



MID-YEAR BUDGET REPORT

Finance Department
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STAFF REPORT

February 15, 2006

TO: City Council
FROM: Paul Navazio, Finance Director
SUBJECT: FY 2005/06 Mid-Year Budget Update.

Recommendation

This informational item presents audited year-end General Fund revenue and expenditure results for the fiscal year ended June 30, 2005 (FY2004/05), results through the first seven months of fiscal year 2005/06, as well as preliminary projections of results through the end of the current fiscal year (June 30, 2006).

Fiscal Impact

No action is requested on this item, although the information presented in this report serves to update the basis upon which the FY2006/07 budget will be developed. Over the next several months, staff will be developing FY2006/07 budget recommendations, including revenue enhancements and expenditure reductions required to balance the upcoming budget and further the City Council's goal of fiscal stability.

Summary

This report summarizes the final, audited year-end General Fund revenue and expenditure results for FY2004/05, and presents General Fund revenue and expenditure results through the first seven months of FY2005/06. In addition, the report also touches upon results in selected other funds that have historically relied upon General Fund support. The favorable results within the General Fund should be viewed in the context of the overall budget picture and consideration will need to be given to what role the General Fund should have in addressing issues within these areas.

Highlights of the reported results include:

- *The General Fund Unreserved Fund Balance as of June 30, 2005 was \$7.15 million, and represents an increase in the reserve of \$1.3 million as compared to the reserve level assumed in the development of the FY2005/06 budget. The year-end \$7.15 Unreserved Fund Balance as of June 30, 2005 represents 21.1% of General Fund revenues, (See Table 1). Tempering the favorable results within the General Fund, however, are less favorable results within selected other funds for which the General Fund has historically, and will likely continue to require, significant support. (See Attachment A)*
 - *Final results for FY2004/05 reflect a General Fund operating surplus of \$365,000. This result is in comparison to the expected draw down of \$925,000 assumed in the development of the FY2005/06 budget.*
 - *General Fund revenues ended FY2004/05 at \$33,884,820, approximately \$768,000 (2.3%) above the previous estimate.*
 - *General Fund expenditures ended FY2004/05 at \$33,519,420, which was \$2,029,000 below the final budget, and \$522,000 (1.5%) below the previous forecast; however, \$354,000 in unexpended, uncommitted funds were carried-over into the current fiscal year, representing allocations for specific projects that were not completed as of June 30, 2005.*
 - *Year-end results in the City's Self-Insurance and TDA-Transportation funds ended FY2004/05 with a combined shortfall of \$2,031,000. Preliminary projections for these funds suggest the deficit growing to \$2.6 million by the end of the current fiscal year, and may exceed \$3.0 million in FY2006/07. Historically, the General Fund has provided back-fill for the City's transportation program (street maintenance and traffic programs), while the Self-Insurance Fund results historical under-recovery of costs across all funds with personnel expenditures – the General Fund typically represents approximately 50% of the All Funds personnel budget and therefore is responsible for roughly half of the shortfall in this area.*
- *Year-to-date FY2005/06 General Fund revenues through the first seven months of the fiscal year were \$18.37 million, or 54.7% of the \$33.57 million adjusted revenue budget; the year-to-date results warrant an upgrade of our year-end General Fund revenue projections by \$1.69 million. The favorable revision in our revenue estimate is almost entirely the result of continued strong growth in property tax revenues and upgraded sales tax growth projections. (See Attachment B)*
 - *Property Tax revenues continue to show strong growth, with current year assessed valuation reflecting an increase of 8.5% (citywide assessed values, including growth in Redevelopment Agency parcels, increased by over 12). Year-end property tax revenues were \$10.62 million, \$205,000 (2.0%) over the budget estimate. Year-to-date property tax receipts for FY2005/06 stand at \$5.99 million and are expected to reach \$11.89 million at year-end – an increase of \$808,000 over the budgeted figure.*

- *Sales Tax revenues, while ending FY2004/05 at \$8.05 million, just slightly under our budget forecast, are projected to reach \$8.99 million this fiscal year, approximately \$709,000 above budget. This growth rate in sales tax collections, however, tends to over-state underlying growth in taxable sales and is partially attributable to the timing of sales tax payments from the State Board of Equalization. The improved sales tax outlook also reflects improvements in the collection and reporting of the City's Measure P Half-Cent Sales Tax, which became effective July 1, 2004. The City has increased efforts to audit and analyze sales tax data and ensure that the City is receiving its appropriate share of sales tax.*
- *Service Fees collected in FY2004/05 also exceeded budget projections by over \$800,000 due to a combination of increased activity and initial efforts to improve cost-recovery within fee-supported services. Better-than-expected results were realized in Planning and Building (+\$397,000), Parks and Community Services (+\$347,022). Service Fees remains an area where additional favorable adjustments in revenue forecasts may be warranted.*
- *Through January (Period 8), FY2005/06 General Fund expenditures (including encumbrances) were \$19.044 million, or 53% of the adjusted budget of \$36.16 million. Personnel expenditures of \$12.24 million are tracking well below budget (52.7%) through seven months (57% of pay-periods), largely due to pending labor contracts for five of the city's six bargaining units which are yet to be reflected in current year personnel costs. Non-personnel costs for the same period stood at \$6.81 million, or 49.7% of budget. (See Attachment C)*
 - Preliminary projections of year-end General Fund expenditures stand at \$35.48 million, \$680,000 under budget; this estimate is based on revised estimates for impacts of pending labor contracts and could vary significantly based on ultimate outcome of the City's negotiating efforts.
- *The combination of FY2004/05 year-end results and preliminary estimates for results for the current fiscal year, suggest that the General Fund is expected to end FY2005/06 with a fund balance of \$8.02 million, representing 22.8% of General Fund revenues, and would provide a balance of \$2.7 million over the Council's 15% reserve policy. While the results for the General Fund are improved over previous forecasts, there remain a number of funds with year-end deficits and operating shortfalls which may ultimately impact available balances in the General Fund. A General Fund reserve policy is being developed to establish priorities for use of General Fund balances in excess of reserve requirements.*
- *Staff has developed the initial revenue and expenditure estimates for FY2006/07 as well as a preliminary update to the five-year General Fund forecast. The structural deficit reflected in the preliminary forecast has been reduced to a range of \$1.43 million (FY2006/07), growing to \$2.05 million in FY2010/11. The City Council will review the preliminary baseline budget for FY2006/07 as well as the revised five-year forecast as part of its Budget Workshop scheduled for March 14th. (See Attachment D)*

Conclusion

This informational report represents the Mid-Year Budget Update for FY2005/06, and has been prepared in response to the City Council's objective of establishing regular quarterly budget updates. While the information provided in this report includes year-to-date General Fund results, preliminary projections for year-end results, as well as the preliminary update of the Five-Year Forecast, a full discussion of budget issues impacting the FY2006/07 budget is anticipated at the City Council's first workshop on the FY2006/07 budget, scheduled for March 14, 2006.

Attachments:

- Attachment A – Summary of General Fund Operations
- Attachment B – General Fund Revenues
- Attachment C – General Fund Expenditures
- Attachment D – Preliminary Update – Five-Year Forecast

Attachment A

Summary of General Fund Operations

Table 1 presents a summary of the City's General Fund fiscal condition through the year ended June 30, 2005 as well as budget and year-to-date results through the first seven months of FY2005/06:

*Table 1: General Fund Summary
 FY2004/05 Results and FY2005/06 Projections*

Description	FY2004/05 Ending Budget	FY2004/05 Budget Projection	FY2004/05 Actual Results	FY2005/06 Beginning Budget	FY2005/06 Adjusted Budget	FY2005/2006 Year-to-Date Results	FY2005/06 Year-end Projection
Beginning Unreserved Fund Balance	\$5,825,845	\$5,825,845	\$5,825,845	\$6,151,781	\$7,152,497		\$7,152,497
Revenues	33,052,286	33,117,030	33,884,820	33,479,314	33,566,490	18,374,058	35,253,611
Expenditures	(35,548,508)	(34,041,881)	(33,519,422)	(35,701,498)	(36,156,904)	(19,044,339)	(35,476,027)
Transfers	2,285,787	1,250,787		1,092,300	1,092,300		1,092,300
Change in Reserved Fund Balance **			961,254				
Ending Unreserved Fund Balance	\$5,615,410	\$6,151,781	\$7,152,497	\$5,021,897	\$5,654,383		\$8,022,381
Percentage (E.U.F.B./Revenues)	17.0%	18.6%	21.1%	15.0%	16.8%		22.8%
"Excess" Fund Balance (over Reserve Target)		\$ 1,184,227	\$ 2,069,774		\$ 619,410		\$ 2,734,339
** This line item is included to link the Audited Financial Statements with Budget Estimates and also includes changes in encumbrance balances.							

FY2004/05

While the adopted FY2004/05 budget projected a decrease in the General Fund's Unreserved Fund Balance of \$210,000 (to \$5.615 million, or 17% of General Fund revenues), actual results saw an increase in the fund balance of \$1.33 million to \$7.152 million, or 21.1% of General Fund reserves.

Overall the year-end unreserved fund balance equal to 21.1% of General Fund revenues compares favorably to the Council's General Fund reserve policy of 15%, and reflects an improvement of \$885,000 over the projections used in the development of the FY2005/06 budget (\$6.15 million, 18.6%).

The year-end fund balance also reflects a correction in the Change in Reserved Fund Balance due to prior year encumbrances included in the prior year's fund balance.

FY2005/06

The Adopted FY2005/06 budget resulted in an expected General Fund unreserved Fund Balance of \$5.02 million, or 15% of General Fund revenues. This assumed a beginning fund balance of \$6.15 million and an anticipated draw-down of fund balances totaling \$1.13 million was built into the FY2005/06 budget.

Updates to FY2005/06 revenue and expenditure projections, combined with the revised, final year-end results for FY2004/05 result in an updated projection for the General Fund reserve expected at June 30, 2005. The revised estimates yield a projected year-end fund balance of \$8.022 million, or 22.8% of General Fund revenues. This projection compares favorably to the Council's policy of maintaining a 15% reserve balance. The balance in the General Fund is expected to exceed the level required by the Council policy by approximately \$2.73 million.

In past years, excess reserve funds have been used to balance subsequent years' operating budget deficits. Staff has been working to develop a General Fund reserve policy to establish priorities for use of excess reserve funds, consistent with the City Council's goal of fiscal stability. While allocation of reserve funds to future years' operating deficits can successfully defer difficult budget decisions, long-term fiscal stability requires that annual expenditures be maintained within annual revenues.

In addition, consistent with the principles outlined in the draft General Fund reserve policy, priority for use of available fund balances should be given to addressing one-time expenditures as well as addressing fund deficits in other areas of the budget. The following highlights some of the funds for which available General Fund balances may be appropriately directed:

Projected Year-End Balances in Selected Other Funds

Fund	Audited FY2004/05	Estimated FY2005/06	Preliminary FY2006/07
Gas Tax			\$ (170,000)
TDA – Non Transit	\$ (348,000)	\$ (404,000)	(700,000)
Self-Insurance	(1,683,000)	(2,225,000)	(2,225,000)
<i>Sub-Total</i>	<i>\$(2,031,000)</i>	<i>\$(2,629,000)</i>	<i>\$(3,095,000)</i>

Attachment C

General Fund Revenues

Table 2 presents a summary of major General Fund revenue sources. FY2004/05 revenues were \$33.88 million which is \$0.83 million above the budget, and \$0.77 million above the revenue estimate used in the development of the FY2005/06 budget.

*Table 2: General Fund Revenues
 FY2004/05 Results and FY2005/06 Projections*

Revenue by Source	FY2004/05 Adjusted Budget	FY2004/05 Estimate	FY2004/05 Actual	Variance Favorable / (Unfavorable)	Variance Percentage	FY2005/06 Adjusted Budget	FY2005/06 Year to Date	FY2005/06 Projection	Variance Favorable / (Unfavorable)
Property Taxes	\$7,518,340	\$10,419,975	\$10,625,444	\$205,469	2.0%	\$11,085,090	\$5,992,671	\$11,893,373	\$808,283
Sales & Use Tax	8,753,970	8,121,100	8,052,765	(\$68,335)	-0.8%	8,283,500	4,182,708	8,992,995	\$709,495
Motor Vehicle In Lieu	3,757,000	1,398,494	881,031	(\$517,463)	-37.0%	412,000	190,148	437,966	\$25,966
Parks Services	1,742,502	1,688,502	2,035,524	\$347,022	20.6%	1,912,207	1,425,802	1,912,207	\$0
Municipal Services Tax	1,922,000	1,916,500	1,921,115	\$4,615	0.2%	1,996,000	1,156,233	1,996,000	\$0
Business License Tax	1,157,000	1,080,000	1,139,725	\$59,725	5.5%	1,186,000	409,601	1,186,000	\$0
Construction Permits	1,038,000	999,228	1,004,236	\$5,008	0.5%	972,000	543,269	972,000	\$0
Transient Occupancy Tax	932,860	930,600	928,090	(\$2,510)	-0.3%	949,200	251,954	949,200	\$0
Planning & Building Inspec	1,749,648	1,570,068	1,968,805	\$398,737	25.4%	2,045,861	1,876,701	2,045,861	\$0
Fire Dept. Services	594,585	674,706	771,008	\$96,302	14.3%	693,556	67,820	773,556	\$80,000
Franchise Fees (PG&E)	450,000	492,200	487,034	(\$5,166)	-1.0%	480,000	0	480,000	\$0
Investment Earnings	39,399	39,399	133,551	\$94,152	239.0%	39,399	0	39,399	\$0
Property Transfer Tax	250,000	367,000	334,523	(\$32,477)	-8.8%	367,000	152,785	367,000	\$0
All Other Sources	3,146,982	3,419,258	3,601,969	\$182,711	5.3%	3,144,677	2,124,366	3,208,054	\$63,377
Total	\$33,052,286	\$33,117,030	\$33,884,820	\$767,790	2.3%	\$33,566,490	18,374,058	\$35,253,611	\$1,687,121

General Fund revenues for FY2004/05 reflect an increase of \$5,503,880, or 19.4%, from prior year results. Growth is primarily attributable to increased Property Tax revenues (7.8%) and Sales Tax revenues, which for the first time included revenues generated by Measure P, the half-cent sales tax approved by voters in 2004. Year-end results exceeded budget estimate by \$767,790, primarily in the area of Service Fees and Property Tax.

The FY2005/06 budget assumed growth in General Fund revenues of \$1.01 million, or 3.1%, due to continued growth in Property Tax revenues, moderate growth (2%) in Sales Tax Revenues, and decreases in grant revenues used for capital projects, and decreases in Planning and Building fees.

In light of revenue results for FY2004/05 as well as year-to-date results for FY2005/06, adjustments to this year's revenue estimates appear warranted:

- Property Tax revenues continue to reflect robust growth in assessed real property valuations, and reflect the continuing strength of the real estate market. Information from the Yolo County indicates that FY2005/06 Property Tax revenues will increase by 7.6% over the prior year, which is an improvement over the 6% growth assumption used in the budget. While it is too early to evaluate, supplemental property taxes (received later in the year) could further increase property tax revenue receipts.
- Sales Tax receipts for through the first half of FY 2005/06 suggest improvement over FY 2004/05 results, due in part to the effect of Measure P, which is expected to generate \$2.7

million in FY 2005/06. Compared to the same period a year ago, our first 2 quarters of Sales Tax revenue (excluding Measure P) reflect a 20% increase in the Automotive category, which typically accounts for 50% of direct Sales Tax collections. Restaurants are generating 15% more Sales Tax than last year at this time. Overall, direct collections are up 13% over the same period in FY 2004/05. With a conservative estimate of 2% growth over the remainder of the year, we believe the estimate of \$8,992,995 for FY 2005/06 is achievable.

There are a number of factors that impact the City's FY 2005/06 revenue picture and complicate the analysis required to update revenue projections. As such, the revised projections will continue to be evaluated and will be updated, as necessary, throughout the year.

Attachment D

General Fund Expenditures

Table 3 summarizes General Fund expenditure results for all departments. FY2004/05 expenditures ended the year at \$33.5 million, or \$2.03 million (5.7%) under the final budget of \$35.5 million. This result represents an increase of 9.5% over FY2003/04 expenditures. Year-end General Fund expenditures were \$522,459 or 1.5% percent below the budget estimates prepared at mid-year and used in the development of the FY2005/06 budget.

Expenditure by Department	FY2003/04 Actual	FY2004/05 Adjusted Budget	FY2004/05 Actuals	Variance	% Exp.
City Council	\$ 115,393	\$ 120,755	\$ 108,450	\$ (12,305)	89.8%
City Attorney	372,155	311,188	325,776	14,588	104.7%
City Manager	1,608,381	1,985,252	1,785,713	(199,539)	89.9%
Finance	1,154,318	1,413,090	1,322,535	(90,555)	93.6%
Community Development	2,746,569	3,839,620	3,416,667	(422,953)	89.0%
Parks & Community Services	8,449,122	9,117,681	8,359,778	(757,903)	91.7%
Fire	5,852,278	6,151,013	5,959,130	(191,883)	96.9%
Police	8,787,657	9,906,515	10,043,853	137,338	101.4%
Public Works	873,509	875,743	872,382	(3,361)	99.6%
Capital Improvements/Debt	647,409	1,927,651	1,325,138	(602,513)	68.7%
Salary Savings Adjustment		(100,000)			
Total	\$ 30,606,791	\$ 35,548,508	\$ 33,519,422	\$ (2,029,086)	94.3%

FY2004/2005 General Fund results for most operating departments mirror the results on an All-Funds basis, with most departments realizing savings in personnel costs (through vacant positions) and prudent management of non-personnel resources. The Police Department ended the year slightly over-budget (1.4%) largely due to increased overtime costs in the patrol division.

**Table 3: General Fund Expenditures
 FY2004/2005 Results and FY2005/06 Projections**

Expenditure by Department	FY2005/06 Adjusted Budget	FY2005/06 Year-to-Date	% Exp.	FY2005/06 Projections	Variance
City Council	\$ 112,722	\$ 69,639	62%		
City Attorney	311,188	114,170	37%		
City Manager	2,159,323	931,328	43%		
Finance	1,511,496	850,329	56%		
Community Development	3,870,870	1,822,229	47%		
Parks & Community Services	10,013,624	5,412,023	54%		
Fire	6,773,771	3,225,493	48%		
Police	10,470,359	5,696,933	54%		
Public Works	467,691	884,382	189%		
Capital Improvements/Debt	1,015,860	37,813	4%		
Salary Savings Adjustment	(550,000)				
Total	\$ 36,156,904	\$ 19,044,339	53%	\$ 34,298,865	\$ (1,858,039)
		<i>Est MOU Adj.</i>		\$ 35,476,027	\$ (680,877)

Through the January (Period 8) accounting close, FY2005/06 General Fund expenditures (including encumbrances) were \$19.04 million, or 53% of the adjusted budget of \$36.156 million. Personnel expenditures are tracking below budget (52.7%) through seven months while citywide non-personnel expenditures (incl. encumbrances) were at 49.7% of budget.

Preliminary projections of year- end General Fund expenditures stand at \$35.48 million - or \$687,000 below the adjusted budget for FY2005/06. This estimate is based upon revised projections of likely personnel costs yet to be reflected in the current year expenditures, pending the outcome of ongoing negotiations with five of the city's six bargaining units.

General Fund Five-Year Forecast

General Fund	Actual	Actual	Estimate	Baseline	Forecast				
	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	FY2010/11	
Beginning Balances	\$ 7,894,730	\$ 5,825,850	\$ 7,152,502	\$ 8,022,386	\$ 6,586,130	\$ 4,833,542	\$ 3,012,025	\$ 1,077,588	
Revenues	\$ 28,380,940	\$ 33,884,820	\$ 35,253,611	\$ 36,126,898	\$ 37,427,831	\$ 38,871,287	\$ 40,394,970	\$ 41,982,271	
		19.4%	4.0%	2.5%	3.6%	3.9%	3.9%	3.9%	
Baseline Expenditures	\$ 30,606,791	\$ 33,519,422	\$ 35,476,027	\$ 37,563,154	\$ 39,180,418	\$ 40,692,804	\$ 42,329,407	\$ 44,031,783	
Encumbrances	\$ (156,971)	\$ (961,254)		5.9%	4.3%	3.9%	4.0%	4.0%	
Transfers			1,092,300						
Ending Balance	\$ 5,825,850	\$ 7,152,502	\$ 8,022,386	\$ 6,586,130	\$ 4,833,542	\$ 3,012,025	\$ 1,077,588	\$ (971,923)	
	20.5%	21.1%	22.8%	18.2%	12.9%	7.7%	2.7%	-2.3%	
Reserve Policy \$	4,257,141	5,082,723	5,288,042	5,419,035	5,614,175	5,830,693	6,059,246	6,297,341	
Reserve Policy %	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	
AVAILABLE BALANCES	1,568,709	2,069,779	2,734,344	1,167,095	(780,632)	(2,818,668)	(4,981,657)	(7,269,264)	
Annual Deficit	(2,225,851)	365,398	(222,416)	(1,436,256)	(1,752,588)	(1,821,517)	(1,934,437)	(2,049,512)	
	(2,225,851)	365,398	-	(1,436,256)	(316,332)	(68,929)	(112,920)	(115,075)	