

..Title Staff Report for Fiscal Year (FY) 2014-15 Year End Financial Review
..Staffreport

SUMMARY AND RECOMMENDATION

This report provides an update on FY 2014-15 financial performance for all City funds through June 30, 2015 and unaudited year-end results for the General Fund and the City's other operating funds. This report is for informational purposes only. Audited year-end results will be provided in the City's Comprehensive Annual Financial Report (CAFR); scheduled to be completed in December.

BACKGROUND

The City Council adopted the 2014-15 budget on June 3, 2013 and has modified it at various points since. General Fund revised revenue projections for FY 2014-15 equal \$84.5 million; a positive variance of \$2.9 million over original adopted revenue projections of \$81.6 million. General Fund adjusted expenditure appropriations for FY 2014-15 equal \$90.4 million; an increase of \$7.6 million over original adopted expenditure appropriations of \$82.8 million.

DISCUSSION

This report provides the City Council with a summary of revenues and expenditures through June 30, 2015 and compares them to the adjusted budget. As previously mentioned, the presentation of financial data to the City Council is prior to the completion of the audited financial statements.

Now that most of the major revenues for the fiscal year have been received and expenditures appropriately charged to last year have been posted, the Finance Department is better able to analyze year-to-date trends and year-end projections. Below is an analysis of revenues and expenditures for the General Fund and other key operating funds.

In this report, notable increases have occurred in sales tax (up 10%) and real property transfer tax (up 56%). The Bay Area's strong economic rebound has occurred since 2008, spurred by quantitative easing and low unemployment. However, the cycle will swing downward at some point which will have a dramatic effect on the City's economics. During this positive cycle, the City Council has approved Prioritizing Unfunded Liability Liquidation (PULL program), which would set-aside a portion of surplus revenue to reduce long term liabilities. Retiree health care and pension liabilities are approved for pay down. Additional effort to address aging City infrastructure and unfunded capital improvements is needed, guided by Measure HH ballot language.

General Fund Revenue

In total, year-end actuals for General Fund revenues indicate a positive variance of \$7.2 million over revised revenue projections for FY 2014-15. This is primarily due to the receipt of an

additional \$3.0 million in sales tax (helped by passage of the Measure HH sales tax add-on), \$1.4 million in property transfer tax, and \$540,000 in business license taxes. All other revenues show a positive variance of \$2.3 million over revised revenue projections for FY 2014-15. *Please refer to Table 1 in the attachment.*

Sales Tax (+\$2,969,000) Sales tax represents San Leandro's largest General Fund revenue source. This increase has been led by across the board increases in all sales tax categories with the business to business sector, auto parts / repair, and electronic equipment sales showing the largest increases. Per the last quarterly report (Q1 2015) from the City's sales tax consultants, San Leandro's business to business sector increased by 46.9% when compared to the Quarter 1 (Q1) of 2014. Electronic equipment and auto parts / repair rose 780.1% and 25.6%, respectively, over the same time period. Measure Z and the newly adopted Measure HH represent \$5.7 million of the total sales tax revenue received and will continue for 30 years; ending March 31, 2045.

Property Transfer Tax (+\$1,401,000) Property Transfer Tax revenue is tied directly to all real property sales. It is a volatile revenue source and difficult to predict more than one year at a time. Factors that affect the revenue generated by Transfer Taxes are the sale price of property and the volume of property sold. Property Transfer Tax showed of positive variance of \$1.4 million (56%) over the adjusted budget and increased by \$638,000 (20%) over the prior year actuals of \$3.3 million.

Business License Tax (+\$540,000) Business License Tax is heavily influenced by not only the state of the economy, but also the continued diligence of City staff to ensure that all businesses within San Leandro comply with the City's business license regulations and pay their appropriate share of business license taxes in a timely manner. Total business license taxes collected for FY 2014-15 equal \$5.2 million; an increase of \$400,000 over FY 2013-14 year-end actuals of \$4.8 million.

General Fund Expenditures

The 2014-15 Adjusted Expenditure Budget totals \$90.4 million and represents a \$7.6 million increase over the Adopted Expenditure Budget due to encumbrance carryovers from the prior fiscal year (funded by dedicated fund balance), and one time Council approved items from unanticipated savings at the end of 2013-14. *Year-End activity by department is summarized on Table 2 of the attached document.* Overall year-end actual expenditures were 5.0% less than the Adjusted Expenditure Budget for FY 2014-15.

Summary Expenditures

The Non-Departmental budget overage of \$1.1 million is due primarily to a \$507,000 reclassification of termination payoffs and \$800,000 in unrealized Interdepartmental Service Charges and Vacancy Savings in Employees Services. Rising need for services necessitated the quicker filling of vacant positions than originally anticipated when the budget was first prepared.

The Police budget overage of \$53,000 is minimal and primarily due to higher than expected personnel costs in several divisions.

The Fire Department is within budgetary appropriations, but also shows a negative expenditure amount under Supplies and OPEB. This is due to correcting accounting entries needed for the \$600,000 annual ACFD OPEB set aside. In speaking with the City's external auditors, our prior accounting for this item was incorrect. Previously, it had been shown as expenditure in the current year and then also recorded as a liability. Since the ACFD contract does not specifically require that the City pay for OPEB expenses, it should not be shown as a liability of the City. Nevertheless, the City can still choose to set aside a part of its General Fund reserve balance annually for this payment and that is what City staff did in FY 2015 per advice of its external auditors. Thus, \$1.2 million in entries for FY 2014 and FY 2015 were reversed in the Fire's expenditure account, causing a net \$600,000 negative expenditure, and added to fund balance reserve specifically for Fire OPEB. The liability was also removed. Future set asides will be handled the same way. The intent of the Council to set aside \$600,000 annually will still be present, but the accounting for it will better adhere to generally accepted accounting principles (GAAP).

General Fund Year-End Summary

The 2014-15 year-end forecast for the General Fund has improved over the Adopted Budget, largely due to a greater amount of year-end revenues than expenditures, unspent project funds and prior year carryover of the Economic Uncertainty reserve surplus. It also reflects \$1.2 million currently reserved for ACFD OPEB payments as previously discussed. Revised projections for 2014-15 reflect an operating increase in undesignated fund balance of \$8.1 million over the adopted budget. Overall, staff projects a net fund balance in the General Fund of \$22.9 million, an improvement of \$13.2 million over the Adopted Budget. *Please refer to Table 3 in the attachment.*

All Other Funds

In addition to the City's General Fund, City operations are supported by a number of other funds. Projected savings and budget modifications are all reflected in the estimated ending fund balances. *Please refer to Table 4 in the attachment.*

- The Parking Fund decreased \$67,000 due to increased maintenance costs and revenues that were less than anticipated. Staff continues to monitor revenues and expenditures in the Parking Fund.
- The Asset Seizure Fund decreased \$62,000 due to the expected use of seizure funds to finance appropriate and needed purchases within the Police Department. These purchases may not have been made absent Asset Seizure Funds.

- The Water Pollution Control Plant (WPCP) Fund decreased \$8.4 million and this was mainly due to the recording of \$13 million in pension liability expense per GASB 68. This was partially offset by an increase to the fund balance of \$5 million for Capital Improvement projects.
- The Storm Water Fund decreased \$34,000 due to projects deferred to 2014-15.
- The Building Maintenance Fund decreased \$469,000 due to increased maintenance costs and internal service charge revenues that were less than anticipated. Staff continues to monitor revenues and expenditures in the Building Maintenance Fund.
- The Information Technology Fund decreased \$481,000 due to projects deferred to 2014-15.

CONCLUSION

This report provides an update on the 2014-15 budget performance and unaudited results for the General Fund and the City's other operating funds. Better than expected revenues across the board and lower than expected expenditures in each department were the primary drivers in producing a positive budget balance.

Staff will present recommendations for designating portions of fund balance with the first quarter report, expected in the next few months.

ATTACHMENTS

- Table 1 – General Fund Revenues
- Table 2 – General Fund Expenditures
- Table 3 – General Fund Summary
- Table 4 – All Other Funds Summary

Year-End Financial Report - FY 2015
City of San Leandro

Table 1 - General Fund Revenues
(in thousands)

	2014-15 Adjusted	2014-15 Actual	\$Over/ (Under)
Taxes:			
Property Taxes	18,480	18,898	418
Sales Tax	29,979	32,948	2,969
Utility User Tax	10,114	10,359	245
Franchise Fees	4,419	4,845	426
Document Property Transfer Tax	2,519	3,920	1,401
Business Licenses	4,649	5,191	542
911 Tax	2,700	2,974	274
Other Taxes	403	541	138
Subtotal Taxes	73,263	79,677	6,413
Other Revenues:			
Licenses & Permits	1,850	1,954	105
Interest & Property Income	1,204	1,165	(40)
Revenue From Other Agencies	1,039	1,248	209
Service Charges	2,551	3,175	624
Fines, Fees & Forfeitures	1,340	1,525	185
Other Revenue	3,240	2,964	(276)
Subtotal Other Revenue	11,224	12,030	806
Subtotal Operating Revenue	84,487	91,707	7,219
Operating Transfers	-	-	-
Total General Fund Revenue	84,487	91,707	7,219

Table 2 - General Fund Expenditures
(in thousands)

Department	2014-15 Adjusted	2014-15 Actual	\$Over/ (Under)
General Administration	6,279	5,444	(835)
Council, Clerk, City Attorney			
City Manager, Human Resources			
Community Development	5,771	4,185	(1,586)
Engineering & Transportation	2,740	2,675	(66)
Finance	2,453	2,289	(164)
Fire Contract	19,665	19,666	0
Fire Supplies & OPEB	919	(193)	(1,112)
Library	5,029	4,906	(123)
Police	29,466	29,518	53
Public Works	4,805	4,629	(175)
Recreation & Human Services	5,127	4,510	(617)
Non Departmental	834	1,945	1,111
Debt Service	4,727	4,360	(367)
Subtotal Operating Expenditures	87,815	83,934	(3,881)
Transfers	2,584	2,584	-
Total Expenditures	90,399	86,517	(3,881)

Table 3 - General Fund Summary
(in thousands)

	2014-15 Adopted	2014-15 Projected	Variance
Major Emergencies	5,000	5,000	-
Economic Uncertainty	4,742	7,412	2,670
Community Impact	-	1,200	1,200
Reserve for ACFD OPEB	-	1,200	1,200
Total Designated Fund Balance	9,742	14,812	5,070
Undesignated Fund Balance	-	8,124	8,124
Total Fund Balance	9,742	22,936	13,194

Table 4 - All Other Funds Summary
(in thousands)

	2014-15 Beginning Fund Balance	2014-15 Ending Fund Balance	Change to Fund Balance
132 Parking	(37)	(104)	(67)
140 Gas Tax Operations	1,123	1,600	477
146 Asset Seizure	814	752	(62)
147 Heron Bay Maintenance District	805	820	15
148 Cherrywood Maintenance District	318	342	24
165 - 167 Housing Funds	220	436	216
168 Affordable Housing Asset Fund	910	1,129	219
170 Business Improvement District	3	117	114
180 Public Education & Government	187	312	125
593 Water Pollution Control Plant	52,937	44,556	(8,381)
594 Environmental Compliance	1,418	1,575	157
597 Shoreline	(2,049)	(1,222)	827
598 Storm Water	239	205	(34)
687 Building Maintenance	2,051	1,582	(469)
688 Information Technology	2,375	1,894	(481)
689 Insurance Services	1,164	2,229	1,065
690 Equipment Maintenance	2,877	3,588	711
Total Change to Fund Balance - Other Funds			(5,544)