



## *City of Pleasant Hill*

### MEMORANDUM

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TO: Tim Flaherty, Budget Committee Chair  
Sue Noack, Budget Committee Member

FROM: Mary Mc Carthy, Finance Manager  
Andrew Murray, Assistant City Manager

DATE: March 8, 2017

SUBJECT: Fiscal Year (FY) 2016/2017 Second Quarter (October 1 – December 31, 2016)  
Revenue and Expenditure Report

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#### **INTRODUCTION**

The City of Pleasant Hill operates on a two-year (biennial) budget. Through the budget, the City Council allocates the City's limited financial resources to the community's top priorities and authorizes City staff to collect revenues and create expenditures.

As one of the many activities that the City undertakes to help ensure its financial soundness, staff provides quarterly update reports to the City Council and other stakeholders regarding the City's financial condition. A summary of the City's financial results (unaudited) for the second quarter of fiscal year (FY) 2016/2017 (October 1 – December 31, 2016) can be found below.

#### **SUMMARY**

Table 1 summarizes the budgeted and projected year-end General Fund and Other City Fund (non-General Fund) revenues and expenditures. In short, the City is expecting to end FY 2016/2017 with General Fund revenues that are \$34, 000 lower and expenditures that are \$448,000 higher than budgeted, primarily due to a one-time settlement payment. As a result, the General Fund deficit is projected to increase from \$2.6 million to \$3.0 million. The City is expecting to end FY 2016/2017 with other City Fund expenditures \$385,000 higher than originally budgeted, primarily due to the timing of capital improvement projects.

**Table 1 - FY 2016/2017 Revenue and Expenditure Summary (in \$1,000s)**

		<b>General Fund</b>	<b>Other City Funds</b>	<b>Total</b>
<b>Revenue</b>	Budgeted	\$23,054	\$11,930	\$34,984
	Year End Projected	\$23,020	\$11,930	\$34,950
	Variance	(\$34)	\$0	(\$34)
<b>Expenditures</b>	Budgeted	\$25,612	\$15,291	\$40,903
	Year End Projected	\$26,060	\$15,676	\$41,736
	Variance	\$448	\$385	\$833
<b>Surplus/Deficit</b>	Budgeted	(\$2,558)	(\$3,361)	(\$5,919)
	Year End Projected	(\$3,040)	(\$3,746)	(\$6,786)
	Variance	(\$482)	(\$385)	(\$867)

Whereas the adopted biennial budget anticipated a General Fund balance of \$11.0 million at the end of FY 2016/2017, the City is now projecting an ending fund balance of \$11.3 million, due to a larger-than-expected beginning fund balance offsetting the higher projected deficit.

## GENERAL FUND REVENUES

General Fund revenues for FY 2016/2017 were budgeted at \$23.1 million. As of the close of the second quarter, the City is projecting that year-end General Fund revenue will decrease slightly by \$34,000. The following table summarizes General Fund revenue by category.

**Table 2 - FY 2016/2017 General Fund Revenue Summary (in \$1,000s)**

Revenue Type	Adopted Budget	Actual as of 12/31/16	% of Budget	Projected Year End	Variance
Sales Tax	\$8,642	\$3,645	42%	\$8,506	(\$136)
Property Tax	\$2,824	\$1,602	57%	\$2,824	\$0
Property Tax in Lieu of VLF	\$3,076	\$0	0%	\$3,076	\$0
Other Taxes	\$5,028	\$1,004	20%	\$5,130	\$102
Other:					
Franchise Fees	\$1,938	\$491	25%	\$1,938	\$0
Licenses and Permits	\$632	\$324	51%	\$632	\$0
Charges for Services	\$454	\$271	60%	\$454	\$0
Other Revenue	\$171	\$95	56%	\$171	\$0
Transfer	\$100	\$100	100%	\$100	\$0
Use of Money and Property	\$52	\$14	27%	\$52	\$0
Fines and Forfeitures	\$56	\$27	48%	\$56	\$0
Intergovernmental	\$81	\$15	19%	\$81	\$0
<b>Total Revenues</b>	<b>\$23,054</b>	<b>\$7,588</b>	<b>33%</b>	<b>\$23,020</b>	<b>(\$34)</b>

### Sales Tax

Sales tax revenues were budgeted to be \$8.6 million in FY 2016/2017. The City is projecting that year-end sales tax revenues will decline slightly by \$136,000 (1.5%) to \$8.5 million based on a recent analysis by the City's sales tax consultant HdL Coren & Cone.

### Property Tax

Property tax revenue was budgeted to be \$2.8 million and, based on collections to date and known assessed valuations, the City is on track to collect this amount.

### Property Tax in Lieu of Vehicle License Fee (VLF)

The motor vehicle license fee (VLF) is an annual tax on the ownership of registered vehicles collected by the State Department of Motor Vehicles and subsequently distributed to cities and counties. In 2004, the State Legislature permanently reduced the tax rate from 2% to 0.65% of a vehicle's current market value. The reduction in VLF revenue to cities and counties was offset by an increased transfer of property tax from the State to cities and counties. This transfer is called the "Property Tax in Lieu of VLF." The City budgeted \$3.1 million for FY 2016/2017. Although no revenue has been received yet, due to the timing of these payments from the State, the City is anticipating that \$3.1 million will be received for the year.

## Other Taxes

The City collects a business license tax and a number of other smaller taxes that supplement sales and property tax. The majority of this revenue is collected during the business license tax renewal period, which commences in January. Based on an analysis of collections through the end of February 2017, the City is projecting that \$2.5 million will be collected this year.

This category also includes other smaller taxes such as the transient occupancy (hotel) tax (TOT), property transfer tax, and utility user tax. The City is projecting that year-end revenue will be \$102,000 greater than was originally budgeted due to higher-than-anticipated transient occupancy tax revenue.

## Other Revenue

The City collects a number of non-tax General Fund revenues, as described below.

### Franchise Fees

Franchise fees are rent paid by utilities or other businesses for the privilege of using the City's right of way (streets, alleys, sidewalks, etc.) to locate utility lines or operate vehicles. The City collects a franchise fee of 1% of revenue from Pacific Gas & Electric (PG&E) and 5% of revenue from cable operators AT&T/Pacific Bell, Comcast, and Astound. The City also collects a franchise fee of 12% of revenue from Allied Waste Management. Franchise fee revenues were budgeted to be \$1.9 million in FY 2016/2017. The City is projecting that revenues are on track with the amount budgeted for the year.

### Licenses and Permits

The revenue in this category is due to permits and fees, which were budgeted at \$632,000. This category includes building, electrical, plumbing, and energy permits, primarily generated from construction-related activity. The City is projecting that revenues are on track with the amount budgeted for the year.

### Charges for Services, Transfers, Use of Money and Property, and Miscellaneous Other Revenue

This category includes numerous miscellaneous "other" revenues. The major sub-categories include charges for services, fines and forfeitures, interest revenue, Police Officer Standards and Training (POST) reimbursements from the State, accounting fees, and transfers from other funds. The City budgeted \$914,000 for FY 2016/2017.

**GENERAL FUND EXPENDITURES**

General Fund expenditures for FY 2016/2017 were budgeted at \$25.6 million. As of the close of the second quarter, the City is projecting that year-end expenditures will be \$448,000 higher than budget. The following two tables summarize General Fund expenditures by category and department.

**Table 3 - FY 2016/2017 General Fund Expenditure Summary, By Category (in \$1,000s)**

<b>Expenditure Type</b>	<b>Adopted Budget</b>	<b>Actual as of 12/31/16</b>	<b>% of Budget</b>	<b>Projected Year End</b>	<b>Variance</b>
Personnel					
Salaries	\$10,822	\$5,440	50%	\$10,822	\$0
Benefits	\$5,711	\$2,649	46%	\$5,711	\$0
Benefit Buybacks and Contributions to Retiree Health Plans	\$427	\$406	95%	\$427	\$0
Public Safety PERS Side Fund Loan Debt	\$892	\$450	50%	\$892	\$0
					\$0
General Expenses	\$845	\$683	81%	\$1,191	\$346
Professional and Contract Svc	\$1,579	\$778	49%	\$1,579	\$0
Other Expenditures:					\$0
Conferences and Training	\$194	\$102	53%	\$194	\$0
Maintenance and Repairs	\$316	\$97	31%	\$379	\$63
Supplies and Materials	\$264	\$109	41%	\$264	\$0
Utilities	\$456	\$180	39%	\$456	\$0
Insurance	\$608	\$518	85%	\$608	\$0
Promotions and Contributions	\$626	\$206	33%	\$665	\$39
Fixed Assets	\$33	\$6	18%	\$33	\$0
Debt Service	\$0	\$0		\$0	\$0
Transfer	\$2,839	\$2,839	100%	\$2,839	\$0
<b>Total Expenditures</b>	<b>\$25,612</b>	<b>\$14,463</b>	<b>56%</b>	<b>\$26,060</b>	<b>\$448</b>

**Table 4 - FY 2016/2017 General Fund Expenditure Summary, By Department (in \$1,000s)**

<b>Department</b>	<b>Adopted Budget</b>	<b>Actual as of 12/31/16</b>	<b>% of Budget</b>	<b>Projected Year End</b>	<b>Variance</b>
City Council	\$162	\$74	46%	\$162	\$0
City Manager	\$991	\$455	46%	\$938	(\$53)
City Attorney	\$492	\$261	53%	\$492	\$0
Community Relations	\$410	\$114	28%	\$410	\$0
City Clerk	\$157	\$47	30%	\$157	\$0
City Treasurer	\$11	\$5	45%	\$11	\$0
Economic Development	\$620	\$246	40%	\$658	\$38
Non Departmental	\$497	\$476	96%	\$897	\$400
Administrative Services:					\$0
Finance	\$801	\$405	51%	\$801	\$0
Computer Services	\$705	\$473	67%	\$705	\$0
Human Resources	\$661	\$320	48%	\$661	\$0
					\$0
Risk Management	\$606	\$525	87%	\$606	\$0
City Hall Facility	\$148	\$66	45%	\$148	\$0
Police	\$11,143	\$6,104	55%	\$11,143	\$0
Public Safety PERS Side Fund Loan Debt	\$890	\$448	50%	\$890	\$0
Engineering	\$1,049	\$623	59%	\$1,049	\$0
Street Resurfacing Transfer	\$1,500	\$1,500	100%	\$1,500	\$0
Maintenance	\$2,548	\$1,216	48%	\$2,611	\$63
Planning	\$1,269	\$539	42%	\$1,269	\$0
Building Inspection	\$847	\$461	54%	\$847	\$0
Lease Revenue Refunding Bonds Debt Payment	\$0			\$0	\$0
Transfers to AD 20 and AD 22	\$105	\$105	100%	\$105	\$0
Total Expenditures	\$25,612	\$14,463	56%	\$26,060	\$448

## Personnel

### Salary and Benefits

Salary and benefits were budgeted at \$16.5 million and, based on second quarter results, the City is projecting personnel costs are on track with the amount budgeted for the year.

### Buybacks and Contributions to Retiree Health Savings Plan

The timing of these payments is not cyclical, however based on review of year to date results, the City is projecting expenditures are on track with the \$427,000 budgeted for the year.

### Public Safety PERS Side Fund Loan Debt Payment

This category is comprised of debt service payments related to the payoff of the CalPERS public safety side fund obligation. Rather than make annual payments to CalPERS to slowly pay off this obligation, the City took a loan from Umpqua Bank to pay off the obligation more quickly at a lower interest rate, resulting in net present value savings to the City of \$684,302.

## General Expenses

This category includes expenditures for postage, printing, memberships, publications and subscriptions, and other special expenditures, including funding for Economic Development projects and programs to enlarge the City's revenue base. In the past, these projects and programs were funded by the Redevelopment Agency, but are now funded by the General Fund. This category also includes the \$400,000 one-time settlement payment mentioned previously. The City is projecting expenditures will increase by \$345,000 to \$1.2 million.

### Professional and Contract Services

This category includes \$1.6 million for contractual services including legal counsel, auditing, video-taping, contracted animal control services, and minute taker services. The City is projecting expenditures will be on track with the amount budgeted for the year.

### Other Expenditures

This category includes the major subcategories for conferences and training; maintenance and repairs; supplies and materials; utilities; insurance; promotions and contributions; fixed assets; and transfers.

This category includes an additional \$1.3 million contribution toward the street resurfacing program which enables the City to marginally increase the Pavement Condition Index (PCI) rating on City streets and to also prevent an increase in the level of deferred maintenance of the streets.

This category also includes the City's on-going annual contribution of \$305,000 toward library

facility maintenance and extension of library hours to 43 open hours (including Monday hours) weekly.

The City is projecting that expenditures will increase slightly by \$102,000 to \$5.4 million.



## **GENERAL FUND FINANCIAL CONDITION**

### **General Fund Balance**

The adopted biennial budget included a beginning General Fund balance of \$13.6 million and projected a deficit of approximately \$2.6 million for FY 2016/2017, resulting in an ending General Fund balance of \$11.0 million. The City actually started FY 2016/2017 with a General Fund balance that was \$707,000 higher, at \$14.3 million, due to higher-than-expected revenues and lower expenditures. Based on the second quarter review, the City is now projecting a deficit of \$3.0 million for the year. The City is therefore projecting that the General Fund will end FY 2016/2017 with a fund balance of \$11.3 million, an overall improvement of \$225,000.

**Table 5 - FY 2016/2017 General Fund Ending Balance (in \$1,000s)**

	<b>Adopted Budget</b>	<b>Projected Year End</b>	<b>Variance</b>
Beginning Fund Balance	\$13,603	\$14,310	\$707
Revenue	\$23,054	\$23,020	(\$34)
Expenditures	\$25,612	\$26,060	\$448
Surplus/Deficit	(\$2,558)	(\$3,040)	(\$482)
Ending Fund Balance	\$11,045	\$11,270	\$225

## **OTHER CITY FUNDS (NON-GENERAL FUND)**

In addition to the General Fund, the City has other fund types that can only be used for specified purposes, such as capital improvements, debt service, or a particular program. The following provides an update on these funds for the second quarter of FY 2016/2017.

### **NON-GENERAL FUND REVENUE**

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, were \$11.9 million, and actual revenues as of the close of the second quarter were \$5.6 million.

**Table 6 - FY 2016/2017 Non-General Fund Revenue Summary (in \$1,000s)**

<b>Revenue Type</b>	<b>Adopted Budget</b>	<b>Actual as of 12/31/16</b>	<b>% of Budget</b>	<b>Projected Year End</b>	<b>Variance</b>
Property Tax	\$453	\$21	5%	\$453	\$0
Other – Taxes and Assessments	\$528	\$232	44%	\$528	\$0
Intergovernmental	\$6,262	\$904	14%	\$6,262	\$0
Charges for Services	\$4	\$2	50%	\$4	\$0
Fines and Forfeitures	\$94	\$33	35%	\$94	\$0
Use of Money and Property	\$31	\$7	23%	\$31	\$0
Other	\$372	\$193	52%	\$372	\$0
Transfer	\$4,186	\$4,186	100%	\$4,186	\$0
Total Revenues	\$11,930	\$5,578	47%	\$11,930	\$0

The largest category of non-General Fund revenue is the intergovernmental category. The majority of revenue in this category is grants for capital projects. These revenues are paid on a reimbursement basis, so the City will receive the revenues once the capital work has been completed. We expect that revenues will be on budget.

## **NON-GENERAL FUND EXPENDITURES**

The total budgeted expenditures for other funds, including transfers between funds, are \$15.3 million and actual expenditures as of the end of the second quarter were \$5.6 million, 37% of budget.

**Table 7 - FY 2016/2017 Non-General Fund Expenditure Summary (in \$1,000s)**

<b>Expenditure</b>	<b>Adopted Budget</b>	<b>Actual as of 12/31/16</b>	<b>% of Budget</b>	<b>Projected Year End</b>	<b>Variance</b>
Salaries and Benefits	\$525	\$288	55%	\$542	\$17
General Expenses	\$982	\$897	91%	\$982	\$0
Professional and Contract Services	\$1,360	\$283	21%	\$1,409	\$49
Maintenance and Repairs	\$483	\$377	78%	\$434	(\$49)
Supplies and Materials	\$263	\$92	35%	\$213	(\$50)
Utilities	\$620	\$203	33%	\$620	\$0
Promotions and Contributions	\$5	\$4	80%	\$5	\$0
Fixed Asset	\$576	\$230	40%	\$669	\$93
Transfer	\$1,447	\$1,447	100%	\$1,547	\$100
Capital Improvements	\$9,030	\$1,780	20%	\$9,255	\$225
Total Expenditures	\$15,291	\$5,601	37%	\$15,676	\$385

The largest non-General Fund expenditure category is capital improvements, which are primarily comprised of large transportation-related capital projects that are grant funded. Projected expenditures are slightly higher than amounts originally budgeted due to the rollover of the prior year projects due to the timing of the projects. Descriptions of the projects for FY 2016/2017 can be found in the City's FY 2016-2021 Capital Improvement Plan.

## **NEXT UPDATE**

The FY 2016/2017 Third Quarter Revenue and Expenditure Report is expected to be published in April 2017.

## **STAFF RECOMMENDATION**

Accept the Fiscal Year (FY) 2016/2017 Second Quarter (October 1 – December 31, 2016) Revenue and Expenditure Report.