

STAFF REPORT

DATE: December 12, 2016

TO: City Council

FROM: Kelly Fletcher, Finance Administrator
Kelly Stachowicz, Assistant City Manager

SUBJECT: FY 2016/17 First Quarter Budget Update

Recommendation

This is an informational report; no action is requested on this item.

Fiscal Impact

This informational item presents unaudited year-end revenue and expenditure results for the Fiscal Year ended June 30, 2016 (FY 2015/16), as well as revenue and expenditure results through the first three periods of FY 2016/17. The General Fund ended FY 2015/16 with an increase of \$646,930 over the projected year-end fund balance estimate.

As part of the FY 2016/17 budget process, the City Council updated the General Fund Reserve policy and one-time expenditures of the reserve funds above 15% were identified. These \$8.6 million in appropriations included:

- \$ 200,000 – Grant Match Funding
- \$ 500,000 – Process Engineering (Financial Accounting/Enterprise Planning)
- \$ 1,500,000 – H Street at Davis Little League & Covell/H Street Tunnel)
- \$ 375,000 – East Covell Bicycle Path
- \$ 300,000 – Russell Bike Path, Arthur to City Limits (Planning/Design)
- \$ 870,000 – 5th Street Reconstruction @ Maintenance Holes
- \$ 500,000 – Community Choice Energy Project

In addition to the above expenditures the following two items were held at Council direction until Fiscal Year 2015/16 was closed and fund balance to achieve these payments were confirmed. As stated above, the , June 30, 2016 General Fund balance not only met, but exceeded expectations, therefore staff is recommending these two items move forward at this time.

- \$ 2,000,000 – Retiree Medical (OPEB)
- \$ 2,355,000 – Facilities/Parks Needs

While this updated snapshot in time shows an improvement in fund balance, we are mindful of outstanding issues and unfunded liabilities which will likely impact these projections prior to year end. Currently the City has engaged with two employee groups to address contracts which

are currently expired, which could have budget impacts prior to June 30, 2017. Further, future actions by the State and/or CalPERS may influence the budget.

Staff will continue to monitor expenditures and update projections to assess whether the General Fund will sustain the assumptions incorporated into the FY 2016/17 budget. The results of this analysis will be discussed in the mid-year budget report.

The final piece of the General Fund Reserve discussion at the City Council last spring dealt with the amount of the reserve between 10% and 15%. Council direction related to this \$2.6 million was to apply it to one-time Capital expenditures and hold it until the mid-year budget report was complete. Once the fund availability is verified, likely in early February, the funds could be released for the projects/project areas below.

- \$500,000 to facility needs
- \$500,000 to park needs
- \$500,000 to street/bike path maintenance
- \$500,000 to citywide signal upgrades
- \$220,000 to Chavez – bike-walk audit report improvements
- \$380,000 to Birch Lane – bike-walk audit report improvements

Council Goal

This item is related to City Council Goal 1 – Ensure Fiscal Resilience.

Summary

This report summarizes the final, unaudited year-end All Funds revenue and expenditure results for FY 2015/16 and presents All Funds revenue and expenditure results through the first three periods of FY 2016/17 (July-Sept). In addition, the report highlights General Fund revenue and expenditure results in comparison to estimates used in the development of the current FY 2016/17 budget.

Highlights of the reported results include:

- *The unaudited General Fund Unreserved Fund Balance as of June 30, 2016, was \$16.32 million or 30.1% of General Fund expenditures. This result represents an increase of \$646,930 as compared to the year-end fund balance estimate of \$15.67 million assumed in the development of the FY 2016/17 Adopted Budget. This balance includes a reduction of approximately \$2.51 million which has been re-appropriated into current FY 2016/17 for specific projects that were not completed as of June 30, 2016. (See Attachment B)*
 - General Fund revenues ended FY2015/16 at \$59.03 million, which is \$168,686, or (0.3%) below the estimate of \$59.19 million. Contributors to this minor shortfall is a combination of additional revenue, including Sales Tax \$146,295, Planning Application Processing \$491,830 and a shortfall in Property Tax estimates of (\$443,561)
 - FY 2015/16 General Fund expenditures were \$54.14 million plus an adjustment of \$2.51 million for changes in encumbrance balances re-appropriated into current FY

2016/17 for specific projects that were not completed as of June 30, 2016. This adjusted ending expenditure total of \$56.65 million was \$809,269 below the expenditure estimate assumed in the budget.

- *Year-to-date FY 2016/17 General Fund revenues through the first three months of the fiscal year were \$7.22 million, or 12.9% of the \$56.16 million adjusted revenue budget.*

- *In FY 2015/16, overall Property Tax revenue increased 12.5% over prior year results, as total assessed valuations are experiencing better levels of growth, as well as the addition of new units within the Cannery development. The year-end property tax result of \$19.73 million was (\$443,561) (2.2%) below the revenue estimate of \$20.17 million, which was used in the development of the FY 2016/17 budget. Although this number is slightly lower than projected, we believe it is reflective of timing with the sale of Cannery properties and will not have an effect on the FY 2016/17 original property tax projections. Staff will know more in January when the first installment of current-year property tax revenue is received.*

- *Sales Tax revenue ended FY 2015/16 at \$16.19 million, 0.9% above the budget estimate, and first quarter results for FY 2016/17 stand at \$1.43 million, or 8.9% of the annual budget figure of \$15.98 million. In looking forward the balance of the 1st quarter sales tax proceeds which were received in October bring us to \$3.95 million or 24.8% which is in line with FY 2016/17 sales tax projections. Typically, Sales Tax revenue forecasts are not updated on the basis of results from one quarter, and year-to-date results do not warrant any early revisions to the forecast.*

- *Transient Occupancy Tax revenue in FY 2015/16 increased to \$1.45 million over prior year FY 2014/15 results of \$1.32 million (12.2%). Year to date results of \$18,207 reflect residual payments from FY 2015/16 received after July 1. July through September Transient Occupancy Tax payments are received in fiscal quarter two, which is showing current YTD revenue of \$407,236, representing 28.7% of the estimated FY 2016/17 revenue of \$1.42 million.*

- *Property Transfer Tax revenue decreased to \$306,001 in FY 2015/16 over prior year FY 2014/15 results of \$367,464 (16.7%). This tax can fluctuate from year to year, as it is dependent on real estate activity. Although the 2015/16 year end results declined over 2014/15, we remain optimistic in maintaining our FY 2016/17 projection of \$450,000. Again, indication of this will be in January when the first installment of current-year property tax revenue is received.*

- *Service Fee and Permit revenue collected in FY 2015/16 totaled \$7.28 million, \$1.4 million above our budget projections of \$5.88 million. Increases were experienced in Planning Application processing seeing more than \$490,000 in revenue above the mid-year estimate due to reimbursable work on the Mace Ranch Innovation Center and \$450,000 in Public Works Development review. First quarter revenues are currently at \$1,727,968 or 30.2% of the Adjusted Budget figure of \$5,717,658. This is primarily due to higher revenue collections in Community Services in the first quarter for their summer activities.*

- *Investment Earnings. First quarter investments would appear slow due to the timing of investments interest receipts, which occurred in October, (fiscal quarter 2). In November 2016, per Council direction, the City initiated \$30 million in funds to be invested by PFM Asset Management group to begin expanding our portfolio into short, mid and longer term investments. The first results of their work will be reported in the mid-year update.*
 - *All Other Sources category of Revenues in FY 2015/16 ended the year lower than projected. The main component of this decrease is \$1.3 million in loan proceeds for the Streetlight Conversion project. This revenue is only a timing difference regarding State Revolving Fund proceeds which were not received until Fiscal Year 2016/17. This is a one-time loan which is not planned to be repeated in FY 2017/18.*
- *Through September (Period 3), FY 2016/17 General Fund expenditures (including encumbrances) were \$11.76 million, or 17.7% of the adjusted budget of \$66.30 million. (See Attachment D) Citywide personnel expenditures appear within budget, with 23.8% expended through three periods (see Attachment A, Table 7). Departmental expenditure projections will be evaluated with the FY 2016/17 Mid-Year Budget Update.*

The Adopted FY 2016/17 budget projected a General Fund unreserved Fund Balance at June 30, 2017 of \$8.05 million, or 13.0% of General Fund expenditures. Final year-end results for FY2015/16 show an ending fund balance above the original projection. This results in an updated year-end fund balance of \$8.69 million or 13.1% at June 30, 2017.

- *All Funds Revenues for the year ended June 30, 2016 were \$194.62 million as compared to an Adjusted Budget of \$318.82 million. Enterprise Funds are lower than FY 2015/16 revenue estimates primarily due to continuation of major capital improvement projects supported by the State Water Resources Loans, including the Wastewater Treatment Plant Improvement project \$34.98 million, Automatic Water Meter Upgrade \$6.5 million, Local Water Pipeline Project \$4.87 million and the Davis/Woodland Water Supply Project \$66.91 million. (See Attachment A – Table 1).*
- *All Funds Expenditures for FY 2015/16 were \$184.78 million, which represents 54.8% of the Adjusted Budget of \$337.45 million. Personnel costs represent \$55.39 million or 30.0% of the FY 2015/16 expenditures. All Funds Expenditures through the first quarter of FY 2016/17 stand at \$52.45 million or 21.3% of the All Funds Budget of \$245.75 million. (See Attachment A – Tables 3, 5, 6, 7).*
- *Through the first quarter of the current fiscal year, All Funds Revenues stood at \$39.65 million, or roughly 18.8% of the Adjusted Budget figure of \$210.52 million. General Fund and Special Revenue Funds include several major sources of tax revenues (Property Tax, Sales Tax, Park Maintenance and Open Space) which are paid in major installments in January and May, so those revenues will be received in the second half of the fiscal year. Special Revenue Funds include Transportation Development Act, Community Development Block Grant, and Operational Grants, which are subject to timing of expenditures and receipts of reimbursements, and typically have a timing lapse of several months. Internal Service Fund revenues from fees are tracking in line with projections, as these are fixed*

annual costs charged in 1/12th increments. Reimbursement “draws” from the State Revolving Fund Loan (Alternative Water Supply & Surface Water Local Facilities) and Waste Water Treatment Plant Financing (WWTP Facility Improvement) have been made for last fiscal year with the revenue receipts in FY 2016/17. This overlap from last fiscal year has pushed the year to date revenues to more than 70%. *(See Attachment A – Table 2).*

- *As of December 12, 2016, the City has twenty-five (25) full-time vacant positions. These vacancies represent 14.2% of the current work force. Thirteen (13) regular full-time vacant positions have been filled as of December 12, 2016. (See Table 9)*

Attachments:

- A. All Funds Revenues and Expenditures
- B. Summary of General Fund Operations
- C. General Fund Revenues
- D. General Fund Expenditures

Attachment A

ALL FUNDS REVENUES AND EXPENDITURES

Table 1 – All Funds FY 2015/16 Revenues

FY15/16 Revenues				
	Final Adjusted Budget	Unaudited Actual	%	Note
General Fund	56,213,713	59,025,210	105.0%	1b
Special Revenue Funds	23,587,356	13,812,520	58.6%	1c
Debt Service	12,533,052	12,611,321	100.6%	
Capital Projects Funds	3,567,290	2,165,175	60.7%	1d
Trust Funds	10	275	0.0%	
Enterprise Funds	193,401,139	76,900,364	39.8%	1e
Internal Service Funds	26,617,976	26,331,074	98.9%	
RDA Successor Agency Funds	2,903,833	3,770,938	129.9%	1f
Total All Funds	318,824,369	194,616,877	61.0%	1a

- 1a** All Funds Revenues ended FY 2015/16 at \$194.62 million, or 61.0% of the adjusted budget of \$318.82 million.
- 1b** General Fund revenues ended the fiscal year at \$59.03 million which is 5.0% higher than the adjusted budget. This is attributed to Sales and Use Tax revenues coming in higher than budgeted by \$2.39 million and Property Tax revenues of \$580,000. Both of these revenues were adjusted in mid-year estimates. Notable year-end revenues in excess of estimates include Transient Occupancy Tax \$104,000, Departmental revenues due to increased submission of development plans and review \$492,000, and a decline in Real Property Transfer tax (\$117,000) and RDA residual pass thru of (\$344,000).
- 1c** Special Revenue Funds experienced a shortfall in revenue for Grant activities, which are not complete and have been carried forward into FY 2016/17. The more significant federal transportation funds include: STIP – 3rd Street A to B \$3.29 million, L Street Improvements \$1.58 million, and Mace Boulevard Improvements \$2.3 million. In addition, Operating Grant funding carryovers include: Davis Alternate Fuel Grant \$200,000, Strategic Growth Council \$418,000, and Safe Routes to School \$187,000.
- 1d** Capital Project Funds experienced delays in projects and the anticipated revenues, as well as the corresponding expenditures, were moved into FY 2016-17. Examples of the more significant projects moved to FY 2016/17 are Urban Greening Grant funds of \$116,000 for the Downtown Gateway project and \$106,000 in Grant Funds in support of the North Davis Riparian Greenbelt Project. In addition, \$1.2 million in Development Impact Fees were not received due to project timing. These funds will also be deferred to FY 2016/17.
- 1e** Enterprise Funds are lower than FY 2015/16 revenue estimates primarily due to the timing of major capital improvement projects supported by State Water Resources Loans including the Wastewater Treatment Plant \$34.98 million, Automatic Water

Meter Upgrade \$6.5 million, Local Water Pipeline Project \$4.87 million and the Davis/Woodland Water Supply project \$66.91 million. These revenues and corresponding project expenditures were moved to FY 2016/17.

- 1f** RDA Successor Agency Funds were higher than original budget estimates due to one-time monies held for RDA infrastructure commitments being transferred back to the California Department of Finance for distribution. Of the \$5.58 million transferred, the City of Davis received approximately \$1 million.

Table 2 – All Funds FY 2016/17 Revenues

FY16/17 Revenues				
	Adjusted Budget	Year-To-Date Actual	%	Note
General Fund	56,160,337	7,224,814	12.9%	2a
Special Revenue Funds	21,558,517	2,370,835	11.0%	2b
Debt Service	2,733,418	53,316	2.0%	2c
Capital Projects Funds	2,392,013	1,709,729	71.5%	2d
Trust Funds	12	-	100.0%	
Enterprise Funds	94,249,327	20,925,414	22.2%	
Internal Service Funds	29,742,664	7,360,942	24.7%	
RDA Successor Funds	3,681,497	98	0.0%	2e
Total All Funds	210,517,785	39,645,148	18.8%	2a

- 2a** All Funds Revenues through the first quarter of FY 2016/17 are \$39.65 million, or 18.8% of the adjusted budget. General Fund Revenues are \$7.22 million or 12.9% of the adjusted budget, with many of the City’s major tax revenues (property tax & sales tax) yet to be collected.
- 2b** Special Revenue Funds include Transportation Development Act, Community Development Block Grant, and Operational Grants, which are subject to timing of expenditures and receipt of reimbursements, and typically have a timing laps of several months.
- 2c** Debt Service funds are tracking below budget, due to the timing of Assessments which appear on property tax billings and revenue received in January and May.
- 2d** Capital Projects Funds related to development within the City are above the expected 25% at this time of year due to the timing of projects. More than 70% of the anticipated revenue has already been received, which accounts for the timing shortfall from last fiscal year.
- 2e** RDA Successor Funds revenue is short for the quarter but will be in line with estimates when property tax installments are received from the County in January and May.

Table 3 – All Funds FY 2015/16 Expenditures

FY15/16 Expenditures				
	Final Adjusted Budget	Unaudited Actual	%	Note
General Fund	59,335,355	54,142,786	91.2%	3b
Special Revenue Funds	25,688,887	13,264,542	51.6%	3c
Debt Service	13,073,777	11,717,700	89.6%	3d
Capital Projects Funds	11,763,310	7,744,015	65.8%	3e
Trust Funds	-	-	0.0%	
Enterprise Funds	197,097,785	70,243,057	35.6%	3f
Internal Service Funds	26,554,335	23,915,340	90.1%	3g
Redevelopment Funds	3,933,801	3,752,601	95.4%	
Total All Funds	337,447,250	184,780,041	54.8%	3a

- 3a** All Funds Expenditures for FY 2015/16 were \$184.78 million, or 54.81% of the adjusted budget of \$337.45 million. All funds were under budget (ranging from 35.6% to 91.2% of budget spent).
- 3b** General Fund Expenditures ended the year at \$54.14 million, or 8.8% under budget. Committed purchase orders and projects of \$2.51 million have carried forward into FY 2016/17, which when added to the year-end balance, would be below the year-end estimate of \$57.46 million.
- 3c** Special Revenue Funds ended the year below budget at 51.6%. Construction Tax funds for the Vets Memorial Rehab \$698,000, 3rd Street Improvements \$161,000 and Transportation Infrastructure Rehab \$252,000 have been carried forward into FY 2016/17. Transportation grant funded programs such as STIP – 3rd Street A to B \$3.29 million, L Street Improvements \$1.58 million, and Mace Boulevard Improvements \$2.3 million also carried forward funds into FY 2016/17. In addition, Operating Grant funding carryovers include: Davis Alternate Fuel Grant \$200,000, Strategic Growth Council \$418,000, and Safe Routes to School \$204,000. Federal Housing funds declined below expectations by \$776,507, with offsetting expenditure reductions. CDBG programming carried forward \$575,000 into FY 2016/17 to complete the Rainbow City Project, as well as other ADA improvements citywide.
- 3d** Debt Service funds were recorded under budget at 89.6% expenditure due to savings in the initial payments on the Cannery Bonds.
- 3e** Capital Project Funds (65.8%) experienced delays in projects, moving both the anticipated revenues and corresponding expenditures into FY 2016/17. Examples of the more significant projects are impact fee funds for the Richards/I-80 Improvement (\$250,000), L Street Improvements (\$82,000), Rainbow City Rehabilitation (\$193,000), Transportation Infrastructure Rehabilitation (\$1.6 million) and the Veterans Memorial Rehab project (\$495,000).
- 3f** Enterprise Funds spent less (35.6%) for the year because projects were carried forward. Projects include Alternative Water Supply (\$800,000), Wastewater Treatment Plant (\$33.35 million), Sewer Line Rehab (\$703,000), Automatic Meter Reader (\$6.13 million), Water Main Rehab (\$457,000), Public Transportation (\$3.08 million) and Surface Water Local Facilities (\$4.46 million). These projects have a combined budget of nearly \$49 million carried forward into FY 2016/17.

- 3g** Internal Service Funds remained under budget in all categories. The most significant savings in Facility Replacement (\$708,000), which returned to fund balance and will be reallocated toward future priority projects.

Table 4 – All Funds FY 2015/16 Expenditures by Department

FY15/16 Expenditures				
	Final Adjusted Budget	Unaudited Actual	%	Note
City Attorney	488,644	439,639	90.0%	4b
City Manager / Council	6,173,377	4,335,083	70.2%	4c
Administrative Services Dept.	20,880,417	19,295,876	92.4%	
Comm Dev/Sustainability	6,612,211	6,003,727	90.8%	4d
Parks & Community Services	13,658,257	12,644,630	92.6%	
Fire	11,207,077	10,891,261	97.2%	
Police	18,516,317	18,493,702	99.9%	
Public Works	46,521,058	38,725,055	83.2%	4e
Capital Improvements	182,120,283	44,882,322	24.6%	4f
Debt Service	18,618,731	17,194,043	92.3%	
RDA Successor Agency	9,365,470	9,195,055	98.2%	
Non-Departmental	3,285,408	2,679,648	81.6%	4g
Total All Funds	337,447,250	184,780,041	54.8%	4a

- 4a** All Funds Expenditures across departments were within budget for FY 2015/16.
- 4b** City Attorney expenditures for litigation were less than budgeted by \$33,500, as well as lower general legal expenses by \$20,000.
- 4c** The City Manager’s Office is showing expenditures at 70.2% primarily due to Housing Coordination money (\$300,000) that was not expended in the FY 2015/16 as well as grant funded activities in Federal Housing Funds (\$859,000) and CDBG activities (\$304,000). Revenue to support the expenditures were also reduced.
- 4d** Community Development and Sustainability ended below adjusted budget due to the deferral of grant funded work to FY 2016/17. This included the Alternative Fuels Grant (\$200,000), and the Strategic Growth Grant (\$418,000). Savings of \$189,163 was seen in contract services in the planning division due to less outside planning needed for work on new development projects.
- 4e** Public Works ended the year under budget. Charges encumbered and carried over from FY2015/16 to FY2016/17 were the most significant portion of the savings totaling \$1,741,575, including fleet purchases totaling \$342,538. Unitrans grant money of approximately \$3.08 million was received in the 2016/17 fiscal year, rather than in FY 2015/16 so the revenue was also deferred to FY 2016/17 .
- 4f** There are two large Capital Projects that had a majority of their costs budgeted in FY 2015/16, but will have their costs spread over several years. The Wastewater Treatment Plant project has \$33.35 million unspent at the end of the FY which was carried over to FY 2016/17. The Surface Water Project and Local Facilities had \$5.2 million unspent at year end and also carried into FY 2015/16. Other capital projects that included carryovers into Fiscal Year 2016/17 include: Vets Memorial Rehab \$1.19 million, 3rd Street Improvements \$3.45 million, Transportation Infrastructure Rehab \$1.85 million, L

Street Improvements \$1.66 million, Mace Boulevard Improvements \$2.3 million, Sewer Line Rehab \$703,000, Automatic Meter Reader \$6.13 million, and Water Main Rehab \$457,000.

- 4g** The “Non-Departmental” are citywide expenditures not tied to any one department. Within this area payments from our employee benefits fund for leave time is expensed. The FY 2015/16 actual leave expenses fell below budget by \$360,000. In addition, funds for several budget contingency items were not needed and returned to fund balance totaling approximately \$225,000. These included Solid Waste Services and Animal Control contracts which were still in negotiation at the time of budget adoption.

Table 5 – All Funds FY 2016/17 Expenditures by Fund

FY16/17 Expenditures				
	Adjusted Budget	Year-To-Date Actual	%	Note
General Fund	66,298,211	11,757,353	17.7%	5b
Special Revenue Funds	23,996,568	2,916,513	12.2%	5c
Debt Service	3,955,142	2,309,143	58.4%	5d
Capital Projects Funds	6,835,531	1,299,605	19.0%	5e
Trust Funds	-	-	0.0%	
Enterprise Funds	109,355,985	26,484,391	24.2%	5e
Internal Service Funds	31,574,331	6,277,138	19.9%	5e
Redevelopment Successor Funds	3,729,304	1,408,288	37.8%	
Total All Funds	245,745,072	52,452,431	21.3%	5a

- 5a** Year-to-date expenditures through the first quarter of FY 2016/17 appear within budget across all fund categories. Actual expenditures (including encumbrances) totaled \$52.45 million, or 21.3% of the adjusted budget.
- 5b** General Fund expenditures would appear to be tracking slightly below budget, due to the timing of some Capital Improvement projects, primarily the Transportation Infrastructure Rehab work which is currently in progress.
- 5c** Special Revenue Fund expenditures are reporting at 12.2%. Many of the expenditure appropriations (Gas Tax, Transit Funding and Grant Funding) within this category are directly related to Capital Improvement projects which are scheduled to begin later in the spring.
- 5d** Debt Service Funds reflect expenditures at 58.4% of budget, as a result of annual debt payments due in the first quarter of the fiscal year.
- 5e** Capital Projects Funds and Enterprise Funds are below expectations at the end of the first quarter. This is a result of the timing of construction projects and the awarding of contracts which occur intermittently throughout the year.

Table 6 – All Funds FY 2016/17 Expenditures by Department

FY16/17 Expenditures				
	Adjusted Budget	Year-To-Date Actual	%	Note
City Attorney	512,967	-	0.0%	
City Manager / Council	5,922,389	1,024,845	17.3%	6b
Administrative Services	24,368,220	5,472,919	22.5%	
Comm. Development & Sustainability	6,142,356	1,170,650	19.1%	6c
Parks & Community Services	15,295,424	3,364,845	22.0%	
Fire	10,779,464	2,854,691	26.5%	
Police	19,402,528	4,737,144	24.4%	
Public Works	58,170,364	10,597,672	18.2%	6d
Capital Improvements	88,885,003	17,282,879	19.4%	6e
Debt Service	7,333,578	4,536,380	61.9%	6f
Redevelopment Successor Agency	3,699,304	1,410,406	38.1%	
Other	5,233,475	-	0.0%	
Total All Funds	245,745,072	52,452,431	21.3%	6a

- 6a** Year-to-date expenditures through the first quarter of FY 2016/17 appear within budget across most departments with the exception of Debt Services and Redevelopment Successor Agency, which are traditionally higher in the first quarter as a result of annual debt payments.
- 6b** The City Manager’s office is currently showing expenses at 17.3% of budget. This is due primarily to contract expenditures that are not expensed until later in the year.
- 6c** Community Development and Sustainability is currently below budget expectations due to expenses budgeted for the proposed development projects. Contract work associated with this project will be encumbered as needed for this project.
- 6d** Public Works expenses are below budget expectations due to the timing of large encumbrances for items such as fuel, tires, and materials in Fleet and materials and supplies in Wastewater and other Enterprise divisions.
- 6e** Capital Improvements have various significant projects, including Wastewater Treatment Plant Facility Improvements, Local Surface Water Pipeline Project, Network Radio Read Water Meters, 3rd Street Improvements, and Transportation Infrastructure Rehabilitation. These projects alone comprise 76% or nearly \$68 Million of the current adjusted budget for Capital Improvements. Many of these projects are in process, while others, such as the Transportation Infrastructure Rehab are seasonal and will begin in spring.
- 6f** Debt Service payments, for the most part, are made in the first quarter of the year which account for this Department showing 61.9% of the budget has been expended.

Personnel Analysis

**Table 7 – All Funds FY 2015/16 Year-End Results and FY 2016/17 Year-to-Date
Personnel Expenditures**

<i>All Funds Personnel Expenditures - Table 7</i>							
<i>FY15/16 Year-End Results and FY16/17 Year-to-Date</i>							
Expenditure by Department	FY15/16 Final Adjusted Budget	FY15/16 UNAUDITED Actuals	% Exp.	FY16/17 Adjusted Budget	FY16/17 Year-to-Date Actuals	% Exp.	Note
City Manager / Council	2,092,410	2,169,046	103.7%	2,352,093	611,818	26.0%	
Administrative Services	3,809,563	3,233,089	84.9%	4,359,302	837,837	19.2%	
Comm Dev/Sustainability	3,346,379	3,314,223	99.0%	3,650,697	896,202	24.5%	
Parks & Community Services	6,974,863	6,479,396	92.9%	7,117,298	1,874,917	26.3%	
Fire	8,570,860	8,520,878	99.4%	8,285,725	2,368,363	28.6%	
Police	15,013,549	15,419,935	102.7%	15,887,344	3,987,825	25.1%	
Public Works	12,563,723	11,766,013	93.7%	13,264,816	2,975,860	22.4%	
Capital Improvements/Debt	1,816,129	1,704,038	93.8%	1,739,786	401,455	23.1%	
RDA Successor Agency	91,524	99,669	108.9%	103,228	20,887	20.2%	
Non-Departmental	10,000	2,679,648	100.0%	2,010,000	-	0.0%	7b
Total	\$54,289,000	\$55,385,935	102.0%	\$ 58,770,289	\$13,975,164	23.8%	7a

7a FY 2015/16 personnel expenditures ended the year at \$55.39 million, above the final budget of \$54.29 million, reporting a 2.0% additional expense. On a citywide basis, the FY 2015/16 All Funds Personnel costs represented 30.0% of total city expenditures of \$184.78 million.

7b FY 2016/17 personnel expenditures are currently tracking at 23.8%, which is consistent with budgeted projections, when taking seasonality of personnel expenditures into consideration, as well as current vacancies (See vacancy listing in table 9).

Table 8 summarizes the FY 2015/16 overtime results, as well as the FY 2016/17 budget by department. In review of the table below, it is important to note that overtime is only one component of total human resource costs.

Table 8 – Overtime Summary FY 2015/16 Year-End Results and FY 2016/17 Year-to-Date

OVERTIME SUMMARY	FY15/16		FY16/17		Note
	Final Adjusted Budget	Unaudited Actual	Adjusted Budget	Year-To-Date Actual	
OVERTIME SALARIES & WAGES					
City Manager's Office	2,056	848	369	249	
Administrative Services	12,721	1,200	8,221	408	
Community Development	4,250	1,827	4,250	29	
Parks & Community Services	11,923	12,526	11,200	4,223	
Fire	1,140,753	1,804,616 *	678,102	693,023 *	8b
Police	354,771	589,779	322,532	162,721	8c
Public Works	158,343	177,683	158,643	37,957	
Capital Improvement Projects	10,000	26,961	10,000	4,804	
Redevelopment	-	-	-	-	
TOTAL OVERTIME	\$ 1,694,817	\$ 2,615,440	\$ 1,193,317	\$ 903,414	8a
* The portion of overtime related to Strike Teams is reimburseable through State or Federal Funding. In FY15/16 this amounted to \$462,651 and FY16/17 claim reimbursements received to date are \$0.					

8a All funds total actual overtime in FY 2015/16 was \$2.62 million, and FY 2016/17 budgeted overtime is \$1.20 million.

8b Fire Department overtime expenditures in both FY 2015/16 and FY 2016/17 have been impacted by strike team assignments. The majority of strike team assignments are reimbursed through State & Federal funds.

8c The Police Department in FY 15/16 experienced a number of Police Officer vacancies which required backfilling with overtime in order to maintain shift minimum staffing in both Patrol and Investigations divisions.

Position Vacancy Listing

The following *Table 9* presents a listing of vacant positions as of December 12, 2016, as well as updated information on previous reported vacancies hired since July 1, 2016.

Table 9– Position Vacancy List

Vacant Positions as of December 12, 2016			
Dept	Position Title	Funding Source	Status
CMO	Housing and Human Services Program Supervisor	General Fund/Special Revenue	Vacant 8/5/16
ASD	Accounting and Fiscal Analyst II	General Fund	Vacant 1/17/16
ASD	Accountant II	General Fund	Vacant 8/29/16
ASD	Admin Aide	Internal Service Funds	Vacant 7/1/16
ASD	GIS System Analyst	Internal Service Funds	Vacant 10/17/14
ASD	IS Analyst	Internal Service Funds	Vacant 11/6/14
ASD	Technical Services Manager	Internal Service Funds	Vacant 11/15/16
PCS	Office Assistant II	General Fund	Vacant 7/1/16
PCS	Irrigation Specialist	General Fund	Vacant 7/1/16
PCS	Urban Forest Supervisor	General Fund	Vacant 7/1/16
PD	Police Officer	General Fund	Vacant 8/1/16
PD	Public Safety Dispatcher II	General Fund	Vacant 8/4/16
PD	Public Safety Dispatcher II	General Fund	Vacant 7/31/16
PD	Public Safety Dispatcher I	General Fund	Vacant 9/30/16
PW	Admin Analyst I	General Fund/Enterprise	Vacant 7/1/16
PW	Associate Civil Engineer	General Fund/Enterprise	Vacant 9/29/16
PW	Electrician	General Fund/Enterprise	Vacant 10/10/16
PW	Electrician	General Fund/Enterprise	Vacant 12/11/15
PW	Public Works Inspection Supervisor	General Fund/Enterprise	Vacant 8/1/16
PW	Sr. Utility Resource Specialist	Enterprise Fund	Vacant 2/1/16
PW	Water Distribution Operator I	Enterprise Fund	Vacant 11/12/16
PW	Water Quality Coordinator	Enterprise Fund	Vacant 7/1/16
PW	Water System Maintenance Worker	Enterprise Fund	Vacant 6/20/16
PW	WWTP Lead Operator	Enterprise Fund	Vacant 8/23/16
PW	WWTP Senior Operator	Enterprise Fund	Vacant 1/4/16
Positions Hired as of 7/1/15			
Dept	Position Title	Funding Source	Hire Date
ASD	Accounting Assistant	General Fund	8/29/2016
ASD	Accounting Assistant	General Fund	9/12/2016
ASD	Human Resources Tech-Conf	General Fund	8/1/2016
CDS	Building/Planning Tech II	General Fund	9/26/2016
CDS	Office Assistant II	Varioius Funds	9/26/2016
PCS	Office Assistant II	Special Revenue Fund	11/21/2016
PCS	Urban Forestry Technician	General Fund	11/7/2016
PD	Police Officer	General Fund	7/5/2016
PD	Police Officer	General Fund	9/26/2016
PD	Police Officer	Enterprise Funds	11/7/2016
PW	Associate Civil Engineer	General Fund	10/24/2016
PW	Public Works Maint Wkr I	General Fund	10/10/2016
PW	Public Works Maint Wkr I	General Fund/Special Revenue	10/10/2016

- *As of December 12, 2016, the City has twenty-five (25) full-time vacant positions. These vacancies represent 14.2% of the current work force. Thirteen (13) regular full-time vacant positions have been filled as of December 12, 2016. (See Table 9)*

Attachment B

Summary of General Fund Operations

Table 10a & b presents a summary of the City's General Fund results through the year ended June 30, 2016 as well as year-to-date results through the first three months of FY 2016/17:

<i>Table 10a: General Fund Summary</i>				
<i>FY2015/16 Results</i>				
Description	FY2015/16 Adjusted Budget	FY2015/16 Budget Projection	FY2015/16 UNAUDITED Actual Results	FY 2015/16 Projection to Actual Variance
<i>Beginning Unreserved Fund Balance</i>	<i>\$12,668,268</i>	<i>\$12,668,268</i>	<i>\$12,668,268</i>	
Revenues	56,213,713	59,193,896	59,025,210	(168,686)
Expenditures	(59,335,355)	(57,458,005)	(54,142,786)	3,315,219
Prior Year Carryovers	1,267,073	1,267,073	1,267,073	
Change in Reserved Fund Balance **	0	0	6,347	6,347
<i>Unaudited Unreserved Fund Balance</i>	<i>\$10,813,699</i>	<i>\$15,671,232</i>	<i>\$18,824,112</i>	<i>\$3,152,880</i>
Encumbrance Carryover	0	0	(2,505,950)	(2,505,950)
<i>Ending Unreserved Fund Balance</i>	<i>\$10,813,699</i>	<i>\$15,671,232</i>	<i>\$16,318,162</i>	<i>\$646,930</i>
Percentage (E.U.F.B./Expenditures)	18.2%	27.3%	30.1%	
** This line item is included to link the Audited Financial Statements with Budget Estimates and also includes changes in encumbrance balances.				

FY 2015/16

The General Fund's Unreserved Fund Balance as of June 30, 2016 was \$16.32 million or 30.1% of General Fund expenditures. This result represents an increase of \$646,930 as compared to the year-end fund balance estimate of \$15.67 million assumed in the development of the FY 2016/17 Adopted Budget. This balance includes a reduction of approximately \$2.51 million which has been re-appropriated into current FY 2016/17 for specific projects that were not completed as of June 30, 2016.

Table 10b: General Fund Summary				
FY2016/17 Results				
Description	FY2016/17 Adopted Budget	FY2016/17 Adjusted Budget	FY2016/17 Year-to-Date Results	FY2016/17 Year-end Projection
<i>Beginning Unreserved Fund Balance</i>	\$15,671,232	\$16,318,162	n/a	\$16,318,162
Revenues	54,453,352	56,160,337	7,224,814	56,160,337
Expenditures	(62,076,286)	(66,298,211)	(11,757,353)	(66,298,211)
Prior Year Carryovers	0	0	0	0
Change in Reserved Fund Balance **	0	0	0	0
Unaudited Unreserved Fund Balance	\$8,048,298	\$6,180,288	n/a	TBD
Encumbrance Carryover	0	2,505,950		
Ending Unreserved Fund Balance	\$8,048,298	\$8,686,238	n/a	TBD
Percentage (E.U.F.B./Expenditures)	13.0%	13.1%	n/a	TBD
** This line item is included to link the Audited Financial Statements with Budget Estimates and also includes changes in encumbrance balances.				

FY 2016/17

The Adopted FY 2016/17 budget projected a General Fund unreserved Fund Balance at June 30, 2016 of \$8.05 million, or 13.0% of General Fund expenditures. Final year-end results for FY2015/16 show an ending fund balance above the original projection. This results in an updated year-end fund balance of \$8.69 million or 13.1% at June 30, 2017.

Attachment C

General Fund Revenues

Tables 11a & b present a summary of major General Fund revenue sources. FY 2015/16 revenues were \$59.03 million which was \$168,686 (0.3%) below the revenue estimate used in the development of the FY 2016/17 budget.

<i>Table 11a: General Fund Revenues</i>						
<i>FY2015/16 Results</i>						
Revenue by Source	FY2015/16 Adjusted Budget	FY2015/16 Budget Projection	Unaudited FY2015/16 Actual	Variance Favorable / (Unfavorable)	Variance Percentage	Note
Property Taxes	\$19,146,285	\$20,171,735	\$19,728,174	(\$443,561)	-2.2%	11a
Sales & Use Tax	\$13,802,527	\$16,046,430	\$16,192,725	\$146,295	0.9%	11b
Transient Occupancy Tax	\$1,270,000	\$1,350,000	\$1,453,819	\$103,819	7.7%	
Property Transfer Tax	\$225,000	\$422,000	\$306,001	(\$115,999)	-27.5%	11c
Business License Tax	\$1,706,707	\$1,706,707	\$1,719,258	\$12,551	0.7%	
Municipal Services Tax	\$2,842,670	\$2,874,078	\$2,878,914	\$4,836	0.2%	
Franchise Fees	\$1,201,979	\$1,133,000	\$1,141,615	\$8,615	0.8%	
Community Development	\$1,469,093	\$1,178,068	\$1,669,898	\$491,830	41.7%	11d
Parks & Community Services	\$2,674,680	\$2,325,898	\$2,534,389	\$208,491	9.0%	11d
Other Depts (Fire, PD, PW)	\$2,244,223	\$2,371,584	\$3,075,330	\$703,746	29.7%	11d
Fines & Forfeitures	\$709,140	\$680,500	\$551,716	(\$128,784)	-18.9%	
Investment Earnings	\$4,200	\$133,260	\$174,074	\$40,814	30.6%	11f
Intra-City Revenues	\$2,215,397	\$2,272,533	\$2,260,871	(\$11,662)	-0.5%	
All Other Sources	\$6,701,812	\$6,528,103	\$5,338,426	(\$1,189,677)	-18.2%	11g
Total	\$56,213,713	\$59,193,896	\$59,025,210	(\$168,686)	-0.3%	

<i>Table 11b: General Fund Revenues</i>						
<i>FY2016/17 Projections</i>						
Revenue by Source	FY2016/17 Adopted Budget	FY2016/17 Adjusted Budget	FY2016/17 Year to Date	FY2016/17 Projection	Variance Favorable / (Unfavorable)	Note
Property Taxes	\$20,185,140	\$20,185,140	\$0	\$20,185,140	\$0	11a
Sales & Use Tax	\$15,976,538	\$15,976,538	\$1,427,000	\$15,976,538	\$0	11b
Transient Occupancy Tax	\$1,417,500	\$1,417,500	\$18,207	\$1,417,500	\$0	
Property Transfer Tax	\$450,000	\$450,000	\$0	\$450,000	\$0	11c
Business License Tax	\$1,750,000	\$1,750,000	\$32,546	\$1,750,000	\$0	
Municipal Services Tax	\$2,953,115	\$2,953,115	\$957,867	\$2,953,115	\$0	
Franchise Fees	\$1,158,526	\$1,158,526	\$99,797	\$1,158,526	\$0	
Community Development	\$1,056,900	\$1,228,900	\$62,763	\$1,228,900	\$0	11d
Parks & Community Services	\$2,433,351	\$2,454,376	\$1,162,307	\$2,454,376	\$0	11d
Other Depts (Fire, PD, PW)	\$2,034,382	\$2,034,382	\$502,898	\$2,034,382	\$0	11d
Fines & Forfeitures	\$780,500	\$780,500	\$112,119	\$780,500	\$0	
Investment Earnings	\$18,800	\$18,800	\$63	\$18,800	\$0	11f
Intra-City Revenues	\$1,883,964	\$1,883,964	\$469,185	\$1,883,964	\$0	
All Other Sources	\$2,354,636	\$3,868,596	\$2,380,062	\$3,868,596	\$0	11g
Total	\$54,453,352	\$56,160,337	\$7,224,814	\$56,160,337	\$0	

- 11a** *In FY 2015/16, overall Property Tax revenue increased 12.5% over prior year results, as total assessed valuations are experiencing better levels of growth, as well as the addition of new units within the Cannery development. The year-end property tax result of \$19.73 million was (\$443,561) (2.2%) below the revenue estimate of \$20.17 million, which was used in the development of the FY 2016/17 budget. Although this number is slightly lower than projected, we believe it is reflective of timing with the sale of Cannery properties and will not have an effect on the FY 16/17 original property tax projections. Indication of this will be in January when the first installment of current-year property tax revenue is received.*
- 11b** *Sales Tax revenue ended FY 2015/16 at \$16.19 million, 0.9% above the budget estimate, and first quarter results for FY 2016/17 stand at \$1.43 million, or 8.9% of the annual budget figure of \$15.98 million. In looking forward the balance of the 1st quarter sales tax proceeds which were received in October bring us to \$3.95 million or 24.8% which is in line with FY 2016/17 sales tax projections. Typically, Sales Tax revenue forecasts are not updated on the basis of results from one quarter, and year-to-date results do not warrant any early revisions to the forecast.*
- 11c** *Transient Occupancy Tax revenue in FY 2015/16 increased to \$1.45 million over prior over prior year FY 2014/15 results of \$1.32 million (12.2%). Year to date results of \$18,207 are reflecting residual payments from FY 2015/16 received after July 1. July through September Transient Occupancy Tax payments are received in fiscal quarter two, which is showing a current YTD revenue of \$407,236, this represents 28.7% of the estimated FY 2016/17 revenue of \$1.42 million.*
- 11d** *Property Transfer Tax revenue decreased to \$306,001 in FY 2015/16 over prior year FY 2014/15 results of \$367,464 (16.7%). This tax can fluctuate from year to year, as it is dependent on real estate activity. Although the 2015/16 year end results declined over 2014/15, we remain optimistic in maintaining our FY 2016/17 projection of \$450,000. Again, indication of this will be in January when the first installment of current-year property tax revenue is received.*
- 11e** *Service Fee and Permit revenue collected in FY 2015/16 totaled \$7.28 million, \$1.4 million above our budget projections of \$5.88 million. Increases were experienced in Planning Application processing seeing more than \$490,000 in revenue above the mid-year estimate due to reimbursable work on the Mace Ranch Innovation Center, as well as, \$450,000 in Public Works Development review. First quarter revenues are currently at \$1,727,968 or 30.2% of the Adjusted Budget figure of \$5,717,658. This is primarily due to higher revenue collections in Community Services in the first quarter for their summer activities.*
- 11f** *Investment Earnings. First quarter investments would appear slow due to the timing of investments interest receipts, which occurred in October, (fiscal quarter 2). In November 2016, the City initiated 30 million in funds to be invested by PFM Asset Management group to being expanding our portfolio into short, mid and longer term investments. The first results of their work will be reported in the mid-year update.*
- 11g** *All Other Sources category of Revenues in FY 2015/16 ended the year lower than projected. The main component of this decrease is \$1.3 million in loan proceeds for the Streetlight Conversion project. This revenue is only a timing difference regarding State Revolving Fund proceeds which were not received until Fiscal Year 2016/17. This is a one-time loan which is not planned to be repeated in FY 2017/18.*

Attachment D

General Fund Expenditures

Table 12 summarizes General Fund expenditure results for all departments. Expenditures ended the fiscal year at \$54.14 million, or (\$5.19 million) under the adjusted budget of \$59.36 million.

<i>Table 12: General Fund Expenditures FY2015/16 Year-End Results and FY2016/17 Year-to-Date</i>								
Expenditure by Department	FY2015/16 Adjusted Budget	FY2015/16 UNAUDITED Actuals	Variance	% Exp.	FY2016/17 Adopted Budget	FY2016/17 Adjusted Budget	FY2016/17 Year-to-Date Actuals	% Exp.
City Attorney	338,644	323,152	(15,492)	95.4%	362,967	362,967	-	0.0%
City Manager / Council	2,903,740	2,649,824	(253,916)	91.3%	3,004,925	3,168,467	719,404	22.7%
Administrative Services	2,899,956	2,457,348	(442,608)	84.7%	3,304,335	3,471,951	325,618	9.4%
Community Development	3,459,005	3,087,683	(371,322)	89.3%	2,953,479	3,400,556	513,351	15.1%
Parks & Community Services	10,499,444	9,939,664	(559,780)	94.7%	10,876,493	11,241,070	2,775,097	24.7%
Fire	9,161,661	9,105,706	(55,955)	99.4%	9,011,582	9,129,786	2,189,747	24.0%
Police	16,159,355	16,451,219	291,864	101.8%	17,241,056	17,434,718	4,019,050	23.1%
Public Works	2,372,677	2,408,288	35,611	101.5%	5,169,861	5,378,943	1,037,581	19.3%
Capital Improvements	10,534,112	6,968,019	(3,566,093)	66.1%	7,674,942	10,238,770	115,856	1.1%
Debt	183,453	183,983	530	0.0%	244,604	267,508	61,649	0.0%
Redevelopment	-	-	-	0.0%	-	-	-	0.0%
<i>Non-Deptmntl Adjust.</i>	823,308	567,900	(255,408)	69.0%	2,232,042	2,203,475	-	0.0%
Total	\$ 59,335,355	\$ 54,142,786	\$ (5,192,569)	91.2%	\$ 62,076,286	\$ 66,298,211	\$ 11,757,353	17.7%

FY 2015/16 General Fund expenditure results for most operating departments were within their adjusted budget, with savings ranging from 0.6% to 31.0% of budgeted expenditures. The more significant savings in Capital Improvement Department projects are due to unspent funds being carried forward into FY 2016/17. The more notable projects are 3rd Street Improvements (\$500,000); Transportation Infrastructure Rehabilitation (\$460,000); Senior Center Facility Improvements (\$249,000), Streetlight Conversions (\$330,000), L Street Improvements (\$306,000), Mace Boulevard Improvements (\$209,000), and Park Pathway Lighting, (\$890,000). The two departments expensed slightly above budget ranging from 1.5% to 1.8%. Public Works minor expenditure overage (\$35,611) and Police Department \$291,864 expenditures were driven by unplanned overtime due to vacancies and final MOU modifications which were still in negotiation at the time of budget adoption.

On a citywide basis, FY 2015/16 General Fund expenditures were \$54.14 million plus an adjustment of \$2.51 million for changes in encumbrance balances re-appropriated into current FY 2016/17 for specific projects that were not completed as of June 30, 2016. This adjusted ending expenditure total of \$56.65 million was \$809,269 below the expenditure estimate assumed in the budget.

The net overall savings from General Fund expenditures had a positive impact on our projected fund balance moving from a 27.3% to a 30.1% fund balance reserve at FY 2015/16 year-end.

Through the first quarter of FY 2016/17 General Fund expenditures were \$11.76 million, or 17.7% of the adjusted budget of \$66.3 million. Of the adjusted budget, \$2.51 million was re-appropriated from FY2016/17 for encumbrances and allocations for specific projects without a

revenue offset that were not completed as of June 30, 2016. In addition, \$1.25 million in revenue supported appropriations were also carried forward into FY 2016/17.

As part of the FY 2016/17 budget process, the General Fund Reserve policy was updated and one-time expenditures of reserve above the 15% were identified. These \$8.6 million in appropriations included:

- \$ 200,000 – Grant Match Funding
- \$ 500,000 – Process Engineering (Financial Accounting/Enterprise Planning)
- \$ 1,500,000 – H Street at Davis Little League & Covell/H Street Tunnel)
- \$ 375,000 – East Covell Bicycle Path
- \$ 300,000 – Russell Bike Path, Arthur to City Limits (Planning/Design)
- \$ 870,000 – 5th Street Reconstruction @ Maintenance Holes
- \$ 500,000 – Community Choice Energy Project

In addition to these expenditures the following two items were held at Council direction until Fiscal Year 2015/16 was closed and fund balance to achieve these payments were confirmed. As stated earlier in this report, June 30, 2016 General Fund balance not only met, but exceeded, expectations, therefore staff is recommending these two items move forward at this time.

- \$ 2,000,000 – Retiree Medical (OPEB)
- \$ 2,355,000 – Facilities/Parks Needs

While this updated snapshot in time shows an improvement in fund balance, we are mindful of outstanding issues and unfunded liabilities which will likely impact these projections prior to year-end. Currently the City has engaged with two employee groups to address contracts which are currently expired, which could have budget impacts prior to June 30, 2017. Further, future actions by the State and/or CalPERS may influence the budget.

As the above issues unfold, expenditures will continue to be monitored and projections updated to assess whether the General Fund will sustain the assumptions incorporated into the FY 2016/17 budget. The results of this analysis will be discussed in the mid-year budget report.

The final piece of the General Fund Reserve discussion at the City Council last spring dealt with the amount of the reserve between 10% and 15%. Council direction related to this \$2.6 million was to apply it to one-time Capital expenditures and hold it until the mid-year budget report was complete. Once the fund availability is verified, likely in early February, the funds could be released for the projects/project areas below.

- \$500,000 to facility needs
- \$500,000 to park needs
- \$500,000 to street/bike path maintenance
- \$500,000 to citywide signal upgrades
- \$220,000 to Chavez – bike-walk audit report improvements
- \$380,000 to Birch Lane – bike-walk audit report improvements