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Staff Report for the First Quarter Financial Report as of September 30, 2016 (Information Only)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the First Quarter Financial Report as of September 30, 2016.

BACKGROUND

The Adopted Fiscal Year (FY) 2016-17 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 September 30, 2016 provides the First Quarter budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through September 30, 2016 measures operational adherence to the established budgetary allocation plan.

DISCUSSION

The adopted budget incorporates the estimated revenues and planned expenditures for all funds. The attached 2016-17 First Quarter Financial Report as of September 30, 2016 provides revenue and expenditure summaries 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 budgetary allocation plan and also offers comparison to the prior year.

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 2016-17 General Fund expenditures, which are shown as the Adjusted Budget after Council approved amendments, total \$100.3 million. Expected revenues of \$100.5 million finance the anticipated expenditures.

Total First Quarter revenue in 2016-17 amounts to \$8.2 million or 9% of the total Adopted Budget (compared to 10% in 2015-16). Expenditures at end of the First Quarter amount to \$18.2 million or 19% of the budget (compared to 22% in 2015-16). 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 and subsequent financial reports will allow for more accurate year-end projections given increased data. Highlights from First Quarter activity in the General Fund and other funds are set forth below and in the attachment to this report. The City's top five General Fund revenue sources will be detailed below.

General Fund Revenue

The following details the City's top five General Fund revenue sources:

(1) Sales Tax (8% of budget compared to 9% in 2015-16) - Sales Tax is the City's largest revenue source and is 41% of total general fund revenue estimates. The current year's budget for Sales Tax revenue is \$288,000 lower than budgeted in 2015-16 due to unwinding of the "Triple Flip" and a large one-time cleanup payment of \$3.8 million made in FY 2015-16 that will not continue in FY 2016-17. Overall, Sales Tax decreased by 9% from the same period last year, but this is due to timing of when receipts are recorded and Sales Tax is expected to meet or exceed estimates.

(2) Property Tax (3% of budget compared to 2% in 2015-16) - Property Tax is the City's second largest revenue source and is 21% of total general fund revenue estimates. The current year's budget for Property Tax revenue is \$2.3 million greater than budgeted in 2015-16. The first secured roll Property Tax payment made by Alameda County will be received in December 2016 and thus, current data is not yet sufficient to project year-end results. Nevertheless, Property Taxes will be monitored closely and are expected to meet estimates and be greater than 2015-16.

(3) Utility Users Tax (14% of budget compared to 15% in 2015-16) - Utility Users Tax is the City's third largest revenue source and is 12% of total general fund revenue estimates. The current year's budget for utility user tax revenue is \$1.5 million greater than budgeted in 2015-16 due to new UUT revenues now being received from mobile phone providers. Utility User Taxes are 6% less than prior year at same time, but are expected to meet estimates and be greater than 2015-16.

(4) Business License Tax (1% of budget compared to 3% in 2015-16) - Business License Tax is the City's fourth largest revenue source and is 5% of total general fund revenue estimates. The current year's budget for Business License Tax revenue is \$511,000 greater than budgeted in 2015-16 due to an improving economy and compliance efforts of City staff. The First Quarter reflects a decrease of \$107,000 or 65% due to the timing of payment processing. Renewals are sent in December and processing can be delayed or accelerated depending on staffing levels and the holiday closure. The third quarter will reflect a more comparable analysis, but year-end totals are expected to meet or exceed budgetary estimates and be greater than 2015-16.

(5) Franchise Fees (2% of budget compared to 2% in 2015-16) - Franchise Fees are the City's

fifth largest revenue source and are 4% of total general fund revenue estimates. The current year's budget for Franchise Fees revenue is \$44,000 greater than budgeted in 2015-16. Year over year growth of 4% growth is consistent with a stable economy and franchise rates that rise annually in accordance with inflation and the consumer price index (CPI). Franchise Fees are expected to meet estimates and be greater than 2015-16.

Due to limited data received as of the end of the First Quarter, this report will not attempt to explain General Fund year over year revenue variances that are equal to or greater than + or - 10%. However, such variances will be explained in subsequent financial reports if applicable and as previously noted, total First Quarter revenue in 2016-17 amounts to \$8.2 million or 9% of the total Adopted Budget (compared to 10% in 2015-16). Please refer to the attached table for more information on year over year revenue variances.

General Fund Expenditures

Due to limited data received as of the end of the First Quarter, this report will not attempt to explain General Fund year over year expenditure variances that are equal to or greater than + or - 10%. However, such variances will be explained in subsequent financial reports if applicable and as previously noted, expenditures at end of First Quarter amount to \$18.2 million or 19% of the budget (compared to 22% in 2015-16). Please refer to the attached table for more information on year over year expenditure variances.

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.

Due to limited data received as of the end of the First Quarter, this report will not attempt to explain Enterprise & Internal Service Funds year over year revenue and expenditure variances that are equal to or greater than + or - 10%. However, such variances will be explained in subsequent financial reports if applicable. Please refer to the attached table for more information on year over year revenue and expenditure variances.

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.

Due to limited data received as of the end of the First Quarter, this report will not attempt to explain Special Revenue Funds year over year revenue and expenditure variances that are equal to or greater than + or - 10%. However, such variances will be explained in subsequent financial reports if applicable. Please refer to the attached table for more information on year over year revenue and

expenditure variances.

ATTACHMENTS

- First Quarter Financial Report

PREPARED BY: David Baum, Finance Director, Finance Department