

STAFF REPORT

DATE: April 3, 2018
TO: City Council
FROM: Mike Webb, City Manager
Kelly Stachowicz, Assistant City Manager
Kelly Fletcher, Finance Administrator

SUBJECT: FY2017/18 Budget Update

Recommendation

1. Receive mid-year update, which presents revenue and expenditure results through the first seven months of Fiscal Year (FY) 2017/18 and an update on General Fund estimates through the end of the fiscal year (June 30, 2018).
2. Hold any allocations of current reserve funds until the Council discusses the FY 18-19 budget later this spring.

Fiscal Impact

The information presented in this report provides budget-to-actual results and budgetary projections for Fiscal Year 2017/18. The FY2017/18 ending unreserved fund balance in the General Fund is estimated to end the year with a \$9.29 million (13.1%) reserve.

The current General Fund Reserve policy suggests that the amount of the reserve between 10% and 15% could be applied by City Council to one-time Capital expenditures.

While this updated snapshot meets expectations for the projected fund balance, we are mindful of outstanding issues and unfunded liabilities which may impact these projections prior to year-end. Currently the City has engaged with four employee groups to address contracts which are currently expired and which could have budget impacts prior to June 30, 2018. Further, actions by the State (potential downgraded SB1 Gas Tax projections), and changes required by CalPERS from a recent audit will likely influence the balance of the FY 2017/18 budget.

In addition, staff is currently reviewing Capital Improvement project proposals for FY 2018/19 with General Fund needs in excess of \$11million, as well as departmental funding requests for unmet one-time and ongoing General Fund needs.

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, as well as to what extent there will be capacity to fund the FY 2018/19 capital and operating expense needs.

At this time staff is recommending holding any additions pending the outcome of labor contracts currently in negotiation and the prioritization of Capital Improvement projects and unfunded operating needs, which will be discussed in development of the FY 2018/19 budget.

Council Goal

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

Background

Estimates used to develop the Adopted FY2017/18 budget projected a General Fund unreserved Fund Balance at June 30, 2018 of \$9.69 million, or 15.2% of General Fund expenditures. This was derived using an assumed beginning fund balance of \$13.02 million at the start of the fiscal year.

Final year-end results for FY2016/17 provide an updated beginning unreserved fund balance number of \$19.47 million at the beginning of the FY2017/18. Adjusting for additional appropriations and prior year carryovers from FY 2016/17, results in an updated year-end fund balance of \$9.66 million or 13.6% at June 30, 2018.

Moving forward the amended June 30, 2018 fund balance, in conjunction with the current estimated revenue that is projected to come in at \$60.9 million and expenses that are projected at \$71.08 million, show a FY2017/18 projected year end unreserved fund balance of \$9.29 million or 13.1%. (See Attachment 3 – Table 4)

The following presents highlights from the budget report:

- *Year-to-date All Funds Revenues through the first seven months of FY2017/18 are \$103.62 million, or 55.4% of the Adjusted Budget of \$187.17 million. (See Attachment -Table 1).*
- *All Funds Expenditures through January 31st of FY2017/18 stand at \$99.61 million, or 40.1% of the All Funds Budget of \$248.39 million. (See Attachment 1 – Table 2).*
- *Year-to-date General Fund revenues through the first seven months of the fiscal year are \$30.5 million or 49.8% of the \$61.27 million adjusted revenue budget. General Fund revenues are projected to end the fiscal year at \$60.9 million, which is \$264,200 or 0.43% above the revenue assumed at budget adoption. (See Attachment 2-Table 3)*
 - Property taxes citywide are tracking consistent with budget projections for FY 2017/18, therefore the mid-year estimate stands at the \$13.67 million budget.
 - Sales Tax receipts have been adjusted at mid-year estimate to reflect the current revenue trends and anticipated decrease in auto industry sales based on recent information from the City's sales tax consultants Muni Services.
 - Revenue estimate for Community Development is higher than the adopted budget due to the timing of development and related work in the City. The majority of General Fund Revenue for Community Development for FY2017/18 is coming from the developers for on call planning services related to various projects including the West Davis Active Adult Community and Nishi Project.

- Miscellaneous reimbursements are the main component of the increase in other revenues. The more significant are attributed to Streetlight Conversion Loan \$516,510, Receivership reimbursement \$90,000, Davis Waste Removal \$75,000, as well as \$85,000 in Cannabis regulatory fees.

- *The combination of FY2016/17 year-end results and the revised budget projections for the current-year suggest that the General Fund is expected to end FY2017/18 with a fund balance of \$9.29 million, representing 13.1% of General Fund expenditures.*

Next Steps

Staff is currently using the above information to assist in the development of the FY2018/19 proposed budget. The budget introduction is scheduled for City Council on May 15th, with City Council budget discussions on June 12th and adoption on June 19th.

In addition, City staff will be working with the Finance and Budget commission at their May 14th meeting to provide an introduction to the budget, allowing them opportunity throughout May to study the budget document and submit written questions, which will be reviewed with them at their June 11th regular meeting. June will offer them the opportunity to forward any commission recommendations which will be forward to Council June 12th.

Attachments:

1. All Funds revenues and expenditures
2. General Fund Revenues
3. Summary of General Fund Operations

Attachment 1

Table 1 – All Funds Revenues

All Funds Revenues - Table 1					
FY 2017/18 Year-To-Date 7-1-17 to 1-31-18 (7 months)					
Funds	Original Budget 7/1/17	Adjusted Budget 1/31/18	Year-To-Date Actual 1/31/18	Seven months 59%	Note
General Fund	60,638,410	61,270,333	30,496,223	49.8%	1b
Special Revenue Funds	20,242,069	25,888,759	6,598,127	25.5%	1c
Debt Service	3,334,028	3,334,028	1,474,422	44.2%	
Capital Projects Funds	2,171,060	2,233,060	1,512,878	67.7%	
Trust Funds	43	43	112	100.0%	
Enterprise Funds	67,565,250	59,636,875	45,316,709	76.0%	
Internal Service Funds	31,011,737	31,011,737	16,141,943	52.1%	
RDA Successor Funds	3,791,581	3,791,581	2,078,339	54.8%	1d
Total All Funds	188,754,178	187,166,416	103,618,753	55.4%	1a

- 1a** Year-to-date All Funds Revenues are currently \$103.62 million, or 55.4% of the adjusted \$187.17 million budget.
- 1b** General Fund revenues received to date are \$30.50 million or 49.8% of the \$61.27 million adjusted budget. The revenues would appear to be lagging slightly, this is not abnormal as these 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** Special Revenue 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** Redevelopment Successor agency funds are distributed similar to property taxes on semi-annual schedule in January and June. Therefore the current shortfall in the fund is due to timing of the next payment due in June.
- *All other funds are also tracking in proportion to expectations when considering timing of annual receipts.*

Attachment 1

Table 2 – All Funds Expenditures

All Funds Expenditures - Table 2					
FY 2017/18 Year-To-Date 7-1-17 to 1-31-18 (7 months)					
Expenditure By Fund	Original Budget 7/1/17	Adjusted Budget 1/31/18	Year-To-Date Actual 1/31/18	Seven months 59%	Note
General Fund	63,965,402	71,082,711	28,997,153	40.8%	2b
Special Revenue Funds	17,402,016	27,696,559	7,078,682	25.6%	2c
Debt Service	3,701,939	3,823,885	2,712,917	70.9%	
Capital Projects Funds	5,210,104	11,367,951	922,494	8.1%	2d
Trust Funds	-	-	-	0.0%	
Enterprise Funds	68,551,700	96,150,950	43,050,108	44.8%	2e
Internal Service Funds	29,854,521	34,554,137	13,889,343	40.2%	2f
RDA Successor Funds	3,672,100	3,714,910	2,959,245	79.7%	
Total All Funds	192,357,782	248,391,103	99,609,942	40.1%	2a

- 2a** Year to date All Funds Expenditures are currently \$99.61 million or 40.1% of the total adjusted \$248.39 million adjusted budget.
- 2b** General Fund expenditures are reporting at \$29.0 million or 40.8% of the total \$71.08 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 temporary part-time staffing for spring/summer recreation programs.
- 2c** Special Revenue Funds appear below budget. Again, this is not abnormal as this category of revenues includes Grants which are typically on a reimbursement basis and revenues are received in the final quarter of the fiscal year. These are also typically associated with Capital Projects which are typically tied to construction projects which will move forward as weather permits.
- 2d** Capital Project Fund would appear to be tracking below budget due to the spring/summer seasonality of many construction projects.
- 2e** Enterprise Fund expenditures are at 44.8% due to the expenditures on the wastewater treatment plant and other enterprise capital improvement projects which are still in process for FY 2017/18.

Attachment 2

Table 3: General Fund Revenues FY2016/17 Results and FY2017/18 Projections							
Revenue by Source	FY2016/17 Actual	FY2017/18 Adopted Budget 7/1/17	FY2017/18 Adjusted Budget 1/31/18	FY2017/18 Year to Date 1/31/18	FY2017/18 Estimate as of 1/31/18	Net Change Adopted Budget to Estimate	Note
Property Taxes	\$12,821,225	\$13,674,107	\$13,674,107	\$6,809,720	\$13,674,107	0	3a
RDA Increment	1,279,775	1,345,725	1,345,725	122,041	1,345,725	0	
Sales & Use Tax	7,711,557	8,067,577	8,067,577	3,365,853	8,067,577	0	
City Sales Tax	7,949,108	8,716,235	8,716,235	3,356,426	8,052,587	(663,648)	3b
Transient Occupancy Tax	1,784,072	1,752,030	1,752,030	728,681	1,752,030	0	
Business License Tax	1,804,618	1,737,969	1,737,969	1,420,337	1,737,969	0	
Municipal Services Tax	2,937,053	3,047,208	3,047,208	2,010,665	3,047,208	0	
Property Tax - In Lieu VLF	6,107,171	6,335,490	6,335,490	3,207,376	6,335,490	0	
Franchise Fees (PG&E/DWR)	1,211,522	1,181,696	1,181,696	200,112	1,181,696	0	
Community Development	1,514,832	756,900	1,073,977	700,266	894,018	137,118	3c
Parks & Comm. Services	2,521,154	2,585,399	2,599,841	1,579,328	2,595,968	10,569	
Other Depts (Fire, PD, PW)	2,613,063	2,243,135	2,243,135	1,045,698	2,243,135	0	
Fines & Forfeitures	507,790	647,750	647,750	224,292	647,750	0	
Investment Earnings	117,958	120,671	120,671	90,610	120,671	0	
Intergovernmental Revenues	602,220	176,672	206,114	219,155	200,114	23,442	
Intra-City Revenues	1,876,317	1,798,636	1,798,636	1,049,279	1,798,636	0	
All Other Sources	6,427,490	6,451,210	6,722,172	4,366,384	7,207,929	756,719	3d
Total	\$59,786,925	\$60,638,410	\$61,270,333	\$30,496,223	\$60,902,610	264,200	

General Fund Revenues

- 3a** Property taxes citywide are tracking consistent with budget projections for FY 2017/18, therefore the mid-year estimate stands at the \$13.67 million budget.

- 3b** Sales Tax receipts have been adjusted at mid-year estimate to reflect the current revenue trends and anticipated decline in auto industry sales based on recent information from the City's sales tax consultants Muni Services.

- 3c** Revenue estimate for Community Development is higher than the adopted budget due to the timing of development and related work in the City. The majority of General Fund Revenue for Community Development for FY2017/18 is coming from the developers for on call planning services related to various projects including the West Davis Active Adult Community and Nishi Project.

- 3d** Miscellaneous reimbursements are the main component of the increase in other revenues. The more significant are attributed to Streetlight Conversion Loan \$516,510, Receivership reimbursement \$90,000, Davis Waste Removal \$75,000, as well as \$85,000 in Cannabis regulatory fees.

Attachment 3

Summary of General Fund Operations

<i>General Fund Summary - Table 4</i>				
<i>FY2017/18 Budget and FY2017/18 Year-to-Date Results 7-1-17 to 1-31-18 (7 months)</i>				
Description	FY2017/18 Adopted Budget 7/1/17	FY2017/18 Adjusted Budget 1/31/18	FY2017/18 Year-to-Date Results 1/31/18	FY2017/18 Year-end Projection as of 1/31/18
<i>Beginning Unreserved Fund Balance</i>	<i>\$ 13,020,215</i>	<i>\$19,473,873</i>	<i>\$19,473,873</i>	<i>\$19,473,873</i>
Revenues	60,638,410	61,270,333	30,496,223	60,902,610
Expenditures	(63,965,402)	(71,082,711)	(28,997,153)	(71,082,711)
Ending Unreserved Fund Balance	\$ 9,693,223	\$9,661,495	<i>n/a</i>	\$9,293,772
Percentage General Fund Reserve	<i>15.2%</i>	<i>13.6%</i>	<i>n/a</i>	<i>13.1%</i>

FY2017/18

When the Adopted FY2017/18 budget was developed in mid-2017, the resulting General Fund unreserved Fund Balance at June 30, 2017 was projected to be \$9.69 million, or 15.2% of General Fund expenditures.

Final year-end results for FY2016/17 provide an updated beginning unreserved fund balance number of \$19.47 million at the beginning of the FY2017/18. Adjusting for additional appropriations and prior year carryovers from FY 2016/17, results in an updated year-end fund balance of \$9.66 million or 13.6% at June 30, 2018.

Moving forward the amended June 30, 2018 fund balance, in conjunction with the current estimated revenue that is projected to come in at \$60.90 million and expenses that are projected at \$71.08 million, show a FY2017/18 year end unreserved fund balance of \$9.29 million or 13.1%.

While this updated snapshot in time meets expected fund balance projections, we are mindful of outstanding issues and unfunded liabilities which will likely impact these projections prior to year-end, including open contract negotiations and updates from the CalPERS audit.

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 current General Fund Reserve policy suggests that the amount of the reserve between 10% and 15% could be applied to one-time Capital expenditures. At this time staff is recommending holding any additions pending the outcome of labor contracts currently in negotiation and the prioritization of priority Capital Improvement projects which will be discussed in development of the FY 2018/19 budget.