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Staff Report for the 2013-14 Year-End Financial Review

SUMMARY AND RECOMMENDATION

This report provides an update on the 2013-14 financial performance for all City funds through June 30, 2014 and unaudited year-end results for the General Fund and the City's other operating funds. This report is for information only.

BACKGROUND

The City Council adopted the 2013-14 budget on June 3, 2013, with General Fund expenditures of \$80 million. As reported to the City Council in May 2014, revised revenue and expenditure projections at the third quarter showed a \$1.8 million improvement to the original General Fund budget. Economic conditions indicate recovery despite 7.3% statewide unemployment, according to the State's Employment Development Department. San Leandro's fiscal condition has improved over original projections, the City's unemployment rate is 6.0% and the median home price is \$445,000 according to Trulia.com. Lower mortgage rates have spurred investments in housing. Despite the improving housing market, which represents 63% of the City's tax roll, assessed values increased less than 1% in 2013-14. Lower interest rates have also boosted purchases of large ticket items, such as automobiles and home improvements, which boosted sales tax revenue by 9.5% in the City.

DISCUSSION

This report provides the City Council with a summary of revenues and expenses through June 30, 2014, including modified year-end projections, with the books closed but 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.

General Fund Revenue

As previously reported to the City Council, staff can report some positive net revenue adjustments based on actual receipts. In total, year-end projections indicate a net increase of General Fund revenues over the Adopted Budget of \$5.45 million, primarily due to the receipt of an additional \$2.0 million in sales tax, \$660,000 in property tax, \$763,000 in

property transfer tax, and an increase of \$1.1 million in other taxes. All other revenues increased by \$1.1 million. *Please refer to Table 1 in the attachment.*

Property Tax (+ \$660,000) Property tax revenues increased as a direct result of the elimination of the Redevelopment Agency and the corresponding increase in property tax revenue (partially offsetting the \$11 million loss of Tax Increment revenue) to the City. Information from the County Assessor indicated net land, improvements and personal property value growth is less than 1% for 2013-14.

Sales Tax (+\$2,016,000) Sales tax represents San Leandro's largest General Fund revenue source. As noted above, transportation and home improvement tax receipts have boosted sales tax. Therefore, staff is now adjusting Sales Tax projections for the current year to \$29.1 million. This reflects a \$2.0 million increase over the original estimate of \$27.1 million. Measure Z represents \$4.6 million of the total sales tax revenue received.

Property Transfer Tax (+\$763,000) Property Transfer Tax revenue is tied directly to all real property sales, is a volatile revenue source, and is 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 increased by \$763,000 (30%) over the adopted budget and increased by \$326,000 (11%) over the prior year actuals. In FY 13-14, 28 property transactions greater than \$1 million versus 18 such transactions in the prior year accounted for most of the growth in Transfer Tax.

General Fund Expenditures

The adopted General Fund expenditure budget totals \$80.0 million. The 2013-14 Adjusted Budget totals \$82.3 million and represents a \$2.3 million increase over the Adopted 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 2012-13. *Year-End activity by department is summarized on Table 2 of the attached document.*

Payroll expense is 2.2% less than budgeted Salaries and Benefits, an overall savings of \$818,000.

Summary of Year-End Expenditures

Non-Departmental budget overage is due primarily to the \$1.0 million paid to the San Leandro Hospital and \$700,000 salary savings allocated to the Departments' actual expenses.

Overall departmental savings currently total \$1.6 million.

General Fund Year-End Summary

The 2013-14 year-end forecast for the General Fund has improved over the Adopted Budget, largely due to an increase in projected revenues, salary savings, unspent project funds and prior year carryover of the Economic Uncertainty reserve surplus. Revised projections for 2013-14 reflect an operating increase in undesignated fund balance of \$4.3 million. Overall, staff projects a net fund balance in the General Fund of \$18.4 million, an improvement of \$5.4 million over Adopted Budget. *Please refer to Table 3 in the attachment.*

The General Fund summary represents a snapshot in time. Many one-time expenditures were deferred to FY 14-15, including: "Next Generation" improvements (\$500,000), Hospital Subsidy (\$1,000,000), Casa Peralta improvements (\$300,000), and 777 Alvarado acquisition (\$300,000). These deferred, "one-time" expenses total \$2.1 million, which will reduce General Fund reserves when completed and would have reduced the current year surplus to \$2.2 million.

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 \$68,000 due to increased maintenance costs and revenues that were less than

anticipated. Staff continues to monitor revenues and expenditures in the Parking Fund.

- The Public Education and Government Fund decreased \$263,000 due to the costs associated with the upgrade of the City Council Chambers for televised and recorded City Council meetings.
- The Information Technology Fund decreased \$287,000 due to projects deferred to 2013-14.
- The Water Pollution Control Plant (WPCP) Fund increased \$3,475,000. The Fund Balance will be used to complete the WPCP renovation project and to pay back the State loan, which totals \$36 million as of June 30, 2014.

CONCLUSION

This report provides an update on the 2013-14 budget performance and unaudited results for the General Fund and the City's other operating funds. Better than expected sales tax, property tax, other revenue, reduced payroll expense, deferred projects and carryover fund balances from the prior year were 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.

ATTACHMENT

- Tables

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