

## STAFF REPORT

**DATE:** January 22, 2019

**TO:** City Council

**FROM:** Nitish Sharma, Director of Finance/Treasurer  
Pam Day, Financial Services Manager  
Kathy McIntire, Accounting & Fiscal Analyst II

**SUBJECT:** FY 2018/19 Midyear Budget Update

---

### **Recommendation**

1. Receive mid-year budget update, which presents revenue and expenditure results through the first six months of Fiscal Year (FY) 2018/19 and an update on General Fund estimates through the end of the fiscal year June 30, 2019.
2. Provide direction to staff as to how mid-year funds in excess of 10% General Fund reserve should be allocated.

### **Fiscal Impact**

The information presented in this report provides the budget-to-actual results and budgetary projections for FY 2018/19. The FY 2018/19 ending unreserved fund balance in the General Fund is estimated at \$9.0 million or 11.8% of the estimated expenditures. 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. It is important to note that at this time staff is not recommending any additional appropriations from the City Funds due to the fact that the City has not received their primary revenue sources (property taxes, six-months of sales taxes, and six months of transient occupancy taxes).

### **Council Goal(s)**

Ensure Fiscal Resilience.

### **Summary**

This midyear budget report summarizes the revenue and expenditure results through the first six months (July to December) of FY 2018/19 for the General Fund and All Funds. The report also provides a summary of the personnel and overtime expenditures for all funds and the projected fund balance as of June 30, 2019 for the General Fund.

### **Financial Highlights and Explanations through December 31, 2018**

1. City revenues continue to move in a modest upward trend. Property tax revenues are projected to exceed the revenue estimate by \$163,121. The sales tax revenues for the current fiscal year are very difficult to project due to the impact of the online sales and use taxes allocation to the City from the County pool, so staff has projected no change in sales tax revenues for FY 2018/19. Staff is continuing efforts to explore resources to optimize

revenues with the help of various City consultants, including Avenue Insights and Analytics (formerly MuniServices LLC).

2. Other revenues are projected to continue an upward trend in FY 2018/19, primarily due to an increase in Vehicle License Fees (\$137,017), increase in Public Safety Augmentation Fund (\$7,592), and an increase in AB 1290 pass-through distributions from the former Redevelopment Agency (\$46,961). There has been a decrease in Document and Transfer Taxes (-\$14,894).
3. Parks and Community Services revenues received in the first half of the year are greater than the 6 month average. The revenue received is consistent with the early registration process and projections for FY 2018/19. This is due to a new fee schedule for registration fees implemented in September and a renegotiated agreement with pool users with an increase in fees.
4. The City's long-term financial plan projects a substantial increase in ongoing expenditures due to an increase in labor costs related to pension and other post-employment benefits. Pension cost increases are due to several factors, including a decrease in the discount rate to 7% by the California Pension and Retirement System (CalPERS); new amortization methodology for the gains and losses on investments; and the continued cost of living adjustments of an average of 2% per year to retirees. Staff met with the actuaries from CalPERS to discuss the City's long-term financial impact and will continue to work on sustainable solutions for the next budget.

**A) Revenues & Expenditures – General Fund**

Table 1 and Table 2 below show a summary of FY 2018/19 General Fund revenues by revenue source and expenditures by department.

**Table 1 - FY 2018/19 Revenues – General Fund**

Revenue Source	Adopted Budget	Council Approved Appropriations*	Year-To-Date Actual	%	Year-End Projected
Property Taxes	\$21,697,421	\$21,697,421	\$0	0.0%	21,907,155
Sales & Use Tax	\$16,751,294	\$16,751,294	\$4,314,071	25.8%	\$16,801,842
Transient Occupancy Tax	\$2,022,817	\$2,022,817	\$665,422	32.9%	\$2,022,817
Property Transfer Tax	\$405,732	\$405,732	\$0	0.0%	\$405,732
Business License Tax	\$1,772,729	\$1,772,729	\$124,679	7.0%	\$1,772,729
Cannabis	\$170,000	\$170,000	\$95,461	56.2%	\$170,000
Municipal Services Tax	\$3,127,138	\$3,127,138	\$1,821,867	58.3%	\$3,127,138
Franchise Fees	\$1,181,696	\$1,181,696	\$210,611	17.8%	\$1,181,696
Community Development	\$1,845,344	\$2,259,671	\$1,165,079	51.6%	\$2,259,671
Parks & Community Services	\$2,776,717	\$2,782,049	\$1,799,074	64.7%	\$2,782,049
Other Depts. (Fire, PD, PW)	\$2,385,183	\$2,385,183	\$931,796	39.1%	\$2,385,183
Fines & Forfeitures	\$475,000	\$475,000	\$164,124	34.6%	\$475,000
Investment Earnings	\$150,000	\$150,000	\$60,618	40.4%	\$150,000
Intra-City Revenues	\$2,038,686	\$2,038,686	\$1,019,370	50.0%	\$2,038,686
All Other Sources	\$2,026,914	\$2,028,914	\$1,525,806	75.2%	\$2,028,914
<b>Total</b>	<b>\$58,826,671</b>	<b>\$59,248,330</b>	<b>\$13,897,978</b>	<b>23.5%</b>	<b>\$59,508,612</b>

**Table 2: FY 2018/19 Expenditures – General Fund**

Department	Adopted Budget	Council Approved Appropriations*	Year-To-Date Actual	%	Year-End Projected
City Attorney	\$362,967	\$170,217	\$117,135	68.8%	\$170,217
City Manager's Office & City Council	\$3,676,366	\$4,076,834	\$1,566,629	38.4%	\$4,076,834
Administrative Services	\$3,093,197	\$3,777,885	\$1,192,828	31.6%	\$3,777,885
Comm. Development & Sustainability	\$2,484,436	\$3,256,032	\$1,403,901	43.1%	\$3,256,032
Parks & Community Services	\$11,838,531	\$12,284,307	\$4,803,764	39.1%	\$12,284,307
Fire	\$10,585,292	\$10,620,996	\$5,025,831	47.3%	\$10,620,996
Police	\$19,369,755	\$19,445,573	\$8,801,979	45.3%	\$19,445,573
Public Works	\$4,628,465	\$5,225,067	\$1,938,633	37.1%	\$5,225,067
Capital Improvements	\$5,920,590	\$18,200,063	\$3,876,925	21.3%	\$18,200,063
Debt Service	\$264,988	\$264,988	\$229,313	86.5%	\$264,988
Non-Dept./Transfers/Contingency	(\$1,426,710)	(\$1,147,362)	\$12,036	-1.0%	(\$1,147,362)
<b>Total</b>	<b>\$60,797,877</b>	<b>\$76,174,600</b>	<b>\$28,968,974</b>	<b>38.0%</b>	<b>\$76,174,600</b>

\* The Council Approved Appropriations include the adopted budget, encumbrances and project carryover allocations from prior fiscal year approved by the City Council after budget adoption.

#### Revenues – General Fund

Property Tax – The City has not collected property tax revenues through the first four periods of FY 2018/19. Property taxes are received from the County in three installments, with the installments received in January (50%), May (45%), and August (5%). Based on the growth assumptions and the projected increase in the tax roll, per conversation and meeting with the County Assessor, the property taxes and assessments are projected at \$21.9 million for FY 2018/19, approximately \$210,000 higher than budget. This projected number will be updated upon the receipt of the first tax distribution scheduled for January of 2019.

The secured property tax forecast for FY 2018/19 in the City’s Financial Forecast Model assumes \$25.2 million in new growth, resulting with an increase in property tax revenues of \$258,000 in the fiscal year. In the event the growth is not materialized, the model will be adjusted prior to the next budget update.

Sales Tax receipts are projected at slightly higher than budget based on the current revenue trends and estimates provided by the City’s sales tax consultant, Avenu Insights & Analytics, through the second quarter of 2018.

The cannabis revenues shown in Table 1 above are for manufacturing and business licensing. The regulatory fees are budgeted and collected in “All Other Source” category.

#### Expenditures – General Fund

Through the six months of FY 2018/19, the General Fund expenditures were \$28.97 million, or 38.0% of the Council Approved Appropriations of \$76.2 million. Of the total Council Approved Appropriations, \$15.4 million was re-appropriated from FY 2017/18 to FY 2018/19 for the

encumbrances and carryover allocations for specific projects that were not completed as of June 30, 2018.

**B) Revenues & Expenditures – All Funds**

Revenues – All Funds

Table 3 below shows the All Funds revenues by fund source through the first six months of FY 2018/19 totaling \$68.6 million, or 39.1% of the Council Approved Appropriations of \$175.6 million. The Special Revenue Funds, including Park Maintenance and Open Space 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 including Transportation Development Act, Community Development Block Grant, and Operational Grants are subject to timing of expenditures and receipts of reimbursements, and typically have a timing lapse of several months.

**Table 3: FY 2018/19 Revenues - All Funds**

Fund Source	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
General Fund	\$58,826,671	\$59,248,330	\$13,897,978	23.5%
Special Revenue Funds	\$18,988,478	\$24,622,099	\$8,934,869	36.3%
Debt Service	\$2,966,371	\$2,966,371	\$58,462	2.0%
Capital Projects Funds	\$2,513,298	\$2,753,298	\$2,557,445	92.9%
Trust Funds	\$43	\$43	\$18	41.9%
Enterprise Funds	\$56,578,915	\$56,766,106	\$30,226,112	53.2%
Internal Service Funds	\$25,811,831	\$25,817,931	\$12,259,689	47.5%
RDA Successor Funds	\$3,434,032	\$3,434,032	\$659,722	19.2%
<b>Total</b>	<b>\$169,119,639</b>	<b>\$175,608,210</b>	<b>\$68,594,295</b>	<b>39.1%</b>

Expenditures by Fund Source and by Department– All Funds

Table 4 and Table 5 below show the All Funds expenditures by fund source and by department totaling \$89.7 million or 37.2% of the Council Approved Appropriations of \$241.0 million. Many of the expenditure appropriations (Gas Tax, Transit Funding and Grant Funding) within the Special Revenue Funds category are directly related to the capital improvement projects which are scheduled to begin later in the spring. The Capital Projects Funds and Enterprise Funds expenditures reflect the timing of construction projects and the awarding of contracts which occur intermittently throughout the fiscal year.

**Table 4: FY 2018/19 Expenditures by Fund Source – All Funds**

Fund Source	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
General Fund	\$60,797,877	\$76,174,600	\$28,968,974	38.0%
Special Revenue Funds	\$20,046,346	\$30,754,112	\$10,723,697	34.9%
Debt Service	\$3,137,121	\$3,232,911	\$2,548,262	78.8%
Capital Projects Funds	\$3,094,642	\$11,716,032	\$1,996,184	17.0%
Enterprise Funds	\$68,261,422	\$83,972,610	\$33,142,109	39.5%
Internal Service Funds	\$26,415,743	\$31,400,152	\$9,867,681	31.4%
RDA Successor Funds	\$3,672,246	\$3,707,578	\$2,427,476	65.5%

Total	\$185,425,397	\$240,957,995	\$89,674,383	37.2%
-------	---------------	---------------	--------------	-------

**Table 5: FY 2018/19 Expenditures by Department – All Funds**

Department	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
City Attorney	\$512,967	\$320,217	\$120,445	37.6%
City Manager's Office & City Council	\$6,145,479	\$6,809,895	\$2,333,806	34.3%
Administrative Services	\$23,351,074	\$24,825,243	\$9,540,305	38.4%
Comm. Development & Sustainability	\$6,122,439	\$7,768,838	\$3,430,458	44.2%
Parks & Community Services	\$14,366,636	\$15,797,991	\$6,131,299	38.8%
Fire	\$12,311,501	\$12,348,163	\$6,082,000	49.3%
Police	\$21,187,378	\$21,373,916	\$10,049,983	47.0%
Public Works	\$53,789,648	\$58,548,225	\$24,335,678	41.6%
Capital Improvements	\$31,021,491	\$76,269,375	\$16,213,760	21.3%
Debt Service	\$10,541,777	\$10,541,777	\$8,992,825	85.3%
Redevelopment Successor Agency	\$3,672,246	\$3,672,246	\$2,431,788	66.2%
Other	\$2,402,761	\$2,682,109	\$12,036	0.4%
<b>Total</b>	<b>\$185,425,397</b>	<b>\$240,957,995</b>	<b>\$89,674,383</b>	<b>37.2%</b>

Personnel Expenditures – All Funds

Table 6 below shows the All Funds personnel expenditures through the first six months of FY 2018/19, totaling \$29.2 million or 47.6% of the Council Approved Appropriations. The year-to-date actual personnel expenditures are currently tracking consistently with the budgeted projections, when taking seasonality of personnel expenditures into consideration, as well as current position vacancies.

**Table 6: FY 2018/19 Personnel Expenditures – All Funds**

Department	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
City Manager's Office & City Council	\$2,707,487	\$2,707,487	\$1,194,977	44.1%
Administrative Services	\$4,467,500	\$4,467,500	\$2,151,341	48.2%
Comm. Development & Sustainability	\$4,230,574	\$4,230,574	\$2,013,718	47.6%
Parks & Community Services	\$7,345,843	\$7,345,843	\$3,446,232	46.9%
Fire	\$10,240,768	\$10,240,768	\$5,057,808	49.4%
Police	\$17,471,335	\$17,471,335	\$8,177,707	46.8%
Public Works	\$14,373,307	\$14,347,280	\$6,341,386	44.2%
Capital Improvements	\$1,257,061	\$1,283,088	\$767,050	59.8%
Redevelopment Successor Agency	\$114,177	\$114,177	\$48,182	42.2%
Non-Departmental	(\$827,239)	(\$827,239)	\$0	0.0%
<b>Total</b>	<b>\$61,380,813</b>	<b>\$61,380,813</b>	<b>\$29,198,401</b>	<b>47.6%</b>

C) Overtime – All Funds

Table 7 below summarizes the year-to-date overtime expenditures by department through the first six months of FY 2018/19. It is important to note that overtime is only one component of total human resource costs.

**Table 7: FY 2018/19 Overtime Expense Summary – All Funds**

Department	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
City Manager's Office	\$1,064	\$1,064	\$897	84.3%
Administrative Services	\$6,601	\$6,601	\$937	14.2%
Comm. Development & Sustainability	\$4,910	\$4,910	\$0	0.0%
Parks & Community Services	\$13,800	\$13,800	\$8,231	59.6%
Fire	\$1,152,303	\$1,152,303	\$1,082,704	94.0%
Police	\$288,332	\$288,332	\$303,454	105.2%
Public Works	\$196,596	\$196,596	\$125,029	63.6%
Capital Improvements	\$10,255	\$10,255	\$39,238	382.6%
<b>Total</b>	<b>\$1,673,861</b>	<b>\$1,673,861</b>	<b>\$1,560,490</b>	<b>93.2%</b>

The Fire and Police departments experienced a number of vacancies which required backfilling with overtime in order to maintain shift minimum staffing. Fire Department overtime expenditures have been impacted by the strike team assignments. The majority of strike team assignments costs are reimbursed by the State and Federal agencies.

D) Fund Balance – General Fund

Table 8 below shows the fund balance for the General Fund.

**Table 8: FY 2018/19 Fund Balance – General Fund**

	FY 2018/19 Adopted Budget	FY 2018/19 Adjusted Budget	FY 2018/19 Year-to-Date Actual	FY 2018/19 Year-end Projected
Beginning Unreserved Fund Balance	\$9,270,843	\$25,884,915	\$25,884,915	\$25,884,915
Revenues	\$58,826,671	\$59,248,330	\$13,897,978	\$59,508,612
Expenditures	(\$60,797,877)	(\$76,174,600)	(\$28,968,974)	(\$76,174,600)
Ending Unreserved Fund Balance	\$7,299,637	\$8,958,645	n/a	\$9,218,927
Percentage General Fund Reserve	12.0%	11.8%	n/a	12.1%

When the FY 2018/19 Adopted Budget was developed and approved in June 2018, the resulting General Fund unreserved Fund Balance was estimated to be \$9.3 million, or 12.9% of General Fund expenditures. As presented in the City’s Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2018, the actual beginning unreserved fund balance at the end of FY 2017/18 (or beginning of FY 2018/19) is \$25.9 million.

With the adjustments for additional appropriations and prior year carryovers from FY 2017/18 to FY 2018/19 that were approved by City Council, in conjunction with the current estimated revenue that is projected to come in at \$59.5 million and expenses that are projected at \$76.2

million, the projected year-end fund balance for the General Fund at the end of FY 2018/19 is \$9.2 million or 12.1% of expenditures.

Finance staff will continue to monitor the revenues and expenditures to assess whether the General Fund will sustain the assumptions incorporated into the FY 2018/19 Adopted Budget and meet the projected year-end fund balance at 12.1%. The current fund balance amount in excess of the 10% reserve is approximately \$1.25 million (Total projected General Fund revenues: \$59.5 Million\* 2.1%= \$1.25 Million). This amount will be updated once all 6-month revenues have actually been received.

In the meantime, Council may wish to provide directions to staff on the proposed strategic uses of the funds above 10% reserve requirement. Based on Council policy and past direction, staff would recommend projects in the following areas:

- Transportation Infrastructure Improvements
- Parks Rehabilitation
- City Council approved strategic goal projects
- Budget Stabilization Fund (rainy day fund) in addition to the 10% minimum reserve to mitigate any losses from revenues related to the potential correction in the property values

### **Next Steps**

Staff is working on the detail revenue and expenditure projections for the current year during the month of January and early February, including capital improvement funds. Finance staff plans to present the budget guidelines for the upcoming budget preparation to the rest of city staff.

This will include:

1. Non-Personnel Cost of Living Adjustments- An analysis on the non-personnel costs with a proposed guideline on the budget adjustments to increase programs/services
2. Revenue Analysis- Detail General Fund and other Special Revenue Fund revenue analysis and the potential revenue losses/gain for the next few years.
3. Fund Balance Report- An analysis of the unrestricted fund balance, the new revenue sources and the contractual obligations budgetary adjustments for the next fiscal year.

Below is a timeline for the propose budget for FY 2019/20 and FY 2020/21:

- March 2019 – Return to Council with updated numbers, once all 6-month revenues have been received. Determine level of General Fund reserve and amount available above 10%, if any, to allocate to Capital Improvement Projects or other strategic initiatives, as per Council policy.
- May 2019- Budget introduction
- June 2019- Budget questions answered and budget discussion at City Council
- June 2019- Council Public Hearing on adoption of budget

In addition, City staff will be working with the Finance and Budget Commission at their June 2019 meeting to provide an introduction to the budget, allowing them opportunity to study the budget document and submit written questions, which will be shared with the City Council