



Legislation Text

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Staff Report for the Mid-Year Financial Report as of December 31, 2015 (Information Only)

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the Mid-Year Financial Report as of December 31, 2015.

BACKGROUND

The Adopted Fiscal Year (FY) 2015-16 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 December 31, 2015 provides the mid-year budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through December 31, 2015 measures operational adherence to the established budgetary allocation plan.

DISCUSSION

The adopted budget incorporates the estimated revenues and planned expenditures for all funds. The attached 2015-16 Mid-Year Financial Report as of December 31, 2015 provides revenue and expenditure summaries 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 budgetary allocation plan and also offers comparison to the prior year.

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 2015-16 General Fund expenditures, which are shown as the Adjusted Budget after Council approved amendments, total \$96.7 million. Expected revenues of \$95.2 million, including \$1.5 million contributed from fund balance, finance the anticipated expenditures.

Total mid-year revenue in 2015-16 amounts to \$35.1 million or 37% of the total Adopted Budget (compared to 41% in 2014-15). Expenditures at mid-year amount to \$41.3 million or 44% of the budget (compared to 44% in 2014-15). 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 and

the third quarter financial report will allow for more accurate year-end projections given increased data.

Highlights from mid-year activity in the General Fund and other funds are set forth below. The City's top 5 General Fund revenue sources will be detailed as will significant variances in

General Fund Revenue

The following details the City's top 5 General Fund revenue sources:

(1) Sales Tax (30% of budget compared to 41% in 2014-15) - Sales Tax is the City's largest revenue source and is 42% of total general fund revenue estimates. The current year's budget for Sales Tax revenue is \$10.3 million higher than budgeted in 2014-15 due to passage of Measure HH. Overall, Sales Tax decreased by 3% from the same period last year, but this is due to timing of when receipts are recorded and Sales Tax is expected to meet estimates and be well above last year's total due to Measure HH.

(2) Property Tax (49% of budget compared to 47% in 2014-15) - Property Tax is the City's second largest revenue source and is 20% of total general fund revenue estimates. The current year's budget for Property Tax revenue is \$554,000 greater than budgeted in 2014-15. The first secured roll Property Tax payment made by Alameda County was received in December 2015 and resulted in the City receiving \$9.2 million compared to \$8.7 million in December 2014; a 6% increase. As such, Property Taxes are expected to meet estimates and be greater than 2014-15.

(3) Utility Users Tax (41% of budget compared to 40% in 2014-15) - Utility Users Tax is the City's third largest revenue source and is 11% of total general fund revenue estimates. The current year's budget for utility users tax revenue is \$101,000 greater than budgeted in 2014-15. Year over year growth of 2% is consistent with a stable economy and utility rates which rise annually in accordance with inflation and the consumer price index (CPI). Utility user taxes are expected to meet estimates and be greater than 2014-15.

(4) Business License Tax (10% of budget compared to 10% in 2014-15) - Business License Tax is the City's fourth largest revenue source and is 5% of total general fund revenue estimates. The current year's budget for Business License Tax revenue is \$93,000 greater than budgeted in 2014-15. Mid-Year reflects an increase of \$22,000 or 5% due to the timing of payment processing. Renewals are sent in December and processing can be delayed or accelerated depending on staffing levels and the holiday closure. The third quarter will reflect a more comparable analysis, but year-end totals are expected to meet or exceed budgetary estimates and be greater than 2014-15.

(5) Franchise Fees (26% of budget compared to 25% in 2014-15) - Franchise Fees are the City's fifth largest revenue source and are 5% of total general fund revenue estimates. The current year's budget for Franchise Fees revenue is \$44,000 greater than budgeted in 2014-15. Year over year growth of 3% growth is consistent with a stable economy and franchise rates that rise annually in accordance with inflation and the consumer price index (CPI). Franchise Fees are expected to meet estimates and be greater than 2014-15.

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 mid-year financial report:

Property Transfer Tax (59% of budget compared to 45% in 2014-15) - Property Transfer tax increased in the first half of the fiscal year by 32% due to ever improving housing market in 2015-16.

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.

Other Taxes (42% of budget compared to 37% in 2014-15) - Other Taxes which mainly include Transient Occupancy Tax increased in the first half of the fiscal year by 13% and this reflects an improving economy which allows for greater personal and business travel.

Interest & Property Income (37% of budget compared to 61% in 2014-15) - Interest and Property Income reflects a decrease of \$290,000 or 40% due to relatively flat fixed income interest rates and overall stagnation in the investment market for 2015-16.

Fines, Fees, & Forfeitures (51% of budget compared to 30% in 2014-15) - Fines, Fees, & Forfeitures increased in the first half of the fiscal year by 42% and this is indicative of increased enforcement activity and more timely receipt of revenue from the courts.

Licenses & Permits (54% of budget compared to 48% in 2014-15) - Licenses & Permits increased in the first half of the fiscal year by 23%; led by a \$178,000 increase in Building Permit revenue when compared to the mid-point of 2014-15.

Other/Transfer (28% of budget compared to 37% in 2014-15)- Other revenue decreased by 56% since 2014-15 included the one-time 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 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 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 mid-year financial report:

General Government - (41% of budget compared to 33% in 2014-15)- General Government expenditures decreased by \$210,000 or 10% at mid-year due to consulting services related to projects including Medical Cannabis, State Level Advocacy, Public Opinion research, and other administrative projects which were in 2014-15, but not in 2015-16. The Budget decreased by \$1.7 million due to the shift of Community Investment Fund budget and expenditures to the Non-Departmental category.

Finance - (48% of budget compared to 44% in 2014-15) - The current year's mid-year expenditures are \$188,000 or 18% higher than in 2014-15. The increase is primarily due to the full-year staffing of several positions that were largely vacant in 2014-15.

Police Department - (54% of budget compared to 50% in 2014-15)- Police Department expenditures increased by \$1.9 million or 13% primarily due to salary contract increases and staffing which was at or near approved limits. This is the City's largest department in terms of budgetary appropriations and it along with other departments will continue to be monitored through the end of

the fiscal year to ensure they stay with allocations.

Fire Department - (41% of budget compared to 33% in 2014-15) - The mid-year expenditures for the Fire Department are \$2.1 million or 31% more than in 2014-15 due to the timing of the contract payments and known cost increases built in the 2015-16 budget. This is the City's second largest department in terms of budgetary appropriations and it too will continue to be monitored through the end of the fiscal year to ensure it stays with allocations.

Community Development - (46% of budget compared to 41% in 2014-15) - The mid-year expenditures for the Community Development Department are \$318,000 or 16% more than in 2014-15 due to fuller staffing levels, bargained salary increases, and increased activity that comes with enhanced business retention efforts and commercial and residential construction projects.

Non-Departmental - (13% of budget compared to 70% in 2014-15) - The mid-year expenditures for Non-Departmental are \$44,000 or 13% more than in 2014-15 due primarily to increased costs for the California Conservatory Theater, Community Investment, Community Events, and City Manager Contingency.

Transfers - Transfers decreased by \$1.1 million since the mid-year point of 2014-15 included the full-realization of budgeted appropriations whereas 2015-16 transfers won't occur until later in 2015-16. Transfers are manually made by journal entry.

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.

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 - Expenditures decreased by \$1.6 million or 22% 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.

Environmental Services - Revenues decreased by \$158,000 or 38% due to a decrease in grant funds received (-\$42,000) and an annual transfer in of \$132,782 from the Water Pollution Control Plant for Sewer Inspections that was recorded at the mid-point of 2014-15, but not yet in 2015-16.

Shoreline Enterprise - Expenditures decreased by \$356,000 or 38% due to a \$197,000 golf course debt service payment not yet recorded in 2015-16, \$37,000 less spent for Abandoned Watercraft Grant efforts, \$173,000 in Marina debt service payments not yet recorded in 2015-16.

Storm Water - Expenditures increased by \$74,000 or 13% due entirely to increased street cleaning activity.

Facilities Maintenance - Revenues increased by \$272,000 or 19% due entirely to an increase in interdepartmental charges assessed on other City divisions. Expenditures increased by \$185,000 or 13% due to continued capital improvements to City Facilities including roof, window, and HVAC repairs.

Information Technology - Revenues decreased by \$214,000 or 10% due entirely to a decrease in interdepartmental charges assessed on other City divisions.

Insurance Services - Expenditures increased by \$896,000 or 53% due to a higher level of premiums and claims paid in 2015-16 as opposed to 2014-15 at the same point in the fiscal year. Specific claims cannot be discussed due to confidentiality.

Equipment Maintenance - Revenues decreased by \$363,000 or 26% due to one- time heavy equipment replacements and new police vehicles in 2014-15. Expenditures increased by \$230,000 or 27% due to quicker recordation of Police Vehicle Leasing payments in 2015-16.

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:

Parking Fund - Expenditures decreased by \$17,000 or 12% due primarily to decreases in parking meter costs.

Gas Tax - Street Maintenance - Revenues decreased by \$836,000 or 53% due to a significant decline in gasoline prices and a change in methodology used by the State to disburse Highway User Tax revenues. Expenditures increased by \$482,000 or 58% due to new traffic signs purchased, continually increasing costs to repair and maintain the City's streets due to wear and tear, and the City's street sealing program that was not done by the mid-point of 2014-15.

Asset Seizure - Revenues increased by \$55,000 or 5,547% due to new seizure disbursements received by granting agencies. Expenditures decreased by \$5,000 or 43%, but due to new revenue received, it is expected that expenditures will increase by year-end.

Heron Bay - Revenues decreased by \$338,000 or 99% due entirely to the timing of special tax assessments recorded by mid-point of 2014-15 that were not yet recorded at mid-point of 2015-16.

Housing Funds - Revenues decreased by \$308,000 or 54% due primarily to decreases in

Community Development Block Grant (CDBG) payments. Expenditures decreased by \$767,000 or 73% due to a development payment made to Allied Housing for \$640,000 for the Cornerstone Apartments predevelopment in 2014-15.

Business Improvement District - Revenues decreased by \$75,000 or 83% due decreased State Grant payments received year to date and a transfer in for the Links Shuttle Service that was made by the mid-point of 2014-15, but hasn't been made by the mid-point of 2015-16. Expenditures increased by \$94,000 or 261% due entirely to increase Links Shuttle expenses.

Public Education & Government Fees Fund - Revenues increased by \$5,000 or 10% due to increased public access, education, and government taxes received. Expenditures decreased by \$32,000 or 62% due to the completed upgrade of the City Council Chambers in 2014-15 to allow for video access to meetings.

ATTACHMENTS

- Mid-year Financial Report

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