted transfers for impact fees were recorded since we are now 50% through the year. Projects that have used impact fees in FY16 include Skye Park Bridge and the installation of stairs at the 2<sup>nd</sup> Street Bridge.

Both *Street Lighting Funds #1 (Residential) and #4 (Commercial)* had higher than anticipated expenditures, but the overage was due to a bulk supply purchase which provides for some savings and keeps inventory on hand in case of needed repairs.

In prior years the *Building Code Fund* received loans from the General Fund to support operations during the recession and as a result was classified as a property tax supported fund. However, with a loan balance less than \$25,000 and an expected pay-off this fiscal year, the fund is now reported as a fund supported by fees. The higher revenue collection in the Building Code Fund from both the City of Whitefish and the contract with the City of Columbia Falls has continued into FY16.

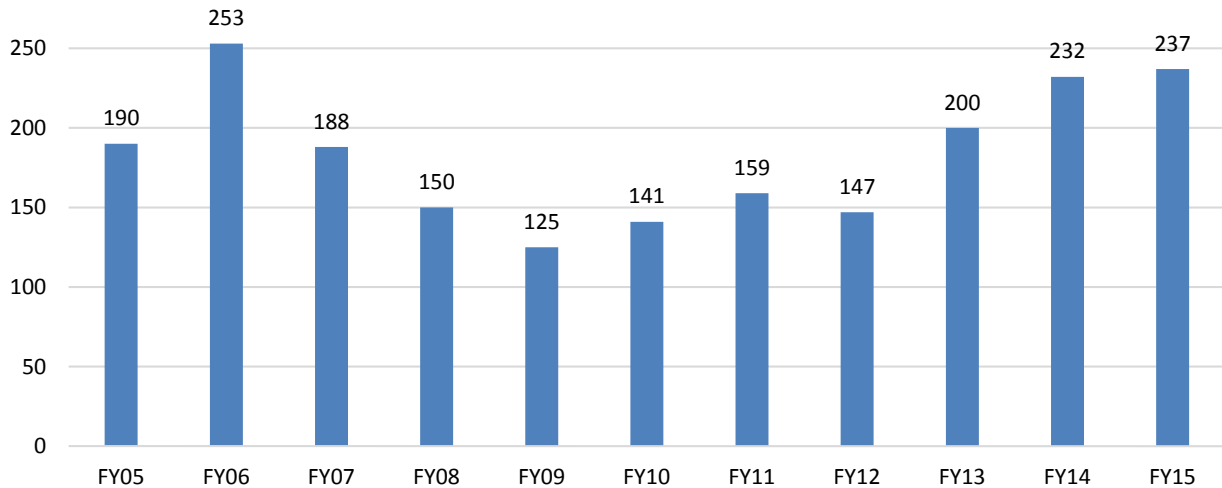
Due to staffing issues, the City has contracted with the City of Kalispell Building Department to complete the plan review for some commercial projects, which will likely use the plan review revenue in the coming months. However, other permit revenue is included in the licenses and permits revenue of the Fund. The City Hall/Parking Structure Project will result in about \$83,447 of additional building permit revenue that has not been received to date. Below are two graphs depicting revenue and permits issued.

**Building Licenses & Permit Revenue Trend**





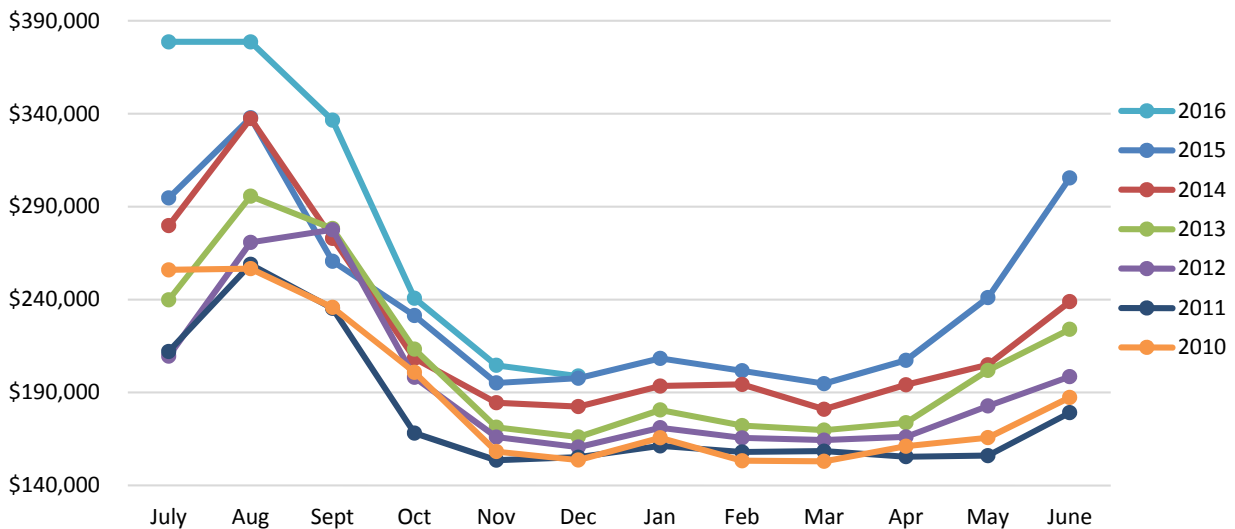
## Number of Building Permits Issued by Fiscal Year



### ***Enterprise Funds (p.3)***

Metered Water Sales continue to be up about 14%, or \$207,705, while Wastewater Service Charges are up 10%, or \$114,708. As depicted in the graph below, Water Sales increased significantly from May 2015 through September 2015. The growth in revenue in the first quarter was not related to the increase in rates, but instead was attributed to the increase in water usage by customers during the dry summer months when the City experienced minimal precipitation and higher temperatures starting in May. This change in usage also affected the Wastewater Charges. During the second quarter, the usage decreased, but growth was tracking as expected due to the rate increases of 1.3% for Water and 2.3% for Wastewater that went into effect as of October 1, 2015.

## Water Meter Charges by Month



Capital expenditures in the Water and Wastewater Funds are significantly more than the prior year second quarter as expected due to the various projects budgeted each year. A few of the major capital projects that the City has financed (shown in non-operating revenue) or paid for includes the Highway 93-Phase II Utility Improvement Project (Water and Wastewater), the Birch Point Lift Station Project (Wastewater), and the Cow Creek Extension Project (Wastewater).

The Solid Waste Fund had an increase in revenues of 2% through the second quarter. A 3% rate increase also became effective as of October 1, 2015. Expenditures are trending similar to the prior second quarter with expenditures at 49% of the expected FY16 budget though 3% higher due to an increase in the budget budget.

**Debt Summary**

	<u>Balance as of December 31, 2015</u>
TIF 2015 Refunding (ESC)	\$ 7,183,000
Water Revenue Bonds*	\$ 2,670,000
Wastewater Revenue Bonds*	\$ 3,531,218
SID 166 Bond	\$ 725,000
Ice Rink Loan	\$ 63,624
Ambulance Loan	\$ 108,328
Police Vehicle Loan	\$ 8,218
Fire Engine Loan	\$ 438,057
Fire Pumper Loan	\$ 196,392
Fire SCBA Loan*	<u>\$ 230,453</u>
<b>TOTAL</b>	<b><u>\$15,154,290</u></b>
<i>Change from June 30, 3015</i>	<i>\$ 907,936</i>

\*New debt incurred during the first half of FY16 include the Fire SCBA Loan of \$230,453, the Water Revenue Bond for the HWY 93 – Phase II project for \$120,000, and the Wastewater Revenue Bond for HWY 93 – Phase II Project for \$960,000.

**Other Items**

On January 20<sup>th</sup>, the City received the \$452,406 in grant revenue (CTEP) that was budgeted to fund the Skye Park Bridge project.

The City plans to issue and close on bonds for the Haskill Basin Conservation Easement in February and the City Hall/Parking Structure Project on March 1, 2016.

Overall the City’s finances remain in generally good condition with areas to monitor during the remainder of the fiscal year. Please contact me if you have any questions on this report.

	A	D	E	F	G	H	I	J	K
1	<b>City of Whitefish</b>								
2	<b>Quarterly Financial Review</b>								
3	<b>Second Quarter of Fiscal Year 2016 (Mid-Year)</b>				<b>50% of Fiscal Year Complete</b>				
4	<b>October 1, 2015 - December 31, 2015</b>								
5		YTD		YTD		YTD			
6	<b>General Fund Revenues</b>	Dec 31, 2013		Dec 31, 2014		Dec 31, 2015			
7		<b>Dollars</b>	<b>% of Budget</b>	<b>Dollars</b>	<b>% of Budget</b>	<b>Dollars</b>	<b>% of Budget</b>	<b>Chng Prev YR</b>	<b>% Chng Prev Yr</b>
8									
9	Property Taxes	\$1,008,636	52%	\$1,019,473	50%	\$1,093,058	50%	\$73,585	7%
10	Total Licenses and Permits	\$32,150	53%	\$33,929	56%	\$35,354	55%	\$1,425	4%
11	Intergovernmental Revenue	\$391,595	51%	\$409,425	50%	\$420,349	50%	\$10,923	3%
12	Charges for Services	\$147,915	71%	\$141,430	59%	\$126,835	56%	(\$14,596)	-10%
13	Fines and Forfeitures	\$111,112	43%	\$102,554	45%	\$92,399	42%	(\$10,155)	-10%
14	Miscellaneous	\$47,736	118%	\$2,978	19%	\$9,458	17%	\$6,480	218%
15	Investment Earnings	\$13,350	67%	\$7,900	53%	\$6,487	43%	(\$1,413)	-18%
16	Resort Tax & SID Revolving Transfer In	\$693,432	100%	\$668,831	100%	\$679,023	100%	\$10,192	2%
17	<b>Total General Fund Revenues</b>	<b>\$2,445,926</b>	<b>61%</b>	<b>\$2,386,520</b>	<b>58%</b>	<b>\$2,462,961</b>	<b>58%</b>	<b>\$76,441</b>	<b>3%</b>
18	<b>General Fund Expenditures</b>								
19									
20	Municipal Court	\$132,188	47%	\$133,446	45%	\$132,823	45%	(\$623)	0%
21	Prosecution Services	\$52,100	53%	\$39,256	36%	\$0	0%	(\$39,256)	-100%
22	Administrative Services	\$36,171	44%	\$36,785	46%	\$47,008	44%	\$10,223	28%
23	Legal Services	\$17,835	45%	\$19,044	45%	\$33,964	32%	\$14,920	78%
24	Community Planning	\$154,753	44%	\$151,030	38%	\$161,731	43%	\$10,701	7%
25	Transfer to Park Fund	\$301,500	50%	\$374,919	54%	\$325,619	50%	(\$49,300)	-13%
26	Transfer to Law Enforcement Fund	\$922,500	50%	\$942,500	50%	\$1,042,500	50%	\$100,000	11%
27	Transfer to Fire Fund	\$287,500	50%	\$407,500	50%	\$417,500	50%	\$10,000	2%
28	Transfer to Library Fund	\$17,185	50%	\$17,186	50%	\$17,186	50%	\$0	0%
29	Cemetery/Other	\$96,683	50%	\$36,944	45%	\$32,659	33%	(\$4,285)	-12%
30	<b>Total General Fund Expenditures</b>	<b>\$2,018,414</b>	<b>50%</b>	<b>\$2,158,610</b>	<b>49%</b>	<b>\$2,210,990</b>	<b>48%</b>	<b>\$52,380</b>	<b>2%</b>
31									
32	<b>General Fund Revenues Less Expenditures</b>	<b>\$427,512</b>		<b>\$227,910</b>		<b>\$251,971</b>		<b>\$24,061</b>	<b>11%</b>
33	<b>General Fund Operating Cash Balance</b>	<b>\$1,158,818</b>		<b>\$1,136,767</b>		<b>\$1,132,294</b>		<b>(\$4,473)</b>	<b>0%</b>
34									
35	<b>Prop Tax Supported Funds (no General) Net</b>	<b>(\$95,028)</b>		<b>(\$31,382)</b>		<b>(\$99,196)</b>		<b>(\$67,814)</b>	
36	<b>Prop Tax Supported Funds (no General) Cash</b>	<b>\$240,262</b>		<b>\$265,001</b>		<b>\$256,248</b>		<b>(\$8,753)</b>	
37									
38	<b>Total General &amp; Prop Tax Supported Funds Net</b>	<b>\$332,484</b>		<b>\$196,528</b>		<b>\$152,775</b>		<b>(\$43,753)</b>	
39	<b>Total General &amp; Prop Tax Supported Funds Cash</b>	<b>\$1,399,080</b>		<b>\$1,401,768</b>		<b>\$1,388,542</b>		<b>(\$13,226)</b>	



**General Fund Operating Cash Balance**

