



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: February 22, 2018

SUBJECT: Fiscal Year (FY) 2017/18 Second Quarter (October 1 – December 31, 2017) 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 second quarter of fiscal year (FY) 2017/18 (October 1 – December 31, 2017) can be found below.

SUMMARY

Table 1 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 2017/18 with General Fund revenues that are \$55,000 lower than what was budgeted. In addition, expenditures are projected to be \$231,000 lower than what was budgeted due to lower personnel-related costs. Other City Fund revenues and expenditures are projected to be on track with the revised budget amounts. Whereas the revised biennial budget anticipated a General Fund balance of \$8.7 million at the end of FY 2017/18, due to a larger-than-expected beginning fund balance and a slightly lower projected deficit, the City is now projecting the General Fund will end FY 2017/18 with a fund balance of \$11.2 million.

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

		General Fund	Other City Funds	Total
Revenue	Budgeted	\$28,439	\$9,596	\$38,035
	Year End Projected	\$28,384	\$9,596	\$37,980
	Variance	(\$55)	\$0	(\$55)
Expenditures	Budgeted	\$30,777	\$13,734	\$44,511
	Year End Projected	\$30,546	\$13,734	\$44,280
	Variance	(\$231)	\$0	(\$231)
Surplus/Deficit	Budgeted	(\$2,338)	(\$4,138)	(\$6,476)
	Year End Projected	(\$2,162)	(\$4,138)	(\$6,300)
	Variance	\$176	\$0	\$176

GENERAL FUND REVENUES

General Fund revenues for FY 2017/18 were budgeted at \$28.4 million. As of the close of the second quarter, the City is projecting that year-end General Fund revenue will decrease slightly by \$55,000. The following table summarizes General Fund revenue by category.

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

Revenue Type	Revised Budget	Actual as of 12/31/17	% of Budget	Projected Year End	Variance
Sales Tax	\$8,770	\$3,711	42%	\$8,520	(\$250)
Measure K Transactions and Use Tax	\$4,100	\$1,400	34%	\$4,100	\$0
Property Tax	\$3,011	\$1,605	53%	\$3,011	\$0
Property Tax in Lieu of VLF	\$3,213	\$0	0%	\$3,264	\$51
Other Taxes	\$5,668	\$887	16%	\$5,330	(\$338)
Other:					
Franchise Fees	\$1,987	\$524	26%	\$1,987	\$0
Licenses and Permits	\$648	\$402	62%	\$914	\$266
Charges for Services	\$465	\$310	67%	\$609	\$144
Other Revenue	\$176	\$123	70%	\$235	\$59
Transfer	\$208	\$208	100%	\$208	\$0
Use of Money and Property	\$53	\$26	49%	\$68	\$15
Fines and Forfeitures	\$57	\$17	30%	\$55	(\$2)
Intergovernmental	\$83	\$17	20%	\$83	\$0
Total Revenues	\$28,439	\$9,230	32%	\$28,384	(\$55)

Sales Tax

Sales tax revenues were budgeted to be \$8.8 million in FY 2017/18. The City is projecting that year-end sales tax revenues will decline by \$250,000 (2.9%) to \$8.5 million based on a recent analysis by the City's sales tax consultant HdL Coren & Cone. The reduction is primarily due to two national brand retail business closures and the resulting temporary vacancies.

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. The City has collected \$1.4 million to date and is on track to collect the budgeted amount for the year.

Property Tax

Property tax revenue was budgeted to be \$3.0 million and based on collections to date and known assessed valuations, the City is on track to collect 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." Although no revenue has been received yet, due to timing of these payments from the State, the City is anticipating that \$3.3 million will 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 transient occupancy (hotel) tax (TOT), property transfer tax, and utility user tax. Based on an analysis of collections through February 2018, the City is projecting that year-end revenue will be \$338,000 less than budgeted primarily due to lower TOT. When the budget was developed it was anticipated that Homewood Suites hotel would be open and operational 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. Franchise fee revenues were budgeted to be \$2.0 million in FY 2017/18. The City is projecting that revenues will be 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 is projecting revenue will be \$914,000, an increase of \$266,000. The increase in permit revenue is 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 \$465,000 for FY 2017/18 and is projecting that revenues will increase to \$609,000. This increase is primarily due to higher-than-budgeted General Plan update fees and engineering fees.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2017/18 were budgeted at \$30.8 million. As of the close of the second quarter, the City is projecting that year-end General Fund expenditures will decrease by \$231,000. 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	Actual as of 12/31/17	% of Budget	Projected Year End	Variance
Personnel					
Salaries	\$11,475	\$5,648	49%	\$11,225	(\$250)
Benefits	\$5,697	\$2,868	50%	\$5,667	(\$30)
Benefit Buybacks & Contributions to Retiree Health Plans	\$423	\$160	38%	\$231	(\$192)
Public Safety PERS Side Fund Debt	\$893	\$224	25%	\$893	\$0
General Expenses	\$738	\$205	28%	\$734	(\$4)
Professional and Contract Svc	\$1,913	\$679	35%	\$1,997	\$84
Measure K Related Projects	\$4,100	\$18	0%	\$4,100	\$0
Other Expenditures:					
Conferences and Training	\$211	\$84	40%	\$210	(\$1)
Maintenance and Repairs	\$454	\$111	24%	\$469	\$15
Supplies and Materials	\$271	\$87	32%	\$281	\$10
Utilities	\$468	\$179	38%	\$436	(\$32)
Insurance	\$623	\$666	107%	\$833	\$210
Promotions and Contributions	\$617	\$84	14%	\$586	(\$31)
Fixed Assets	\$34	\$0	0%	\$24	(\$10)
Transfer	\$2,860	\$2,860	100%	\$2,860	\$0
Total Expenditures	\$30,777	\$13,873	45%	\$30,546	(\$231)

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

Department	Revised Budget	Actual as of 12/31/17	% of Budget	Projected Year End	Variance
City Council	\$161	\$81	50%	\$160	(\$1)
City Manager	\$952	\$409	43%	\$943	(\$9)
Measure K	\$4,100	\$18	0%	\$4,100	\$0
City Attorney	\$506	\$188	37%	\$492	(\$14)
Community Relations	\$415	\$46	11%	\$389	(\$26)
City Clerk	\$111	\$44	40%	\$116	\$5
City Treasurer	\$11	\$6	55%	\$11	\$0
Economic Development	\$592	\$183	31%	\$589	(\$3)
Non Departmental	\$496	\$189	38%	\$304	(\$192)
CalPERS Unfunded Liability	\$1,802	\$905	50%	\$1,802	\$0
Administrative Services:					
Finance	\$776	\$361	47%	\$782	\$6
Computer Services	\$680	\$420	62%	\$507	(\$173)
Human Resources	\$674	\$306	45%	\$682	\$8
Risk Management	\$621	\$666	107%	\$831	\$210
City Hall Facility	\$150	\$65	43%	\$137	(\$13)
Police	\$10,491	\$5,544	53%	\$10,414	(\$77)
Public Safety PERS Side Fund Debt	\$890	\$222	25%	\$890	\$0
Engineering	\$1,098	\$513	47%	\$1,166	\$68
Street Resurfacing Transfer	\$1,500	\$1,500	100%	\$1,500	\$0
Maintenance	\$2,649	\$1,139	43%	\$2,642	(\$7)
Planning	\$1,135	\$502	44%	\$1,136	\$1
Building Inspection	\$863	\$463	54%	\$848	(\$15)
Transfers to AD 20 and AD 22	\$104	\$103	99%	\$105	\$1
Total Expenditures	\$30,777	\$13,873	45%	\$30,546	(\$231)

PersonnelSalaries and Benefits

Salaries and benefits were budgeted at \$17.2 million and based on second quarter results, the City is projecting personnel costs will be lower than budgeted by \$280,000. The variance is primarily due to vacancies and lower-than-budgeted health insurance costs.

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. The City is projecting that expenditures for FY 2017/18 will be \$192,000 lower than originally budgeted based on the second quarter results.

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 will be 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. The City is projecting expenditures will be on track with the amount budgeted.

Professional and Contract Services

This category includes contractual services such as legal counsel, auditing, videotaping, and animal control. The City is projecting expenditures will increase slightly by \$84,000 for FY 2017/18 to \$2.0 million.

Measure K Related Projects

FY 2017/18 Measure K expenditures were budgeted at \$4.1 million. That amount is merely a placeholder as the City has only committed to two obligations that represent a fraction of that amount 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. In future fiscal years, the specific capital projects and related expenditures that will be funded by Measure K will be approved by the City Council through the Capital Improvement Plan (CIP) and biennial budget. This projection will be updated in the next quarterly report.

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 based on second quarter results, are projected to be \$5.7 million, an increase of \$161,000. The variance is primarily due to higher insurance costs.

GENERAL FUND FINANCIAL CONDITION

General Fund Balance

The revised biennial budget included a beginning General Fund balance of \$11.0 million and projected a deficit of approximately \$2.3 million, resulting in an ending General Fund balance of \$8.7 million. The City actually started FY 2017/18 with a General Fund balance that was \$2.3 million higher, at \$13.4 million. Based on the second quarter review, the City is now projecting a deficit of \$2.2 million for the year. The deficit for FY 2017/18 is 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. This contribution enabled the City to marginally increase the Pavement Condition Index (PCI) rating of City streets and to also prevent an increase in both the level of deferred maintenance of the streets and future cost. The City is now projecting that the General Fund will end FY 2017/18 with a fund balance of \$11.2 million, an overall improvement of \$2.5 million.

Table 5 - FY 2016/17 General Fund Ending Balance (in \$1,000s)

	Revised Budget	Projected Year End	Variance
Beginning Fund Balance	\$11,045	\$13,356*	\$2,311
Revenue	\$28,439	\$28,384	(\$55)
Expenditures	\$30,777	\$30,546	(\$231)
Surplus/Deficit	(\$2,338)	(\$2,162)	\$176
Ending Fund Balance	\$8,707	\$11,194	\$2,487

*Beginning fund balance includes \$758,687 for Measure K. Revised budget and projected year end revenue and expenditures include estimated \$4.1 million for both Measure K revenue and expenditures.

OTHER CITY FUNDS (NON-GENERAL FUND)

In addition to the General Fund, the City has other fund types 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, are \$9.6 million, and actual revenues as of the close of the second quarter were \$6.6 million, 68% of budget. The City expects that year-end revenues will be equal to the budgeted amount.

Table 6 - FY 2017/18 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget	Actual as of 12/31/2017	% of Budget	Projected Year End	Variance
Property Tax	\$473	\$271	57%	\$473	\$0
Other – Taxes and Assessments	\$468	\$76	16%	\$468	\$0
Intergovernmental	\$4,437	\$2,295	52%	\$4,437	\$0
Charges for Services	\$90	\$8	9%	\$90	\$0
Fines and Forfeitures	\$97	\$27	28%	\$97	\$0
Use of Money and Property	\$25	\$13	52%	\$25	\$0
Other	\$407	\$265	65%	\$407	\$0
Transfer	\$3,599	\$3,599	100%	\$3,599	\$0
Total Revenues	\$9,596	\$6,554	68%	\$9,596	\$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.

NON-GENERAL FUND EXPENDITURES

The total budgeted expenditures for other funds, including transfers between funds, are \$13.7 million and actual expenditures as of the end of the second quarter were \$4.9 million, 36% of budget. The City expects that year-end expenditures will equal the budgeted amount.

Table 7 - FY 2017/18 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Revised Budget	Actual as of 12/31/2017	% of Budget	Projected Year End	Variance
Salaries and Benefits	\$547	\$265	48%	\$547	\$0
General Expenses	\$134	\$63	47%	\$134	\$0
Professional and Contract Services	\$1,193	\$319	27%	\$1,193	\$0
Maintenance and Repairs	\$485	\$202	42%	\$485	\$0
Supplies and Materials	\$259	\$35	14%	\$259	\$0
Utilities	\$636	\$219	34%	\$636	\$0
Promotions and Contributions	\$5	\$2	40%	\$5	\$0
Fixed Asset	\$613	\$104	17%	\$613	\$0
Transfer	\$947	\$947	100%	\$947	\$0
Capital Improvements	\$8,914	\$2,778	31%	\$8,914	\$0
Total Expenditures	\$13,733	\$4,934	36%	\$13,733	\$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 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 FY 2017/18 Third Quarter Revenue and Expenditure Report is expected to be published in April 2018.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2017/18 Second Quarter (October 1 – December 31, 2017) Revenue and Expenditure Report.