

STAFF REPORT

DATE: April 5, 2016
TO: City Council
FROM: Dirk Brazil, City Manager
Kelly Stachowicz, Assistant City Manager
Kelly Fletcher, Finance Administrator
SUBJECT: FY2015/16 Budget Update

Recommendation

This informational item presents revenue and expenditure results through the first eight months of Fiscal Year (FY) 2015/16 and an update on General Fund estimates through the end of the fiscal year (June 30, 2016).

Fiscal Impact

The information presented in this report provides budget-to-actual results and budgetary projections for Fiscal Year 2015/16. The FY2015/16 ending unreserved fund balance in the General Fund is estimated to end the year with a \$15.86 million (27.9%) reserve. The current analysis includes several one-time General Fund revenues which have been received this fiscal year totaling an additional \$2.11 million which were not part of the original budget adoption. Discussion of these funds is included in the summary below.

Council Goal

This item is in support of City Council Goal 1 - Ensure Fiscal Resilience.

Summary

Estimates used to develop the Adopted FY2015/16 budget projected a General Fund unreserved Fund Balance at June 30, 2016 of \$7.74 million, or 15.4% of General Fund revenues net of Intra-City Revenues. This was derived using an assumed beginning fund balance of \$10.15 million at the start of the fiscal year. This value was used in the General Fund calculations in FY2015/16 Adopted budget.

Final year-end results for FY2014/15, however, indicated an updated beginning unreserved fund balance number of \$12.67 million at the beginning of the FY2015/16, a positive variance of \$2.52 million from Adopted Budget values.

- FY2014/15 General Fund ended the year with \$1.3 million of additional revenue. Contributors to this additional revenue include Property Tax (\$161,974), Property Transfer Tax (\$153,464) and Planning Application Processing (\$521,393).
- FY2014/15 General Fund expenditures ended the year \$1.21 million below the expenditure estimate assumed in the budget, and \$1.20 million of it can be attributed to the release of a purchase order contingency for water litigation.

The current FY2015/16 Adjusted Budget projection for the General Fund reserve is \$10.75 million or 20.2% at June 30, 2016. The Adjusted Budget accounts for revenue and expenditure budget adjustments made subsequent to budget adoption.

As the City enters the final quarter of FY2015/16 a budget estimate is developed that looks at beginning fund balance of \$12.67 million, adding in encumbrance carryover of \$1.27 million, current estimated revenue projection of \$59.19 million, less projected expenses at \$57.27 million. Taken together these estimates project a FY2015/16 year end unreserved fund balance of \$15.86 million at June 30, 2016. This equates to 27.9% of operating revenues. (See Attachment C – Table 4)

The following represent selected highlights from the budget report:

- *Year-to-date All Funds Revenues through the first eight months of FY2015/16 are \$127.69 million, or 40.3% of the Adjusted Budget figure of \$316.79 million. (See Attachment A-Table 1)*
- *All Funds Expenditures through February 29th of FY2015/16 stand at \$111.25 million, or 34.3% of the All Funds Budget of \$324.58 million. (See Attachment A – Table 2).*
- *Year-to-date General Fund revenues through the first eight months of the fiscal year are \$31.26 million or 57.0% of the \$54.75 million adjusted revenue budget. General Fund revenues are projected to end the fiscal year at \$59.19 million, which is \$6.78 million or (12.9%) above the adopted revenue budget. (See Attachment B-Table 3)*
 - Property taxes citywide have shown positive growth over initial estimates. Based on the current estimate we anticipate revenues coming in \$434,748 over original budget. This is driven by an increase in citywide assessed values, as well as new development increment for the Cannery project.
 - In November 2015, the State Department of Finance made a final determination in which \$5.5 million in prior Redevelopment Agency funds, which had been transferred to the City for the completion of capital projects, had to be returned to the State. This transaction took place and therefore resulted in a one-time residual distribution of \$1.17 million.
 - Sales Tax receipts are showing sizeable increases over FY2014/15. Based on recent conversations with the City's sales tax consultants Muni Services, auto industry sales have been strong in FY 15/16 and are not showing any signs of slowing down. The current revenue projections have been increased \$2.1 million to reflect both the Muni Services information as well as a one-time State true-up of the triple-flip, \$942,538.
 - The category of Other Taxes consists primarily of Taxes received from the State In Lieu of Vehicle License Fees (VLF). This is consistent with the upward trend in Motor Vehicle sales, which would increase the in lieu projection by \$787,702.

- ❑ *On a budgetary basis, the General Fund Unreserved Fund Balance as of June 30, 2016 was \$7.74 million, and represents a positive variance in the reserve of \$8.12 million as compared to the reserve level assumed in the development of the FY2015/16 budget. The year-end Unreserved Fund Balance as of June 30, 2016 represents 27.9% of General Fund revenues. The FY2014/15 Adopted Budget assumed a year-end reserve level of 15.4%. (See Attachment C-Table 4).*
- ❑ *The combination of FY2014/15 year-end results and the revised budget projections for the current-year suggest that the General Fund is expected to end FY2015/16 with a fund balance of \$15.86 million, representing 27.9% of General Fund revenues.*

Next Steps

Staff is currently using the above information to assist in the development of the FY2016/17 proposed budget. The budget is scheduled for City Council introduction on May 17, and City Council budget discussions on May 24th, June 14th and adoption on June 21st.

In addition, Finance staff has prepared analysis of the General Fund reserve policy, with comparisons to other local jurisdictions, as well as the best practices as recommended by the Governmental Finance Officer Association. The General Fund Reserve policy will be reviewed with the Finance and Budget Commission in April to bring recommended changes to the City Council in conjunction with the FY16/17 proposed budget. This recommendation will include how we calculate the reserve, appropriate level of reserve, uses of reserve and uses of fund balance in excess of reserve.

Attachments:

- A. All Funds revenues and expenditures
- B. General Fund Revenues
- C. Summary of General Fund Operations

Attachment A

Table 1 – All Funds Revenues

All Funds Revenues - Table 1					
FY 2015/16 Year-To-Date 7-1-15 to 2-29-16 (8 months)					
Funds	Original Budget 7/1/15	Adjusted Budget 2/29/16	Year-To-Date Actual 2/29/16	Eight months 67%	Note
General Fund	52,415,789	54,750,892	31,259,992	57.1%	1b
Special Revenue Funds	21,715,497	23,045,936	7,014,550	30.4%	
Debt Service	2,665,662	12,533,052	11,270,056	89.9%	
Capital Projects Funds	3,236,336	3,533,824	863,792	24.4%	1c
Trust Funds	10	10	6	100.0%	
Enterprise Funds	193,375,821	193,460,533	57,941,800	30.0%	1d
Internal Service Funds	26,514,272	26,557,976	18,007,023	67.8%	
RDA Successor Funds	2,878,055	2,903,833	1,334,206	45.9%	1e
Total All Funds	302,801,442	316,786,056	127,691,425	40.3%	1a

- 1a** Year-to-date All Funds Revenues are currently \$127.69 million, or 40.3% of the adjusted \$316.79 million budget.
- 1b** General Fund revenues received to date are \$31.26 million or 57.1% of the \$54.75 million adjusted budget. The revenues would appear to be lagging slightly, but are dependent on the timing of pending property tax, sales tax, business license tax, transient occupancy tax and franchise tax payments. The next property tax installment is due in May.
- 1c** Capital Project fund revenues come largely from capital grant proceeds. Many of these grant funds are for capital projects that will be completed in the final months of the fiscal year as the weather is more predictable.
- 1d** Enterprise Funds reflect financing plans for three Capital Improvement Projects – Alternative Water Supply, Surface Water Local Facilities and Wastewater Treatment Plant Facility Improvement. Reimbursement “draws” will be made throughout the fiscal year based on current fiscal-year expenditures.
- *All other funds are also tracking in proportion to expectations when considering timing of annual receipts.*

Attachment A

Table 2 – All Funds Expenditures

All Funds Expenditures - Table 2					
FY 2015/16 Year-To-Date 7-1-15 to 2-29-19 (8 months)					
Expenditure By Fund	Original Budget 7/1/15	Adjusted Budget 2/29/16	Year-To-Date Actual 2/29/16	Eight months 67%	Note
General Fund	54,828,633	57,940,864	36,255,484	62.6%	2b
Special Revenue Funds	22,524,031	25,149,092	7,868,055	31.3%	2c
Debt Service	2,818,741	3,436,764	3,296,059	95.9%	2d
Capital Projects Funds	5,481,436	11,655,129	6,551,752	56.2%	2e
Trust Funds	-	-	-	0.0%	
Enterprise Funds	193,465,995	196,159,931	39,653,894	20.2%	2f
Internal Service Funds	25,517,732	26,302,715	14,513,339	55.2%	
RDA Successor Funds	3,757,689	3,933,801	3,108,208	79.0%	
Total All Funds	308,394,257	324,578,296	111,246,791	34.3%	2a

- 2a** Year to date All Funds Expenditures are currently \$111.25 million or 34.3% of the adjusted \$324.58 million adjusted budget.
- 2b** General Fund expenditures are reporting at \$36.26 million or 62.6% of the total \$57.94 million adjusted budget. This is tracking slightly lower than budget due to the timing of some Capital Improvement projects, which take place in the next few months, as well as the increased staffing for spring/summer programs.
- 2c** Special Revenue Funds would appear below budget. This category of revenues includes Grant revenues which typically are on a reimbursement basis and revenues are received in the final quarter of the fiscal year.
- 2d** Debt Service Funds reflect expenditures at 95.9% of budget as a result of annual debt principal payments due in the first quarter of the fiscal year.
- 2e** Capital Project Fund would appear to be tracking below budget due to the spring/summer seasonality of many construction projects.
- 2f** Enterprise Fund expenditures are only at 20.2% due to the large expenditures on the wastewater treatment plant and surface water project costs that have not yet been realized.

Attachment B

Table 3: General Fund Revenues FY2014/15 Results and FY2015/16 Projections							
Revenue by Source	FY2014/15 Actual	FY2015/16 Adopted Budget 7/1/15	FY2015/16 Adjusted Budget 2/29/16	FY2015/16 Year to Date 2/29/16	FY2015/16 Estimate as of 2/29/16	Net Change Adopted Budget to Estimate	Note
Property Taxes	\$11,391,217	\$11,538,869	\$11,538,869	\$6,180,459	\$11,973,617	434,748	3a
RDA Increment	1,020,443	1,000,000	2,170,896	1,826,753	2,170,896	1,170,896	3b
Sales & Use Tax	7,008,496	6,989,000	6,989,000	2,847,696	8,184,534	1,195,534	3c
City Sales Tax	6,294,321	6,813,527	6,813,527	4,276,110	7,861,896	1,048,369	3c
Transient Occupancy Tax	1,319,909	1,270,000	1,270,000	716,203	1,350,000	80,000	
Business License Tax	1,735,021	1,706,707	1,706,707	1,541,151	1,706,707	0	
Municipal Services Tax	2,770,291	2,842,670	2,842,670	2,127,708	2,874,078	31,408	
Other Taxes	5,496,622	5,661,520	5,661,520	3,224,611	6,449,222	787,702	3d
Franchise Fees (PG&E/DWR)	743,175	1,201,979	1,201,979	272,633	1,133,000	(68,979)	
Community Development	2,372,557	491,450	1,113,623	1,074,570	1,178,068	686,618	3e
Parks & Comm. Services	2,354,698	2,443,269	2,451,416	1,607,502	2,326,572	(116,697)	3f
Other Depts (Fire, PD, PW)	2,782,145	1,894,223	2,244,223	1,408,495	2,370,910	476,687	3g
Fines & Forfeitures	551,275	686,900	686,900	329,953	680,500	(6,400)	
Investment Earnings	17,783	4,200	4,200	127,916	133,260	129,060	3h
Intergovernmental Revenues	892,970	164,634	164,634	333,881	636,661	472,027	3i
Intra-City Revenues	2,329,522	2,215,397	2,215,397	1,512,025	2,272,533	57,136	
All Other Sources	2,431,072	5,491,444	5,675,331	1,852,326	5,891,442	399,998	3j
Total	\$51,511,517	\$52,415,789	\$54,750,892	\$31,259,992	\$59,193,896	6,778,107	

General Fund Revenues

- 3a** Property taxes citywide have shown positive growth over initial estimates. Based on the current estimate we anticipate revenues coming in \$434,748 over original budget. This is driven by an increase in citywide assessed values, as well as new development increment for the Cannery project.
- 3b** In November 2015, the State Department of Finance made a final determination in which \$5.5 million in prior Redevelopment Agency funds, which had been transferred to the City for the completion of capital projects, had to be returned to the State. This transaction took place and therefore resulted in a one-time residual distribution of \$1.17 million.
- 3c** Sales Tax receipts are showing sizeable increases over FY2014/15. Based on recent conversations with the City's sales tax consultants Muni Services, auto industry sales have been strong in FY 15/16 and are not showing any signs of slowing down. The current revenue projections have been increased \$2.1 million to reflect both the Muni Services information as well as a one-time State true-up of the triple-flip, \$942,538.

- 3d** The category of Other Taxes consists primarily of Taxes received from the State In Lieu of Vehicle License Fees (VLF). This is consistent with the upward trend in Motor Vehicle sales, which would increase the in lieu projection by \$787,702.

- 3e** Revenue estimate for Community Development is higher than the adopted budget due to the timing of development and related work in the City. The lion's share of General Fund Revenue for Community Development for FY2015/16 is coming from the developers of the proposed Innovation Centers for consultant work.

- 3f** Community Services Department has reduced their revenue projections consistent with current class offerings and registrations. These revenues are offset by corresponding expenditure reductions. The majority of the reduction has been in the area of Gymnastics.

- 3g** Other Departmental revenue estimates remain relatively flat compared to the FY2015/16 adjusted budget with the exception of the Public Works department, who is experiencing increased revenues of \$454,433 primarily in the areas of development review and subdivision inspection fees due to new development projects.

- 3h** Investment earnings are beginning to see improvement with an anticipate increase of \$129,060.

- 3i** The Fire Department will be receiving \$462,550 in reimbursement funds for Strike Team efforts this fiscal year. This revenue will offset overtime expenditures for the department.

- 3j** Miscellaneous reimbursements are the main component of the increase in other revenues. The more significant are attributed to PG& E \$142,800; Yolo Historical Society \$34,260, and Bond Administration Fees for the Cannery CFD of \$15,000.

Attachment C

Summary of General Fund Operations

<i>General Fund Summary - Table 4</i>				
<i>FY2015/16 Budget and FY2015/16 Year-to-Date Results 7-1-15 to 2-29-16 (8 months)</i>				
Description	FY2015/16 Adopted Budget 7/1/15	FY2015/16 Adjusted Budget 2/29/16	FY2015/16 Year-to-Date Results 2/29/16	FY2015/16 Year-end Projection as of 2/29/16
<i>Beginning Unreserved Fund Balance</i>	<i>\$ 10,154,642</i>	<i>\$12,668,268</i>	<i>\$12,668,268</i>	<i>\$12,668,268</i>
<i>Prior Year Carryovers</i>		<i>\$1,267,073</i>	<i>\$1,267,073</i>	<i>\$1,267,073</i>
Revenues	52,415,789	54,750,892	31,259,992	59,193,896
Expenditures	(54,828,633)	(57,940,864)	(30,404,050)	(57,271,249)
Transfers				
Ending Unreserved Fund Balance	\$ 7,741,798	\$10,745,369	<i>n/a</i>	\$15,857,988
Percentage (E.U.F.B./Revenues)	<i>15.4%</i>	<i>20.2%</i>	<i>n/a</i>	<i>27.9%</i>

FY2015/16

When the Adopted FY2015/16 budget was developed, the resulting General Fund unreserved Fund Balance at June 30, 2016 was projected to be \$7.74 million, or 15.4% of General Fund revenues net of Intra-City Revenues. At that time the assumed beginning fund balance was \$10.15 million.

Final year-end results for FY2014/15 provide an updated beginning unreserved fund balance number of \$12.67 million at the beginning of the FY2015/16, a positive variance of \$2.52 million from Adopted budget values.

Moving forward the amended June 30, 2015 fund balance, in conjunction with the current estimated revenue that is projected to come in at \$59.19 million, encumbrances at \$1.27 million and expenses that are projected at \$57.27 million, show a FY2015/16 year end unreserved fund balance of \$15.86 million or 27.9%.