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Staff Report for the 2nd Quarter Financial Report as of December 31, 2016 (Information Only)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the 2nd Quarter Financial Report as of December 31, 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 December 31, 2016 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, 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 Mid-Year Financial Report as of December 31, 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 \$101.9 million. Expected revenues of \$100.7 million, including \$1.2 million contributed from fund balance, finance the anticipated expenditures.

Total mid-year revenue in 2016-17 amounts to \$37.3 million or 39% of the total Adopted Budget (compared to 37% in 2015-16). Expenditures at mid-year amount to \$42.2 million or 44% of the budget (compared to 44% 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 the third quarter financial report will allow for more accurate year-end projections given increased data.

Highlights from mid-year activity in the General Fund and other funds are set forth below. The City's top five General Fund revenue sources will be detailed as will year over year revenue variances that are equal to or greater than + or - 10%.

General Fund Revenue

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

(1) Sales Tax (35% of adopted budget compared to 30% in 2015-16) - Sales Tax is the City's largest revenue source and it comprises 41% of total general fund revenue estimates. The current year's estimate for Sales Tax revenue is \$865,000 greater than budgeted in 2015-16. Overall, Sales Tax increased by \$2.1 million or 18% from the same period last year and this is a clear sign of an improved economy in San Leandro. The City's commercial, retail, and industrial sectors have rebounded quite nicely since the Great Recession.

(2) Property Tax (50% of adopted budget compared to 49% 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 estimate 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 was received in December 2016 and resulted in the City receiving \$5.5 million compared to \$5.2 million in December 2015. Overall, Property Tax increased by \$539,000 or 6% from the same period last year. Property Taxes are expected to meet estimates and be greater than 2015-16.

(3) Utility Users Tax (39% of adopted budget compared to 41% in 2015-16) - Utility Users Tax (UUT) is the City's third largest revenue source and is 12% of total general fund revenue estimates. The current year's estimate for utility users tax revenue is \$1.5 million greater than budgeted in 2015-16 due mainly to UUT being charged for the first time to pre-paid cellular phone plans. Nevertheless, year over year growth decreased by \$72,000 or 2% and UUT will be watched closely throughout the fiscal year.

(4) Business License Tax (11% of adopted budget compared to 10% 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 estimate for Business License Tax revenue is \$511,000 greater than budgeted in 2015-16. Mid-Year reflects an increase of \$38,000 or 8% 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. Nevertheless, year-end totals are expected to meet or exceed budgetary estimates and be greater than 2015-16.

(5) Franchise Fees (25% of adopted budget compared to 26% 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 estimate for Franchise Fees revenue is \$44,000 greater than budgeted in 2015-16. Year over year growth of \$1,000 or approximately 0% growth means that this is a relatively flat category despite inflationary factors normally affecting Franchise Fees. Franchise Fees are expected to meet estimates and be slightly greater than 2015-16, but will be closely watched.

The following details General Fund year over year revenue variances that are equal to or greater than + or - 10% and are presented in the order they are shown on the mid-year financial report:

Property Transfer Tax (66% of adopted budget compared to 59% in 2015-16) - Property Transfer tax increased in the first half of the fiscal year by \$187,000 or 13% due to an ever-improving housing market in 2016-17, the sales of Trailer Haven, and the former Kraft and Georgia Pacific sites. However, because Property Transfer tax is tied directly to the sale of real property, it is difficult to predict and can vary from year to year. As such, it should not be relied on as a stable source of revenue for ongoing operations.

Interest & Property Income (60% of adopted budget compared to 37% in 2015-16) - Interest and Property Income reflects an increase of \$281,000 or 64%. This is primarily due to more detailed cash flow analysis prepared by City staff, which allowed for liquid assets that weren't needed for immediate operations to be placed into accounts that bear greater return than the City's general checking account. Nevertheless, while bearing higher returns, the investment vehicles used still conform to the City's investment policy of safety, liquidity, and return. Therefore, the City still has sufficient liquid assets to meet its ongoing operational needs. Interest and Property Income also increased due to an improved Fixed Income investment market the past 6 months as well as higher returns generated by the Local Agency Investment Fund (LAIF).

Intergovernmental (25% of adopted budget compared to 84% in 2015-16) - Intergovernmental Revenues decreased in the first half of the fiscal year by \$594,000 or 70%. Nevertheless, the timing of these funds is highly unpredictable and is often dependent on when the City's submits reimbursement requests to granting agencies. As such, City staff still expects budget estimates to be met by year-end and will work to ensure the timely submittal of grant reimbursement requests.

Licenses & Permits (46% of adopted budget compared to 54% in 2015-16) - Licenses & Permits decreased in the first half of the fiscal year by \$166,000 or 15%. This could be indicative of a softening construction sector, but it must also be weighed in light of tremendous growth in FY 2015-16. City staff still expects budget estimates to be met by year-end and will watch this area closely.

Other/Transfer (33% of adopted budget compared to 28% in 2014-15)- Other revenue increased by \$29,000 or 17% primarily due to an increase in donations received by the City, greater Police Abandoned Vehicle fees, and greater Sidewalk Repair fees.

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 following details General Fund year over year expenditure variances that are equal to or greater than + or - 10% and are presented in the order they are shown on the mid-year financial report:

Engineering and Transportation - (54% of adopted budget compared to 51% in 2015-16) - The current year's mid-year expenditures are \$191,000 or 14% more than in 2015-16 and reflect more staff time and consulting expense spent on capital projects. Higher costs also represent increases to salaries and benefits as a result of new labor agreements, normal step level adjustments, and rising PERS costs.

Public Works (53% of adopted budget compared to 47% in 2015-16) - The current year's mid-year expenditures are \$335,000 or 15% more than in 2015-16 and reflect increased costs for salaries due to new labor agreements, expanded use of part-time staff, increased street and grounds repairs, purchase of traffic control cabinets and parks maintenance supplies, higher PERS and healthcare costs, and higher water costs for landscape maintenance.

Debt Service - (10% of adopted budget compared to 33% in 2015-16) - The current year's mid-year expenditures are \$1.0 million or 65% less than in 2015-16. This is entirely due to an internal timing issue of when debt service payments are recorded. Staff expects debt service payments to equal budgetary appropriations by end of the fiscal year.

Transfers (1% of adopted budget compared to 0% in 2015-16) - The current year's mid-year expenditures are \$50,000 or 100% greater than in 2015-16. This is again due to an internal timing issue of when interfund transfers are recorded. Staff expects transfers to equal budgetary appropriations by end of the fiscal year.

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.

The following details year over year Enterprise & Internal Service Funds expenditure or revenue variances that are equal to or greater than + or - 10% and are presented in the order they are shown on the mid-year financial report:

Water Pollution Control Plant (593) - Revenues decreased by \$7.1 million or 77% and this is due to the timing of when residential sewer service property tax assessments are recorded by the Finance Department. Staff expects revenue estimates to be fully met by year-end. Expenditures increased by \$1.6 million or 28% due to the first principal and interest payment of a loan to the State Water Resources Control Board. This is offset by capital improvement cost no longer needed for plant renovation.

Environmental Services (594) - Expenditures increased by \$55,000 or 11% due to increases to salaries and benefits as a result of new labor agreements, normal step increases, rising PERS costs,

and more funds dedicated to the City's recycling program.

Storm Water (598) - Revenues decreased by \$1.1 million or 100% and this is entirely due to when residential storm water property tax assessments are recorded. Staff expects revenue estimate to be fully met by year-end.

Facilities Maintenance (687) - Expenditures decreased by \$287,000 or 18% due to lower costs than last fiscal year for building maintenance, HVAC repair and replacement, electricity, and replacement of windows at the Marina Community Center.

Information Technology (688) - Expenditures increased by \$260,000 or 14% due to higher software maintenance costs than last fiscal year at the same time period.

Insurance Services (689) - Revenues decreased by \$198,000 or 10% due to lower interest income allocated to the fund and lower reimbursements of insurance expenses from outside sources. Expenditures increased by \$247,000 or 10% due to a greater amount paid out for legal settlements and judgements as well as insurance premiums.

Equipment Maintenance (690) - Expenditures decreased by \$276,000 or 25% due to lower costs than last fiscal year for equipment maintenance and vehicle purchases.

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.

The following details year over year Special Revenue Funds expenditure or revenue variances that are equal to or greater than + or - 10% and are presented in the order they are shown on the mid-year financial report:

Gas Tax - Street Maintenance (140) - Expenditures decreased by \$350,000 or 27% due to new traffic signs purchased prior fiscal year and not this fiscal year, decreased asphalt purchases, decreased administrative support costs to the General Fund, and less equipment purchases.

Asset Seizure (146) - Revenues decreased by \$9,000 or 16% due to lower seizure disbursements received by granting agencies. Expenditures increased by \$23,000 or 337% due to new eligible expenditures of Asset Seizure funds.

Heron Bay (147) - Revenues decreased by \$2,000 or 103% due entirely to the timing of special tax assessments recorded by mid-point of 2015-16 that were not yet recorded at mid-point of 2016-17. - Expenditures decreased by \$31,000 or 27% due to lower construction and consulting expenses related to the Heron Bay Assessment District.

Housing Funds (165 - 167) - Revenues increased by \$231,000 or 86% due primarily to higher Community Development Block Grant (CDBG) payments and HOME Fund project reimbursements from Alameda County. Expenditures increased by \$265,000 or 91% primarily due to Citywide ADA

upgrades.

Business Improvement District (170) - Revenues decreased by \$57,000 or 377% due increased State Grant payments received year to date. Expenditures increased by \$120,000 or 92% due entirely to increased LINKS Shuttle expenses.

Public Education & Government Fees Fund (180) - Expenditures increased by \$18,000 or 89% due to additional upgrades to the City Council Chambers and payments made to the vendor responsible for streaming City Council and other meetings.

ATTACHMENTS

- Mid-year Financial Report

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