



Summary of December 2008 Financial Results;  
2009 Cash Flow Management  
Analysis, Options and Recommendations

***Briefing for City Council Workshop***

January 28, 2009

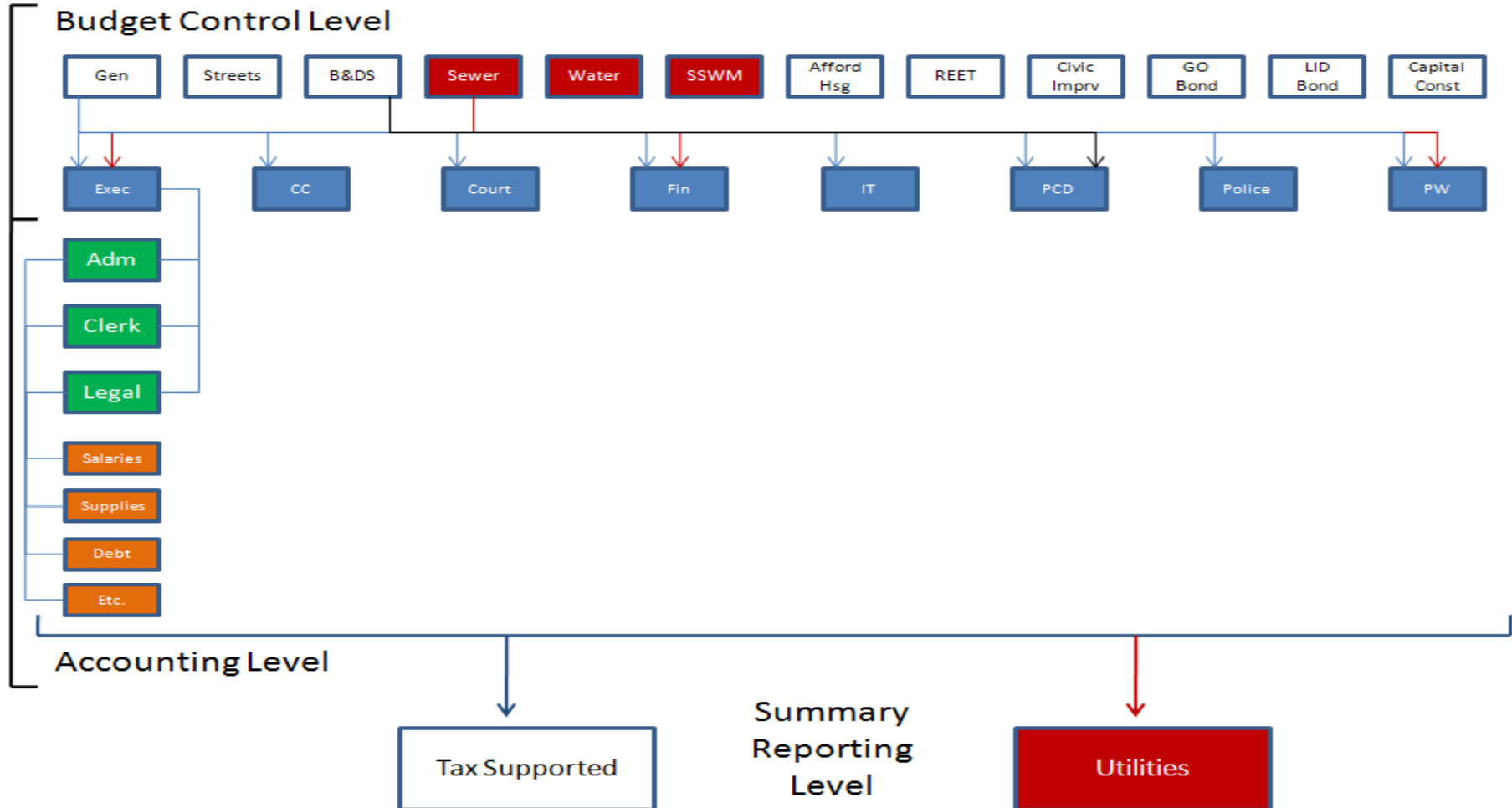
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# 2009 Cash Flow Management

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## Cash Management: Relationship to Budget and Funds



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## *Cash Management: Situation Update – Utilities*

- Cash balances at year-end of \$4.9M, sustaining the utilities until the anticipated revenue bond for the WWTP in March 2009
- Revenues of \$7.9M, or 94.3% of the \$8.4M budget; utility connections continue to reflect decreased development in the service area
- Operating expenditures tracked at 96.2% of revised budget, \$5.3M vs. \$5.6M
- Capital expenditures and debt service of \$8.4M against a budget of \$12.6M with encumbrances of \$5.6M
  - Year-end purchase order adjustment to encumbrance needed

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## *Cash Management: Situation Update – Tax Supported*

- The City's already low cash levels have deteriorated and current revenues have seen a dramatic decrease in the last few months
  - November 2008 year-end cash estimates used for reserves of \$2.4M vs. actual of \$1.2M (reconciled on next slide)
  - General Fund revenues at 93.7% of budget, or \$15.7M vs. \$16.9M; Property Tax down by \$0.11M and Sales Tax down by \$0.55M
  - 2008 revenues for real estate excise tax \$1.1M on a budget of \$2.5M; building and development services fees \$1.2M vs. \$2.1M budget; and property taxes of \$6.1M against a budget of \$6.3M
  - No reasons for optimism in 2009 – revenue estimates for 2009 revised downward significantly based upon 4thQTR 2008 results
- Overall operational spending at 92% of revised budget, savings of \$1.6M
- Without corrective actions the COBI tax supported funds will incur unacceptably low cash balances and a negative cash balance by end of 2009

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## *Cash Management: Reconciliation of Estimated Reserves to Actual*

|  |          |        |
|--|----------|--------|
| Beginning General Tax Supported Reserves - Budgeted    |          | \$2.38 |
| 4thQTR decline in REET                                 | (\$0.25) |        |
| 4thQTR decline in B&DS                                 | (\$0.20) |        |
| 4thQTR decline in Property tax                         | (\$0.11) |        |
| Overestimate of utility tax collections                | (\$0.18) |        |
| General Fund collections offset by<br>reduced spending | (\$0.21) |        |
| Overestimate of gas tax and parking revenues           | (\$0.18) |        |
|  | <hr/>    |        |
|  | (\$1.12) |        |
| Beginning General Tax Supported Reserves - Actual      |          | \$1.25 |

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## *Cash Management: Cash Flow Analysis*

- A cash flow analysis is the measurement of cash receipts (inflows) and cash disbursements (outflows) for a specific period of time – in this case monthly
- Purpose is to ensure liquidity, avoid insolvency and schedule work effort
- Cash flows closely align with budget but are impacted by grant receipts, encumbrances and carryovers – our budget is annual while the cash flows are monthly
- Cash flows spread out the inflows and outflows based upon weighted historic trends, linear trends, known requirements and estimates
- Results used to measure month-end cash balances and the monthly difference between inflows and outflows
- Must be updated with actual results each month and the forecast/plan revised if needed to maintain adequate cash balances

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## *Cash Management: Cash Flow Management Effort*

- COBI cash flow analysis includes all inflows, outflows and cash balances associated with tax supported funds except for Housing Trust Fund and Civic Improvement Fund, which are special revenue funds
- The analysis does not include inflows, outflows or cash balances associated with the Sewer, Water or Storm Water Funds, which are proprietary funds
- The analysis includes both capital and operating cash flows
- Two scenarios developed, “As Budgeted” and “Reduction Plan”
  - “As Budgeted” assumes spending occurs at levels anticipated when the 2009 budget was adopted
  - “Reduction Plan” assumes lower spending levels, described later in this presentation
- Actual 2009 beginning cash balances of \$1.2M used in both scenarios

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## *Cash Management: Cash Flow Management Effort*

- Inflow forecasts are identical under both scenarios and represent reductions of \$1.8M from budgeted forecasts
  - Property tax reduced from \$6.4M to \$6.3M
  - Sales and Use tax reduced from \$3.4M to \$3.3M
  - B&O tax reduced from \$0.41M to \$0.40M
  - Commercial Parking Lot tax reduced from \$0.56M to \$0.49M
  - Motor Vehicle Fuel tax reduced from \$0.58M to \$0.48M
  - Real Estate Excise tax reduced from \$1.3M to \$0.85M
  - Building & Development Services fees reduced from \$1.17M to \$0.53M

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## *Cash Management: Reduction Plan of \$2.3M Operating Expenditures*

- Public Works – total reduction of \$766,650
  - \$352,031 reduction in labor
  - \$199,181 reduction in capital projects, including delay in Senior Center and Open Space improvements and deferral of Police/Court building to future year
  - \$74,450 reduction in repair & maintenance, keeping Waterfront Park maintenance in-house and sharply reducing facilities maintenance
  - Additional reductions in non-essential training, advertising (use web and email for all public outreach except legal notices) & supplies
- Planning and Community Development – total reduction of \$417,791
  - \$280,109 reduction in labor
  - \$101,152 reduction in professional services, including deferral of land trust analysis, reduction in public outreach for shoreline update, and elimination of code enforcement mediation and on-call inspections

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## *Cash Management: Reduction Plan of \$2.3M Operating Expenditures*

- Planning and Community Development (cont'd)
  - Additional reductions in non-essential training, advertising & supplies
- Executive – total reduction of \$250,868
  - \$170,225 reduction in professional and community services
  - Additional reductions in non-essential training, advertising & supplies
- Finance & Administrative Services – total reduction of \$100,373
  - \$88,917 reduction in labor
  - Additional reductions including professional services, non-essential training and advertising, and supplies
- General Government – total reduction of \$335,833
  - \$100,000 reduction in electrical costs through rigorous facilities management
  - \$235,000 refinance the 1998 callable bond

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# 2009 Cash Flow Management

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## *Cash Management: Reduction Plan of \$2.3M Operating Expenditures*

- Information Technology – total reduction of \$126,849
  - \$52,264 reduction in labor
  - \$45,000 reduction in funding for analysis and implementation of new MUNIS and permitting software systems
  - Additional reductions in supplies, including hardware replacement and professional services for GIS and web support
- Police – total reduction of \$111,273
  - \$76,772 reduction in labor
  - \$11,440 in voluntary reduction in holiday overtime
  - Additional reductions in professional services and elimination of redundant emergency communications systems
- Court -- total reduction of \$2,450
- City Council – assumes spending hold on \$200,000 contingency

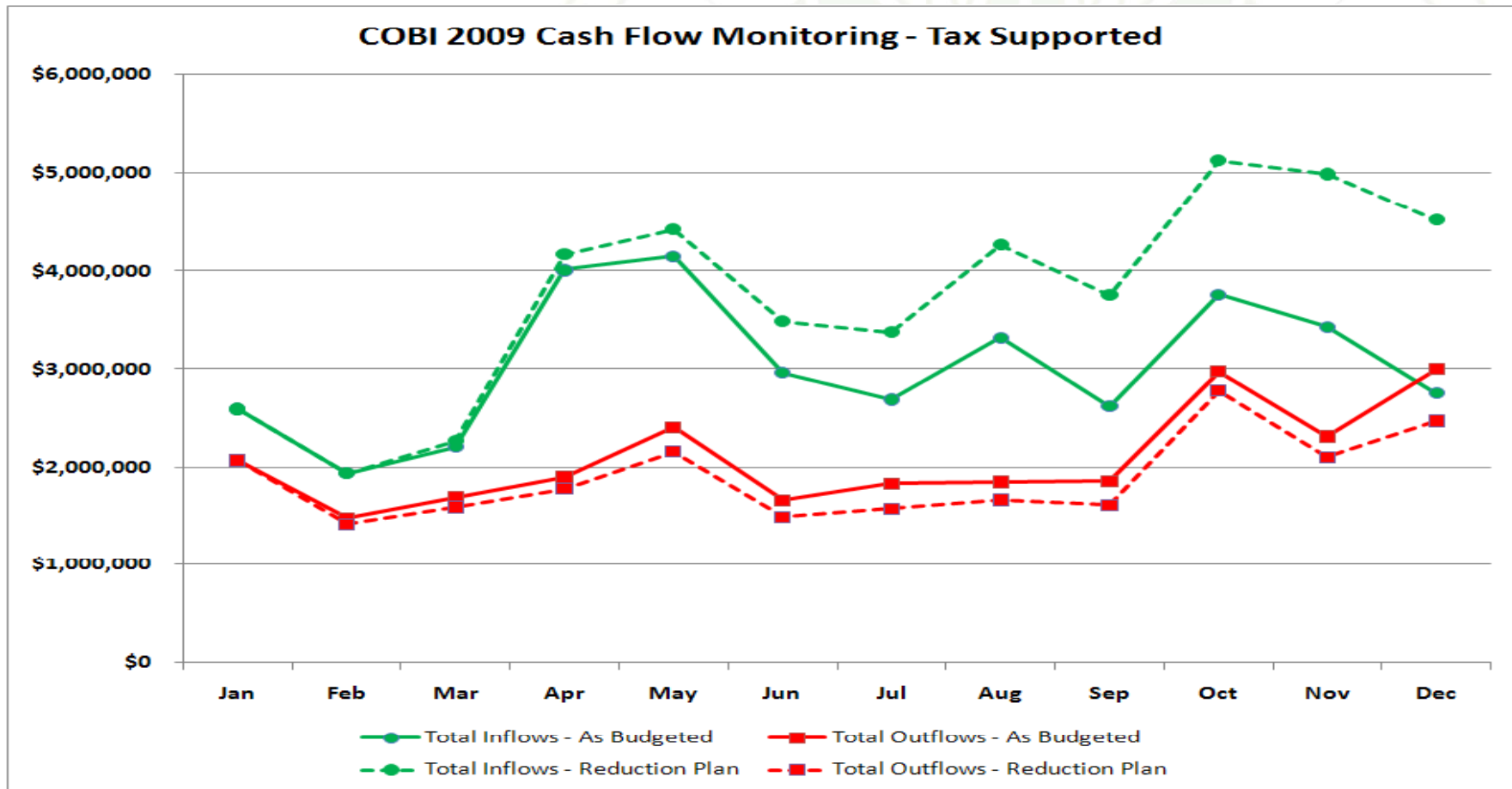
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# 2009 Cash Flow Management

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### Cash Management: Monthly Flows Under Both Scenarios



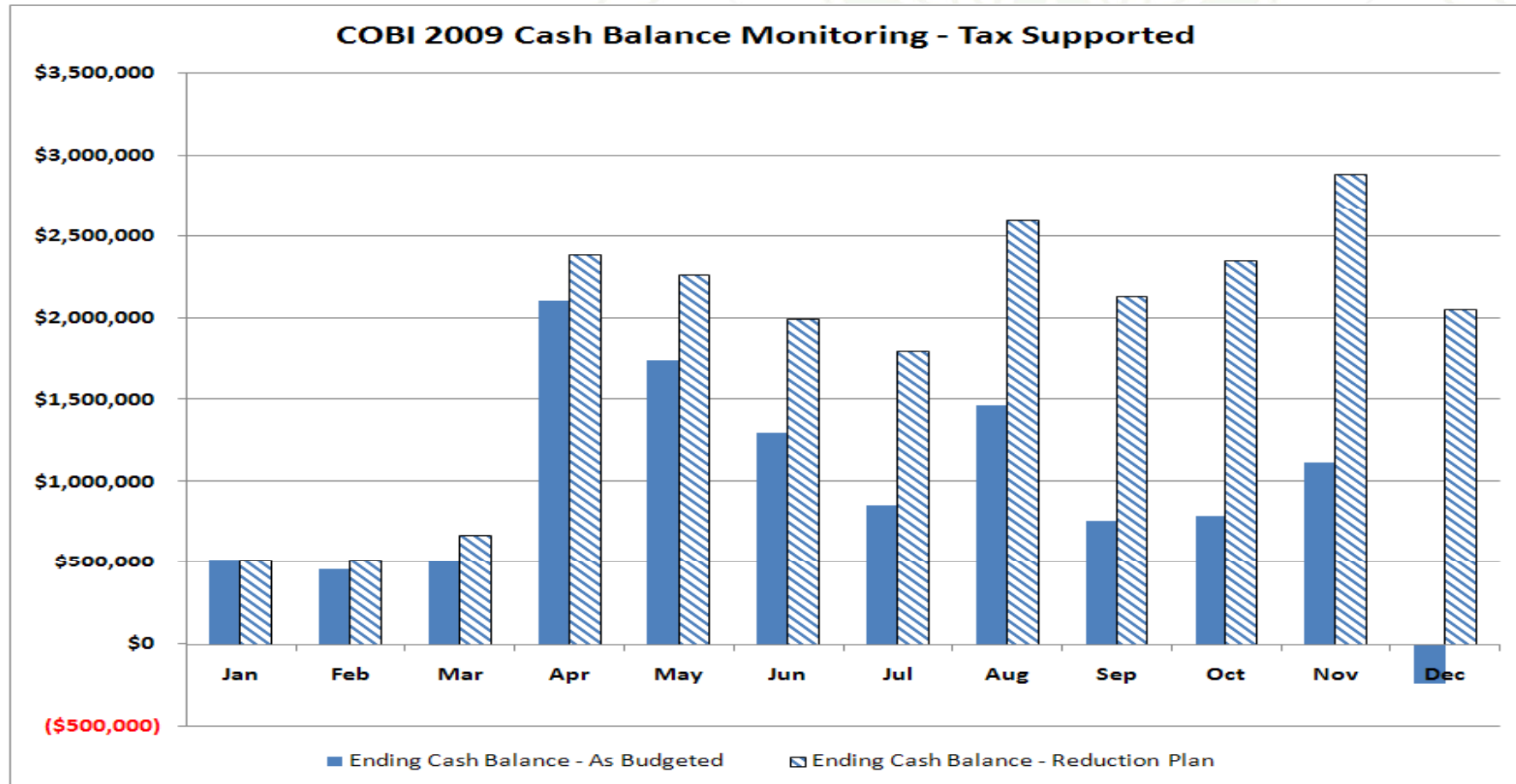
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# 2009 Cash Flow Management

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### Cash Management: Monthly Cash Balance Under Both Scenarios



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## *Cash Management: Results of Cash Flow Analysis*

- “As Budgeted”
  - 2009 beginning cash balance of \$1.2M
  - 2009 revenue forecast reduced by \$1.8M
  - Extremely low cash balances projected with a negative 2009 year-end cash balance of (\$0.3M)
  - Unacceptable and not sustainable
- “Reduction Plan”
  - 2009 beginning cash balance of \$1.2M
  - 2009 revenue forecast reduced by \$1.8M
  - Operational spending reduced by \$2.3M
  - Maintains a higher positive cash balance throughout 2009 but 1stQTR levels still precarious low – 2009 year-end cash balance projected of \$2.0M
  - Additional reductions likely needed (Round 2) to achieve sustainable cash balances

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## *Cash Management: Comparison of Revenues and Expenditures over Time*

|                         | <u>Operating Revenues*</u> | <u>Operating Expenditures*</u> | <u>FTE</u> |
|-------------------------|----------------------------|--------------------------------|------------|
| 2008 Adopted Budget     | \$23.9                     | \$20.8                         | 152.0      |
| 2008 Revised Budget     | \$23.9                     | \$21.8                         | 152.0      |
| 2008 Actual Results     | \$20.6                     | \$18.7                         | 144.7      |
| 2009 Adopted Budget     | \$21.5                     | \$19.0                         | 140.7      |
| 2009 Proposed Revisions | \$19.8                     | \$16.6                         | 134.0      |

Excludes Utilities, Special Revenue Funds and Grants

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## *Cash Management: Risks of Cash Flow Analysis*

- Difficulty in forecasting revenues in a rapidly declining real estate and development market
- Lack of diversity in inflow sources – sales tax, property tax, real estate excise tax and building development services fees all interrelated
- Constructing and using cash flow analysis for decision making new to COBI – but will improve overtime
- “Unknown unknowns” – such as emergency repairs, storms, defensive litigation all become must pay bills and could quickly drain cash

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## *Cash Management: Options for Improving Cash Flow: Inflows*

- **Immediate and Short-term Improvements (0 – 6 months)**
  - Allow City to operate with low cash balances as projected
  - Short-term inter-fund loan from utilities to General Fund to ensure adequate cash balance until property tax receipts in April; or,
  - Tax Anticipation Note (TAN) for the same purpose
  - Accelerate revenue recovery measures to collect monies owed the City (grants, intergovernmental)
  - Create advisory group of local experts on Bainbridge economy to assist City in forecasting revenues and understanding conditions
- **Long-term Improvements (0-6 months and longer)**
  - Diversify revenues away from real estate and development
  - Adjust B&O threshold lower to state average
  - Move to full cost recovery on all fees
  - Replace utility tax on COBI with a Vehicle Licensing Fee for road maintenance
  - Clear balance sheet of assets not required for COBI operations such as land, vehicles and equipment and convert to restricted cash reserves
  - Set policies on what is a sustainable and predicable revenue stream and establish 6-year targets for reserves and working capital

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## *Cash Management: Options for Improving Cash Flow: Outflows*

- **Immediate** improvements (0 – 3 months)
  - Hiring freeze on all non-critical open positions
  - Labor reductions (layoffs) in functions directly impacted by lack of development and construction in the City
  - Shift cash spending dependent work (professional services, materials, training, and supplies) into second half of year
  - Restructure debt on callable bonds
  - Request a 10% reduction from professional service providers
  - Maintain, update and improve cash flow forecasting and report results regularly
- **Short-term** improvements (0 – 6 months)
  - Ensure management team has strong financial skills
  - Evaluate delivery of development support work in PCD and PWD (counters) to improve efficiency
  - Execute transfers or capital leases with BIMPD for all parks and trails

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## *Cash Management: Options for Improving Cash Flow: Outflows*

- **Long-term** improvements (0 – 6 months and longer)
  - Determine what COBI can provide and sustain with revised long-term revenue forecasts
  - Look for regional methods of delivering governmental services (economies of scale)
  - Create mitigation strategies for impact on required long-term projects such as the Shoreline Master Plan update, 2030 Plan, Code update
  - Amend the Comprehensive Plan as needed
  - Continue to improve efficiencies throughout the organization to reduce cost and improve customer satisfaction

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## *Cash Management: Recommendations for Improving Cash Flow*

- Immediately execute Reduction Plan steps to stem the outflow of cash
- Proceed with labor reductions impacting 6 City employees
- Execute an Inter-fund loan for \$0.6M from the Utility Funds to the General Fund to be repaid in two installments, April and October of 2009, with a rate equal to the higher of WA State or Kitsap County cash pool plus 25 basis points
- Accelerate revenue recovery measures to collect monies owed the City (grants, intergovernmental)
- Restructure debt on callable bonds
- Request a 10% reduction from professional service providers
- Create advisory group of local experts on Bainbridge economy to assist City in forecasting revenues and understanding conditions
- Maintain, update and improve cash flow forecasting and report results regularly
- Joint effort between Council and Administration to evaluate other options for reducing spending and improving cash flow (Round 2)

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