

**CITY COUNCIL  
COMMUNICATION:**

**02-600**

**AGENDA:**

NOVEMBER 18, 2002

**SUBJECT:**

QUARTERLY  
FINANCIAL REPORT  
FOR THE QUARTER  
ENDED  
SEPTEMBER 30, 2002

**TYPE:**

RESOLUTION  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

MERRILL R. STANLEY  
FINANCE DIRECTOR

**ITEM \_\_\_\_\_**

**OFFICE OF THE CITY MANAGER  
CITY OF DES MOINES, IOWA**

**SYNOPSIS —**

Receive and file the Quarterly Financial Report for all City funds for the quarter ended September 30, 2002.

The first quarter report is typically the least informative regarding financial trends or the condition of funds, because only three months of the fiscal year have gone by. What we can look for, however, are conditions that seem to be forming, and the continuation of trends from the prior fiscal year.

Other transactions occur on an irregular basis throughout the year, and activity to date may not be a reliable indicator of year-end results. For example, the General Fund's largest and most reliable revenue source—property taxes—is not received until October, so actual revenue amounts will not appear in the first quarter report.

**FISCAL IMPACT —**

None.

**RECOMMENDATION —**

**Receive and file.**

**BACKGROUND —**

The quarterly reports, as presented, are at a highly summarized level. Looking into the details provides greater insight into actual revenues and expenses in relation to budget. Finance staff have reviewed the quarterly results at a more detailed level and offer the following observations.

Challenges on the revenue side of the ledger seen in Fiscal Year (FY) 2002 continue to some extent in FY2003. Some of the more significant variances from budget include:

- Road use tax, budgeted at \$16,800,000, is expected to fall short by \$400,000 due to the weaker economy.
- Continued lower than estimated interest earnings are expected to be \$500,000 below the \$2,800,000 budget.

**CITY COUNCIL  
COMMUNICATION**

02-600

NOVEMBER 18, 2002

PAGE TWO

- Hotel/Motel Tax, budgeted at \$3,487,000, is expected to fall short by \$400,000 due to the weaker economy.
- Moving violation revenues generated by traffic tickets are down \$250,000 due to the increased police manpower required at the Airport.
- Franchise fee revenues are lower than expected by \$130,000 for cable services due to a ruling by the Federal Communications Commission (FCC). If Des Moines has another mild winter, we can expect franchise fee revenues from gas and electricity to be approximately \$140,000 below estimate, as they were in FY2002.

Health insurance expenditures for the first quarter totaled \$6,136,000. Annualized, this amount projects to over \$24,000,000, several million dollars in excess of available budget. In reality, however, the transition to the Midlands network plan did not begin to have an effect until September, which had monthly claims expense of \$1,700,000. This situation is made more difficult by the fact that approximately 110 retirees dropped City health insurance. This will reduce revenues by \$900,000, while related claims expenses are expected to reduce by only about a third of that amount. Health insurance is clearly an issue that is commanding much of our attention and requires that a viable long-term solution be identified to reduce claims expenses and/or increase funding.

The Solid Waste Fund has reached a point where additional debt, pledging system revenues, cannot be issued without a service rate increase. Master Lease Supplement No. 10 is being issued with a parity calculation based on the June 30, 2001 Comprehensive Annual Financial Report (CAFR) amounts. Even though the system is expected to have a retained earnings balance of \$1,200,000 as of June 30, 2002, the 2002 CAFR will indicate that the system does not provide the required 110 percent net revenue coverage. System expenses in excess of revenues have continued into FY2003, with the quarterly report showing \$1,821,000 in revenues and \$1,908,000 in expenses.

As stated previously, financial issues and trends are more difficult to identify after only three months activity. We expect the second quarter report to provide better insight into year-end forecasts and issues.

