



City of Pleasant Hill

MEMORANDUM

TO: City Council

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

DATE: October 16, 2015

SUBJECT: Fiscal Year (FY) 2014/2015 Fourth Quarter (April 1 – June 30, 2015) 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 fourth quarter of fiscal year (FY) 2014/2015 (April 1 – June 30, 2015).

SUMMARY

The table below summarizes the budgeted and actual year-end General Fund and other City fund (non-General Fund) revenues and expenditures. In short, at the end of FY 2014/2015, the City had General Fund revenues that were \$514,000 higher than budgeted and expenditures that were \$1.5 million lower than budgeted due to staff vacancies and the delay of a few significant expenditures. This reduced the actual year-end General Fund deficit from the \$2.2 million budgeted to \$141,000.

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

		General Fund	Other City Funds	Total
Revenue	Budgeted	\$20,584	\$19,511	\$40,095
	Actual as of 6/30/15 (Unaudited)	\$21,098	\$15,352	\$36,450
	Variance	\$514	\$(4,159)	\$(3,645)
Expenditures	Budgeted	\$22,766	\$20,768	\$43,534
	Actual as of 6/30/15 (Unaudited)	\$21,239	\$15,036	\$36,275
	Variance	\$(1,527)	\$(5,732)	\$(7,259)
Surplus/Deficit	Budgeted	\$(2,182)	\$(1,257)	\$(3,439)
	Actual as of 6/30/15 (Unaudited)	(\$141)	\$315	\$175
	Variance	\$2,041	\$1,573	\$3,614

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 than budgeted deficit for FY 2014/2015, the City will end FY 2014/2015 with a General Fund balance of \$13.9 million.

GENERAL FUND REVENUES

General Fund revenues for FY 2014/2015 were budgeted at \$20.6 million. Actual General Fund revenue was \$514,000 over the budgeted amount. 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 6/30/15 (Unaudited)	% of Budget	Variance
Sales Tax	\$7,750	\$7,736	99%	\$(14)
Property Tax	\$2,394	\$2,750	115%	\$356
Property Tax in Lieu of VLF	\$2,651	\$2,768	104%	\$117
Other Taxes	\$4,447	\$4,591	103%	\$144
Other:				
Franchise Fees	\$1,789	\$1,822	102%	\$33
Licenses and Permits	\$585	\$532	91%	\$(53)
Charges for Services	\$596	\$437	73%	\$(159)
Other Revenue	\$122	\$36	30%	\$(86)
Transfer	\$100	\$100	100%	\$0
Use of Money and Property	\$60	\$46	77%	\$(14)
Fines and Forfeitures	\$56	\$54	96%	\$(2)
Intergovernmental	\$34	\$226	665%	\$192
Total Revenues	\$20,584	\$21,098	102%	\$514

Sales Tax

Sales tax revenues were budgeted to be \$7.8 million in FY 2014/2015. Actual year-end sales tax revenues will be \$14,000 lower than budgeted.

Property Tax

The City budgeted \$2.4 million in property tax revenue for FY 2014/2015. Actual year-end revenue was \$2.8 million, exceeding budget by \$356,000. The increase in property tax revenue is due to the recapture of Proposition 8 valuation reductions and a higher than expected distribution from the Redevelopment Property Tax Trust Fund (RPTTF) to the City for its proportionate share of property tax revenue.

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 collected \$2.8 million, exceeding budget by \$117,000. This increase is 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 City processed 6,100 business licenses this past year. Actual revenue for business license tax was \$2.4 million, exceeding budget by \$137,000.

This category also includes other taxes such as transient occupancy (hotel) tax (TOT), property transfer tax, and utility user tax. The year-end revenue from these taxes was \$7,000 greater than originally budgeted due to lower than anticipated utility user tax and property transfer tax revenues of \$129,000 that were offset by an increase in TOT. TOT revenue increased by \$136,000 to \$1.8 million due to higher hotel occupancy.

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. Franchise fee revenue increased slightly, by \$33,000, to \$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. Revenue was \$532,000, lower than budget by \$53,000. The decrease was primarily due to lower than budgeted building permit fees.

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 \$968,000 for FY 2014/2015 and revenues were \$899,000, a slight decrease of \$69,000.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2014/2015 were budgeted at \$22.7 million. Year-end General Fund expenditures were actually \$21.2 million, or \$1.5 million lower than budget. The following two tables summarize General Fund expenditures by category and department.

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

Expenditure Type	Adopted Budget	Actual as of 6/30/15 (Unaudited)	% of Budget	Variance
Personnel				
Salaries	\$9,859	\$9,471	96%	\$(388)
Benefits	\$4,603	\$4,284	93%	\$(319)
Benefit Buybacks and Contributions to Retiree Health Plans	\$591	\$661	112%	\$70
Public Safety PERS Side Fund Loan Debt	\$890	\$890	100%	\$0
General Expenses	\$1,224	\$592	48%	\$(632)
Professional and Contract Svc	\$1,213	\$1,212	100%	\$(1)
Other Expenditures:				
Conferences and Training	\$112	\$135	121%	\$23
Maintenance and Repairs	\$298	\$196	66%	\$(102)
Supplies and Materials	\$255	\$233	91%	\$(22)
Utilities	\$442	\$379	86%	\$(63)
Insurance	\$435	\$522	120%	\$87
Promotions and Contributions	\$420	\$261	62%	\$(159)
Fixed Assets	\$32	\$11	34%	\$(21)
Debt Service	\$781	\$781	100%	\$0
Transfer	\$1,611	\$1,611	100%	\$0
Total Expenditures	\$22,766	\$21,239	93%	\$(1,527)

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

Department	Adopted Budget	Actual as of 6/30/15 (Unaudited)	% of Budget	Variance
City Council	\$152	\$141	93%	\$(11)
City Manager	\$901	\$793	88%	\$(108)
City Attorney	\$435	\$403	93%	\$(32)
Community Relations	\$401	\$270	67%	\$(131)
City Clerk	\$136	\$126	93%	\$(10)
City Treasurer	\$10	\$12	120%	\$2
Economic Development	\$824	\$381	46%	\$(443)
Non Departmental	\$660	\$805	122%	\$145
Administrative Services:				
Finance	\$916	\$878	96%	\$(38)
Computer Services	\$236	\$239	101%	\$3
Human Resources	\$516	\$500	97%	\$(16)
Risk Management	\$433	\$521	120%	\$88
City Hall Facility	\$160	\$123	77%	\$(37)
Police	\$9,923	\$9,268	93%	\$(655)
Public Safety PERS Side Fund Loan Debt	\$890	\$890	100%	\$0
Engineering	\$763	\$727	95%	\$(36)
Street Resurfacing Transfer	\$700	\$700	100%	\$0
Maintenance	\$2,331	\$2,176	93%	\$(155)
Planning	\$970	\$925	95%	\$(45)
Building Inspection	\$526	\$479	91%	\$(47)
Lease Revenue Refunding Bonds Debt Payment	\$781	\$781	100%	\$0
Transfers to AD 20 and AD 22	\$102	\$101	99%	\$(1)
Total Expenditures	\$22,766	\$21,239	93%	\$(1,527)

PersonnelSalary and Benefits

Salary and benefits were budgeted at \$14.5 million and were actually \$13.8 million, \$707,000 lower than originally budgeted. This variance is due to vacancies in the Police Department. While recruitment processes are ongoing, the department is not expected to be fully staffed until sometime during FY 2015/2016.

Benefit Buybacks and Contributions to Retirement Health Savings Plan

Expenditures were \$661,000, \$70,000 higher than originally budgeted.

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 the funding for Economic Development projects and programs. Due to the deferral of the expenditure of \$470,000 for the Economic Development grants and loans program, general expense expenditures for the year were \$592,000, a reduction of \$632,000 from the budgeted amount. This appropriation of \$470,000 was carried forward to FY 2015/2016, and therefore represents a deferral of expenditures, not a reduction.

Professional and Contract Services

This category includes budgeted contractual services for legal counsel, auditing, video-taping, contracted animal control services, and minute taking services. The City budgeted expenditures of \$1.2 million, which equaled actual expenditures.

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 actual expenditures were \$4.1 million, a reduction of \$300,000. The majority of this variance is due to lower-than-expected expenditures for additional library hours and building maintenance costs. The City budgeted a payment of \$306,000 for additional library hours, but was only invoiced and paid out \$175,000 to the library because the library was not able to increase staffing and hours until midway through the fiscal year.

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 audited FY 2013/2014 results, the City actually started FY 2014/2015 with a General Fund balance that was \$498,000 higher at \$14.1 million. Actual FY 2014/2015 revenues were \$514,000 higher than budgeted and expenditures were \$1.5 million lower than budgeted. As a result, the General Fund ended FY 2014/2015 with a fund balance of \$13.9 million, an overall improvement of \$2.5 million. As noted above, to the extent that certain FY 2014/2015 expenditures were deferred rather than reduced, such as the case with the \$470,000 for Economic Development, a portion of the year end fund balance is already earmarked for specific uses.

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

	Adopted Budget	Actual as of 6/30/2015 (Unaudited)	Variance
Beginning Fund Balance	\$13,568	\$14,066	\$498
Revenue	\$20,584	\$21,098	\$514
Expenditures	\$22,766	\$21,239	\$(1,527)
Surplus/Deficit	(\$2,182)	(\$141)	\$2,041
Ending Fund Balance	\$11,386	\$13,925	\$2,539

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 as of June 30, 2015.

NON-GENERAL FUND REVENUE

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, were \$19.5 million, and actual revenues were \$15.4 million.

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

Revenue Type	Revised Budget	Actual as of 6/30/15 (Unaudited)	% of Budget	Variance
Property Tax	\$377	\$458	121%	\$81
Other – Taxes and Assessments	\$425	\$442	58%	\$(323)
Intergovernmental	\$15,026	\$10,843	72%	\$(4,265)
Charges for Services	\$28	\$19	68%	\$(9)
Fines and Forfeitures	\$90	\$83	92%	\$(7)
Use of Money and Property	\$27	\$10	37%	\$(17)
Other	\$430	\$354	393%	\$264
Transfer	\$3,108	\$3,143	103%	\$98
Total Revenues	\$19,511	\$15,352	79%	\$(4,178)

The largest category of non-General Fund revenue is the intergovernmental category. The majority of revenue in this category is grants for capital projects. Since these revenues are paid on a reimbursement basis, and the City receives the revenues once the capital work has been completed, variances are expected due to the timing of reimbursements.

NON-GENERAL FUND EXPENDITURES

The total budgeted expenditures for other funds, including transfers between funds, were \$20.8 million and actual expenditures were \$15.0 million.

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

Expenditure	Revised Budget (includes carryovers from previous year and additional appropriations)	Actual as of 6/30/15 (Unaudited)	% of Budget	Variance
Salaries and Benefits	\$706	\$684	87%	\$(22)
General Expenses	\$935	\$920	84%	\$(15)
Professional and Contract Services	\$2,176	\$1,478	111%	\$698
Maintenance and Repairs	\$525	\$453	97%	\$(72)
Supplies and Materials	\$123	\$114	204%	\$(9)
Utilities	\$369	\$434	117%	\$65
Promotions and Contributions	\$35	\$0	0%	\$(35)
Fixed Asset	\$516	\$600	110%	\$84
Transfer	\$866	\$852	106%	\$(14)
Capital Improvements	\$14,517	\$9,501	65%	\$(5,016)
Total Expenditures	\$20,768	\$15,036	72%	\$(5,732)

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.

Table 8 - FY 2014/2015 General Fund Financial Indicators

Financial Indicator	FY 2013/2014 Year End	FY 2014/2015 Year End (Unaudited)
<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.</p>	10.2	9.0
<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>	28%	31%
<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>	43%	44%

NEXT UPDATE

The City's audited financial statements for FY 2014/2015 will be published in December 2015 as part of the FY 2014/2015 Comprehensive Annual Financial Report.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2014/2015 Fourth Quarter (April 1 – June 30, 2015) Revenue and Expenditure Report.