

**From:** Niall McShane <[nialljmcshane@gmail.com](mailto:nialljmcshane@gmail.com)>  
**Sent:** Monday, April 22, 2024 9:49 AM  
**To:** Diane Buckshnis <[d.buckshnis@comcast.net](mailto:d.buckshnis@comcast.net)>; James Ogonowski <[james.m.ogonowski@hotmail.com](mailto:james.m.ogonowski@hotmail.com)>; Darrol Haug <[dkhaug3@msn.com](mailto:dkhaug3@msn.com)>  
**Subject:** Fwd: Sept quarterly report page not yet received and here is June's example

Here's another thread that included Mr Rosen. This one has very detailed analysis of the puts and takes of the 2021, 2022 and 2023 budgets and actuals. I will also forward a response to this thread from Jim but I wanted to send this one which has the spreadsheet attachment.

To support my contention that the persistence of the interfund service charge revenue line item masked the cost overruns in other areas, I would draw your attention to the bullet item for 2022 which I have highlighted in red below:

- At a high level, expenditures remained broadly consistent with the estimate that was provided in the 2023 budgeting process, despite the reversal of the expenses associated with the interfund service charges. As I understand from Mr Turley, those reversals would have mainly hit the labor and benefits categories (or at least labor) and these are both down but not by as much as the \$3.9 million of revenue that was wiped out. Even comparing actual to the adopted budget, the reduction in these categories falls short of the \$3.9 million.

----- Forwarded message -----

**From:** Niall McShane <[nialljmcshane@gmail.com](mailto:nialljmcshane@gmail.com)>  
**Date:** Wed, Dec 20, 2023 at 5:21 PM  
**Subject:** Re: Sept quarterly report page not yet received and here is June's example  
**To:** Turley, Dave <[Dave.Turley@edmondswa.gov](mailto:Dave.Turley@edmondswa.gov)>  
**Cc:** Buckshnis, Diane <[Diane.Buckshnis@edmondswa.gov](mailto:Diane.Buckshnis@edmondswa.gov)>, Olson, Vivian <[Vivian.Olson@edmondswa.gov](mailto:Vivian.Olson@edmondswa.gov)>, James Ogonowski <[james.m.ogonowski@hotmail.com](mailto:james.m.ogonowski@hotmail.com)>, Mike Rosen <[rosen@hrpvideo.com](mailto:rosen@hrpvideo.com)>

Forgot to attach the spreadsheet.

On Wed, Dec 20, 2023 at 5:19 PM Niall McShane <[nialljmcshane@gmail.com](mailto:nialljmcshane@gmail.com)> wrote:

Obviously time is of the essence here and I appreciate that everyone is busy and the holidays are upon us. May I suggest, however, that rather than this view, perhaps an updated strategic outlook would be more helpful? The view that Diane provided below uses different categories of revenue and expenditure than what we see in the strategic outlook that is presented as part of the budget book. That is the view that I have been focused on because that is where we see some of the challenges and it is not possible to reconcile that view with this one.

In particular, I think that the council needs to see a view of the strategic outlook which reflects the new accounting method for the interfund service charges as well as the latest updates to all of the other summary line items in that view. As Mr Turley has explained, the accounting change requested by the auditors reverses both the revenue and the expense associated with work done by the engineering department under the general fund for the benefit of other funds. This has a net zero impact to the overall budget but I have been looking at the evolution of these numbers over the last three years and I

am concerned that the lag in applying these corrections tends to obscure cost overruns in other areas. The 2023 budget that was passed by council looked reasonable at the time and there are no very obvious red flags that would have said that you should not have passed that budget, It projected expenditures exceeding revenues by \$5.75 million but it also projected under expenditure of \$3.9 million. This would have had a net impact of \$1.85 million on what, at the time, was projected to be a beginning balance of \$16.9 million but it's pretty clear that the wheels have come off in the year since that budget was passed: the beginning balance for 2023 was revised downwards by \$5 million and it appears that expenditures have continued to exceed expectations. This is due to a combination of factors including the restatement of previous year's beginning and ending balances as well as changes to the revenue and expenditure picture for 2022 that were not apparent at the time the 2023 budget was adopted. The following analysis is pretty detailed but I believe it points to some significant cost overruns starting in 2022 that have continued into 2023 and the source of those cost overruns is not clear. Without understanding the origin of these problems, it is hard to be confident that the 2024 budget adequately addresses the issues and that we will not experience cost overruns again and the handling of those interfund service charges will again tend to mask the problems until it is too late to address them. It may not be possible to get precise numbers at this time but an understanding of where revenues are falling short and where expenses are exceeding expectations would provide much needed clarity to council members as they consider the 2024 budget before them.

Here are some of the key questions that I think need to be addressed:

1. Do we have an updated view of the strategic outlook that includes the reversals required for the interfund service charge accounting issue and the results for October if not November? If so, can we see how that updated view impacts the projected ending fund balance which has continued to fluctuate in recent weeks?
2. Are the projections for the rest of the year (assuming at least November/December are not available), based on actual data or just percentage of revenue received/ expenditures committed? The September update seemed to use a simple prorated extrapolation which does not take into account anything that we know about specific line items that are under/over performing (e.g. the interest rate bonanza).
3. Where are the areas of risk? Has that risk been assessed and quantified to the best of our ability? As noted below, one of the noted surprises between the 2022 estimate and the actuals was a capital overspend. The 2023 estimate already includes a capital overspend which hopefully means that there are no surprises lurking there this year.
4. Do we have any insight to the 2022 audit yet and are there any findings from that audit that could further compromise these budget numbers?

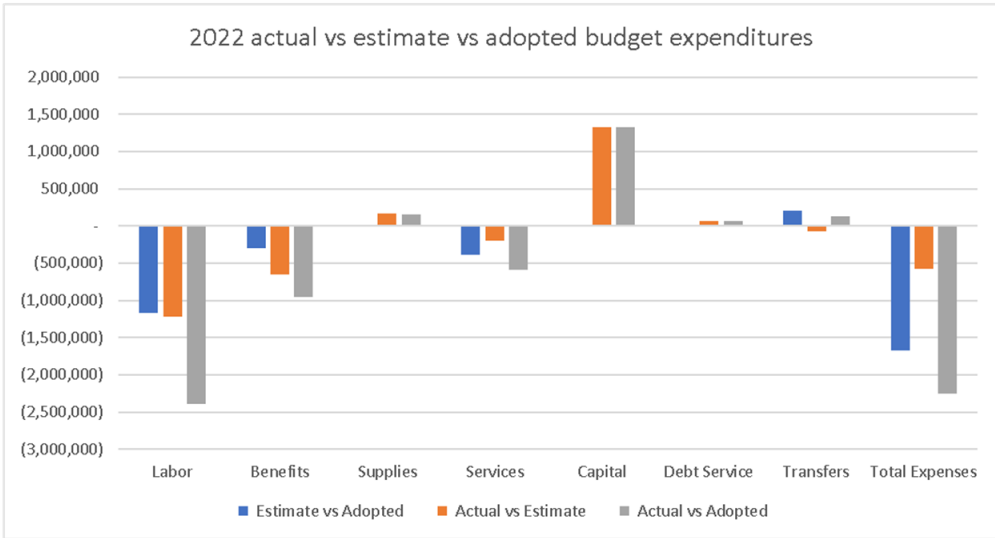
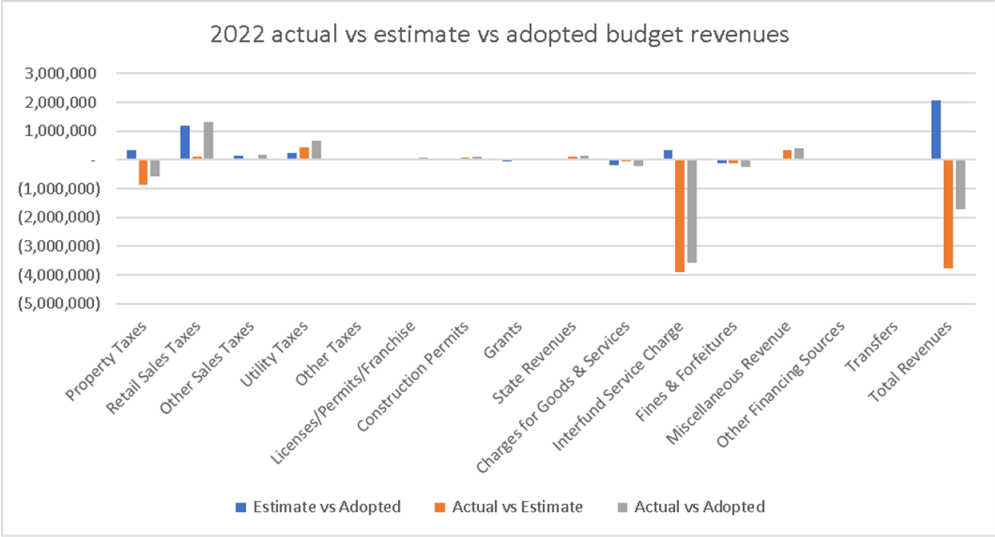
**Detailed analysis follows:**

Let's look at 2022 first, then I will contrast that with 2021 and finally look at what is known (and unknown) about 2023. The spreadsheet containing the data presented below is attached. For each year, I have compared the numbers in the budget that was originally adopted against the estimate in the strategic outlook that was provided in the budget proposal for the following year and, where available, the actuals for that same year. The first thing to note is that, as Mr Turley has said, the changes to these

numbers and the knock-on effect on beginning and ending balances for subsequent years is not a new phenomenon. However, the magnitude of those changes in recent years does seem to be much larger and that is of concern.

## 2022

- The 2022 budget, as adopted, assumed expenditures exceeding revenues by \$4.5 million, partially offset by an anticipated underspend of just under \$2.5 million which would result in a decline in the general fund balance of around \$2.1 million in 2022.
- In the estimate for 2022 that was provided as part of the proposed budget for 2023, the beginning fund balance had increased by almost \$2.7 million (see discussion of 2021 below for details), revenues were projected to be \$2 million better than plan and expenditures were forecasted at almost \$1.7 million lower than plan.
- This was the context in which the 2023 budget was set: everything looked really rosy. However, when we see the 2022 actuals that were presented as part of the strategic outlook for the 2024 budget proposal, things have shifted dramatically.
- The beginning balance for 2022 has been reduced by \$1.8 million due to an audit finding related to CARES funds for 2021.
- Revenues had dropped from an estimated \$46.2 million to \$42.4 million, an amount that almost exactly mirrors the reversal of the interfund service charge revenue resulting from the 2022 audit finding. Other categories of revenue were up and down but they tended to wash out.
- At a high level, expenditures remained broadly consistent with the estimate that was provided in the 2023 budgeting process, despite the reversal of the expenses associated with the interfund service charges. As I understand from Mr Turley, those reversals would have mainly hit the labor and benefits categories (or at least labor) and these are both down but not by as much as the \$3.9 million of revenue that was wiped out. Even comparing actual to the adopted budget, the reduction in these categories falls short of the \$3.9 million.
- We also experienced a \$1.3 million increase in capital expenditure between the 2022 estimate provided for 2023 budgeting purposes and the final actuals.
- The bottom line is that looking at 2022 now vs the picture that was used for the 2023 budget setting, the beginning balance for 2023 is reduced by \$5 million.



		2022 Adopted	2022 Estimate	2022 Actual	Estimate vs Adopted
<b>Beginning Fund Balances</b>		<b>15,037,447</b>	<b>17,722,411</b>	<b>15,915,319</b>	<b>2,688,092</b>
<b>Revenue</b>					
	Property Taxes	15,405,500	15,727,500	14,843,369	322,000
	Retail Sales Taxes	10,000,000	11,200,000	11,313,760	1,200,000
	Other Sales Taxes	870,000	1,000,000	1,041,146	130,000

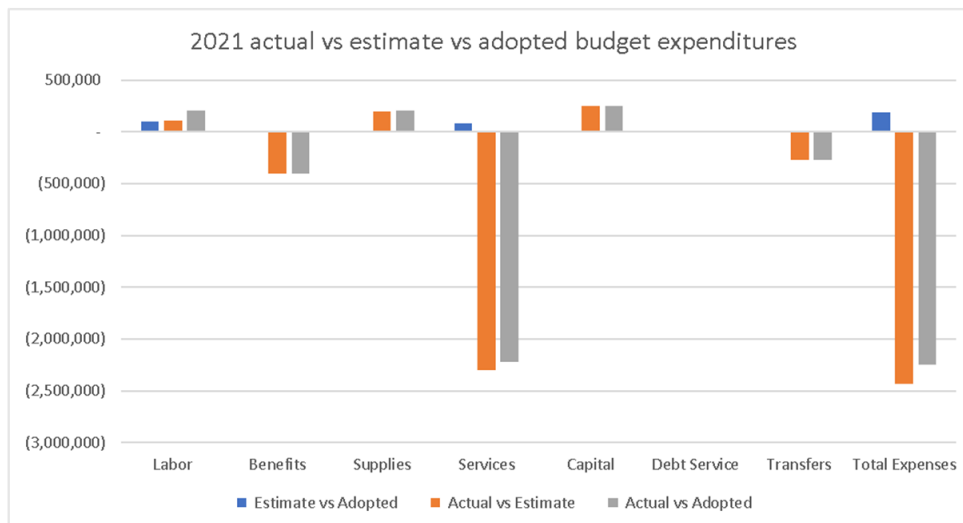
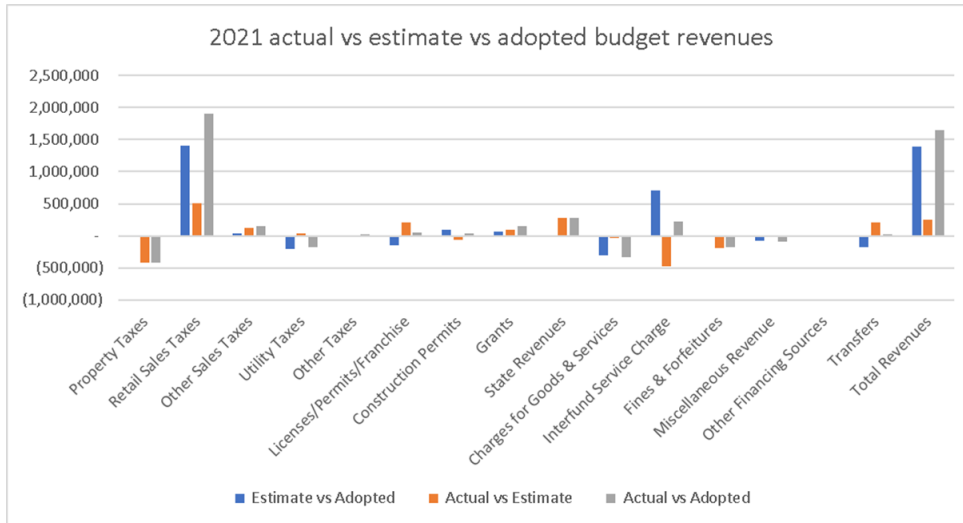
	Utility Taxes	5,923,500	6,168,500	6,599,936		245
	Other Taxes	369,150	369,150	410,894		
	Licenses/Permits/Franchise	1,711,250	1,750,598	1,790,243		39
	Construction Permits	650,600	700,000	769,928		49
	Grants	294,650	244,100	259,347		(50)
	State Revenues	955,110	993,610	1,107,943		38
	Charges for Goods & Services	3,249,800	3,070,174	3,020,628		(179)
	Interfund Service Charge	3,575,713	3,912,768			337
	Fines & Forfeitures	448,450	318,450	182,884		(130)
	Miscellaneous Revenue	688,660	741,340	1,074,351		52
	Other Financing Sources					
	Transfers	26,300	26,300	26,300		
	<b>Total Revenues</b>	<b>44,168,683</b>	<b>46,222,490</b>	<b>42,440,729</b>		<b>2,05</b>
<b>Expenditures</b>						
	Labor	19,885,713	18,712,244	17,498,086		(1,173)
	Benefits	7,036,594	6,733,144	6,076,441		(303)
	Supplies	678,184	668,355	837,672		(9)
	Services	19,320,048	18,935,331	18,736,558		(384)
	Capital	270,180	270,180	1,597,773		
	Debt Service	329,248	329,248	391,523		
	Transfers	1,185,000	1,385,000	1,315,062		200
	<b>Total Expenses</b>	<b>48,704,967</b>	<b>47,033,502</b>	<b>46,453,115</b>		<b>(1,671)</b>

Change in Ending Fund Balance	(4,536,284)	(811,012)	(4,012,386)		3,72
Anticipated Under-Expenditure	2,435,248				(2,43
<b>Ending Fund Balance</b>	<b>12,936,411</b>	<b>16,911,399</b>	<b>11,902,933</b>		<b>3,97</b>

**2021**

Contrasting 2022 to 2021 we see a very different picture and one that is much more like we would hope for:

- The 2021 adopted budget also assumed expenditures exceeding revenues but in this case, the anticipated under expenditure, which I assume is a contingency fund managed internally by the administration, almost entirely offsets the projected change in ending fund balance resulting in only a \$500 K change in the balance.
- In the 2021 estimate provided as input to the 2022 budgeting process, we do see a change in the beginning fund balance which presumably resulted from the truing up of the actuals for 2020.
- Estimated revenues are projected to be \$1.4 million ahead of plan while estimated expenses are projected to be less than \$200K above plan.
- In the actuals for 2021, we see a small additional increase in total revenue compared to the estimate provided previously. This is a mix of puts and takes in various categories but none of those variances seem especially noteworthy.
- Actual expenditures improved over the estimated numbers by \$2.4 million driven almost entirely by smaller than expected services costs.
- The net effect of these changes was to boost the beginning fund balance for 2022 by \$2.68 million compared to the expectations that were set in the 2022 budget and this change is reflected in the 2022 estimate column although that beginning fund balance was subsequently reduced by \$1.8 million as noted above.



		2021 Adopted	2021 Estimate	2021 Actual*	Estimate vs
<b>Beginning Fund Balances</b>		<b>14,587,353</b>	<b>15,650,898</b>	<b>15,650,898</b>	
<b>Revenue</b>					
	Property Taxes	15,073,931	15,073,931	14,654,572	
	Retail Sales Taxes	8,600,000	10,000,000	10,508,460	
	Other Sales Taxes	828,500	860,000	977,315	
	Utility Taxes	6,633,500	6,433,500	6,463,896	

	Other Taxes	359,050	368,150	375,461		
	Licenses/Permits/Franchise	1,710,950	1,558,050	1,761,282		
	Construction Permits	650,600	750,600	691,905		
	Grants	217,650	280,198	368,376		
	State Revenues	955,110	955,110	1,240,271		
	Charges for Goods & Services	3,129,462	2,828,143	2,792,824		
	Interfund Service Charge	2,902,106	3,602,979	3,120,735		
	Fines & Forfeitures	448,450	457,450	272,303		
	Miscellaneous Revenue	565,540	482,333	469,739		
	Other Financing Sources					
	Transfers	388,548	206,975	413,547		
	<b>Total Revenues</b>	<b>42,463,397</b>	<b>43,857,419</b>	<b>44,110,686</b>		
	<b>Expenditures</b>					
	Labor	17,713,377	17,811,531	17,919,401		
	Benefits	6,683,368	6,685,354	6,278,943		
	Supplies	503,718	514,827	708,590		
	Services	18,367,660	18,447,428	16,145,255		
	Capital	23,120	23,120	268,886		
	Debt Service	60,730	60,730	60,228		
	Transfers	932,880	927,880	657,870		
	<b>Total Expenses</b>	<b>44,284,853</b>	<b>44,470,870</b>	<b>42,039,173</b>		
	Change in Ending Fund Balance	(1,821,456)	(613,451)	2,071,513		



Anticipated Under-Expenditure		1,329,000				
	<b>Ending Fund Balance</b>	<b>14,094,897</b>	<b>15,037,447</b>	<b>17,722,411</b>		

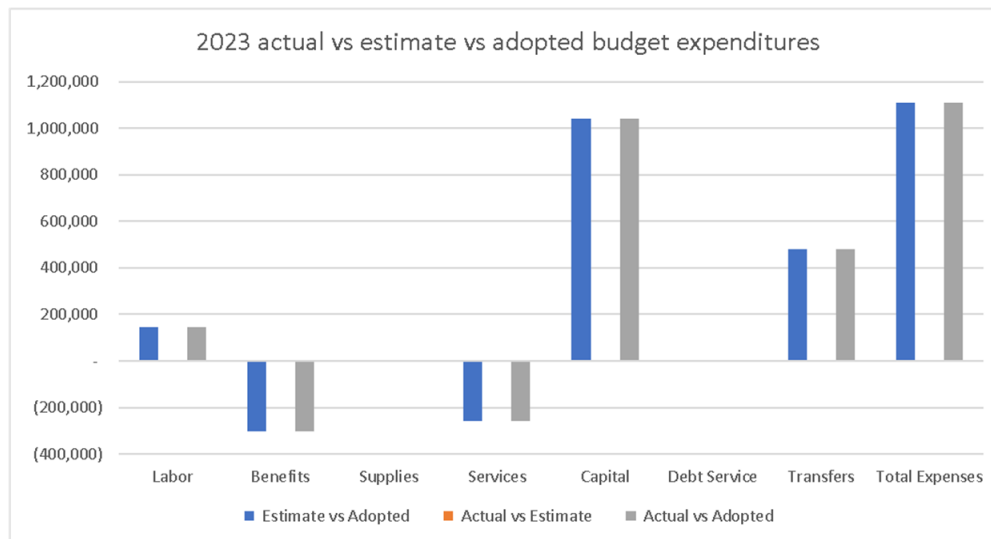
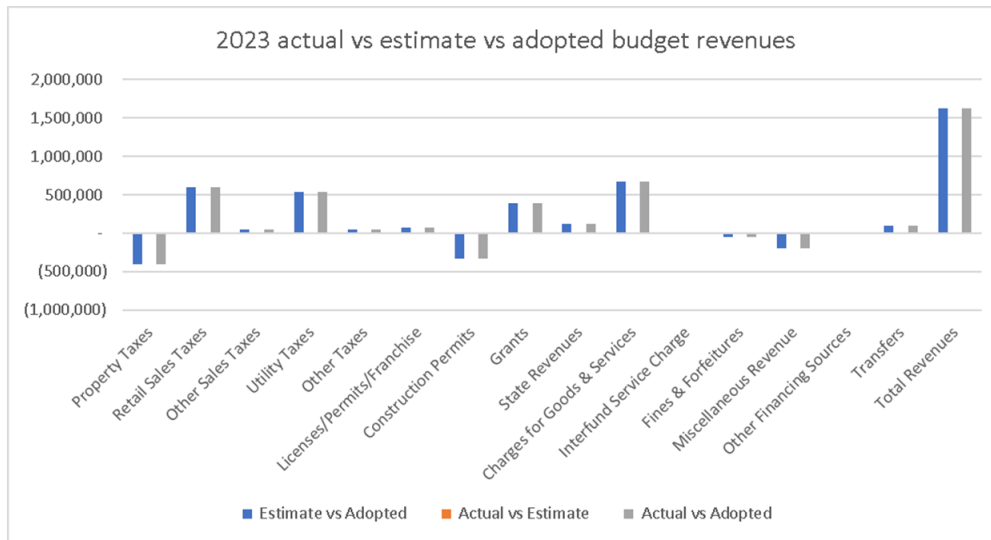
\* - The actual beginning and ending fund balances for 2021 were su  
budget

## 2023

Finally, let's look at 2023 and consider what we can expect here. Note: I do not have any actuals for 2023 or any projections past those provided in the 2024 budget proposal so I have used those projections as actuals to make my spreadsheet work. Really, we are only comparing adopted to estimate here so updating the actuals column with the latest available information would be tremendously helpful.

- As noted in my summary above, at the time that the 2023 budget was adopted, it looked entirely reasonable. General Fund balances were projected to be very healthy and the proposed overspend of \$5.75 million dollars was offset by an anticipated underspend of \$3.9 million resulting in a projected impact to the general fund balance at the end of the year of \$1.8 million.
- The level of overspending and required contingency in both 2023 and 2022 is higher than in previous years and perhaps, in hindsight, that could have been a warning flag.
- By the time of the 2024 budget cycle, the estimated revenues for 2023 had increased by \$1.6 million driven by higher sales and utility taxes, grants and state revenues and charges for goods and services but offset by lower projected property tax revenues, permit and forfeiture and miscellaneous revenue.
- I believe I have seen in the September financial report that interest income is also up significantly in both 2022 and 2023 but it's not clear to me if, or where, that would show up in these categories.
- Expense projections are also up by over a million dollars, notably in the labor, capital and transfers categories with offsetting reductions in benefits and services. It's good to see the capital overspend captured here since that was one of the surprises in 2022.
- This view of 2023 does NOT include the reversals required to address the interfund service charge accounting issue and based on what we saw in 2022, I would anticipate that this will reduce revenues but any reduction in expenditures may be cancelled out by other cost overruns.
- Net overspend looks similar to what was originally projected but the anticipated underspend is no longer there to offset this resulting in a \$5 million impact to the general fund balance

- The combined effect of the restatement of the 2023 beginning fund balance and the 2023 expenditures exceeding revenues is a drop of more than \$8 million in the projected ending fund balance for 2023 and a drop of more than \$10 million from the beginning fund balance that was provided as input to the 2023 budget cycle. As we all know, the picture has only got worse since this strategic outlook for 2024 was published with various projections of the ending fund balance at \$3 million, \$448 K and \$1.8 million being suggested recently.



	2023 Adopted	2023 Estimate	2023 Actual	Estimate vs
<b>Beginning Fund Balances</b>	<b>16,911,399</b>	<b>11,902,933</b>	<b>11,902,933</b>	

<b>Revenue</b>						
	Property Taxes	16,305,500	15,905,100	15,905,100		
	Retail Sales Taxes	11,500,000	12,100,000	12,100,000		
	Other Sales Taxes	1,100,000	1,150,000	1,150,000		
	Utility Taxes	6,776,652	7,314,500	7,314,500		
	Other Taxes	369,150	421,550	421,550		
	Licenses/Permits/Franchise	1,802,750	1,869,102	1,869,102		
	Construction Permits	720,600	390,000	390,000		
	Grants	1,566,525	1,960,929	1,960,929		
	State Revenues	1,063,610	1,188,610	1,188,610		
	Charges for Goods & Services	3,229,679	3,903,302	3,903,302		
	Interfund Service Charge	3,427,765	3,427,765	3,427,765		
	Fines & Forfeitures	352,350	302,350	302,350		
	Miscellaneous Revenue	1,777,210	1,582,518	1,582,518		
	Other Financing Sources					
	Transfers		97,726	97,726		
	<b>Total Revenues</b>	<b>49,991,791</b>	<b>51,613,452</b>	<b>51,613,452</b>		
<b>Expenditures</b>						
	Labor	22,528,783	22,675,683	22,675,683		
	Benefits	7,915,778	7,615,630	7,615,630		
	Supplies	1,061,816	1,062,576	1,062,576		
	Services	22,958,821	22,701,765	22,701,765		
	Capital	90,000	1,130,565	1,130,565		
	Debt Service	323,590	323,590	323,590		

	Transfers	863,000	1,341,982	1,341,982		
	<b>Total Expenses</b>	<b>55,741,788</b>	<b>56,851,791</b>	<b>56,851,791</b>		
Change in Ending Fund Balance		(5,749,997)	(5,238,339)	(5,238,339)		
Anticipated Under-Expenditure		3,901,925				
	<b>Ending Fund Balance</b>	<b>15,063,327</b>	<b>6,664,594</b>	<b>6,664,594</b>		