



City of Pleasant Hill

MEMORANDUM

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

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

DATE: April 28, 2017

SUBJECT: Fiscal Year (FY) 2016/2017 Third Quarter (January 1 – March 31, 2017) Revenue and Expenditure Report

INTRODUCTION

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

As one of the many activities that the City undertakes to help ensure its financial soundness, staff provides quarterly reports to the Budget Committee on the City's budget condition. A summary of the City's financial results (unaudited) for the third quarter of fiscal year (FY) 2016/2017 (January 1 – March 31, 2017) 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. General Fund revenues are projected to be \$11,000 lower and expenditures to be \$133,000 lower than budgeted. Other City Fund revenues are projected to be \$109,000 and expenditures to be \$484,000 higher than budgeted, primarily due to the timing of capital improvement projects. 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 a higher ending fund balance, \$11.9 million. This is primarily due to a larger-than-expected beginning fund balance and lower expenditures.

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

		General Fund	Other City Funds	Total
Revenue	Budgeted	\$23,054	\$11,930	\$34,984
	Year End Projected	\$23,043	\$12,039	\$35,082
	Variance	(\$11)	\$109	\$98
Expenditures	Budgeted	\$25,612	\$15,291	\$40,903
	Year End Projected	\$25,479	\$15,775	\$41,254
	Variance	(\$133)	\$484	\$351
Surplus/Deficit	Budgeted	(\$2,558)	(\$3,361)	(\$5,919)
	Year End Projected	(\$2,436)	(\$3,736)	(\$6,172)
	Variance	\$122	(\$375)	(\$253)

GENERAL FUND REVENUES

General Fund revenues for FY 2016/2017 were budgeted at \$23.1 million. As of the close of the third quarter, the City is projecting that year-end General Fund revenue will decrease slightly by \$11,000. 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 3/31/17	% of Budget	Projected Year End	Variance
Sales Tax	\$8,642	\$5,888	68%	\$8,506	(\$136)
Property Tax	\$2,824	\$1,657	59%	\$2,824	\$0
Property Tax in Lieu of VLF	\$3,076	\$1,550	50%	\$3,100	\$24
Other Taxes	\$5,028	\$3,872	77%	\$5,130	\$102
Other:					
Franchise Fees	\$1,938	\$769	40%	\$1,938	\$0
Licenses and Permits	\$632	\$462	73%	\$631	(\$1)
Charges for Services	\$454	\$383	84%	\$454	\$0
Other Revenue	\$171	\$31	18%	\$171	\$0
Transfer	\$100	\$100	100%	\$100	\$0
Use of Money and Property	\$52	\$30	58%	\$52	\$0
Fines and Forfeitures	\$56	\$59	105%	\$56	\$0
Intergovernmental	\$81	\$41	51%	\$81	\$0
Total Revenues	\$23,054	\$14,842	64%	\$23,043	(\$11)

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 to \$8.5 million based on a recent analysis by the City's sales tax consultant, HdL Coren & Cone. The reduction is primarily due to one-time adjustments made for previous sales tax allocations.

Measure K becomes operative on April 1, 2017 but City staff is expecting to receive the first payment in FY 2017/2018.

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.” Based on collections to date, 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 runs from January through March. Based on an analysis of collections through the end of March 2017, the City is projecting that \$2.5 million in business license taxes will be collected this year. This is on track with the amount originally budgeted.

The “other taxes” category also includes 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 for these taxes will be \$2.6 million, or \$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 will match 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 will match 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 is projecting to receive the budgeted amount of \$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 third quarter, the City is projecting that year-end expenditures will be \$133,000 lower than budget primarily due to lower benefit costs. 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)

Expenditure Type	Adopted Budget	Actual as of 03/31/17	% of Budget	Projected Year End	Variance
Personnel					
Salaries	\$10,822	\$8,079	75%	\$10,728	(\$94)
Benefits	\$5,711	\$3,896	68%	\$5,312	(\$399)
Benefit Buybacks and Contributions to Retiree Health Plans	\$427	\$485	114%	\$482	\$55
Public Safety PERS Side Fund Loan Debt	\$892	\$450	50%	\$892	\$0
					\$0
General Expenses	\$844	\$806	95%	\$1,195	\$351
Professional and Contract Svc	\$1,579	\$1,086	69%	\$1,549	(\$30)
Other Expenditures:					\$0
Conferences and Training	\$195	\$131	67%	\$196	\$1
Maintenance and Repairs	\$316	\$163	52%	\$317	\$1
Supplies and Materials	\$264	\$161	61%	\$270	\$6
Utilities	\$456	\$258	57%	\$459	\$3
Insurance	\$608	\$555	91%	\$608	\$0
Promotions and Contributions	\$626	\$370	59%	\$599	(\$27)
Fixed Assets	\$33	\$6	18%	\$33	\$0
Transfer	\$2,839	\$2,839	100%	\$2,839	\$0
Total Expenditures	\$25,612	\$19,285	75%	\$25,479	(\$133)

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

Department	Adopted Budget	Actual as of 03/31/17	% of Budget	Projected Year End	Variance
City Council	\$162	\$122	75%	\$162	\$0
City Manager	\$991	\$691	70%	\$920	(\$71)
City Attorney	\$492	\$386	78%	\$492	\$0
Community Relations	\$410	\$194	47%	\$365	(\$45)
City Clerk	\$157	\$101	64%	\$139	(\$18)
City Treasurer	\$11	\$9	82%	\$11	\$0
Economic Development	\$620	\$431	70%	\$640	\$20
Non Departmental	\$497	\$931	187%	\$952	\$455
Administrative Services:					\$0
Finance	\$801	\$621	78%	\$801	\$0
Computer Services	\$705	\$518	73%	\$563	(\$142)
Human Resources	\$661	\$453	69%	\$661	\$0
					\$0
Risk Management	\$606	\$562	93%	\$606	\$0
City Hall Facility	\$148	\$99	67%	\$147	(\$1)
Police	\$11,143	\$8,155	73%	\$10,942	(\$201)
Public Safety PERS Side Fund Loan Debt	\$890	\$448	50%	\$890	\$0
Engineering	\$1,049	\$839	80%	\$999	(\$50)
Street Resurfacing Transfer	\$1,500	\$1,500	100%	\$1,500	\$0
Maintenance	\$2,548	\$1,733	68%	\$2,527	(\$21)
Planning	\$1,269	\$805	63%	\$1,240	(\$29)
Building Inspection	\$847	\$582	69%	\$817	(\$30)
Transfers to AD 20 and AD 22	\$105	\$105	100%	\$105	\$0
Total Expenditures	\$25,612	\$19,285	75%	\$25,479	(\$133)

Personnel

Salary and Benefits

Salary and benefits were budgeted at \$16.5 million. Based on the third quarter analysis, personnel costs are expected to be \$493,000 lower than budgeted. Decreases are due to an unfilled Information Services Coordinator position and lower-than-budgeted health insurance costs.

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 will be \$482,000, an increase over budget of \$55,000 for the year.

Public Safety PERS Side Fund Loan Debt Payment

This category is comprised of an annual debt service payment of \$890,000 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 significant savings. This debt will be paid off in full during FY 2017/2018.

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 a \$400,000 one-time settlement payment. The City is projecting expenditures will be \$351,000 higher than budgeted.

Professional and Contract Services

This category includes \$1.6 million for contractual services such as legal counsel, auditing, videotaping, and animal control. The City is projecting expenditures will be \$30,000 lower than budgeted.

Other Expenditures

The "other expenditures" category includes the major subcategories of 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 (above the historical average of \$200,000 toward the street resurfacing program, which enables the City to marginally increase the Pavement Condition Index (PCI) rating of City streets and to also prevent an increase in the level of deferred maintenance of the streets.

This category also includes the City's ongoing annual contribution toward library facility maintenance and 43 library open hours (including Monday hours) weekly. The City is projecting that expenditures in the "other expenditures" category will match the amount budgeted of \$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 than budgeted, \$14.3 million, due to higher-than-expected revenues and lower expenditures. Based on the third quarter review, the City is now projecting a deficit of \$2.4 million for the year. The City is therefore projecting that the General Fund will end FY 2016/2017 with a fund balance of \$11.9 million, an overall improvement of \$829,000.

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

	Adopted Budget	Projected Year End	Variance
Beginning Fund Balance	\$13,603	\$14,310	\$707
Revenue	\$23,054	\$23,043	(\$11)
Expenditures	\$25,612	\$25,479	(\$133)
Surplus/Deficit	(\$2,558)	(\$2,436)	\$122
Ending Fund Balance	\$11,045	\$11,874	\$829

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 third quarter of FY 2016/2017.

NON-GENERAL FUND REVENUE

Total projected revenue for other (non-General Fund) funds, including revenue transferred between funds, is \$12.0 million, and actual revenue as of the close of the third quarter is \$7.4 million, as shown in the table below.

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

Revenue Type	Adopted Budget	Actual as of 3/31/17	% of Budget	Projected Year End	Variance
Property Tax	\$453	\$279	62%	\$453	\$0
Other – Taxes and Assessments	\$528	\$530	100%	\$528	\$0
Intergovernmental	\$6,263	\$2,024	32%	\$6,263	\$0
Charges for Services	\$3	\$12	400%	\$12	\$9
Fines and Forfeitures	\$94	\$64	68%	\$94	\$0
Use of Money and Property	\$31	\$15	48%	\$31	\$0
Other	\$372	\$202	54%	\$372	\$0
Transfer	\$4,186	\$4,286	102%	\$4,286	\$100
Total Revenues	\$11,930	\$7,412	62%	\$12,039	\$109

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 projected expenditures for other funds, including transfers between funds, are \$15.8 million and actual expenditures as of the end of the third quarter are \$7.4 million.

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

Expenditure	Adopted Budget	Actual as of 3/31/17	% of Budget	Projected Year End	Variance
Salaries and Benefits	\$525	\$427	81%	\$542	\$17
General Expenses	\$982	\$938	96%	\$982	\$0
Professional and Contract Services	\$1,360	\$539	40%	\$1,409	\$49
Maintenance and Repairs	\$483	\$480	99%	\$483	\$0
Supplies and Materials	\$263	\$108	41%	\$263	\$0
Utilities	\$620	\$333	54%	\$620	\$0
Promotions and Contributions	\$5	\$4	80%	\$5	\$0
Fixed Asset	\$576	\$339	59%	\$669	\$93
Transfer	\$1,447	\$1,546	107%	\$1,547	\$100
Capital Improvements	\$9,030	\$2,724	30%	\$9,255	\$225
Total Expenditures	\$15,291	\$7,438	49%	\$15,775	\$484

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 spending authorization 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 unaudited financial results for FY 2016/2017 will be presented in August 2017.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2016/2017 Third Quarter (January1 – March 31, 2017) Revenue and Expenditure Report.