

Staff Report



To: Mayor John Muhlfeld and City Councilors
 From: Dana Smith, Finance Director *Dana*
 Date: October 28, 2016
 Re: 1st Quarter Financial Report for Fiscal Year 2017

This quarterly financial report provides a summary version of the financial results of the City during the first quarter of Fiscal Year 2017 (FY17). The first section is an overview of the City's financial condition specifically related to property tax supported funds. Subsequent sections provide further analysis and details of the first quarter ended September 30, 2016.

Financial Condition – Property Tax Supported Funds

An analysis of available cash in property tax supported funds provides an effective insight into the City's financial condition. The following table lists the FY15 first quarter cash balance in column (a), the FY16 first quarter cash balance in column (b) and the FY17 first quarter cash balance in column (c) for comparison purposes.

Cash Balance in Property Tax Supported Funds

	<i>a</i>	<i>b</i>	<i>c</i>	<i>d (c-b)</i>
	Sept 30, 2014 Cash Balance	Sept 30, 2015 Cash Balance	Sept 30, 2016 Cash Balance	One Year Change
General	\$480,030	\$387,182	\$175,361	(\$211,821)
Parks & Recreation	(\$98,681)	(\$116,917)	(\$50,502)	\$66,415
Law Enforcement	\$54,871	\$68,785	\$26,720	(\$42,065)
Library	\$51,342	\$79,966	\$82,603	\$2,637
Fire & Ambulance	\$236,677	\$294,282	\$109,073	(\$185,208)
	\$724,239	\$713,298	\$343,255	(\$370,042)

Total cash in property tax supported funds as of September 30, 2016 decreased by \$370,042 or 51.9% compared to the balance on September 30, 2015. The decrease in the General, Law Enforcement, and Fire & Ambulance Funds are described below, as well as the improvement from the prior year for the Parks & Recreation Fund.

General Fund – Historically, the General Fund has a net loss during the first quarter with expenditures exceeding revenues. This trend continues to be the case for the first quarter of FY17 and the net loss has not increased substantially from the past year (J33). However, the General Fund cash balance compared to a year ago has decreased by \$211,821 or 55%. This significant decrease is primarily due to the General Fund starting the fiscal year off with less cash than the prior year, which is the direct result of providing for a spend-down of cash reserves in the FY16 Budget. The continued spend-down of cash for operating costs (not one-time capital costs) in the General Fund has continued to occur in the FY17 Budget, but at a lower rate than FY16.

Parks & Recreation Fund – The Parks & Recreation Fund had a negative cash balance as of September 30, 2016 (H72), but it has improved from the prior year’s first quarter cash balance by \$66,415, or 57%. The trend of negative cash balance in the first quarter is predominantly due to the timing of startup costs that must be incurred prior to a significant portion of the revenue being collected. The improvement noted this year is the result of contracting out the management services of the ice rink, which typically had significant startup costs in the first quarter. As in the past, the negative cash balance (short-term borrowing) is not a concern for us now since it is simply a timing of revenue collections versus expenditures. By the third quarter cash is projected to have a positive balance once again. Ideally, no funds would have a negative cash balance at any point during the year, but the General Fund currently has monies available to temporarily fund the purchases in the first quarter year for the Parks & Recreation Fund.

Law Enforcement Fund – There was an overall decrease in the cash balance of \$42,065 or 61% compared to the September 30th balance in the prior year in the Fund. Although revenues exceeded expenditures for the quarter by \$49,293 (H80), that is about \$52,315 less than the prior year (J80). Thus, with a low cash balance to start the year and only a 4% increase in revenues compared to the 17% increase in expenditures, a decrease in cash balance can be expected. Grant reimbursements are expected to be received in the coming month for expenditures that were made during the first quarter (such as the COPS Grant).

Fire & Ambulance Fund – Like the General Fund, the Fire and Ambulance Fund ended the first quarter of FY17 with a lower cash balance than the prior year by \$185,208, or 63%. There are two main reasons for this significant decrease. The first reason is the Fund started the year off with about \$109,000 less than the prior year due to the budgeted spend-down of cash on hand in the FY16 Budget and the delayed receipt of cash from ambulance service charges. The second reason is the decrease in the amount that revenues exceeded expenditures for the quarter. Expenditures were up 34% for the fund while revenues were only up 11%. While the decrease in cash balance may seem unsettling, the projections for this Fund indicate that this is not a major concern since the FY17 Budget provides for cash balance to increase over the course of the year and we have yet to collect the FY17 property taxes that will be due in November and May.

Summary – The City finances remain in generally good condition. Although the decrease in the total cash balance from the prior year for property tax supported funds looks concerning at first glance, most of this change is expected and will improve during the next quarter. The significant decrease in cash balance will not require departments to reduce spending that is already budgeted, but it reinforces the importance of monitoring the finances of the City to make sure big changes are expected.

During any given year, we must make sure that budgeted revenues are received during the year as anticipated. An example this year is the recent settlement between Northwest Energy and the Department of Revenue that reduced the taxable value for Whitefish after the final budget was approved. This settlement will impact our property tax collections for FY17, but the amount is not significant when spread among the funds that directly receive property tax revenue (General, Library, Fire & Ambulance, and Fire Pension). Therefore, this loss can be absorbed and no budget amendments are necessary. Other local governments, however, are facing a much more serious challenge with this settlement compared to Whitefish. Some local governments will need to consider reducing spending in FY17. This settlement further supports the need for cash reserves, specifically within the General Fund, or the least restricted fund of the City.

Financial Highlights

- Municipal court fines and forfeitures are 36% of the FY17 Budget compared to only 25% of the FY16 Budget during the same three-month period. In addition, fines and forfeitures are 39% higher than the prior year. The specific cause of this increase is unknown, but it appears bringing the prosecution services in-house has proven to be very successful.
- License and permit revenues in the Building Code Fund are down about 29% from the prior year, but are at 24% of the FY17 budget. Last year was a very strong year with a lot of commercial and residential activity.
- Impact fee revenue is also down from the prior year's first quarter by 44%, but the revenue is 35% of the budget for FY17. Impact fees follow building permits so this decrease is not surprising, especially following last year's strong commercial and residential growth. The total 35% of budgeted revenue is further broken down among the various impact fees as follows: Paved Trails (57% of budget), Park Maintenance Building (48% of budget), Emergency Service Center (33% of budget), City Hall (32% of budget), and Stormwater (22% of budget).
- As of September 30, 2016, planning fees were at 35% of the expected revenue for FY17.
- The Resort Tax collections are 42% of the FY17 budget after the first quarter. A large portion of the increase is noted in lodging, which is due to the addition of two new hotels in downtown. Assuming this trend continues, there may be additional property tax relief in FY18 since any amount collected over the budgeted amount must be returned to taxpayers as additional property tax relief.
- Water impact fees are at 34%, while wastewater impact fees are at 31% of the FY17 budget. However, compared to the first quarter of FY16, water impact fees are down 24% and wastewater impact fees are down 25%. Again, like other impact fees, these follow the building permit trends too.
- Ambulance Service Charges are 27% of the budget and up 71%, or \$130,522. This significant increase is the result of the prior year being down due to the delayed ambulance billing. Compared to FY15, the ambulance revenues are actually down by about 12%, but staff is currently working on a rate study for ambulance services and will present a recommended rate increase to the Council this year.

Expenditure Review

Total expenditures by fund were at or below the typical percentage of budget authority to be used (20-25% for most funds) as of September 30, 2016. The Resort Tax Fund was somewhat higher than prior years (42% of budgeted expenditures) due to the timing of the W 7th Street Project.

In addition to the fund totals, a review of line-items revealed very few issues. The timing of weather and programs can skew the percentage of budget used at the end of the first quarter. For example, more trail work is done in the first part of the fiscal year during the summer months. We will continue to monitor repair and maintenance expenses as this tends to be one of the more heavily used line-items, but most are within a reasonable amount. In the mid-year report, if items are deemed to be more than a timing issue, more detail will be provided.

Additional Detailed Analysis

The following discussion further highlights the attached three spreadsheets.

General Fund Revenue (line 8 to 17)

Total General Fund revenues are 14% of the FY17 Budget and have increased by 4% from the first quarter of the prior year. The increase in revenue is primarily noted in fines and forfeitures from the Whitefish Municipal Court. Property tax revenues have remained flat and are projected to decrease in the next quarter since the budget reduced property taxes because of the additional tax relief from the 25% of the additional 1% of Resort Tax collected in the prior year. Thus, the Resort Tax Fund transfer will increase from the prior year and offset the reduced property tax revenue in the second quarter in the General Fund.

General Fund Expenditures, Net Revenue, & Cash (line 19 to 34)

Total General Fund expenditures are on track at 24% of the FY17 budget.

The General Fund cash balance was \$175,361 compared to \$387,182 at the end of the prior year's first quarter (see J34). The graph on page 1 of the spreadsheets shows the General Fund cash balance trends for the past three years. December, January, June, and July are months that tend to have higher cash balances due to the collection of property taxes. As mentioned before, building cash reserves to a minimum of 12% or more each year (mostly in the General Fund) is important to ensure an adequate cash balance throughout the year.

Other Property Tax Supported Funds (p.2, line 72 to 98)

The funds supported by property taxes had a net loss with expenditures exceeding revenues at the end of the first quarter. Combined revenues and expenditures for the property tax supported funds, other than the General Fund, were 20% and 21% of the budget, respectively.

When compared to a year ago, these funds experienced an overall decrease in cash with detailed discussion above. Also, compared to the prior year, overall revenues and expenditures have increased, but expenditures increased at a higher rate which resulted in the overall net loss at the end of the first quarter.

Other Tax, Fee, & Assessment Supported Funds (p.2, line 104 to 145)

These funds located on the second half of the second page of the spreadsheet, receive no general property tax support.

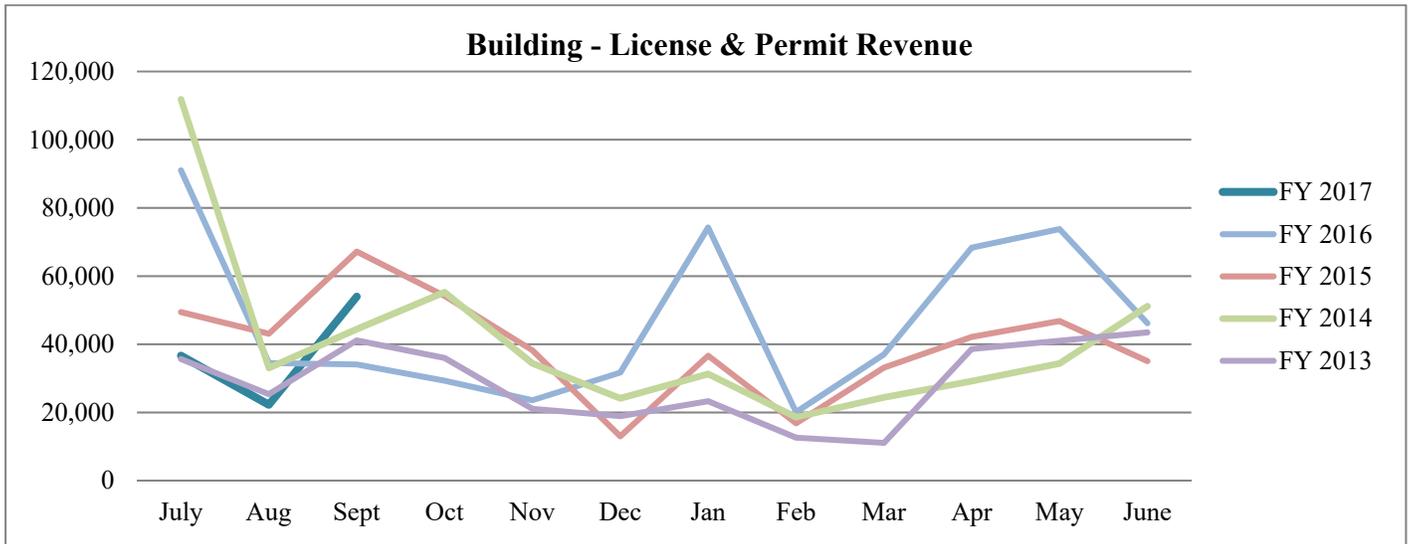
Resort Tax collections are 42% of the budgeted revenues as of the end of the first quarter of FY17. Compared to the prior year there is a sizeable increase in revenue. This increase is due to an increase in businesses operating within the City, specifically lodging accommodations. Expenditures are also tracking significantly higher due to the timing of the W. 7th Street Reconstruction Project. Prior to the start of construction, there was a concern that the cash available for street improvements may be insufficient during the month of August since only two months of revenue would be collected and most the project costs would have been paid. Since the invoices would still need to be paid regardless of cash balance for street improvements, short-term borrowing within the Fund was identified as a possibility. However, at the end of the quarter, the Resort cash balance related to street improvements totaled \$219,314. Although still possible, it is unlikely that any type of short-term borrowing will be necessary. Furthermore, the cash balance as of September 30, 2016 for Trail and Park Improvements totaled \$287,233, which is adequate for all park and trail related projects.

Street and Alley operations continue to be in good financial condition. Expenditures decreased by 67% because of two years' worth of street overlays having been completed in the summer of 2015 and minimal street repairs completed this past summer.

During the first quarter, the *Tax Increment Fund* had an expected, but significant decrease in cash balance of 42% or \$1,206,017. This significant decrease was the result of the year-end transfer of cash from the TIF Fund to the City Hall and Parking Structure Fund to help pay for the project. Overall the fund had higher net growth in the first quarter of FY17 compared to FY16, but this will change as the fund receives property taxes and transfer additional cash to help pay debt service on outstanding TIF bonds. The spend-down of cash in this fund is budgeted for FY17.

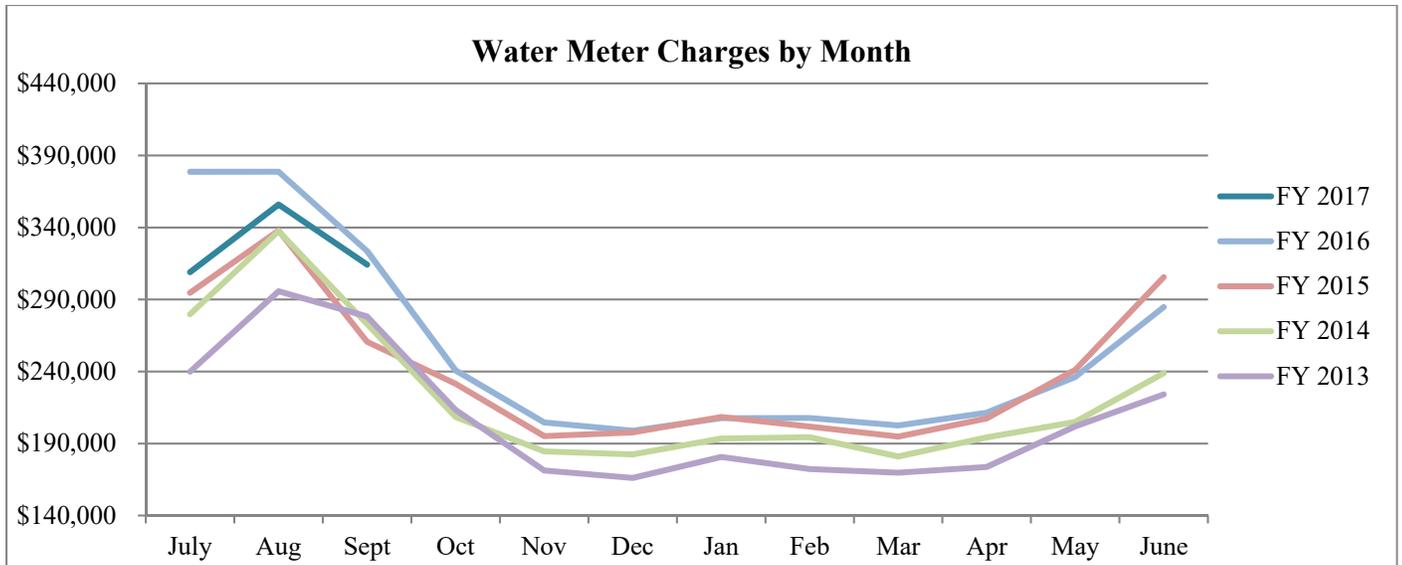
Impact Fee revenues have decreased \$57,007 (J122) compared to the first quarter of FY16. This decrease is likely due to the slight slow-down of commercial and residential development projects compared to last year. However, overall building remains strong so this may improve come spring.

The *Building Code Fund* cash balance has increased by 115% from the first quarter of FY16. This increase is occurred because of the increased building activity in FY16 and the Fund no longer being indebted to the General Fund. As discussed earlier, revenue has taken a slight down-turn, but it is tracking as expected with the FY17 Budget. There were significant commercial projects that paid building permits and other related fees in FY16 including the City Hall/Parking Structure project, two new hotels, and various other projects throughout the City. The timing of future development in FY17 is hard to predict, but considering last year was an amazing year it may be difficult for building revenue to exceed or even meet the prior year figures.



Enterprise Funds (p.3, line 151 to 177)

Metered water sales are down 9%, or \$101,736, while wastewater service charges are down 3%, or \$20,501. As depicted in the graph below, water sales increased significantly in June 2015, which continued through September 2015. The opposite is true for June 2016 through September 2016. The decline in revenue in the first quarter is attributable to the decreased consumption of water by customers during this past summer, which was likely do to the lower temperatures and wet nature of the summer months compared to the prior year. This change in usage also affects the wastewater rates, but not by the same degree due to irrigation being the main use of water in summer. Both water and wastewater revenues will grow throughout this year because of the approved rate increases that went into effect as of October 1, 2016.



Capital expenditures in the Water and Wastewater Funds are higher than the prior year first quarter and will vary based on the projects in progress. During the first quarter, capital expenditures include the Columbia Avenue Bridge Project, the shop expansion, the Birch Point Lift Station Project, and the Wastewater I & I Project.

With the change in management of billing for refuse services, the solid waste fund has seen a decrease in cash, revenues and expenditures as anticipated. Cash remaining in the fund will continue to cover costs associated with recycling and any other expenditures that are related to refuse service.

Capital Project Funds (p.3, line 180 to 183)

The City Hall and Parking Structure Fund has continued to see activity increase from prior years. Currently expenditures are 21% of the budget, but will likely increase so that most of the budget is spent by April of 2017, shortly after the anticipated project completion. In January, the Special Improvement District 167 bonds will be issued as one of the final funding mechanisms for this project.

Summary

Overall the City’s finances remain in generally good condition with areas to monitor during the remainder of the fiscal year. The City is continuing to feel the effects of the recession lifting with additional City staff positions being added in FY17, an increase in return on our investments, the continuation of a strong building environment, and the Resort Tax collections increasing despite the Canadian exchange rate not being at its most favorable for tourism from Canada.

If you have any questions regarding this quarterly update or would like additional information, please email me at dsmith@cityofwhitefish.org or give me a call at 406-863-2405.

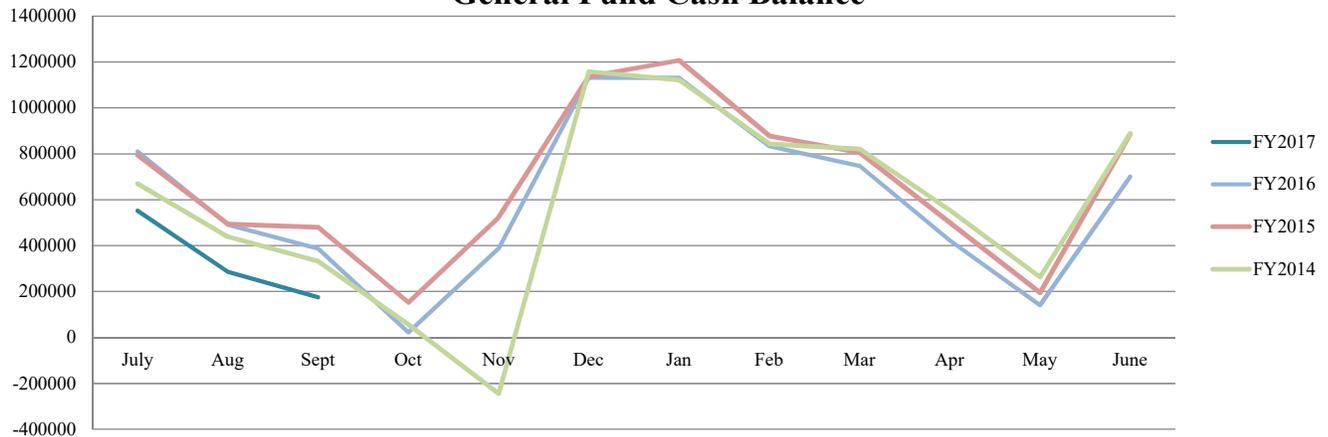
CITY OF WHITEFISH
Quarterly Financial Review
1st Quarter of Fiscal Year 2017
July 1, 2016 - September 30, 2016

25% of Fiscal Year Complete



	YTD Sep 30, 2014	% of Budget	YTD Sep 30, 2015	% of Budget	YTD Sep 30, 2016	% of Budget	Chng Prev YR	% Chng Prev Yr
	Dollars		Dollars		Dollars			
General Fund Revenues								
Property Taxes	\$322,544	16%	\$256,217	12%	\$257,496	13%	\$1,279	0%
Total Licenses and Permits	\$3,662	6%	\$3,928	6%	\$4,399	6%	\$471	12%
Intergovernmental Revenue	\$196,550	24%	\$201,949	24%	\$210,026	24%	\$8,077	4%
Charges for Services	\$79,208	33%	\$75,589	34%	\$65,676	26%	(\$9,913)	-13%
Fines and Forfeitures	\$59,928	26%	\$55,826	25%	\$77,610	36%	\$21,784	39%
Miscellaneous	\$2,380	5%	\$1,680	3%	\$373	1%	(\$1,308)	-78%
Investment Earnings	\$4,377	29%	\$3,709	25%	\$6,502	27%	\$2,793	75%
Resort Tax & SID Revolving Transfer In	\$0	0%	\$0	0%	\$0	0%	\$0	0%
Total General Fund Revenues	\$668,648	16%	\$598,899	14%	\$622,081	14%	\$23,182	4%
General Fund Expenditures								
Municipal Court	\$63,404	21%	\$61,611	21%	\$70,811	24%	\$9,200	15%
Prosecution Services	\$23,400	21%	\$0	0%	\$0	0%	\$0	0%
Administrative Services	\$15,576	20%	\$20,990	20%	\$22,187	20%	\$1,197	6%
Total Resort Tax Admin	\$6,100	122%	\$5,355	82%	\$950	15%	(\$4,405)	-82%
Legal Services	\$8,334	20%	\$20,316	19%	\$12,388	22%	(\$7,928)	-39%
Community Planning	\$67,355	17%	\$73,210	19%	\$81,080	20%	\$7,870	11%
Transfer to Park Fund	\$215,419	31%	\$162,809	25%	\$168,145	25%	\$5,335	3%
Transfer to Law Enforcement Fund	\$471,250	25%	\$521,250	25%	\$539,250	25%	\$18,000	3%
Transfer to Fire Fund	\$203,750	25%	\$208,750	25%	\$208,750	25%	\$0	0%
Transfer to Library Fund	\$8,593	25%	\$8,593	25%	\$8,593	25%	\$0	0%
Cemetery/Other	\$14,295	18%	\$14,305	16%	\$15,299	14%	\$994	7%
Total General Fund Expenditures	\$1,097,475	25%	\$1,097,189	24%	\$1,127,452	24%	\$30,263	3%
General Fund Revenues Less Expenditures	(\$428,827)		(\$498,290)		(\$505,371)		(\$7,080)	-1%
General Fund Operating Cash Balance	\$480,030		\$387,182		\$175,361		(\$211,821)	-55%
Prop Tax Supported Funds (no General) Net	\$58,397		\$23,992		(\$85,921)		(\$109,912)	
Prop Tax Supported Funds (no General) Cash	\$244,209		\$326,116		\$167,895		(\$158,221)	
Total General & Prop Tax Supported Funds Net	(\$370,430)		(\$474,299)		(\$591,291)		(\$116,993)	
Total General & Prop Tax Supported Funds Cash	\$724,239		\$713,298		\$343,255		(\$370,042)	

General Fund Cash Balance



	A	D	E	F	G	H	I	J	K
69	Sep 30, 2014		Sep 30, 2015		Sep 30, 2016				
70	Property Tax Supported Funds	Dollars	% of Budget	Dollars	% of Budget	Dollars	% of Budget	Chng Prev YR	% Chng Prev Yr
72	Parks and Rec Operating Cash Balance	(98,681)		(\$116,917)		(\$50,502)		\$66,415	57%
73	Parks, Rec & Community Services Revenues	362,425	21%	\$313,004	17%	\$279,740	19%	(\$33,265)	-11%
74	Parks, Rec & Community Services Exp.	428,178	27%	\$505,877	29%	\$411,268	28%	(\$94,609)	-19%
75	Revenues less Expenditures	(65,754)		(\$192,872)		(\$131,528)		\$61,344	
76									
77	Law Enforcement Operating Cash Balance	54,871		\$68,785		\$26,720		(\$42,065)	-61%
78	Law Enforcement Revenues	472,324	19%	\$541,148	21%	\$563,930	21%	\$22,782	4%
79	Law Enforcement Expenditures	434,693	18%	\$439,541	17%	\$514,638	19%	\$75,097	17%
80	Revenues less Expenditures	37,631		\$101,607		\$49,293		(\$52,315)	
81									
82	Library Operating Cash Balance	51,342		\$79,966		\$82,603		\$2,637	3%
83	Library Revenues	39,184	19%	\$35,024	16%	\$33,686	15%	(\$1,339)	-4%
84	Library Expenditures	44,629	19%	\$51,727	20%	\$58,597	21%	\$6,870	13%
85	Revenues less Expenditures	(5,445)		(\$16,703)		(\$24,911)		(\$8,208)	
86									
87	Fire & Ambulance Cash Balance	236,677		\$294,282		\$109,073		(\$185,208)	-63%
88	Fire & Ambulance Taxes, Penalty and Interest	87,930	16%	\$70,046	14%	\$59,897	11%	(\$10,149)	-14%
89	Ambulance Services Revenue	359,692	36%	\$183,204	17%	\$313,726	27%	\$130,522	71%
90	Total Fire & Ambulance Revenue	845,991	23%	\$674,555	19%	\$747,892	21%	\$73,337	11%
91	Fire & Ambulance Expenditures	754,026	20%	\$542,595	15%	\$726,665	20%	\$184,070	34%
92	Revenues less Expenditures	91,964		\$131,959		\$21,226		(\$110,733)	
93									
94	Total Property Tax Supported Funds (not including General Fund)								
95	Total Property Tax Supported Cash	\$244,209		\$326,116		\$167,895		(\$158,221)	-49%
96	Total Property Tax Supported Revenue	\$1,719,924		\$1,563,732		\$1,625,247		\$61,515	4%
97	Total Property Tax Supported Expenditures	\$1,661,527		\$1,539,740		\$1,711,168		\$171,428	11%
98	Revenues less Expenditures	\$58,397		\$23,992		(\$85,921)		(\$109,912)	
99									
100	Other Tax, Fee & Assessment Supported Funds								
104	Resort Tax Operating Cash Balance	\$2,008,450		\$2,681,501		\$1,691,978		(\$989,524)	-37%
105	Resort Tax Collections	\$844,710	40%	\$1,095,892	33%	\$1,397,750	42%	\$301,858	28%
106	Resort Tax Investment Earnings	\$1,184	24%	\$1,162	23%	\$2,198	37%	\$1,037	89%
107	Resort Tax Expenditures and Transfers	\$698,221	22%	\$74,802	1%	\$1,617,519	42%	\$1,542,717	2062%
108	Revenues less Expenditures	\$147,673		\$1,022,253		(\$217,571)		(\$1,239,823)	
109									
110	Street and Alley Operating Cash Balance	\$1,156,395		\$1,005,848		\$1,251,653		\$245,804	24%
111	Street and Alley Revenues	\$296,376	22%	\$272,584	20%	\$261,009	19%	(\$11,575)	-4%
112	Street and Alley Expenditures	\$234,141	11%	\$685,405	32%	\$223,564	12%	(\$461,841)	-67%
113	Revenues less Expenditures	\$62,236		(\$412,821)		\$37,445		\$450,266	
114									
115	Tax Increment Operating Cash Balance	\$1,919,356		\$2,866,937		\$1,660,920		(\$1,206,017)	-42%
116	Tax Increment Property Taxes, Penalty & Interest	\$852,921	18%	\$783,324	15%	\$859,430	16%	\$76,106	10%
117	Total Tax Increment Revenues	\$860,049	17%	\$788,756	14%	\$864,644	15%	\$75,888	10%
118	Tax Increment Expenditures & Transfers	\$940,259	15%	\$355,697	5%	\$225,191	3%	(\$130,506)	-37%
119	Revenues less Expenditures	(\$80,210)		\$433,059		\$639,453		\$206,394	
120									
121	Impact Fees Cash Balance	\$747,965		\$529,586		\$409,488		(\$120,098)	-23%
122	Impact Fee Collections - Revenues	\$83,403	36%	\$129,282	55%	\$72,275	35%	(\$57,007)	-44%
123	Impact Fee Collections - Expenditures	\$0	0%	\$0	0%	\$12,801	3%	\$12,801	0%
124	Revenues less Expenditures	\$83,403		\$129,282		\$59,474		(\$69,809)	
125									
126	Street Lighting #1 Operating Cash Balance	\$42,348		\$34,448		\$28,411		(\$6,038)	-18%
127	Street Lighting District #1 (Rsdntl) Revenues	\$12,442	16%	\$9,538	12%	\$8,865	10%	(\$673)	-7%
128	Street Lighting District #1 (Rsdntl) Exp.	\$14,520	17%	\$17,699	22%	\$16,826	18%	(\$873)	-5%
129	Revenues less Expenditures	(\$2,077)		(\$8,162)		(\$7,961)		\$201	
130									
131	Street Lighting #4 Operating Cash Balance	\$26,749		\$12,621		\$10,248		(\$2,372)	-19%
132	Street Lighting District #4 (Cmmrcial) Revenues	\$11,504	17%	\$10,048	14%	\$10,724	13%	\$676	7%
133	Street Lighting District #4 (Cmmrcial) Exp.	\$15,091	17%	\$15,926	19%	\$11,504	13%	(\$4,422)	-28%
134	Revenues less Expenditures	(\$3,587)		(\$5,878)		(\$780)		\$5,098	
135									
136	Building Code Operating Cash Balance	95,975		\$98,942		\$212,732		\$113,790	115%
137	Payable to the General Fund	(171,699)		(\$21,158)		\$0		\$21,158	
141	License and Permits Revenues	160,097	38%	\$159,617	30%	\$112,878	24%	(\$46,739)	-29%
142	Building Code Expenditures without C. Falls	70,414	19%	\$76,619	17%	\$74,504	17%	(\$2,115)	-3%
143	Columbia Falls Contract Revenues	18,210	46%	\$18,877	38%	\$18,498	25%	(\$379)	-2%
144	Columbia Falls Contract Expenditures	6,986	23%	\$7,502	18%	\$9,441	18%	\$1,939	26%
145	Revenues less Expenditures	100,907		\$94,373		\$47,431		(\$46,942)	

