



City of Pleasant Hill

MEMORANDUM

TO: City Council

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

DATE: March 18, 2015 (Revised)

SUBJECT: Fiscal Year (FY) 2014/2015 Second Quarter (October 1 – December 31, 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 second quarter of fiscal year (FY) 2014/2015 (October 1 – December 31, 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 \$13,000 lower than budgeted and expenditures that are \$1,066,000 lower than budgeted due to staff vacancies and the delay of a few significant expenditures. This would reduce the year-end General Fund deficit from the \$2.2 million budgeted to \$1.1 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	\$20,571	\$19,015	\$39,586
	Variance	\$(13)	\$0	\$(13)
Expenditures	Budgeted	\$22,766	\$18,789	\$41,555
	Year End Projected	\$21,700	\$18,789	\$40,489
	Variance	\$(1,066)	\$0	\$(1,066)
Surplus/Deficit	Budgeted	(\$2,182)	\$226	(\$1,956)
	Year End Projected	(\$1,129)	\$226	(\$903)
	Variance	\$1,053	\$0	\$1,053

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 \$12.9 million.

GENERAL FUND REVENUES

General Fund revenues for FY 2014/2015 were budgeted at \$20.6 million. As of the close of the second quarter, the City is projecting that year-end General Fund revenue will decrease slightly by \$13,000. 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 12/31/14	% of Budget	Projected Year End	Variance
Sales Tax	\$7,750	\$2,577	33%	\$7,700	\$(50)
Property Tax	\$2,394	\$1,426	60%	\$2,538	\$144
Property Tax in Lieu of VLF	\$2,651	\$0	0%	\$2,770	\$119
Other Taxes	\$4,447	\$1,010	23%	\$4,421	\$(26)
Other:					
Franchise Fees	\$1,789	\$479	27%	\$1,838	\$49
Licenses and Permits	\$585	\$272	46%	\$506	\$(79)
Charges for Services	\$596	\$199	33%	\$431	\$(165)
Other Revenue	\$122	\$12	10%	\$122	\$0
Transfer	\$100	\$100	100%	\$100	\$0
Use of Money and Property	\$60	\$9	15%	\$20	\$(40)
Fines and Forfeitures	\$56	\$27	48%	\$56	\$0
Intergovernmental	\$34	\$63	185%	\$69	\$35
Total Revenues	\$20,584	\$6,174	30%	\$20,571	\$(13)

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 \$50,000 (0.6%) lower than budgeted based on a recent analysis from the City's sales tax consultant HdL Coren & Cone.

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 \$119,000 (4.5%). 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 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 \$26,000 less than originally budgeted due to lower than anticipated utility user tax revenues that are being offset in part by an increase in TOT. While the anticipated growth in utility user tax has been slower than originally budgeted, transient occupancy tax revenue is projected to increase by \$40,000 (2.4%) to \$1,720,000 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. The City is projecting that franchise fee revenue will increase slightly, by \$49,000 (2.7%).

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 \$506,000, lower than budget by \$79,000 (14%). The estimated decrease is primarily due to lower than budgeted building permit fees. The growth in this category has been slower than anticipated; however, projected revenues for this fee are consistent with the previous 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 \$968,000 for FY 2014/2015 and is now projecting revenues will be \$798,000. The bulk of the decrease is due to the fact that the City will receive \$165,000 less than budgeted as reimbursement for City staff time spent conducting the work of the Redevelopment Successor Agency. The City is, however, still expecting to receive \$250,000 this fiscal year as reimbursement for City staff time spent on Redevelopment Successor Agency activities.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2014/2015 were budgeted at \$22.8 million. As of the close of the second quarter, the City is projecting that year-end General Fund expenditures will be lower than 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 12/31/14	% of Budget	Projected Year End	Variance
Personnel					
Salaries	\$9,859	\$4,743	48%	\$9,551	\$(308)
Benefits	\$4,603	\$2,137	46%	\$4,427	\$(176)
Benefit Buybacks and Contributions to Retiree Health Plans	\$591	\$293	50%	\$591	\$0
Public Safety PERS Side Fund Loan Debt	\$890	\$451	51%	\$890	\$0
General Expenses	\$1,224	\$309	25%	\$754	\$(470)
Professional and Contract Svc	\$1,213	\$569	47%	\$1,101	\$(112)
Other Expenditures:					
Conferences and Training	\$112	\$52	46%	\$112	\$0
Maintenance and Repairs	\$298	\$111	37%	\$298	\$0
Supplies and Materials	\$255	\$112	44%	\$255	\$0
Utilities	\$442	\$202	46%	\$442	\$0
Insurance	\$435	\$374	86%	\$435	\$0
Promotions and Contributions	\$420	\$38	9%	\$420	\$0
Fixed Assets	\$32	\$0	0%	\$32	\$0
Debt Service	\$781	\$752	96%	\$781	\$0
Transfer	\$1,611	\$1,611	100%	\$1,611	\$0
Total Expenditures	\$22,766	\$11,754	52%	\$21,700	\$(1,066)

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

Department	Adopted Budget	Actual as of 12/31/14	% of Budget	Projected Year End	Variance
City Council	\$152	\$66	43%	\$152	\$0
City Manager	\$901	\$480	53%	\$901	\$0
City Attorney	\$435	\$169	39%	\$417	\$(18)
Community Relations	\$401	\$38	9%	\$401	\$0
City Clerk	\$136	\$25	18%	\$136	\$0
City Treasurer	\$10	\$6	60%	\$14	\$4
Economic Development	\$824	\$185	22%	\$354	\$(470)
Non Departmental	\$660	\$242	37%	\$660	\$0
Administrative Services:					
Finance	\$916	\$429	47%	\$916	\$0
Computer Services	\$236	\$226	96%	\$236	\$0
Human Resources	\$516	\$289	56%	\$516	\$0
Risk Management	\$433	\$373	86%	\$433	\$0
City Hall Facility	\$160	\$62	39%	\$160	\$0
Police	\$9,923	\$4,966	50%	\$9,453	\$(470)
Public Safety PERS Side Fund Loan Debt	\$890	\$449	50%	\$890	\$0
Engineering	\$763	\$354	46%	\$763	\$0
Street Resurfacing Transfer	\$700	\$700	100%	\$700	\$0
Maintenance	\$2,331	\$1,153	49%	\$2,331	\$0
Planning	\$970	\$424	44%	\$858	\$(112)
Building Inspection	\$526	\$265	50%	\$526	\$0
Lease Revenue Refunding Bonds Debt Payment	\$781	\$752	96%	\$781	\$0
Transfers to AD 20 and AD 22	\$102	\$101	100%	\$102	\$0
Total Expenditures	\$22,766	\$11,754	52%	\$21,700	\$(1,066)

PersonnelSalary and Benefits

Salary and benefits were budgeted at \$14.5 million and, based on second quarter results, we are projecting they will be \$14.0 million, \$484,000 (3.3%) lower than originally budgeted. This variance is due to vacancies in the Police Department. While recruitment processes are currently underway, we don't anticipate that the department will be fully staffed until sometime during the next fiscal year.

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 net present value savings to the City of \$684,302.

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. Due to the deferral of the expenditures of \$470,000 for the Economic Development grants and loans program, we are projecting expenditures for the year will be \$754,000, a reduction of \$470,000 from the budgeted amount. To the extent that this appropriation of \$470,000 is carried forward to FY 2015/2016, it 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 taker services. The City budgeted expenditures of \$1.2 million and we are now projecting expenditures will decline to \$1.1 million. This decrease is primarily due to the timing of expenditures for outside consultants. We anticipate these funds will be expended during the next fiscal year.

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 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, due to higher than expected revenues and an accounting adjustment. Based on the second quarter review, the City is projecting a deficit of \$1.1 million for the year. The City is therefore projecting that the General Fund will end FY 2014/2015 with a fund balance of \$12.9 million, an overall improvement of \$1.5 million. As noted above, to the extent that certain FY 2014/2015 expenditures are viewed as deferred rather than reduced, such as might be the case with the \$470,000 for Economic Development, a portion of the projected year end fund balance is already earmarked for specific uses.

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

	Adopted Budget	Projected Year End	Variance
Beginning Fund Balance	\$13,568	\$14,066	\$498
Revenue	\$20,584	\$20,571	\$(13)
Expenditures	\$22,766	\$21,700	\$(1,066)
Surplus/Deficit	(\$2,182)	(\$1,129)	\$1,053
Ending Fund Balance	\$11,386	\$12,937	\$1,551

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 second quarter of FY 2014/2015.

NON-GENERAL FUND REVENUE

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, were \$19.5 million, and actual revenues as of the close of the second quarter were \$7.7 million.

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

Revenue Type	Adopted Budget	Actual as of 12/31/14	% of Budget	Projected Year End	Variance
Property Tax	\$377	\$239	63%	\$377	\$0
Other – Taxes and Assessments	\$765	\$233	30%	\$765	\$0
Intergovernmental	\$15,108	\$4,091	27%	\$15,108	\$0
Charges for Services	\$28	\$6	21%	\$28	\$0
Fines and Forfeitures	\$90	\$37	41%	\$90	\$0
Use of Money and Property	\$27	\$2	7%	\$27	\$0
Other	\$90	\$6	7%	\$90	\$0
Transfer	\$3,045	\$3,064	101%	\$3,045	\$0
Total Revenues	\$19,530	\$7,678	39%	\$19,530	\$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. We expect that revenues will be on budget.

NON-GENERAL FUND EXPENDITURES

The total budgeted expenditures for other funds, including transfers between funds, are \$19.4 million and actual expenditures as of the end of the second quarter were \$9.3 million, 48% of budget.

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

Expenditure	Adopted Budget	Actual as of 12/31/2014	% of Budget	Projected Year End	Variance
Salaries and Benefits	\$785	\$402	51%	\$785	\$0
General Expenses	\$1,099	\$828	75%	\$1,099	\$0
Professional and Contract Services	\$1,326	\$539	41%	\$1,326	\$0
Maintenance and Repairs	\$469	\$267	57%	\$469	\$0
Supplies and Materials	\$56	\$34	61%	\$56	\$0
Utilities	\$372	\$250	67%	\$372	\$0
Promotions and Contributions	\$5		0%	\$5	\$0
Fixed Asset	\$547	\$54	10%	\$547	\$0
Transfer	\$802	\$802	100%	\$802	\$0
Capital Improvements	\$13,954	\$6,147	44%	\$13,954	\$0
Total Expenditures	\$19,415	\$9,323	48%	\$19,415	\$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. We project that expenditures will be on budget.

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

	<u>FY 2013/2014</u> <u>Year End</u>	<u>FY 2014/2015</u> <u>2nd 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.</p>	4.53	4.00
<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%	18%*
<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%	47%

*Estimated ratio as of 06/30/2015

NEXT UPDATE

The FY 2014/2015 Third Quarter Revenue and Expenditure Report is expected to be published in April 2015.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2014/2015 Second Quarter (October 1 – December 31, 2014) Revenue and Expenditure Report.