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Staff Report for Third Quarter Financial Report as of March 31, 2015 for the 2014-15 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 Third Quarter Financial Report as of March 31, 2015 for the 2014-15 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget.

BACKGROUND

The City Council-approved 2014-15 General Fund, Special Revenue Funds, and Enterprise Funds Budget in the annual plan and resource allocation that 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 March 31, 2015 provides the third quarter budget update to the City Council for the new fiscal year. Analysis of the revenues collected and all expenditures through March 31, 2015 measures the budget's adherence to the established resource allocation plan.

DISCUSSION

The adopted budget incorporates the estimated revenues and planned expenditures for all funds. The attached 2014-15 Third Quarter Financial Report as of March 31, 2015 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 2014-15 General Fund expenditures total \$89.4 million. Projected revenues are \$87.5 million, an increase of \$3.2 million over the original projection.

Total third quarter revenue in 2014-15 amounts to \$55.4 million, 66% of total budget (compared to 67% in 2013-14). Expenditures through the third quarter in 2014-15 amount to \$60.7 million, 70% of the budget (compared to 69% in 2013-

14). This year's projected expenditures are higher by \$3.1 million compared to the Adopted Budget in 2014-15.

Highlights from third quarter activity and year-end estimates in the General Fund and other funds are set forth below. Year-over-year changes of equal to or greater than +/- 5% will be explained.

General Fund Revenue

- **Sales Tax** (62% of budget compared to 63% in 2013-14)-The current year's budget for sales tax revenue is \$2.9 million higher than budgeted in 2013-14. Overall, sales tax increased by 9% from the same period last year and represents a 9% increase in local sales tax receipts and a 10% increase in the Sales Tax Backfill payment. Year-end projections reflect an increase of \$1.3 million over the Adopted Budget and is primarily due to the passage of Measure HH effective April 1, 2015.
- **Business License Tax** (91% of budget compared to 88% in 2013-14)-Third quarter reflects an increase of \$229,000 due to the timing of payment processing and continued improvement in the economy. Renewals are sent in December of each year and processing varies based on staffing levels and the holiday closure. Revenues are expected to meet the budgeted amount of \$4.6 million.
- **Other Taxes** (66% of budget compared to 79% in 2013-14)-Other taxes are mainly comprised of Transient Occupancy Tax charged to guests that stay in San Leandro hotels. The current year's budget for other tax revenue is \$97,000 higher than budgeted in the 2013-14. Overall, other taxes increased by 10% from the same period last year and the increase is reflective of an improving economy where more people travel for business and leisure. Year-end projections equal the budgeted amount of \$403,000.
- **Charges for Services** (84% of budget compared to 72% in 2013-14)-The current year's budget for charges for services is nearly identical to the budget for 2013-14. Overall, charges for services increased by 17% from the same period last year and are primarily due to Madea Alta Apartment Construction Fees. Year-end projections are expected to beat adopted budgetary estimates by \$648,000.
- **Fines, Fees & Forfeitures** (53% of budget compared to 56% in 2013-14)-The current year's budget for fines, fees, and forfeitures equals the budget for 2013-14. Overall, fines, fees, and forfeitures decreased by 6% from the same period last year; mainly due to a \$123,000 decrease in red-light camera fines. As citizens become more familiar with San Leandro's red-light cameras and adopt safer driving habits, it is expected that fine revenue will decrease. While a decrease in revenue is not ideal, an increase in safety is in line with the intended purpose of the red-light cameras. Year-end projections are expected to miss adopted budgetary estimates by \$175,000.
- **Licenses & Permits** (71% of budget compared to 107% in 2013-14)- The current year's budget for licenses and permits is \$276,000 higher than the budget for 2013-14. However, overall, licenses and permits decreased by 22% from the same period last year; mainly due to a \$518,000 decrease in building permit fees. The timing of major projects caused this decrease and it is expected to correct itself by year end. Year-end projections are expected to be \$162,000 greater than adopted budgetary estimates and \$320,000 greater than 2013-14 year-end actuals.
- **Other Revenue** (52% of budget compared to 104% in 2012-13) -Other revenue represents miscellaneous reimbursements, sales of property and equipment, and Cherry Festival receipts that vary from year to year. Revenue from this category was projected to reach \$1.3 million by year-end. However, these projections also include \$606,000 from the sale of property and that may not occur before year-end.

As reported in the attached Third Quarter Financial Report, all other taxes and revenue receipts show a closer projection to what the year-end results will reflect.

General Fund Expenditures

- **General Administration** - (53% of budget compared to 70% in 2013-14)-General Administration increased by 10% or \$295,000 compared to the same time period in 2013-14. This is due to necessary election expenses in November 2014 (\$93,000), an increased commitment to the innovation program (\$30,000), increasing human resources and recruitment activity costs (\$88,000), and increases in the community investment program (\$31,000).
- **Finance** - (67% of budget compared to 78% in 2012-13)-Finance decreased by 12% or \$228,000 compared to the same time period in 2013-14. The decrease reflects staffing vacancies in several areas as well as a Sales Tax Audit performed in 2013-14 that discovered two major companies underreporting sales taxes. These audits are ongoing annual efforts and the cost of the audit is based on the sales tax consultant's findings. It is not expected that the consultant will discover major findings in 2014-15.
- **Police** - (75% of budget compared to 72% in 2013-14)-Police increased by 13% or \$2.5 million compared to the same time period in 2013-14. This increase is primarily due to salary and benefit increases equaling \$1.4 million and vehicle replacements totaling \$739,000.

- **Fire** - (65% of budget compared to 64% in 2013-14)-The City contracts for Fire Services with the Alameda County Fire Department. Fire costs increased by 5% or \$579,000 compared to the same time period in 2013-14. These cost increases were expected as the budget for 2014-15 is \$506,000 greater than the budget for 2013-14.
- **Community Development** - (62% of budget compared to 67% in 2013-14). The third quarter expenditures for Community Development are \$191,000 (7%) higher than in 2013-14 primarily due to increases in planning services (\$97,000) and business development (\$82,000).
- **Non-Departmental** - (144% of budget compared to 106% in 2013-14). The third quarter expenditures for Non-Departmental are \$193,000 (38%) higher than in 2013-14 primarily due to increases for the California Conservatory Theater (\$44,000) and a \$135,000 settlement for a utility user tax program lawsuit.
- **Transfers** - (227% of budget compared to 101% in 2013-14). Transfers increased by \$1.8 million due to recently approved additional appropriations for Siempre Verde Park improvements (\$1.1 million) and the purchase of the 777 Alvarado parcel (\$300,000).

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** - Expenditures decreased by 36% or \$5.7 million due to the Water Pollution Control Plant rehabilitation project getting closer to completion in 2014-15. There were still significant capital expenditures for this project in 2013-14.
- **Environmental Services** - Revenues increased by 16% or \$128,000 mainly due to misc. revenues of \$91,000 coming from Shell and other sources. These items are sporadic in nature.
- **Shoreline Enterprise** - Expenditures decreased by 16% or \$227,000 due to one-time capital improvements performed at the Monarch Bay Golf Course in 2013-14 that were not needed in 2014-15.
- **Facilities Maintenance** - Expenditures increased by 13% or \$255,000 due to rising building (\$76,000) and pool (\$25,000) maintenance expenses as well as continued capital expenditures for the City Hall South End Roof Replacement (\$93,000) and the Public Safety HVAC Equipment Replacement (\$25,000).
- **Information Technology** - Expenditures grew by 10% or \$269,000 due to increased telephone and computer costs (\$112,000), continued project costs related to the conversion of building permit software to Accela (\$118,000), and the purchase of new information services equipment (\$61,000).
- **Insurance Services** - Revenues increased 24% or \$702,000 due to higher internal service fees charged to City departments (\$880,000). These added costs were budgeted for and expected in 2014-15. Expenditures increased by 56% or \$1.25 million due higher worker's compensation costs (\$347,000), rising fire insurance premiums (\$144,000), and new contributions made to fund the City's annual required contribution (ARC) for other post-employment benefits (OPEB) (\$750,000).
- **Equipment Maintenance** - Revenues increased 40% or \$615,000 due to added depreciation and rental costs charged to City departments for newly purchased vehicles. Expenditures decreased by 10% or \$131,000 due to fewer vehicle purchases made in 2014-15 as compared to 2013-14.

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** - Revenues decreased by 5% or \$9,000 due to lower monthly parking permits sold (-\$24,000). This was partially offset by higher parking meter receipts (\$6,000) and parking garage daily use tickets sold (\$9,000).
- **Gas Tax Fund** - Revenues increased 10% or \$160,000 due to higher gas tax revenues received from the State (\$180,000). This was partially offset by lower operating transfers in to the Gas Tax Fund from the General Fund (-\$30,000). Expenditures increased by 17% or \$187,000 due entirely to added costs related to street maintenance.

- **Heron Bay** - Expenditures increased by 13% or \$21,000 due to rising marshland management costs.
- **Housing Services** - Revenues increased 6% or \$44,000 due to new Alameda County reimbursements for housing rehabilitation (\$100,000) and higher loan repayments for housing services coming from various sources (\$93,000). These increases were partially offset by decreases to CDBG grants (-\$89,000) and housing services reimbursements (-\$63,000). Expenditures increased by 152% or \$705,000 due to rising costs for the annual sidewalk program (\$48,000) and the first payment made for the Madea Alta Apartments predevelopment activities (\$640,000).
- **Business Improvement District** - Revenues increased 63% or \$150,000 due entirely to higher business improvement district licenses and permits. Expenditures decreased by 21% or \$44,000 due to lower Links Shuttle costs.
- **Public Education & Government Fund (PEG)** - Revenues increased 8% or \$7,000 due to higher public access fees earned. Expenditures decreased by 86% or \$376,000 due to one-time costs related to the City Council video enhancement project in 2013-14.

ATTACHMENT

- Third Quarter Financial Report as of March 31, 2015

PREPARED BY: David Baum, Finance Director