

MEMORANDUM

To: Finance Committee
From: Finance & Personnel Director Lori Helle 
Date: September 30, 2011
Re: FY2011 Third quarter Management Discussion and Analysis (MD&A)

Financial Condition:

The City ended the third quarter in a fairly stable financial condition. While the flood has had an impact on the City's financial status for the third quarter, the City's future financial status looks optimistic based on recent sales reports and the TIF Debt reallocation from the Tourism Fund instead of the General Fund. Revenues for **all governmental** funds finished 78.6% of the annual budgeted revenues. Expenditures for **all governmental** funds finished the third quarter at 63.7% of annual budgeted expenditures. Revenues for **all proprietary** funds finished 66.9% of the annual budgeted revenues. Expenditures for **all proprietary** funds finished the third quarter at 76.3% of annual budgeted expenditures. Below are some fluctuations in both revenues and expenditures that are worth discussion.

GOVERNMENTAL FUNDS

General Fund

General Fund Revenues:

General Fund Taxes and Franchise Fees represents 79% of the City's total general fund budgeted revenues. Sales tax, property tax, electric franchise fees, and cable franchise fees make up most of this category. However, 59% of the City's total general fund revenues are generated from the 1% sales tax. Because of the size of sales tax revenues and because of the weak economy, it is very important that sales tax revenues be analyzed closely. Sales taxes are received in a cyclical manner rather than received evenly throughout the year. Certain months are traditionally high while others are low. This can limit the usefulness of comparing actual revenues received each month to the budgeted amount. Often, comparisons to the previous year are a better barometer of where sales tax receipts are for the year.

General fund sales tax receipts for the third quarter of FY2011 are \$59,142 greater than the third quarter of FY2010, and \$51,533 greater than FY2009. This is an increase of .8% from FY2010 and .7% increase from FY2009.

However, there was a State Supreme Court ruling in favor of a lawsuit filed by Music City Centre Management, LLC against the State of Missouri that continues to have a direct impact on the City of Branson's sales tax revenues. The total amount of the refund from the Music City lawsuit as of the end of the third quarter of 2011 was \$162,456 for the 1% sales tax. Without the refund, the 1% sales tax would have been up 2% for the third quarter. While this ruling negatively affects the sales tax revenues, this loss was expected and budgeted accordingly.

A 1% increase in sales tax revenues was budgeted in FY2011 and, as you can see, backing out the refunds, results in a sales tax amount of 1% above what was budgeted through September.

Property Taxes are the second largest component of the taxes and franchise fees. Property taxes represent 14.2% of the City's total general fund budgeted revenues. Property taxes for the third quarter are 106% of budget, which is a 6% increase over the third quarter of FY2010. The majority of the property taxes usually come in January and February.

Franchise Fees make up a smaller portion of the overall budgeted revenue. The electric fees come in monthly, where the cable fees only come in once a year (February). The electric fees were up 10% from FY2010 and up 13% from FY2009 due to a 13.9% increase in electric rates during the fall of 2010 as well as a 4.7% increase in June of 2011.

License and Permits are 3.4% of budgeted revenues. The actual receipts received for FY2011 are greater than the receipts for FY2010, but still less than FY2009. Health Permits is one of the main reasons for this increase due to the FY2011 increase in rates.

Business licenses also make up a big portion of this category. As of the end of the third quarter for FY2011, 100% of all business licenses have been renewed with 226 of those being new licenses. Keep in mind that a change in ownership also creates a new license. Revenues are up approximately \$4,000 from FY2010.

Court Fines and Fees are budgeted at 4.2% of the total budgeted general fund revenue. For the third quarter of FY2011, the actual receipts are 48.5% of the budgeted amount, which is a decrease of \$235,913 from FY2010 and a decrease of \$171,478 from FY2009. This is due to the number of court cases filed being down in comparison to previous years. For this reason the City of Branson should not be dependent on Court receipts as a stable revenue source.

Lease and Rents make up 7.5% of the overall general fund revenue. West 76 Property lease revenue, which is a bulk of this line item, was up 1.6% for the third quarter when compared to FY2010 and was up .3% from 2009. Most of this lease revenue is calculated as a percentage of business sales, which were up slightly in 2011.

Charges for Services is budgeted at 4.4% of the total budgeted revenues. The Administrative fees for administering other funds such as tourism, water & sewer, streets and Branson Hills make up this category. The revenue received for FY2011 is at 78.8% of the budgeted amount, which is slightly up from last year at this time. FY2011 revenues are higher than what was expected because the Branson Hills administrative fee is dependent on the Branson Hills sales tax revenues and the sales tax for this area is up.

Interest Income is up \$27,720 over FY2010 and \$15,000 more than what was budgeted due to an increase in the operating account.

General Fund Expenditures:

According to the expected budget amount, the departments should be around 75% of the budget for the third quarter of FY2011. Overall, the departments are at 74.3%. Even though we are below expected amounts some of these expenditures are cyclical, where comparing actual to previous years is usually the best indicator of the status. Although the expenditures have increased from the third quarter of FY2010, they are still below the expected budgeted amount. As a reminder, we budgeted an increase in expenditures for FY2011, but the third quarter expenditures are below expectations. The increase over the prior year is due to an increase in personnel costs as a result of the wage and salary study, the Evergreen adjustment, and a 15% increase to health insurance cost.

Tourism Sales Tax Fund

Tourism Sales Tax Revenue:

Tourism Sales Tax represents 22.8% of all governmental budgeted revenues in FY2011. Tourism sales tax receipts for the third quarter are \$404,481 less than FY2010. This is due to sales being down 5.1% as a result of a decrease in tourism during the third quarter and our current economic conditions.

Interest Income for the third quarter of FY2011 is down \$6,417 from FY2010.

Tourism Sales Tax Expenditures:

Marketing Expenditures make up 25% of the 98% of the revenue earned in that fiscal year from tourism revenue. Expenditures are turned in from the CVB and Branson Convention Center at various times throughout the year; therefore, using the expected budgeted percentage for these expenditures is not an accurate way to determine the status of this line item. Expenditures are currently \$568,221 more than 2010 however the CVB received \$800,000 more in 2011 which was immediately available.

Transportation Sales Tax Fund

Transportation Sales Tax Revenue:

1/2 Cent Transportation Sales Tax represents 10.3% of the City's total budgeted governmental revenues. Transportation sales tax receipts for the third quarter are at \$3,648,866, which is a .7% increase from FY2010. The total amount of the refund from the Music City lawsuit for the third quarter of 2011 was \$81,256 for the transportation sales tax. Without the refund, the transportation sales tax would have been up 2% for the third quarter.

Transportation Sales Tax Expenditures:

Public Works Expenditures are currently at 56.7% of the budget. The expenditures are up from the same time period in FY2010 largely due to the wage and salary study that increased personnel rates, the Evergreen adjustment being paid out in FY2011, as well as a 15% increase in health insurance costs.

Debt Service Fund

Debt Service Fund Revenue:

Taxes and Franchise Fees in total for all of the debt service funds (160,161,165,170,171) are above the third quarter of FY2010. This is mainly due to the increase in sales taxes received for the Branson Landing and Branson Hills in the third quarter.

Debt Service Fund Expenditures:

Debt Service Payments are currently on track with our debt schedules and what was budgeted. Payments are semi-annual.

Capital Projects Fund

Capital Projects Revenue:

The revenue for this fund is special designated revenue that will either come in as a transfer from the tourism, transportation, or general fund for specific capital projects or from special grants received for capital. No revenue is expected for this fund in FY2011 since we started the fiscal year with a positive fund balance.

Capital Projects Expenditures:

The expenditures for this fund make up expenses from the capital projects. As of the third quarter, we have not seen a large amount of expenditures; however, this is typical because many of our projects are seasonal. We expect to see this increase over the next quarter.

Convention Center Fund

Convention Center Revenue:

The convention center revenues came in at 75.6% of the budgeted amount, which is slightly above the expectations for the third quarter. Although we budget a straight line process, the convention center is more of a seasonal business. The revenues for the third quarter were \$185,228 more than the third quarter of FY2010.

Convention Center Expenditures:

The convention center expenditures were down 2.8% to the expected budget amount of 75%, but are \$84,477 more than FY2010. There was an increase in Food & Beverage revenues due to an increase in bookings, which then resulted in a slight increase in Food & Beverage costs.

Parks & Recreation Fund

Parks & Recreation Fund Revenues:

Total revenues are at 76.3% of the budgeted amount and down slightly from FY2010 and FY2009. The revenues are down due to the flooding at the campgrounds during the second quarter. In many of the other divisions of the Parks and Recreation department the revenues were up in comparison to the budget as well as FY2010.

Parks & Recreation Fund Expenditures:

Overall expenditures are at 76.4% of the budgeted amount, which is an increase in expenditures from FY2010. There have been several factors that have contributed to the increase in expenditures. The wage and salary study, the Evergreen adjustment being paid out in FY2011, and a 15% increase in health care costs. Plus, Park expenditures are up due to the unexpected costs related to the flooding. Campground costs have also increased due to an increase in electricity rates and an increase in personnel costs from reallocating some of the staff personnel.

PROPRIETARY FUNDS

Water & Sewer Fund

Water & Sewer Fund Revenues:

Water Revenues are at 68.2% of budget, which is up from FY2010 by \$111,464. This is due to the meter change outs having an effect on the revenue as well as the rate increase that went into effect on January 1, 2011. There was a larger increase in the budgeted revenues for water in FY2011 due to the anticipated increase in consumption as a result of the meter change outs. However with the unexpected flooding, irrigation and water consumption were down from FY2010.

Sewer Revenues are at 74.5% of budget, which is up from FY2010. The sewer revenues were up from FY2010 by \$375,438. This is mainly due to the Tri-State agreement which now allows us to collect on a larger part of our sewer revenues. We expect to see sewer revenues up over water revenues due to the sewer only customers that reside outside of the city limits now paying their bill.

Water & Sewer Fund Expenditures:

All expenditures are below budget expectations; but greater than FY2010 spending. This is largely due to the wage and salary rate increases for personnel, the Evergreen adjustment being paid out in FY2011, and a 15% increase in health care costs. There was also an increase in depreciation expense for the third quarter due to the contributed capital that was added at the end of FY2010, as well as an increase in contractual services due to several repairs.

Internal Service Fund

Internal Service Fund Revenues:

There will be no revenue inflow for the Internal Service fund in FY2011. FY2011 expenditures will simply draw down the fund balance to zero. In FY2012 the vehicle and equipment expenditures will be charged to the department in which they are incurred; with the exception of the water & sewer department. The water & sewer vehicle expenditures will be considered small capital items and will be charged to the water & sewer small capital fund. However, these small capital items will be funded through the Water & Sewer rates which will be transferred into the Water & Sewer Small Capital Fund.

Overall Summary

The financial situation for the City of Branson for the third quarter of FY2011 is slightly above the budgeted expectations. The City anticipated a 1% growth in sales tax revenues for FY2011, and we are currently at a .8% growth. We have had some challenging factors that caused a decrease in some revenue areas for FY2011; however the city still anticipates reaching the budgeted goal of 1% growth.

Overall, governmental revenues are 3.6% greater than the expected amount and the expenditures are 11.3% less than what was expected. While these numbers look good when compared to the expected budget amount, it's also important to point out that, overall, these numbers are within the historical trend, which is a better financial barometer to use in governmental reporting due to the many cyclical revenues and expenditures. Therefore, things appear to be very similar to the previous year actual numbers.

While there have been many factors in FY2011 that would have driven our expenditures up, such as the Branson Airport payment, the unbudgeted school property purchase, the unbudgeted flood expenditures, and a decrease in some revenue items; there are other items that offset these negative items, such as increases in other revenue sources (franchise taxes, permits, leases, etc), decreases in workmen's compensation expenditures and liability insurance, decreases in the Branson Convention Center draws, as well as a few other items. We will continue to monitor revenues and expenditures throughout the 2011 fiscal year, but the financial status for the City looks optimistic and appears to be within reach of the 2011 budget projections.