



MID-YEAR BUDGET REPORT

STAFF REPORT

DATE: February 7, 2008
TO: City Council
FROM: Paul Navazio, Finance Director
SUBJECT: FY 2007/2008 Mid-Year Budget Update

Recommendation

This Informational Item presents revenue and expenditure results through the first seven months of fiscal year 2007/2008, as well as updated projections of General Fund results through the end of the fiscal year (June 30, 2008). The report also reflects final, audited results for the prior fiscal year (FY2006/07), which were previously reported as unaudited results in the FY2007/08 1st Quarter Report, presented in October.

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 FY2007/08 annual budget as well as budgetary projections that provide the basis for initial development of the FY2008/09 budget. Over the next several months, staff will be developing recommendations to be included in the FY2008/09 Proposed Budget, as necessary, to provide for a balanced budget proposal.

Summary

This report summarizes the final, audited year-end General Fund revenue and expenditure results for FY2006/2007, and presents revenue and expenditure results through the first seven months of FY2007/2008. 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 FY2007/08 budget.

Highlights of the report include:

- *The General Fund Unreserved Fund Balance as of June 30, 2007 was \$7.67 million, and represents a favorable variance in the reserve of \$175,000 as compared to the reserve level assumed in the development of the FY2007/08 budget. The year-end \$7.67 million Unreserved Fund Balance as of June 30, 2007 represents 20.8% of General Fund revenues. (See Attachment B- Table 1).*
 - General Fund revenues ended FY2006/07 at \$38.09 million, which is \$356,600 below the previous revenue estimate.
 - General Fund expenditures ended FY2006/07 at \$38.96 million, which was \$1.26 million below the final adjusted budget, and \$888,614 (2.2%) below the previous forecast. However, of the year-end savings, \$246,740 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, 2007.

- ❑ *Year-to-date All Fund Revenues through the first seven months of FY2007/08 were \$61.72 million, or 43.4% of the Adjusted Budget figure of \$142.08 million. Corresponding All Funds Expenditure for the same period were \$63.60 million, or 35.2% of the adjusted budget figure of \$180.7 million. (See Attachment A)*
- ❑ *Year-to-date General Fund revenues through the first seven months of the fiscal year were \$17,414,264, or 44.7% of the \$38.98 million adjusted revenue budget. General Fund revenues are projected to end the fiscal year at \$38.69 million, just slightly less than 1% below budget. (See Attachment C)*
 - Property Tax revenues continue to reflect growth in assessed real property valuations, and reflect the continuing resiliency of the local real estate market. Information from the Yolo County Assessor's Office indicates that FY 2007/2008 Secured Property Tax revenues will increase by 8% over the prior year, which is slightly higher than the 7.5% growth assumption used in the budget.
 - Sales Tax receipts through the first half of FY 2007/2008 suggest an increase from FY2006/2007, and compare favorably to the 2.5% growth rate assumed in the budget. Our core categories of Automotive and Restaurant, which combined account for approximately 65% of direct Sales Tax collections, reflect growth of 2.4% - essentially keeping in line with inflation and budget estimates. Staff will continue to monitor Sales Tax receipts closely.
 - Revenues from Parking Citations and Moving Violations through the first seven months of FY2006/07 are \$428,062, or 52.6% of the budget figure of \$813,800.
- ❑ *Through mid-January (Period 7), FY2007/08 General Fund expenditures (including encumbrances) were \$20.95 million, or 51% of the adjusted budget of \$41.03 million. (See Attachment D).*

Citywide personnel expenditures appear within budget, with 48% expended through seven months (50% of pay-periods).

- ❑ *Based on General Fund expenditure results through January, expenditures are projected to end the year at 40.6 million, or roughly \$425,000 under the adjusted budget of \$41.03 million.*
- ❑ *The combination of FY2006/07 year-end results and the revised budget projections for the current-year suggest that the General Fund is expected to end FY2007/08 with a fund balance of \$6.0 million, representing 15.5% of General Fund revenues. This level of fund balance would provide a surplus of \$198,528 over the Council's 15% reserve policy.*

- *Staff has developed the initial revenue and expenditure estimates for the FY2008/09 budget as well as a preliminary update of the General Fund Five-Year forecast. The structural budget deficit reflected in the preliminary forecast for FY2008/09 is in the range of \$500,000-\$600,000, and is largely consistent with the results of the forecast developed in conjunction with the FY2007/08 budget. The City Council will review the preliminary baseline budget for FY2008/09 as well as the updated Five-Year Forecast as part of its budget workshop scheduled for March 11, 2008.*

Conclusion

This informational report represents the Mid-Year Budget Update for FY2007/2008, 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 FY2008/09 as well as the updated General Fund forecast will be the subject of the City Council's first workshop on the FY2008/2009 budget, scheduled for March 11, 2008.

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

FY 07/08 Revenues					
	Original Budget	Adjusted Budget	Actual	%	
General Fund	\$ 38,545,982	\$ 38,982,140	\$ 17,414,264	44.7%	
Special Revenue Funds	24,008,025	25,027,949	10,155,953	40.6%	
Debt Service	3,754,507	3,754,507	1,681,558	44.8%	
Capital Projects Funds	1,679,830	1,799,237	1,619,147	90.0%	
Trust Funds	1,689	1,689	894	52.9%	
Enterprise Funds	51,183,644	51,183,644	18,229,326	35.6%	
Internal Service Funds	10,269,658	10,269,658	6,811,513	66.3%	
Redevelopment Funds	11,062,210	11,064,216	5,805,222	52.5%	
Total All Funds	\$ 140,505,545	\$ 142,083,040	\$ 61,717,877	43.4%	

- Year-to-date All Funds Revenues are currently \$61.72 million, or 43.4% of the adjusted \$142.08 million budget.
- General Fund revenues are tracking at \$17.41 million, or 44.7% of the \$38.98 million adjusted budget. The revenues would appear to be lagging slightly, but are actually tracking on target when considering the timing of pending sales tax and property tax installments.
- Capital Project funds are on track to exceed budget this year due to timing of fee payments, some of which were expected to be received in FY2006-07.
- Enterprise Fund budgets include proceeds from a \$15 million financing for the design phase of the wastewater treatment plant project, which is not yet reflected in the year-to-date actual. Actual operating revenue is tracking in proportion to mid-year expectations.

Attachment A

Table 2 – All Funds Expenditures

	FY07/08 Expenditures				
	Original Budget	Adjusted Budget	Actual	%	
General Fund	\$ 40,539,416	\$ 41,026,545	\$ 21,238,698	51.8%	
Special Revenue Funds	24,911,467	28,430,016	13,033,154	45.8%	
Debt Service	19,707,595	19,707,595	1,196,067	6.1%	
Capital Projects Funds	1,154,440	3,081,014	2,445,478	79.4%	
Trust Funds	-	-	-	-	
Enterprise Funds	49,944,496	53,375,531	15,774,364	29.6%	
Internal Service Funds	10,459,819	10,643,234	6,407,096	60.2%	
Redevelopment Funds	20,122,209	24,477,161	3,502,128	14.3%	
Total All Funds	\$ 166,839,442	\$ 180,741,096	\$ 63,596,985	35.2%	

- Year to date All Funds Expenditures are currently \$63.6 million, or 35.2 % of the adjusted \$180.74 million budget.
- General Fund expenditures are reporting at \$21.24 million, or 51.8% of the total \$41.0 million adjusted budget.
- Capital Project Funds appear to be above the anticipated expenditures with a current actual of \$2.45 million, or 79.4% of the adjusted budget, while Enterprise Funds appear to be slightly below the anticipated expenditures with a current actual of \$15.77 million, or 29.6% of the adjusted budget. These results reflect the timing of major expenditures related to construction projects, which have a tendency to pick up in the spring and summer months.

Table 3 – All Funds Expenditures by Department

	FY07/08 Expenditures				
	Original Budget	Adjusted Budget	Actual	%	
City Council	\$ 138,121	\$ 138,121	\$ 63,884	46.3%	
City Attorney	577,967	577,967	124,587	21.6%	
City Manager	8,902,421	9,308,421	5,318,215	57.1%	
Finance	2,647,595	2,650,880	1,262,691	47.6%	
Community Development	4,738,069	4,738,069	1,836,066	38.8%	
Parks & Community Services	29,325,669	30,441,148	15,877,172	52.2%	
Fire	9,447,674	9,982,363	5,070,662	50.8%	
Police	14,498,172	14,616,121	7,581,353	51.9%	
Public Works	32,193,824	33,086,418	16,461,206	49.8%	
Capital Improvements	23,917,691	30,504,397	4,808,112	15.8%	
Debt Service	22,140,899	22,140,899	1,842,786	8.3%	
Redevelopment	19,405,859	19,397,865	3,318,869	17.1%	
Redevelopment Housing	68,142	4,321,088	31,380	0.7%	
CDBG	-	-	2	0.0%	
Other	(1,162,661)	(1,162,661)	-	0.0%	
Total All Funds	\$ 166,839,442	\$ 180,741,096	\$ 63,596,985	35.2%	

Attachment B

Summary of General Fund Operations

Table 1 presents a summary of the City’s General Fund results through the fiscal year ended June 30, 2007 as well as budget and year-to-date results through the first seven months of FY2007/08:

*Table 1: General Fund Summary
FY2006/07 Results and FY2007/08 Projections*

Description	FY2006/07 Ending Budget	FY2006/07 Budget Projection	FY2006/07 Actual Results	FY2007/08 Adopted Budget	FY2007/08 Adjusted Budget	FY2007/2008 Year-to-Date Results	FY2007/08 Year-end Projection
Beginning Unreserved Fund Balance	\$8,780,972	\$8,780,972	\$8,780,972	\$7,544,127	\$7,912,402	n/a	\$7,912,402
Revenues	37,305,656	38,444,890	38,088,310	38,545,982	38,982,140	17,414,264	38,690,744
Expenditures	(40,226,433)	(39,851,735)	(39,133,121)	(40,539,416)	(41,026,545)	(20,950,584)	(40,601,006)
Transfers	(91,912)	170,000	170,000		288,114		
Unencumbered Carry-over Appropriations							
Change in Reserved Fund Balance **			6,241	288,114	288,114		
Audited Unreserved Fund Balance	\$5,768,283	\$7,544,127	\$7,912,402	\$5,838,807	\$6,444,225	<i>n/a</i>	\$6,002,140
Unencumbered Carryover Appropriations			(246,740)				
Ending Unreserved Fund Balance	\$5,768,283	\$7,544,127	\$7,665,662	\$5,838,807	\$6,444,225	<i>n/a</i>	\$6,002,140
Percentage (E.U.F.B./Revenues)	15.5%	19.6%	20.8%	15.1%	16.5%	<i>n/a</i>	15.5%
"Excess" Fund Balance (over Reserve Target)		\$ 1,777,394	\$ 1,952,416	\$ 56,910	\$ 596,904	<i>n/a</i>	\$ 198,528

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

FY2006/07

The General Fund’s Unreserved Fund Balance as of June 30, 2007 was \$7.67million, equal to 20.8% of General Fund revenues, compares favorably to the Council’s General Fund reserve policy of 15%, and reflects a slight improvement of \$121,542 over the projections used in the development of the FY2007/08 budget (\$7.54 million).

FY2007/08

The Adopted FY2007/08 budget was developed such that the resulting General Fund unreserved Fund Balance at June 30, 2008 would be \$5.84 million, or 15.1% of General Fund revenues. This assumed a beginning fund balance of \$7.54 million and an anticipated draw-down of fund balances totaling \$1.12 million. The result would have yielded an “excess” fund balance of roughly \$57,000.

Final year-end results for FY2006/07 result in an updated projection for the General Fund reserve as of June 30, 2008. The revised estimates – assuming current year results consistent with the budget - would yield a projected year-end fund balance of \$6.0 million, or 15.5% of General Fund revenues. This would yield an excess fund balance on June 30, 2008 of approximately \$198,000 above the reserve requirement. Consistent with the provision of the General Fund reserve policy, priority for use of available fund balances will 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 results for our major General Fund revenue sources. FY 2006/2007 revenues were \$38.0 million which was \$356,580 (1.0%) below the revenue estimate used in the development of the FY 2007/2008 budget.

*Table 2: General Fund Revenues
FY2006/07 Results and FY2007/08 Projections*

Revenue by Source	FY2006/07 Adjusted Budget	FY2006/07 Projection	FY2006/07 Actual	Variance Favorable / (Unfavorable)	Variance Percentage	FY2007/08 Adjusted Budget	FY2007/08 Year to Date	FY2007/08 Projection	Variance Favorable / (Unfavorable)
Property Taxes	\$13,498,903	\$13,754,710	\$13,412,880	(\$341,830)	-2.5%	\$14,872,290	\$7,320,780	\$14,380,234	(492,056)
Sales & Use Tax	9,165,900	8,868,900	8,834,409	(\$34,491)	-0.4%	9,090,600	3,567,432	9,126,100	35,500
Motor Vehicle In Lieu	459,886	436,600	383,808	(\$52,792)	-12.1%	449,698	163,576	320,600	(129,098)
Transient Occupancy Tax	946,600	1,025,000	1,056,691	\$31,691	3.1%	1,056,000	303,957	1,154,500	98,500
Property Transfer Tax	361,700	265,300	236,092	(\$29,208)	-11.0%	268,000	92,593	236,100	(31,900)
Business License Tax	1,233,386	1,200,700	1,258,072	\$57,372	4.8%	1,230,700	104,415	1,230,700	0
Municipal Services Tax	2,078,900	2,081,400	2,076,696	(\$4,704)	-0.2%	2,158,200	1,250,273	2,180,400	22,200
Franchise Fees (PG&E)	500,000	546,300	551,717	\$5,417	1.0%	557,226	0	557,226	0
Planning & Building Inspec	1,011,522	1,083,366	646,462	(\$436,904)	-40.3%	800,175	161,126	855,014	54,839
Parks Services	2,197,377	2,354,445	2,114,693	(\$239,752)	-10.2%	2,317,242	1,442,190	2,324,250	7,008
Other Depis (Fire, PD, PW)	1,220,203	1,440,080	1,380,956	(\$59,124)	-4.1%	1,480,370	687,335	1,560,659	80,289
Fines & Forfeitures	1,510,570	778,691	816,897	\$38,206	4.9%	813,800	428,062	813,800	0
Investment Earnings	39,399	247,566	421,088	\$173,522	70.1%	244,019	161,377	244,799	780
Intra-City Revenues	1,351,709	1,586,153	1,419,806	(\$166,347)	-10.5%	1,558,270	839,002	1,808,570	250,300
All Other Sources	1,729,601	2,775,679	3,478,043	\$702,364	25.3%	2,085,550	892,146	1,897,792	(187,758)
Total	\$37,305,656	\$38,444,890	\$38,088,310	(\$356,580)	-0.9%	\$38,982,140	17,414,264	\$38,690,744	(291,396)

General Fund revenues for FY2006-07 reflected an increase of \$2,276,496, or 6.4%, from prior year results. Growth is primarily attributable to increased Property Tax revenues. Year-end results fell short of the budget estimate by \$356,580, due previously to a correction in Property Tax in-lieu of Vehicle License Fee (VLF) payments.

The FY 2007/2008 budget assumes growth in General Fund revenues of \$893,830, or 2.3%, due again primarily to continued growth (7.5%) in Property Tax revenues, and moderate growth (2.5%) in Sales Tax revenues.

In light of revenue results for FY 2006/2007 as well as year-to-date results for FY 2007/2008, some adjustments to this year's revenue estimates appear warranted:

- Property Tax revenues continue to reflect growth in assessed real property valuations, and reflect the continuing resiliency of the local real estate market, both in terms of sales price and in the rate of turnover. Information from Yolo County Assessor's Office indicates that FY 2007/2008 Secured Property Tax revenues will increase by 8% over the prior year, which is slightly more than the 7.5% growth assumption used in the budget. However, we are revising our initial estimates of the Property Tax In Lieu of VLF component downward due to more current information received from County and State sources, and have adjusted for (removed) a one-time payment, included in last year's results, that was used as a basis of this year's revenue estimate. We have also revised upward our initial estimate of the administrative charge retained

by Yolo County, which further reduces the estimate for this category as a whole. Lastly, it is too early to evaluate supplemental property taxes (received later in the year) which fluctuate significantly from year to year.

- Sales Tax receipts through the first half of FY 2007/2008 suggest an increase from FY2006/2007 results, and from the 2.5% growth rate assumed in the budget. However, this “excess” growth can be attributed to one-time capital purchases by local industries, and also some mis-allocations by the Board of Equalization which, while temporarily to our benefit, are certain to be corrected in future quarters. Our core categories of Automotive and Restaurant, which together account for approximately 65% of direct Sales Tax collections, reflect growth of 2.4% compared to the same period last year - essentially keeping in line with inflation. Overall, direct collections are up 5% over the same period in FY 2006/2007. We will continue to monitor sales tax receipts closely.
- Revenues from Parking Citations and Moving Violations through the first seven months of FY2006/07 are \$428,062, or 52.6% of the budget figure of \$813,800. Combined actual FY2006/07 revenues for these two items were \$816,897. We are estimating FY 2007/08 revenue to meet budget estimates at this point, based on volume of parking citations year-to-date and receipts of moving violations revenue.
- Real Estate Transfer Tax revenue has been revised downward due to final results in FY2006-07.
- We have re-classed \$250,000 of revenue in the “All Other” category to Intra-City Revenues.

Attachment D

General Fund Expenditures

Table 3 summarizes General Fund expenditure results for all departments. FY2006/07 expenditures ended the year at \$39.13 million, or \$1.09 million (3%) under the final budget of \$40.23 million.

*Table 3: General Fund Expenditures
FY2006/07 Year-End Results and FY2007/08 Year-to-Date*

Expenditure by Department	FY2006/07 Adjusted Budget	FY2006/07 Year-End Actuals	Variance	% Exp.	FY2007/2008 Adopted Budget	FY2007/08 Adjusted Budget	FY2007/08 Year-to-Date Actuals	% Exp.
City Council	\$ 121,594	\$ 111,968	9,626	92%	138,121	138,121	63,884	46%
City Attorney	427,967	461,257	(33,290)	108%	427,967	427,967	92,253	22%
City Manager	2,273,023	2,139,622	133,401	94%	2,415,698	2,563,898	1,162,293	45%
Finance	2,019,258	1,884,702	134,556	93%	1,978,684	1,981,969	941,752	48%
Community Development	1,974,059	1,727,184	246,875	87%	1,785,678	1,785,678	734,314	41%
Parks & Community Services	10,488,597	9,987,168	501,429	95%	11,093,543	11,134,701	5,791,324	52%
Fire	7,562,864	7,716,767	(153,903)	102%	8,135,525	8,390,545	4,283,488	51%
Police	12,470,287	12,069,577	400,710	97%	13,289,489	13,379,438	6,905,215	52%
Public Works	1,385,414	1,238,053	147,361	89%	1,193,321	1,195,838	603,304	50%
Capital Improvements/Debt	1,772,172	1,756,391	15,781	99%	750,278	697,278	166,609	24%
Debt	205,659	207,708	(2,049)		205,659	205,659	205,658	100%
Redevelopment	2,724	2,724	-		-	-	490	0%
Non-Departmental Adjustments	(477,185)	(170,000)	(307,185)		(874,547)	(874,547)	-	0%
Total	\$ 40,226,433	\$ 39,133,121	\$ 1,093,312	97%	\$ 40,539,416	\$ 41,026,545	\$ 20,950,584	51%

FY2006/2007 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. As reported in the 1st Quarter Report, it should be noted that the full impact of the new City Attorney contract rates were incorporated and reflected in the current-year budget. While the Fire Department exceeded its General Fund budget by \$153,903 (2%), it should be noted that the department ended the year within its All Funds budget.

On a citywide basis, personnel costs ended the year at \$2.05 million, or 4.3% under budget, with realized General Fund personnel savings ending the year at just over \$1.0 million (3.7%), exceeding the level of General Fund salary savings incorporated into the FY 06/07 budget.

Through January (Period 7), FY2007/08 General Fund expenditures (including encumbrances) were \$20.95 million, or 51% of the adjusted budget of \$41.03 million. Overall, personnel expenditures through the first half of the fiscal year, when accounting for seasonality of Citywide Capital Improvement projects and recreation program expenditures in Parks and Community Services appear to be within budget, and should yield a slight additional savings above the \$1,000,000 projection anticipated in the FY 2007/08 budget.

Non-personnel expenditures also continue to track within budget and are expected to be in line with the \$750,000 in anticipated savings assumed in the development of the FY2007/08 budget.

Preliminary projections of year end General Fund expenditures stand at \$ 40.60 million, or \$442,000 (1.0%) below the adjusted budget for FY2007/08. General Fund expenditures will

continue to be monitored to assess whether the General Fund will fully realize the \$1.75 million in savings from personnel costs (\$1,000,000) and non-personnel costs (\$750,000) incorporated into the FY 2007/08 budget.

Continued refinement to the FY 2007/08 budget projections will be presented as part of the Budget Workshop scheduled for March 11.