

**FINANCIAL REPORT
NINE MONTHS ENDING JUNE 30, 2014**

These statements are unaudited and are not the official financial statements of the City but rather are a review of the progress to date each quarter as it relates to the budget. The official financial statements of the City are included in the Comprehensive Annual Financial Report (CAFR) and will be presented to the City Council in the first quarter of each calendar year following the end of each fiscal year (September 30th).

Attached are financial schedules setting forth the status of the major General Government, Special Revenue, Capital Projects and Proprietary Funds for the City of Pensacola for the nine months ended June 30, 2014. The financial schedules compare actual results for the nine-month period against the City's budget and against comparable percentages of a year ago. Such comparisons are useful in projecting potential problem areas, allowing management to take early corrective action. The City's debt service and investment schedules are also attached for Council's review.

A schedule of legal costs paid directly to attorneys and/or firms who have provided services to the City has also been included in the quarterly report. This schedule lists the payee, the amount paid and the nature of the services provided to the City. This schedule will be reported to Council on a quarterly basis.

As previously reported to Council the downturn in the economy which has impacted the City of Pensacola since 2007 appears to have begun to subside. The Half-Cent Sales Tax and Local Option Sales Tax revenues continue to show growth. While these positive indicators continue, both revenues and expenditures continue to be closely monitored to assure a balanced budget with the goal of no drawdown of fund balance by fiscal year end in the General Fund.

In December 2013 City Council adopted a supplemental budget resolution which reduced estimated revenue levels, mainly the Communication Services Tax and Electric Public Service Taxes within the General Fund. Expenditures in total are in line with budgeted projections; however, a supplemental budget resolution is being brought before City Council at the August 2014 meeting to address variances in revenues as well as address individual expenditure issues such as liability insurance and allocated overhead. Significant variances from budget are noted in the individual fund narrative below. The Liability Insurance line item includes charges for Risk Management Services, property insurance premiums and automobile and general liability claims.

Due to the extremely cold winter and spring we have experienced, a supplemental budget resolution was adopted by City Council in May 2014 to appropriate additional revenue and expense within the Gas Utility Fund to provide sufficient appropriations for the purchase of natural gas within Pensacola Energy.

As previously mentioned, beginning in FY 2014 annual pension payment contributions have been made in a lump sum contribution on October 1 for all required City sponsored defined benefit pension plans. Historically, the contributions have been made on a bi-weekly basis which resulted in the actuarial assumed interest earnings rate to be cut in half on the pension contributions. Therefore, for comparative purposes, the total City pension contributions have been separated out from the Personal Services line items and shown on a separate line item.

Allocated Overhead/(Cost Recovery) charges have been revised to be based on the most recent cost allocation study. A supplemental budget resolution is being brought before City Council at the August meeting to adjust the appropriations for Allocated Overhead/(Cost Recovery).

The Investment Section of this financial report provides a comparison of interest rates for FY 2012 to FY 2014. Interest rates continue to decline and therefore interest income in most funds will be below the prior year amounts.

The Legal Services and Fees of this financial report provides a listing of legal services and fees paid through the third quarter of FY 2014.

General Fund:

In total, General Fund revenues exceeded budget for the third quarter. However, as mentioned in previous quarterly reports, this is mainly attributed to Property Tax and Local Business Tax Revenues, the majority of which were paid during the first quarter. The final Property Tax payment from the Escambia County Tax Collector and revenues exceed the budgeted level. Additionally State Traffic Signal and Street Light maintenance have exceeded budget and are a result of the contractual agreement between the City of Pensacola and the State of Florida. Franchise Fees and Public Service Tax revenues exceeded the revised budget by \$1.0 million or 11.86%. Half Cent Sales Tax revenue exceeded budget by \$61,800 or 2.47% as well as the Municipal Revenue sharing revenue which exceeded budget by \$11,600 or .70%. However, the Communication Services Tax was below budget by \$269,500 or 11.45%. These revenues are addressed in the supplemental budget resolution. Staff continues to monitor revenues and expenditures and will take appropriate actions as necessary to assure a balanced budget.

Since the Stormwater Utility Fee is on the Property Tax bill, the receipts coincide with the Property Tax Revenues therefore with the final receipt collected, the transfer exceeds budgeted levels. The budget will be adjusted on the supplemental budget resolution.

Expenditures through the third quarter, in total, were within budget with the exception of the Liability Insurance line item which exceeds original budget estimates. Budget adjustments have been addressed on the supplemental budget resolution. Staff continues to monitor expenditures and a selective hiring process continues which allows each hire request to be reviewed and a determination made on each position regarding the necessity to fill. All General Fund capital equipment has been funded in the Penny For Progress, therefore the only savings that can be realized are in operating and personal services.

Tree Planting Trust Fund

The Tree Planting Trust Fund revenue and expenditures are recorded in the General Fund. For the third quarter the "Tree Planting Trust Fund" account contributions plus interest income equaled \$4,288 and there were no expenditures/encumbrances. Funds are anticipated to be expended during the fourth quarter to complete the projects budgeted in FY 2014. The unencumbered balance in the "Tree Planting Trust Fund" at the end of the third quarter was \$663,231.

Park Purchases Fund

The Park Purchases Fund revenue and expenditures are recorded in the General Fund. Through the third quarter the "Park Purchases Fund" interest income equaled \$51 and there were \$38,217 in expenditures/encumbrances. The unencumbered balance in the "Park Purchases Fund" at the fiscal year end is projected to be zero.

Economic Development Incentives Fund

The Economic Development Incentives Fund revenue and expenditures are recorded in the General Fund. For the third quarter the "Economic Development Incentives Fund" account contributions plus interest income equaled \$88,635. The unencumbered balance in the "Economic Development Incentives Fund" at the end of the third quarter was \$1,117,733.

Local Option Gasoline Tax Fund:

Local Option Gasoline Tax revenue was below budget by \$6,200 or 0.62% through the third quarter of FY 2014. Fund expenditures will not exceed budget by fiscal year end.

Stormwater Utility Fund:

Total utility fee revenue of \$2,593,410 represents 102.44% of budgeted revenue for the fiscal year. Fund expenditures are consistent with budget for the third quarter.

Municipal Golf Course Fund:

Golf Course expenditures (including total City sponsored pension costs) exceeded revenues by \$210,900 before the General Fund subsidy of \$67,500 through the third quarter. When compared to FY 2013, revenue for this fiscal year is \$144,100 below prior year third quarter revenues. As stated in previous quarterly reports, the decline in revenues is due to the cold, wet weather conditions during the holidays in November and December compounded by the flooding that occurred during April, 2014. With the impact of the flooding, it is anticipated an additional \$250,000 subsidy from the General Fund will be necessary to finish out the fiscal year in the Golf Course Fund and the transfer to the Local Option Sales Tax Fund will not be possible. These changes are addressed in the supplemental budget resolution.

Through the third quarter of FY 2013, 16,763 rounds were played with 5,438 driving range usage and through the third quarter of this fiscal year 11,346 rounds were played with 3,078 driving range usage, a decrease of 5,417 rounds and a decrease of 2,360 driving range usage. Staff continues to advertise the golf course through local media outlets as well as keeping the golf course's website updated. Staff also continues to monitor revenues and implement various marketing strategies as appropriate to increase rounds of play with a partially opened course.

The Golf Course was severely damaged by the April 2014 flood event which resulted in the partial closure of the Golf Course (9 holes are closed) and a significant decrease in rounds of golf played and the number of golfers utilizing the restaurant facility. It is anticipated that the Golf Course will resume full operations in December 2014 or January 2015.

Expenditures at the Golf Course are consistent with the adopted FY 2014 budget. While the expenditures are relatively fixed, increases are based on usage. Staff continues to monitor expenditures and stay within budget.

On March 28, 2014 a three year concessions agreement was executed between the City of Pensacola and Fusion Grill, Inc. Due to Osceola's storm damage and repair schedule, the City and Fusion have amended the payment schedule. The Concessionaire has agreed to continue to operate a restaurant facility with reduced hours on the premises during the partial closure in exchange for a temporary suspension of the concession payment due. The first payment to the City will be due April, 2015.

Inspection Services Fund:

In total, revenues exceeded expenditures (including total City sponsored pension costs) by \$199,600. When compared to FY 2013, revenue for this fiscal year is \$162,200 above prior year third quarter revenues. Larger construction projects continue to be underway and permits to complete the jobs continue.

Expenditures for the remainder of the year are anticipated to be within budgeted levels by fiscal year end.

Roger Scott Tennis Center:

Total revenues for the Roger Scott Tennis Center were consistent with budget. The annual tennis memberships renewed during the second quarter and when compared to the third quarter of FY 2013, revenues for FY 2014 were \$20,500 greater than last fiscal year. Expenditures are not anticipated to exceed budget by fiscal year end.

On February 6, 2014 a one year concession agreement was executed between the City of Pensacola and Coastal Concessions, LLC. The City has received 5 monthly rental payments at the contract's minimum flat rate level of \$500 per month. Coastal Concession sales include food and beverage services.

The Tennis Center suffered storm damage from the April 2014 flood with the erosion washout in the parking lot and walkways, and court damages being major factors. Roger Scott Tennis Center was closed for 3 days due to the storm. Storm repairs are underway on the sidewalks and fencing; bids for clay court repairs are scheduled to close August 21, 2014; and parking lot repairs will begin soon.

Following is a comparison of the activity at Roger Scott Tennis Center between the third quarter for FY's 2013 and 2014.

	<u>3RD QTR</u> <u>FY 2013</u>	<u>3RD QTR</u> <u>FY 2014</u>	<u>DIFF</u>
Daily Participants			
Hard Courts	885	952	67
All Courts (Includes Clay Courts)	2,136	2,078	(58)
Sub-Total	<u>3,021</u>	<u>3,030</u>	<u>9</u>
Playing Members	18,855	18,116	(739)
Sub-Total	<u>21,876</u>	<u>21,146</u>	<u>(730)</u>
Instructional Students	4,125	4,091	(34)
Rentals/Special Events/Programs	9,302	9,532	230
Total Players	<u>35,303</u>	<u>34,769</u>	<u>(534)</u>

Community Maritime Park Management Services Fund:

The City has a Park Management Services Agreement with the Community Maritime Park Associates (CMPA). There are three components in this agreement. The first is the Community Maritime Park Insurance and it is 100% reimbursed by the CMPA. Actual expenditures through the third quarter were \$120,200. Secondly, park maintenance and landscaping services are provided. Annually, the CMPA pays the City actual costs incurred up to a maximum amount of \$248,945. Through the third quarter of FY 2014, \$94,600 in expenditures for these services have been incurred which will be billed to the CMPA by fiscal year-end. The final component to the agreement deals with event scheduling and planning, management of outside kiosk sales, rentals, food service and other vendor services, and parking management. The amount charged for these services is reduced by revenues earned. If revenues earned are not sufficient to cover its costs, the maximum amount payable by the CMPA is \$256,054. Through the third quarter of FY 2014, Event Management Fee revenues were above expenditures by \$25,900. A final accounting will be made at fiscal year-end based on the terms of the contract.

Since all related construction funds at the Maritime Park have been disbursed to CMPA the Maritime Park Construction Fund was closed as of October 1, 2013. Therefore, the revenues and expenditures related to the Employee Leasing function are now being accounted for in the Community Maritime Park Management Services Fund.

Local Option Sales Tax Fund:

Third quarter revenues exceeded budget by \$187,200 or 4.32%. Expenditures in total were consistent with budget for the third quarter.

It has been mentioned in previous quarterly reports that it may be necessary from time to time to draw upon the City's pooled cash to cover cash shortfalls in the fund. This has occurred in previous fiscal years and fund balance is anticipated to continue to be negative for the next few years.

The current Local Option Sales Tax issue expires December 31, 2017. It was anticipated that a referendum to extend the current Local Option Sales Tax was to occur in August 2014. However, the Escambia County Board of County Commissioners voted to not include it on the August 2014 Ballot due to the recent flooding issues. They plan to re-evaluate the projects and will make a determination at a later date when to bring the extension of the LOST before the voters.

Stormwater Capital Projects Fund:

The \$2,597,117 transfer from the General Fund to the Stormwater Capital Projects Fund equaled the revenue fee collection in the Stormwater Utility Fund. The additional transfer of \$55,417 will be addressed on the supplemental budget resolution. Third quarter expenditures were within budget.

Gas Utility Fund:

Gas expenses and encumbrances (including total City sponsored pension costs) were below revenue and fund balance by \$3.1 million for the third quarter mainly due to the extremely cold weather experienced in the first three months of calendar year 2014. A supplemental budget resolution was brought before City Council in May to provide appropriations to address the additional gas costs associated with the cold winter. Additional adjustments are included in the supplemental budget resolution to address further changes in revenue as well as provide appropriations for increased Liability Insurance costs.

Pensacola Energy included 10¢ per ccf in the Purchase Gas Adjustment (PGA) calculation to restore the Pensacola Energy reserve. By the end of FY 2013 that reserve was down by \$5.3 million, based on the reserve requirements recommended by Black & Veatch in the FYE 2012 Gas System Annual Report. Thru June the additional \$0.10 per Ccf collected has amounted to \$1,833,986. This recovery of the reserve is a multi-year endeavor to recoup the shortfall experienced in prior years.

As reflected in the rate study and in accordance with the plan that Pensacola Energy submitted to the State Public Service Commission for the replacement of cast iron and steel pipes, the Infrastructure Cost Recovery began in FY 2013. This fee is charged for expenses that were made in the prior fiscal year. For the third quarter of FY 2014 \$1,467,707 has been received from Infrastructure Cost Recovery Revenue.

Sanitation Fund:

In total, fund operating revenue and fund balance exceeded expenses and encumbrances (including total City sponsored pension costs) by \$243,600 for the third quarter. Overall, Sanitation Fund revenues were consistent with budget and exceeded prior year revenues.

As previously reported, the last day recycling materials were sent to West Florida Recycling for processing was April 14, 2014. Staff immediately began exploring various options for processing that would enable the City to continue recycling. With the absence of a recycling processor in the County, items were temporarily redirected to the Escambia County Landfill until a processor could be located. Beginning May 28, 2014 all recyclables collected by the City Sanitation Department have been transported to Infinitus Energy in Montgomery, Alabama, the closest recycling plant that has the capacity to handle the volume of recyclables. While the cost to the City of hauling recyclables to Montgomery is higher than expected with West Florida Recycling, it is still less than the costs of directing the material to the landfill. In June 2014 City Council adopted a supplemental budget resolution appropriating funds for the purchase of a truck tractor and transfer trailers which was necessary to provide adequate equipment for the transportation of recyclables to the processing plant in Montgomery, Alabama. The Mayor's Office continues to work with other local officials on a longer-term solution for processing recyclables closer to the Pensacola area. Beginning July 7, 2014 the City began delivering test loads to Tarpon Paper in Loxley, Alabama to ensure they have the capacity to handle the volume of recyclables from the City. Once it has been determined that Tarpon Paper can accommodate the City's capacity, then an agreement will be pursued.

In total, third quarter Sanitation expenses were consistent with budget.

Port Fund:

Through the first nine months of fiscal year 2014, O & M expenses and encumbrances (including total City sponsored pension costs) were below operating revenues and fund balance by \$116,600. Operating revenues for FY 2014 were \$187,700 below the FY 2013 operating revenues for the same time period. The majority of this decrease is attributed to a decline in rent revenue with the closure of the Port's liquid asphalt terminal. The Port's new lease with Offshore Inland Marine will restore \$173,000 in rent to the Port's annual revenue stream. It is anticipated that the City's master real estate marketing contract with CBRE will result in additional land rent opportunities for the Port. Adjustments to revenues and expenses have been addressed on the supplemental budget resolution.

Port expenses, in total, were at or below budget and were \$252,600 less than FY 2013 expenses for the same time period. With the revenue fluctuations experienced, staff continues to operate at minimal costs in order to meet revenues.

All Port lease payments have been paid and are current with exception of CEMEX, who as of August 4, 2014 had an outstanding balance of \$18,447 which was less than 60 days past due. Offshore Inland Marine's lease payments (rent) are current but dockage and other vessel fees, which Offshore Inland recovers from its customers and then remits to the port, continue to be slower to pay. As of the same date, this account had an outstanding balance of \$230,276.65 of

which \$190,462.47 was more than 60 days past due. However, typical payment cycles of the international marketplace can routinely run 90-120 days. Given this, combined with our customer's need to recover vessel fees and charges from their customers, Port Staff typically does not become overly concerned until invoices hit the 120+ column. With that column currently at just over \$83,000, the Port Director has sent a notice to the customer advising them that if the account is not brought current, they will be placed on payment-in-advance terms. All port customers, including non-lease general cargo shippers, continue to be subject to standard collection practices, including assessment of late payment penalties and regular issuance of past-due notices.

Airport Fund:

In total, the Airport revenue was below expenses and encumbrances (including total City sponsored pension costs) by \$717,700 for the third quarter. Revenues are not anticipated to meet budget. Reductions to both revenues and expenses have been addressed on the supplemental budget resolution.

When compared to the third quarter of FY 2013, passenger traffic at Pensacola International Airport has decreased by 0.30%. However, for the three months that comprised the third quarter of FY 2014 (April, May and June), the number of passengers actually increased by 2.20% over the same period in FY 2013. The increase for April, May and June is partially attributable to an increase in the number of seats available as a result of the American Airlines MD80 service and the use of 737s by Southwest Airlines.

Overall Airport operating revenues were \$560,400 below the FY 2013 operating revenue for the same time period mainly attributed to Airline Revenues. Southwest Airlines replaced AirTran Airways in November 2013. Southwest is currently under a two-year incentive plan, reducing revenues that would have otherwise been received from AirTran. It should be noted that the Airport's agreement with the airlines provides for the airlines to fund any shortfall, excluding incentives, should that occur.

Expenses for the quarter are consistent with budget.

Insurance Retention Fund / Central Services Fund:

These funds are categorized as internal service funds. They provide a service to the City's other operating funds. Revenues and expenses in these funds were consistent with budgeted levels.

Investment Schedule / Debt Service Schedule:

Also provided for information is a listing of City investments and a listing of the City's various debt issues.

The weighted interest rates received on investments during the third quarter of the last three fiscal years are as follows:

	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>
April	0.20%	0.18%	0.23%
May	0.19%	0.19%	0.23%
June	0.18%	0.18%	0.25%

Legal Costs Schedule:

A schedule of legal costs paid directly to attorneys and/or firms who have provided services to the City has also been included in the quarterly report. This schedule lists the payee, the amount paid and the nature of the services provided to the City.