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Title: Staff Report on the Third Quarter Financial Report as of March 31, 2013 for the 2012-13 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget and Quarterly Report on Sales Tax and Business Activity

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Staff Report on the Third Quarter Financial Report as of March 31, 2013 for the 2012-13 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget and Quarterly Report on Sales Tax and Business Activity

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and approve the Third Quarter Financial Report as of March 31, 2013 for the 2012-13 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget and attached Quarterly Report on Sales Tax and Business Activity.

BACKGROUND

The City Council-approved 2012-13 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, 2013 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, 2013 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 2012-13 Third Quarter Financial Report as of March 31, 2013 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 2012-13 General Fund expenditures total \$76.9 million. Projected revenues are

\$76.9 million, an increase of \$1.8 million over the original projection.

Total third quarter revenue in 2012-13 amounts to \$49.4 million, 66% of total budget (compared to 66% in 2011-12). Expenditures at the third quarter amount to \$54.2 million, 71% of the budget (compared to 71% in 2011-12). This year's projected expenditures are higher by \$830,000.

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** (65% of budget compared to 52% in 2011-12)-The current year's budget for property tax revenue is \$1.6 million greater than that budgeted in 2011-12. Property tax from the secured/unsecured roll by Alameda County amounts to \$7,000,000, VLF Swap amounts to \$3,008,000. The City received \$1,031,000 in property tax revenue due to the dissolution of Redevelopment. Nearly \$1,800,000 property tax was received in March 2013, (last year the property tax allocation was not received until the fourth quarter) resulting in higher property tax revenue reported in the third quarter of 2012-13. The projected year-end property tax revenue is estimated to be \$84,000 higher than the Adopted Budget for 2012-13.
- **Sales Tax** (64% of budget compared to 62% in 2011-12)-The current year's budget for sales tax revenue is \$782,000 higher than budgeted in the 2011-12. Overall, sales tax increased by 8% from the same period last year and represents a 6% increase in local sales tax receipts and a 12% increase in the Sales Tax Backfill payment. Year-end projections reflect an increase of \$1.9 million over the Adopted Budget.
- **Property Transfer Tax** (79% of budget compared to 83% in 2011-12)-Third quarter revenue reflects a decrease of \$428,000 due to the sale of the 840 unit Lakeside Village apartments in 2011-12 that increased revenue by \$660,000. Adjusting for the large sale in 2011-12, Property Transfer tax revenue is up by 45% for the third quarter of the fiscal year. The County reported that San Leandro's transaction volume is 12% higher through January compared to the same period last year.
- **Fines, Fees & Forfeitures** (58% of budget compared to 53% in 2011-12)-Third quarter revenue reflects an increase of \$85,000 primarily due to an increase in Red Light Camera citations.
- **Charges for Services** (67% of budget compared to 91% in 2011-12)-Charges for services were higher in 2011-12 based on payments from Kaiser Hospital for fire review and inspection fees. Year-end projections reflect a decrease of \$109,000 primarily due to a decrease in Planning & Engineering services for construction inspections.
- **Licenses & Permits** (68% of budget compared to 107% in 2011-12)-License & Permits revenue reflect timely receipts in line with the budgeted revenues. Kaiser Hospital permit fees of \$500,000 in 2011-12 account for the higher levels in the previous year.

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

- **Police** - (74% of budget compared to 75% in 2011-12)-The current year's Police expenditure budget is \$755,000 less than budgeted in 2011-12. The decrease is primarily due to the transfer of certain Retirement System costs to debt service to fund the pension obligation bond payments in the amount of \$1.6 million. Third quarter expenditures are in line with the annual budget.
- **Fire** - (66% of budget compared to 59% in 2011-12)-The current year's budget for contract services is \$645,000 more than in 2011-12. The December 2011 contract service payment for \$1.2 million was paid in April 2012 resulting in higher expenditures for the third quarter in 2012-13.
- **Debt Service** - (56% of budget compared to 76% in 2011-12)-Debt service payments increased by \$475,000 due to the payment made for the pension obligation bonds. An additional \$1,616,000 pension debt service will be paid on June 1. Total adopted budget debt service for 12-13 is \$ 4,886,000; total debt service for 11-12 was \$2,981,000.

- **Transfers** - Transfers increased by \$968,000 due to one-time appropriations approved during the adoption of the 2012-13 budget, funded from 2011-12 savings to be used for Building Maintenance projects for \$540,000, Project Literacy for \$20,000, and \$400,000 transferred to the Self-Insurance fund for a portion of the ICFG Settlement.

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 decreased by a modest 1% primarily due to the timing of Industrial Sewer billings. Expenditures increased by 70% due to the construction costs for the renovation of the existing Plant. Total project cost is estimated at \$50 million and is expected to be completed by early 2015.
- **Self Insurance** - Expenditures increased by \$2.5 million in 2012-13 primarily due to the ICFG Settlement of \$2.3 million.
- **Facilities Maintenance** - Revenue in the 2012-13 budget includes \$540,000 from 2011-12 transferred from 2011-12 General Fund savings to complete various capital improvement projects.

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 Fund** - Revenues at the third quarter are at 36% of budget due to the construction of the parking garage which opened in November 2012. Budgeted revenues had projected an opening of the Downtown Garage in September 2012.
- **Gas Tax Fund** - Revenues at the third quarter are at 65% of budget due to a delay in the receipt of funds from the State in 2012-13.
- **Heron Bay** - Revenues are at 84% of budget due to the accrual of assessments into the first half of the year that represent nearly the entire year of assessments. Last year, the assessments were recorded after the mid-year.

Quarterly Report on Sales Tax and Business Activity

Sales Tax and Business Activity is provided by the City's revenue consultant MuniServices. The report indicates that positive trends in sales tax, employment, and housing are helping grow the City's economy. The report indicates the top 25 sales tax providers and notes that the City benefits from a strong retail and industrial business community. Staff relies on this information in making its budget forecast.

ATTACHMENTS

- Third Quarter Financial Report as of March 31, 2013
- Quarterly Report on Sales Tax and Business Activity

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