

STAFF REPORT

DATE: May 5, 2015
TO: City Council
FROM: Dirk Brazil, City Manager
Kelly Fletcher, Budget Manager
SUBJECT: FY2014/15 Budget Update

Recommendation

This informational item presents revenue and expenditure results through the first nine months of Fiscal Year (FY) 2014/15 and an update on General Fund through the end of the fiscal year (June 30, 2015).

Fiscal Impact

The information presented in this report provides budget-to-actual results and budgetary projections for the City's FY2014/15. The FY2014/15 ending unreserved fund balance in the General fund is estimated to end the year with a \$7.12 million (14.9%) reserve. In June 2014, the voters approved a half-cent increase in Transactions and Use Tax (Sales) which went into effect October 1, 2014 and is projected to raise \$2.7 million over nine months. This projected revenue has been included in the analysis.

Council Goal

Ensure Fiscal Resilience.

Summary

Estimates used to develop the Adopted FY2014/15 budget projected a General Fund unreserved Fund Balance at June 30, 2015 of \$3.78 million, or 8.5% of General Fund revenues net of Intra-City Revenues. This was derived using an assumed beginning fund balance of \$5.24 million at the start of the year and showed an anticipated shortfall of fund balance reserve totaling \$1.46 million. This value was used in the General Fund calculations in FY2014/15 Adopted budget.

Final year-end results for FY2013/14, however, indicated an updated beginning unreserved fund balance number of \$6.03 million at the beginning of the FY2014/15, a positive variance of \$790,341 from Adopted Budget values. The current FY2014/15 Adjusted Budget projection for the General Fund reserve is \$4.78 million or 10.3% at June 30, 2015. The Adjusted Budget accounts for revenue and expenditure budget adjustments made subsequent to budget adoption.

As the City enters the final quarter of FY2014/15 a budget estimate is developed that looks at beginning fund balance of \$6.03 million, adding in encumbrance carryover of \$1.94 million, current estimated revenue projection of \$50.27 million, less projected expenses at \$51.12 million. Taken together these estimates project a FY2014/15 year end unreserved fund balance of

\$7.12 million at June 30, 2015. This equates to 14.9% of operating revenues which is very close to the level suggested by the City's 15% General Fund Reserve Policy. (See Attachment C – Table 4)

The following represent selected highlights from the budget report:

- ❑ *Year-to-date All Funds Revenues through the first nine months of FY2014/15 are \$103.41 million, or 35.4% of the Adjusted Budget figure of \$292.04 million. (See Attachment A-Table 1)*
- ❑ *All Funds Expenditures through March 31st of FY2014/15 stand at \$111.61 million, or 37.5% of the All Funds Budget of \$297.85 million. (See Attachment A – Table 2).*
- ❑ *Year-to-date General Fund revenues through the first nine months of the fiscal year are \$30.90 million or 63.2% of the \$48.87 million adjusted revenue budget. General Fund revenues are projected to end the fiscal year at \$50.27 million, which is \$3.40 million or (6.9%) above the adjusted revenue budget. (See Attachment B-Table 3)*
 - Property taxes citywide have shown positive growth over initial estimates. Based on the current estimate we anticipate revenues coming in \$896,841 over adjusted budget. This is driven by an increase in residual distributions from the former Redevelopment Agency property taxes and an overall increase in citywide assessed values.
 - Sales Tax receipts are showing sizeable increases over FY2013/14 receipts due to the voter approved ½ cent sales tax that went into effect in October of 2014. The FY2014/15 estimate shows a favorable variance of \$578,410 (4.4%) as of 3/31/15.
 - Franchise fees are below original budget due to the timing of the Davis Waste Removal Contract which includes a new franchise fee of \$500,000 annually. This amount is prorated for FY2014/15 which resulted in lower revenue for this year than first assumed.
- ❑ *On a budgetary basis, the General Fund Unreserved Fund Balance as of June 30, 2014 was \$6.03 million, and represents a positive variance in the reserve of \$790,341 as compared to the reserve level assumed in the development of the FY2014/15 budget. The year-end Unreserved Fund Balance as of June 30, 2014 represents 10.3% of General Fund revenues. The FY2014/15 Adopted Budget assumed a year-end reserve level of 8.5%. (See Attachment C-Table 4).*
- ❑ *The combination of FY2013/14 year-end results and the revised budget projections for the current-year suggest that the General Fund is expected to end FY2014/15 with a fund balance of \$7.12 million, representing 14.9% of General Fund revenues.*
- ❑ *Staff will continue to refine current revenue and expenditure estimates for the FY2014/15 budget as well as a preliminary update of the FY2015/16 General Fund Preliminary budget.*

Attachments

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

Attachment A

Table 1 – All Funds Revenues

All Funds Revenues - Table 1					
FY 2014/15 Year-To-Date 7-1-14 to 3-31-15 (9 months)					
Funds	Original Budget 7/1/14	Adjusted Budget 3/31/15	Year-To-Date Actual 3/31/15	Nine months 75%	Note
General Fund	46,679,128	48,865,710	30,898,135	63.2%	1b
Special Revenue Funds	19,821,418	20,779,099	13,845,961	66.6%	
Debt Service	2,663,012	2,663,012	1,354,574	50.9%	
Capital Projects Funds	3,730,739	4,622,043	1,174,427	25.4%	1c
Trust Funds	10	10	1,802	100.0%	
Enterprise Funds	189,659,180	189,659,180	40,253,107	21.2%	1d
Internal Service Funds	21,692,245	21,747,525	15,452,542	71.1%	
Redevelopment Funds	3,706,000	3,706,000	430,232	11.6%	1e
Total All Funds	287,951,732	292,042,579	103,410,780	35.4%	1a

- 1a** Year-to-date All Funds Revenues are currently \$103.41 million, or 35.4% of the adjusted \$292.04 million budget.
 - 1b** General Fund revenues received to date are \$30.90 million or 63.2% of the \$48.87 million adjusted budget. The revenues would appear to be lagging slightly, but are dependent on the timing of pending property tax, sales tax, business license tax, transient occupancy tax and franchise tax payments. The next property tax installment is due in May.
 - 1c** Capital Project fund revenues come largely from capital grant proceeds. Many of these grant funds are for capital projects that will be completed in the final months of the fiscal year as the weather is more predictable.
 - 1d** Enterprise Funds reflect financing plans for three Capital Improvement Projects – Alternative Water Supply, Surface Water Local Facilities and Wastewater Treatment Plant Facility Improvement. Reimbursement “draws” will be made throughout the fiscal year based on current fiscal-year expenditures. Many of these project revenues and expenditures are anticipated to carry over into FY2015/16.
 - 1e** RDA Successor Funds revenue looks short but will be in line with estimates when property tax installments are received from the County in May.
- *All other funds are also tracking in proportion to expectations when considering timing of annual receipts.*

Attachment A

Table 2 – All Funds Expenditures

All Funds Expenditures - Table 2					
FY 2014/15 Year-To-Date 7-1-14 to 3-31-15 (9 months)					
Expenditure By Fund	Original Budget 7/1/14	Adjusted Budget 3/31/15	Year-To-Date Actual 3/31/15	Nine months 75%	Note
General Fund	48,137,877	52,069,054	30,404,050	58.4%	2b
Special Revenue Funds	20,313,547	22,346,079	12,165,592	54.4%	
Debt Service	2,824,134	2,824,134	2,765,777	97.9%	2c
Capital Projects Funds	4,620,281	7,255,861	2,173,158	30.0%	2d
Trust Funds	-	7,178	6,605	92.0%	
Enterprise Funds	159,598,173	186,737,501	48,219,018	25.8%	2e
Internal Service Funds	22,094,340	22,773,973	12,847,160	56.4%	
Redevelopment Funds	3,721,076	3,837,562	3,024,809	78.8%	
Total All Funds	261,309,428	297,851,342	111,606,169	37.5%	2a

- 2a** Year to date All Funds Expenditures are currently \$111.61 million or 37.5% of the adjusted \$297.85 million adjusted budget.
- 2b** General Fund expenditures are reporting at \$30.40 million or 58.4% of the total \$52.07 million adjusted budget. This is lower than budget due to the timing of some Capital Improvement projects, primarily the Transportation Infrastructure Rehab work which will take place in the next few months.
- 2c** Debt Service Funds reflect expenditures at 97.9% of budget as a result of annual debt principal payments due in the first quarter of the fiscal year.
- 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 only at 25.8% due to the large expenditures on the wastewater treatment plant and surface water project costs that have not yet been realized.

Attachment B

**Table 3: General Fund Revenues
FY2013/14 Results and FY2014/15 Projections**

Revenue by Source	FY2013/14 Actual	FY2014/15 Adopted Budget 7/1/14	FY2014/15 Adjusted Budget 3/31/15	FY2014/15 Year to Date 3/31/15	FY2014/15 Estimate as of 3/31/15	Variance Favorable / (Unfavorable)	Note
Property Taxes	\$16,958,214	\$16,538,421	\$16,538,421	\$9,424,625	\$17,435,262	\$896,841	3a
Sales & Use Tax	10,282,593	13,088,184	13,088,184	7,091,450	\$13,666,594	\$578,410	3b
Transient Occupancy Tax	1,250,725	1,227,060	1,227,060	639,175	\$1,260,000	\$32,940	
Property Transfer Tax	225,977	198,215	198,214	153,528	\$214,000	\$15,786	
Business License Tax	1,669,289	1,660,247	1,660,247	1,687,386	\$1,689,809	\$29,562	
Municipal Services Tax	2,669,472	2,735,700	2,735,700	2,289,807	\$2,766,000	\$30,300	
Franchise Fees (PG&E)	575,083	1,065,854	1,065,854	0	\$708,000	(\$357,854)	3c
Community Development	613,802	491,200	1,969,087	898,932	\$1,811,481	(\$157,606)	3d
Parks & Comm. Services	2,326,795	2,438,506	2,498,478	2,257,898	\$2,370,678	(\$127,800)	3e
Other Depts (Fire, PD, PW)	2,052,501	1,678,271	2,337,771	2,106,582	\$2,533,887	\$196,116	
Fines & Forfeitures	698,776	686,900	686,900	308,751	\$600,250	(\$86,650)	
Investment Earnings	6,964	4,200	4,200	1,416	\$4,200	\$0	3g
Intra-City Revenues	2,626,107	2,331,416	2,331,416	1,747,071	\$2,329,522	(\$1,894)	
All Other Sources	4,343,191	2,534,954	2,524,178	2,291,514	\$2,877,678	\$353,500	3h
Total	\$46,299,489	\$46,679,128	\$48,865,710	\$30,898,135	\$50,267,361	\$1,401,651	

General Fund Revenues

- 3a** Property taxes citywide have shown positive growth over initial estimates. Based on the current estimate we anticipate revenues coming in \$896,841 over adjusted budget. This is driven by an increase in residual distributions from the former Redevelopment Agency property taxes and an overall increase in citywide assessed values.
- 3b** Sales Tax receipts are showing sizeable increases over FY2013/14 receipts due to the voter approved ½ cent sales tax that went into effect in October of 2014. The FY2014/15 estimate shows a favorable variance of \$578,410 (4.4%) as of 3/31/15.
- 3c** Franchise fees are below original budget due to the timing of the Davis Waste Removal contract which includes a new franchise fee. This amount was delayed until March for FY2014/15 which resulted in lower revenue for this year than first assumed.
- 3d** Revenue estimate for Community Development is slightly lower than adjusted budget due to the timing of development and related work in the City. The lion’s share of General Fund Revenue for Community Development for FY2014/15 is coming from the developers of the proposed Innovation Centers (\$1.36M).
- 3e** Community Services Department has reduced their revenue projections consistent with current recreation class registrations. These revenues are offset by corresponding expenditure reductions. All other Departmental revenue estimates remain relatively flat compared to the FY2014/15 adjusted budget.
- 3f** Citywide fines and forfeitures are currently experiencing a decline from the adjusted budget with Parking enforcement revenue and Moving Violations estimates down \$84,750.
- 3g** Davis Waste Removal – Environmental Mitigation revenue in the amount of \$100,000 is a new revenue in FY2014/15 which evolved as part of the new DWR contract. Other revenues tracking slightly higher than the adjusted budget include Business Improvement District - \$13,671, Visitor Attraction District - \$25,000 and Miscellaneous Reimbursements - \$48,129.

Attachment C

Summary of General Fund Operations

General Fund Summary - Table 4				
FY2014/15 Budget and FY2014/15 Year-to-Date Results 7-1-14 to 3-31-15 (9 months)				
Description	FY2014/15 Adopted Budget 7/1/14	FY2014/15 Adjusted Budget 3/31/15	FY2014/15 Year-to-Date Results 3/31/15	FY2014/15 Year-end Projection as of 3/31/15
<i>Beginning Unreserved Fund Balance</i>	\$ 5,240,062	\$6,030,403	\$6,030,403	\$6,030,403
<i>Prior Year Carryovers</i>		\$1,948,628	\$1,948,628	\$1,948,628
Revenues	46,679,128	48,865,710	30,898,135	50,267,361
Expenditures	(48,137,877)	(52,069,054)	(30,404,050)	(51,124,189)
Transfers				
Ending Unreserved Fund Balance	\$ 3,781,313	\$4,775,687	<i>n/a</i>	\$7,122,203
Percentage (E.U.F.B./Revenues)	8.5%	10.3%	<i>n/a</i>	14.9%

FY2014/15

When the Adopted FY2014/15 budget was developed, the resulting General Fund unreserved Fund Balance at June 30, 2015 was projected to be \$3.78 million, or 8.5% of General Fund revenues net of Intra-City Revenues. At that time the assumed beginning fund balance was \$5.24 million and showed an anticipated shortfall of fund balance reserve totaling \$1.46 million.

Final year-end results for FY2013/14 provide an updated beginning unreserved fund balance number of \$6.03 million at the beginning of the FY2014/15, a positive variance of \$790,341 from Adopted budget values.

Moving forward the amended June 30, 2014 fund balance, in conjunction with the current estimated revenue that is projected to come in at \$50.27 million, encumbrances at \$1.94 million and expenses that are projected at \$51.12 million, show a FY2014/15 year end unreserved fund balance of \$7.12 million or 14.9%.

Next Steps

Staff is currently using the above information to assist in the development of the FY2015/16 proposed budget. The budget is scheduled for distribution on May 22 and City Council budget discussions on June 2nd, 16th and adoption on June 30th.