



MEMO

To: Mayor, City Council, City Manager, and Department Heads

From: Lisa White
Finance Director

Date: January 21, 2016

RE: Quarterly Report: Fiscal Year 2016 – 2nd Qtr. as of December 31, 2015

GENERAL REPORT INFORMATION:

Quarterly Report Presentation:

Attached are the Quarterly Fund Financial Statements for the major City Funds. Each page of the attached financial report presents a separate fund statement. Each fund financial statement consists of columns on the left showing that fund's prior fiscal year Budget and Actual revenues and expenditures as of the year end and also as of the applicable quarter of that year. The columns on the right side show the current fiscal year Budget and then the Current year-to-date Actual revenues and expenditures as of the applicable quarter for that fund. The last column on the right shows the year-to-date percentage of revenue collected or budget expended.

How to Interpret Quarterly Reports:

In most of the funds or types of account categories listed you can compare the percentage of revenues collected or expenditures incurred for each account type or department to the expected benchmark percentage for each quarter to determine where the City stands. (For example 25% is normally expected in the first quarter, as of the end of September, 50%, by the first quarter as of the end of March, 75% and 100% would be expected in June at the end the fiscal year.) However, in some types of accounts the same percentage benchmarks do not apply because the revenues earned may not be received during the same quarter due to normal timing delays or in the case of expenditure lines often non-salary account purchases, especially those for capital items, are not spread evenly throughout the fiscal year. Those account types will be explained in this memo when the percentages normally will not be at a set benchmark.

FUND INFORMATION/OVERVIEW:

The primary revenue source for the general fund is property taxes. Ad Valorem taxes are levied on July 1, of each year and due and payable on September 1, with penalties and interest assessed the following January 6. The majority of the revenue for property taxes is collected during November and December of each year. This year's tax bills were mailed out in mid-October due to some software issues.

The Other Taxes & Licenses in the General Fund statement includes Rental Vehicle Tax and Beer & Wine Licenses, during the prior year it included the \$381,000 revenue for Privilege License. The new revenue for Business Registration, which is budgeted at \$50,000 does not fit the criteria as a tax or licenses and is recorded in the Permits and Fees Revenue category. (See below).

Unrestricted Intergovernmental Revenues include Local Sales & Use Tax, Beer & Wine Excise Tax, Utility Franchise Tax, Police Court Fees, Telecommunication Sales Tax, and Video Program Fees. Sales and Use Tax is earned monthly and received 12 times per fiscal year. Utility Franchise Tax is received quarterly. This category of revenues cannot be evaluated using the benchmark percentage for the quarter due to the month end and or quarter ending revenues not being recorded as of the end of the period, however each quarter is usually comparable to the revenue received during the same period of the prior year. Roughly half of the revenue for Utility Franchise tax the City receives is based on the actual receipts from electric service and piped natural gas within our municipal boundary and is dependent on weather, however the distribution method for the electricity sales tax, along with that of the sales tax on piped natural gas, changed in FY14-15 due to tax reform in the General Assembly. The law will hold cities harmless and any additional funds received by the state will be distributed to cities on an ad valorem basis. For fiscal year 2016 the Unrestricted Intergovernmental Revenue category includes \$120,000 budgeted revenue from the State for reimbursement of costs for the Tracey Grove Road project.

Restricted Intergovernmental Revenues include the Powell Bill Allocation, School Resource Officer Reimbursement and ABC Law Enforcement Revenues. These revenues are restricted for specific uses. The Powell Bill Allocation from the State is based on two components and rates, the City's population and also the number of street miles within the City. The Powell Allocation is received in two payments during the fiscal year, once in September and another payment in December or January. During the budget process for fiscal year 2016 it was expected that the Powell Bill distributions would be cut by the State, however that funding was restored.

Permits & Fees includes the new Business Registration fee, Vendor Permits, Zoning permits, and other fees collected randomly throughout the year.

Sales and Services Revenues includes Parking Meter Revenue, Cemetery Lot Sales and recreation revenues such as Boyd Park, Patton Pool, and Facilities Rental income.

Investment Earnings is interest earned on idle cash invested at per the Cities Investment Policy. Miscellaneous Income includes collections from various sources, the largest usually being Insurance settlements which are received as a result of property damage claims, primarily vehicle accidents. This revenue is offset in the expenditure sections by the use of the settlement to repair the vehicle along with the insurance deductible costs.

General Fund - Quarterly Results:

Revenues:

Property Tax Collections are at 90% collected as of mid-year for the General Fund. This is a 10% higher collection rate than the same period in the prior year. This could be a sign of improved economic conditions which may have allowed taxpayers to pay more promptly. In addition, the City began using the new bank lockbox processing for tax payments this year which allows for faster processing and posting of payments.

Motor Vehicle Tax Collections have increased, probably due to state Tax & Tag Collection process which forces the vehicle owner to pay their tax at the same time when they renew their tag.

Sales tax revenues have continued to increase as the current year shows a \$133,000 increase over the prior year collections for mid-year. The prior fiscal year saw an increase of 10% in actual revenue collected and it is expected that during this fiscal year the revenues may increase an additional 12%, or approximately \$150,000 over fiscal year 2015.

Utility Franchise Tax collections have also increased significantly due to changes made by the General Assembly. The collections for this fiscal year are up by nearly \$100,000 over the same period of the prior year. We are just beginning to see the results of the changes in distribution so it may still be hard to predict the revenue or any possible refunds. More information regarding this will be discussed in the mid-year report and budget process.

Telecom Sales Taxes have declined statewide due to the reduction of landlines and the switch to more cellular services.

This year is the first year for the budget and collection of the new Business Registration fee. The \$25.00 fee per business is currently at 74% collected and is expected not to meet the budgeted amount.

Sales & Services revenues have increased in total over the prior year, primarily as a result of lease income. Lease Income consists of rental income from billboard land that had previously been recorded in the water and sewer fund and now also includes the new revenue source from the Skyway (Armstrong St.) cell tower lease income, which will bring an additional \$21,000 in revenue annually. During the current fiscal year we will collect six months of the new revenue source which is partially offset in this fiscal year by the professional fees to negotiate the contract. Additional lease income from cell tower leases is anticipated for next budget year.

Parking meter revenue is 50% higher than the amount collected during the same period of the prior year due to the increase in the rate from .50 per hour to \$1.00 per hour. However, the current year actual revenue collected as of mid-year is only at 45% of budgeted revenue. We will continue to monitor this account to see if the budget estimate needs to be adjusted.

Interest Income is expected to come in at the budgeted amount, which is over \$50,000 higher for the General Fund than was received during the prior fiscal year. This is due to continued investment of idle funds by the Finance Department. The economists predict that the Federal Reserve is expected to increase rates several times during 2016 which would be favorable for the Cities investment returns.

Insurance settlements are high for the current year. These payments are received as a result of property damage claims, primarily vehicle accidents. This revenue is offset in the expenditure sections by the use of the settlement to repair the vehicle (along with additional costs for the insurance deductible) so the increase in insurance proceeds should not be viewed as a revenue source.

General Fund Expenditures:

Overall, the General Fund expenditures are on track at 51% in total for the fiscal year. Some budget adjustments are needed and a very detailed analysis of the expenditures for each department will be sent out with the mid-year report which will be included in your next agenda packet.

General Fund- Fund Balance:

After the deductions for restricted fund balance, the available General Fund balance is at 48% as of the end of fiscal year 2015.

Capital Reserve Fund:

The Capital Reserve Fund had \$661,527 in reserved fund balance as of June 30, 2015. These funds have historically been held to pay the remaining debt on the City Hall Renovation note, which has \$884,654 of payments due over the next four years. Additional sources of funding will need to be identified in order to complete the remaining payments in fiscal years 2018 and 2019.

FUND REVENUE INFORMATION/OVERVIEW:

The City collects revenue from water sales from approximately 26,700 residential and commercial accounts. This source represents 60% of the revenues for the Water and Sewer fund. Sewer charges account for 30% of the funds revenue.

W&S Fund Quarterly Results:

Both Water & Sewer Sales revenues are higher than budgeted and higher than the collections for the first half of the prior year.

This is the first year for the budget and collection of late fees for utility bills. The initial rate was set during the fiscal year budget at \$10.00 after the bill was 5 days late and an additional \$15.00 after the bill was 15 days late. The fee structure was amended during the December Council meeting and now (effective January 1, 2016) just one fee of \$15.00 fee will be assessed after the bill is 15 days late. The collection of late fees during the first quarter of the fiscal year was very high but as customers became aware of the fees the assessment of late fees have been lowered. In addition, the customer service staff has now begun to send out a letter in addition to the automated telephone call warning customers that their bill is late and will accrue late fees if not paid promptly. The letter and phone call also offer payment plan options to customers. The late fees, letters and phone calls all appear to have had a very favorable result in the collection rate of the utility bills.

Tap Fees

Collections for both the Water and Sewer Tap Fee accounts continue to increase each year. This is a reflection of growth and new customer connections.

Turn On Services Charge

Previously customers who set up service in a residence where someone else had previously had service were charged the \$40.00 turn on fee. During the current year budget the customer service staff had requested that the fee be waived if the service was already on and the technician did not have to go out to the residence. Therefore during the current year, collections for this account line are down \$11,000 compared to the mid-year of the previous year. Customer service feels like this reduction in set up fees has improved customer satisfaction and the lowered revenue should be acceptable. Staff recommends that the next year budget for this line be reduced by \$15,000 annually to \$30,000.

As mentioned under the General Fund, the Water & Sewer Fund Interest Income is expected to come in at the budgeted amount. The Water & Sewer fund is expected have an increase of \$76,000 over the prior fiscal year.

The Water & Sewer fund expenditures appear reasonable for the second quarter. As budgeted, \$7,855,600 was transferred to the Capital Projects per the CIP plan. Additional details concerning fund expenditures will be presented in the mid-year report and also during the budget meetings.

Water & Sewer Retained Earnings:

The Water & Sewer Fund had an ending total retained earnings of \$22,307,069 as of the end of the prior fiscal year 2015.

ESF Fund Quarterly Results:

The Environmental Services Fund revenues and expenditures appear to be on track for the first half of the year. Collections for Waste Disposal Fees are currently over 50% of budget and showing an increase of over \$30,000 over the same mid-year period the prior year. This could be partially due to the more prompt recording of collections with the implementation of the lockbox or could also be due to growth of service. More research will be done in this area.

The ESF base charge was increased from \$1.00 to \$2.00 per utility account, however the revenue collections, which would be expected to have doubled, are below that mark and are currently only at .47% collected because there was a lag in the implementation of the rate change.

FUND INFORMATION/OVERVIEW:

The Downtown fund financial report is formatted to show revenues and expenditures by event. This may be helpful to gauge how each event is doing, however, due to the fiscal year ending in June, some of the events span over the fiscal year cut off so the expenditures may have been in last fiscal year and the revenues collected in the next fiscal year. Benchmark percentages will not be helpful to analyze performance in this fund.

Downtown Fund Quarterly Results:

Property Tax collection for the Downtown Fund, like the General Fund, has been strong for the fiscal year and are at 92% collected as of December 31, 2015, however the assessed value of the Downtown MSD has been declining. .

The Bearfootin' auction was a huge success this fall resulting in the highest revenue for bear sales to date, significantly exceeding the budgeted amount.

The budget for the current year includes the budgeted debt proceeds of \$79,000 to provide for the purchase of 7 parking kiosks.

Downtown Fund- Fund Balance:

The ending fund balance of \$81,701 as of the prior year end is 15% of budgeted expenditures with \$7,531 budgeted to be used during fiscal year 2016.

7th Ave Fund Quarterly Results:

Property Tax collection for the expanded 7th Ave MSD has done well and is currently at 100% of the budgeted amount collected.

The fund has minimal expenditure activity in the fund.

7th Ave Fund- Fund Balance:

The Seventh Ave Fund only has \$3,045 of remaining fund balance at the end of the fiscal year.

The HSAD 501(3) c Non-Profit currently has approximately \$30,000 of its own funds.