

## Summary of 2011 Financial Report and 2012 First Quarter Report

*As presented to Town Council on April 23, 2012 – REVISED May 2, 2012*

### Part 1 – Year End 2011

<u>Department</u>	<u>Budgeted Deficit</u>	<u>Actual Performance</u>	<u>Year End Status</u>
Stores/Warehouse	No	Spent more than what was budgeted but also had more revenues to cover the expenses	Good
The central purchasing, warehousing, and service center operations of the Borough This is an Internal Service Fund (a business fund supported by the other funds of the Borough)			
Electric	Yes, use cash reserves	Even though it was budgeted, expenditures exceeded revenues; the overage was reduced	Concern
This important utility operation is anticipated to run deficits through 2012 This is an Enterprise Fund (a business fund supported by ratepayers and the sale of electricity)			
Gas	No	Revenues exceeded expenditures	Good
This important utility operation is anticipated to run surpluses through 2012 This is an Enterprise Fund (a business fund supported by ratepayers and the sale of natural gas)			
Water	Yes, use cash reserves	Expenditures exceeded revenues by \$838,000	Problem, not a sustainable plan
This important utility operation is anticipated to run deficits through 2012 This is an Enterprise Fund (a business fund supported by ratepayers and the sale of water)			
Sewer	No	Revenues exceeded expenditures	Good
This important utility operation is anticipated to run surpluses through 2012 This is an Enterprise Fund (a business fund supported by ratepayers and the processing of sanitary sewage)			
Sanitation	Yes, use cash reserves	Even though it was budgeted, expenditures exceeded revenues; the overage was reduced	Concern
This important utility operation is anticipated to run deficits through 2012 This is an Enterprise Fund (a business fund supported by ratepayers and the collection of trash)			
Motor Equipment	No	Revenues exceeded expenditures, excess money is kept on account for future vehicle purchases	Good
The motor pool operations of the Borough This is an Internal Service Fund (a business fund supported by the other funds of the Borough)			
Engineering	No	Revenues exceeded expenditures	Good
The centralized engineering, survey and mapping operations of the Borough This is an Internal Service Fund (a business fund supported by the other funds of the Borough)			
Parking	Yes, use cash reserves	Even though it was budgeted, expenditures exceeded revenues; the overage was reduced	Concern
This utility operation is supported by funds from the Electric Department for street lights and traffic signals This is an Enterprise Fund (a business fund supported by parking meters and transfers from the Electric Fund)			
Administrative Services	No	Revenues and expenditures balanced	Good
The centralized financial, accounting and customer service operations of the Borough This is an Internal Service Fund (a business fund supported by the other funds of the Borough)			
General Fund	Yes, use cash reserves	Even though it was budgeted, expenditures exceeded revenues; the overage was reduced but not enough	Problem
This main fund of the Borough, home of police, emergency services, recreation, highway, land use, and others This is a Governmental Fund (supported by tax revenue and fees) and not in balance for 2012			

*Please note that there are other funds of the Borough and this is just a summary of some major accounts*

## Part 2 – Forecast for Enterprise Funds in 2012

Enterprise Funds are the Borough's utilities:

**Electric Department** – As we have all been noticing, the cash balance of the Electric Operating Fund has been diminishing steadily over the course of 2012. This shortcoming of our revenues to be able to fully cover our expenses was anticipated and made known in 2010 when rates were decreased in an effort to soften the impact of the Power Supply Contract we are under with DTEET through an already trying economic time. It is expected that the balance of the Electric Operating Fund will continue to decline until the end of the contract with DTEET on December 31, 2012. After that time the fund will begin to recover under the substantially lower Power Supply contracts that the Borough has been able to secure for its Electric customers for 2013 and beyond.

**Gas Department** – Due to the abnormally warm winter, Gas Department sales were approximately \$900K lower than expected in the 1st Quarter. Approximately \$300K of this total is due to the Borough power plants continuing to barely run. Despite these negatives, higher sales to several large customers, as well as the addition of new customers converting to gas from heating oil, have tempered the impact to the Gas Department. The Gas Department cash balance ended the 1st Quarter almost \$100K higher than at the same time last year. The Gas Department is currently in very strong financial condition, and is expected to strengthen further as the year progresses and weather returns to normal.

**Water Department** – Water revenues are tracking according to budget. Throughout 2011 and into 2012, water production has decreased from levels of 3-5 years ago. A significant portion of this decrease is due to the reduction of unaccounted for water. 2011 unaccounted for water was 200,000 gallons per day less than 2010 levels. Operational improvements as well as a decreased production have reduced projected expenses by approximately \$125K for the first quarter.

**Sewer Department** – Sewer is performing as expected for 2012. Revenues are tracking according to budget. Expenditures are less than projection as expected for this time of the year. Typically, maintenance expenditures increase during the warmer months. Cash balance continues to be a positive story. The balance has risen from negative levels in late 2010 to \$1.4 million currently. As noted in the 2012 Budget, an 18% rate increase is projected for August 2012 to coincide specifically to the Borough's cost to undertake our share of the J. Hase Mowrey Regional Wastewater Treatment Facility.

**Sanitation Department** – The Sanitation Department typically runs in a 5-6 year cycle; for a few years it runs at a deficit. The 7<sup>th</sup> year usually results in a rate increase, which fixes the problem sufficiently to allow another 3-4 years of deficits. This is the 7<sup>th</sup> year of the deficit, so we will likely ask for a rate increase in 2013.

**Parking Department** – As was planned, the Borough's Parking, Traffic and Street Lighting fund is supported with proceeds of the Electric Department who supply street lights, traffic signals, and other traffic control devices. If not but for the continued financial support of the Electric Department, the proceeds of the Parking Fund (permits and parking meters) would be insufficient to cover the expenses. Therefore, in 2012, it is anticipated that the fund will be balanced.

*Please note that the Enterprise Funds make up the majority of annual Borough spending*

Part 3 – General Fund Analysis

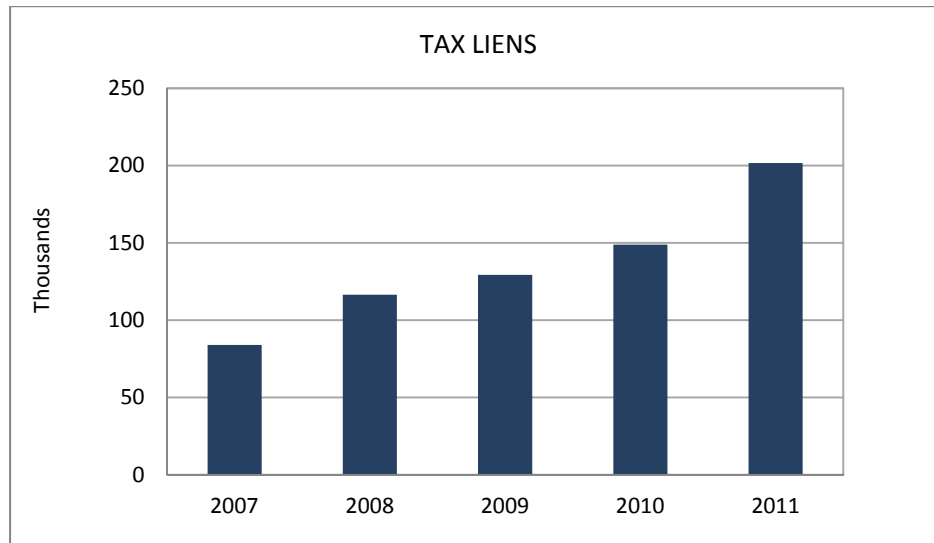
GENERAL FUND MAJOR SOURCES OF REVENUES AND MAJOR EXPENDITURES (USES) AS PER 2011 GF BUDGET		<i>This table was changed in the May 2, 2012 edition of this document.</i>	
Major revenue sources (MRS):	83%	Major expenditures uses (MEU):	84%
Real estate taxes	40%	Police department	36%
Earned income taxes	17%	Emergency services **	28%
Local service taxes	9%	Recreation department	12%
Ambulance revenue	9%	Highway department	8%
Recreation department	4%		
Deed transfer tax	3%		
Police fines/revenues	1%		
** Formerly categorized as Fire, Ambulance and Fire Code.			
<ul style="list-style-type: none"> <li>• Real estate taxes, earned income taxes, local services taxes, and deed transfer taxes account for 69% of the revenue in the General Fund (real estate taxes account for 40% alone)</li> <li>• Emergency Services and the Police account for 64% of all the expenses in the General Fund</li> <li>• <u>Police and fire spending combined is larger than all revenue from real estate taxes; which is the only tax that Council can adjust from year-to-year</u></li> </ul>			

In 2011, the General Fund had a slightly higher cash balance at year’s end that was budgeted. However, if not for higher Ambulance & Recreation Receipts as well as big interfund transfers and tight controls on spending (expenditures) the General Fund would not have made it through 2011 performing as well as it did. In 2011, the General Fund tax revenues are particularly troubling.

Major Rev Sources:	2011 Actual	2011 Budget	Positive Variance	
Real Estate Tx	3,731,681	3,785,000	(53,319)	Real estate tax revenue was \$53,319 less than budgeted.
Earned Inc Tx	1,578,210	1,650,000	(71,790)	Earned income tax revenue was \$71,790 less than budgeted.
Local Service Tax	691,809	860,000	(168,191)	Local Services tax revenue was \$168,191 less than budgeted.
Ambulance Service	979,753	870,000	109,753	
Deed Transfer Tax	251,816	240,000	11,816	
Recreation Recpts	412,401	385,000	27,401	
Police fines/rev	130,338	141,000	(10,662)	
<b>Total Major Rev</b>	<b>7,776,008</b>	<b>7,931,000</b>	<b>(154,992)</b>	Major revenues, in total, were \$154,992 less than budgeted. However, due to transfers, which are not sustainable, the total revenue was a slight \$41,851 over budget.
All Other Revenues	1,760,193	1,563,350	196,843	
<b>TOTAL REVENUE</b>	<b>9,536,201</b>	<b>9,494,350</b>	<b>41,851</b>	
% Major Rev Srces	81.54%	83.53%		

Also, the amount of delinquent real estate taxes turned over to the “tax claims” increased by 140%, which includes an increase of 38% in just one year; in 2011, approximately \$53k was turned over to “tax claims” an amount approximately equal to the real estate tax under collection in 2011.

Tax delinquencies are up, in large part because folks cannot pay more taxes.



Part 4 – A peek at the year to come? How has the first quarter of 2012 gone?

- So far, in the first part of 2012, GF revenues have increased by \$119K (6.4%) while GF expenditures have further decreased by \$217K (8.5%). These two developments have resulted in an improvement of \$337K as compared to the abysmal results for the same period in 2011.
- Our cash balance, is still too low (\$498K), but it is considerably larger (almost 3x) than it was after the first quarter of 2011 (\$170K).
- Expenditures are \$217K less than same period 2011 and three categories of taxes are higher by \$130K above the record lows.
- As far as the comparison between the first quarter of 2012 and that of 2011, we seem to have “bottomed out” in 2011.
- This potential “bright spot” needs to be tempered with some cold hard facts:
- This comparison is made with a small period (1<sup>st</sup> quarter 2011) that was part of the worst period of time for the GF in recent history.
- The GF cash balance for this one quarter (2012) actually dropped by almost \$200K or 28%.
- At this rate, we will still run out of GF cash by the end of this year (therefore using other funds’ cash to finish the year).
- Over this period of time, the amount of delinquent real estate taxes turned over to the “tax claims” increased by 140%, which includes an increase of 38% in just one year.
- So although it is some good financial news, consider the context of from where we have come.

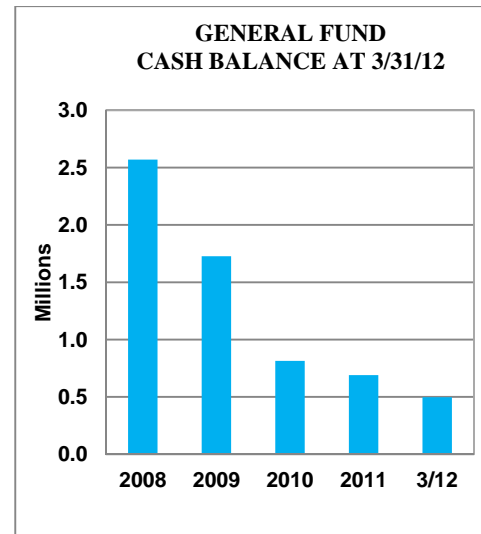
- I am really interested in what happens during the next two quarters of this year to see if an actual “turn around” has started.

	1st Quarter 2012	1st Quarter 2011	Positive Variance
Beginning Bal	690,252	813,878	
+ Receipts	1,974,675	1,855,366	119,309
+ Trans In	372,286	355,050	
Cash Avail	3,037,213	3,024,293	
- Expenditures	2,338,149	2,555,692	217,543
- Trans Out	201,105	298,000	
Ending Bal	497,959	170,601	336,852

Despite a good first quarter 2012, the GF cash balance is still significantly down from a January 1, 2011, amount of \$813,878 to a small \$497,959 on March 31, 2012. This after a excellent first quarter of 2012 reveals how much cash balance was needed despite the large unsustainable transfers of 2011.

- In total, the major revenue sources underperformed by \$155K for 2011 as compared to the budget – not good news.
- Utility transfers into the general fund have increased from \$1.22M in 2008 to \$1.42M in 2012 (budget) – not sustainable.
- Non-Utility transfers, other than Liquid Fuels, into the general fund have gone from \$75K in 2008 to \$230K in 2011 – not sustainable.
- In fiscal 2011, the general fund performed in a manner very consistent with the budget. Even though the major categories underperformed, the fund had a “positive” variance of \$57K.
- With a “glimmer” of life and a slight improvement compared to 2011, there is a possibility that the local economy bottomed out in 2011.
- While keeping expenditures under control, I feel that Council should continue to monitor tax revenues, especially those related to economic activity. Where we are after the second quarter should tell us a lot about 2012.

- GF cash balance has decreased from \$2.57M in 2008 to \$.69M in 2011 (73%)
- GF cash balance has decreased by \$123K (15%) in one year
- GF cash balance has decreased by \$192K (28%) in one quarter



#### Conclusion

- The general fund (GF) is still in jeopardy
- Revenue side of the general fund (GF) is still very weak
- However, 2011 may have been the bottom, as 1st Quarter of 2012 looks better
- Tax delinquencies are up, in large part because folks cannot pay more taxes
- Transfers cannot continue as they did in 2011
- Unless more positive changes occur, the GF will run out of cash by the end of 2012 (thereby running on other funds' cash balances)
- The July 2012 report to Council will be important