



CITY OF
BAINBRIDGE ISLAND

FINANCE AND ADMINISTRATIVE SERVICES DEPARTMENT

MEMORANDUM

TO: City Council
Morgan Smith, City Manager

FROM: Karl Shaw, Interim Finance Director

DATE: May 7, 2019

RE: First Quarter 2019 Financial Results

This quarterly financial report analyzes recent trends, provides forecasts, and develops a short-term historical context to furnish the reader with an understanding of the City's current financial status and trajectory. The report provides information in five sections:

- Key first quarter (Q1) highlights
- 2018 year-end financial performance compared to its forecasted starting point for the 2019 budget
- Discussion of Q1 revenues and expenditures
- Capital Projects Status Update
- Appendix with supporting data

Q1 HIGHLIGHTS:

- All 2019 beginning fund balances exceeded estimates established in Fall 2018, creating capacity to adjust to changes in revenue performance and to consider additional spending beyond 2019. The General Fund began 2019 with a fund balance of \$18.6 million, and the Water, Sewer and Storm Water (SSWM) Funds started the year with fund balances of \$7.7 million, \$6.4 million, and \$1.8 million, respectively.
- Sales tax revenue continued to rise compared to prior years, totaling to \$1.3 million in Q1 2019, an increase of 19% compared to Q1 2018.
- Real Estate Excise Tax (REET) revenue in Q1 2019 at \$356,000 was \$215,000 or 38% lower than it was in Q1 2018. Transaction volume and the average selling price were 38% and 10% lower in 2019, respectively.

- Building and Development Services (B&DS) Fund revenue, at \$194,000, decreased by 45% compared to Q1 2018. One influencing factor is the ongoing moratorium on certain developments, which was extended through October 3, 2019 at the March 26, 2019 business meeting.

PROVIDING CONTEXT: 2018 YEAR-END PERFORMANCE

As year-end processes are completed and 2018 results are finalized, the City updates its 2019 budget assumptions for the operating funds' beginning fund balances. The beginning fund balance is the starting point for the upcoming budget year; a higher than expected starting point can reflect additional resources, or indicate budgeted spending that is behind schedule, translating into future obligations.

Tax-Supported Funds

Preliminary financial information shows that the City's tax-supported funds began 2019 with a collective fund balance that was higher than the \$16.0 million starting point budgeted for 2019. The preliminary year-end balance across all tax-supported funds is \$25.2 million, including the General Fund, Streets Fund, Real Estate Excise Tax (REET) Fund, Building & Development Services (B&DS) Fund, and funds with relatively smaller contributing fund balances.

Revenues: General Fund revenue ended 2018 at \$18.9 million, \$822,000, or 4.5%, higher than the estimate used in the 2018 Revised Budget. Contributing revenue sources included sales and use tax, investment interest, property tax, and utility tax. At \$1.7 million, revenue in the Street Fund was \$200,000, or 14%, higher than forecasted due to an increase in commercial parking tax revenue. Conversely, total REET revenue of \$3 million was lower than its forecast by \$170,000, or 5%. B&DS revenue at \$1.7 million was on target at \$15,000, less than 1%, higher its estimate for the 2018 Revised Budget.

Expenses: General Fund expenses were \$7.1 million lower than estimated in the 2018 Revised Budget. \$6.5 million is attributed to the delay in purchasing the Harrison building for the new Police and Municipal Court building. Other underspending occurred in professional services and repairs and maintenance.

Reserves: The City exceeded its General Fund reserve threshold, calculated at \$5.6 million for year-end 2018.

Utility Funds

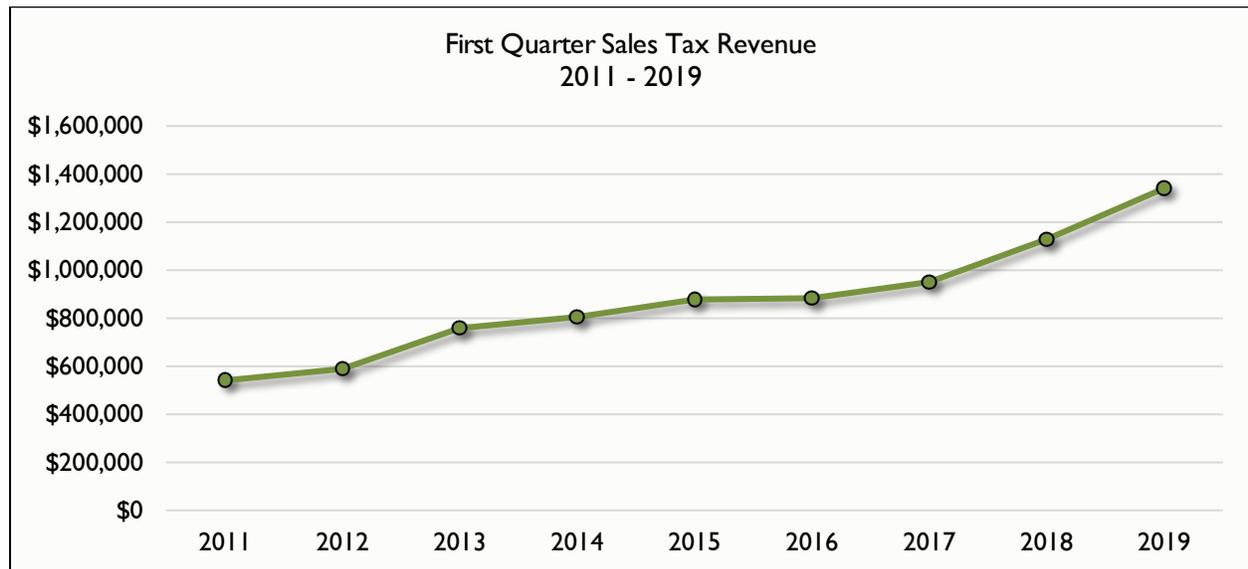
Preliminary financial information shows the City's utility funds began 2019 with a higher collective fund balance than the budgeted \$14.4 million starting point for 2019. Actual 2019 starting fund balances for the City's three utility funds totaled to \$15.9 million: \$7.7 million in the Water Fund compared to its budgeted starting point of \$7.1 million, \$6.4 million in the Sewer Fund compared to its budgeted starting point of \$5.7 million, and \$1.8 million in the SSWM Fund compared to its budgeted starting point of \$1.6 million. Higher investment interest revenue for all three utility funds, delayed capital spending budgeted for the Water and Sewer funds, and repair and maintenance underspending in the Storm Water Fund contributed to the difference.

Q1 2019 FINANCIAL RESULTS

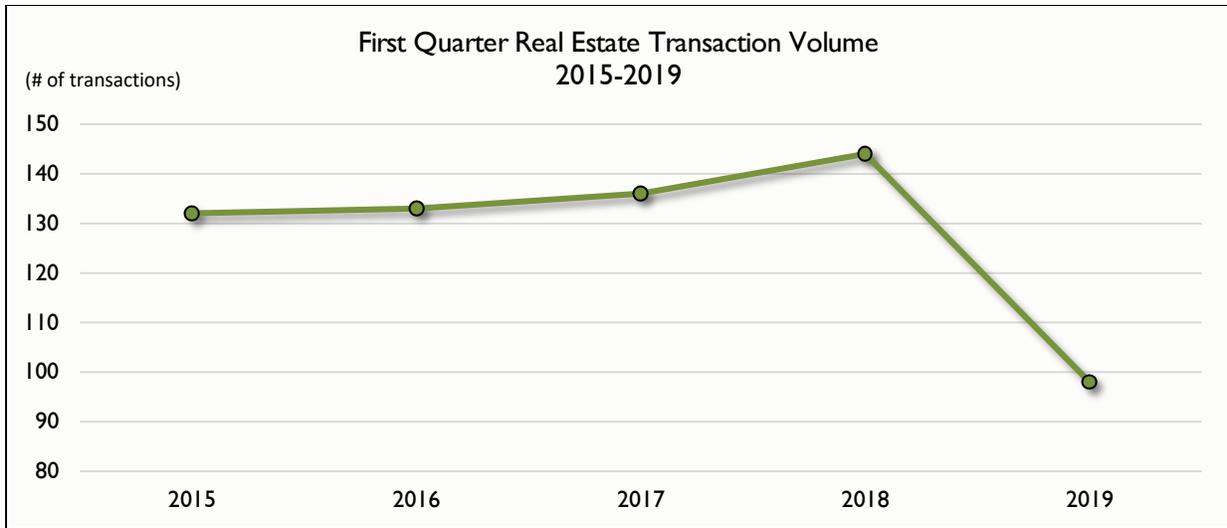
Total revenue across all City funds for the first quarter of 2019 came in at budgeted levels at \$7.3 million, or 16% of the budgeted total, and 3% higher than Q1 2018 total revenue. Total expenditures, including capital expenditures and debt service, were \$6.6 million, or 11% of the budgeted total, and 4% lower than Q1 2018 total expenditures. Adjusting for the timing of planned spending for upcoming capital projects, as well as delays in spending and the receipt of bond revenue for the Police and Municipal Court building, would respectively increase Q1 2019 total revenues and expenditures to 39% and 27% of the budgeted totals. Current forecasts indicate actual revenues will exceed the 2019 budget by roughly 5%, while delayed spending for capital projects, additional positions approved with the 2019 budget but not yet filled, as well as vacancies in existing positions, contribute to expenditure forecasts that are lower than budgeted levels.

Revenue Highlights

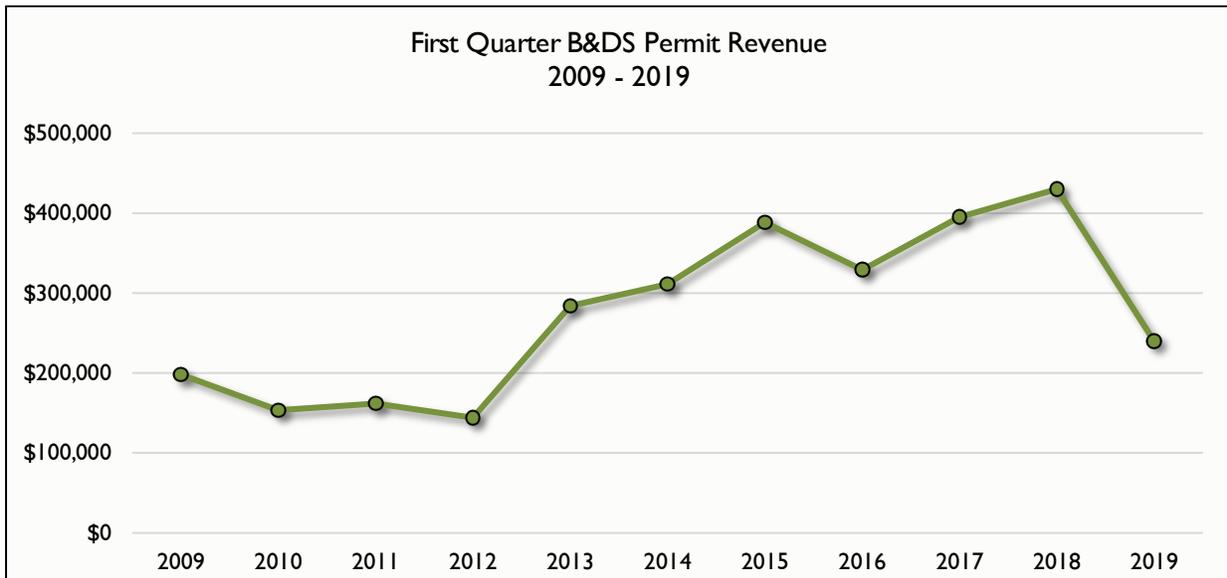
Sales Tax: Sales tax revenue was \$211,000, or 19%, higher in Q1 2019 compared to Q1 2018. Sales tax revenue from the construction and retail trade industries respectively contributed 37% and 29% of the overall revenue in Q1 2019. Revenue from construction increased by 26%, and revenue from retail trade increased 10% compared to Q1 2018. The City’s current projections indicate sales tax revenue will exceed its budgeted estimate by 2%, ending 2019 with a total of \$5.3 million for the year. Fueled primarily by a steady increase in construction activity and consumer spending, the chart below indicates first quarter sales tax revenue has more than doubled since Q1 2011.



Real Estate Excise Tax: Contrary to sales tax, REET revenue is trending down as it ended Q1 2019 \$215,000, or 38%, lower than Q1 2018, and 30% lower than the five-year Q1 average. Transaction volume and the average selling price were respectively 38% and 10% lower than Q1 2018, and 28% and 2% lower than the five-year Q1 average, indicating the drop in average selling price had a lesser impact on revenue than did the lower transaction volume. Thus, while high-priced properties have provided additional REET revenue on a month-to-month basis, the data indicate that transaction volume has been the driving force behind high Q1 revenues between 2015 and 2018. The City’s current forecast indicates REET revenue may be 10% or \$300,000 short of its budgeted estimate for 2019, ending the year with a total of \$2.9 million.



Fees for Building & Development Services: Revenues from building and development services fees in Q1 2019 were \$194,000, or 45% lower compared to Q1 2018, and 14% lower than the ten-year Q1 average. Q1 2019 ended with the lowest first quarter permit fee revenue since 2012. A combination of factors led to a 31% drop in the number of permits processed, including a decline in the number real estate transactions in response to a changing market environment, a decline in large-scale permit activity due to the development moratorium, and a permit review backlog due to staffing vacancies and reorganization in the City's Building division toward the end of 2018. The moratorium also affected the average permit fee amount, which was 20% lower compared to Q1 2018, indicating fewer fees for large projects were collected. The City's current forecasts predict permit fee revenue will fall 8%, or \$146,000, short of its budgeted estimate for the end of 2019.



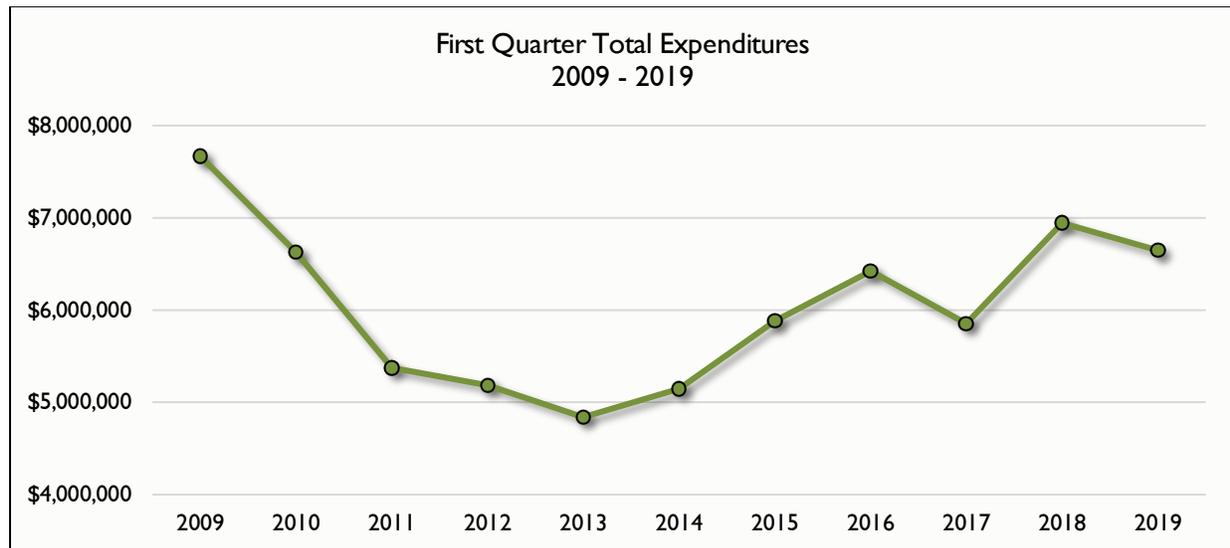
Expenditure Highlights

General Fund: Q1 2019 expenditures in the General Fund at \$4.3 million were \$838,000, or 16%, lower in Q1 2019 compared to Q1 2018, and 2% lower than the five-year Q1 average primarily because of a decrease in the amount of General Fund money set aside for capital projects. Projections currently indicate General Fund expenditures will be at or under the 2019 budget.

Street Fund: February 2019 weather events caused an operations and maintenance workload increase, unplanned repair expenditures, and the need for additional supplies in Q1 2019, resulting in a \$177,000, or 33%, increase in expenditures compared to Q1 2018, and a 41% increase over the 5-year Q1 average. Even with the unplanned expenditures, the City's current forecasts predict the Street fund will underspend its 2019 year-end budget by 4%.

Building & Development Services Fund: Salaries and benefits expenditures in the B&DS fund were \$114,000, or 21%, higher compared to Q1 2018 due to the combination of cost of living and salary step increases, additional personnel charging time to the B&DS Fund, and an increase in labor cost allocation percentages assigned to the B&DS Fund. B&DS Fund expenditures were 16% higher overall compared to Q1 2018, and 35% higher than the five-year Q1 average. Current forecasts show B&DS Fund expenditures at or under the 2019 budget.

Overall, Q1 2019 expenditures were 11% higher than the Q1 average across all funds and departments since 2009.



CAPITAL PROJECTS STATUS UPDATE

First quarter spending on capital projects totaled \$211,000 including \$54,000 for the Police and Municipal Court building, \$39,000 for the Sportsman Club & New Brooklyn intersection, and \$42,000 on the Old Treatment Plant lift station improvement. The City has signed a purchase and sale agreement for the Harrison Building as the site of the new Police and Municipal Court building, and due diligence is currently underway. Spending also began on the State Route 305 Olympic Drive project and the construction phase is planned for April through August 2019.

APPENDICES

The documents listed below are intended to supplement the reader's understanding of the topics discussed in this report.

- Monthly Spending Plan – shows YTD actuals and monthly projections for various revenue and expense categories compared to budgeted amounts, summing to totals by fund. The City uses this report to analyze its anticipated financial position on a monthly basis.
- Monthly Financial Report – shows beginning fund balance, YTD revenues, YTD expenditures, and ending fund balance for select funds, with a comparison to results from the same time period in the prior year. This report is also published monthly, with an accompanying written analysis, on the City's website: <http://www.bainbridgewa.gov/DocumentCenter/View/11893/March-2019-Monthly-Financial-Report-COB1>
- Capital Projects Status Report – shows the financial status (including total budget, actual spending, encumbrances, and remaining budget) of every capital project with planned 2019 spending as of the end of Q1 2019. The report includes a high-level overview and detailed project pages.

The reader is also invited to read the City's 2019-2020 budget book:

<http://www.bainbridgewa.gov/DocumentCenter/View/11585/2019-2020-Adopted-Budget-Book-Final>

Please explore our interactive financial data, updated monthly, on City's OpenGov portal:

<https://bainbridgeislandwa.opengov.com/transparency>