

STAFF REPORT

DATE: December 19, 2017

TO: City Council

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

SUBJECT: FY 2017/18 First Quarter Budget Update

Recommendation

This is an informational report.

Fiscal Impact

This informational item presents unaudited year-end revenue and expenditure results for the Fiscal Year ended June 30, 2017 (FY 2016/17), as well as revenue and expenditure results through the first three periods of FY 2017/18. The General Fund ended FY 2016/17 with an increase of \$261,272 over the projected year-end fund balance estimate.

The net overall General Fund revenues and expenditures had a positive impact on our projected fund balance moving from a 20.3% to a 22.5% fund balance reserve at FY 2016/17 year-end.

Through the first quarter of FY 2017/18 General Fund expenditures were \$11.2 million, or 16.0% of the adjusted budget of \$70.1 million. Of the adjusted budget, \$6.19 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, 2017. The cumulative impact of these has adjusted the FY 2017/18 general fund reserve to 13.9%.

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 several employee groups to address contracts which are currently expired, which could have budget impacts prior to June 30, 2018.

The current General Fund Reserve policy discussion at the City Council in 2016 dealt with the amount of the reserve between 10% and 15%. Council suggested this amount could be applied to one-time Capital expenditures. At this time we are recommending holding any additions until the mid-year budget report was complete. Once the fund availability is verified, likely in early March, the funds could be released for one-time projects.

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 2017/18 budget. The results of this analysis will be discussed in the mid-year budget report.

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 2016/17 and presents All Funds revenue and expenditure results through the first three periods of FY 2017/18 (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 2017/18 budget.

Highlights of the reported results include:

- *The unaudited General Fund Unreserved Fund Balance as of June 30, 2017, was \$13.28 million or 22.5% of General Fund expenditures. This result represents an increase of \$261,272 as compared to the year-end fund balance estimate of \$13.02 million assumed in the development of the FY 2017/18 Adopted Budget. This balance includes a reduction of approximately \$6.19 million which has been re-appropriated into current FY 2017/18 for specific projects that were not completed as of June 30, 2017. (See Attachment B)*
 - General Fund revenues ended FY2016/17 at \$59.79 million, which is \$1.58 million, or (2.7%) above the estimate of \$58.21 million. Contributors to this change include a combination of additional revenue, including Transient Occupancy Tax \$1.78 million, and Service Fee revenue \$570,000.
 - FY 2016/17 General Fund expenditures were \$59.14 million plus an adjustment of \$6.19 million for changes in encumbrance balances re-appropriated into current FY 2017/18 for specific projects that were not completed as of June 30, 2017. This adjusted ending expenditure total of \$65.33 million was \$1.3 million above 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 \$7.44 million, or 12.2% of the \$60.92 million adjusted revenue budget.*
 - *In FY 2016/17, overall Property Tax revenue increased 0.47% over prior year results, total assessed valuations are experiencing better levels of growth, as well as the addition of new units within the Cannery development, of which were offset by the loss of one-time Redevelopment Successor Agency Residual distributions of over \$800,000. The year-end property tax result of \$19.82 million was (\$26,441 or 0.1%) above the revenue estimate of \$19.80 million, which was used in the development of the FY 2017/18 budget. This year end result is consistent with projections and will not have an effect on the FY 17/18 original property tax projections. Indication of this will be in January when the first installment of current-year property tax revenue is received.*
 - *Sales Tax revenue ended FY 2016/17 at \$15.66 million, 3.0% below the budget estimate, and first quarter results for FY 2017/18 stand at \$1.23 million, or 2.3% of*

the annual budget figure of \$16.78 million. In looking forward sales tax proceeds received through November bring us to \$4.14 million or 24.7% which is an indication that actuals are tracking slightly below FY 2017/18 sales tax projections. Typically, Sales Tax revenue forecasts are not updated on the basis of results from one quarter, and year-to-date results caution us to watch the second quarter results carefully to determine if early revisions to the forecast are warranted.

- *Transient Occupancy Tax revenue in FY 2016/17 increased to \$1.78 million over prior year FY 2015/16 results of \$1.45 million (22.8%). Year to date results of \$62,884 are reflecting residual payments from FY 2016/17 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 \$465,652, this represents 26.6% of the estimated FY 2017/18 revenue of \$1.75 million..*
 - *Property Transfer Tax revenue decreased to \$386,182 in FY 2016/17 over prior year FY 2015/16 results of \$306,001. (26.2%). This tax can fluctuate from year to year, as it is dependent on real estate activity. Although the 2016/17 year end results fell slightly short of projections (\$13,818), we remain optimistic in maintaining our FY 2017/18 projection of \$408,000. 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 2016/17 totaled \$6.65 million, \$570,000 above our budget projections of \$6.08 million. Increases were experienced in Planning Application processing seeing more than \$234,000 in revenue above the mid-year estimate due to reimbursable work on development projects, as well as, \$260,000 in Public Works encroachment permit activity. First quarter revenues are currently at \$453,198 or 7.9% of the Adjusted Budget figure of \$5,733,121. What would appear to be a shortfall is primarily due to posting of prior year deferred revenues, which took place in the second quarter. In looking forward, through November, service revenues have now improved to \$2.8 million and are reflecting 48.9% of the estimated total.*
 - *Investment Earnings. First quarter investments would appear slow due to the timing of interest receipts, which occurred in October, (fiscal quarter 2). At this time, PFM Asset Management group continues to manage over \$49.0 million of the City's portfolio and has been making progress on diversifying and maximizing our assets.*
 - *The All Other Sources category of Revenues in FY 2016/17 ended the year above projections. The main component of this increase is attributed to 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 2017/18 General Fund expenditures (including encumbrances) were \$11.2 million, or 16.0% of the adjusted budget of \$70.1 million. (See Attachment D) Citywide personnel expenditures appear within budget, with 24.0% expended through three periods (see Attachment A, Table 7). Departmental expenditure projections will be evaluated with the FY 2017/18 Mid-Year Budget Update.*

The Adopted FY 2017/18 budget projected a General Fund unreserved Fund Balance at June 30, 2018 of \$9.69 million, or 15.2% of General Fund expenditures. Factoring in final year-end results for FY2016/17 and carryover funds into FY 2017/18 results in an updated year-end fund balance of \$9.78 million or 13.9% at June 30, 2018.

- *All Funds Revenues for the year ended June 30, 2017 were \$228.44 million as compared to an Adjusted Budget of \$225.71 million. General Fund revenues ended the fiscal year at \$59.79 million which is 4.9% higher than the adjusted budget. This largest portions of this revenue are attributed to the Streetlight Conversion Loan proceeds of \$2.4 million, increase in property taxes of \$365,000, Transient Occupancy Tax \$367,000, and departmental revenues \$590,000 due to increased activity for general encroachments \$353,000, County Fire inspection fees \$81,000, Fire Protection District revenue \$61,000 and various Children’s Special interest classes \$78,000. The majority of these revenues were already anticipated and adjusted in mid-year estimates. Other notable year-end changes in revenues from estimates include Business Licenses \$100,000, and a decline in Sales and Use Tax \$477,977, and RDA residual pass thru of \$384,000. (See Attachment A – Table 1).*
- *All Funds Expenditures for FY 2016/17 were \$204.25 million, which represents 75.7% of the Adjusted Budget of \$269.79 million. Personnel costs represent \$58.63 million or 28.7% of the FY 2016/17 expenditures. All Funds Expenditures through the first quarter of FY 2017/18 stand at \$38.46 million or 16.4% of the All Funds Budget of \$234.8 million. (See Attachment A – Tables 3, 5, 6, 7).*
- *Through the first quarter of the current fiscal year, All Funds Revenues stood at \$42.54 million, or roughly 22.8% of the Adjusted Budget figure of \$186.67 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. (See Attachment A – Table 2).*
- *As of December 4, 2017, the City has twenty-two (22) full-time and one (1) half-time vacant positions. These vacancies represent 6.3% of the current work force. Twenty-one (25) regular full-time vacant positions have been filled as of December 4, 2017. (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 2016/17 Revenues

FY16/17 Revenues				
	Final Adjusted Budget	Unaudited Actual	%	Note
General Fund	56,991,325	59,786,925	104.9%	1b
Special Revenue Funds	22,014,763	13,525,799	61.4%	1c
Debt Service	7,075,546	7,478,246	105.7%	1d
Capital Projects Funds	2,440,913	2,676,933	109.7%	1e
Trust Funds	12	283	0.0%	
Enterprise Funds	103,421,663	111,930,657	108.2%	1f
Internal Service Funds	30,083,109	29,264,941	97.3%	
RDA Successor Agency Funds	3,681,497	3,773,779	102.5%	
Total All Funds	225,708,828	228,437,563	101.2%	1a

- 1a** All Funds Revenues ended FY 2016/17 at \$228.44 million, or 101.2% of the adjusted budget of \$225.71 million.
- 1b** General Fund revenues ended the fiscal year at \$59.79 million which is 4.9% higher than the adjusted budget. This largest portions of this revenue are attributed to the Streetlight Conversion Loan proceeds of \$2.4 million, increase in property taxes of \$365,000, Transient Occupancy Tax \$367,000, and departmental revenues \$590,000 due to increased activity for general encroachments \$353,000, County Fire inspection fees \$81,000, Fire Protection District revenue \$61,000 and various Children’s Special interest classes \$78,000. The majority of these revenues were already anticipated and adjusted in mid-year estimates. Other notable year-end changes in revenues from estimates include Business Licenses \$100,000, and a decline in Sales and Use Tax \$477,977, and RDA residual pass thru of \$384,000.
- 1c** Special Revenue Funds experienced a shortfall in revenue for Grant activities, which are not complete and have been carried forward into FY 2017/18. The more significant federal transportation funds include: STIP – 3rd Street A to B \$3.29 million, L Street Improvements \$1.48 million, and Mace Boulevard Improvements \$2.2 million. In addition, Operating Grant funding carryovers include: Davis Alternate Fuel Grant \$192,000, Strategic Growth Council \$173,000, and Safe Routes to School \$220,000. Other special revenue funds falling short of projections include Home Federal funding \$323,000, and Cable TV \$283,000.
- 1d** Debt Service Funds experienced revenues above projections for both Mace Ranch Community Facilities District \$218,075 and Cannery Community Facilities District \$183,134.
- 1e** Capital Project Funds experienced a delay in the South Fork Preserve Public access project and the anticipated revenues, as well as the corresponding expenditures, were moved into FY 2017-18.
- 1f** Enterprise Funds have exceeded FY 2016/17 revenue estimates primarily due to the timing of major capital improvement projects supported by State Water Resources

Loans including the Local Water Pipeline Project \$3.5 million and the Davis/Woodland Water Supply project \$22.5 million, as well as the Wastewater Treatment Plant received less revenue than anticipated (\$16.8 million) with the revenues and corresponding expenditures moved to FY 2017/18. In addition, service fees for both Sewer and Water Services fluctuated with a total shortfall of \$750,000. Federal and State Transportation funding claims also experienced timing challenges and \$1.3 million in those revenues were not received until fall of FY 2017/18.

Table 2 – All Funds FY 2017/18 Revenues

FY17/18 Revenues				
	Adjusted Budget	Year-To-Date Actual	%	Note
General Fund	60,916,258	7,442,926	12.2%	2b
Special Revenue Funds	25,834,618	1,419,605	5.5%	2c
Debt Service	3,334,028	3,313	0.1%	2d
Capital Projects Funds	2,201,060	852,319	38.7%	
Trust Funds	43	3	100.0%	
Enterprise Funds	59,578,390	25,758,741	43.2%	
Internal Service Funds	31,011,737	7,061,769	22.8%	
RDA Successor Funds	3,791,581	126	0.0%	2e
Total All Funds	186,667,715	42,538,802	22.8%	2a

- 2a** All Funds Revenues through the first quarter of FY 2017/18 are \$42.54 million, or 22.8% of the adjusted budget.
- 2b** General Fund Revenues are \$7.44 million or 12.2% of the adjusted budget, with many of the City’s major tax revenues (property tax & sales tax) yet to be collected.
- 2c** 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.
- 2d** 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.
- 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 2016/17 Expenditures

FY16/17 Expenditures				
	Final Adjusted Budget	Unaudited Actual	%	Note
General Fund	68,112,278	59,139,521	86.8%	3b
Special Revenue Funds	24,986,303	11,816,937	47.3%	3c
Debt Service	8,702,113	8,004,346	92.0%	3d
Capital Projects Funds	8,666,335	2,428,191	28.0%	3e
Enterprise Funds	123,872,363	94,228,233	76.1%	3f
Internal Service Funds	31,725,538	25,069,067	79.0%	3g
Redevelopment Funds	3,729,304	3,559,627	95.5%	
Total All Funds	269,794,234	204,245,922	75.7%	3a

- 3a** All Funds Expenditures for FY 2016/17 were \$204.25 million, or 75.7% of the adjusted budget of \$269.79 million. All funds were under budget (ranging from 4.5% to 72% of budget spent).
- 3b** General Fund Expenditures ended the year at \$59.14 million, or 13.2% under budget. Committed purchase orders and projects of \$6.19 million have carried forward into FY 2017/18, which when added to the year-end balance, would be above the year-end estimate of \$64.01 million.
- 3c** Special Revenue Funds ended the year below budget at 47.3%. Construction Tax funds for the Vets Memorial Rehab \$698,000, Cowell/Chiles Traffic Circle \$245,000 and Transportation Infrastructure Rehab \$358,000 have been carried forward into FY 2017/18. Transportation grant funded programs such as STIP – 3rd Street A to B \$3.29 million, Street Improvements \$1.42 million, and Mace Boulevard Improvements \$2.2 million also carried forward funds into FY 2017/18. In addition, Operating Grant funding carryovers include: Davis Alternate Fuel Grant \$192,000, Strategic Growth Council \$173,000, Sutter Pathways \$435,000 and Safe Routes to School \$220,000. Housing funds declined below expectations by \$636,496, with offsetting expenditure reductions. CDBG programming carried forward \$638,000 into FY 2017/18 to complete the 3rd Street Improvements, Cowell/Chiles Traffic Circle, as well as other ADA improvements citywide.
- 3d** Debt Service funds were recorded under budget at 92.0% expenditure due to savings in the final payments on the 2003 Public Finance Authority Bond.
- 3e** Capital Project Funds (28.0%) experienced delays in projects, moving both the anticipated revenues and corresponding expenditures into FY 2017/18. Examples of the more significant projects are impact fee funds for the Richards/I-80 Improvement \$1.6 million, 3rd Street Improvements \$296,000, Cowell/Chiles Traffic Circle \$407,000, Covell/L Intersection Improvements \$390,000, L Street Improvements \$160,000, Mace Boulevard Improvements \$205,000, Transportation Infrastructure Rehabilitation \$1.9 million, Streetlight Replacements \$125,000, and the Veterans Memorial Rehab project \$391,000.
- 3f** Enterprise Funds spent less (23.9%) for the year due to projects carried forward. Projects include 3rd Street Improvements \$3.38 million, Sewer Lift Station \$553,000, Wastewater Treatment Plant \$11.53 million, Sewer Line Rehab \$684,000, Automatic Meter Reader \$6.88 million, Water Main Rehab \$246,000, Well 34 Improvements Irrigation \$207,000,

Sanitary System Rehab \$224,435, Well 11 Conversion to Irrigation \$453,000, Well Standby Generator \$353,000 and Operating program savings in Transportation \$1.39 million, Wastewater \$1.04 million, and Water \$2.03 million. The majority of these unspent funds have been carried forward into FY 2017/18.

- 3g** Internal Service Funds remained under budget in all categories. The most significant savings in are in Vehicle Replacement \$1.4 million, Facility Replacement \$2.6 million and Self Insurance Fund \$948,000, which returned to fund balance and will be reallocated toward future priority projects.

Table 4 – All Funds FY 2016/17 Expenditures by Department

FY16/17 Expenditures				
	Final Adjusted Budget	Unaudited Actual	%	Note
City Attorney	512,967	718,999	140.2%	4b
City Manager / Council	6,750,610	4,820,018	71.4%	4c
Administrative Services Dept.	26,380,034	22,842,656	86.6%	4d
Comm Dev/Sustainability	6,761,246	5,680,091	84.0%	4e
Parks & Community Services	15,219,606	12,908,713	84.8%	4f
Fire	11,202,093	11,298,141	100.9%	
Police	19,463,922	19,423,228	99.8%	
Public Works	58,368,664	49,991,078	85.6%	4g
Capital Improvements	98,176,505	50,265,141	51.2%	4h
Debt Service	20,055,808	19,681,218	98.1%	
RDA Successor Agency	3,699,304	3,572,437	96.6%	
Non-Departmental	3,203,475	3,044,202	95.0%	
Total All Funds	269,794,234	204,245,922	75.7%	4a

- 4a** All Funds Expenditures across most departments were within budget for FY 2016/17.
- 4b** City Attorney expenditures for legal services were higher than budgeted by more than \$200,000.
- 4c** The City Manager’s Office is showing expenditures at 71.4% primarily due to Housing Coordination money (\$300,000) that was not expended in the FY 2016/17 as well as grant funded activities in Federal Housing Funds \$337,000, CDBG activities \$330,000, and the Sutter Pathways Grant \$435,000. Many of these unspent funds have been carried forward to FY 2017/18.
- 4d** Administrative Services ended below adjusted budget at 86.6%. Of these unspent funds, \$1.2 million was carried forward on encumbered purchased orders for projects still in process. An additional \$500,000 was carried over for the continued efforts on evaluating our current AS400 computer software suite, as well as \$37,000 for GIS updates and \$12,000 for citywide training.
- 4e** Community Development and Sustainability ended below adjusted budget due to project work still in progress and carried to FY 2017/18. This included the S Fork Preserve Public Access \$439,000, UCD Long Range Development Plan Professional Services \$100,000, Core Area Plan \$273,000, Soil Testing \$28,000, Downtown Public Amenities \$56,000, and 3rd & F Street Maintenance \$20,000.
- 4f** Public Works ended the year under budget. Charges encumbered and carried over from FY2016/17 to FY2017/18 were a significant portion of the savings totaling \$1.1 million.

Projects that were not completed and carried forward into FY 2017/18 totaled \$2.3 million and included: Fleet purchases \$485,000, Drainage Assessment \$95,000, Corp Yard study and Golf Course assessment \$362,000, and Facility Maintenance \$665,000.

- 4g** Capital Projects had nearly half of the unspent funds (\$20.56 million) carried forward to FY 2017/18 to offset encumbrances for project expenses already in process. Capital projects that are still in process and also carry over funds from FY 2016/17 to 2017/18 for expenses not currently under contract total an additional \$23.9 million dollars. The more significant of these include: Wastewater Treatment Plant \$2.1 million, 3rd Street Improvements \$5.4 million, Vets Memorial Rehab \$1.0 million, Transportation Infrastructure Rehab \$2.9 million, L Street Improvements \$1.7 million, Mace Boulevard Improvements \$2.9 million, H Street- Davis Little League \$1.2 million, South Fork Preserve \$522,000, 5th Street Reconstruction \$869,000, Traffic Circle Cowell/Chiles \$893,000, Sewer Line Rehab \$684,000, and Sewer Lift Station \$480,000.
- 4h** The “Non-Departmental” are citywide expenditures not tied to any one department. Within this area funding was set-aside for grant match opportunities. The unspent portion of this funding (\$163,000) was carried forward into FY 2017/18.

Table 5 – All Funds FY 2017/18 Expenditures by Fund

FY17/18 Expenditures				
	Adjusted Budget	Year-To-Date Actual	%	Note
General Fund	70,605,636	11,198,577	15.9%	5b
Special Revenue Funds	26,464,651	2,409,957	9.1%	5c
Debt Service	3,823,885	2,662,332	69.6%	5d
Capital Projects Funds	10,886,191	175,905	1.6%	5e
Trust Funds	-	-	0.0%	
Enterprise Funds	84,762,747	13,489,349	15.9%	5e
Internal Service Funds	34,542,067	7,087,807	20.5%	
Redevelopment Successor Funds	3,714,910	1,431,538	38.5%	
Total All Funds	234,800,087	38,455,465	16.4%	5a

- 5a** Year-to-date expenditures through the first quarter of FY 2017/18 appear within budget across all fund categories. Actual expenditures (including encumbrances) totaled \$38.46 million, or 16.4% 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 typically under construction in the spring.
- 5c** Special Revenue Fund expenditures are reporting at 9.1%. 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 69.6% 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 2017/18 Expenditures by Department

FY17/18 Expenditures				
	Adjusted Budget	Year-To-Date Actual	%	Note
City Attorney	512,967	56,813	11.1%	
City Manager / Council	7,433,588	1,125,263	15.1%	6b
Administrative Services	24,869,452	5,528,477	22.2%	
Comm. Development & Sustainability	7,256,673	1,403,212	19.3%	6c
Parks & Community Services	16,292,523	3,345,917	20.5%	
Fire	11,216,655	2,783,206	24.8%	
Police	20,695,060	4,558,418	22.0%	
Public Works	56,359,581	9,534,034	16.9%	6d
Capital Improvements	74,482,775	3,906,668	5.2%	6e
Debt Service	10,492,201	4,779,213	45.6%	6f
Redevelopment Successor Agency	3,672,100	1,434,244	39.1%	
Other	1,516,512	-	0.0%	
Total All Funds	234,800,087	38,455,465	16.4%	6a

- 6a** Year-to-date expenditures through the first quarter of FY 2017/18 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 15.1% 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 these projects will be encumbered as needed.
- 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, 3rd Street Improvements, Network Radio Read Water Meters, H Street at Davis Little League, Mace Boulevard Improvements, Sewer Lift Station Rehabilitation, Cannery Grade Separated Crossing and Transportation Infrastructure Rehabilitation. These projects alone comprise 68% or nearly \$50.8 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 45.6% of the budget has been expended.

Personnel Analysis

**Table 7 – All Funds FY 2016/17 Year-End Results and FY 2017/18 Year-to-Date
Personnel Expenditures**

<i>All Funds Personnel Expenditures - Table 7</i>							
<i>FY16/17 Year-End Results and FY17/18 Year-to-Date</i>							
Expenditure by Department	FY16/17 Final Adjusted Budget	FY16/17 UNAUDITED Actuals	% Exp.	FY17/18 Adjusted Budget	FY17/18 Year-to-Date Actuals	% Exp.	Note
City Manager / Council	2,258,370	2,323,988	102.9%	2,475,331	551,151	22.3%	
Administrative Services	4,097,302	3,601,370	87.9%	4,238,095	882,668	20.8%	
Comm Dev/Sustainability	3,675,697	3,718,939	101.2%	4,032,798	943,145	23.4%	
Parks & Community Services	7,121,298	6,997,654	98.3%	7,141,692	1,921,027	26.9%	
Fire	8,671,147	9,076,171	104.7%	9,087,815	2,317,704	25.5%	
Police	15,887,344	16,142,207	101.6%	16,881,204	3,856,056	22.8%	
Public Works	13,328,215	12,057,360	90.5%	13,555,567	2,899,995	21.4%	
Capital Improvements/Debt	1,803,610	1,569,725	87.0%	1,384,827	301,880	21.8%	
RDA Successor Agency	103,228	97,081	94.0%	104,193	25,592	24.6%	
Non-Departmental	10,000	3,044,202	100.0%	(1,860,763)	-	0.0%	7b
Total	\$56,956,211	\$58,628,697	102.9%	\$ 57,040,759	\$ 13,699,218	24.0%	7a

7a FY 2016/17 personnel expenditures ended the year at \$58.63 million, above the final budget of \$56.95 million, reporting a 2.0% additional expense. On a citywide basis, the FY 2016/17 All Funds Personnel costs represented 28.7% of total city expenditures of \$204.25 million.

7b FY 2017/18 personnel expenditures are currently tracking at 24.0%, 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 2016/17 overtime results, as well as the FY 2017/18 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 2016/17 Year-End Results and FY 2017/18 Year-to-Date

OVERTIME SUMMARY	FY16/17		FY17/18		Note
	Final Adjusted Budget	Unaudited Actual	Adjusted Budget	Year-To-Date Actual	
OVERTIME SALARIES & WAGES					
City Manager's Office	369	1,268	389	686	
Administrative Services	8,221	4,385	8,201	-	
Community Development	4,250	1,161	4,910	545	
Parks & Community Services	11,200	23,513	16,700	5,844	
Fire	1,063,524	2,054,005 *	682,745	536,824 *	8b
Police	322,532	712,623	287,532	130,122	8c
Public Works	158,643	234,080	147,826	46,344	
Capital Improvement Projects	10,000	22,085	10,255	405	
Redevelopment	-	-	-	-	
TOTAL OVERTIME	\$ 1,578,739	\$ 3,053,120	\$ 1,158,558	\$ 720,770	8a
* The portion of overtime related to Strike Teams is reimburseable through State or Federal Funding. In FY16/17 this amounted to \$385,422 and FY17/18 claim reimbursements received to date are \$29,442.					

8a All funds total actual overtime in FY 2016/17 was \$3.05 million, and FY 2017/18 budgeted overtime is \$1.16 million.

8b Fire Department overtime expenditures in both FY 2016/17 and FY 2017/18 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 2016/17 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 4, 2017, as well as updated information on previous reported vacancies hired since July 1, 2017.

Table 9– Position Vacancy List

Vacant Positions as of December 4, 2017			
Dept	Position Title	Funding Source	Status
ASD	Financial Services Manager - Budget	General Fund	Vacant 1/17/16
ASD	Human Resources Analyst II	General Fund	Vacant 10/2/17
ASD	IS Systems Analyst	Internal Service Funds	Vacant 11/6/14
CMO	Assistant City Manager	General Fund	Vacant 12/4/17
CMO	Office Assistant II 50%	Internal Service Funds	Vacant 8/14/17
FD	Fire Division Chief (Marshal)	General Fund	Vacant 7/31/17
FD	Firefighter I	General Fund	Vacant 7/1/17
PCS	Community Services Program Coordinator	General Fund	Vacant 11/4/17
PD	Police Corporal	General Fund	Vacant 10/12/17
PD	Police Officer	General Fund	Vacant 7/5/17
PD	Police Officer	General Fund	Vacant 8/28/17
PD	Police Records Specialist II	General Fund	Vacant 11/20/17
PD	Police Records Specialist II	General Fund	Vacant 3/3/17
PD	Police Records Specialist II	General Fund	Vacant 6/30/17
PD	Public Safety Dispatcher II	General Fund	Vacant 7/1/17
PW	Admin Aide	General Fund/Enterprise	Vacant 8/28/17
PW	Associate Civil Engineer	General Fund/Enterprise	Vacant 11/6/17
PW	Collections System Supervisor	Enterprise Fund	Vacant 7/28/17
PW	Construction Manager	General Fund/Enterprise	Vacant 7/1/17
PW	IPM Specialist	Various Funds	Vacant 9/15/17
PW	Public Works Supervisor	General Fund/Enterprise	Vacant 7/31/17
PW	Senior Civil Engineer	General Fund/Enterprise	Vacant 4/30/17
PW	Water Quality Coordinator	Enterprise Fund	Vacant 7/1/16
Positions Hired as of 7/1/17			
Dept	Position Title	Funding Source	Hire Date
ASD	Accounting Assistant	Various Funds	8/28/2017
ASD	Financial Supervisor	Various Funds	8/28/2017
ASD	Human Resources Tech - Conf	General Fund	9/25/2017
CMO	Administrative Analyst II	General Fund	10/9/2017
CMO	Administrative Aide 50%	General Fund	7/3/2017
FIRE	Fire Chief	Various Funds	7/17/2017
PD	Police Officer	General Fund	10/23/2017
PD	Police Records Specialist	General Fund	7/17/2017
PD	Police Service Specialist Supervisor	General Fund	8/28/2017
PD	Police Service Specialist	General Fund	9/11/2017
PD	Public Safety Dispatcher	General Fund	10/23/2017
PD	Public Safety Dispatcher	General Fund	10/23/2017
PW	Building Maintenance Worker I	Internal Service Funds	10/9/2017
PW	Electrician	Enterprise Fund	9/11/2017
PW	Public Works Inspector II	General Fund/Enterprise	9/25/2017
PW	Public Works Inspector II	General Fund/Enterprise	8/28/2017
PW	Public Works Maintenance Worker	Enterprise Fund	10/9/2017
PW	PW Maintenance Worker II	General Fund/Enterprise	11/6/2017
PW	Senior Civil Engineer	General Fund/Enterprise	11/6/2017
PW	Senior Engineering Assistant	General Fund/Enterprise	11/6/2017
PW	Senior Public Works Supervisor	General Fund/Enterprise	7/31/2017
PW	Water Distribution Operator I	Enterprise Fund	11/20/2017
PW	Water Distribution Operator I	Enterprise Fund	11/6/2017
PW	WWTP Mainte Worker II	Enterprise Fund	9/11/2017
PW	WWTP Maintenance Technician	Enterprise Fund	9/11/2017

- *As of December 4, 2017, the City has twenty-two (22) full-time and one (1) half-time vacant positions. These vacancies represent 6.3% of the current work force. Twenty-five (25) regular full-time vacant positions have been filled as of December 4, 2017. (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, 2017 as well as year-to-date results through the first three months of FY 2017/18:

<i>Table 10a: General Fund Summary</i>				
<i>FY2016/17 Results</i>				
Description	FY2016/17 Adjusted Budget	FY2016/17 Budget Projection	FY2016/17 UNAUDITED Actual Results	FY 2016/17 Projection to Actual Variance
<i>Beginning Unreserved Fund Balance</i>	\$16,318,162	\$16,318,162	\$16,318,162	
Revenues	56,991,325	58,207,343	59,786,925	1,579,582
Expenditures	(68,112,278)	(64,011,240)	(59,139,521)	4,871,719
Prior Year Carryovers	2,505,950	2,505,950	2,505,950	
Change in Reserved Fund Balance **	0	0	2,357	2,357
<i>Unaudited Unreserved Fund Balance</i>	\$7,703,159	\$13,020,215	\$19,473,873	\$6,453,658
Encumbrance Carryover	0	0	(6,192,386)	(6,192,386)
<i>Ending Unreserved Fund Balance</i>	\$7,703,159	\$13,020,215	\$13,281,487	\$261,272
Percentage (E.U.F.B./Expenditures)	11.3%	20.3%	22.5%	
** 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 General Fund's Unreserved Fund Balance as of June 30, 2017 was \$13.28 million or 22.5% of General Fund expenditures. This represents an increase of \$261,272 as compared to the year-end fund balance estimate of \$13.02 million assumed in the development of the FY 2017/18 Adopted Budget. This balance includes a reduction of approximately \$6.19 million which has been re-appropriated into current FY 2017/18 for specific projects that were not completed as of June 30, 2017.

Table 10b: General Fund Summary				
FY2017/18 Results				
Description	FY2017/18 Adopted Budget	FY2017/18 Adjusted Budget	FY2017/18 Year-to-Date Results	FY2017/18 Year-end Projection
<i>Beginning Unreserved Fund Balance</i>	\$13,020,215	\$19,473,873	n/a	\$19,473,873
Revenues	60,638,410	60,916,258	5,619,418	60,916,258
Expenditures	(63,965,402)	(70,605,636)	(11,198,577)	(70,605,636)
Prior Year Carryovers	0	0	0	0
Change in Reserved Fund Balance **	0	0	0	0
Unaudited Unreserved Fund Balance	\$9,693,223	\$9,784,495	<i>n/a</i>	TBD
Encumbrance Carryover	0	0		
Ending Unreserved Fund Balance	\$9,693,223	\$9,784,495	<i>n/a</i>	TBD
Percentage (E.U.F.B./Expenditures)	15.2%	13.9%	<i>n/a</i>	<i>TBD</i>
** This line item is included to link the Audited Financial Statements with Budget Estimates and also includes changes in encumbrance balances.				

FY 2017/18

The Adopted FY 2017/18 budget projected a General Fund unreserved Fund Balance at June 30, 2017 of \$9.69 million, or 15.2% of General Fund expenditures. Adjusting for additional appropriations and prior year carryovers from FY 2016/17, results in an updated year-end fund balance of \$9.78 million or 13.9% at June 30, 2017.

Attachment C

General Fund Revenues

Tables 11a & b present a summary of major General Fund revenue sources. FY 2016/17 revenues were \$59.79 million which was \$1.58 million (2.7%) above the revenue estimate used in the development of the FY 2017/18 budget.

<i>Table 11a: General Fund Revenues</i>						
<i>FY2016/17 Results</i>						
Revenue by Source	FY2016/17 Adjusted Budget	FY2016/17 Budget Projection	Unaudited FY2016/17 Actual	Variance Favorable / (Unfavorable)	Variance Percentage	Note
Property Taxes	\$20,185,140	\$19,795,548	\$19,821,989	\$26,441	0.1%	11a
Sales & Use Tax	\$15,976,538	\$16,138,642	\$15,660,665	(\$477,977)	-3.0%	11b
Transient Occupancy Tax	\$1,417,500	\$1,606,500	\$1,784,072	\$177,572	11.1%	11c
Property Transfer Tax	\$450,000	\$400,000	\$386,182	(\$13,818)	-3.5%	11d
Business License Tax	\$1,750,000	\$1,703,891	\$1,804,618	\$100,727	5.9%	
Municipal Services Tax	\$2,953,115	\$2,958,454	\$2,937,053	(\$21,401)	-0.7%	
Franchise Fees	\$1,158,526	\$1,158,526	\$1,211,522	\$52,996	4.6%	
Community Development	\$1,590,890	\$1,235,057	\$1,514,832	\$279,775	22.7%	11e
Parks & Community Services	\$2,471,713	\$2,518,201	\$2,519,514	\$1,313	0.1%	11e
Other Depts (Fire, PD, PW)	\$2,090,098	\$2,324,881	\$2,614,703	\$289,822	12.5%	11e
Fines & Forfeitures	\$780,500	\$515,788	\$507,790	(\$7,998)	-1.6%	11f
Investment Earnings	\$18,800	\$120,671	\$117,958	(\$2,713)	-2.2%	11g
Intra-City Revenues	\$1,883,964	\$1,883,964	\$1,876,317	(\$7,647)	-0.4%	
All Other Sources	\$4,264,541	\$5,847,220	\$7,029,710	\$1,182,490	20.2%	11h
Total	\$56,991,325	\$58,207,343	\$59,786,925	\$1,579,582	2.7%	

<i>Table 11b: General Fund Revenues</i>						
<i>FY2017/18 Projections</i>						
Revenue by Source	FY2017/18 Adopted Budget	FY2017/18 Adjusted Budget	FY2017/18 Year to Date	FY2017/18 Projection	Variance Favorable / (Unfavorable)	Note
Property Taxes	\$20,947,322	\$20,947,322	\$584,874	\$20,947,322	\$0	11a
Sales & Use Tax	\$16,783,812	\$16,783,812	\$1,227,562	\$16,783,812	\$0	11b
Transient Occupancy Tax	\$1,752,030	\$1,752,030	\$62,884	\$1,752,030	\$0	11c
Property Transfer Tax	\$408,000	\$408,000	\$42,999	\$408,000	\$0	11d
Business License Tax	\$1,737,969	\$1,737,969	\$3,598	\$1,737,969	\$0	
Municipal Services Tax	\$3,047,208	\$3,047,208	\$253,783	\$3,047,208	\$0	
Franchise Fees	\$1,181,696	\$1,181,696	\$50,554	\$1,181,696	\$0	
Community Development	\$756,900	\$894,018	\$257,949	\$894,018	\$0	11e
Parks & Community Services	\$2,585,399	\$2,595,968	\$102,524	\$2,595,968	\$0	11e
Other Depts (Fire, PD, PW)	\$2,243,135	\$2,243,135	\$92,725	\$2,243,135	\$0	11e
Fines & Forfeitures	\$647,750	\$647,750	\$68,094	\$647,750	\$0	11f
Investment Earnings	\$120,671	\$120,671	\$13,445	\$120,671	\$0	11g
Intra-City Revenues	\$1,798,636	\$1,798,636	\$149,897	\$1,798,636	\$0	
All Other Sources	\$6,627,882	\$6,758,043	\$2,708,530	\$6,758,043	\$0	11h
Total	\$60,638,410	\$60,916,258	\$5,619,418	\$60,916,258	\$0	

- 11a** *In FY 2016/17, overall Property Tax revenue increased 0.47% over prior year results, total assessed valuations are experiencing better levels of growth, as well as the addition of new units within the Cannery development, of which were offset by the loss of one-time Redevelopment Successor Agency Residual distributions of over \$800,000. The year-end property tax result of \$19.82 million was (\$26,441) (0.1%) above the revenue estimate of \$19.80 million, which was used in the development of the FY 2017/18 budget. This year end result is consistent with projections and will not have an effect on the FY 17/18 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 2016/17 at \$15.66 million, 3.0% below the budget estimate, and first quarter results for FY 2017/18 stand at \$1.23 million, or 2.3% of the annual budget figure of \$16.78 million. In looking forward sales tax proceeds which received through November bring us to \$4.14 million or 24.7% which is an indication that actual are tracking slightly below FY 2017/18 sales tax projections. Typically, Sales Tax revenue forecasts are not updated on the basis of results from one quarter, and year-to-date results caution us to watch the second quarter results carefully to determine if early revisions to the forecast are warranted.*
- 11c** *Transient Occupancy Tax revenue in FY 2016/17 increased to \$1.78 million over prior over prior year FY 2015/16 results of \$1.45 million (22.8%). Year to date results of \$62,884 are reflecting residual payments from FY 2016/17 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 \$465,652, this represents 26.6% of the estimated FY 2017/18 revenue of \$1.75 million.*
- 11d** *Property Transfer Tax revenue decreased to \$386,182 in FY 2016/17 over prior year FY 2015/16 results of \$306,001. (26.2%). This tax can fluctuate from year to year, as it is dependent on real estate activity. Although the 2016/17 year end results fell slightly short of projections (\$13,818), we remain optimistic in maintaining our FY 2017/18 projection of \$408,000. 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 2016/17 totaled \$6.65 million, \$570,000 above our budget projections of \$6.08 million. Increases were experienced in Planning Application processing seeing more than \$234,000 in revenue above the mid-year estimate due to reimbursable work on development projects, as well as, \$260,000 in Public Works encroachment permit activity. First quarter revenues are currently at \$453,198 or 7.9% of the Adjusted Budget figure of \$5,733,121. What would appear to be a shortfall is primarily due to posting of prior year deferred revenues, which took place in the second quarter. In looking forward, through November, service revenues have now improved to \$2.8 million and are reflecting 48.9% of the estimated total.*
- 11f** *Fines and Forfeitures are currently tracking below budget at 10.6% of budget. Parking citations revenue is below historical collections. This revenue can have cyclical impacts with the summer early fall months tracking below the winter and spring months.*
- 11g** *Investment Earnings. First quarter investments would appear slow due to the timing of interest receipts, which occurred in October, (fiscal quarter 2). At this time, PFM Asset Management group continues to manage over \$49.0 million of the City's portfolio and has been making progress on diversifying and maximizing our assets.*
- 11h** *All Other Sources category of Revenues in FY 2016/17 ended the year above projections. The main component of this increase is attributed to 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 \$59.14 million, or (\$8.97 million) under the adjusted budget of \$68.11 million.

Expenditure by Department	FY2016/17	FY2016/17	Variance	% Exp.	FY2017/18	FY2017/18	FY2017/18	% Exp.
	Adjusted Budget	UNAUDITED Actuals			Adopted Budget	Adjusted Budget	Year-to-Date Actuals	
City Attorney	362,967	638,231	275,264	175.8%	362,967	362,967	50,016	13.8%
City Manager / Council	3,496,457	3,371,438	(125,019)	96.4%	3,396,184	3,554,117	701,552	19.7%
Administrative Services	5,471,951	4,458,330	(1,013,621)	81.5%	3,134,254	3,731,989	401,256	10.8%
Community Development	3,862,546	3,081,477	(781,069)	79.8%	2,534,824	3,462,694	713,615	20.6%
Parks & Community Services	11,238,252	10,410,511	(827,741)	92.6%	11,041,624	11,313,480	2,703,397	23.9%
Fire	9,515,208	9,681,821	166,613	101.8%	9,175,708	9,452,807	2,194,100	23.2%
Police	17,496,112	17,563,698	67,586	100.4%	18,849,889	18,961,735	3,955,602	20.9%
Public Works	5,378,943	5,651,154	272,211	105.1%	4,465,469	4,712,007	723,647	15.4%
Capital Improvements	10,848,859	4,037,760	(6,811,099)	37.2%	12,420,641	16,822,723	199,577	1.2%
Debt	267,508	245,101	(22,407)	0.0%	244,005	244,605	56,015	0.0%
Redevelopment	-	-	-	0.0%	-	-	-	0.0%
Non-Deptmt Adjst.	173,475	-	(173,475)	0.0%	(1,660,763)	(2,013,488)	(500,000)	24.8%
Total	\$ 68,112,278	\$ 59,139,521	\$ (8,972,757)	86.8%	\$ 63,965,402	\$ 70,605,636	\$ 11,198,577	15.9%

FY 2016/17 General Fund expenditure results for most operating departments were within their adjusted budget, with savings ranging from 0% to 62.8% of budgeted expenditures. The more significant savings in Capital Improvement Department projects are due to unspent funds being carried forward into FY 2017/18. The more notable projects are 3rd

Street Improvements (\$250,000); Transportation Infrastructure Rehabilitation \$1.8 million; H Street at Davis Little League \$186,000, Mace Boulevard Improvements (\$133,000), Water Management Plan \$221,000, Regal Parking Lot \$195,000, Russell Bike Path \$300,000 and Downtown Parking Improvements (\$248,000). The two departments expensing slightly above budget ranging from 1.8% to 5.1%. Public Works expenditure overage \$272,211 and Fire Department \$166,613 expenditures. City Attorney budget was also in excess of planned expenditures by \$275,000 due to additional activity with contract reviews and labor consultations.

On a citywide basis, FY 2016/17 General Fund expenditures were \$59.14 million plus an adjustment of \$6.19 million for changes in encumbrance balances re-appropriated into current FY 2017/18 for specific projects that were not completed as of June 30, 2017. This adjusted ending expenditure total of \$65.33 million was \$1.3 million above the expenditure estimate assumed in the budget.

The net overall General Fund revenues and expenditures had a positive impact on our projected fund balance moving from a 20.3% to a 22.5% fund balance reserve at FY 2016/17 year-end.

Through the first quarter of FY 2017/18 General Fund expenditures were \$11.2 million, or 16.0% of the adjusted budget of \$70.1 million. Of the adjusted budget, \$6.19 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, 2017. The cumulative impact of these has adjusted they FY 2017/18 general fund reserve to 13.9%.

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 several employee groups to address contracts which are currently expired, which could have budget impacts prior to June 30, 2018.

The current General Fund Reserve policy discussion at the City Council in 2016 dealt with the amount of the reserve between 10% and 15%. Council suggested this amount could be applied to one-time Capital expenditures. At this time we are recommending holding any additions until the mid-year budget report was complete. Once the fund availability is verified, likely in early March, the funds could be released for one-time projects.

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 2017/18 budget. The results of this analysis will be discussed in the mid-year budget report.