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Staff Report for Third Quarter Financial Report as of March 31, 2014 for the 2013-14 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, 2014 for the 2013-14 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget.

BACKGROUND

The City Council approved the 2013-14 General Fund, Special Revenue Funds, and Enterprise Funds Budget on June 3, 2013. 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, 2014 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, 2014 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 2013-14 Third Quarter Financial Report as of March 31, 2014 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 2013-14 General Fund expenditures total \$81.2 million. Projected revenues are \$81.2 million, an increase of \$1.8 million over the original projection.

Total third quarter revenue in 2013-14 amounts to \$52.9 million, 67% of total budget (compared to 66% in 2012-13). Expenditures through the third quarter amount to \$55.2 million, 69% of the budget (compared to 71% in 2012-13). This year's projected expenditures are higher by \$5.1 million compared to the Adopted Budget in 2012-13.

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

General Fund Revenue

- **Property Tax** (62% of budget compared to 65% in 2012-13)-The current year's Adopted Budget for property tax revenue is \$850,000 greater than that budgeted in 2012-13. Budgeted property tax from the secured/unsecured roll by Alameda County amounts to \$11.8 million; Vehicle License Fee (VLF) Swap amounts to \$6.1 million. The City received \$661,000 in property tax revenue due to the dissolution of Redevelopment, a decrease of \$369,000 due to an increase in debt payments made on behalf of the Successor Agency. The projected year-end property tax revenue is estimated to be \$273,000 higher than the Adopted Budget for 2013-14.
- **Sales Tax** (63% of budget compared to 64% in 2013-14)-The current year's budget for sales tax revenue is \$3.2 million higher than budgeted in 2012-13. Overall, sales tax increased by 12% from the same period last year and represents a 12% increase in local sales tax receipts and a 9% increase in the Sales Tax Backfill payment. Year-end projections reflect an increase of \$1.3 million over the Adopted Budget.
- **Business License Tax** (88% of budget compared to 83% in 2012-13)-Third quarter reflects an increase of \$301,000 due to the timing of payment processing. Renewals are sent in December of each year and processing varies based on staffing levels and the holiday closure. Revenues are expected to reflect the budgeted amount of \$4.6 million.
- **Licenses & Permits** (107% of budget compared to 68% in 2012-13)-Due to the upturn in the economy there has been significant development activity occurring in San Leandro which reflects a higher volume of Building Permits issued.
- **Other Revenue** (104% of budget compared to 54% in 2012-13) -Other revenue represents miscellaneous reimbursements, sales of property and equipment, and Cherry Festival receipts that vary from year to year. This category of revenue is expected to receive \$480,000 at year end which is an increase of \$37,000 from the Adopted Budget.

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

- **Finance** - (78% of budget compared to 72% in 2012-13)-As reported in the mid-year report, the increase reflects unexpected payments made to the Sales Tax Audit which discovers businesses that are not paying sales tax. The consultant is paid on commission and has discovered high value companies not reporting sales tax during the Fiscal Year.
- **Community Development** - (67% of budget compared to 64% in 2012-13). The third quarter expenditures for Community Development is \$396,000 (16%) higher than in 2012-13 primarily due to the continuing transfer of Business Development and Housing Services from the former Redevelopment Agency.
- **Non-Departmental** - (106% of budget compared to 85% in 2012-13). The Non-Departmental Budget for 2013-14 was reduced by \$700,000 to reflect vacancy and efficiency savings to balance the budget. Actual expenditures are expected to be lower in 2013-14 by \$327,000 primarily due to the elimination of the Utility Users Tax rebate program.
- **Debt Service** - (50% of budget compared to 56% in 2012-13) - Debt service payments decreased by \$486,000. The decrease includes savings of nearly \$290,000 from the 2013 City Hall Refunding.
- **Transfers** - Transfers decreased by \$441,000 due to one-time appropriations approved during the adoption of the 2012-13 budget, \$540,000 was re-appropriated for Building Maintenance projects, and \$20,000 for Project

Literacy. Current year expenditures include a transfer of \$768,000 from the General Fund to fund a deficit in the Street Maintenance operations due to maintenance costs exceeding Gas Tax Revenues.

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** - Overall revenues increased by 14% primarily due to a rate increase of 4% for industrial Sewer Service Fees and an increase of \$500,000 in Industrial Sewer service charges due to the availability of better measurement data in order to process more accurate billings.
- **Environmental Compliance** - Revenues decreased by 13% and Expenditures decreased by 15% primarily due to the transfer of Storm Water inspections now budgeted directly into the Storm Water Fund. Inspections were previously charged to the Environmental Services Fund.
- **Facilities Maintenance** - Revenues decreased by \$514,000 primarily due to a one time transfer for facility capital improvements in 2012-13.
- **Insurance Services** - Expenditures decreased by \$2.0 million in 2013-14 due to the extraordinary ICFG Settlement of \$2.3 million in 2012-13.
- **Equipment Maintenance** - Revenues increased by \$200,000 due to an increase in the service charges allocated to all departments. The increase in revenue pays for increases in gasoline and maintenance services on City vehicles.

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 Fund are provided.

Special Revenue Funds

- **Gas Tax Fund** - Revenues at the third quarter are at \$800,000 higher in 2013-14 due to the transfer of \$768,000 from the General Fund to support Street Maintenance Operations. Expenditures decreased by 17% due to the timing of construction maintenance.
- **Heron Bay** - Revenues increased by 23% due to the timing of payments received from Alameda County for the maintenance assessment fees.
- **Housing Services** - Expenditures decreased by \$184,000 due to capital improvements projects for curb ramps occurring in 2012-13.
- **Public Education & Government Fund (PEG)** - Expenditures increased by \$447,000 due to the City Council Chambers video project.

ATTACHMENTS

Third Quarter Financial Report as of March 31, 2014 for the 2013-14 General Fund, Special Revenue Funds, Enterprise Funds and Internal Service Funds Budget

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