



Legislation Details (With Text)

File #: 18-225 **Version:** 1 **Name:** Discussion on FY 2017-18 Third Quarter Financial Report

Type: Staff Report **Status:** Filed

In control: City Council

On agenda: 5/21/2018 **Final action:** 5/21/2018

Enactment date: **Enactment #:**

Title: Staff Report for the 3rd Quarter Financial Report as of March 31, 2018 (Information Only)

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Finance Director

Indexes:

Code sections:

Attachments: 1. Q3 FY2017-18 Financial Report 5.3.18

Date	Ver.	Action By	Action	Result
5/21/2018	1	City Council	Received and Filed	Pass

Staff Report for the 3rd Quarter Financial Report as of March 31, 2018 (Information Only)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the 3rd Quarter Financial Report as of March 31, 2018.

BACKGROUND

The Adopted Fiscal Year (FY) 2017-18 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, 2018 provides the 3rd Quarter budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through March 31, 2018 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 2017-18 3rd Quarter Financial Report as of March 31, 2018 provides revenue and expenditure summaries for the General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds. The following discussion offers comparison to the prior year and focuses on variances from the revenue and expenditure plans and allocations contemplated in the budgetary allocation plan.

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 2017-18 General Fund expenditures, which are shown as the Adjusted Budget after Council approved amendments, total \$117.6 million. Expected revenues of \$109 million, along with \$8.6 million contributed from fund balance, finance the anticipated expenditures.

Total third quarter revenue in 2017-18 amounts to \$69.8 million or 64% of the total Adopted Budget (compared to 64% in 2016-17). Expenditures at the end of the third quarter amount to \$72.1 million or 63% of the budget (compared to 72% in 2016-17). The City's overall General Fund expenditure burn rate is slower than the prior fiscal year and expenditures are expected to stay within budgetary appropriations come year-end. Furthermore, expenditures will continue to be closely monitored throughout the fiscal year.

Highlights from third quarter activity in the General Fund and other funds are set forth below.

General Fund Revenue

The City's top five General Fund revenue sources are detailed below, as will year over year revenue variances that are greater than 15% and \$500,000.

(1) Sales Tax (57% of adopted budget compared to 59% in 2016-17) - Sales Tax is the City's largest revenue source and is 40% of total general fund revenue estimates. The current year's estimate for Sales Tax revenue is \$2.5 million greater than budgeted in 2016-17. Overall, Sales Tax increased by \$744,000 or 3% from the same period last year. This is due to strong performance within the Construction and Heavy Industry sectors. Sales tax in the current fiscal year is expected to be greater than 2016-17.

(2) Property Tax (66% of adopted budget compared to 58% in 2016-17) - Property Tax is the City's second largest revenue source and is 20% of total general fund revenue estimates. The current year's estimate for Property Tax revenue is \$426,000 greater than budgeted in 2016-17. Overall, Property Tax increased by \$1.9 million or 15% from the same period last year. The large increase is partially due to the Tax Cuts and Jobs Act that limits the deduction of income, sales, and property taxes to \$10,000 effective the 2018 tax year. With its passing, many homeowners elected to pay the 2nd installment of their property tax in the 2017 tax year, which was included within the March property tax remittance from the County.

(3) Utility Users Tax (59% of adopted budget compared to 60% in 2016-17) - Utility Users Tax is the City's third largest revenue source and is 11% of total general fund revenue estimates. The current year's estimate for utility users tax revenue is \$107,000 greater than budgeted in 2016-17. Year over year, utility users tax revenue decreased by \$68,000 but is expected to meet or exceed budgetary estimates.

(4) Business License Tax (88% of adopted budget compared to 85% in 2016-17) - Business License Tax is the City's fourth largest revenue source and is 6% of total general fund revenue estimates. The current year's estimate for Business License Tax revenue is \$817,000 greater than budgeted in 2016-17. The end of the third quarter reflects an increase of \$913,000 or 21% from the

same period last year, likely due to the implementation of an online payment system that is more efficient and user friendly. Year-end totals are expected to meet or exceed budgetary estimates and be greater than 2016-17.

(5) Franchise Fees (51% of adopted budget compared to 50% in 2016-17) - 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 \$121,000 greater than budgeted in 2016-17. Franchise Fees increased by \$100,000 or approximately 4% from the same period last year. Franchise Fees are expected to meet estimates and be slightly greater than 2016-17.

Detailed below are other General Fund revenue sources with year over year variances that are greater than 15% and \$500,000.

Licenses & Permits (88% of adopted budget compared to 71% in 2016-17) - Licenses & Permits revenue increased by \$827,000 or 58% largely due to services provided by the City's Building division and the fees charged therefrom. Revenue from building permits increased by \$502,044 year over year. Long Range Planning Fees and Building Automation Update Fees saw significant revenue increases in fiscal year 2017-18 as well.

As reported in the attached 3rd Quarter 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 General Fund's third quarter expenditures total \$72.1 million or 63% of the adopted budget. Year over year, General Fund expenditure increased by \$1.1 million. Detailed below are General Fund expenditure categories with year over year variances that are greater than 15% and \$500,000.

Police (75% of adopted budget compared to 76% in 2016-17) - The Police Department's total expenditures at the end of the third quarter totaled \$28.4 million, a \$3.7 million increase from the prior year. Of this amount, \$2.3 million is from increases to Salaries & Benefits, mainly due to the PERS Safety prepayment made in the first quarter of the fiscal year. This variance will further decrease as the fiscal year comes to a close. The remaining \$1.4 million is a result of increases to internal service charges, mainly for the replacement and maintenance of police vehicles.

Transfers (0% of adopted budget compared to 175% in 2016-17) - The variance of \$6.3 million within the General Fund interfund transfers is due to a \$6.2 million transfer to the Insurance Services Fund in fiscal year 2016-17. As part of the Prioritizing Unfunded Liability Liquidation (PULL) Program, the City contributed \$6.2 million into PARS for Other Post-Employment Benefits (OPEB).

Enterprise & Internal Service Funds

Four Enterprise Funds make up the City's business type operations. The Water Pollution Control Plant Fund, the Environmental Services Fund, the 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 Internal Service Funds.

Detailed below are the year over year Enterprise & Internal Service Funds expenditure or revenue variances that are greater than 15% and \$500,000.

Water Pollution Control Plant - The Water Pollution Control Plant has incurred \$11.5 million in expenditures through the first three quarters of fiscal year 2017-18. This is an increase of \$1.9 million from the prior year, mainly attributed to the rehabilitation of the plant and increased operational costs.

Information Technology - The Information Technology Fund has a revenue estimate of \$4.4 million for fiscal year 2017-18 which represents a \$756,000 increase from the prior year. The increased estimate is due to increased internal service charge allocations to fund upcoming IT projects in efforts to meet City Council's goals of transforming San Leandro into a center for innovation.

Insurance Services - Revenue decreased by \$5.9 million or 65% from the prior year. This is primarily due to a \$6.2 million transfer from the General Fund in fiscal year 2016-17 for an additional contribution to PARS for OPEB. Furthermore, expenditures decreased by \$6.8 million, mainly due to the aforementioned OPEB contribution of \$6.2 million.

Equipment Maintenance - Revenue for the Equipment Maintenance Fund increased by \$2.0 million from 2016-17 due to a larger internal service fund allocation to fund the repair, maintenance, and replacement of city-owned vehicles. As a result, expenditures also increased by \$1.5 million for the aforementioned and expected costs.

Special Revenue Funds

Revenues and expenses for the City's operating Special Revenue Funds are included in the mid-year financial report. These funds include the Parking Fund, Gas Tax Fund, Heron Bay Maintenance Fund, Housing Services Funds, Business Improvement District Fund, and Public Education & Government Access Fund.

Detailed below are the year over year Special Revenue Funds expenditure or revenue variances that are greater than 15% and \$500,000:

Parking - Revenue increased by \$585,000 or 320% solely due to a transfer of \$600,000 from the Successor Agency to the City of San Leandro Redevelopment Agency for Parking Fund expenditures related to implementation of the Downtown Parking Strategy.

Gas Tax - Expenditures for Gas Tax increased by \$509,000 from the prior fiscal year, solely attributed to maintenance of streets and roads funded by SB1.

ATTACHMENTS

- 3rd Quarter Financial Report

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