

MEMORANDUM

November 6, 2020

To: Allison Williams, City Manager
From: Cindy Jensen, Finance Director
Subject: 2020 3rd Quarter Budget Revenue and Expenditure Report

I am pleased to submit the City of Moses Lake's 2020 third quarter actual results compared to budgeted revenue and expenditure report for all city funds. Beginning Fund Balances shown are subject to final adjustments made as a result of the year-end closing process, which will not be officially concluded until the State Auditor's work is completed later this year.

Overall, the City budget has held up rather well through the economic shutdown caused by the coronavirus (COVID 19) pandemic that started in March 2020. There are pockets of revenue that have been reduced, such as hotel/motel tax, gambling and admissions taxes, and the red-light camera fines. However, most of the major revenues are performing as expected through the third quarter of 2020. At the end of the third quarter, we are seeing typical variances tied to position vacancies and the timing of annual dues/assessments and other operational considerations. We are also experiencing reductions in operating costs because of the COVID shutdowns, particularly in Parks and Recreation—the aquatic center did not open this year. Some areas had additional costs to address the pandemic, but we have received a state grant of just over \$1 million to cover this expense. (At the end of September, we had not yet requested a grant reimbursement). Capital projects are still underspent because of long lead-in times that are typical of this activity—for example bid specifications are just being finalized for the Larson Recreation Center project.

In reviewing the reports, the 2020 budget appears to be adequate for most operating funds. Exceptions are the Grants & Donations fund because of the purchase of a replacement K9, and the Paths and Trail fund which was used for the Pioneer sidewalk project. In addition, there have been projects that have had contracts awarded or have otherwise been approved by Council which have not yet been incorporated into the 2020 budget. For example, the Homeless program, and the programs to address COVID such as the purchases to accommodate telecommuting; upgrades to the Council Chamber audio-visual systems; and the small business assistance grants. An appropriation ordinance to increase the 2020 budget will be presented for Council consideration at the November 24 meeting.

This report is summarized by type of fund, and reported by functional type, and includes the following sections:

- **City-Wide Overview**
- **General Fund Revenue Analysis**
- **General Fund Expenditure Analysis**
- **Other Funds Analysis**
- **Exhibit I—Fund Detail** that supports the Summaries

City-Wide Overview

Revenue Comparison

(Budget vs. Actual--75% of year)

	2019	2020		Percent Rec'd
	Actual	Adopted Budget	Actual	
General Fund	\$ 18,080,144	\$ 26,643,060	\$ 17,520,562	65.8%
Operating/Enterprise Funds	27,110,912	35,493,649	28,189,608	79.4%
Capital Improvement Funds	5,417,969	16,345,600	3,721,718	22.8%
Risk Mgmt/Employee Benefit	470,413	790,000	604,878	76.6%
Debt Service Funds	2,269,748	2,268,797	2,268,797	100.0%
Total City Revenues	\$ 53,349,186	\$ 81,541,106	\$ 52,305,563	64.1%

Expenditure Comparison

(Budget vs. Actual--75% of year)

	2019	2020		Percent Spent
	Actual	Adopted Budget	Actual	
General Fund	\$ 18,935,406	\$ 28,809,888	\$ 19,017,939	66.0%
Operating/Enterprise Funds	26,160,957	38,814,077	25,555,203	65.8%
Capital Improvement Funds	3,258,259	21,935,000	5,516,386	25.1%
Risk Mgmt/Employee Benefit	701,218	922,000	805,215	87.3%
Debt Service Funds	2,269,615	2,270,119	1,862,269	82.0%
Total City Expenditures	\$ 51,325,455	\$ 92,751,084	\$ 52,757,012	56.9%

General Fund Revenue Analysis

General Fund Revenues
As of September 30, 2020 - 75% of year

	2019	2020		19 vs 20	
	Actual	Adopted Budget	Actual	Percent Rec'd	Percent Change
310 Taxes					
Property Tax	\$ 4,235,828	\$ 7,205,000	\$ 4,275,517	59.3%	0.9%
Sales Tax	5,263,148	7,000,000	5,377,363	76.8%	2.2%
Sales Tax-Public Safety	-	700,000	445,149		
Utility Tax	2,612,699	3,278,000	2,567,599	78.3%	-1.7%
Gambling Tax	210,907	251,400	127,173	50.6%	-39.7%
Other Taxes	66,195	88,000	25,190	28.6%	-61.9%
Subtotal-Taxes	<u>12,388,777</u>	<u>18,522,400</u>	<u>12,817,991</u>	69.2%	3.5%
320 Licenses & Permits	572,191	651,500	592,976	91.0%	3.6%
330 Intergovernmental Revenues	715,957	1,214,510	845,858	69.6%	18.1%
340 Charges for Goods & Services					
Administrative Support	700,500	1,031,000	773,250	75.0%	10.4%
Engineering	624,238	1,488,500	1,078,682	72.5%	72.8%
Public Safety	247,357	415,000	222,222	53.5%	-10.2%
Parks & Recreation Programs	1,144,508	1,205,100	121,576	10.1%	-89.4%
Community Development	169,906	186,000	255,002	137.1%	50.1%
Sales of Merchandise/Misc.	64,069	105,000	38,674	36.8%	-39.6%
Subtotal-Charges for Services	<u>2,950,578</u>	<u>4,430,600</u>	<u>2,489,406</u>	56.2%	-15.6%
350 Fines and Penalties	790,637	966,300	415,931	43.0%	-47.4%
360 Miscellaneous Revenues	662,003	457,750	358,104	78.2%	-45.9%
390 Other Financing Resources	-	500,000	-	0.0%	
Total General Fund Revenues	<u>\$18,080,143</u>	<u>\$26,743,060</u>	<u>\$17,520,266</u>	65.5%	-3.1%

Property Tax – The first half of the Property Tax assessment is due to the Grant County Treasurer by April 30, and the second half is due October 31. The budget was set based on assumptions of new construction and collection rates, and then discounted for collection delinquencies. Even though the levy for 2020 was set at \$7.62 million, we only budgeted \$7.205 million. At this point in time it appears collections could come in slightly over budget, so we are not anticipating a loss of revenue in this major revenue source because of COVID-19.

We have received notice that a major delinquent taxpayer has prepared a settlement agreement on back taxes, and we could receive over \$400,000 in December. This has not been considered in any budget estimates.

Sales Tax – This major revenue source ended 2019 at \$7.2 million, and was conservatively set slightly below the 2019 actual at \$7.0 million assuming some of the construction will taper off. In prior reports, I noted that we expected this major revenue source to be hardest hit from the COVID-19 economic shutdown. However, through the 3rd quarter, sales tax was up 2.2% over the prior year, and at the end of October, we are ahead of 2019 by \$78,000 or 1.3% year to date. We may see some long-term downturns, but this major revenue source is still trending to exceed this year's budget estimate.

Utility Tax – This revenue source experiences fluctuations either from rate adjustments or fluctuations in usage. Third quarter results are down compared to the prior year, coming in 1.7% below 2019. Rate increases were more than offset by a significant continuing downward trend in telephone utility taxes, coupled with the 9.6% reduction in Solid Waste rates as a result of a favorable contract negotiation with our hauler.

Gambling Taxes - This revenue stream is historically higher in the first half of the year. It should be noted that Council reduced the card game tax rate over the next five years, so this is expected to trend below the prior year actual. The shutdown of restaurants and bars will negatively affect this revenue source. We are down \$83,700 through the 3rd quarter, and this loss could grow to \$130,000 by year end.

Other Taxes—This consists of Leasehold Excise Tax and Admissions Tax, both of which have been hard hit because of the economic shut-down. Fortunately, this is a small budget, and we will likely be short about \$60,000.

Licenses and Permits – This revenue is generated by the development community, and is difficult to budget because it is volatile by nature. 2020 3rd quarter results are exceeding the budget estimate, and trending slightly above 2019 actual results. There are several large projects in process, which should keep this revenue healthy through the next year. This trend is a positive indicator of future construction-related sales tax.

Intergovernmental Revenue – This category includes State-shared revenue (\$440k), the PUD privilege tax (\$320k), and other grants (consisting primarily of Public Safety grants totaling \$354k). State-shared revenue is slightly exceeding budgeted estimates. The PUD tax is received once a year in August. The public safety grants have been billed, but the most recent quarter activity has not yet been received. Overall, the category is under budget at the end of the third quarter, but is anticipated to slightly exceed the total budget by year end. It should be noted that this is where the CARES Act grant will be recorded when it is received. The budget changes tied to our COVID response will be in the next budget amendment.

Charges for Goods and Services primarily consist of:

- Fees charged for Parks and Recreation Programs;
- The City Administrative fee charged to funds for the services provided by the executive branch and finance;
- Engineering services charged both to internal projects and external developers; and
- School Resource Officers reimbursed by Moses Lake School District

This revenue source is only 56.2% received through 75% of the year. The Parks and Recreation program revenues are greatly reduced because of COVID, but there is also a corresponding reduction in direct costs to run the programs. As discussed previously, the Moses Lake School District is not reimbursing for SRO while school is not in session in the physical school buildings, but the new criminal justice sales tax can be applied to avoid a layoff of those officers.

Fines and Penalties consist almost entirely of fines generated by the red-light camera program. With the schools closed, much the speeding in a school zone fine revenue is not being generated, and the “Stay Home” message has resulted in less traffic so that the normally high ticket intersections are not generating as many tickets. Revenue has picked up in the last 3 months, but even so, this one revenue could be short about \$390k for the year.

Miscellaneous Revenues include interest earnings on investments and facility rentals. This category is slightly exceeding budget but running below prior year actual primarily because interest rates have dropped from last year. Interest is recorded in General Fund throughout the year and is allocated out to applicable funds at year-end, so this is ahead of budget now but will end the year closer to the budget estimate.

The budget for **Other Financing Resources** is made up primarily of a transfer from the Water Department of excess maintenance and operating charges as authorized by RCW 35.23.535 (\$500,000). This transfer is completed at year end.

Summary --Overall, the third quarter 2020 General Fund revenue came in at \$17,520,266 which is 65.5% of the total year budget, even with property tax collections being just slightly above the halfway mark. Primarily because of pressures tied to the economic shutdown in the wake of COVID-19, total revenue dropped by \$559,878 or 3.1% from the third quarter 2019 actual of \$18,080,143. This reduction was spread among several categories.

General Fund Expenditure Analysis

General Fund Expenditures
As of September 30, 2020 - 75% of Year

	2019	2020	19 vs 20
	Actual	Adopted Budget	Percent Spent
		Actual	Percent Change
Legislative	\$ 254,486	\$ 382,308	\$ 267,212 69.9% 5.0%
Executive	901,773	1,087,306	753,313 69.3% -16.5%
Finance	726,452	1,237,090	786,483 63.6% 8.3%
Community Development	986,900	1,746,631	1,032,891 59.1% 4.7%
Legal	144,955	192,800	147,811 76.7% 2.0%
Misc. Services	1,361,492	1,910,490	1,415,919 74.1% 4.0%
Library	58,236	82,100	57,666 70.2% -1.0%
Engineering	1,562,969	2,289,531	1,654,340 72.3% 5.8%
Parks & Recreation	4,538,549	6,467,411	3,900,976 60.3% -14.0%
Police	5,595,505	8,855,366	5,896,104 66.6% 5.4%
Fire	2,804,089	4,558,855	3,105,224 68.1% 10.7%
Total General Fund Expenditures	\$18,935,406	\$28,809,888	\$19,017,939 66.0% 0.4%

In total, General Fund Expenditures for the third quarter are 9.0% below the 75% mark, and are only up by 0.4% compared to the prior year. Several increases were included in the 2020 budget, however, many of those increases were offset by other reductions, netting to just a modest increase year to date. Increases include a COLA adjustment for Police and Fire union salaries, along with the implementation of the Condrey pay and compensation study. (The study is being funded primarily by an additional transfer from Water and Wastewater for engineering administrative overhead—the related revenue increase is in the “charges for services” revenue category.) Another increase is the additional staff added in 2020 for the SAFER grant and administrative support in Fire and Finance.

Since General Fund is over 57% staffing, events effecting total payroll have a significant impact on budgets. Position vacancies may start out being an “overage” because of the cashout of earned accrued leave balances, but then can produce savings when the position is vacant for any length of time. Most variances in individual divisions are the result of position vacancies. The City has had several high-level positions vacant for an extended period, i.e. Community Development and Human Resources Directors, and Parks Maintenance Superintendent. Most variances in individual divisions are the result of position vacancies.

When the economic shutdown occurred, operating divisions generally tried to curb spending, since we were not sure how our revenues would react. Travel budgets remain largely unspent as most conferences were converted to virtual webinars. We are also seeing the reduction in Parks and Recreation because of the pandemic. The aquatic center did not open to the public this summer, and other programs were either eliminated or “re-tooled”.

The Police budget includes the contract payments to Redflex for traffic control cameras and ticketing program. Through 9 months we have paid Redflex \$348,700 and have collected \$404,156 in ticket revenue, netting about \$55,456. Last year, the net revenue from the red-light program was \$422,300 through the same time frame. Our contract stipulates that Redflex reduces their charge if the revenue comes in less than the expense in any month, so we are guaranteed at least to break even, but this revenue is not currently supporting Police operations as it has in the past. Fortunately, the new criminal justice sales tax is taking up this slack.

Fire has been well-staffed for most of the year, and has only spent 30% of their overtime budget through 75% of the year.

General Fund Conclusion-- Because of the revenue reductions previously mentioned, the divisions are trying to keep their operating expenditures down.

The cancelling of Parks programs greatly reduced revenue, but it also resulted in a large reduction in expenditures, so overall, General Fund is currently using \$1,497,377 of beginning fund balance. In comparison, 2019 had used \$855,262 through the third quarter, but added over \$400,000 to fund balance by year end. When we consider revenue still to come in by year end, including additional property tax (both from the collection of the regular levy and the delinquent taxpayer settlement); the Water Fund transfer; and the CARES Act grant reimbursement, it is very possible that General Fund can come close to breaking even by year end, even though we had estimated to use our contingency fund balance of \$1.4 million when the pandemic first hit.

Other Funds Analysis

Other Funds Revenues and Expenditures

As of September 30, 2020 - 75% of Year

	2019	2020		19 vs 20	
	Actual	Amended Budget	Actual	Percent to Budget	Percent Change
Revenues					
Operating/Enterprise Funds	\$27,110,912	\$35,493,649	\$28,189,608	79.4%	4.0%
Capital Improvement Funds	5,417,969	16,345,600	3,721,718	22.8%	-31.3%
Risk Mgmt/Employee Benefit	470,413	790,000	604,878	76.6%	28.6%
Debt Service Funds	2,269,748	2,268,797	2,268,797	100.0%	0.0%
Subtotal-Revenue	\$35,269,042	\$54,898,046	\$34,785,001	63.4%	-1.4%
Expenditures					
Operating/Enterprise Funds	\$26,160,957	\$38,814,077	\$25,555,203	65.8%	-2.3%
Capital Improvement Funds	3,258,259	21,935,000	5,516,386	25.1%	69.3%
Risk Mgmt/Employee Benefit	701,218	922,000	805,215	87.3%	14.8%
Debt Service Funds	2,269,615	2,270,119	1,862,269	82.0%	-17.9%
Subtotal-Expenditures	\$32,390,049	\$63,941,196	\$33,739,073	52.8%	4.2%

Third quarter 2020 results generally performed as expected. Variances in capital funds are related to timing of major projects, as well as capital components in operating funds (such as Building Maintenance and Stormwater capital projects and Fleet Maintenance vehicle purchases). Debt Service funds are dependent on the timing of the related amortization tables, and are not expected to follow the percentage of year comparison.

The revenues in most funds are at or over the 75% mark. The two exceptions are the Hotel/Motel Tax in the Tourism Activities fund, and Gas Tax in the Streets Fund.

Hotel/Motel tax is down 20% from the prior year at the end of September, and 23% at the end of October. My estimate is that this fund revenue will be under budget by up to \$200,000 depending on when traveling picks back up. This fund has a fund balance that was 100% of the annual revenue (\$745,000), so it should be able to hold up to this downturn. Additionally, a few of the events that were authorized were cancelled, or greatly curtailed, so the expenditures will not be spent up to the budget. Be prepared for this fund to use some of its balance in 2020. We

budgeted for a lower estimate for projects next year, as the sluggish revenue could continue into next year, depending on when people feel comfortable traveling again.

The Gas Tax is in the Streets Fund. The budget was \$458,000, but we are only 63.6% of budget through September 30. If that continues through the end of the year, we could see this revenue coming in about \$85,000 below budget. The Streets Fund had a beginning balance of \$668,000, which is about 25% of the expenditure budget. They are also postponing a capital purchase of this amount, but a use of \$100,000 will leave the fund balance at 21%, still within recommended limits of 16.7%.

Funds currently over budget include Grants and Donations because of the K9 replacement, and Paths and Trails as the Pioneer sidewalk project is slightly exceeding budget. These have adequate fund balances to cover these overages and will be included in the year end appropriation ordinance scheduled to come before Council at the November 24 meeting. Also included in that appropriation will be the CARES Act grant programs including setup of the temporary homeless camp; the major software program implementations; and professional services for water rights acquisition.

Conclusion

Overall, third quarter results are performing as expected. Most revenues are exceeding budget, while expenditures are being contained below budget levels. Most variances from the 75% mark are related to normal timing, a reduction of programs because of the “Stay Safe” initiatives, and focused efforts to reduce expenditures wherever possible. In the first 9 months of the year, all funds have used \$450,000 of citywide fund balances. Capital funds used \$1.8 million so all other funds added \$1.3 million, and all funds had positive fund balances on September 30, 2020. It should be noted that even though the report shows that General Fund used \$1.5 million of beginning balance through 9 months, half of the outstanding property tax is about \$1.5 million, so General Fund is about breaking even through the pandemic. Staff will continue to monitor revenues in the aftermath of the COVID 19 pandemic and propose additional responses if necessary.

CITY OF MOSES LAKE
2020 Actual vs. Budget Variance
 3rd Quarter 2020

75% of year completed

	1/1/2020 Actual Begin. Fund Bal	2020 Budget- Amended Revenues	2020 YTD Actual Revenues	% Received	2020 Amended Budget	2020 YTD Actual Expenditure	% Expended	2020 (Use) Gain of Fund Balance	9/30/2020 Ending Fund Balance
General Fund									
Legislative					\$ 382,308	\$ 267,212	69.9%		
Executive					1,087,306	753,313	69.3%		
Finance					1,237,090	786,483	63.6%		
Community Development					1,746,631	1,032,891	59.1%		
Legal					192,800	147,811	76.7%		
Misc. Services					1,910,490	1,415,919	74.1%		
Library					82,100	57,666	70.2%		
Engineering					2,289,531	1,654,340	72.3%		
Parks & Recreation					6,467,411	3,900,976	60.3%		
Police					8,855,366	5,896,104	66.6%		
Fire					4,558,855	3,105,224	68.1%		
Total General Fund	\$ 6,451,931	\$ 26,643,060	\$ 17,520,562	65.8%	28,809,888	19,017,939	66.0%	\$ (1,497,377)	\$ 4,954,554
					22.4%				
Other Operating/Enterprise									
Tourism Activities -102	745,575	765,000	425,995	55.7%	685,400	380,632	55.5%	45,363	790,938
Grants & Donations -103	765,940	202,600	377,118	186.1%	348,300	363,330	104.3%	13,788	779,728
Homeless Services - 110			5,782			4,559		1,223	1,223
Paths & Trails - 114	101,292	2,000	11,457	572.9%	26,000	27,577	106.1%	(16,120)	85,172
Streets - 116	668,091	2,518,000	2,008,748	79.8%	2,721,860	1,851,207	68.0%	157,541	825,632
Transportation Benefit District - 170	556,767	1,601,000	1,278,895	79.9%	1,650,000	1,237,500	75.0%	41,395	598,162
Water/Wastewater Operating - 410	2,075,849	12,984,300	10,439,720	80.4%	13,081,697	9,308,252	71.2%	1,131,468	3,207,317
Sanitation -490	343,788	4,220,000	3,093,215	73.3%	4,075,000	2,621,353	64.3%	471,862	815,650
Stormwater - 493	514,464	940,000	736,552	78.4%	1,306,622	757,543	58.0%	(20,991)	493,473
Airport - 495	96,645	27,000	25,231	93.4%	54,059	18,177	33.6%	7,054	103,699
Ambulance - 498	621,497	2,902,640	2,697,078	92.9%	3,358,435	2,424,028	72.2%	273,050	894,547
Central Svc - 517	498,924	1,673,600	1,279,725	76.5%	1,676,482	1,461,578	87.2%	(181,853)	317,071
Equipment Rental -519	2,663,786	3,795,309	2,908,850	76.6%	4,953,123	2,719,798	54.9%	189,052	2,852,838
Build Maint -528	1,085,649	3,862,200	2,901,242	75.1%	4,877,099	2,379,669	48.8%	521,573	1,607,222
Total Other Operating/Enterprise	10,738,267	35,493,649	28,189,608	79.4%	38,814,077	25,555,203	65.8%	2,634,405	13,372,672
Capital Improvement									
Street Repair/reconst -119	2,069,361	2,315,600	1,833,518	79.2%	3,280,000	1,215,746	37.1%	617,772	2,687,133
Parks & Recreation Improvement-314	300,057	12,480,000	490,000	3.9%	11,500,000	523,498	4.6%	(33,498)	266,559
Park Mitigation Capital Proj-315	705,082	-	74,900		680,000	340,000	50.0%	(265,100)	439,982
Water Rights - 471	1,934,340		160,800		-	-	-	160,800	2,095,140
Water/Sewer Construction-477	7,875,568	1,550,000	1,162,500	75.0%	6,475,000	3,437,142	53.1%	(2,274,642)	5,600,926

CITY OF MOSES LAKE
2020 Actual vs. Budget Variance
 3rd Quarter 2020

75% of year completed

	<u>1/1/2020 Actual Begin. Fund Bal</u>	<u>2020 Budget- Amended Revenues</u>	<u>2020 YTD Actual Revenues</u>	<i>% Received</i>	<u>2020 Amended Budget</u>	<u>2020 YTD Actual Expenditure</u>	<i>% Expended</i>	<u>2020 (Use) Gain of Fund Balance</u>	<u>9/30/2020 Ending Fund Balance</u>
Total Capital Improvement	12,884,407	16,345,600	3,721,718	22.8%	21,935,000	5,516,386	25.1%	(1,794,668)	11,089,739
Risk Mgmt/Employee Benefit Reserves									
Unemployment Compensation - 501	14,795	30,000	16,146		41,500	27,182	65.5%	(11,036)	3,759
Risk Management -503	444,019	727,000	545,250	75.0%	830,000	751,303	90.5%	(206,053)	237,966
Firemen's Relief & Pension - 611	352,388	33,000	43,482	131.8%	50,500	26,730	52.9%	16,752	369,140
Total Employee Benefit Reserves	811,202	790,000	604,878	76.6%	922,000	805,215	87.3%	(200,337)	610,865
Debt Service									
GOB 2016 Refunding-286	184,433	381,217	381,217	100.0%	381,442	42,604	11.2%	338,613	523,046
Water-Sewer 2011 Bond-450	8,306	565,000	565,000	100.0%	565,538	564,938	99.9%	62	8,368
Bond Reserve-2011 451	567,600	-	-		-	-	-	-	567,600
Water-Sewer 2004 Bond-452	7,044	676,250	676,250	100.0%	676,850	676,250	99.9%	-	7,044
Water-Sewer 2004 Bond Reserve-453	701,500	-	-		-	-	-	-	701,500
PWTF W/S Debt Serv - 485	20,177	569,930	569,930	100.0%	569,930	569,956	100.0%	(26)	20,151
2015 GO Bond Redempt- 487	7,629	76,400	76,400	100.0%	76,359	8,521	11.2%	67,879	75,508
Total Debt Service	1,496,689	2,268,797	2,268,797	100.0%	2,270,119	1,862,269	82.0%	406,528	1,903,217
Total City Budget	<u>\$ 32,382,497</u>	<u>\$ 81,541,106</u>	<u>\$ 52,305,563</u>	64.1%	<u>\$ 92,751,084</u>	<u>\$ 52,757,012</u>	56.9%	<u>\$ (451,449)</u>	<u>\$ 31,931,048</u>