

Second Quarter 2019 Financial Report

September 17, 2019

City Council:

The following documents are the budget status reports for the second quarter of the 2019-2020 biennium, for the period ending June 30, 2019. The purpose of this reporting is to ensure that the City Council is kept abreast of positive or negative trends impacting (or potentially impacting) the financial condition of the City, and to provide a snapshot of the City's period-to-date financial results.

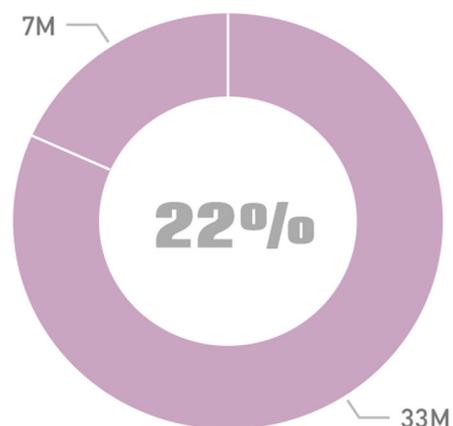
As of the date of this report, we are 25% of the way through the biennium. At the 25% mark we have enough data to be able to make confident statements about how the actual financial results are shaping up relative to the budget. The following narrative and graphs provide a financial snapshot at June 30, 2019 and highlights a few individually significant items.

The General Fund

Consistent with first quarter financial results, General Fund revenues, taken as a whole, were slightly under budgeted amounts. Most notably, sales tax (the largest General Fund revenue) continues to lag budgeted amounts for the second quarter in a row. While this reporting does not account for seasonal fluctuations that impact sales tax, the year-to-date collections are roughly the same as 2018. Sales tax revenues were budgeted to increase compared to 2018 consistent with economists' forecasts, so the trend is starting to become a cause for concern. It should be noted, however, that the third quarter building season and fourth-quarter retail season have the potential to get sales tax collections back on track. Chart 19.Q2.A is a graphical representation of period-to-date sales tax collections relative to the amounts in the biennial budget.

Chart 19.Q2.A

Sales Tax, Percent of Budget Collected



Utility taxes are also trending below budgeted amounts year-to-date at the end of the second quarter. Taken individually, utilities are seasonal, but as a whole they tend to be less seasonal. So, the below budget collections trend is concerning. Fortunately, the variance actual-to-budget is modest and the telephone utility tax appears to be a significant contributor. Telephone utility tax has been on the decline for years as consumer favor communication that utilizes non-taxable data rather than telephone utilities, so the telephone utility tax trend is not surprising. Staff will continue to monitor sales tax and utility tax collections closely and will report to the Council with updates.

One bright spot for General Fund revenues is the receipt of an unbudgeted revenue for Ground Emergency Medical Transport (GEMT). The Fire Department recently applied to participate in a relatively new State program to fund a portion of a public entity’s cost to provide transport services to community members on Medicaid. The City received more than \$650,000 (net of the portion remitted to the State) in the second quarter as a result of the Fire Department’s efforts to participate in the program.

General Fund departments as a whole, continued to exercise good budget discipline during the second quarter of the year, resulting in below budgeted spending. Two departments’ expenditures continue to trend high; as was the case in the first quarter the slightly higher spending is primarily attributable to emergent unbudgeted items and spending on one-time items. Staff will attempt to identify savings elsewhere in the respective department budgets to reduce the likelihood for a future budget amendment request as appropriate. The following two charts display period-to-date spending by department; a brief introduction is provided for each graph.

Chart 19.Q2.B is a graphical representation of departments’ percentage of spending of their biennial budgets to date. The dotted red line represents our relative position in the biennium, 25%. A department with a flat spending curve (one that spends the exact same amount each quarter of the biennium) would be on target to spend 100% of their budget appropriation at the end of the biennium if the department was at 25% as of the date of this report.

Chart 19.Q2.B

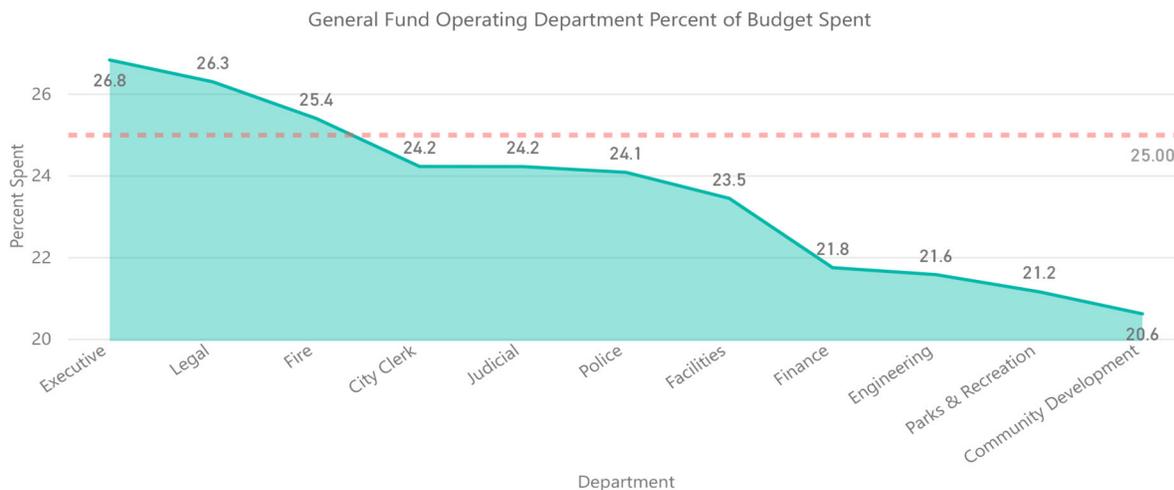
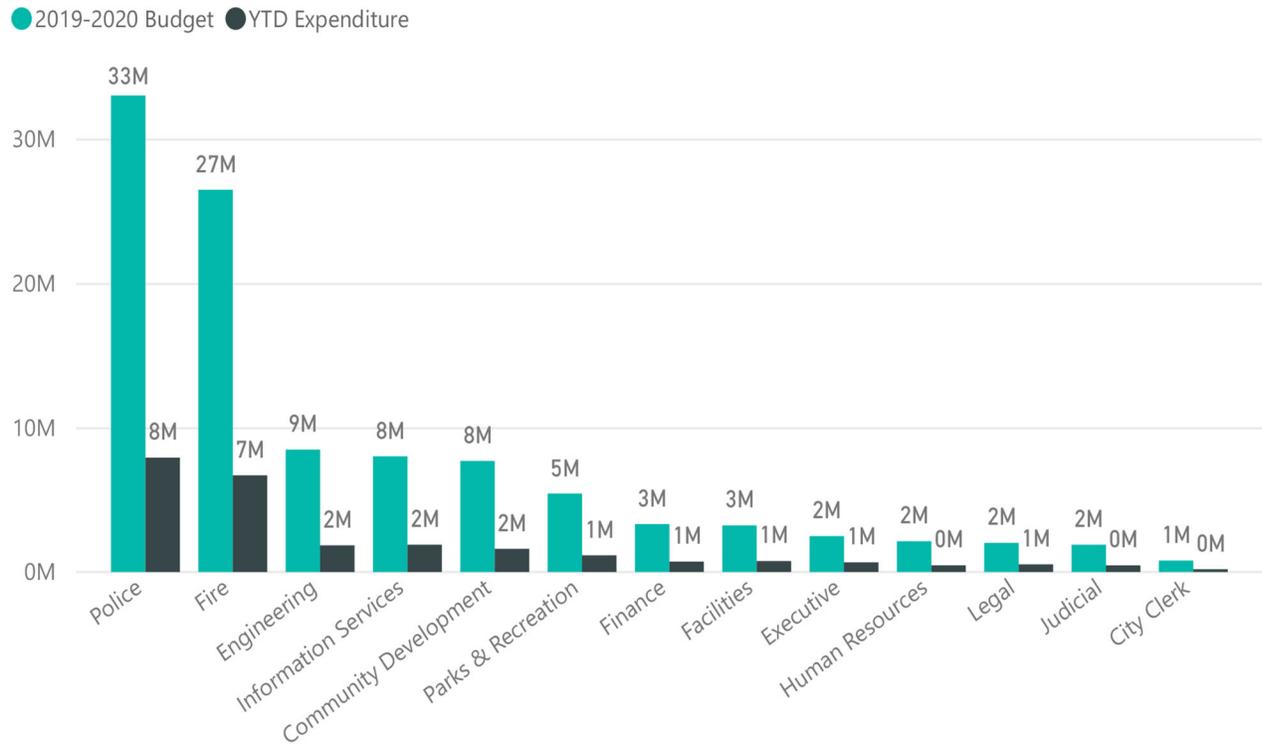


Chart 19.Q2.C is a graphical representation of department expenditures based on dollars spent and dollars budgeted. In addition to displaying actual expenditures and budgeted amounts by department, this graph gives readers an idea of the relative size of each department’s budget.

Chart 19.Q2.C

General Fund Operating Department Expenditure to Budget Comparison



The combined result of the lower than budgeted General Fund revenue plus the lower than budgeted expenditures is a General Fund operating deficit (the difference between revenue and expenditures) despite the new and unbudgeted GEMT revenue. The deficit at the end of the second-quarter was approximately \$67,000, which is a lower deficit than in the first-quarter and represents a positive trend.

Chart 19.Q2.D represents total General Fund revenues compared to expenditures.

Other Funds

Real estate excise tax (REET), a non-General Fund revenue, maintained its above budgeted performance during the second-quarter. REET receipts were nearly \$600,000 above budgeted amounts period-to-date at the end of the second-quarter.

Utility revenues and expenditures are consistent with budgeted amounts and are unremarkable.

Other Matters

Mid Biennial Budget Adjustment. Cities choosing to adopt a biennial budget are required to review actual revenue and expenditure performance with budgeted amounts in the fourth quarter of the calendar year. The second quarter data contained in this report is the primary basis for the review which is scheduled for presentation to the City Council on October 1, 2019.

Economic Update. As was noted during the first quarter financial report we have experienced the longest period of economic expansion in the nation's history and economists continue to predict a downturn. The chatter from economists regarding an imminent recession is getting louder and the consensus appears to be that the economy will begin to slow down by 2021. A significant recession would likely negatively impact sales tax and REET collections. Staff continuously monitors economic indicators and forecasts and will update the Council as predictions materializes in our financial results.

Public Safety Levy. Implementation of the public safety levy is in process; hiring continued on schedule during the second quarter of the biennium. Year-to-date public safety levy expenditures were \$696,934 at June 30, 2019. The first receipts from the public safety levy were received during the second quarter; as a result, the line-of-credit used to fund first quarter expenditures was fully repaid during the second quarter.

Public Safety Bond. Planning for new fire station construction is underway, expenditures for this purpose were \$52,331 during the second quarter of 2019.

Please contact me with any questions.

Best regards,

Chris Bothwell
Finance Director

