

Memo

To: Mayor and Councilmembers
From: Colleen Corcoran, Finance Director
CC: Scott Pingel, City Manager
Date: February 13, 2018
Re: Year End 2017 Financial Report

INTRODUCTION

This is a report on the financial condition of the City of Fircrest based on the Preliminary Financial reports as of December 31, 2017. The final State Reports are due to the Washington State Auditor's Office by May 30, 2018. No major changes are expected from these reports to the reports filed with the State. This report will give you an overview and be helpful when looking at how the City performed financially in 2017.

This analysis looks at how revenues compare to expenditures. This will tell us how much money we have left after all expenses have been met. This is known as Fund Balance. If revenues are more than expenditures then the Fund Balance will increase. If revenues are less than expenditures then the Fund Balance will decrease. A fund balance can consist of Reserved Fund Balances, Designated Fund Balances and Undesignated Fund Balances.

Reserved Fund Balance: For the City of Fircrest this is our Cumulative Reserve Fund. Money can only be transferred out of this fund by ordinance approved by Council with a super majority. Currently General, Street, Water and Sewer have money in this fund.

Designated Fund Balance: General Fund has two balances in this category. Designated Light Fund and Designated 44th/Alameda. When the assets of the Light Fund were sold, Council designated the money to be used to cover expenses for the Street Department. When the property at 44th and Alameda was sold Council designated the funds to be used for Parks capital projects.

Undesignated Fund Balance: These funds have no designated restrictions but are broken down further as follows:

- A. Allocated for cash flow (3 months of current year's operating expenditures).

- B. Invested in bond
- C. Allocated for Capital
- D. Available cash

The table below shows the net increase or decrease in Fund Balance per fund.

Fund	BFB	In(De)crease	EFB
General	\$3,063,916	\$244,839	\$3,308,755
Street	\$308,890	(\$50,706)	\$258,184
Storm	\$608,842	\$25,825	\$634,667
Water	\$816,484	(\$42,669)	\$773,815
Sewer	\$1,426,691	\$179,374	\$1,606,065
BYSM	\$995,448	\$93,526	\$1,088,974

Attached are the detailed financial reports as of December 31, 2017. The following information summarizes the General, Street and Proprietary funds and compares revenue and expenditures in order to evaluate the effect on Fund Balance. Ideally, Operating Revenues should be more than Operating Expenditures with money left over for current and future capital needs.

GENERAL FUND SUMMARY

The following table shows how actual revenues and expenditures affected the ending fund balance in the General Fund.

Beginning Fund Balance as of 01/01/2017		\$3,063,916
Operating Revenues as of 12/31/17	\$5,067,139	
Operating Expenses as of 12/31/17 w/o capital	(\$4,800,052)	
Operating Revenue over (under) expenditures		\$267,087
Capital as of 12/31/17		(\$38,260)
Net Revenue over(under) Expenditures w/capital		\$228,827
Non Revenue (insurance recovery & refundable deposits)		\$29,603
Non Expenditures (refunded deposits)		(\$13,592)
Total Change in Fund Balance		\$244,839
Ending Fund Balance as of 12/31/2017		\$3,308,755

When analyzing the above information, Total Ending Fund Balance increased by a net of \$244,839. Remember, Ending Fund Balance in General Fund is made up of three components as broken out in the table below:

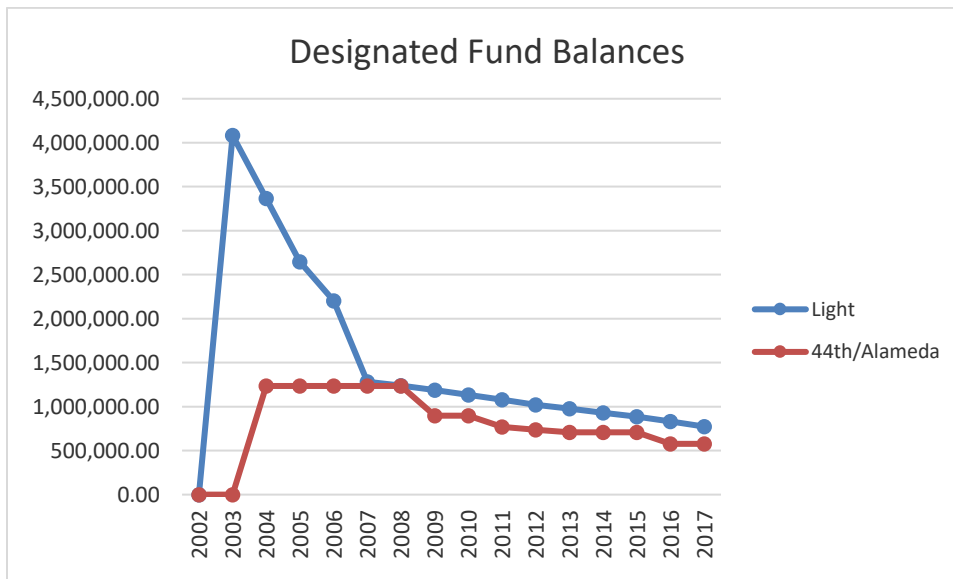
	01/01/17			12/31/17
	Balance	Additions	Subtractions	Balance
Undesignated Fund Balance	\$1,653,938	\$306,064		\$1,960,002
Designated Light Fund Money	\$833,178		\$ (60,000)	\$773,178
Designated 44th/Alameda	\$576,800		\$ (1,225)	\$575,575
Total Ending Fund Balance	\$3,063,916	\$306,064	(\$61,225)	\$3,308,755

Undesignated Fund Balance increased by a net amount of \$306,064.

The Designated Light Fund money was decreased by \$60,000. This amount represents the amount that was transferred to the Street Fund for Street Light Maintenance.

Designated 44th/Alameda decreased by \$1,225. This represents the amount that was used for the RCO grant match.

The chart below shows how the designated funds have decreased over the years. The money from the sale of the Light Fund went from \$4,082,442 in 2003 to \$773,178 as of 12/31/2017. The money from the sale of the property located at 44th and Alameda went from \$1,235,014 in 2004 to \$575,575 as of 12/31/2017.



Undesignated Fund Balance is broken down even further to get the amount that is actually available (see Figure E). Some of these funds need to be reserved for cash flow or are currently invested in bonds. The amount reserved for cash flow is determined by three months of annual operating cost. The chart below shows the availability of cash for each of the General Fund

Balances. Keep in mind that this amount does not include any funds set aside for capital other than the Parks money which is in the Designated 44th/Alameda balance.

	<u>Undesignated</u>	<u>Light</u>	<u>44th/Alameda</u>	<u>Total</u>
Invested in bond	\$ 300,000	\$ 500,000	\$ 200,000	\$ 1,000,000
Reserved for cash flow	\$ 1,294,235			\$ 1,294,235
Available cash	\$ 365,767	\$ 273,178	\$ 375,575	\$ 1,014,520
Total	\$ 1,960,002	\$ 773,178	\$ 575,575	\$ 3,308,755

This information is very important and must be considered when planning for the future. Ending fund balances are limited. The City does not have a Capital Fund. As capital needs arise, such as building repairs including leaking roofs, exterior repairs, pool repairs, HVAC replacements, etc., the Ending Fund Balances will be depleted.

Once the Designated Light money is depleted, Undesignated Fund Balance will need to be used to fund Street Light Maintenance and Street Capital projects.

As fund balances decrease there will be fewer funds to invest. Interest rates have been very low for the last several years which has caused a reduction in interest revenue, however, these rates are beginning to increase. By investing in bonds we have been able to increase our interest revenue.

The City also has three million dollars in General Fund Cumulative Reserves currently invested in bonds.

Ending Fund Balances need to increase in order to have sufficient funding to cover capital needs in the future while still maintaining enough balance to cover cash flow needs. (See "Treasures Report" attached)

Following is a closer look at both revenues and expenditures for the General Fund.

GENERAL FUND REVENUES (Figure A)

For 2017 we received 103.7% of our anticipated revenue. This represents a dollar amount of \$180,356 that was received above what was estimated. Revenues are estimated on a conservative approach meaning that when budgeting for the year we want to estimate the revenue as close to what we expect to receive or lower. This approach helps assure that we do not spend money that we may not receive. Operating Revenue needs to cover Operating Expenditures therefore we are very conservative on our revenue estimates. If revenues are inflated and not received as anticipated, there will not be enough funds to cover expenditures thereby causing an unpredicted use of Ending Fund Balance.

The following table shows the different categories of revenue and how the actual receipts compare to the budgeted estimates. Figure A is a pie chart that shows each category of revenue as a percentage of the total received.

	<u>YTD 12/31/17</u>	<u>Budget</u>	<u>%</u>
Taxes	3,214,867	3,167,871	101.5%
Licenses & Permits	485,209	452,080	107.3%
State Revenue	225,924	228,865	98.7%
Fines & Forfeits	212,463	202,600	104.9%
Serv & Charges	717,919	687,790	104.4%
Misc. Revenue	210,757	177,180	119.0%
Non Revenue	<u>29,603</u>	<u>0</u>	<u>0.0%</u>
TOTAL GEN FUND REV	5,096,743	4,916,386	103.7%

Non Revenue includes \$17,678 for insurance recovery and \$11,925 for refundable deposits.

Also included are Figures B-1 through B-7 that show the trend from 2013 to 2017 of each General Fund revenue category. Since a large portion of General Fund revenue is received from four major line items within the tax category, this information is further broken down on Figures B-8 through B-11.

If you look at the attached report titled “2017 Revenue Report,” you can see the detailed lines that make up each of these categories. Some line items collected more than estimated while others collected less than estimated. Overall out of a \$4.9 million budget, we collected 3.7% or \$180,356 more revenue than anticipated. This is a very tight budget but still conservative.

When making financial decisions you need to look at the entire financial position of the fund. Individual lines are examined to determine trends. One-time events should not be used as a stand-alone factor to base current or future budgets. This may happen when large construction projects happen. The City will see an influx in retail sales tax and planning/building permits. Because this is a one-time event, future budgets should not rely on the influx to cover future operating costs. Using this as an example another thing to consider is that the revenue collected for the building and planning permits will be offset by increased expenditures related to the review and inspection process.

You need to look at the entire financial position and how that affects future years.

GENERAL FUND EXPENDITURES (Figures C-1, C-2 and C-3)

The City spent 92.7% of budgeted General Fund operating expenditures (capital not included). Expenditures by department are shown in the following table. This is represented in line graph format on Figure C-2 and a pie chart on Figure C-3.

	<u>YTD</u>	<u>BUDGET</u>	<u>REMAINING</u>	<u>% Expensed</u>
<u>DEPARTMENT</u>				
Legislative	68,518	75,490	6,972	90.8%
Court	258,507	283,470	24,963	91.2%
Administration	296,757	321,315	24,558	92.4%
Financial	293,459	297,306	3,847	98.7%
Legal	113,314	131,745	18,431	86.0%
Other Employee Benefits	5,599	10,550	4,951	53.1%
Non Dept	351,668	383,426	31,758	91.7%
Personnel	46,022	47,110	1,088	97.7%
Facilities	397,309	429,537	32,228	92.5%
Info Systems	65,479	74,626	9,147	87.7%
Civil Service	5,102	5,315	213	96.0%
Police	1,399,331	1,554,180	154,849	90.0%
Fire/EMS	623,045	623,045	0	100.0%
Jail Costs	13,971	30,500	16,529	45.8%
Building	76,250	78,845	2,595	96.7%
Emg Mgt	12,974	13,140	166	98.7%
Pollution Control	4,288	4,288	0	100.0%
Animal Control	8,450	10,000	1,550	84.5%
Planning	73,683	76,664	2,981	96.1%
Mental Health	1,761	2,200	439	80.0%
Recreation/Part Rec	280,938	295,620	14,682	95.0%
Library	10,987	14,000	3,013	78.5%
Community Events	20,113	20,150	37	99.8%
Pool	153,677	171,345	17,668	89.7%
Parks	218,850	223,073	4,223	98.1%
Total Gen Fund Oper Exp	4,800,051	5,176,940	376,889	92.7%

Totals are without capital

*Non Department includes transfers out to Street: \$10,000 for Street Beautification, \$193,760 for 12.5% of General Property Tax, and \$60,000 for Street Light Maintenance.

For 2017 we expensed 92.7% of our anticipated operating expenditures (without capital). This represents a dollar amount of \$376,889 less than what was estimated.

Expenditures are estimated on a conservative approach meaning that when budgeting for the year we want to estimate the expenditure as close to what

we expect to spend or higher to allow for contingencies during the year. Staff is conscientious when making purchasing decisions to keep costs as low as possible.

GENERAL FUND CAPITAL EXPENDITURES (Figure C-1)

	2017	12/31/17	Percent	Unexpended
	<u>Appropriation</u>	<u>Expenditures</u>	<u>of Total</u>	<u>Balance</u>
Facilities	67,500	17,944	26.6%	49,556
Police	24,560	17,865	72.7%	6,695
Parks	37,450	2,451	6.5%	34,999
Totals	129,510	38,260	29.5%	91,250

Facilities capital budget included \$5,000 for carpeting at the Public Safety Building (actual cost \$6,192), \$6,500 for bullet resistant glass at the Public Safety Building (not done-bids came in too high, possible grant in 2018), \$6,000 for renovation of the Whittier gazebo roof (not done-rolled over to 2018), \$30,000 to rebuild the Spring Street Parks storage garage (not done-on hold, maybe included in a park bond) and \$20,000 for new flooring at the Public Works Facility (actual cost \$11,752).

Police capital budget included \$13,000 for two radios (only one purchased for a cost of \$6,534) and \$11,560 for HVAC repairs (actual cost \$11,331).

Parks capital budget included \$2,450 for the remaining costs associated with the Tot Lot improvements funded from a RCO grant, Kiwanis donations and the 44th/Alameda Fund Balance (2017 actual costs \$2,450) and \$35,000 for repair of the tennis courts (not done).

As previously stated General Fund capital is paid for by Ending Fund Balances which are limited. The City does not have a Capital Fund. As capital needs arise, such as building repairs including leaking roofs, exterior repairs, pool repairs, HVAC replacements, etc., the Ending Fund Balances will be depleted.

The “2017 Budget Position Totals” report is attached which shows the detail for each department.

STREET FUND (Figure D)

The following shows how actual revenues and expenditures affected the Ending Fund Balance for the Street Fund.

Beginning Fund Balance		\$308,890
Operating Revenue	\$168,222	
Transfers In Prop Tax, St. Maint & Beaut	\$263,760	
Operating Expenses	(\$465,991)	
Operating revenue over (under) expenses		(\$34,009)
Transfer In for Capital	\$148,842	
Grant Revenue for Capital	\$556,383	
Capital Expenditures	(\$723,090)	
Capital revenue over (under) capital expenses		(\$17,865)
Total revenue over (under) expenses w/capital		(\$51,874)
Non operating revenue-insuranse recovery		\$1,167
Ending Fund Balance		\$258,183

The Street Fund is mainly funded from the General Fund. When the Light Fund money is depleted a plan needs to be in place to fund both maintenance and capital infrastructure in the Street Fund.

In 2017 Street capital was also funded from grants, REET and Ending Fund Balance. REET money is limited. It has taken several years to build up the money in this fund. It will be replenished as property sells within Fircrest. These funds are used to fund capital projects listed in the comprehensive plan.

STORM DRAIN BUDGET (Figure D)

The following shows how actual revenues and expenditures affected the Ending Fund Balance for the Storm Drain Fund.

Beginning Fund Balance		\$608,842
Operating Revenue	\$434,379	
Grant Revenue	\$19,210	
Operating Expenses	(\$393,303)	
Operating revenue over (under) expenses		\$60,286
Capital Expenses		(\$34,461)
Total revenue over (under) expenses w/capital		\$25,825
Ending Fund Balance		\$634,667

WATER FUND (Figure D)

The following shows how actual revenues and expenditures affected the Ending Fund Balance for the Water Fund.

Beginning Fund Balance		\$816,484
Operating Revenue	\$1,070,046	
Operating Expenses	(\$939,371)	
Operating revenue over (under) expenses		\$130,675
Capital Contributions		\$8,000
Grant Revenue		\$0
Capital		(\$130,493)
Total revenue over (under) expenses w/capital		\$8,182
Loan Payment		(\$50,851)
Ending Fund Balance		\$773,815

SEWER FUND (Figure D)

The following shows how actual revenues and expenditures affected the Ending Fund Balance for the Sewer Fund.

Beginning Fund Balance		\$1,426,691
Operating Revenue	\$2,430,098	
Operating Expenses	(\$1,829,690)	
Operating revenue over (under) expenses		\$600,408
Capital Contributions		\$12,000
Transfer In from REET		\$56,750
Capital		(\$164,920)
Total revenue over (under) expenses w/capital		\$504,238
Non expenditure-transfer to BYSM		(\$324,864)
Ending Fund Balance		\$1,606,065

RELOCATION OF BACKYARD SEWER MAIN FUND (Figure D)

The following shows how actual revenues and expenditures affected the Ending Fund Balance for the Relocation of Backyard Sewer Main Fund (BYSM). This fund will be combined with the Sewer Fund in 2018.

Beginning Fund Balance		\$995,448
Operating Revenue	\$4,602	
Transfer In Sewer Fund Rates	\$324,864	
Loans Received	\$0	
Loan Payment P/I	(\$315,940)	
Capital	\$0	
Total revenue over (under) expenses w/capital		\$13,526
Ending Fund Balance		\$1,008,974

REET FUND (Figure D)

	1st Qtr	2nd Qtr	Total
Beginning Fund Balance	\$196,023	\$1,100,826	\$1,296,849
Interest Revenue	\$949	\$5,280	\$6,229
Revenue	\$126,652	\$126,651	\$253,303
Transfer Out	\$0	(\$205,592)	(\$205,592)
Ending Fund Balance	\$323,624	\$1,027,165	\$1,350,789

CONCLUSION

The above information should be used as a tool for making financial decisions for the future of the City. The trend for the past several years is continuing; revenues are remaining flat or decreasing while expenditures are increasing. The City has been very conservative during the past budgeting processes.

With future capital projects anticipated, the City will need to continue to evaluate its financial condition very carefully.