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Staff Report for the 3rd Quarter Financial Report as of March 31, 2017 (Information Only)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the 3rd Quarter Financial Report as of March 31, 2017.

BACKGROUND

The Adopted Fiscal Year (FY) 2016-17 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, 2017 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, 2017 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 2016-17 3rd Quarter Financial Report as of March 31, 2017 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 2016-17 General Fund expenditures, which are shown as the Adjusted Budget after Council approved amendments, total \$102 million. Expected revenues of \$100.7 million, including \$1.3 million contributed from fund balance, finance the anticipated expenditures.

Total third quarter revenue in 2016-17 amounts to \$64.1 million or 64% of the total Adopted Budget (compared to 61% in 2015-16). Expenditures at end of the third quarter amount to \$69.3 million or 70% of the budget (compared to 67% in 2015-16). Thus, the City's overall General Fund expenditure burn rate is in line with the prior fiscal year and expenditures are expected to stay within budgetary appropriations come year-end. Nevertheless, expenditures will continue to be closely monitored throughout the end of the fiscal year.

Highlights from third quarter activity in the General Fund and other funds are set forth below. The City's top five General Fund revenue sources will be detailed as will year over year revenue variances that are equal to or greater than + or - 10%.

General Fund Revenue

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

(1) Sales Tax (59% of adopted budget compared to 50% in 2015-16) - Sales Tax is the City's largest revenue source and is 41% of total general fund revenue estimates. The current year's estimate for Sales Tax revenue is \$865,000 greater than budgeted in 2015-16. Overall, Sales Tax increased by \$4.0 million or 20% from the same period last year and this is a clear sign of an improved economy in San Leandro. The City's commercial, retail, and industrial sectors have rebounded quite nicely since the Great Recession.

(2) Property Tax (58% of adopted budget compared to 63% in 2015-16) - Property Tax is the City's second largest revenue source and is 21% of total general fund revenue estimates. The current year's estimate for Property Tax revenue is \$2.3 million greater than budgeted in 2015-16. Overall, Property Tax increased by \$427,000 or 4% from the same period last year. Property Taxes are expected to meet estimates and be greater than 2015-16.

(3) Utility Users Tax (60% of adopted budget compared to 67% in 2015-16) - Utility Users Tax is the City's third largest revenue source and is 12% of total general fund revenue estimates. The current year's estimate for utility users tax revenue is \$1.5 million greater than budgeted in 2015-16. Year over year growth increased by \$196,000 or 3% from the same period last year.

(4) Business License Tax (85% of adopted budget compared to 92% in 2015-16) - Business License Tax is the City's fourth largest revenue source and is 5% of total general fund revenue estimates. The current year's estimate for Business License Tax revenue is \$511,000 greater than budgeted in 2015-16. The third quarter reflects an increase of \$101,000 or 2% from the same period last year. Year-end totals are expected to meet or exceed budgetary estimates and be greater than 2015-16.

(5) Franchise Fees (50% of adopted budget compared to 49% in 2015-16) - 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 \$44,000 greater than budgeted in 2015-16. Franchise Fees increased by \$82,000 or approximately 4% from the same period last year. Franchise Fees are expected to meet estimates and be slightly greater than 2015-16, but will be closely watched and reported on.

The following details 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 3rd Quarter financial report:

Property Transfer Tax (130% of adopted budget compared to 90% in 2015-16) - Property Transfer tax increased by over \$1 million or 45% largely due to the sale of three industrial sites that resulted in over \$989,000 in Property Transfer Tax revenue. However, 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. As such, it should not be relied on as a stable source of revenue for ongoing operations.

Interest & Property Income (79% of adopted budget compared to 71% in 2015-16) - Interest and Property Income reflects an increase of \$103,000 or 12%. This is primarily due to more detailed cash flow analysis prepared by City staff, which allowed for liquid assets not needed for immediate operations to be placed into accounts which bear greater return than the City's general checking account. Nevertheless, while bearing higher returns, the investment vehicles used still conform to the City's investment policy of safety, liquidity, and return; in that order. Thus, the City still has sufficient liquid assets to meet its ongoing operational needs. Interest and Property Income also rose due to an improved Fixed Income investment market the past 9 months as well as higher returns generated by the Local Agency Investment Fund (LAIF).

Licenses & Permits (71% of adopted budget compared to 90% in 2015-16) -Licenses & Permits decreased in the third quarter of the fiscal year by \$379,000 or 21%. This could be indicative of a softening construction sector, but it must also be weighed in light of tremendous growth in FY 2015-16. City staff still expects budget estimates to be met by year-end and will watch this area closely.

Other/Transfer (55% of adopted budget compared to 35% in 2015-16) - Other revenue increased by \$121,000 or 58% primarily due to an increase in donations received by the City, greater Police Abandoned Vehicle fees, and greater Sidewalk Repair fees.

As reported in the attached 3rd Quarter Financial Report, all other taxes and revenue receipts are relatively in line with budgeted revenues. The fourth quarter report will show a closer estimate to what the year-end results will reflect.

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 3rd Quarter financial report:

Engineering and Transportation (76% of adopted budget compared to 77% in 2015-16) - The current year's third quarter expenditures are \$213,000 or 10% more than in 2015-16 and reflect more staff time spent on capital projects. Furthermore, higher costs also represent increases to salaries and benefits as a result of new labor agreements, normal step level adjustments, and rising PERS costs.

Public Works (75% of adopted budget compared to 72% in 2015-16) - The current year's third quarter expenditures are \$524,000 or 15% more than in 2015-16 and reflect increased costs for salaries and benefits due to new labor agreements. Additionally, there were increased costs for street and grounds repair, water costs, and parks maintenance supplies.

Debt Service (10% of adopted budget compared to 44% in 2015-16) - The current year's third quarter expenditures are \$1.5 million or 74% less than in 2015-16. This is entirely due to an internal timing issue of when debt service payments are recorded. Staff expects debt service payments to fully equal budgetary appropriations by end of the fiscal year.

Transfers (175% of adopted budget compared to 48% in 2015-16) - The current year's third quarter expenditures increased by \$4.4 million or 239% greater than in 2015-16. This is due to a \$6.2 million transfer to the Insurance Services Fund to contribute to a PARS trust account to reduce the unfunded liability for retiree healthcare.

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.

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 mid-year financial report:

Water Pollution Control Plant (593) - Revenues decreased by \$4.4 million or 30% primarily due to the \$4 million Siemens settlement agreement received in 2015-16. Expenditures decreased by \$1.6 million or 14% due to a decrease in expenditures and projects related to the plant's rehabilitation and co-generation.

Facilities Maintenance (687) - Expenditures decreased by \$330,000 or 14% due to lower costs for building maintenance, HVAC repair and replacement, and the replacement of windows at the Marina Community Center.

Information Technology (688) - Expenditures increased by \$425,000 or 16% due to increased costs in software maintenance and equipment when compared to the same time period last fiscal year.

Insurance Services (689) - Revenues increased by \$4.2 million or 89% primarily due to a transfer of \$6.2 million from the General Fund for the Prioritizing Unfunded Liability Liquidation (PULL) Program. Expenditures increased by \$4.8 million or 102% due to the same \$6.2 million contribution to the PULL Program.

Equipment Maintenance (690) - Expenditures increased by \$491,000 or 40% due to an

increased cost in the purchase and replacement of 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.

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 mid-year financial report:

Gas Tax - Street Maintenance (140) - Expenditures decreased by \$380,000 or 21% due to fewer purchases of and a decrease in costs for supplies and capital assets for street sealing and maintenance.

Asset Seizure (146) - Revenues decreased by \$12,000 or 19% due to lower seizure disbursements received by granting agencies. Expenditures increased by \$104,000 or 289% due to new eligible expenditures of Asset Seizure funds.

Heron Bay (147) - Revenues decreased by \$1,000 or 33% due entirely to the recording of unrealized gains and losses on investments in fiscal year 2015-16 that were not yet recorded in fiscal year 2016-17. Expenditures decreased by \$111,000 or 43% due to a decrease in staff time and repairs and maintenance costs.

Housing Funds (165 - 167) - Revenues increased by \$92,000 or 22% primarily due to higher Community Development Block Grant (CDBG) payments and greater Home Fund project reimbursements from Alameda County. Expenditures increased by \$140,000 or 34% primarily due to Citywide ADA upgrades.

Business Improvement District (170) - Expenditures increased by \$185,000 or 45% due entirely to an increase in the operational expenses of LINKS Shuttle to implement planned service expansions.

Public Education & Government Fees Fund (180) - Expenditures increased by \$18,000 or 58% due to additional upgrades to the City Council Chambers and payments made to the vendor responsible for streaming City Council and other meetings.

ATTACHMENTS

- 3rd Quarter Financial Report

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