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Staff Report for the Third Quarter Financial Report as of March 31, 2016 (Information Only)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the Third Quarter Financial Report as of March 31, 2016.

BACKGROUND

The Adopted Fiscal Year (FY) 2015-16 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 March 31, 2016 provides the third quarter budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through March 31, 2016 measure operational adherence to the established budgetary allocation plan.

DISCUSSION

The adopted budget incorporates the estimated revenues and planned expenditures for all funds. The attached 2015-16 Third Quarter Financial Report as of March 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. Currently projected 2015-16 General Fund expenditures total \$94.9 million. Expected revenues of \$98.9 million, finance the anticipated expenditures; leaving a projected operating surplus of \$4.0 million in 2015-16.

Total third quarter year-to-date revenue in 2015-16 amounts to \$59.3 million or 62% of the total Adopted Budget (compared to \$55.4 million and 66% in 2014-15). Expenditures at the end of the third quarter in 2015-16 amount to \$62.9 million or 67% of the budget (compared to \$60.7 million 70% in 2014-15). Thus, the City's overall General Fund expenditure burn rate is in line with the prior fiscal year and expenditures are expected to be under revenues come year-end. Nevertheless, expenditures will continue to be closely monitored throughout the end of the fiscal year.

Highlights from third quarter year-to-date activity in the General Fund and other funds are set forth below. The City's top 5 General Fund revenue sources will be detailed as will significant variances.

General Fund Revenue

The following details the City's top 5 General Fund revenue sources:

(1) Sales Tax (53% of budget compared to 62% in 2014-15) - Sales Tax is the City's largest revenue source and is 42% of total general fund revenue estimates. The current year's budget for Sales Tax revenue is \$10.3 million higher than budgeted in 2014-15 due to passage of Measure HH. Overall, Sales Tax increased by 15% from the same period last year, again largely due to the passage of Measure HH, and staff expects revenues to meet projections by year-end. Year-to-date revenues compared to year-end revenue estimates are low, but that is entirely due to a Sales In-Lieu ("The Triple Flip") clean up payment of \$3.8 million, which is not expected to be received by the City until later in the fiscal year.

(2) Property Tax (63% of budget compared to 62% in 2014-15) - Property Tax is the City's second largest revenue source and is 20% of total general fund revenue estimates. The current year's budget for Property Tax revenue is \$554,000 greater than budgeted in 2014-15. Based on year-to-date annual growth of 5%, Property Taxes are expected to meet estimates and be greater than 2014-15.

(3) Utility Users Tax (67% of budget compared to 67% in 2014-15) - Utility Users Tax is the City's third largest revenue source and is 11% of total general fund revenue estimates. The current year's budget for utility users' tax revenue is \$101,000 greater than budgeted in 2014-15. Year over year growth of 1% is consistent with a stable economy and utility rates which rise annually in accordance with inflation and the consumer price index (CPI). Utility user taxes are expected to meet estimates and be slightly greater than 2014-15. Consumer and business conservation efforts though keep growth minimal.

(4) Business License Tax (92% of budget compared to 91% in 2014-15) - 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 \$93,000 greater than budgeted in 2014-15. The end of the Third Quarter reflects a year-over-year increase of \$120,000 or 3%. Year-end totals are expected to meet or exceed budgetary estimates and be greater than 2014-15.

(5) Franchise Fees (49% of budget compared to 49% in 2014-15) - Franchise Fees are the City's

fifth largest revenue source and are 5% of total general fund revenue estimates. The current year's budget for Franchise Fees revenue is \$44,000 greater than budgeted in 2014-15. Year over year growth of 1% 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 2014-15. Consumer and business conservation efforts though keep growth minimal.

The following details other 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 third quarter financial report:

Property Transfer Tax (90% of budget compared to 76% in 2014-15) - Property Transfer tax has increased by 18% due to ever improving housing market in 2015-16. However, because Property Transfer tax is tied directly to the sale of real property, it is difficult to predict from year to year and should not be counted on as a stable source of ongoing operating revenue.

Other Taxes (78% of budget compared to 66% in 2014-15) - Other Taxes which mainly include Transient Occupancy Tax increased in the first half of the fiscal year by 18% and this reflects an improving economy which allows for greater personal and business travel.

Interest & Property Income (53% of budget compared to 74% in 2014-15) - Interest and Property Income reflects a decrease of \$261,000 or 29% due to relatively flat fixed income interest rates and overall stagnation in the investment market for 2015-16. The Federal Reserve is expected to raise interest rates sometime in calendar year 2016 and this could boost interest income slightly.

Fines, Fees, & Forfeitures (85% of budget compared to 53% in 2014-15) - Fines, Fees, & Forfeitures increased in the first three quarters of the fiscal year by 34% and this is indicative of increased enforcement activity and more timely receipt of revenue from the courts.

Licenses & Permits (90% of budget compared to 71% in 2014-15) - Licenses & Permits increased in the first three quarters of the fiscal year by 37%; led by a \$434,000 or 57.2% increase in Building Permit revenue when compared to the third-quarter of 2014-15.

Other/Transfer (35% of budget compared to 52% in 2014-15)- Other revenue decreased by 62% since 2014-15 included the one-time receipt of \$112,350 as an issuer fee for the refinancing of debt previously issued by the Redevelopment Agency.

As reported in the attached Third Quarter Financial Report, all other taxes and revenue receipts are relatively in line with budgeted revenues and estimates.

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 third quarter financial report:

General Government - (64% of budget compared to 53% in 2014-15)- General Government expenditures decreased by \$360,000 or 11% through the third quarter due to consulting services related to projects including Medical Cannabis, State Level Advocacy, Public Opinion research, and

other administrative projects which were in 2014-15, but not in 2015-16. The Budget decreased by \$1.3 million mainly due to the shift of Community Investment Fund budget and expenditures to the Non-Departmental category.

Finance - (73% of budget compared to 67% in 2014-15) - Third quarter year-to-date expenditures are \$266,000 or 16% higher than in 2014-15. The increase is primarily due to the full-year staffing of several positions (Assistant Finance Director and Purchasing Agent) that were largely vacant in 2014-15.

Community Development - (71% of budget compared to 62% in 2014-15) - Third quarter year-to-date expenditures for the Community Development Department are \$584,000 or 19% more than in 2014-15 due to fuller staffing levels, bargained salary increases, and increased activity that comes with enhanced business retention efforts and commercial and residential construction projects. Some expenses related to an improving economy and increased building and planning activity are offset by fee revenue.

Non-Departmental - (20% of budget compared to 144% in 2014-15) - Third quarter year-to-date for Non-Departmental are \$102,000 or 15% less than in 2014-15 due to timing of payments for Community Assistance Grants. Non-Departmental expenditures are expected to be close to budget appropriations by year end.

Transfers - Transfers decreased by \$739,000 or 29% since the third quarter of 2014-15 included the full-realization of budgeted appropriations whereas 2015-16 transfers won't occur until later in 2015-16. Transfers are manually made by journal entry.

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 third-quarter financial report:

Water Pollution Control Plant - Expenditures decreased by \$1.6 million or 26% due to the completion of the Plant renovation. Total project cost was estimated at \$50 million and the plant renovations had their public dedication and open house in April 2016. Revenues also increased by 39% due to City receiving a \$4 million settlement from a manufacturer for a piece of non-functioning equipment.

Environmental Services - Revenues decreased by \$232,000 or 25% due to a decrease in grant funds received (-\$43,000), a decrease in charges for service (\$21,000), and an annual transfer in of \$132,782 from the Water Pollution Control Plant for Sewer Inspections that was recorded as of the third-quarter of 2014-15, but not yet in 2015-16.

Shoreline Enterprise - Expenditures decreased by \$324,000 or 27% due to a \$197,000 golf course debt service payment not yet recorded in 2015-16, \$31,000 less spent for Abandoned Watercraft Grant efforts, \$172,000 in Marina debt service payments not yet recorded in 2015-16.

Storm Water - Expenditures increased by \$102,000 or 13% due entirely to increased street cleaning activity.

Facilities Maintenance - Revenues increased by \$403,000 or 18% due entirely to an increase in interdepartmental charges assessed on other City divisions. Expenditures increased by \$254,000 or 12% due to continued capital improvements to City Facilities including roof, window, and HVAC repairs.

Insurance Services - Revenues increased by \$1.1 million or 32% due to a \$1.75 million transfer of General Fund operating surplus to the Self-Insurance Fund to pay down unfunded retiree healthcare expenses. This is part of the City's Prioritizing Unfunded Liability Liquidation (PULL) program. Expenditures increased by \$1.1 million or 32% due to a higher level of premiums and claims paid in 2015-16 as opposed to 2014-15 at the same point in the fiscal year. Specific claims cannot be discussed due to confidentiality.

Equipment Maintenance - Revenues decreased by \$440,000 or 20% due to one- time heavy equipment replacements and new police vehicles in 2014-15. Expenditures increased by \$454,000 or 38% due to quicker recordation of Police Vehicle Leasing payments in 2015-16.

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 third quarter financial report:

Parking Fund - Expenditures decreased by \$29,000 or 13% due primarily to decreases in parking meter costs. The City is no longer paying a major non-operational parking vendor that is in bankruptcy proceedings.

Gas Tax - Street Maintenance - Revenues decreased by \$702,000 or 39% due to a significant decline in gasoline prices and a change in methodology used by the State to disburse Highway User Tax revenues. Expenditures increased by \$488,000 or 38% due to new traffic signs purchased, continually increasing costs to repair and maintain the City's streets due to wear and tear, and the City's street sealing program that was not done by the third quarter of 2014-15.

Asset Seizure - Revenues increased by \$53,000 or 651% due to new seizure disbursements received by granting agencies. Expenditures increased by \$17,000 or 92%, due to increased revenues which allowed seized funds to be spent on appropriate expenditures.

Heron Bay - Revenues decreased by \$341,000 or 99% due entirely to the timing of special tax assessments recorded by the third quarter of 2014-15 that were not yet recorded by the third quarter of 2015-16. Expenditures increased by \$79,000 or 43% due to \$25,000 in increased costs for Marshland Maintenance and \$43,000 paid to Alameda County due to repair and maintenance efforts performed by their staff.

Housing Funds - Revenues decreased by \$425,000 or 51% due primarily to decreases in Community Development Block Grant (CDBG) payments. Expenditures decreased by \$753,000 or 64% due to a development payment made to Allied Housing for \$640,000 for the Cornerstone Apartments predevelopment in 2014-15.

Business Improvement District - Expenditures increased by \$249,000 or 150% due entirely to expansion of the Links Shuttle service.

Public Education & Government Fees Fund - Expenditures decreased by \$29,000 or 48% due to the completed upgrade of the City Council Chambers in 2014-15 to allow for video access to meetings.

ATTACHMENT

- Third Quarter Financial Report

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