

City of Pleasant Hill
 First Quarter 2013/2014 Revenue and Expenditure Report
 (Unaudited)
 July 1, 2013- September 30, 2013

INTRODUCTION

Every two years, the City Council adopts a budget that allocates the City’s limited financial resources to the community’s top priorities. The budget reflects the goals of the City Council and provides funding to the City’s programs and services. As part of the process to ensure that the City remains financially sound, staff provides financial update reports to the City Council and other stakeholders on a quarterly basis. The following is a summary of the unaudited financial results for the first quarter of fiscal year (FY) 2013/2014 (July 1, 2013-September 30, 2013).

SUMMARY

FY 2013/2014 Revenue and Expenditure Summary (in \$1,000s)									
	Revenue			Expenditures			Surplus/(Deficit)		
	Budgeted	YE Projected (Unaudited)	Variance	Budgeted	YE Projected (Unaudited)	Variance	Budgeted	YE Projected (Unaudited)	Variance
General Fund	\$19,912	\$20,188	\$ 276	\$20,385	\$21,527	\$1,142	(\$ 473)	(\$ 1,339)	(\$ 866)
Other City Funds	\$15,940*	\$15,940*		\$16,616*	\$16,616*		(\$ 676)	(\$ 676)	
Total	\$35,852	\$36,128	\$ 276	\$37,001	\$38,143	\$1,142	(\$ 1,149)	(\$ 2,015)	(\$ 866)

***The second quarter update will include the carry-over of unexpended capital improvement project budget from the previous fiscal year 2012/2013. Due to the timing of capital projects, the collection of revenues and expenditures does not occur proportionately throughout the year.**

This is the first time we are incorporating projections for year-end results as part of the quarterly update. The projections are based on an analysis of actual results in relation to budgeted results.

GENERAL FUND REVENUES

The total budgeted General Fund revenues for fiscal year 2013/2014 were \$19.9 million. As of the close of the first quarter, the City is projecting that General Fund revenue will exceed FY 2013/2014 budget by \$276,000 or 1.4%. Actual first quarter revenues are 10.7% of the total revenue budgeted for fiscal year 2013/2014.

The following tables provide a summary of General Fund revenue by category.

FY 2013/2014 General Fund Revenues (in \$1,000s)	Adopted Budget FY 13/14	Actual as of September 30, 2013	Projected Revenue FY 13/14	% Projected Revenue	% Budget Received
Sales Tax	\$7,415	\$ 978	\$ 7,415	13.2%	13.2%
Property Tax	2,267		2,267	-	-
Property Tax, In Lieu of VLF	2,421		2,421	-	-
Other Taxes	3,953	537	4,203	12.8%	13.6%
Other:					
Licenses and Permits	2,697	244	2,844	8.6%	9.0%
Transfer	100	100	100	100.0%	100.0%
Charges for Services	579	215	556	38.7%	37.1%
Other Revenue	176	13	176	7.4%	7.4%
Use of Money and Property	178	8	56	14.3%	4.5%
Fines and Forfeitures	76	8	76	10.5%	10.5%
Intergovernmental	47	34	71	47.9%	72.3%
Rental	3		3	-	-
Total Revenues	\$19,912	\$2,137	\$20,188	10.6%	10.7%

GENERAL FUND

REVENUES

SALES TAX

Sales tax revenues were budgeted to be \$7.4 million in fiscal year 2013/2014 and the City is projecting that revenues will be on track with budget. Pleasant Hill's top 25 sales tax producers accounted for approximately 50.0% of the total sales tax revenue receipts. Actual sales tax revenue as of the first quarter FY 2013/2014 is 13.2% due to the timing of receipts and the cyclical nature of sales tax. The City had received 13.4% of sales tax revenue during the first quarter FY 2012/2013.

PROPERTY TAX

During the past several years, as property values fell during the Great Recession, property tax revenues declined as a result of houses being sold at losses and the Assessor reassessing values for the purpose of property taxes (Proposition 8 reductions). Property tax revenues were budgeted to be \$2.3 million for FY 2013/2014. No property tax revenue has been received due to the timing of payments from the County. However, the City is projecting that property tax revenue will be on track with budget due to assessed valuations.

VEHICLE LICENSE FEE (VLF): PROPERTY TAX IN LIEU OF VLF

The Motor Vehicle License Fee (VLF) is an annual tax on the ownership of registered vehicles that is collected by the State Department of Motor Vehicles then distributed to cities and counties. In 2004, the Legislature permanently reduced the tax rate from 2% to 0.65% of the current market value of the vehicle. The reduction in VLF revenue to cities and counties was offset by an increased transfer of property tax that accrued to the State but was then transferred to cities and counties. This transfer is

called the "Property Tax in Lieu of VLF." The City budgeted \$2.4 million for property tax in lieu revenue and is projecting that this amount will be received during the year. No property taxes in lieu of VLF payments have been received as of September, 2013 due to the timing of payments.

OTHER TAXES

The City collects a number of smaller taxes that supplement sales and property tax. The primary sources of revenue in this category are franchise fees and transient occupancy tax (TOT). Details regarding franchise fees and transient occupancy tax follow.

Franchise Fees

Franchise fees are rent paid by utility companies or private businesses to use the City's right of way. The City's right of way is property owned by the City for use by the public as a means of passage, and includes streets, alleys, sidewalks, and parkways. The City charges rent to utilities and private businesses to use the right-of-way, including locating utility lines or operating vehicles on City maintained streets. The City collects a franchise fee from Pacific Gas & Electric (PG&E) of 1% of PG&E revenues from Pleasant Hill customers and a franchise fee of 5% of revenue from cable operators AT&T/Pacific Bell, Comcast, and Astound. The City also collects a franchise fee of 12% of revenues from Allied Waste Management. Franchise fee revenues were budgeted to be \$2.1 million in 2013/2014. The City collected \$168,000 or 8% in franchise fees during the first quarter FY 2013/2014. The majority of franchise fee revenue is received during the second quarter.

This category of revenue also includes a community impact fee of \$250,000 from Allied Waste. The City received the second and final payment of this fee during the first quarter. The City is projecting that franchise fee revenue will

be \$250,000 or 12.0% over budget due to this payment. This payment is non-recurring.

Transient Occupancy Tax

The City has six hotels (Hyatt House, Courtyard by Marriott, Residence Inn by Marriott, Extended Stay America, Sun Valley Inn, and Pleasant Hill Inn) that collect and remit a 10% transient occupancy tax to the City. Revenue of \$1.4 million was budgeted for the year and actual collections were \$14,000 as of September, 2013. Quarterly payments of transient occupancy tax revenue are remitted in arrears. The City is projecting that revenue will be on track with budget for the fiscal year.

The balance of this category represents property transfer tax and utility user's tax revenue. The City budgeted \$137,000 in revenue for property transfer tax and \$225,000 in revenue from utility user's tax. The City is projecting that revenue will be on track with budget for both of these revenue categories.

LICENSES AND PERMITS

The primary source of revenue in this category is business license taxes. The City processed over 3,600 business license renewals this past year. Actual business license revenue as of September, 2013 was \$40,000. The majority of revenue will be collected during the business license tax

renewal period which commences during January, 2014. The City is projecting that actual revenue will be on track with the \$2.3 million budgeted for the fiscal year.

The remainder of revenue in this category is due to permits and fees which were budgeted at \$429,000. This category includes building fees, electrical permits, plumbing permits, and energy permits. The bulk of the revenue is generated from construction-related activity. The City is forecasting revenue of \$576,000 for the fiscal year. This is an increase of \$147,000, or 34.3%, over budget. Actual collections as of September, 2013 were \$284,000. This increase is primarily due to revenue generated from a few large construction-related projects.

OTHER REVENUE

This category includes numerous "other" revenues. The major sub-categories within this category include fines and forfeitures; charges for services; interest revenue; Police Officer Standards and Training (POST) reimbursements from the State; and transfers from other funds. This category also includes a budgeted surplus equity distribution from the Municipal Pooling Authority (MPA, the City's insurance pool) of \$151,000. The City budgeted and is projecting that revenues will be \$1.1 million for the FY 2013/2014.

GENERAL FUND EXPENDITURES

Total budgeted General Fund expenditures for FY 2013/2014 were \$20.4 million. As of the close of the first quarter, the City is projecting that General Fund expenditures will exceed the 2013/2014 fiscal year budget by \$1.1 million or 5.6%. This variance is primarily due to debt service and the carry-over of budgeted expenditures for economic development as discussed below. Actual first quarter expenditures are 31.4% of total expenditures budgeted for FY 2013/2014. Variances and fluctuations are noted in the narrative that follows.

The following two tables provide summaries of General Fund expenditures by category and department.

General Fund Expenditures (in \$1,000s)	Adopted Budget FY 13/14	Actual as of September 30, 2013	Projected Expenditures FY 13/14	% Projected Expenditures	% Budget Expended
Salaries	\$10,072	2,198	\$ 9,852	22.3%	37.3%
Benefits	5,048	1,160	4,633	25.0%	23.0%
Non Departmental	233	40	233	17.2%	17.2%
General Expenses	748	132	784	16.8%	17.6%
Economic Dev Market Study and Grant Loans	50	12	627	1.9%	24.0%
Professional and Contract Svc	801	221	1,062	20.8%	27.6%
Other Expenditures:					
Conferences and Training	196	21	193	10.9%	10.7%
Maintenance and Repairs	249	29	248	11.7%	11.6%
Supplies and Materials	250	43	252	17.1%	17.2%
Utilities	412	119	412	28.9%	28.9%
Insurance	457	444	456	97.2%	97.2%
Promotions and Contributions	92	25	105	23.8%	27.2%
Fixed Assets	31		31	-	-
Debt Service		221	893	24.7%	N/A
Transfer	1,746	1,746	1,746	100.0%	100.0%
Total Expenditures	\$20,385	\$6,411	\$21,527	29.8%	31.4%

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FY 2013/2014 General Fund Expenditures by Department (in \$1,000s)	Adopted Budget FY 13/14	Actual as of September 30, 2013	Projected Expenditures FY 13/14	% Adopted Budget
<u>General Government</u>				
City Council	\$ 156	\$ 25	\$ 156	16.0%
City Manager	652	133	655	20.4%
City Attorney	467	98	420	21.0%
City Clerk	100	3	91	3.0%
City Treasurer	11	3	11	-
Economic Development	353	72	1,013	20.4%
Finance	945	178	945	18.8%
Computer Services	15	3	15	20.0%
Human Resources	533	130	533	24.4%
Risk Management	455	444	455	97.6%
City Hall Facility	156	36	156	23.1%
Non-departmental	<u>330</u>	<u>51</u>	<u>330</u>	<u>15.5%</u>
Total General Government Expenditures	4,173	1,176	4,780	28.2%
<u>Public Safety</u>				
Police	<u>10,243</u>	<u>2,265</u>	<u>9,885</u>	<u>22.1%</u>
Total Public Safety Expenditures	10,243	2,265	9,885	22.1%
<u>Transportation</u>				
Public Works Engineering	856	157	856	18.3%
Public Works Maintenance	<u>1,880</u>	<u>493</u>	<u>1,880</u>	<u>26.2%</u>
Total Transportation Expenditures	2,736	650	2,736	23.8%
<u>Community Development</u>				
Planning	870	199	870	22.9%
Building Inspection	533	130	533	24.4%
Community Relations	<u>84</u>	<u>23</u>	<u>84</u>	<u>27.4%</u>
Total Community Development	1,487	352	1,487	23.7%
<u>Debt Service</u>				
Side Fund Debt Service		222	893	N/A
<u>Transfers To-</u>				
Street Resurfacing Program	200	200	200	100.0%
Computer Technology Replacement	220	220	220	100.0%
Vehicle & Equipment Replacement Fund	53	53	53	100.0%
Police Technology Fund	374	374	374	100.0%
Landscaping & Lighting District	3	3	3	100.0%
Comm Landscaping Lighting District	98	98	98	100.0%
Vehicle Abatement Fund	12	12	12	100.0%
Lease Revenue Refunding Bonds	<u>786</u>	<u>786</u>	<u>786</u>	<u>100.0%</u>
Total Transfer Out	1,746	1,746	1,746	100.0%
TOTAL UNAUDITED EXPENDITURES	\$20,385	\$6,411	\$21,527	31.4%

EXPENDITURES

SALARY AND BENEFITS

Personnel costs account for approximately 70%-80% of General Fund expenditures. Salary and benefits were budgeted at \$15.1 million and actual expenditures as of the first quarter were \$3.4 million or 22.2% of budget. Expenditures for salary and benefits are projected to be \$14.4 million lower than budget by \$635,000 or 4.2%. This variance is primarily due to two factors:

1. The City Attorney function was outsourced. As a result, salaries and benefits are lower and professional and contractual services are higher than were originally budgeted.
2. Benefit costs are lower than originally budgeted due to the payoff of the California Public Retirement System (CalPERS) Public Safety side fund obligation with funding secured through a loan with Umpqua Bank. This is discussed further in the Other Expenditure category.

Note that the current employee labor contracts also include significant structural changes that achieve cost savings in benefit categories such as medical insurance, pension, as well as 401(A) contributions.

NON DEPARTMENTAL

This category includes a budget of \$233,000 in expenditures for buybacks of unused sick leave and vacation leave when employees retire, property tax administrative fees paid to Contra Costa County, and contractual services for sales tax and property tax consultants. Actual expenditures as of September, 2013 are \$40,000

or 17.2% of budget. The City is projecting that expenditures will be on track with budget.

GENERAL EXPENSES

This category includes budgeted expenditures of \$748,000 for postage, printing, memberships, publications and subscriptions, and other miscellaneous expenditures. The City is forecasting expenditures of \$784,000, \$36,000 over budget due to carry-over of budget from the previous year. Actual expenditures as of the first quarter FY 2013/2014 are \$132,000 or 17.6% of budget.

ECONOMIC DEVELOPMENT

In the past, all economic development projects and programs in the City were funded solely by the Redevelopment Agency. With the dissolution of Redevelopment, the General Fund began funding Economic Development projects and programs. Expenditures of \$50,000 were budgeted for 2013/2014. The City is forecasting expenditures of \$627,000 for the carry-over of unexpended budget from the previous year due to the timing of on-going and continuing Economic Development projects.

PROFESSIONAL AND CONTRACT SERVICES

Eight-hundred one thousand dollars were budgeted for contractual services for legal counsel, auditing, video-taping, contracted animal control services, and minute taker services. Actual professional and contract services were \$221,000 or 27.6% of budgeted expenditures. The City is forecasting expenditures of \$1.06 million for the fiscal year. The increase of \$261,000 or 32.6% is primarily due to the shift of budgeted expenditures for City Attorney costs from the salaries and benefits category to the professional and contractual

services category due to the outsourcing of this function.

OTHER EXPENDITURES

This category includes the major subcategories of debt service; conferences and training; maintenance and repairs; supplies and materials; utilities; insurance; promotions and contributions; fixed assets and transfers. Expenditures were budgeted to be \$3.4 million and the City is forecasting expenditures will be \$4.3 million. The primary variance is due to an annual debt service payment on the City's loan with Umpqua Bank for \$893,000 which is 26.2% of budgeted expenditures. The City paid off the Public Safety side fund obligation* by securing funding through a loan with Umpqua Bank in June, 2013. The refinancing of this obligation

achieves net present value savings of approximately \$684,000 over an 11 year term. Since this transaction occurred after the adoption of the Biennial Budget, the debt service payments were not included in the budget.

***In 2003, CalPERS implemented a requirement that all pension plans with less than 100 active members be assigned to a risk-sharing pool with other agencies having similar benefit packages. Effective July 1, 2005, the City joined the newly established State-wide pools. The purpose of these pools was to reduce the volatility in pension costs so that a larger group would share the impact of a catastrophic demographic event. The unfunded liability on July 1, 2005 is called the side fund.**

GENERAL FUND FINANCIAL CONDITION

Unaudited General Fund Balance as of June 30, 2013

The actual unaudited General Fund balance for FY 2012/2013 was \$2.0 million greater than was projected in the budget for FY 2012/2013 due to revenues being higher and expenditures being lower than originally budgeted. As discussed in the FY 2012/2013 Annual Revenue and Expenditure Report presented at the 11/14/2013 Budget Committee meeting, the most significant portion of this variance was due to savings generated by staffing vacancies. Many of these positions are in the process of being filled during the FY 2013/2014. Additionally, the Economic Development program budget allocated \$0.6 million for the Retail Marketing Incentive Program; Facade Improvement Grant and Loan Program; and City Gateway Beautification Program but the funds were not expended by the end of the 2012/2013 year. The budget for these expenditures was carried over and is included in the Economic Development department forecast for the FY 2013/2014. Based on unaudited financial results the City projected the General

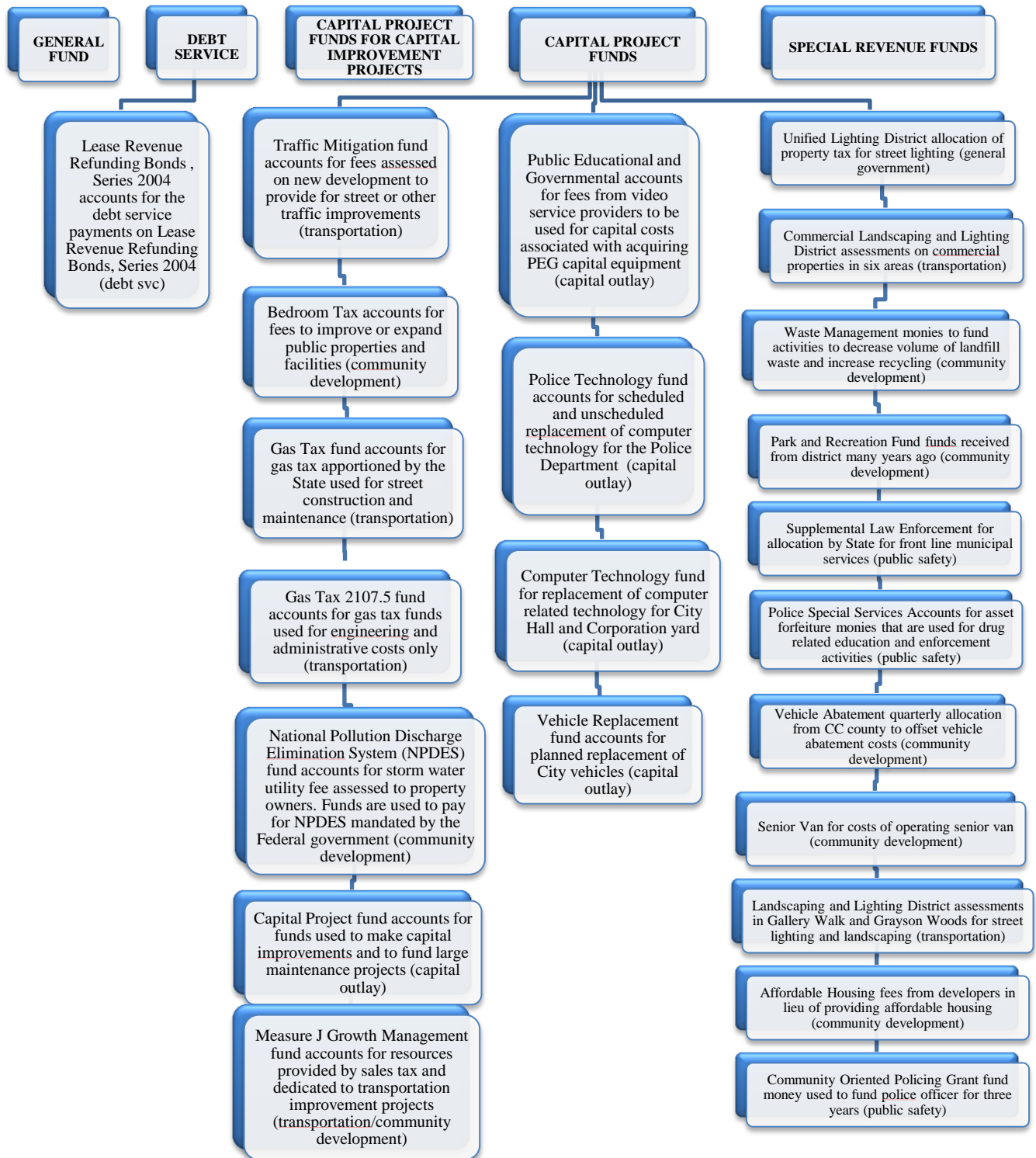
Fund balance as of June 30, 2013 will be \$12.5 million.

Projected General Fund Balance as of June 30, 2014

The General Fund budget projected a deficit of \$473,656 for the FY 2013/2014. Based on the first quarter review, the revised deficit being projected for this fiscal year is \$1.3 million. The increase in the projected deficit for FY 2013/2014 is primarily due to the carry-over of unexpended Economic Development appropriations from the 2012/2013 fiscal year and debt service on the Umpqua Bank loan which was not included in the adopted budget. When the Biennial Budget was adopted in June, 2012, the projected General Fund balance as of June 30, 2014 was \$9.8 million. Based on the first quarter review, the projected General Fund balance for the fiscal year is \$11.2 million. The favorable variance of \$1.4 million in the fund balance is primarily due to savings generated during the previous fiscal year, as discussed above.

OTHER CITY FUNDS (NON-GENERAL FUND)

In addition to the General Fund, the City has other fund types: Debt Service, Capital Improvement, Capital Project, and Special Revenue Funds as detailed in this chart.



OTHER CITY FUNDS

Unlike the General Fund, which can be used for any appropriate government purpose as designated by the Council, other City funds can only be used for specified purposes, such as capital improvements, debt service, or a particular program such as the Senior Van. The following provides an update on these funds for the first quarter of FY 2013/2014. The second quarter update will incorporate projected expenditures for FY 2013/2014.

REVENUE

Total budgeted revenues for other funds, including revenue transferred between funds, were \$15.9 million and actual revenues as of September, 2013 were \$4.5 million or 28.2% of budget.

Other City Funds Revenues & Sources (Non-General Fund) (\$1,000s)	Adopted Budget FY 13/14	Actual Revenues as of September 30, 2013	% Adopted Budget
Property Tax	\$434	\$ 0	N/A
Other –Taxes and Assessments	705	8	1.1%
Intergovernmental	11,629	1,776	15.3%
Charges for Services	239	2	N/A
Fines and Forfeitures	96	11	11.5%
Use of Money and Property	69		N/A
Other	151	89	58.9%
Transfer	2,617	2,617	100.0%
Total Revenues and Sources	\$15,940	\$4,503	28.2%

EXPENDITURES

The total budgeted expenditures for other funds, including transfers between funds, were \$16.6 million and actual expenditures as of September, 2013 were \$2.7 million or 16.1% of budget.

Other City Funds Expenditures & Uses (Non-General Fund) (\$1,000s)	Adopted Budget FY 13/14	Actual Expenditures as of September 30, 2013	% Adopted Budget
General Government	\$237	\$57	24.0%
Public Safety	233	23	9.8%
Transportation	12,371	1,333	10.8%
Community Development	759	92	12.1%
Capital Outlay	1,256	202	16.1%
Debt Service	785	-	-
Transfer	975	975	100.0%
Total Expenditures and Uses	\$16,616	\$2,682	16.1%

Due to the timing of capital projects the collection of revenues and expenditures does not occur proportionately throughout the fiscal year. Therefore variances with the budget are customary.

The largest category variance for revenues is the intergovernmental category. The budget for the intergovernmental category was \$11.6 million and actual revenue was \$1.8 million or 15.3% of budget for the first quarter. This category includes revenues from grant proceeds, Rule 20A and other sources such as Measure J funds. Of this amount, intergovernmental revenue of \$7.6 million was projected for the Traffic Mitigation fund and \$3.2 million was projected for the Gas Tax fund. Since the majority of this category is for grants which are reimbursable, the City will receive the grants funds once the work has been completed on the projects being funded by this money.

The largest expenditure category is the transportation category. Several of the largest infrastructure projects in this category are funded in part by grants. Significant progress has been made on these projects and the variance is due to the timing of expenditures. Description of the projects for the FY 2013/2014 is included in the 2013-2018 Capital Improvement Plan.

The capital outlay category variance is due to the timing of expenditures for technology and vehicle related expenditures.

The community development category variance is also related to the timing of expenditures. The National Pollution Discharge Elimination System (NPDES) Fund has not expended budgeted funds due to project timing.

The debt service category variance is due to the timing of debt service payments for the Lease Revenue Refunding Bonds, Series 2004.

IMPLICATIONS FOR 2013/2014

General Fund

Based on the first quarter review, the General Fund balance is projected to be \$11.2 million as of June 30, 2014. As discussed above, this is a \$1.4 million favorable variance over the FY 2013/2014 budgeted General Fund balance of \$9.8 million, due primarily to expenditure savings in FY2012/2013 due to staff vacancies. This projection will be updated as more information becomes available during the second quarter.

Other City Funds

Staff will incorporate the revised budget appropriations, which will include the carry-over of previous year's unexpended appropriations, during the second quarter update of financial results.

NEXT UPDATE

Staff will be presenting the audited Comprehensive Annual Financial Report for the FY 2012/2013 during January, 2014.

A quarterly update for the second quarter of FY 2013/2014 will be provided during February, 2014.