

MEMORANDUM

To: Allison Williams, City Manager

From: Cindy Jensen, Finance Director

Subject: 2021 2nd Quarter Budget Revenue and Expenditure Report

I am pleased to submit the City of Moses Lake's 2021 second 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 this fall.

Overall, we are seeing recovery from the economic slowdown caused by the "Stay Home, Stay Safe" response to COVID-19-- we weathered this storm in much better financial condition than many other local governments. The City budget is performing as expected in many areas through the second quarter of 2021. At the end of the second quarter 2021, we are seeing typical variances tied to position vacancies and the timing of annual dues/assessments. Because several of the principal payments on debt service are due in the 3rd quarter, we completed the debt service transfers in the 2nd quarter. Some of the operational activity that was slower in the first quarter because of the winter months have picked up in the summer, although the Parks and Recreation programs still had some capacity limits because of the COVID rules. We are experiencing growth in sales tax and building related permits and fees because of major construction projects in the city limits. Capital projects are still underspent because of long lead-in times that are typical of this activity. As a whole, we are not anticipating distress in our 2021 budget.

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**
- **Conclusion**
- **Exhibit I**—Fund Detail that supports the Summaries

City-Wide Overview

Revenue Comparison

(Budget vs. Actual--50% of year)

	2020		2021	
	Actual	Adopted Budget	Actual	Percent Rec'd
General Fund	\$ 12,491,203	\$ 27,623,830	\$ 14,777,390	53.5%
Operating/Enterprise Funds	17,479,019	35,795,909	21,373,378	59.7%
Capital Improvement Funds	2,599,465	16,345,380	14,130,558	86.4%
Risk Mgmt/Employee Benefit	423,128	971,100	948,918	97.7%
Debt Service Funds	2,268,797	3,180,950	2,266,950	71.3%
Total City Revenues	\$ 35,261,612	\$ 83,917,169	\$ 53,497,194	63.7%

Expenditure Comparison

(Budget vs. Actual--50% of year)

	2020		2021	
	Actual	Adopted Budget	Actual	Percent Spent
General Fund	\$ 12,919,323	\$ 29,536,084	\$ 13,622,827	46.1%
Operating/Enterprise Funds	16,798,098	39,337,593	18,341,487	46.6%
Capital Improvement Funds	3,021,979	23,157,100	2,739,768	11.8%
Risk Mgmt/Employee Benefit	722,145	1,032,500	841,524	81.5%
Debt Service Funds	734,175	3,179,575	705,304	22.2%
Total City Expenditures	\$ 34,195,720	\$ 96,242,852	\$ 36,250,910	37.7%

General Fund Revenue Analysis

General Fund Revenues As of June 30, 2021 - 50% of year

	2020		2021		20 vs 21
	Actual	Adopted Budget	Actual	Percent Rec'd	Percent Change
310 Taxes					
Property Tax	\$ 4,125,888	\$ 7,664,700	\$ 4,757,147	62.1%	15.3%
Sales Tax	3,341,429	7,200,000	4,230,547	58.8%	26.6%
Sales Tax-Public Safety	88,037	1,200,000	643,423	53.6%	
Utility Tax	1,752,297	3,279,900	1,769,052	53.9%	1.0%
Gambling Tax	121,244	221,000	81,687	37.0%	-32.6%
Other Taxes	20,595	57,000	15,781	27.7%	-23.4%
Subtotal-Taxes	9,449,490	19,622,600	11,497,637	58.6%	21.7%
320 Licenses & Permits	322,368	825,600	749,722	90.8%	132.6%
330 Intergovernmental Revenues	263,640	1,290,330	359,045	27.8%	36.2%
340 Charges for Goods & Services	1,880,974	4,379,250	1,493,625	34.1%	-20.6%
350 Fines and Penalties	256,110	656,300	551,309	84.0%	115.3%
360 Miscellaneous Revenues	318,621	349,750	126,051	36.0%	-60.4%
390 Other Financing Resources	-	500,000	-	0.0%	
Total General Fund Revenues	\$12,491,203	\$27,623,830	\$14,777,389	53.5%	18.3%

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 2021 was set at \$7.721 million, we only budgeted \$7.664 million. It should be noted that the budget does not include the delinquent payment arrangement by a major taxpayer. At this point in time, it appears collections could come in slightly over budget, so we are not anticipating this major revenue source will at least meet budget, and will exceed it if the delinquent taxpayer makes their second agreed upon payment at year end.

Sales Tax – Even though we expected this major revenue source to drop in 2020 because of the COVID economic shutdown, it exceeded the 2019 actual and ended 2020 at \$7.34 million, and was conservatively set slightly below the 2020 actual at \$7.2 million assuming COVID would affect the beginning of the year. However, through the 2nd quarter, sales tax was up 26.6% over the prior year, and at the end of July, we are ahead of 2020 by almost \$1 million or 24.5% year to

date. Much of this growth is tied to major construction projects in the city limits, so we expect this major revenue source to exceed this year's budget estimate.

Sales Tax-Public Safety—The City started receiving this revenue in June of 2020, so the \$88,000 represents the first distribution of the new 0.3% Criminal Justice Tax then. Through 2021 we are exceeding the 50% mark on the budget, and expect it will also meet and exceed current budget estimates.

Utility Tax – This revenue source experiences fluctuations either from rate adjustments or fluctuations in usage. Second quarter results are slightly above the prior year. Rate increases in Water, Wastewater, and Solid Waste were offset by the continuing downward trend in telephone utility taxes. Through 6 months, this revenue source is on track to meet budget.

Gambling Taxes—This revenue stream is historically higher in the first half of the year, although the closing of establishments that offer gambling greatly reduced the 1st half receipts. It should be noted that Council reduced the card game tax rate over five years (2018-2022), so this is expected to trend below the prior year actual. The restrictions of restaurants and bars has negatively affected this revenue source, and even though we reduced the budget, this revenue is trending to still be slightly below the 2021 budget.

Other Taxes—This consists of Leasehold Excise Tax and Admissions Tax, both of which are still hard hit because of the economic shut-down. Fortunately, this is a small budget because we will still likely be short about \$25,000.

Licenses and Permits – This revenue is generated by the development community, and is difficult to budget because it is volatile by nature. 2021 2nd quarter results are greatly exceeding the 50% mark. We have had some large one-time permits that will translate to future construction sales tax. In the future, the City Manager will be working on a long-term budgeting plan that will ensure the City does not budget for recurring expenses based on these large one-time project revenues to ensure city sustainability.

Intergovernmental Revenue – This category includes State-shared revenue (\$468k), the PUD privilege tax (\$320k), and other grants (consisting primarily of Public Safety and Planning grants totaling \$502k). State-shared revenue is slightly exceeding budgeted estimates. The PUD tax is received once a year in August. The other grants are reimbursement grants, so by mid-year, we would typically expect to have 1 quarter of activity actually received. Overall, the category is under budget at the mid-point of the year, but is anticipated to slightly exceed the total budget by year end when the grant receivable is recorded.

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

Because of our switchover to the new payroll and financial management software system, the function that allocates labor costs is lagging in implementation. This has delayed the engineering charges to projects, causing this revenue to be under-reported by about \$700k. Additionally, the water park was only open for about one-third of the total season by the end of June. I would expect this revenue to approximate budget by year end.

Fines and Penalties consist almost entirely of fines generated by the red-light camera program. In 2020, because the schools closed, much the speeding in a school zone fine revenue was not generated, and the “Stay Home” message resulted in less traffic so that the normally high ticket intersections are not generating as many tickets. We reduced the 2021 revenue estimate because of these factors, but we are currently trending above 2019 levels, when we collected \$969k for the year. We have paid Redflex \$239k through 6 months, so this program has netted revenue of about \$300k for the Police Department in the first half of the year. If these trends continue, this revenue will exceed budget by the end of the year.

Miscellaneous Revenues include interest earnings on investments and facility rentals. This category is significantly less than prior year actual primarily because of lower interest rates for investments – I don’t expect to hit the budget. It should be noted interest revenue comes into General Fund throughout the year and we only allocate interest out to funds once at the end of the year.

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 (\$500k). This revenue is transferred at year-end.

Summary --Overall, the second quarter 2021 General Fund revenue came in at \$14,777,389 which is 53.5% of the total year budget. There is a “mixed bag” of results through the first half of 2021, with some of the smaller revenue that was sensitive to COVID issues along with interest earnings below the 50% mark, but with large surges in some of the other revenues, like sales tax, permitting fees and the red-light camera program exceeding budget. Total revenue increased by \$2,286,186 or 18.3% from the second quarter 2020 actual of \$12,491,203. A new revenue (public safety sales tax) accounts for about \$555k of this increase, with large growth in regular sales tax and permitting fees because of construction activity making a major contribution to the increase.

General Fund Expenditure Analysis

General Fund Expenditures As of June 30, 2021 - 50% of Year

	2020		2021		20 vs 21
	Actual	Adopted Budget	Actual	Percent Spent	Percent Change
Legislative	\$ 176,311	\$ 290,061	\$ 134,386	46.3%	-23.8%
Executive	527,223	890,750	431,874	48.5%	-18.1%
Finance	557,524	1,084,572	583,119	53.8%	4.6%
Community Development	728,326	1,790,088	924,250	51.6%	26.9%
Legal	92,806	187,600	82,953	44.2%	-10.6%
Misc. Services	956,315	1,900,990	978,452	51.5%	2.3%
Library	38,894	67,300	43,827	65.1%	12.7%
Engineering	1,109,547	2,183,723	1,041,011	47.7%	-6.2%
Parks, Rec & Cultural Services	2,590,696	6,974,983	2,927,307	42.0%	13.0%
Police	4,034,636	9,274,654	4,421,822	47.7%	9.6%
Fire	2,107,045	4,891,363	2,053,826	42.0%	-2.5%
Total General Fund Expenditures	\$12,919,323	\$29,536,084	\$13,622,827	46.1%	5.4%

In total, General Fund Expenditures for the second quarter are 4.9% below the 50% mark, but are up by 5.4% compared to the prior year. This increase consists primarily of the 2021 COLA adjustment for Police and Fire union salaries, along with the budgeted use of the new public safety tax in the Police Department. Another reason for the increase is moving the transfer to the Risk Management 100% into the 1st quarter because the liability insurance premiums are due in January.

There was a significant decrease in year-over-year actuals in the divisions that occupy the Civic Center, (i.e. Legislative, Executive, Finance, and the museum in Parks, Recreation & Cultural Services) because one of the debt service payments was paid off completely the end of 2020, so debt service transfers were reduced.

Since General Fund is over 59% 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. The City has had several high-level positions vacant for an extended period, i.e. Engineering and Municipal Services Directors, and various positions in Parks, Recreation and Cultural Services. Most variances in individual divisions are the result of position vacancies.

Additionally, many conferences are still “virtual” in 2021, so the travel budgets have been underspent through June 30.

A major expense in the Finance Department is the annual audit. This is typically performed in the fall, but because of COVID and turnover of accountants, the audit for the 2019 financial statement was pushed from the second half of 2020 into early 2021, which put Finance over the 50% mark. It should be noted that the 2020 budget will need to be completed by the end of the year because we received over \$750,000 in federal funding. This will likely require to be included in the next appropriation ordinance.

Community Development has a large one-time expense in their professional services budget to complete a Comprehensive Plan update, which saw significant activity in the first half of 2021.

The major component in the Miscellaneous Services budget is the General Fund transfers to Streets and Debt Service funds. The transfers for debt service are accelerated in the 1st half of the year so that debt service funds have adequate balances to make payments when due. Some of the outside agency payments are also done once a year in the first half of the year (such as the Health District and Grant County Economic Development Council assessments, along with Senior Center support). These factors combined to bring this budget is slightly over the 50% mark.

All other General Fund budgets are at varying levels below 50%. The largest percentage below budget is the Parks and Recreation department because of the timing of recreation programs and capital projects.

Conclusion—General Fund is trending below the 50% mark in expenditures. With revenues bringing in about \$14.8 million, compared to expenditures of \$13.6 million, we are adding about \$1.2 million to the beginning General Fund balance during the first 6 months of 2021. Departments are reviewing their capital needs, and there may be more requests coming through to spend some of this one-time revenue increases such as Fire’s recent request to purchase a demonstration apparatus that is currently available.

Other Funds Analysis

Other Funds Revenues and Expenditures As of June 30, 2021 -50% of Year

	2020	2021			20 vs 21
	Actual	Adopted Budget	Actual	Percent to Budget	Percent Change
Revenues					
Operating/Enterprise Funds	\$17,479,019	\$35,795,909	\$21,373,378	59.7%	22.3%
Capital Improvement Funds	2,599,465	16,345,380	14,130,558	86.4%	443.6%
Risk Mgmt/Employee Benefit	423,128	971,100	948,918	97.7%	124.3%
Debt Service Funds	2,268,797	3,180,950	2,266,950	71.3%	-0.1%
Subtotal-Revenue	\$22,770,409	\$56,293,339	\$38,719,804	68.8%	70.0%
Expenditures					
Operating/Enterprise Funds	\$16,798,098	\$39,337,593	\$18,341,487	46.6%	9.2%
Capital Improvement Funds	3,021,979	23,157,100	2,739,768	11.8%	-9.3%
Risk Mgmt/Employee Benefit	722,145	1,032,500	841,524	81.5%	16.5%
Debt Service Funds	734,175	3,179,575	705,304	22.2%	-3.9%
Subtotal-Expenditures	\$21,276,397	\$66,706,768	\$22,628,083	33.9%	6.4%

Second quarter 2021 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, Fleet Maintenance, Central Services (for the new computer software) and Stormwater capital projects/purchases). Debt Service funds primarily only have interest payments due in the first half of the year—principal payments are typically scheduled for later in the year so the fund can build up the necessary balance. Property and liability insurance premiums are due at the first of the year, so the Risk Management fund is over 86% spent already.

The Homeless Services program helped with the down-payment for a more permanent temporary shelter of about \$200k. This program is primarily funded with reimbursable grants, so it had a fund balance deficit at the 6-month mark, and has also almost spent its total authorized budget. This additional expense will be included in the next appropriation ordinance.

Transfers out to Debt Service funds were all done in the first half of the year, as principal payments come due in the 3rd and 4th quarters. This affected the fund balance total by approximately \$900,000.

The revenues in most funds are at or over the 50% mark, although there are exceptions.

Hotel/Motel tax is turning back up after a significant reduction in 2020. This revenue source is typically more robust in the second half of the year, and historically, less than 40% of the total for the year is collected in the first 6 months. We did reduce the estimate because of the continuing reduction in travel in the first part of the year, but it is on target to meet the reduced budget, and possibly exceed it.

The Streets Fund receives a Surface Transportation Block Grant distribution in September each year, which is budgeted to be \$270k. The timing of this distribution is causing the revenue received to be below 50%.

Water/Wastewater Fund revenues typically increase during the hotter months, as more water is used for irrigating.

The Airport Fund has a major grant for a fuel system in its budget, but since we have not been able to procure a unit, both revenue and expenditure budgets are only 6.5% received and 4.5% spent as of June 30. The airport board determined that they want to look at a new fuel system versus used, so the project is being prepared to be put out to bid.

Equipment Rental/Fleet Maintenance is under the 50% mark in revenue because the LOCAL borrowing for the Fire pumper/tender combination apparatus will not occur until November. The expenditures are over the 50% mark because of timing of the capital purchases.

Conclusion

Overall, second quarter results are performing as expected. Most variances from the 50% mark are related to normal timing. All funds have a healthy fund balance coming out of the COVID 19 economic shutdown. In the first half of the year, thanks in large part to a federal America Rescue Plan grant of \$3.36 million and the issuance of a LOCAL bond for the Larson Recreation Center rebuild of \$11.3 million, \$17.2 million was added to citywide fund balances, and all funds had positive fund balances on June 30, 2021, with the exception of the Homeless Services Fund that is waiting for a grant reimbursement. General Fund added \$1.15 million to its beginning balance through the first 6 months, which is exceeding expectations at this point in time. As we develop the 2022 budget, we will be mindful of potential one-time revenues that might be available for one-time expenditures.

CITY OF MOSES LAKE
2021 Actual vs. Budget Variance
 2nd Quarter 2021

50% of year completed

	01/01/21 Actual Begin. Fund Bal	2021 Budget- Amended Revenues	2021 YTD Actual Revenues	% Received	2021 Adopted Budget	2021 YTD Actual Expenditure	% Expended	2021 (Use) Gain of Fund Balance	06/30/21 Ending Fund Balance
General Fund									
Legislative					\$ 290,061	\$ 134,386	46.3%		
Executive					890,750	431,874	48.5%		
Finance					1,084,572	583,119	53.8%		
Community Development					1,790,088	924,250	51.6%		
Legal					187,600	82,953	44.2%		
Misc. Services					1,900,990	978,452	51.5%		
Library					67,300	43,827	65.1%		
Engineering					2,183,723	1,041,011	47.7%		
Parks & Recreation					6,974,983	2,927,307	42.0%		
Police					9,274,654	4,421,822	47.7%		
Fire					4,891,363	2,053,826	42.0%		
Total General Fund	\$ 6,953,973	\$ 27,623,830	\$ 14,777,390	53.5%	29,536,084	13,622,827	46.1%	\$ 1,154,563	\$ 8,108,536
Other Operating/Enterprise									
Tourism Activities -102	781,584	621,000	256,151	41.2%	569,400	213,704	37.5%	42,447	824,031
Grants & Donations -103	846,895	84,400	72,230	85.6%	218,800	131,777	60.2%	(59,547)	787,348
Local Fiscal Recovery -105			3,361,779					3,361,779	3,361,779
Homeless Services -110	47,880	653,000	375,787	57.5%	498,700	464,382	93.1%	(88,595)	(40,715)
Paths & Trails - 114	85,801	2,000	1,001	50.1%	26,000	-	0.0%	1,001	86,802
Streets - 116	705,289	2,510,000	1,120,479	44.6%	2,568,315	1,247,105	48.6%	(126,626)	578,663
Transportation Benefit District - 170	698,056	1,681,000	999,894	59.5%	1,850,000	925,000	50.0%	74,894	772,950
Water/Wastewater Operating - 410	2,693,562	13,078,600	6,239,048	47.7%	13,661,075	6,633,891	48.6%	(394,843)	2,298,719
Sanitation -490	715,294	4,490,000	2,428,755	54.1%	4,499,300	1,849,333	41.1%	579,422	1,294,716
Stormwater - 493	312,333	964,000	492,584	51.1%	1,294,646	502,325	38.8%	(9,741)	302,592
Airport - 495	104,931	202,000	13,152	6.5%	234,609	10,444	4.5%	2,708	107,639
Ambulance - 498	745,932	2,873,300	2,021,787	70.4%	3,496,021	1,644,183	47.0%	377,604	1,123,536
Central Svc - 517	785,689	1,823,800	911,900	50.0%	1,971,805	1,111,033	56.3%	(199,133)	586,556
Equipment Rental -519	3,455,486	4,113,009	1,692,431	41.1%	5,048,691	2,848,698	56.4%	(1,156,267)	2,299,219
Build Maint -528	1,203,294	2,774,800	1,386,400	50.0%	3,400,231	759,612	22.3%	626,788	1,830,082
Total Other Operating/Enterprise	13,182,026	35,795,909	21,373,378	59.7%	39,337,593	18,341,487	46.6%	3,031,891	16,213,917

CITY OF MOSES LAKE
2021 Actual vs. Budget Variance
 2nd Quarter 2021

50% of year completed

	01/01/21 Actual Begin. Fund Bal	2021 Budget- Amended Revenues	2021 YTD Actual Revenues	% Received	2021 Adopted Budget	2021 YTD Actual Expenditure	% Expended	2021 (Use) Gain of Fund Balance	06/30/21 Ending Fund Balance
Capital Improvement									
Street Repair/reconst -119	2,175,998	2,715,900	1,579,640	58.2%	4,205,000	839,840	20.0%	739,800	2,915,798
Parks & Recreation Improvement-314	602,963	12,000,000	11,629,120	96.9%	11,500,000	580,495	5.0%	11,048,625	11,651,588
Park Mitigation Capital Proj-315	103,236	79,480	(74,222)		152,100	-		(74,222)	29,014
Water Rights - 471	2,095,140		221,020		1,000,000	-		221,020	2,316,160
Water/Sewer Construction-477	6,395,056	1,550,000	775,000	50.0%	6,300,000	1,319,433	20.9%	(544,433)	5,850,623
Total Capital Improvement	11,372,392	16,345,380	14,130,558	86.4%	23,157,100	2,739,768	11.8%	11,390,790	22,763,182
Risk Mgmt/Employee Benefit Reserves									
Unemployment Compensation - 501	12,998	54,300	30,081	55.4%	51,500	29,611	57.5%	470	13,468
Risk Management -503	365,982	873,800	873,800	100.0%	926,000	797,226	86.1%	76,574	442,556
Firemen's Relief & Pension - 611	363,135	43,000	45,037	104.7%	55,000	14,687	26.7%	30,350	393,485
Total Employee Benefit Reserves	742,115	971,100	948,918	97.7%	1,032,500	841,524	81.5%	107,394	849,509
Debt Service									
LOCAL Borrowing 21/22 - 282		914,000	-	-	914,000	-	0.0%		
GOB 2016 Refunding-286	184,358	376,800	376,800	100.0%	376,733	38,167	10.1%	338,633	522,991
Water-Sewer 2011 Bond-450	8,068	565,000	565,000	100.0%	563,400	8,856	1.6%	556,144	564,212
Bond Reserve-2011 451	567,600	-			-			-	567,600
Water-Sewer 2004 Bond-452	6,744	682,000	682,000	100.0%	682,600	83,500	12.2%	598,500	605,244
Water-Sewer 2004 Bond Reserve-453	701,500					-		-	701,500
PWTF W/S Debt Serv - 485	20,151	567,150	567,150	100.0%	567,192	567,148	100.0%	2	20,153
2015 GO Bond Redempt- 487	7,771	76,000	76,000	100.0%	75,650	7,633	10.1%	68,367	76,138
Total Debt Service	1,496,192	3,180,950	2,266,950	71.3%	3,179,575	705,304	22.2%	1,561,646	3,057,838
Total City Budget	<u>\$ 33,746,699</u>	<u>\$ 83,917,169</u>	<u>\$ 53,497,194</u>	63.7%	<u>\$ 96,242,852</u>	<u>\$ 36,250,910</u>	37.7%	<u>\$ 17,246,284</u>	<u>\$ 50,992,983</u>