

STAFF REPORT

DATE: March 24, 2020

TO: City Council

FROM: Elena Adair, Finance Director
Kiran Sanghera, Financial Analyst II
Kathy McIntire, Accounting & Fiscal Analyst II

SUBJECT: FY 2019/20 Midyear Budget Update

Recommendation

Receive mid-year budget update, which represents revenue and expenditure results through the first seven months of Fiscal Year 2019/20 and an update on General Fund estimates through the end of the fiscal year (June 30, 2020).

Fiscal Impact

The information presented in this report provides the budget-to-actual results and budgetary projections for FY 2019/20. The FY 2019/20 General Fund ending unreserved fund balance is estimated at \$3.6 million (4.5%).

Council Goal(s)

Ensure Fiscal Resilience.

Summary

This midyear budget report summarizes the revenue and expenditure results through the first seven months (July to January) of FY 2019/20 for the General Fund and all other City 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, 2020 for the General Fund.

The City Council recently approved new Memorandum of Understanding (MOU) for Police Sworn and Non-Sworn, Police Management and Fire General Unit bargaining groups. The value of these contract changes (\$1,265,634) have been incorporated into the City Council approved appropriations and year-end projected results shown in the following tables. In addition, funding for the Homelessness Respite Center pilot program (\$250,000) has also been included.

Table 1: FY 2019/20 Revenues – General Fund

Revenue Source	Adopted Budget	Council Approved Appropriations*	Year-To-Date Actual	%	Year-End Projected
Property Taxes	\$ 22,216,824	\$ 22,216,824	\$11,977,868	53.9%	\$ 22,826,700
Sales & Use Tax	\$ 16,226,000	\$ 16,226,000	\$ 9,101,030	56.1%	\$ 16,826,000
Transient Occupancy Tax	\$ 2,518,400	\$ 2,518,400	\$ 1,235,757	49.1%	\$ 2,518,400
Property Transfer Tax	\$ 200,000	\$ 200,000	\$ 189,372	94.7%	\$ 200,000
Business License Tax	\$ 1,928,400	\$ 1,928,400	\$ 1,953,192	101.3%	\$ 2,035,200
Cannabis *	\$ 620,000	\$ 620,000	\$ 684,750	110.4%	\$ 1,051,600
Municipal Services Tax	\$ 3,224,500	\$ 3,224,500	\$ 2,130,900	66.1%	\$ 3,224,500
Franchise Fees	\$ 1,204,403	\$ 1,204,403	\$ 546,373	45.4%	\$ 1,183,603
Community Development	\$ 1,395,875	\$ 1,713,311	\$ 1,723,955	100.6%	\$ 2,359,568
Parks & Community Services	\$ 2,706,323	\$ 2,951,919	\$ 1,490,657	50.5%	\$ 2,806,882
Other Depts. (Fire, PD, PW, ASD)	\$ 3,703,921	\$ 3,689,447	\$ 2,289,274	62.0%	\$ 3,866,598
Fines & Forfeitures	\$ 450,000	\$ 450,000	\$ 329,201	73.2%	\$ 459,762
Investment Earnings	\$ 348,898	\$ 348,898	\$ 196,777	56.4%	\$ 348,898
Intra-City Revenues	\$ 2,304,974	\$ 2,304,974	\$ 1,536,343	66.7%	\$ 2,304,974
All Other Sources	\$ 1,586,544	\$ 1,588,084	\$ 1,031,672	65.0%	\$ 1,588,452
Total	\$ 60,635,062	\$ 61,185,160	\$ 36,417,121	59.5%	\$ 63,601,137

* Cannabis includes manufacturing and retail only; regulatory fees are budgeted in All Other Sources revenue category

Revenues – General Fund

Year-to-Date General Fund Revenues are at \$36.4 million, or 59.5% of the adjusted \$61.2 million budget.

In March 2020, voters approved an extension to Yolo County Measure Q – City of Davis Sales Tax. Extending the 1% tax should provide estimated \$8.6 million in local funds annually beginning January 1, 2021. The money can be used for any municipal purpose including police and fire services, recreation programs, roads, and sidewalks.

The City collected the first installment of property taxes in January 2020. Property taxes are received from the County in three installments, with the payments received in January (~50%), May (~45%), and August (~5.0%). Based on the growth assumptions and the projected increase in the tax roll, per the County Assessor, the property taxes and assessments are projected at \$22.8 million for FY 2019/20, approximately \$610,000 higher than the FY 2019/20 Adopted Budget. This projection was updated after the receipt of the first installment of property taxes in January. Real Property Transfer Tax is higher than expected at 94.7% through the first seven months of the fiscal year.

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. Bradley-Burns tax estimate increased \$366,000 and the City 1% add on tax increased \$851,000. We have seen a significant increase in Wayfair payments and the second quarter was the first quarter that payments have been received from ‘marketplace facilitators” (Amazon, Ebay, Etsy, etc.). In light of the recent effects the coronavirus (COVID-19) is having locally and around the country, we expect the fourth quarter of the fiscal year to be significantly lower than our original estimate. Therefore,

we are reducing the increase in the year-end projection for Sales Tax from \$1.2 million to \$600,000 above the original budget. However, this increase may not materialize as a result of deep economic impact of the coronavirus pandemic.

The cannabis revenues shown in Table 1 above are for manufacturing and retail sales. Cannabis is trending higher than budget and this has been updated in the projections and City’s long-term financial model accordingly. Regulatory fees are charged to each retail business, cannabis delivery services and manufacturers for the administration, guidance and oversight of the industry. These fees are budgeted and collected in the “All Other Source” category. New regulatory fees were established in February 2020 and the impact of the reduction in fees has been accounted for in the projection.

Community Development revenue is tracking above budget due to a loan payoff from Valley Clean Energy of \$500,000 plus interest.

Business licenses are renewed annually and are trending higher than budgeted this year. This is related to businesses coming into compliance after a long period of delinquency and paying the required fees and penalties. Businesses also now have the ability to pay for license renewals online.

Table 2: FY 2019/20 Expenditures – General Fund

Department	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%	Year-End Projected
City Attorney	\$ 170,217	\$ 170,217	\$ 220,755	129.7%	\$ 170,217
City Manager's Office & City Council	\$ 4,380,792	\$ 5,089,241	\$ 2,384,174	46.8%	\$ 4,814,391
Administrative Services	\$ 3,329,348	\$ 3,907,181	\$ 1,621,490	41.5%	\$ 5,294,455
Comm. Development & Sustainability	\$ 3,171,085	\$ 3,690,372	\$ 1,723,898	46.7%	\$ 3,769,870
Parks & Community Services	\$ 12,442,258	\$ 13,098,927	\$ 6,023,838	46.0%	\$ 13,329,151
Fire	\$ 11,215,787	\$ 12,185,648	\$ 7,315,014	60.0%	\$ 13,846,987
Police	\$ 19,945,541	\$ 21,615,500	\$ 12,333,400	57.1%	\$ 22,431,662
Public Works - Engineering & Transportation	\$ 2,537,107	\$ 2,611,537	\$ 1,193,001	45.7%	\$ 2,925,628
Public Works - Utilities & Operations	\$ 2,893,433	\$ 3,732,541	\$ 1,246,140	33.4%	\$ 5,470,745
Capital Improvements	\$ 8,898,262	\$ 15,067,039	\$ 2,571,451	17.1%	\$ 9,765,620
Debt Service	\$ 214,021	\$ 234,405	\$ 127,394	54.3%	\$ 234,405
Non-Dept./Transfers/Contingency	\$ (827,239)	\$ (827,239)	\$ 4,720	-0.6%	\$ (827,239)
Total	\$ 68,370,612	\$ 80,575,369	\$ 36,765,275	45.6%	\$ 81,225,892

* 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.

Table 2 above shows that through the first seven months of FY 2019/20 the General Fund expenditures were \$36.7 million, or 45.6% of the City Council approved appropriations of \$68.7 million. Of the total City Council approved appropriations, approximately \$12.0 million was re-appropriated from FY 2018/19 to FY 2019/20 for the encumbrances and carryover allocations for specific projects that were not completed as of June 30, 2019.

Three Memorandum of Understanding (MOU) contracts were ratified in late 2019. The Davis Police Officer Association supporting all Sworn and Non-Sworn positions (\$707,912), Individual Police Management (\$79,321), and Davis Fire Department – General Unit (\$478,401). Costs

associated with the implementation of all of the above MOU's are included in the City Council Approved Appropriations column as well as the year-end projections in the above table.

Costs related to the City Homelessness Respite Center have been included in the City Manager's Office expenditures line in the amount of \$250,000.

City Attorney costs are tracking significantly higher than the FY 19/20 Adopted Budget. This is attributed to the transition to the City's new law firm, a number of unprecedented and unanticipated legal issues over the past year including district elections, litigations, and immense Public Records Act requests.

Capital Improvement Projects (CIP) show a decline in planned expenditures reflecting the deferral of projects due to project timing. For the first seven months of the fiscal year CIP's are trending low at 17.1%. This is typical due to projects tending to get started in spring or summer. There are also a number of projects (transportation related) that are currently in the bid process. Awards for these projects will be late in the fiscal year and construction should begin next fiscal year.

Table 3: FY 2019/20 Revenues – All Funds

Fund Source	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
General Fund	\$ 60,635,062	\$ 61,185,160	\$ 36,417,121	59.5%
Special Revenue Funds	\$ 29,756,157	\$ 30,659,608	\$ 13,025,347	42.5%
Debt Service	\$ 3,024,611	\$ 3,024,611	\$ 1,525,539	50.4%
Capital Projects Funds	\$ 3,139,567	\$ 3,179,567	\$ 760,866	23.9%
Trust Funds	\$ 102	\$ 102	\$ 69	67.6%
Enterprise Funds	\$ 63,816,487	\$ 63,841,487	\$ 39,688,148	62.2%
Internal Service Funds	\$ 26,387,058	\$ 26,411,998	\$ 16,024,773	60.7%
RDA Successor Funds	\$ 9,164,727	\$ 9,164,727	\$ 1,217,451	13.3%
Total	\$ 195,923,771	\$ 197,467,260	\$ 108,659,314	55.0%

Table 3 above shows the City revenues by fund type through the first seven months of FY 2019/20 totaling \$108.7 million, or 55% of the Council Approved Appropriations of \$197.5 million. The Special Revenue Funds, including Park Maintenance and Open Space are paid in conjunction with Property Taxes in major installments in January, May and August. Currently, \$1.05 million has been received to date. Transportation Development Act (TDA), Community Development Block Grant (CDBG), and Operational and Federal/State Grants are subject to timing of expenditures and receipt of reimbursements, and typically have a timing lapse of several months.

Table 4: FY 2019/20 Expenditures by Fund Type – All Funds

Fund Source	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
General Fund	\$ 68,370,612	\$ 79,059,735	\$ 34,241,690	43.3%
Special Revenue Funds	\$ 28,222,704	\$ 31,535,351	\$ 7,352,137	23.3%
Debt Service	\$ 3,026,848	\$ 3,026,848	\$ 2,962,445	97.9%
Capital Projects Funds	\$ 8,591,040	\$ 12,185,506	\$ 1,983,604	16.3%
Enterprise Funds	\$ 90,643,804	\$ 95,257,813	\$ 46,695,750	49.0%
Internal Service Funds	\$ 28,219,144	\$ 31,411,929	\$ 13,138,021	41.8%
RDA Successor Funds	\$ 8,762,252	\$ 8,842,520	\$ 1,865,295	21.1%
Total	\$ 235,836,404	\$ 261,319,702	\$ 108,238,942	41.4%

Table 4 above represents FY 2019/20 Expenditures – All Funds. The Debt Service Funds are tracking at 97.9% of Council Approved Appropriations. This is typical as most debt service principal, interest and administration fees are paid in the first quarter of the fiscal year. The Capital Projects Fund is tracking below budget (16.3%) due to the spring/summer seasonality of many construction projects. Special Revenue Funds are below budget (23.3%) at the end of seven months of the fiscal year. Construction Tax and Federal/State Highway Funds make up a large part of the budget for transportation related projects, which are currently in the bid stage. These projects will likely award contracts late in this fiscal year and see expenses carry into FY 2020/21.

Table 5: FY 2019/20 Expenditures by Department – All Funds

Department	Adopted Budget	Council Approved Appropriations*	Year-To-Date Actual	%
City Attorney	\$ 320,217	\$ 310,217	\$ 220,755	71.2%
City Manager's Office & City Council	\$ 6,964,093	\$ 8,189,419	\$ 3,749,144	45.8%
Administrative Services	\$ 24,040,809	\$ 25,234,042	\$ 12,700,419	50.3%
Comm. Development & Sustainability	\$ 7,311,694	\$ 9,055,701	\$ 4,256,840	47.0%
Parks & Community Services	\$ 14,765,258	\$ 16,310,115	\$ 7,435,580	45.6%
Fire	\$ 13,075,582	\$ 13,594,584	\$ 7,876,304	57.9%
Police	\$ 21,777,592	\$ 22,660,318	\$ 12,842,857	56.7%
Public Works - Engineering & Transportation	\$ 9,869,177	\$ 10,270,301	\$ 3,220,801	31.4%
Public Works - Utilities & Operations	\$ 45,643,859	\$ 50,274,719	\$ 28,368,605	56.4%
Capital Improvements	\$ 66,004,791	\$ 79,326,570	\$ 7,421,065	9.4%
Debt Service	\$ 23,223,340	\$ 23,243,724	\$ 20,926,720	90.0%
Redevelopment Successor Agency	\$ 3,667,231	\$ 3,677,231	\$ 1,860,295	50.6%
Non-departmental	\$ (827,239)	\$ (827,239)	\$ 4,720	-0.6%
Total	\$ 235,836,404	\$ 261,319,702	\$ 110,884,105	42.4%

Table 5 above shows the All Funds Expenditures by department totaling \$110.9 million or 42.4% of the Council Approved Appropriations of \$261.3 million. Of this, Debt Service funds are reporting actuals of \$20.9 million (90%) of the approved appropriations primarily due to most of debt service payments made in the first quarter of the fiscal year. City Attorney costs are higher

than anticipated for the year and are partially attributed to the transition to the city's new law firm, Richards, Watson & Gershon. All other department expenditures are averaging at 50% of the fiscal year.

Table 6: FY 2019/20 Personnel Expenditures – All Funds

Department	Adopted Budget	Council Approved Appropriations*	Year-To-Date Actual	%
City Manager's Office & City Council	\$ 2,924,771	\$ 2,944,771	\$ 1,651,172	56.1%
Administrative Services	\$ 4,720,398	\$ 4,728,398	\$ 2,547,271	53.9%
Comm. Development & Sustainability	\$ 4,467,816	\$ 4,467,816	\$ 2,298,470	51.4%
Parks & Community Services	\$ 7,774,168	\$ 7,749,168	\$ 4,146,058	53.5%
Fire	\$ 11,032,523	\$ 11,510,924	\$ 6,462,817	56.1%
Police	\$ 18,305,454	\$ 19,092,687	\$ 10,540,206	55.2%
Public Works - Engineering & Transportation	\$ 2,334,557	\$ 2,334,557	\$ 1,185,226	50.8%
Public Works - Utilities & Operations	\$ 12,572,300	\$ 12,572,300	\$ 6,644,914	52.9%
Capital Improvements	\$ 1,547,266	\$ 1,547,266	\$ 920,812	59.5%
Redevelopment Successor Agency	\$ 109,132	\$ 109,132	\$ 50,578	46.3%
Non-Departmental	\$ (827,239)	\$ (827,239)	\$ -	0.0%
Total	\$ 64,961,146	\$ 66,229,780	\$ 36,447,524	55.0%

Table 6 represents Personnel Expenditures for All Funds through the first seven months of FY 2019/20, totaling \$36.5 million or 55% of the Council Approved Appropriations. The year-to-date actual personnel expenditures are tracking consistently with the budgeted projections when taking seasonality of personnel expenditures into consideration as well as current position vacancies. Contract amendments for Fire and Police are incorporated into the table above.

Table 7: FY 2019/20 All Funds Overtime Expense Summary

Department	Adopted Budget	Council Approved Appropriations	Year-To-Date Actual	%
City Manager's Office	\$ 1,864	\$ 1,864	\$ 2,288	122.7%
Administrative Services	\$ 6,601	\$ 6,601	\$ 658	10.0%
Comm. Development & Sustainability	\$ 4,250	\$ 4,250	\$ 276	6.5%
Parks & Community Services	\$ 13,600	\$ 13,600	\$ 16,765	123.3%
Fire	\$ 675,602	\$ 675,602	\$ 1,203,518	178.1%
Police	\$ 288,332	\$ 288,332	\$ 496,407	172.2%
Public Works Engineering & Transportation	\$ 25,713	\$ 25,713	\$ 21,974	85.5%
Public Works Utilities & Operations	\$ 332,994	\$ 332,994	\$ 200,972	60.4%
Capital Improvements	\$ 10,255	\$ 10,255	\$ 11,657	113.7%
Total	\$ 1,359,211	\$ 1,359,211	\$ 1,954,515	143.8%

The Police department has continued to experience a number of vacancies, which require backfilling with overtime in order to maintain shift minimum staffing.

Overtime in the Fire Department has been impacted for a number of reasons. There have been several staff out for extended injury leave and parental leave, which resulted in overtime to maintain minimum staffing levels. Four new firefighters were hired in January 2020, but did not get deployed to full duty until mid-February as a result of 6 weeks training. With their training

complete overtime should see reduction over the next several months. When current year budget was adopted, staff projected to experience reduction in overtime immediately instead of eight months after the start of the fiscal year. In addition, overtime has been slightly impacted by the mutual aid strike team assignments. The majority of strike team assignments costs are reimbursed by the State and Federal agencies. The anticipated reimbursement to date is \$122,448.

Table 8: FY 2019/20 General Fund Balance

	FY 2019/20 Adopted Budget	FY 2019/20 Adjusted Budget	FY 2019/20 Year- to-Date Actual	FY 2019/20 Year-end Projected
Beginning Unreserved Fund Balance	\$ 16,573,941	\$ 21,268,373	\$ 21,268,373	\$ 21,268,373
Revenues	\$ 60,635,062	\$ 61,185,160	\$ 36,417,121	\$ 63,601,137
Expenditures	\$ (68,370,612)	\$ (80,575,369)	\$ (36,765,275)	\$ (81,225,892)
Ending Unreserved Fund Balance	\$ 8,838,391	\$ 1,878,164	n/a	\$ 3,643,618
Percentage General Fund Reserve	12.9%	2.3%	n/a	4.5%

When the FY 2019/20 Adopted Budget was developed and approved in June 2019, the resulting General Fund unreserved Fund Balance as of June 30, 2020 was estimated to be \$9.6 million, or 14.1% of General Fund operating expenditures. Updated projections for FY 2019/20 year end include revenues coming in \$2.4 million (4.8%) higher, and expenditure results ending \$650,523 (1.0%) higher than the Adjusted Budget. Considering these assumptions, the projected year-end unreserved fund balance for the General Fund is \$3.6 million (4.5%) of operating expenditures. Staff will continue to monitor the revenues and expenditures to assess whether the General Fund will sustain the assumptions incorporated into the FY 2019/20 Adopted Budget.

Next Steps

Staff is currently using the information as illustrated in this staff report to assist in the development of the FY 2020/21 proposed budget. The budget introduction is tentatively scheduled for City Council Budget Workshop on May 5, 2020, Council Public Hearing on June 2, 2020, and Budget Adoption on June 16, 2020.

In addition, City staff will be working with the Finance and Budget Commission at their May 2020 meeting to introduce 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 2020 regular meeting.