



City of Pleasant Hill

MEMORANDUM

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

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

DATE: November 13, 2018

SUBJECT: Fiscal Year (FY) 2017/18 Fourth Quarter (April 1 – June 30, 2018) 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 fourth quarter of fiscal year (FY) 2017/18 (April 1 – June 30, 2018) can be found below.

SUMMARY

Table 1 below summarizes the budgeted and unaudited actual revenues and expenditures for the General Fund, Measure K Fund, and Other City Funds (non-General Fund). Although FY 2017/18 General Fund revenues were \$339,000 lower than budgeted, expenditures were \$1.2 million lower than budgeted. This results in the General Fund year-end deficit declining from the \$2.3 million budgeted to \$1.5 million actual. (Recall that the FY 2017/18 budget intentionally included a deficit because the City elected to spend excess fund balance on road improvements.)

Measure K revenues were on track with the budgeted amount at \$4.1 million, and expenditures were lower than budget by \$3.5 million due to the timing of Measure K capital projects. Revenues for Other City Funds were \$3.3 million higher and expenditures were \$3.3 million lower than the

amounts budgeted, due to the timing of capital improvement project grant reimbursements and expenditures.

The unaudited actual General Fund year-end balance for FY 2017/18 (June 30, 2018) was \$11.1 million, \$820,000 greater than the \$10.3 million anticipated in the FY 2017/18 budget and \$1.3 million greater than the \$9.8 million anticipated as the beginning fund balance in the FY 2018/19 budget.

Table 1 - FY 2017/18 Revenue and Expenditure Summary (in \$1,000s)

		General Fund	Measure K	Total	Other City Funds	Total
Revenue	Budgeted	\$24,339	\$4,100	\$28,439	\$9,596	\$38,035
	Year End Actual	\$24,000	\$4,080	\$28,080	\$12,922	\$41,002
	Variance	(\$339)	(\$20)	(\$359)	\$3,326	\$2,967
Expenditures	Budgeted	\$26,677	\$4,100	\$30,777	\$12,708	\$43,485
	Year End Actual	\$25,518	\$590	\$26,108	\$9,430	\$35,538
	Variance	(\$1,159)	(\$3,510)	(\$4,669)	(\$3,278)	(\$7,947)
Surplus/Deficit	Budgeted	(\$2,338)	\$0	(\$2,338)	(\$3,112)	(\$5,450)
	Year End Actual	(\$1,518)	\$3,490	\$1,972	\$3,492	\$5,464
	Variance	\$820	\$3,490	\$4,310	\$6,604	\$10,914

GENERAL FUND REVENUES

General Fund revenues for FY 2017/18 were budgeted at \$24.3 million. Actual General Fund revenues were \$24.0 million, a decrease of \$339,000. Table 2 summarizes revenues by category.

Table 2 - FY 2017/18 General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2017/18	Unaudited Results FY 2017/18	% of Projected Results	Variance
Sales Tax	\$8,770	\$8,547	97%	(\$223)
Property Tax	\$3,011	\$3,184	106%	\$173
Property Tax in Lieu of VLF	\$3,213	\$3,264	102%	\$51
Other Taxes	\$5,668	\$5,233	92%	(\$435)
Other:				
Franchise Fees	\$1,987	\$2,002	101%	\$15
Licenses and Permits	\$648	\$937	145%	\$289
Charges for Services	\$465	\$621	134%	\$156
Other Revenue	\$176	\$84	48%	(\$92)
Transfer	\$208	\$5	0%	(\$203)
Use of Money and Property	\$53	\$31	58%	(\$22)
Fines and Forfeitures	\$57	\$44	77%	(\$13)
Intergovernmental	\$83	\$48	58%	(\$35)
Total Revenues	\$24,339	\$24,000	99%	(\$339)

Sales Tax

Sales tax revenues were budgeted to be \$8.8 million in FY 2017/18. Actual sales tax revenues were \$8.6 million, a slight decline of \$223,000. The reduction in sales tax was primarily due to two national brand retail business closures and the resulting temporary vacancies.

Property Tax

Property tax revenues were budgeted to be \$3.0 million, and actual year-end revenues were \$3.1 million, exceeding budget by \$173,000. The increase was due to the recapture of Proposition 8 valuation reductions and higher assessed valuations on residential properties that changed ownership during the year.

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 \$3.2 million and received \$3.3 million 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 transient occupancy (hotel) tax (TOT), property transfer tax, and utility user tax. The year-end revenue for these taxes was \$5.2 million, or \$435,000 less than was budgeted. When the budget was developed, it was anticipated that Homewood Suites hotel would be open and operational and that transient occupancy tax would be collected during the entire fiscal year.

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. Actual franchise fee revenues were \$2.0 million, which was 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 \$648,000. This category includes building, electrical, plumbing, and energy permits, primarily generated from construction-related activity. The City collected \$937,000, an increase of \$289,000. The increase in permit revenue was largely due to the high number of projects underway this year including two large residential developments and several commercial projects.

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 2017/18 and actual revenues were \$833,000, a decline of \$209,000. Higher-than-budgeted General Plan update fees and engineering fees were offset by reduced transfers from other City funds.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2017/18 were budgeted at \$26.7 million. Actual expenditures for FY 2017/18 were \$25.5 million, a decrease of \$1.2 million. The following two tables summarize General Fund expenditures by category and department.

Table 3 - FY 2017/18 General Fund Expenditure Summary, By Category (in \$1,000s)

Expenditure Type	Revised Budget FY 2017/18	Unaudited Results FY 2017/18	% of Projected Results	Variance
Personnel				
Salaries	\$11,475	\$11,172	97%	(\$303)
Benefits	\$5,697	\$5,861	103%	\$164
Benefit Buybacks and Contributions to Retiree Health Plans	\$423	\$223	53%	(\$200)
Public Safety Side Fund Loan	\$893	\$890	100%	(\$3)
General Expenses	\$738	\$431	58%	(\$307)
Professional and Contract Svc	\$1,913	\$1,620	85%	(\$293)
Other Expenditures:				
Conferences and Training	\$211	\$172	82%	(\$39)
Maintenance and Repairs	\$454	\$307	68%	(\$147)
Supplies and Materials	\$271	\$205	76%	(\$66)
Utilities	\$468	\$343	73%	(\$125)
Insurance	\$623	\$674	108%	\$51
Promotions and Contributions	\$617	\$454	74%	(\$163)
Fixed Assets	\$34	\$0	0%	(\$34)
Transfer	\$2,860	\$3,166	111%	\$306
Total Expenditures	\$26,677	\$25,518	96%	(\$1,159)

Table 4 - FY 2017/18 General Fund Expenditure Summary, By Department (in \$1,000s)

Department	Revised Budget FY 2017/18	Unaudited Results FY 2017/18	% of Projected Results	Variance
City Council	\$161	\$152	94%	(\$9)
City Manager	\$952	\$864	91%	(\$88)
City Attorney	\$506	\$454	90%	(\$52)
Community Relations	\$415	\$368	89%	(\$47)
City Clerk	\$111	\$87	78%	(\$24)
City Treasurer	\$11	\$11	100%	\$0
Economic Development	\$592	\$385	65%	(\$207)
Non Departmental	\$496	\$311	63%	(\$185)
CalPERS Unfunded Liability	\$1,802	\$1,809	100%	\$7
Administrative Services:				
Finance	\$776	\$796	103%	\$20
Computer Services	\$680	\$511	75%	(\$169)
Human Resources	\$674	\$642	95%	(\$32)
Risk Management	\$621	\$673	108%	\$52
City Hall Facility	\$150	\$127	85%	(\$23)
Police	\$10,491	\$10,258	98%	(\$233)
Public Safety PERS Side Fund Debt	\$890	\$890	100%	\$0
Engineering	\$1,098	\$1,113	101%	\$15
Street Resurfacing Transfer	\$1,500	\$1,500	100%	\$0
Maintenance	\$2,649	\$2,414	91%	(\$235)
Planning	\$1,135	\$1,319	116%	\$184
Building Inspection	\$863	\$730	85%	(\$133)
Transfers to AD 20 and AD 22	\$104	\$104	100%	\$0
Total Expenditures	\$26,677	\$25,518	96%	(\$1,159)

PersonnelSalaries and Benefits

Salaries and benefits were budgeted at \$17.2 million and actual personnel costs were \$17 million, a slight decline of \$139,000.

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. Actual expenditures for FY 2017/18 were \$200,000 lower than budgeted.

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 was paid off in full during FY 2017/18.

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. Actual expenditures were \$307,000 lower than budgeted, due to moderate savings across multiple expenditure categories.

Professional and Contract Services

This category includes contractual services such as legal counsel, auditing, videotaping, and animal control. Expenditures for FY 2017/18 were \$1.9 million, \$293,000 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. Expenditures were budgeted to be \$5.5 million, and actual expenditures were \$5.3 million, a slight decline of \$217,000.

General Fund Balance

Based on unaudited actual results for FY 2017/18, the General Fund had a deficit of \$1.5 million. The deficit was primarily due to the intentional investment of a portion of the General Fund's high fund balance in priority projects such as street resurfacing. As mentioned above, an additional contribution of \$1.3 million (above the historical average of \$200,000) was made toward the street resurfacing program in FY 2017/18. The FY 2017/18 ending General Fund balance, excluding Measure K, was \$11.1 million. Note that the General Fund balance is composed of cash (\$11.9 million) as well as receivables (\$1.7 million) less payables (\$2.5 million) as of June 30, 2018.

Table 5 - FY 2017/18 General Fund Ending Balance, Excluding Measure K (in \$1,000s)

	Revised Budget	Year End	Variance
Beginning Fund Balance*	\$12,597	\$12,597	\$0
Revenue	\$24,339	\$24,000	(\$339)
Expenditures	\$26,677	\$25,518	(\$1,159)
Surplus/Deficit	(\$2,338)	(\$1,518)	\$820
Ending Fund Balance	\$10,259	\$11,079	\$820

* The revised budget beginning General Fund balance was restated to reflect the actual General Fund balance of \$12.6 million as of July 1, 2018.

MEASURE K REVENUES

Measure K revenues for FY 2017/18 were budgeted at \$4.1 million and actual revenues were on track with budget. Table 6 summarizes revenue by category.

Table 6 - FY 2017/18 Measure K Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2017/18	Unaudited Results FY 2017/18	% of Projected Results	Variance
Measure K Transactions and Use Tax	\$4,100	\$4,080	100%	(\$20)

Measure K Transactions and Use Tax

Measure K transactions and use tax became effective on April 1, 2017 and was budgeted to be \$4.1 million for FY 2017/18. Actual Measure K transactions and use tax revenues were on track with budget at \$4.1 million.

MEASURE K EXPENDITURES

Measure K expenditures for FY 2017/18 were budgeted at \$4.1 million. Actual expenditures for FY 2017/18 were \$590,000, a decrease of \$3.5 million. The variance is due to the timing of Measure K capital projects. The following table summarize Measure K expenditures.

Table 7 - FY 2017/18 Measure K Expenditure Summary (in \$1,000s)

Expenditure Type	Revised Budget FY 2017/18	Unaudited Results FY 2017/18	% of Projected Results	Variance
Measure K Related Projects	\$4,100	\$590	14%	(\$3,510)

Measure K Related Projects

FY 2017/18 Measure K expenditures were budgeted at \$4.1 million and actual expenditures were \$590,000. The City has only committed to two obligations that represent a fraction of the amount budgeted this fiscal year: (1) the contract for architectural services for the new library; and (2) the contract for project/construction management services for the new library. Additional 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 Fund Balance

Based on unaudited actual results for FY 2017/18, the Measure K Fund had a surplus of \$3.5 million because capital projects to be funded by Measure K had just commenced during the fiscal year. The FY 2017/18 ending Measure K Fund balance was \$4.2 million.

Table 8 - FY 2017/18 Measure K Fund Ending Balance (in \$1,000s)

	Revised Budget	Projected Year End	Variance
Beginning Fund Balance	\$759	\$759	\$0
Revenue	\$4,100	\$4,080	(\$20)
Expenditures	\$4,100	\$590	(\$3,510)
Surplus/Deficit	\$0	\$3,490	\$3,490
Ending Fund Balance	\$759	\$4,249	\$3,490

OTHER CITY FUNDS (NON-GENERAL FUND)

In addition to the General Fund and Measure K Fund, 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 2017/18.

NON-GENERAL FUND REVENUE

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, were \$9.6 million, and actual revenues were \$12.9 million, 135% of budget.

Table 9 - FY 2017/18 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2017/18	Unaudited Results FY 2017/18	% of Budget	Variance
Property Tax	\$473	\$539	114%	\$66
Other – Taxes and Assessments	\$468	\$484	103%	\$16
Intergovernmental	\$4,421	\$7,184	162%	\$2,763
Charges for Services	\$106	\$49	46%	(\$57)
Fines and Forfeitures	\$97	\$77	79%	(\$20)
Use of Money and Property	\$24	\$49	204%	\$25
Other	\$408	\$634	155%	\$226
Transfer	\$3,599	\$3,907	109%	\$308
Total Revenues	\$9,596	\$12,923	135%	\$3,327

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 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, were \$12.7 million and actual expenditures were \$9.4 million, 74% of budget.

Table 10 - FY 2017/18 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Revised Budget FY 2017/18	Unaudited Results FY 2017/18	% of Budget	Variance
Salaries and Benefits	\$547	\$528	97%	(\$19)
General Expenses	\$133	\$112	84%	(\$21)
Professional and Contract Services	\$1,267	\$719	57%	(\$548)
Maintenance and Repairs	\$485	\$422	87%	(\$63)
Supplies and Materials	\$258	\$79	31%	(\$179)
Utilities	\$602	\$503	84%	(\$99)
Promotions and Contributions	\$5	\$6	120%	\$1
Fixed Asset	\$613	\$452	74%	(\$161)
Transfer	\$947	\$745	79%	(\$202)
Capital Improvements	\$7,851	\$5,864	75%	(\$1,987)
Total Expenditures	\$12,708	\$9,430	74%	(\$3,278)

The largest non-General Fund expenditure category is capital improvements, which are primarily comprised 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 2017/18 can be found in the City's FY 2016/17-2021/22 Capital Improvement Plan.

NEXT UPDATE

The audited financial results for FY 2017/18 will be presented to the Budget Committee in December 2018 as part of the Comprehensive Annual Financial Report (CAFR).

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2017/18 Fourth Quarter (April 1 – June 30, 2018) Revenue and Expenditure Report.