



MID-YEAR BUDGET REPORT

Finance Department
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STAFF REPORT

February 9, 2007

TO: City Council
FROM: Paul Navazio, Finance Director
SUBJECT: FY 2006/2007 Mid-Year Budget Update.

Recommendation

This Informational Item presents revenue and expenditure results through the first half of fiscal year 2006/2007, as well as updated projections of General Fund results through the end of the fiscal year (June 30, 2007). The report also reflects final, audited results for the prior fiscal year (FY2005/06), which were previously included as unaudited results in the FY2005/06 1st Quarter Report.

Fiscal Impact

No action is requested on this item, although the information presented in this report provides budget-to-actual results for the City's FY2006/07 annual budget as well as budgetary projections that provide the basis for development of the FY2007/08 budget. Over the next several months, staff will be developing recommendations to be included in the FY2007/08 proposed budget, including revenue enhancements and expenditure reductions, as necessary, to present a balanced budget proposal.

Summary

This report summarizes the final, audited year-end General Fund revenue and expenditure results for FY2005/2006, and presents revenue and expenditure results through the first seven months of FY2006/2007. In addition, the report also touches on staff's preliminary update of the General Fund Five-Year Forecast as well as selected other funds that have relied upon General Fund support. The results within the General Fund should be viewed in the context of the overall budget picture as well as the General Fund reserve policy adopted by the City Council with the FY2006/07 budget.

Highlights of the report include:

- *The General Fund Unreserved Fund Balance as of June 30, 2006 is \$8.78 million, and represents a favorable variance in the reserve of \$1.1million as compared to the reserve level assumed in the development of the FY2006/07 budget. The year-end \$8.78 million Unreserved Fund Balance as of June 30, 2006 represents 24.5% of General Fund revenues. (See Attachment B- Table 1).*
 - General Fund revenues ended FY2005/06 at \$35.8 million, which is (\$296,000) above the previous revenue estimate.
 - General Fund expenditures ended FY2005/06 at \$34.15 million, which was \$2.82 million below the final adjusted budget, and \$2.2 million (6.0%) below the previous forecast. However, of the year-end savings, \$1.18 million in unexpended, uncommitted funds have been approved for carry-over into the current fiscal year, representing allocations for specific projects that were not completed as of June 30, 2006.
- *Year-to-date FY2006/07 All Fund Revenues through the first seven months of FY2006/07 were \$61.12 million, or 49.6% of the Adjusted Budget figure of \$123.16 million. Corresponding All Funds Expenditure for the same period were \$61.59 million, or 48.5% of the adjusted budget figure of \$126.9 million. (See Attachment A)*
- *Year-to-date FY2006/07 General Fund revenues through the first seven months of the fiscal year were \$17,133,372 million, or 45.4% of the \$37.78 million adjusted revenue budget. General Fund revenues are projected to end the fiscal year at \$37.91 million, just slightly above budget. However, as stated below, Sales Tax revenues may need to be downgraded, pending results of 3rd Quarter receipts. (See Attachment C)*
 - 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 Yolo County indicates that FY 2006/2007 Secured Property Tax revenues will increase by 8% over the prior year, which is an improvement over the 6% growth assumption used in the budget.
 - Sales Tax receipts for through the first half of FY 2006/2007 suggest a slight decline from FY2005/2006 results, as compared to a 2% growth rate assumed in the budget. Compared to the same period a year ago, our first 2 quarters of Sales Tax revenue (excluding Measure P) reflect a 7.4% decrease in the Automotive category, which typically accounts for 50% of direct Sales Tax collections. Staff will continue to monitor Sales Tax receipts closely and, in the absence of strong 3rd Quarter results, it may be necessary to downgrade the year-end Sales Tax projection.
 - Revenues from Parking Citations and Moving Violations through the first seven months of FY2006/07 are \$432,049, or 28.6% of the budget figure of \$1.51 million. Accordingly, the revenue estimate for this year is being reduced by \$732,000 to \$778,567, which would represent only 51.5% of the original budget estimate.

- *Through mid-January (Period 7), FY2006/07 General Fund expenditures (including encumbrances) were \$20.02 million, or 50.5% of the adjusted budget of \$39.61 million. Citywide personnel expenditures appear within budget, with 49% expended through seven months (53.8% of pay-periods).*
- *The combination of FY2005/06 year-end results and the revised budget projections for current-year suggest that the General Fund is expected to end FY2006/07 with a fund balance of \$8.66 million, representing 22.8% of General Fund revenues. This level of fund balance would provide a surplus of \$2.97 million over the Council's 15% reserve policy, and roughly \$2.2 million over the excess fund balance anticipated in the multi-year budget framework.*
- *Staff has developed the initial revenue and expenditure estimates for the FY2007/08 budget as well as a preliminary update of the General Fund Five-Year forecast. The structural budget deficit reflected in the preliminary forecast for FY2007/08 is in the range of \$1.5 million, and is largely consistent with the results of the forecast developed in conjunction with the FY2006/07 budget. The City Council will review the preliminary baseline budget for FY2007/08 as well as the updated Five-Year Forecast as part of its budget workshop scheduled for March 13, 2007.*

Conclusion

This informational report represents the Mid-Year Budget Update for FY2006/2007, and has been prepared in response to the City Council's objective of establishing regular quarterly budget updates. The information provided in this report includes year-to-date revenue and expenditure results through the first seven months of this fiscal year, as well as more detailed General Fund information as well as preliminary projections for year-end results. The baseline budget for FY2007/08 as well as the updated General Fund forecast will be the subject of the City Council's first workshop on the FY2007/2008 budget, scheduled for March 13, 2007.

Attachments:

- Attachment A – All Funds revenues and expenditures
- Attachment B – Summary of General Fund Operations
- Attachment C – General Fund Revenue Results
- Attachment D – General Fund Expenditure Results

Attachment A

Table 1 – All Funds Revenues

FY06/07 Revenues				
	Original Budget	Adjusted Budget	Actual	%
General Fund	36,187,831	37,778,371	17,133,372	45.4%
Special Revenue Funds	20,697,217	24,004,093	10,622,605	44.3%
Debt Service	3,174,076	3,174,076	1,826,254	57.5%
Capital Projects Funds	2,292,112	2,397,112	1,545,248	64.5%
Trust Funds	1,400	1,400	801	57.2%
Enterprise Funds	31,661,310	31,661,310	15,363,149	48.5%
Internal Service Funds	14,350,370	14,352,672	9,618,855	67.0%
Redevelopment Funds	9,788,341	9,792,373	5,012,791	51.2%
Total All Funds	118,152,657	123,161,407	61,123,075	49.6%

- Year to date All Funds Revenues are currently \$61.1 million, or 49.6 % of the adjusted \$123.16 million budget.
- General Fund revenues are tracking at \$17.13 million, or 45.4% of the \$37.77 million adjusted budget. The revenues would appear to be down slightly, but are actually tracking on target with the timing considerations of pending sales tax and property tax installments due.
- RDA Funds are projecting to end the year slightly higher than anticipated, largely due to the continued growth in the assess property valuations.

Attachment A

Table 2 – All Funds Expenditures

	FY06/07 Expenditures			
	Original Budget	Adjusted Budget	Actual	%
General Fund	37,691,080	39,609,820	20,016,665	50.5%
Special Revenue Funds	21,560,101	27,088,257	13,865,641	51.2%
Debt Service	3,745,692	3,745,692	2,029,784	54.2%
Capital Projects Funds	1,499,099	3,539,540	570,944	16.1%
Trust Funds	-	-	-	-
Enterprise Funds	32,500,940	33,003,740	13,990,102	42.4%
Internal Service Funds	12,933,837	13,317,751	8,165,588	61.3%
Redevelopment Funds	5,966,364	6,653,396	2,948,514	44.3%
Total All Funds	115,897,113	126,958,196	61,587,238	48.5%

- Year to date All Funds Expenditures are currently \$61.5 million, or 48.5 % of the adjusted \$126.99 million budget.
- General Fund expenditures are reporting at \$20.16 million, or 50.5% of the total \$39.6 million adjusted budget.
- Internal Service Funds would appear to be tracking a slightly above budget at \$8.16 million, or 61.3%. This is due to the timing of annual service charges being booked in their entirety at the beginning of the year.
- Capital Project Funds appear to be behind the anticipated expenditures with a current actual of \$570,944, or 16.1% of the adjusted budget. This trend is common due to the major expenditures for these funds following the construction timing, which has a tendency to pick up in the spring and summer months.

Table 3 – All Funds Expenditures by Department

	FY06/07 Expenditures			
	Original Budget	Adjusted Budget	Actual	%
City Council	121,594	121,594	64,255	52.8%
City Attorney	577,967	577,967	209,583	36.3%
City Manager	10,832,713	10,983,213	6,476,484	59.0%
Finance	2,414,822	2,489,822	1,247,824	50.1%
Community Development	4,115,209	4,608,269	2,475,903	53.7%
Parks & Community Services	24,621,378	28,042,812	15,673,337	55.9%
Fire	9,050,942	9,281,142	4,751,216	51.2%
Police	13,457,565	13,597,349	7,681,390	56.5%
Public Works	30,449,701	31,402,516	15,482,050	49.3%
Capital Improvements	8,829,236	14,463,059	1,619,384	11.2%
Debt Service	5,764,596	5,764,596	2,832,665	49.1%
Redevelopment	5,671,063	5,675,095	2,794,337	49.2%
Redevelopment Housing	43,979	51,979	18,042	34.7%
CDBG	346,348	375,968	250,847	66.7%
Other	(400,000)	(477,185)	9,921	-2.1%
Total All Funds	115,897,113	126,958,196	61,587,238	48.5%

Attachment B

Summary of General Fund Operations

Table 1 presents a summary of the City’s General Fund results through the year ended June 30, 2006 as well as budget and year-to-date results through the first four months of FY2006/07:

*Table 1: General Fund Summary
 FY2005/06 Results and FY2006/07 Projections*

Description	FY2005/06 Ending Budget	FY2005/06 Budget Projection	FY2005/06 Actual Results	FY2006/07 Beginning Budget	FY2006/07 Adjusted Budget	FY2006/2007 Year-to-Date Results	FY2006/07 Year-end Projection
Beginning Unreserved Fund Balance	\$8,568,544	\$8,568,544	\$7,152,502	\$7,652,007	\$8,780,964		\$8,780,964
Revenues	33,968,820	35,515,303	35,811,814	36,187,831	37,778,371	17,133,372	37,910,853
Expenditures	(36,963,040)	(36,339,928)	(34,146,643)	(37,691,080)	(39,609,820)	(20,016,665)	(38,035,036)
Transfers	(91,912)	(91,912)	(1,296,807)				
Unencumbered Carry-over Appropriations							
Change in Reserved Fund Balance **			1,260,098				
Ending Unreserved Fund Balance	\$5,482,412	\$7,652,007	\$8,780,964	\$6,148,758	\$6,949,515		\$8,656,781
Percentage (E.U.F.B./Revenues)	16.1%	21.5%	24.5%	17.0%	18.4%		22.8%
"Excess" Fund Balance (over Reserve Target)		\$ 2,324,712	\$ 3,409,192	\$ 720,000	\$ 1,282,759		\$ 2,970,154

** This line item is included to link the Audited Financial Statements with Budget Estimates and also includes changes in encumbrance balances.

FY2005/06

The General Fund’s Unreserved Fund Balance as of June 30, 2006 was \$8.78 million, equal to 24.5% of General Fund revenues, compares favorably to the Council’s General Fund reserve policy of 15%, and reflects an improvement of \$1.08 million over the projections used in the development of the FY2006/07 budget (\$7.65 million, 21.5%).

FY2006/07

The Adopted FY2006/07 budget was developed such that the resulting General Fund unreserved Fund Balance at June 30, 2007 would be \$6.15 million, or 17% of General Fund revenues. This assumed a beginning fund balance of \$7.65 million and an anticipated draw-down of fund balances totaling \$1.51 million. The result would have yielded an ‘excess’ fund balance of roughly \$720,000 to be applied toward balancing the subsequent FY2007/08 budget.

Final year-end results for FY2005/06 result in an updated projection for the General Fund reserve expected at June 30, 2006. The revised estimates – assuming current year results consistent with the budget - would yield a projected year-end fund balance of \$6.95 million, or 18.4% of General Fund revenues.

When current year-to date results are projected through year-end, the ending General Fund fund balance is projected to be \$8.66 million or 22.8% of General Fund reserves. 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 \$2.97 million, and provides approximately \$2.25 million in excess fund balance above the amount previously established as available for balancing the FY2007/08 annual budget.

In past years, excess reserve funds have been used, as needed, to balance subsequent years' operating budget deficits. A General Fund reserve policy was approved in June of this year that establishes 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. Consistent with the provisions of the General Fund reserve policy, priority for use of available fund balances should be given to addressing one-time expenditures, including unfunded liabilities, deficits in other funds and capital improvement program needs.

Attachment C

General Fund Revenues

Table 2 presents a summary of major General Fund revenue sources. FY 2005/2006 revenues were \$35.8 million which is \$2.2 million above the original budget, and \$296,511 million above the revenue estimate used in the development of the FY 2006/2007 budget.

Revenue by Source	FY2005/06 Adjusted Budget	FY2005/06 Estimate	FY2005/06 Actual	Variance Favorable / (Unfavorable)	Variance Percentage	FY2006/07 Adjusted Budget	FY2006/07 Year to Date	FY2006/07 Projection	Variance Favorable / (Unfavorable)
Property Taxes	\$11,085,090	\$11,914,513	\$12,427,879	\$513,366	4.3%	\$13,498,903	\$6,609,278	\$13,712,360	\$213,457
Sales & Use Tax	8,283,500	8,942,405	8,988,381	\$45,976	0.5%	9,165,900	3,379,288	9,165,900	\$0
Motor Vehicle In Lieu	412,000	437,966	383,881	(\$54,085)	-12.3%	459,886	226,741	430,800	(\$29,086)
Transient Occupancy Tax	949,200	928,100	940,886	\$12,786	1.4%	946,600	286,411	946,600	\$0
Property Transfer Tax	367,000	344,500	257,580	(\$86,920)	-25.2%	361,700	117,238	265,300	(\$96,400)
Business License Tax	1,186,000	1,185,948	1,179,106	(\$6,842)	-0.6%	1,233,386	110,172	1,233,386	\$0
Municipal Services Tax	1,996,000	2,004,231	2,001,032	(\$3,199)	-0.2%	2,078,900	1,201,670	2,078,900	\$0
Franchise Fees (PG&E)	480,000	490,250	498,017	\$7,767	1.6%	500,000	0	500,000	\$0
Construction Permits	972,000	943,986	880,289	(\$63,697)	-6.7%	*	*	*	*
Planning & Building Inspec	2,091,987	2,216,922	1,619,288	(\$597,634)	-27.0%	1,011,522	473,253	816,151	(\$195,371)
Parks Services	1,941,081	1,906,181	2,016,073	\$109,892	5.8%	2,164,065	1,435,510	2,352,068	\$188,003
Other Depts (Fire, PD, PW)	1,212,070	1,134,913	1,274,590	\$139,677	12.3%	655,987	83,383	726,281	\$70,294
Fines & Forfeitures	**	**	**	**	**	1,510,570	432,049	778,567	(\$732,003)
Investment Earnings	39,399	39,399	247,566	\$208,167	528.4%	39,399	105,748	247,566	\$208,167
Intra-City Revenues	1,139,592	1,139,592	1,136,587	(\$3,005)	-0.3%	1,351,709	1,418,622	1,586,153	\$234,444
All Other Sources	1,813,901	1,886,397	1,960,659	\$74,262	3.9%	2,799,844	1,254,009	3,070,821	\$270,977
Total	\$33,968,820	\$35,515,303	\$35,811,814	\$296,511	0.8%	\$37,778,371	17,133,372	\$37,910,853	\$132,482

*In FY 2006/07 Construction Tax was moved from the General Fund to the Building Permits Fund

** In FY 2006/07 Fines & Forfeitures were moved from the Traffic Safety Fund to the General Fund.

General Fund revenues for FY2005-06 reflect an increase of \$1,926,994, or 5.6%, from prior year results. Growth is primarily attributable to increased Property Tax revenues. Year-end results exceeded budget estimate by 296,511, primarily in the area of Property Tax.

The FY 2006/2007 budget assumes growth in General Fund revenues of \$1.97 million, or 3.1%, due to continued growth in Property Tax revenues, moderate growth (2%) in Sales Tax Revenues, the removal of Building fees from the General Fund, the addition of Parking and Moving Violations to the General fund, and decreases in Planning fees.

In light of revenue results for FY 2005/2006 as well as year-to-date results for FY 2006/2007, 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 FY 2006/2007 Secured Property Tax revenues will increase by 8% 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 through the first half of FY 2005/2006 suggest a slight decline from FY2005/2006 results, when we had predicted 2% growth. Compared to the same period a year ago, our first 2 quarters of Sales Tax revenue (excluding Measure P) reflect a 7.4% decrease in the Automotive category, which typically accounts for 50%

of direct Sales Tax collections. Restaurants are generating 8.9% more Sales Tax than last year at this time, and Grocery/Drug stores are reflecting a 7% decrease. Overall, direct collections are down 2.7% over the same period in FY 2005/2006, but the decrease in direct collections is partially offset by a 7% increase in Measure P revenues. Measure P increases in the first half of the year have come in the Automotive and Grocery/Drug Stores categories. We will continue to monitor sales tax receipts closely.

- Parking Fines and Forfeitures revenue and Moving Violations revenue are now recorded in the General Fund. Combined actual FY 2005/06 revenues for these two items were \$748,055. We are estimating FY 2006/07 revenue to be \$750,000 at this point, based on volume of parking citations year-to-date and receipts of moving violations revenue. Our budget figure of 1,486,370 for these 2 revenue sources was based on actual increases to the amount charged on parking fines, and expected increases in volume of citations written, which has not occurred.
- Other notable General Fund revenue results include offsetting adjustments to service fee revenues for Parks and Recreation Services (+\$188,003) and Planning Fees (-\$195,371), and an upgrade in the revenue projection related to investment earnings (+\$208,167).

Attachment D

General Fund Expenditures

Table 3 summarizes General Fund expenditure results for all departments. FY2005/06 expenditures ended the year at \$34.15 million, or \$2.82 million (8.3%) under the final budget of \$36.96 million. This result represents an increase of 1.9% over FY2004/05 expenditures.

*Table 3: General Fund Expenditures
 FY2005/06 Year-End Results and FY2006/07 Year-to-Date*

Expenditure by Department	FY2005/06	FY2005/06	Variance	% Exp.	FY2006/07	FY2006/07	% Exp.	
	Adjusted Budget	Year-End Actuals			FY2006/2007 Adopted Budget	Adjusted Budget		Year-to-Date Actuals
City Council	\$ 112,722	\$ 122,192	(9,470)	108%	121,594	121,594	64,255	53%
City Attorney	311,188	388,264	(77,076)	125%	427,967	427,967	133,564	31%
City Manager	2,233,323	1,875,664	357,659	84%	2,214,194	2,294,194	1,221,865	53%
Finance	1,514,631	1,440,389	74,242	95%	1,785,881	1,860,881	911,690	49%
Community Development	3,916,996	3,108,803	808,193	79%	1,640,718	1,954,059	1,044,697	53%
Parks & Community Services	10,115,825	9,319,854	795,971	92%	10,348,120	10,443,605	5,507,758	53%
Fire	7,050,771	6,971,936	78,835	99%	7,486,746	7,716,946	3,588,968	47%
Police	10,540,394	10,250,929	289,465	97%	12,261,160	12,400,944	6,484,985	52%
Public Works	471,446	308,841	162,605	66%	1,387,931	1,387,931	666,654	48%
Capital Improvements/Debt	990,085	154,112	835,973	16%	211,110	1,273,225	184,521	14%
Debt	205,659	205,659	-		205,659	205,659	207,708	101%
Non-Departmental Adjustments	(500,000)		(500,000)		(400,000)	(477,185)		0%
Total	\$ 36,963,040	\$ 34,146,643	\$ 2,816,397	92%	\$ 37,691,080	\$ 39,609,820	\$ 20,016,665	51%

FY2005/2006 General Fund expenditure results for most operating departments were within budget. The over-expenditure in the City Attorney’s budget reflects the impact of new contract rates approved in January, which were anticipated to be largely absorbed within existing appropriations. It should be noted that the full impact of the new City Attorney contract rates were incorporated and reflected in the current-year budget.

On a citywide basis, personnel costs ended the year at \$43.29 million, or \$1.77 million (3.9% below the all-funds budget of \$45.07 million. This result exceeds the level of General Fund salary savings incorporated into the FY2005/06 budget, which will be re-evaluated in the course of developing the FY2007/08 budget.

Through January (Period 7), FY2006/07 General Fund expenditures (including encumbrances) were \$20.02 million, or 51% of the adjusted budget of \$39.61 million. Overall, personnel expenditures are tracking within budget through the first four months of the fiscal year.

Preliminary projections of year- end General Fund expenditures stand at \$ 38.04 million, or \$1.57 million (4.0%) below the adjusted budget for FY2006/07. This estimate is based upon revised projections of personnel costs and assumes that remaining non-personnel expenditures will either be fully-expended or encumbered at year-end.

