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Staff Report for the Mid-Year Financial Report as of December 31, 2017 (Information Only)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the Mid-Year Financial Report as of December 31, 2017.

BACKGROUND

The Adopted Fiscal Year (FY) 2017-18 General Fund, Special Revenue Funds, and Enterprise Funds Budget guides and ensures implementation of City Council policies and priorities. The budget implements the vision and direction for the broad range of services that meet the needs of the community in accordance with City Council policy. This financial review as of December 31, 2017 provides the mid-year budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through December 31, 2017 measure operational adherence to the established budgetary allocation plan.

DISCUSSION

The adopted budget incorporates the estimated revenues and planned expenditures for all funds. The attached 2017-18 Mid-Year Financial Report as of December 31, 2017 provides revenue and expenditure summaries for the General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds. The following discussion offers comparison to the prior year and focuses on variances from the revenue and expenditure plans and allocations contemplated in the budgetary allocation plan.

General Fund

The General Fund finances the operations of the City that have no special or dedicated revenue sources and pays for basic municipal services. Projected 2017-18 General Fund expenditures, which are shown as the Adjusted Budget after Council approved amendments, total \$117 million. Expected revenues of \$109 million, including \$8 million contributed from fund balance, finance the anticipated expenditures.

Total mid-year revenue in 2017-18 amounts to \$39.9 million or 37% of the total Adopted Budget (compared to 37% in 2016-17). Expenditures at mid-year amount to \$53.2 million or 46% of the budget (compared to 44% in 2016-17). Thus, the City's overall General Fund expenditure burn rate is in line with the prior fiscal year and expenditures are expected to stay within budgetary appropriations come year-end. Nevertheless, expenditures will continue to be closely monitored throughout the fiscal year.

Highlights from mid-year activity in the General Fund and other funds are set forth below.

General Fund Revenue

The City's top five General Fund revenue sources are detailed below, as will year over year revenue variances that are greater than 15% and \$500,000.

(1) Sales Tax (32% of adopted budget compared to 34% in 2016-17) - Sales Tax is the City's largest revenue source and is 40% of total general fund revenue estimates. The current year's estimate for Sales Tax revenue is \$2.5 million greater than budgeted in 2016-17. Overall, Sales Tax decreased by \$192,000 or 1% from the same period last year, but is expected to be greater than 2016-17 through the current fiscal year.

(2) Property Tax (48% of adopted budget compared to 46% in 2016-17) - Property Tax is the City's second largest revenue source and is 20% of total general fund revenue estimates. The current year's estimate for Property Tax revenue is \$426,000 greater than budgeted in 2016-17. Overall, Property Tax increased by \$606,000 or 6% from the same period last year and is expected to be greater than 2016-17.

(3) Utility Users Tax (36% of adopted budget compared to 35% in 2016-17) - Utility Users Tax is the City's third largest revenue source and is 11% of total general fund revenue estimates. The current year's estimate for utility users tax revenue is \$107,000 greater than budgeted in 2016-17. Year over year growth increased by \$198,000 or 5% from the same period last year.

(4) Business License Tax (14% of adopted budget compared to 6% in 2016-17) - Business License Tax is the City's fourth largest revenue source and is 6% of total general fund revenue estimates. The current year's estimate for Business License Tax revenue is \$817,000 greater than budgeted in 2016-17. The mid-year reflects an increase of \$551,000 or 175% from the same period last year, likely due to the implementation of an online payment system. Year-end totals are expected to meet or exceed budgetary estimates and be greater than 2016-17.

(5) Franchise Fees (26% of adopted budget compared to 25% in 2016-17) - Franchise Fees are the City's fifth largest revenue source and are 4% of total general fund revenue estimates. The current year's estimate for Franchise Fees revenue is \$121,000 greater than budgeted in 2016-17.

Franchise Fees increased by \$79,000 or approximately 7% from the same period last year. Franchise Fees are expected to meet estimates and be slightly greater than 2016-17.

Detailed below are other General Fund revenue sources with year over year variances that are greater than 15% and \$500,000.

Licenses & Permits (59% of adopted budget compared to 46% in 2016-17) -Licenses & Permits revenue increased by \$588,000 or 63% largely due to a high volume of services provided by the City's Building division and the fees charged therefrom. The Building division's revenue increased by \$369,000, year over year. Furthermore, the receipt of long range planning fees increased by \$116,000 in fiscal year 2017-18.

As reported in the attached Mid-Year Financial Report, all other taxes and revenue receipts are relatively in line with budgeted revenues. The third quarter report will show a closer estimate to what the year-end results will reflect.

General Fund Expenditures

The General Fund's mid-year expenditures total \$53.2 million or 46% of the adopted budget. Year over year, General Fund expenditures increased by \$9.7 million. This increase is largely due to an \$8.3 million prepayment of PERS costs, of which the General Fund incurred \$6.7 million. The increase in expenditures is also attributed to an increased allocation to the Information Technology and Equipment Maintenance Internal Service Funds.

Enterprise & Internal Service Funds

Four Enterprise Funds make up the City's business type operations. The Water Pollution Control Plant Fund, the Environmental Services Fund, the Shoreline Enterprise Fund, and the Storm Water Fund are City municipal operations designed to fully recover costs through user fees. Internal Service Funds also operate as business activities, exclusively supporting the City's internal operations. Facilities Maintenance, Information Technology, Insurance Services, and Equipment Maintenance make up these Internal Service Funds.

Detailed below are the year over year Enterprise & Internal Service Funds expenditure or revenue variances that are greater than 15% and \$500,000.

Insurance Services (689) - Revenue increased by \$214,000 or 11% from 2016-17. Expenditures decreased by \$1.3 million in 2017-18 due to lower workers' compensation insurance costs and a FY 2017, second quarter transfer of \$750,000 to PARS for Other Post Employment Benefits. The timing of this year's \$750,000 transfer to PARS will occur in the third quarter.

Equipment Maintenance (690) - Revenue increased by \$1.2 million from 2016-17 due to a larger internal service fund allocation to fund the repair, maintenance, and replacement of city-owned vehicles. As a result, expenditures also increased by \$846,000 for the aforementioned and expected costs.

Special Revenue Funds

Revenues and expenses for the City's operating Special Revenue Funds are included in the mid-year financial report. These funds include the Parking Fund, Gas Tax Fund, Heron Bay Maintenance Fund, Housing Services Funds, Business Improvement District Fund, and Public Education & Government Access Fund.

Detailed below are the year over year Special Revenue Funds expenditure or revenue variances that are greater than 15% and \$500,000:

Parking (132) - Revenue increased by \$589,000 or 491% solely due to a transfer of \$600,000 from the Successor Agency to the City of San Leandro Redevelopment Agency for capital improvements related to the implementation of the City's Parking Strategy.

ATTACHMENTS

- Mid-Year Financial Report

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