



City of Pleasant Hill

MEMORANDUM

TO: City Council

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

DATE: December 19, 2014

SUBJECT: Fiscal Year (FY) 2014/2015 First Quarter (July 1 – September 30, 2014) Revenue and Expenditure Report

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 make expenditures.

As one of many activities that the City undertakes to help ensure the City's financial soundness, staff provides quarterly update reports to the City Council and other stakeholders regarding the City's financial condition. Below find a summary of the City's financial results (unaudited) for the first quarter of fiscal year (FY) 2014/2015 (July 1 – September 30, 2014).

SUMMARY

The table below 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 2014/2015 with General Fund revenues that are \$256,000 better than budgeted and expenditures equal to those budgeted. This would reduce the year-end General Fund deficit from the \$2.2 million budgeted to \$1.9 million.

Table 1 - FY 2014/2015 Revenue and Expenditure Summary (in \$1,000s)

		General Fund	Other City Funds	Total
Revenue	Budgeted	\$20,584	\$19,015	\$39,599
	Year End Projected	\$20,840	\$19,015	\$39,855
	Variance	\$256	\$0	\$256
Expenditures	Budgeted	\$22,766	\$18,789	\$41,555
	Year End Projected	\$22,766	\$18,789	\$41,555
	Variance	\$0	\$0	\$0
Surplus/Deficit	Budgeted	(\$2,182)	\$226	(\$1,956)
	Year End Projected	(\$1,926)	\$226	(\$1,700)
	Variance	\$256	\$0	\$256

Whereas the adopted biennial budget anticipated a General Fund balance of \$11.4 million at the end of FY 2014/2015, due to a larger than expected beginning fund balance and the lower projected deficit for FY 2014/2015, the City is now projecting that the General Fund will end FY 2014/2015 with a fund balance of \$12.1 million.

GENERAL FUND REVENUES

General Fund revenues for FY 2014/2015 were budgeted at \$20.6 million. As of the close of the first quarter, the City is projecting that year-end General Fund revenue will equal \$20.8 million, exceeding budget by \$256,000 (1.2%). The following table summarizes General Fund revenue by category.

Table 2 - FY 2014/2015 General Fund Revenue Summary (in \$1,000s)

Revenue Type	Adopted Budget	Actual as of 9/30/14	% of Budget	Projected Year End	Variance
Sales Tax	\$7,750	\$1,062	14%	\$7,750	\$0
Property Tax	\$2,394	\$0	0%	\$2,538	\$144
Property Tax in Lieu of VLF	\$2,651	\$0	0%	\$2,763	\$112
Other Taxes	\$4,447	\$167	4%	\$4,447	\$0
Other:					
Franchise Fees	\$1,789	\$0	0%	\$1,789	\$0
Licenses and Permits	\$585	\$143	24%	\$585	\$0
Transfer	\$100	\$0	0%	\$100	\$0
Charges for Services	\$596	\$109	18%	\$596	\$0
Other Revenue	\$122	\$4	4%	\$122	\$0
Use of Money and Property	\$60	\$6	10%	\$60	\$0
Fines and Forfeitures	\$56	\$11	20%	\$56	\$0
Intergovernmental	\$34	\$13	38%	\$34	\$0
Total Revenues	\$20,584	\$1,515	7%	\$20,840	\$256

Sales Tax

Sales tax revenues were budgeted to be \$7.8 million in FY 2014/2015. The City is projecting that year-end sales tax revenues will be on budget.

Property Tax

The City budgeted \$2.4 million in property tax revenue for FY 2014/2015. Based on recent analysis from property tax consultant HdL Coren & Cone, the City is projecting that property tax revenues will be \$2.5 million, exceeding budget by \$144,000 (6%). The increase in property tax revenue is primarily related to higher assessed valuation on residential properties that have changed ownership and the recapture of Proposition 8 valuation reductions.

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 then 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 \$2.7 million for this revenue in FY 2014/2015 and, based on recent projections from property tax consultant HdL Coren & Cone, the City is

projecting that year-end revenue will be \$2.8 million, exceeding budget by \$112,000 (4.2%). This increase is also due to the growth in assessed property valuations.

Other Taxes

The City collects a business license tax and a number of other smaller taxes that supplement sales and property tax. The primary source of revenue in this category is business license taxes. The City processed over 3,600 business license renewals this past year. The majority of revenue is collected during the business license tax renewal period, which commences in January. The City is projecting that actual revenue for business license tax will be on track with the \$2.3 million budgeted.

This category also includes other smaller taxes such as transient occupancy (hotel) tax (TOT), property transfer tax, and utility user tax. The City is projecting that the year-end revenue will be on track with budget at \$2.1 million.

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 \$1.8 million in FY 2014/2015. The City is projecting that franchise fee revenue will remain unchanged from budget at \$1.8 million.

Licenses and Permits

The revenue in this category is due to permits and fees, which were budgeted at \$585,000. This category includes building, electrical, plumbing, and energy permits, primarily generated from construction-related activity. The City is projecting that revenue will be on track with budget at \$585,000.

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

This category includes numerous miscellaneous "other" revenues. The major sub-categories include fines and forfeitures; charges for services; interest revenue; Police Officer Standards and Training (POST) reimbursements from the State; and transfers from other funds. The City budgeted \$968,000 for FY 2014/2015 and is projecting that revenues will be on budget.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2014/2015 were budgeted at \$22.8 million. As of the close of the first quarter, the City is projecting that year-end General Fund expenditures will be on track with budget. The following two tables summarize General Fund expenditures by category and department. Please note that the “non-departmental” expenditure category reported in previous quarterly revenue and expenditure reports has been eliminated. The expenditures previously reported in this category, such as reimbursement of retiree medical premiums from their “sick leave bank” and buyback of accrued sick leave from employees, have been assigned to more appropriate expenditure categories, such as benefits.

Table 3 - FY 2014/2015 General Fund Expenditure Summary, By Category (in \$1,000s)

Expenditure Type	Adopted Budget	Actual as of 9/30/14	% of Budget	Projected Year End	Variance
Personnel:					
Salaries	\$9,859	\$2,322	24%	\$9,859	\$0
Benefits	\$4,603	\$1,066	23%	\$4,603	\$0
Benefit Buybacks and Contributions to Retiree Health Plans	\$591	\$31	5%	\$591	\$0
Public Safety PERS Side Fund Loan Debt	\$890	\$226	25%	\$890	
General Expenses	\$1,224	\$191	16%	\$1,224	\$0
Professional and Contract Svc	\$1,213	\$254	21%	\$1,213	\$0
Other Expenditures:					
Conferences and Training	\$112	\$17	15%	\$112	\$0
Maintenance and Repairs	\$298	\$55	18%	\$298	\$0
Supplies and Materials	\$255	\$48	19%	\$255	\$0
Utilities	\$442	\$104	23%	\$442	\$0
Insurance	\$435	\$373	86%	\$435	\$0
Promotions and Contributions	\$420	\$23	5%	\$420	\$0
Fixed Assets	\$32	\$0	0%	\$32	\$0
Debt Service	\$781	\$0	0%	\$781	\$0
Transfer	\$1,611	\$0	0%	\$1,611	\$0
Total Expenditures	\$22,766	\$4,710	21%	\$22,766	\$0

Table 4 - FY 2014/2015 General Fund Expenditure Summary, By Department (in \$1,000s)

Department	Adopted Budget	Actual as of 9/30/14	% of Budget	Projected Year End	Variance
City Council	\$152	\$39	26%	\$152	\$0
City Manager	\$1,077	\$224	21%	\$1,077	\$0
City Attorney	\$435	\$62	14%	\$435	\$0
Community Relations	\$401	\$26	6%	\$401	\$0
City Clerk	\$136	\$16	12%	\$136	\$0
City Treasurer	\$9	\$3	33%	\$9	\$0
Economic Development	\$824	\$80	10%	\$824	\$0
Administrative Services:					
Finance	\$956	\$232	24%	\$956	\$0
Computer Services	\$236	\$4	2%	\$236	\$0
Human Resources	\$516	\$160	31%	\$516	\$0
Risk Management	\$433	\$372	86%	\$433	\$0
City Hall Facility	\$160	\$32	20%	\$160	\$0
Police	\$10,213	\$2,216	22%	\$10,213	\$0
Public Safety PERS Side Fund Loan Debt	\$890	\$226	25%	\$890	\$0
Engineering	\$793	\$170	21%	\$793	\$0
Street Resurfacing Transfer	\$700	\$0	0%	\$700	\$0
Maintenance	\$2,367	\$523	22%	\$2,367	\$0
Planning	\$970	\$203	21%	\$970	\$0
Building Inspection	\$616	\$122	20%	\$616	\$0
Lease Revenue Refunding Bonds Debt Payment	\$781	\$0	0%	\$781	\$0
Transfers to AD 20 and AD 22	\$101	\$0	0%	\$101	\$0
Total Expenditures	\$22,766	\$4,710	21%	\$22,766	\$0

PersonnelSalary and Benefits

Salary and benefits were budgeted at \$14.5 million and, based on the first quarter results, are projected to remain on track with budget. Note that employee labor negotiations are currently underway. The budgetary impact of any new agreements will be reflected in future quarterly reports.

Benefit Buybacks and Contributions to Retiree Health Savings Plan

As noted above, these expenditures were reported under the non-departmental expenditure category in previous quarterly reports. The timing of these payments is not cyclical, and the City is projecting that expenditures will be on track with the adopted budget of \$591,000 for FY 2014/2015.

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 savings to the City.

General Expenses

This category includes budgeted expenditures of \$1.2 million for postage, printing, memberships, publications and subscriptions, and other special expenditures, including a \$306,000 payment to fund additional library hours and maintenance costs. This category also includes the 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. The City is projecting these expenditures will be on track with the amount budgeted for FY 2014/2015.

Professional and Contract Services

This category includes budgeted contractual services for legal counsel, auditing, video-taping, contracted animal control services, and minute taker services. The City is projecting expenditures of \$1.2 million for the fiscal year FY 2014/2015.

Other Expenditures

This category includes the major subcategories of debt service for Lease Revenue Refunding Bonds (for City Hall and the Police Services Building); conferences and training; maintenance and repairs; supplies and materials; utilities; insurance; promotions and contributions; fixed assets; and transfers (which includes the \$700,000 allocated for street resurfacing). Expenditures were budgeted to be \$4.4 million and the City is projecting expenditures will be on track with the budget.

GENERAL FUND FINANCIAL CONDITION

General Fund Balance

The adopted biennial budget included a beginning General Fund balance of \$13.6 million and a projected deficit of approximately \$2.2 million for FY 2014/2015, resulting in an ending General Fund balance of \$11.4 million. Based on unaudited FY 2013/2014 results, the City actually started FY 2014/2015 with a General Fund balance that was \$432,000 higher, \$14.0 million, due to higher than expected revenues and an accounting adjustment. Based on the first quarter review, the City is projecting a deficit of \$1.9 million for the year. The City is therefore projecting that the General Fund will end FY 2014/2015 with a fund balance of \$12.1 million, an overall improvement of \$688,000.

Table 5 - FY 2014/2015 General Fund Ending Balance (in \$1,000s)

	Adopted Budget	Projected Year End	Variance
Beginning Fund Balance	\$13,568	\$14,000	\$432
Revenue	\$20,584	\$20,840	\$256
Expenditures	\$22,766	\$22,766	\$0
Surplus/Deficit	(\$2,182)	(\$1,926)	\$256
Ending Fund Balance	\$11,386	\$12,074	\$688

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 first quarter of FY 2014/2015.

NON-GENERAL FUND REVENUE

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, were \$19.0 million, and actual revenues as of the close of the first quarter were \$395,000.

Table 6 - FY 2014/2015 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Adopted Budget	Actual as of 09/30/14	% of Budget	Projected Year End	Variance
Property Tax	\$377	\$0	0%	\$377	\$0
Other – Taxes and Assessments	\$367	\$0	0%	\$367	\$0
Intergovernmental	\$15,108	\$372	2%	\$15,108	\$0
Charges for Services	\$28	\$4	14%	\$28	\$0
Fines and Forfeitures	\$90	\$13	14%	\$90	\$0
Use of Money and Property	\$12	\$0	0%	\$12	\$0
Other	\$90	\$6	1%	\$90	\$0
Transfer	\$2,943	\$0	0%	\$2,943	\$0
Total Revenues	\$19,015	\$395	2%	\$19,015	\$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. Since this report only reflects actual collections and expenditures for the first three months of the fiscal year and since the timing of revenues and expenditures are dependent upon the timing of capital improvement projects, no modifications are being made to projected amounts until the second quarter report.

NON-GENERAL FUND EXPENDITURES

The total budgeted expenditures for other funds, including transfers between funds, are \$18.8 million, and actual expenditures as of the end of the first quarter were \$2.4 million, 13% of budget.

Table 7 - FY 2014/2015 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Adopted Budget	Actual as of 9/30/2014	% of Budget	Projected Year End	Variance
Salaries and Benefits	\$581	\$206	35%	\$581	\$0
General Expenses	\$925	\$28	3%	\$925	\$0
Professional and Contract Services	\$1,326	\$297	22%	\$1,326	\$0
Maintenance and Repairs	\$469	\$199	42%	\$469	\$0
Supplies and Materials	\$56	\$17	30%	\$56	\$0
Utilities	\$224	\$98	44%	\$224	\$0
Promotions and Contributions	\$5		0%	\$5	\$0
Fixed Asset	\$547	\$31	6%	\$547	\$0
Transfer	\$702		0%	\$702	\$0
Capital Improvements	\$13,954	\$1,514	11%	\$13,954	\$0
Total Expenditures	\$18,789	\$2,390	13%	\$18,789	\$0

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 is due to the timing of expenditures. Descriptions of the projects for FY 2014/2015 can be found in the City's FY 2014-2019 Capital Improvement Plan.

FINANCIAL INDICATORS

The table below includes key financial indicators that the City analyzes on a quarterly basis. The financial indicators were not updated for the first quarter as the City is still finishing its FY 2013/2014 year end audit. The indicators will be updated in the second quarter report.

Table 8 - FY 2013/2014 General Fund Financial Indicators

	<u>FY 2012/2013</u> <u>Year End</u>	<u>FY 2013/2014</u> <u>4th Quarter</u>
<p><u>CASH SOLVENCY RATIO</u></p> <p>(Cash + Cash Equivalents + Investments)/Current Liabilities</p> <p>This ratio is related to liquidity and effective cash management. It indicates a government's ability to cover current liabilities with liquid assets. A larger value in the solvency ratio indicates that a larger amount of liquid assets are available to cover liabilities. Note that the year-end cash solvency ratio includes year-end accruals (i.e., current liabilities) for expenditures paid during the first 45 days of the following fiscal year. Therefore, we anticipate that this ratio will be lower at year-end because the current liabilities will be higher.</p>	5.58	10.38
<p><u>FUND BALANCE RATIO</u></p> <p>Unreserved General Fund Balance/Operating Expenditures</p> <p>This ratio measures the portion of unreserved General Fund balance as compared to operating expenditures. The appropriate level of fund balance varies depending on many factors including levels of risk and revenue volatility. The Government Finance Officers Association recommends maintaining a 5-15% reserve.</p>	24%	28%
<p><u>LONG TERM LIABILITY RATIO</u></p> <p>Long-Term Liabilities/Total General Fund Balance</p> <p>This ratio measures a government's long term liabilities as compared to fund balance.</p>	61%	56%

NEXT UPDATE

The audited financial statements for FY 2013/2014 will be presented in January 2015 in the Comprehensive Annual Financial Report (CAFR). The FY 2014/2015 Second Quarter Revenue and Expenditure Report is expected to be published in February 2015.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2014/2015 First Quarter (July 1 – September 30, 2014) Revenue and Expenditure Report.