

# Memo

**To:** Newcastle City Council  
**From:** Lindsay Chambers, Finance Director  
**Date:** March 19, 2024  
**Re:** 4<sup>th</sup> 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 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 council and the public.

This report is intended to give an overview of the City of Newcastle’s financial status as of December 31, 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.

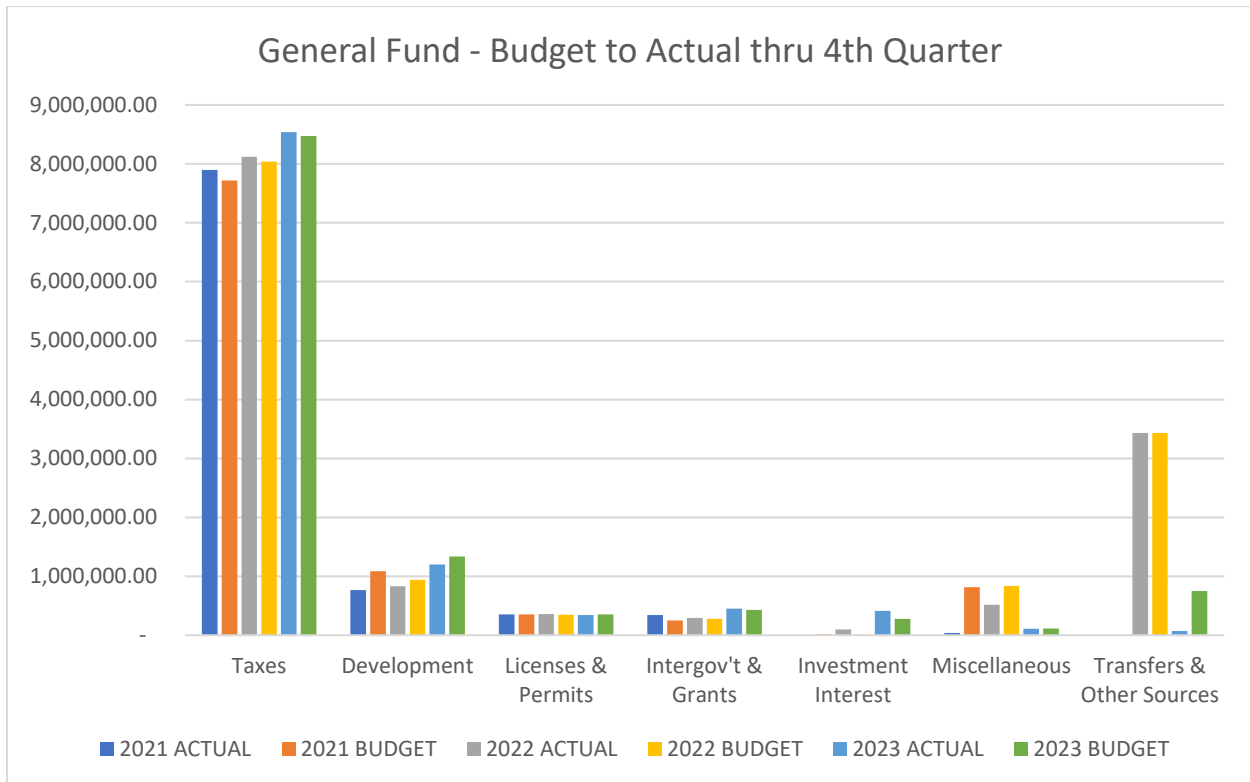
## GENERAL FUND REVENUES

REVENUE	2023 ACTUAL	2023 BUDGET	% Received
Taxes	8,535,889.69	8,473,095.00	100.7%
Development	1,201,732.46	1,337,000.00	89.9%
Licenses & Permits	344,319.31	354,770.00	97.1%
Intergov't & Grants	450,702.05	432,000.00	104.3%
Investment Interest	415,060.30	280,000.00	148.2%
Miscellaneous	109,349.17	115,800.00	94.4%
Transfers & Other Sources	71,304.63	751,234.00	9.5%
<b>TOTAL</b>	<b>11,128,357.61</b>	<b>11,743,899.00</b>	<b>94.8%</b>

General Fund revenues through the 4<sup>th</sup> Quarter of 2023 finished slightly lower than budget totals. We would expect revenues to be at or above 100% of the annual amount by the end of the year. The table above shows the percentage received as of 12/31/23. Three out of the seven main categories are above 100%. If we remove the 750k in pass-thru revenue (Other Sources), we finished the year at 100.6%.

Further information about each category is provided below.

The chart below shows the actuals for the different revenue categories compared to 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 1<sup>st</sup> and 3<sup>rd</sup> quarters. This is because the majority of Property Tax is received in April and October. Tax revenue as of 12/31/23 was 100.7%, the bulk of the second half property taxes (\$2.2 million) was received in October. All Sales Tax lines were strong the second half of the year, with Sales and Use Tax averaging \$182k per month in the 4<sup>th</sup> quarter.

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 made up some ground after being 225K below expected in the 3<sup>rd</sup> quarter. The 4<sup>th</sup> quarter saw an increase of almost 70% (70k) over the 3<sup>rd</sup> quarter revenue. Total revenue as of 12/31/23 was 89.9% of budget, largely due to construction and development slowdown as a result of rising interest rates.

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 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 monthly and remain consistent through the year.

Licenses & Permits finished at 97.1% as of 12/31/2023. Franchise fees and cell tower rental revenues were all received on time, along with business licensing and alarm fees staying close to expected. Monitored Device fees and Franchise fees fell short of expected based on lower sales.

#### 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 finished at 104.3%. 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 continued to trend above expected throughout the 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.

Investment Interest finished at 148.2% as of 12/31/2023. This was approx. 135k over expected, averaging almost 35k per month in the General Fund. 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 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 sale of surplus property (non-capital assets). It also includes any revenue from penalties or fines.

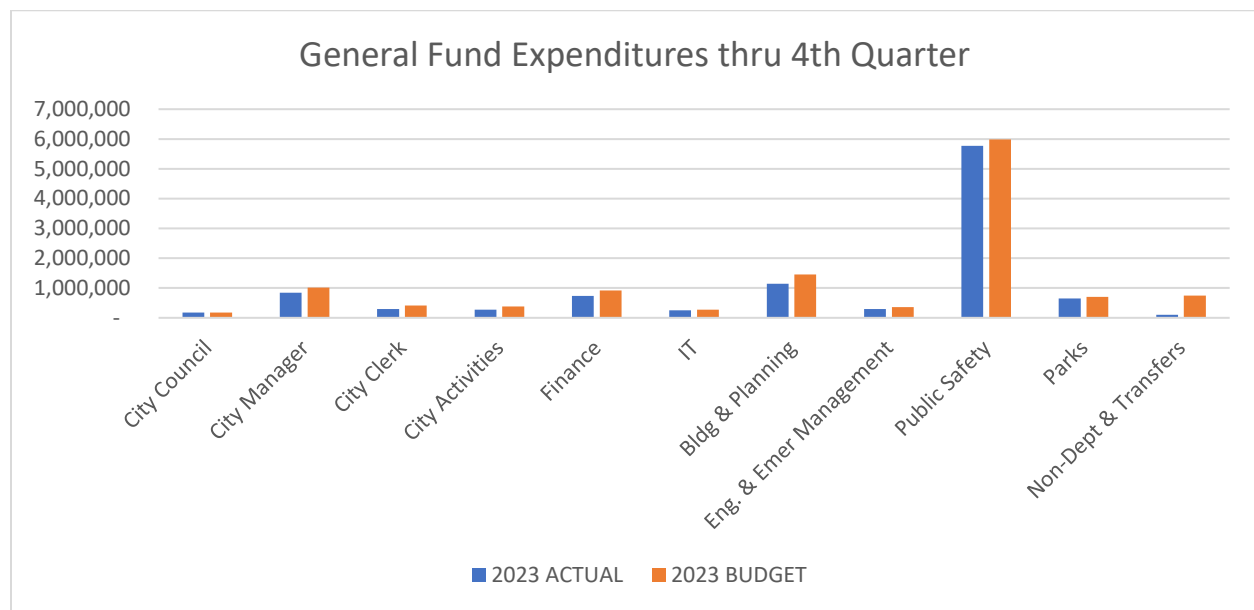
Miscellaneous Revenue finished at 94.4% as of 12/31/2023. The 4<sup>th</sup> quarter was the lowest of the year, seeing only 12.5k received. The bulk of this was the rec fees from summer youth programs and false alarm fees.

#### 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 finished at 9.5% as of 12/31/2023, there was no change as of the 3<sup>rd</sup> quarter. The reason for this is the same as development revenue, many expected projects have been delayed or placed on hold. Other Financing Sources includes pass-thru revenue that covers development consultant fees. 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.

## GENERAL FUND EXPENDITURES



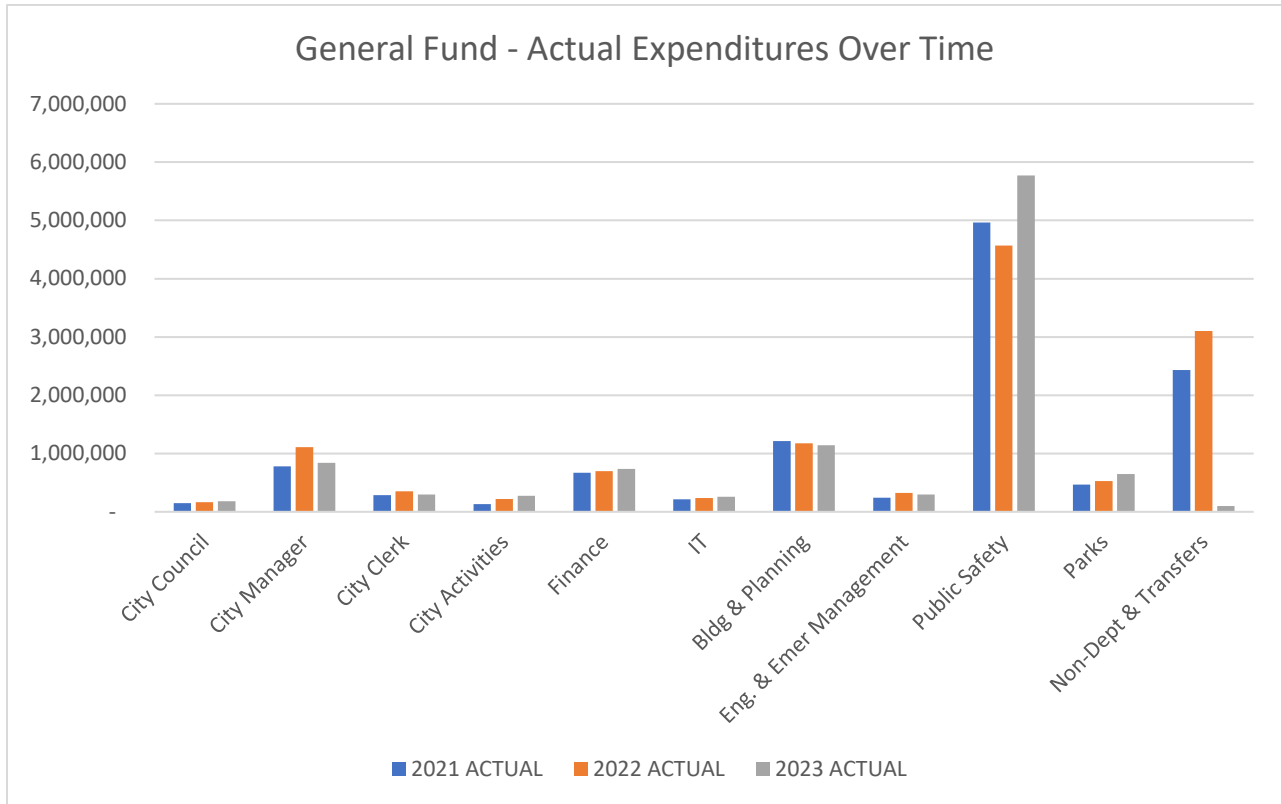
EXPENDITURES	2023 ACTUAL	2023 BUDGET	% Used
City Council	182,328	177,450	102.7%
City Manager	838,924	1,013,625	82.8%
City Clerk	295,013	415,560	71.0%
City Activities	272,394	376,090	72.4%
Finance	735,725	915,870	80.3%
IT	256,233	274,750	93.3%
Bldg & Planning	1,143,822	1,455,305	78.6%
Eng. & Emer Management	296,292	356,150	83.2%
Public Safety	5,771,000	5,981,995	96.5%
Parks	648,224	704,405	92.0%
Non-Dept & Transfers	96,782	750,000	12.9%
<b>TOTAL</b>	<b>10,536,736.72</b>	<b>12,421,200.00</b>	<b>84.8%</b>

General Fund expenditures finished the year lower than budget totals, averaging 84.8% of budget. If we remove the pass-thru costs for development consultant fees (Non-Dept & Transfers) we finished at 89.5%. We would expect revenues to be less than 100% at the end of the year. The table and chart above show the amount used as of 12/31/23. Some departments have been consolidated for ease of reporting, which is a small change from the monthly snapshot format. Staff has worked hard to control outflows where they can, only the City Council department ended above expected. This was due to the number of city memberships that are expended from that department and some being above expected.

Our other departments stayed below expected due to cost-saving efforts by staff and budgeted positions that have remained unfilled and some even removed for the 2024 budget. One thing to note is that Public Safety is only at 96.5%. This is due to missing the December 2023 payment, which will be included in the first 2024 budget amendment. There are also some costs for 2023 that did not get paid during the open period in January and will be carried forward into 2024's budget. This includes SAO fees for the

FY2022 audit, 4<sup>th</sup> Quarter IT services, Implementation Fees for Springbrook Express and Puget Sound Clear Air costs.

The Chart below shows actual General Fund expenditures as of the 4<sup>th</sup> quarter for this year and the two previous years. We can see a few departments that are lower in 2023 than previous years, specifically 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 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	852,657	802,350	106.3%	904,494	832,215	108.7%	(51,837)
Cumulative Reserve	812	40,000	2.0%	394,459	686,234	57.5%	(393,647)
Debt Service	463,357	469,655	98.7%	469,057	469,655	99.9%	(5,700)
Transportation Capital	1,344,005	1,942,340	69.2%	1,661,053	2,208,249	75.2%	(317,048)
Parks Capital	550,167	2,199,200	25.0%	1,134,319	2,168,700	52.3%	(584,153)
REET	1,407,893	2,032,000	69.3%	997,976	1,434,740	69.6%	409,917
SWM	2,450,009	2,498,305	98.1%	1,603,597	1,997,155	80.3%	846,412
ERF	354,380	290,300	122.1%	135,563	437,075	31.0%	218,817
Facilities	853,865	1,253,145	68.1%	815,505	1,225,530	66.5%	38,360
<b>TOTALS</b>	<b>8,277,145</b>	<b>11,527,295</b>	<b>71.8%</b>	<b>8,116,023</b>	<b>11,459,553</b>	<b>70.8%</b>	<b>161,121</b>

## CONCLUSION

In summary, the financial analysis through the 4<sup>th</sup> quarter of 2023 continues to show what we've been seeing over the last few months. The year started off strong, but leveled off by the 2<sup>nd</sup> quarter and staff reduced expenditures wherever possible to keep pace with reduced revenues coming in. The overall fund balance change was positive, with over a \$1 million swing in the General Fund. We budgeted a decrease in fund balance of 677k, but ended with an increase of 618k. If we hadn't missed any payments for 2023, we still would have seen a fund balance increase around 300k.

We took a conservative approach for the 2024 budget, due to the unknown schedule and effects of development projects delayed due to market conditions. Staff continue to look for ways to reduce costs without reducing service levels.

The cash balance as of 12/31/2023 is \$21,474,015.20 and includes \$991,440.19 in the operating account for cash flow purposes, and \$20,482,575.01 in the LGIP investment account.

For more information and metrics on how the City is performing, visit our most recent dashboard.

<https://cleargov.com/washington/king/city/newcastle/dashboards/1832/city-wide-dashboard>