

Memo

To: Newcastle City Council
From: Lindsay Chambers, Finance Director
Date: October 17, 2023
Re: 3rd Quarter 2023 Financial Update

Honorable Mayor and City Councilmembers,

The Finance Director is required to provide the City Council with a financial status report at least quarterly, per RCW 35A.33.140 and our adopted Financial Policies. This must include a comparison of Revenue and Expenditure Actuals to the Budget. Past practice has been to prepare and present the Monthly Snapshot to the Finance Committee. We will continue preparing the Monthly Snapshot, and it will be shared with the entire Council after it's been presented to the Finance Committee. In addition, with the primary goals of greater transparency and understanding, we will be presenting a quarterly report for the entirety of the council and the public.

This report is intended to give an overview of the City of Newcastle's financial status as of September 30, 2023. It includes information about the primary revenue and expenditure sources for the City, focusing on the General Fund, and provides summary information on the remaining funds.

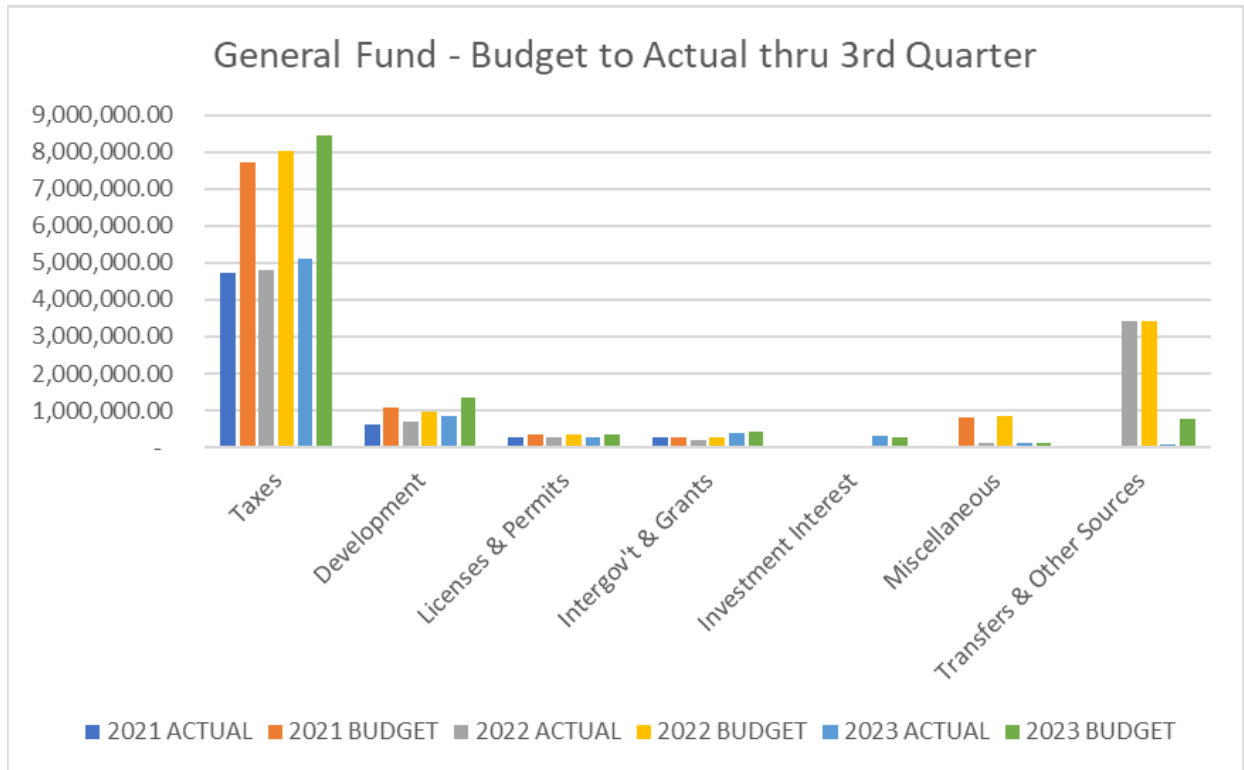
GENERAL FUND REVENUES

REVENUE	2023 ACTUAL	2023 BUDGET	% Received
Taxes	5,116,436.05	8,473,095.00	60.4%
Development	841,659.24	1,337,000.00	63.0%
Licenses & Permits	267,932.21	354,770.00	75.5%
Intergov't & Grants	374,610.61	432,000.00	86.7%
Investment Interest	293,453.01	280,000.00	104.8%
Miscellaneous	96,827.90	115,800.00	83.6%
Transfers & Other Sources	71,304.63	751,234.00	9.5%
TOTAL	7,062,223.65	11,743,899.00	60.1%

General Fund revenues through the 3rd Quarter of 2023 are lower than budget totals. We would expect revenues to be at or above 75% of the annual amount at this time of the year. The table above shows the percentage received as of 9/30/23. Four out of the seven main categories are above 75%, however, these make up a much smaller portion of the budget than the three categories that are below 75%.

Further information about each category is provided below.

The chart below shows the actuals for the different revenue categories compared to the budget for this year and the two previous years. This gives the indication that our regular revenue sources, such as Taxes, Development and Licenses & Permits, are trending upward in a similar manner to previous years.



Taxes

Taxes include local and state taxes received by the City. The primary sources are Property Tax and Retail Sales & Use Tax.

It's common for taxes to trend below budget in the 1st and 3rd quarters. This is because the majority of Property Tax is received in April and October. Currently, taxes are at 60.4%, and we will see this increase dramatically by October's end. Sales Tax has also been trending upward since May and the 3rd quarter averaged well over 160k per month.

Development Revenue

Development revenue includes all permit fees such as building, mechanical, plumbing, and ROW permits, along with plan review fees and staff time billed for eligible projects. This line can vary widely from year to year depending on the progress of large development projects within the City.

Building, Plumbing, and Mechanical permit lines are at 63.0% and about 225K below expected as of 9/30/2023. This is largely due to construction and development slowdown as a result of rising interest rates. As discussed before, many projects slated for 2023 have been delayed or put on hold.

Licenses & Permits

Licenses & Permits includes Franchise Fees and business licenses, as well as Alarm Monitoring fees and cell tower rental revenue. The primary Franchise Fee is from Comcast and is paid quarterly based on service within City limits. Business licenses are collected by the state and remitted to the City on a regular basis, cell tower rental includes 4 leases with T-Mobile. These are received on a monthly basis and remain consistent throughout the year.

Licenses & Permits are at 75.5% as of 9/30/2023, this category is likely to reach the budget for the year. Franchise fees and cell tower rental revenues have been received on time, along with business licensing and alarm fees staying close to expected.

Intergovernmental & Grants

Intergovernmental & Grants includes all other state revenues received by the City, such as Criminal Justice revenues, Liquor Excise Tax, and Liquor Profits. It also includes all federal, state, and local grants received by the City, which are typically received as a reimbursement after project expenditures are made.

Intergovernmental & Grants are at 86.7%, this is one category that may end the year above budget. Grant revenue has been slightly higher than expected, due to some funding being received this year although it was awarded last year. State-shared revenues have continued to trend above expected throughout this year.

Investment Interest

Investment Interest includes all interest earned on monies the City has invested. The City currently has most of this invested with LGIP, which is the state's investment pool and generally earns close to the Federal Funds Rate set by FOMC. There is a small portion that comes from interest earned on monies held in our operating account with HomeStreet Bank.

Investment Interest is already exceeding the budget amount and is at 104.8% as of 9/30/2023. We continue to average close to 90K earned, and the General receives the highest percentage of all funds with a fund balance invested. The FOMC has continued to target the Federal Funds Rate between 5.25 and 5.50%, and projections show it hovering around 5.00% for much of 2024 as well. Currently, the interest has not been split equitably based on the previous month's ending fund balance. This will be changing in 2024 so the General Fund will see a lower budget and actual amount after this year ends.

Miscellaneous Revenue

Miscellaneous revenue includes all other revenue lines that are smaller in total or received on a less regular basis. This includes items such as facility rental revenue, event sponsorships, donations, and the sale of surplus property (non-capital assets). It also includes any revenue from penalties or fines.

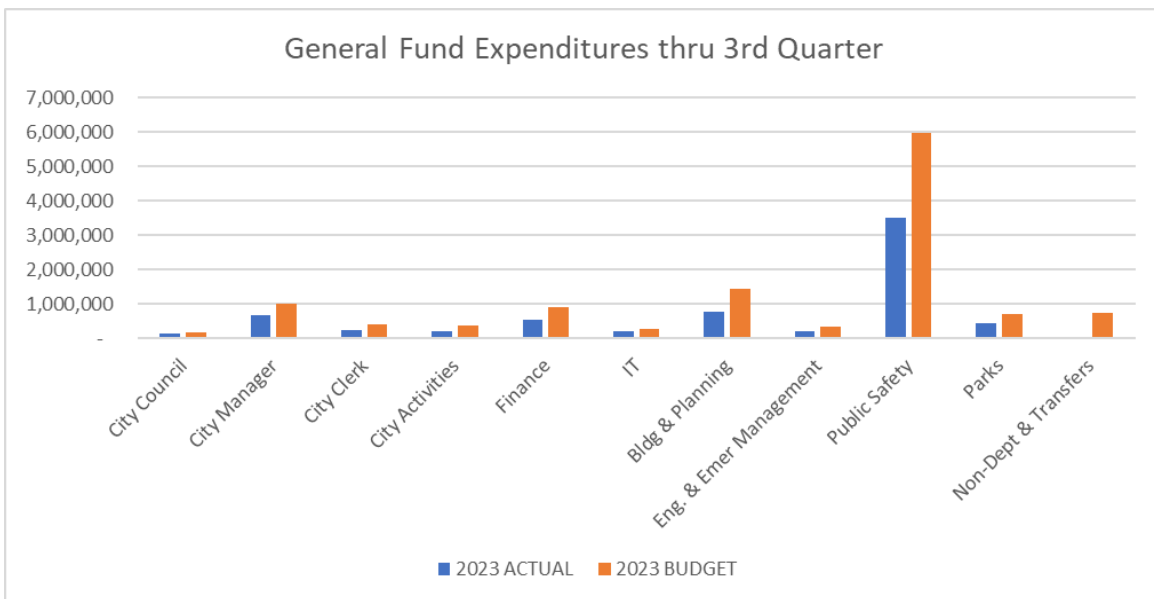
Miscellaneous Revenue is at 83.6% as of 9/30/2023, the primary drivers of this being above expected are rental revenue received from a construction company in January that was not budgeted, along with strong event sponsorship and donations.

Transfers & Other Financing Sources

Transfers and Other Financing Sources include transfers from other funds into the General Fund, where allowed, along with development deposits.

This revenue category is only at 9.5% as of 9/30/2023. The reason for this is the same as development revenue, many expected projects have been delayed or placed on hold. We may see some of this received through the end of 2023 or into 2024, but it is not known for sure at this time. Transfer revenue was high in previous years due to SLFRF monies being transferred into the General Fund and back to Cumulative Reserve. This year a small transfer was budgeted from Cumulative Reserve and has already been made.

GENERAL FUND EXPENDITURES



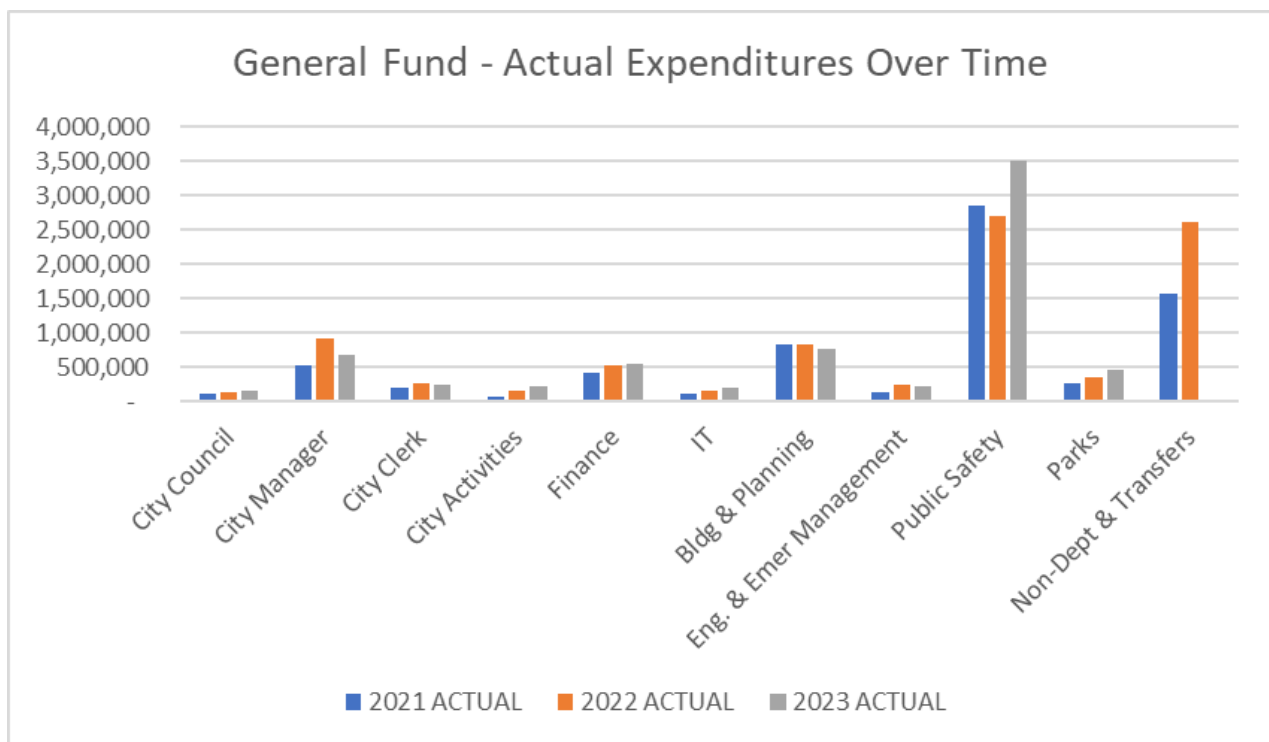
EXPENDITURES	2023 ACTUAL	2023 BUDGET	% Used
City Council	154,237	177,450	86.9%
City Manager	689,866	1,013,625	68.1%
City Clerk	247,205	415,560	59.5%
City Activities	227,572	376,090	60.5%
Finance	543,880	915,870	59.4%
IT	205,228	274,750	74.7%
Bldg & Planning	777,765	1,455,305	53.4%
Eng. & Emer Management	217,152	356,150	61.0%
Public Safety	3,494,257	5,981,995	58.4%
Parks	457,916	704,405	65.0%
Non-Dept & Transfers	26,514	750,000	3.5%
TOTAL	7,041,592.72	12,421,200.00	56.7%

General Fund expenditures through the 3rd Quarter of 2023 are lower than budget totals. We would expect revenues to be no more than 75% of the annual amount at this time of the year. The table and chart above show the amount used as of 9/30/23. Some departments have been consolidated for ease of reporting, which is a small change from the monthly snapshot format. Overall, we are only at 56.7% of General Fund expenditures, staff has worked hard to control outflows where they can. Currently, only the City Council department is above expected, and this is due to the number of city memberships that are expended from that department and occur on an annual basis. Some of these were above expected, and remaining expenditures include mostly councilmember salaries and benefits for the last quarter.

Many of the other departments should continue to stay below expected, due to cost-saving efforts by staff and budgeted positions that have remained unfilled and some even removed for the 2024 budget. Had we presented the 2nd quarter, we would have seen above expected in a few departments due to previous staff payouts, but these have since leveled off because of measures taken to reduce staffing.

One thing to note is that Public Safety is only at 58.4%. This appears artificially low because the fire and police contracts are not paid monthly throughout the year. The police contract is caught up to date, however, the fire contract is paid twice per year, with the 2nd payment typically occurring in December.

The Chart below shows actual General Fund expenditures as of the 3rd quarter for this year and the two previous years. We can see a few departments that are lower in 2023 than in previous years, specifically the City Manager, City Clerk, and Building & Planning. This reflects the efforts made to reduce costs where possible, along with the reduction in expenditures related directly to delayed development. Public Safety has seen a significant increase over previous years due to inflation in costs for contracted services.



ALL OTHER FUNDS - REVENUE VS. EXPENDITURE COMPARISONS

The table below shows the remaining funds and their actual revenues and expenditures compared to the budgeted amounts. The last column shows the change in the Fund balance. If revenues exceed expenditures, the fund balance increases (positive amount), if revenues are less than expenditures, the fund balance decreases (negative amount). It is common for fund balances to ebb and flow over time, especially within capital funds, due to the varied timing of revenues and project schedules. One thing that cannot happen is ending fund balances that are negative. A negative change in fund balance is acceptable and happens often in capital funds for the reasons noted above, but in no way can the fund balance itself become negative.

2023 Fund Budget to Actual and Change in Fund Balance							
Fund	Revenue ACTUAL	Revenue BUDGET	% Received	Expenditure ACTUAL	Expenditure BUDGET	% Expended	Change in Fund Balance
Street Fund	401,085	802,350	50.0%	599,089	832,215	72.0%	(198,004)
Cumulative Reserve Fund	574	40,000	1.4%	239,734	686,234	34.9%	(239,160)
Debt Service Fund	417,665	469,655	88.9%	167,665	465,655	36.0%	250,000
Transportation Capital Fund	445,045	2,295,640	19.4%	1,355,107	1,981,820	68.4%	(910,062)
Parks Capital Fund	378,057	2,199,200	17.2%	257,091	2,168,700	11.9%	120,966
REET Fund	1,048,914	2,032,000	51.6%	-	1,634,740	0.0%	1,048,914
SWM Fund	1,417,755	2,498,305	56.7%	1,163,030	2,150,455	54.1%	254,726
ERF Fund	247,029	290,300	85.1%	53,309	437,075	12.2%	193,720
Facilities Fund	595,384	1,253,145	47.5%	630,562	1,225,530	51.5%	(35,178)
TOTALS	4,951,510	11,880,595	41.7%	4,465,588	11,582,424	38.6%	485,921

CONCLUSION

In summary, the financial analysis through the 3rd quarter of 2023 continues to show what we've been seeing over the last few months. The year started off a little high but has leveled off and staff has reduced expenditures wherever possible to keep pace with reduced revenues coming in. We will see a large inflow of Property Tax payments over the next month, as well as some higher expenditures occurring with the end of the year, such as the fire contract payment. We continue to take a conservative approach while budgeting for 2024, due to the unknown schedule and effects of development projects delayed due to market conditions.

The cash balance as of 9/30/2023 is \$20,776,167.75 and includes \$640,832.37 in the operating account for cash flow purposes and \$20,135,335.38 in the LGIP investment account. We withdrew \$1,000,000 during the third quarter to help with cash flow as large project invoices came due for payment and will transfer back as much as possible once the second-half Property Taxes are received.