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Staff Report for the Mid-Year Financial Report as of December 31, 2012 and a Budget Amendment Reflecting Mid-Year Adjustments to the City's Fiscal Year 2012-13 General Fund, Special Revenue Funds, Enterprise Funds and Internal Service Funds Budget

SUMMARY AND RECOMMENDATION

Staff recommends that the City Council review and accept the Mid-Year Financial Report as of December 31, 2012, and adopt a resolution approving a Budget Amendment Reflecting Mid-Year Adjustments for the 2012-13 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget.

BACKGROUND

The City Council-approved 2012-13 General Fund, Special Revenue Funds, and Enterprise Funds Budget in the annual plan and resource allocation 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, 2012 provides the mid-year budget update to the City Council for the new fiscal year. Analysis of the revenues collected and all expenditures through December 31, 2012 measures the budget's adherence to the established resource allocation plan.

The City Council approves annual budgets based on the best revenue and expenditure information available several months prior to the actual adoption of budget appropriations. As a result, budget adjustments are periodically necessary for changes that arise and require additional budget appropriations or re-appropriations between budget line items. The City Council approved the current 2012-13 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget on June 4, 2012.

DISCUSSION

The adopted budget incorporates the estimated revenues and planned expenditures for all funds. The attached 2012-13 Mid-Year Financial Report as of December 31, 2012 provides the revenue and expenditure summary for the General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds. The following discussion focuses on variances from the revenue and expenditure plans and allocations contemplated in the budgets.

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 2012-13 General Fund expenditures total \$77.2 million. Expected revenues of \$77.2 million, including \$2.05 million contributed from fund balance, finance the anticipated expenditures.

Total mid-year revenue in 2012-13 amounts to \$31.5 million, 42% of total budget (compared to 43% in 2011-12). This year's estimated revenues are higher by nearly \$3.4 million. Expenditures at mid-year amount to \$36.1 million, 47% of the budget (compared to 48% in 2011-12). This year's estimated expenditures are higher by \$5.5 million.

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

General Fund Revenue

- **Property Tax** (52% of budget compared to 52% in 2011-12)-The current year's budget for property tax revenue is \$1.6 million greater than budgeted in 2011-12. The first payment of property tax from the secured roll by Alameda County was received on December 13, 2012 in which the City received \$693,000 in property tax revenue due to the dissolution of Redevelopment.
- **Sales Tax** (42% of budget compared to 39% in 2011-12)-The current year's budget for sales tax revenue is \$782,000 higher than budgeted in 2011-12. Overall, sales tax increased by 10% from the same period last year and represents a 9% increase in local sales tax receipts and a 12% increase in the Sales Tax Backfill payment.
- **Property Transfer Tax** (53% of budget compared to 62% in 2011-12) - Mid-year revenue reflects a decrease of \$198,000 due to the sale of the 840- unit Lakeside Village apartments in 2011-12 that increased revenue by \$660,000. Adjusting for the large sale in 2011-12, Property Transfer tax revenue is up by 53% for the first six months of the fiscal year. As reported in the first quarter, Alameda County stated that the revenue for the first quarter was actually higher than the prior year by 90%; transaction volume is up by 14%. This increase is reflected in the first quarter receipts and represents a 91% increase over the prior fiscal year.
- **Charges for Services** (47% of budget compared to 62% in 2011-12)-Charges for services was higher in 2011-12 based on payments from Kaiser Hospital for fire review and inspection fees.
- **Licenses & Permits** (49% of budget compared to 74% in 2011-12)-Licenses & Permits revenue reflect timely receipts in line with the budgeted revenues. Kaiser Hospital permit fees of \$500,000 in 2011-12 account for the higher levels in the previous year.

As reported in the attached Mid-Year Financial Report, all other taxes and revenue receipts are 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

- **Police** - (50% of budget compared to 51% in 2011-12)-The current year's Police expenditure budget is \$429,000 less than budgeted in 2011-12. The decrease is primarily due to the transfer of certain Retirement System costs to debt service to fund annual pension obligation debt payments in the amount of \$1.6 million. First quarter expenditures are in line with the annual budget.
- **Community Development** - (43% of budget compared to 48% in 2011-12). The current year's budget for Community Development is \$1.0 million more than in 2011-12 primarily due to the transfer of Business Development and Housing Services from the former Redevelopment Agency.
- **Debt Service** - (44% of budget compared to 52% in 2011-12) - For the first half of 2011-12, debt service payments increased by \$577,000 due to payment made for the pension obligation bonds.
- **Transfers** - Transfers increased by \$749,000 due to one-time appropriations approved during the adoption of the 2012-13 budget, \$540,000 was re-appropriated for Building Maintenance projects, \$20,000 for Project Literacy and, in September 2012, \$400,000 was transferred to the Self-Insurance fund to fully fund the ICFG Settlement.

Enterprise & Internal Service Funds

Four Enterprise Funds make up the City's business type operations. The Water Pollution Control Plant Fund, Environmental Services Fund, 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 funds.

Enterprise & Internal Service Funds

- **Water Pollution Control Plant** - Overall revenues increased by a modest 1% primarily due to a rate increase for Sewer Service Fees. Expenditures increased by 63% due to the construction costs for the renovation of the existing Plant. Total project cost is estimated at \$50 million and is expected to be completed by early 2015.
- **Self Insurance** - Expenditures increased by \$2.5 million in 2012-13 primarily due to the ICFG Settlement of \$2.3 million.
- **Facilities Maintenance** - Revenue in the 2012-13 budget includes \$540,000 from 2011-12 fund balance to complete various capital improvement projects.

Special Revenue Funds

Revenues and expenses for the City's operating Special Revenue Funds are included in the report. Revenues and expenditures for the Parking Fund, Gas Tax Fund, Heron Bay Maintenance Fund, Housing Services Funds, Business Improvement District Fund, and the Public Education & Government Access Fund are provided.

Special Revenue Funds

- **Parking Fund** - Revenues at mid-year are at 36% of budget due to the construction of the parking garage which opened in November 2012. Budgeted revenues had projected an opening of the Downtown Garage in September 2012.
- **Gas Tax Fund** - Revenues at mid-year are at 43% of budget due to a delay in the receipt of funds from the State in 2012-13.
- **Heron Bay** - Revenues are at 84% of budget due to the accrual of assessments into the first half of the year that represent nearly the entire year of assessments. Last year, the assessments were recorded after the mid-year.

Budget Adjustments

The attached summary of budget adjustments reflects budget activity recorded by the Finance Department over the first six months of 2012-13. The proposed amendment adjustments are summarized including the fund, the sources of additional revenues or transfers, and the purpose of new expenditures or transfers.

The total change in the projected ending fund balance for the General Fund amounts to \$680,081. New General Fund revenues are estimated to be \$61,405, leaving \$618,676 in unfunded new General Fund expenditures.

Capital Improvement projects that were carried over from FY 2011-12 are funded by existing revenues and are included in various Special Revenue and Capital Project Funds (see Attachment 1). All of the Special Grant Fund projects (\$8,624,256) in the budget amendment are funded by newly approved grants (\$163,497) and previously approved grant funds (\$8,460,759).

Current Agency Policies

- The City Council approves all adjustments to the City's revenue and expenditure appropriations.

Previous Actions

- The City Council adopted the 2012-13 City Budget on June 4, 2012. In the past, Mid-Year Financials were presented for review and approval to the Finance Committee. However, the Finance Committee has been suspended for the calendar year 2013

Fiscal Impacts

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ATTACHMENT

- Mid-Year Financial Report

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