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Staff Report for the Mid-Year Financial Report as of December 31, 2014 and a Budget Amendment Reflecting Mid-Year Adjustments to the City's Fiscal Year 2014-15 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 Mid-Year Financial Report as of December 31, 2014, and adopt a resolution approving a Budget Amendment Reflecting Mid-Year Adjustments for the 2014-15 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget.

BACKGROUND

The City Council-approved 2014-15 General Fund, Special Revenue Funds, and Enterprise Funds Budget in the annual plan and resource allocation 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, 2014 provides the mid-year budget update to the City Council for the new fiscal year. Analysis of the revenues collected and all expenditures through December 31, 2014 measures the budget's adherence to the established resource allocation plan.

The City Council approves annual budgets based on the best revenue and expenditure information available several months prior to the actual adoption of the budget appropriations. As a result, budget adjustments are periodically necessary for changes that arise and require additional budget appropriations or re-appropriations between budget line items. The City Council approved the amended 2014-15 General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget on May 19, 2014.

DISCUSSION

The adopted budget incorporates the estimated revenues and planned expenditures for all funds. The attached 2014-15 Mid-Year Financial Report as of December 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 2014-15 General Fund expenditures total \$87.7 million. Expected revenues of \$86.3 million, including \$1.4 million contributed from fund balance, finance the anticipated expenditures.

Total mid-year revenue in 2014-15 amounts to \$34.5 million, 41% of total budget (compared to 41% in 2013-14). This year's estimated revenues are higher by nearly \$4.8 million. Expenditures at mid-year amount to \$37.9 million, 44% of the budget (compared to 46% in 2013-14). This year's estimated expenditures are higher by \$6.3 million.

Highlights from mid-year activity in the General Fund and other funds are set forth below.

General Fund Revenue

- **Property Tax** (47% of budget compared to 49% in 2013-14)-The current year's budget for property tax revenue is \$626,000 greater than budgeted in 2013-14. The first payment of property tax from the secured roll by Alameda County was received in December 2014 in which the City received \$8.7 million compared to \$8.7 million in December 2013. Property taxes are expected to remain flat for 2014-15.
- **Sales Tax** (41% of budget compared to 41% in 2013-14)-The current year's budget for sales tax revenue is \$2.9 million higher than budgeted in 2013-14. Overall, sales tax increased by 10% from the same period last year and represents an 11% increase in local sales tax receipts and a 10% increase in the Sales Tax Backfill payment.
- **Property Transfer Tax** (45% of budget compared to 51% in 2013-14)- Property Transfer tax decreased in the first half of the fiscal year by 12% due to the increased level of sales of commercial property in 2013-14. 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.
- **Business License Tax** (10% of budget compared to 11% in 2013-14) - Mid-Year reflects a decrease of \$39,000 (8%) due to the timing of payment processing. Renewals are sent in December and processing can be delayed depending on staffing levels and the holiday closure. The third quarter will reflect a more comparable analysis.
- **Charges for Services** (54% of budget compared to 47% in 2013-14) - Charges for Services increased by 16% in the first half of the year primarily due to inspection fees charged for development in the City including the Bridge Housing Development at San Leandro Crossings.
- **Interest & Property Income** (61% of budget compared to 65% in 2013-14) - Interest and Property Income reflects a decrease of \$54,000 (7%) due to lower investment returns.
- **Other/Transfer** (37% of budget compared to 44% in 2013-14)- Other revenue increased by 95% due to the receipt of \$112,350 as an issuer fee for the refinancing of debt previously issued by the Redevelopment Agency.

As reported in the attached Mid-Year Financial Report, all other taxes and revenue receipts are 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

- **General Government** - (33% of budget compared to 42% in 2013-14)- General Government expenditures increased by \$279,000 at mid-year due to consulting services related to projects including Medical Cannabis, State Level Advocacy, Public Opinion research, and other administrative projects. The Budget increased by \$1.9 million due to the addition of \$1.5 million in Community Investment Funds.
- **Finance** - (44% of budget compared to 52% in 2013-14) - The current year's mid-year expenditures is \$168,000 (14%) lower than in 2013-14. The decrease is primarily due to the unexpected payment of \$156,000 in 2013-14 for consulting fees for the Sales Tax Audit, which discovers businesses that are not paying sales tax. The consultant is paid on a commission and discovered high value companies not reporting sales tax in Fiscal Year 2013-14.
- **Police Department** - (50% of budget compared to 48% in 2013-14)- Police Department expenditures increased by \$1.6 million primarily due to salary contract increases, supply increases for ammunition and fire arms, and Internal Service costs.

- **Fire Department** - (33% of budget compared to 41% in 2013-14) - The mid-year expenditures for the Fire Department are \$1.3 million less than in 2013-14 due to the timing of the contract payments. The November 2014 contract payment for \$1.7 million was made in January 2015.
- **Transfers** - Transfers increased by \$362,000 due to one-time appropriations approved during the adoption of the 2014-15 budget. The General Fund transferred \$300,000 for Casa Peralta improvements and \$50,000 for Marina Blvd improvements to the Capital Improvement Projects Fund.

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** - Expenditures decreased by 36% due to the pending completion of the Plant renovation. Total project cost is estimated at \$50 million and is expected to be completed in the next few months.
- **Shoreline Enterprise** - Revenues increased by 7% due to moderate increases in Rents & Concessions and Marina Berth Rentals. Expenditures decreased by 18% is due to capital improvement projects from 2013-14 at the Golf Course totaling \$210,000.
- **Facilities Maintenance** - Expenditures increased by \$244,000 due to capital improvements to City Facilities including roof, window, and HVAC repairs.
- **Equipment Maintenance** - Revenues increased by \$411,000 to fund one- time heavy equipment replacements and new police 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 Access Fund are provided.

Special Revenue Funds

- **Parking Fund** - Revenues at mid-year are at 45% and decreased by 13%. The parking garage opened in November 2012 and parking revenue and expenditures continue to be monitored.
- **Heron Bay** - Expenditures increased by 13% due to weed management services in the Heron Bay area.
- **Housing Funds** - Expenditures increased by 165% or \$658,000 due to a development payment made to Allied Housing for \$640,000 for the Cornerstone Apartments predevelopment.
- **Public Education & Government Fees Fund** - Expenditures decreased by 88% due to the upgrade of the City Council Chambers in 2013-14 to allow for video access to meetings.

Budget Adjustments

The attached summary of budget adjustments reflects budget activity recorded by the Finance Department over the first six months of 2014-15. The proposed amendment adjustments are summarized including the fund, the sources of additional revenues or transfers, and the purpose of new expenditures or transfers.

The total decrease in the projected ending fund balance for the General Fund is \$111,180. New General Fund revenues are estimated to be \$92,295 and increased expenditures are \$203,475.

New project funding includes a \$10 million grant obtained by the State of California for the Bridge Housing Development at San Leandro Crossings, Computer Replacements, and \$475,000 for a workers' compensation settlement reimbursed by insurance.

Current Agency Policies

- The City Council approves all adjustments to the City's revenue and expenditure appropriations.

Previous Actions

- The City Council adopted the 2014-15 City Budget on May 19, 2014.

Fiscal Impacts

The total reduction in the projected General Fund balance is \$111,180.

New project funding includes a \$10 million grant obtained by the State of California for the Bridge Housing Development at San Leandro Crossings, Computer Replacements, and \$475,000 for a workers' compensation settlement reimbursed by insurance.

ATTACHMENTS

Attachments to Resolution

- Budget Adjustments by Fund
- Budget Adjustments - Detail
- Mid-year Financial Report

PREPARED BY: David Baum, Finance Director, Finance Department