



City of Pleasant Hill

MEMORANDUM

TO: Councilmember Timothy Flaherty, Budget Committee Chair
Councilmember Sue Noack, Budget Committee Member

FROM: Mary McCarthy, Finance Manager
Andrew Murray, Assistant City Manager

DATE: May 24, 2019

SUBJECT: Fiscal Year (FY) 2018/19 Third Quarter (January 1 – March 31, 2019) 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 for the third quarter of fiscal year (FY) 2018/19 (January 1 – March 31, 2019) can be found below.

SUMMARY

The City is expecting to end FY 2018/19 with General Fund revenues (excluding the Measure K transactions and use tax) that are \$34,000 lower than the revised budget. In addition, expenditures are projected to be \$17,000 higher. The revised biennial budget anticipated a General Fund balance of \$9.5 million at the end of FY 2018/19. Due to a larger-than-expected beginning fund balance, staff is projecting that the General Fund will end FY 2018/19 with a fund balance of \$10.7 million, even when accounting for slightly lower-than-budgeted revenues and the impact of additional mid-year appropriations approved by City Council in March 2019.

GENERAL FUND REVENUES

General Fund revenues for FY 2018/19 were budgeted at \$25.1 million. Table 1 summarizes revised budget and projected revenues by category.

Table 1 - FY 2018/19 General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2018/19	Actuals as of 3/31/2019	% of Projected Results	Projected Year End	Variance
Sales Tax	\$9,107	\$6,005	66%	\$8,758	(\$349)
Property Tax	\$3,126	\$1,788	57%	\$3,164	\$38
Property Tax in Lieu of VLF	\$3,418	\$1,714	50%	\$3,418	\$0
Other Taxes	\$5,620	\$4,231	75%	\$5,701	\$81
Other:					
Franchise Fees	\$2,026	\$940	46%	\$2,026	\$0
Licenses and Permits	\$726	\$743	102%	\$899	\$173
Charges for Services	\$507	\$417	82%	\$507	\$0
Other Revenue	\$238	\$164	69%	\$238	\$0
Transfer	\$100	\$100	0%	\$100	\$0
Use of Money and Property	\$71	\$64	90%	\$94	\$23
Fines and Forfeitures	\$57	\$30	53%	\$57	\$0
Intergovernmental	\$70	\$41	59%	\$70	\$0
Total Revenues	\$25,066	\$16,237	65%	\$25,032	(\$34)

Sales Tax

Sales tax revenues were budgeted to be \$9.1 million in FY 2018/19. Based on recent analysis by the City's sales tax consultant HdL Coren & Cone, revenues are now projected to be \$8.8 million for the year. The reduction in sales tax is primarily due to the delay in the development of Diablo Vista Plaza Shopping Center and the closure of a Pleasant Hill operation of Pacific States Petroleum.

Property Tax

Property tax revenues were budgeted to be \$3.1 million and, based on collections to date, the City is on track to realize 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 is anticipating that the budgeted amount of \$3.4 million will in fact be collected for the year.

Other Taxes

The City collects a business license tax and a number of other taxes that supplement sales and property tax. The "other taxes" category also includes smaller taxes such as the hotel transient occupancy tax (TOT), property transfer tax, and utility user tax. Based on an analysis of collections through May 2019, the City is projecting that actual year-end revenue will be \$81,000 greater than what was budgeted due to higher-than-anticipated business license revenue. Note that the revised budget reflects a \$200,000 reduction in transient occupancy tax due to the delayed opening of the Hilton Homewood Suites hotel.

Other Revenue

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

Franchise Fees

Franchise fees are payments made 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 for \$2.0 million in FY 2018/19. The City is projecting that revenues will be on track with budget.

Licenses and Permits

The revenue in this category is due to permits and fees, which were budgeted at \$726,000. This category includes building, electrical, plumbing, and energy permits, primarily generated from construction-related activity. The City is projecting that licenses and permits revenue will be \$899,000, an increase of \$173,000 over budget, due to the high number of projects underway this 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 \$1.0 million for FY 2018/19 and is on track to collect this amount.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2018/19 were budgeted at \$25.4 million. The following two tables summarize General Fund expenditures by category and department and include the impact of additional appropriations approved by City Council in March 2019.

Table 2 - FY 2018/19 General Fund Expenditure Summary, By Category (in \$1,000s)

Expenditure Type	Revised Budget FY 2018/19	Actuals as of 3/31/2019	% of Projected Results	Projected Year End	Variance
Personnel					
Salaries	\$11,576	\$8,992	78%	\$11,576	\$0
Benefits	\$6,335	\$4,774	75%	\$6,335	\$0
Benefit Buybacks and Contributions to Retiree Health Plans	\$320	\$231	72%	\$320	\$0
General Expenses	\$880	\$493	56%	\$890	\$10
Professional and Contract Svc	\$1,843	\$1,121	61%	\$1,843	\$0
Other Expenditures:					
Conferences and Training	\$211	\$150	71%	\$215	\$4
Maintenance and Repairs	\$442	\$211	48%	\$442	\$0
Supplies and Materials	\$334	\$232	69%	\$337	\$3
Utilities	\$431	\$245	57%	\$431	\$0
Insurance	\$840	\$692	82%	\$840	\$0
Promotions and Contributions	\$428	\$239	56%	\$428	\$0
Fixed Assets	\$40	\$28	70%	\$40	\$0
Transfer	\$1,743	\$1,743	100%	\$1,743	\$0
Total Expenditures	\$25,423	\$19,151	75%	\$25,440	\$17

Table 3 - FY 2018/19 General Fund Expenditure Summary, By Department (in \$1,000s)

Department	Revised Budget FY 2018/19	Actuals as of 3/31/2019	% of Projected Results	Projected Year End	Variance
City Council	\$176	\$117	66%	\$176	\$0
City Manager	\$1,027	\$683	67%	\$1,030	\$3
City Attorney	\$505	\$301	60%	\$505	\$0
Community Relations	\$391	\$235	60%	\$390	(\$1)
City Clerk	\$152	\$88	58%	\$152	\$0
City Treasurer	\$11	\$8	73%	\$11	\$0
Economic Development	\$469	\$256	55%	\$469	\$0
Non Departmental	\$2,029	\$1,948	96%	\$2,029	\$0
Administrative Services:					\$0
Finance	\$810	\$539	67%	\$810	\$0
Computer Services	\$829	\$644	78%	\$829	\$0
Human Resources	\$719	\$470	65%	\$734	\$15
Risk Management	\$837	\$690	82%	\$837	\$0
City Hall Facility	\$141	\$116	82%	\$141	\$0
Police	\$11,051	\$8,450	76%	\$11,051	\$0
Engineering	\$1,142	\$913	80%	\$1,142	\$0
Street Resurfacing Transfer	\$200	\$200	100%	\$200	\$0
Maintenance	\$2,653	\$1,702	64%	\$2,653	\$0
Planning	\$1,061	\$791	75%	\$1,061	\$0
Building Inspection	\$896	\$676	75%	\$896	\$0
Transfers to Vehicle Fund	\$216	\$216	100%	\$216	\$0
Transfers to AD 20 and AD 22	\$108	\$108	100%	\$108	\$0
Total Expenditures	\$25,423	\$19,151	75%	\$25,440	\$17

Personnel*Salaries and Benefits*

Salaries and benefits were budgeted at \$17.9 million for FY 2018/19, and actual expenditures are projected to match this amount.

Buybacks and Contributions to Retiree Health Savings Plan

This category includes sick leave and vacation buybacks for retiring employees. Depending upon an employee's bargaining unit, this benefit provides limited reimbursement of medical premiums or a contribution to a retirement health savings plan based on an employee's unused sick leave and vacation leave balances when they retire. Several conditions must be met in order to qualify for this

benefit. The timing of these payments is not cyclical. Expenditures are projected to be on track with the budgeted amount at \$320,000.

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. Expenditures are projected to be slightly higher (\$10,000) than the amount budgeted.

Professional and Contract Services

This category includes contractual services such as legal counsel, auditing, videotaping, and animal control. Projected expenditures for FY 2018/19 are on track with the amount budgeted at \$1.8 million.

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 also includes the City's ongoing annual contribution toward library facility maintenance and 43 library open hours (including Monday hours) weekly. Expenditures were budgeted to be \$4.5 million, and actual expenditures are expected to be slightly higher by \$7,000.

General Fund Balance

The City actually started FY 2018/19 with a General Fund balance that was \$1.3 million higher than what was included in the FY 2018/19 - 2019/20 Biennial Budget. Based on the third quarter review, the City is now projecting that the General Fund will end FY 2018/19 with a fund balance of \$10.7 million. The projected \$1.3 million increase in the ending fund balance aligns with the higher-than-expected beginning fund balance. Note that per the updated General Fund Reserve Policy adopted by the City Council in January 2019, \$10.0 million of the General Fund budget is reserved for working capital and budget stabilization.

Table 4 - FY 2018/19 General Fund Ending Balance, Excluding Measure K (in \$1,000s)

	Revised Budget	Projected Year End	Variance
Beginning Fund Balance	\$9,809	\$11,121	\$1,312
Revenue	\$25,066	\$25,032	(\$34)
Expenditures	\$25,423	\$25,440	\$17
Surplus/Deficit	(\$357)	(\$408)	(\$51)
Ending Fund Balance	\$9,452	\$10,713	\$1,261

MEASURE K AND LIBRARY CONSTRUCTION FUND REVENUES

Measure K revenues for FY 2018/19 were budgeted at \$4.4 million. Table 5 summarizes revised budget and projected revenue by category.

Table 5 - FY 2018/19 Measure K Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2018/19	Actuals as of 3/31/2019	% of Projected Results	Projected Year End	Variance
Measure K & Library Construction Fund					
Transactions and Use Tax	\$4,192	\$2,673	64%	\$4,192	\$0
Interest Income	\$236	\$28	12%	\$60	(\$176)
Bond Proceeds (Library Project)	\$0	\$0	0%	\$0	\$0
Total Revenue	\$4,428	\$2,701	61%	\$4,252	(\$176)

Measure K Transactions and Use Tax

Measure K transactions and use taxes were budgeted at \$4.2 million for FY 2018/19, and based on recent analysis by the City's sales tax consultant, HdL Coren & Cone, revenues are on track with the amount budgeted.

Interest Income

Measure K bond proceeds for the library were originally budgeted at \$22.3 million for FY 2018/19. Since the issuance of bonds for the construction of the library facility will not occur during this fiscal year, projected interest income was revised downward to \$60,000. City staff continues to work closely with PFM, the City's financial advisors, regarding the issuance of bonds.

MEASURE K AND LIBRARY CONSTRUCTION FUNDS EXPENDITURES

Measure K expenditures for FY 2018/19 were budgeted at \$7.7 million. Table 6 summarizes the revised Measure K expenditures and projected expenditures by category.

Table 6 - FY 2018/19 Measure K Expenditure Summary (in \$1,000s)

Expenditure Type	Revised Budget FY 2018/19	Actuals as of 3/31/2019	% of Projected Results	Projected Year End	Variance
Measure K & Library Construction Fund					
General Expenses	\$1	\$0	0%	\$1	\$0
Measure K Library Project	\$3,418	\$1,679	49%	\$3,418	\$0
Measure K Transfers to other funds:					
Gas Tax Fund-Street Resurfacing	\$3,098	\$3,098	100%	\$3,098	\$0
Gas Tax Fund-Pedestrian & Bike	\$156	\$156	100%	\$156	\$0
Gas Tax Fund-Oak Park Monticello	\$365	\$365	100%	\$365	\$0
NPDES Fund-Storm Drain	\$676	\$676	100%	\$676	\$0
Total Expenditures	\$7,714	\$5,974	77%	\$7,714	\$0

Measure K Related Projects and Transfers

FY 2018/19 Measure K and Library Construction Funds expenditures were budgeted at \$7.7 million. Capital projects and related expenditures to be funded by Measure K were approved by the City Council through the 2018-2023 Five Year Capital Improvement Plan (CIP) and FY 2018/19 FY 2019/20 Biennial Budget.

Measure K and Library Construction Fund Balance

The FY 2018/19 and 2019/20 Biennial Budget projected an ending fund balance of \$22.6 million for the Measure K and Library Construction Funds. Due to the shifting of the bond finance timing, the City is now projecting that the fund will end FY 2018/19 with a fund balance of \$776,000.

**Table 7 - FY 2018/19 Measure K and Library Construction Funds Ending Balance
(in \$1,000s)**

	Revised Budget	Projected Year End	Variance
Beginning Fund Balance	\$3,812	\$4,238	\$426
Revenue	\$4,428	\$4,252	(\$176)
Expenditures	\$7,714	\$7,714	\$0
Surplus/Deficit	(\$3,286)	(\$3,462)	(\$176)
Ending Fund Balance	\$526	\$776	\$250

OTHER CITY FUNDS (NON-GENERAL FUND)

In addition to the General Fund and Measure K and Library Construction Funds, the City has other funds that can only be used for specific purposes, such as capital improvements, debt service, or a particular program. The following provides an update on these funds for FY 2018/19.

NON-GENERAL FUND REVENUE

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, are \$13.8 million.

Table 8 - FY 2018/19 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2018/19	Actuals as of 3/31/2019	% of Projected Results	Projected Year End	Variance
Property Tax	\$534	\$302	57%	\$534	\$0
Other – Taxes and Assessments	\$813	\$242	30%	\$813	\$0
Intergovernmental	\$5,407	\$662	12%	\$5,407	\$0
Charges for Services	\$264	\$172	65%	\$264	\$0
Fines and Forfeitures	\$84	\$25	30%	\$84	\$0
Use of Money and Property	\$98	\$102	104%	\$98	\$0
Other	\$44	\$26	59%	\$44	\$0
Transfer	\$6,538	\$6,526	100%	\$6,538	\$0
Total Revenues	\$13,782	\$8,057	58%	\$13,782	\$0

The largest categories of non-General Fund revenues are the transfer and intergovernmental categories. The majority of revenue in the intergovernmental category is grants for capital projects. These revenues are paid on a reimbursement basis, so the City receives the revenues once the capital work has been completed.

NON-GENERAL FUND EXPENDITURES

The total budgeted expenditures for other funds, including transfers between funds, are \$13.6 million.

Table 9 - FY 2018/19 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Revised Budget FY 2018/19	Actuals as of 3/31/2019	% of Projected Results	Projected Year End	Variance
Salaries and Benefits	\$623	\$218	35%	\$623	\$0
General Expenses	\$134	\$79	59%	\$349	\$0
Professional and Contract Services	\$1,259	\$163	13%	\$1,259	\$0
Maintenance and Repairs	\$547	\$258	47%	\$547	\$0
Supplies and Materials	\$179	\$49	27%	\$179	\$0
Utilities	\$828	\$305	37%	\$828	\$0
Promotions and Contributions	\$6	\$2	33%	\$6	\$0
Fixed Asset	\$1,262	\$157	12%	\$1,262	\$0
Transfer	\$600	\$600	100%	\$600	\$0
Capital Improvements	\$8,175	\$826	10%	\$8,175	\$0
Total Expenditures	\$13,613	\$2,657	20%	\$13,613	\$0

The largest non-General Fund expenditure category is capital improvements, which primarily consist of large transportation-related capital projects that are grant-funded. The variance between actual and budgeted expenditures is primarily due to the timing of these projects. Descriptions of the projects for FY 2018/19 can be found in the City's 2018-2013 Capital Improvement Plan.

NEXT UPDATE

The FY 2018/19 Fourth Quarter Revenue and Expenditure Report is expected to be published in August 2019.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2018/19 Third Quarter (January 1 – March 31, 2019) Revenue and Expenditure Report.