



City of Pleasant Hill

MEMORANDUM

TO: City Council

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

DATE: June 30, 2014

SUBJECT: Fiscal Year (FY) 2013/2014 Third Quarter (January 1 – March 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 third quarter of fiscal year (FY) 2013/2014 (January 1 – March 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 2013/2014 with a General Fund surplus of \$701,000.

Table 1 - FY 2013/2014 Revenue and Expenditure Summary (in \$1,000s)

		General Fund	Other City Funds	Total
Revenue	Budgeted	\$19,912	\$15,775	\$35,687
	Year End Projected	\$20,554	\$15,775	\$36,329
	Variance	\$642	\$0	\$642
Expenditures	Budgeted	\$20,385	\$16,448	\$36,833
	Year End Projected	\$19,853	\$16,448	\$36,301
	Variance	(\$532)	\$0	(\$532)
Surplus/Deficit	Budgeted	(\$473)	(\$673)	(\$1,146)
	Year End Projected	\$701	(\$673)	\$28
	Variance	\$1,174	\$0	\$1,174

The year-end General Fund surplus of \$701,000 projected as of the end of the third quarter is a considerable improvement over the projection as of the end of the second quarter, a \$46,000 surplus. The change is due both to projected increases in revenues and decreases in expenditures over those projected as of the end of the second quarter.

Whereas the adopted biennial budget anticipated a General Fund balance of \$9.8 million at the end of FY 2013/2014, due to a larger than expected FY 2013/2014 beginning balance and the projected surplus, the City is now projecting as of the end of the third quarter that the City will end FY 2013/2014 with a General Fund balance of \$13.6 million. This is an improvement over the ending fund balance of \$12.7 million projected as of the end of the second quarter.

GENERAL FUND REVENUES

General Fund revenues for FY 2013/2014 were budgeted at \$19.9 million. As of the close of the third quarter, the City is projecting that year-end General Fund revenue will equal \$20.6 million, exceeding budget by \$642,000 (3.2%). The following table summarizes General Fund revenue by category. Significant changes since the second quarter are property tax, VLF and transfers. Staff does not have any information that would suggest that revenue will be higher than that projected below.

Table 2 - FY 2013/2014 General Fund Revenue Summary (in \$1,000s)

Revenue Type	Adopted Budget	Actual as of 3/31/14	% of Budget	Projected Year End	Variance
Sales Tax	\$7,415	\$4,972	67%	\$7,512	\$97
Property Tax	\$2,267	\$1,342	59%	\$2,375	\$108
Property Tax in Lieu of VLF	\$2,421	\$1,264	52%	\$2,528	\$107
Other Taxes	\$1,854	\$1,036	56%	\$2,055	\$201
Other:					
Franchise Fees	\$2,099	\$1,129	42%	\$1,998	(\$101)
Licenses and Permits	\$2,697	\$2,596	96%	\$2,853	\$156
Transfer	\$100	\$286	0%	\$286	\$186
Charges for Services	\$579	\$517	89%	\$733	\$154
Other Revenue	\$176	\$55	31%	\$60	(\$116)
Use of Money and Property	\$178	-	0%	\$50	(\$128)
Fines and Forfeitures	\$76	\$28	37%	\$55	(\$21)
Intergovernmental	\$47	\$48	634%	\$49	\$2
Rental	\$3	0	-		(\$3)
Total Revenues	\$19,912	\$13,273	67%	\$20,554	\$642

Sales Tax

Sales tax revenues were budgeted to be \$7.4 million in FY 2013/2014. The City is projecting that year-end sales tax revenues will equal \$7.5 million, exceeding budget by \$100,000 (1.4%).

Property Tax

Property tax revenues were budgeted to be \$2.3 million for FY 2013/2014. The City is projecting, based on collections to date and known assessed valuation, that year-end revenue will be \$2.4 million.

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 \$2.4 million for this revenue in FY 2013/2014 and, based on collections to date, the City is projecting that year-end revenue will be \$2.5 million,

exceeding budget by \$107,000 (4.4%).

Other Taxes

The City collects a number of smaller taxes that supplement sales and property tax. These include transient occupancy (hotel) tax (TOT), property transfer tax, and utility user tax. The City is projecting, based on collections to date, that the year-end revenue will be \$2.1 million, exceeding budget by \$201,000 (11%), primarily due to an increase in transient occupancy tax due to the economic recovery and improved consumer confidence.

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 from Pacific Gas & Electric (PG&E) of 1% of revenues and 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 FY 2013/2014. The City is projecting that franchise fee revenue will remain unchanged from budget at \$2.0 million, based on collections to date.

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. The majority of revenue will be collected during the business license tax renewal period, which commences in January 2014. The City is projecting that actual revenue for business license tax will be on track with the \$2.3 million budgeted.

The remainder of revenue in this category is due to permits and fees which were budgeted at \$429,000. This category includes building permit fees, electrical permits, plumbing permits, and energy permits primarily generated from construction-related activity. The City is projecting revenue of \$553,000 for the fiscal year. This is an increase of \$124,000, or 29%, over budget, primarily due to revenue generated from a few large construction-related projects.

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. 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 \$1.1 million for FY 2013/2014 and is projecting that revenues will be \$1.2 million. The variance is due to an increase in charges for services from engineering fees/inspections. Several developer deposits collected for fees in advance were recognized as revenue during the year.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2013/2014 were budgeted at \$20.4 million. As of the close of the third quarter, the City is projecting that year-end General Fund expenditures will equal \$19.9 million. The only significant changes since the second quarter are salaries, non-departmental and economic development expenditures. The following two tables summarize General Fund expenditures by category and department.

Table 3 - FY 2013/2014 General Fund Expenditure Summary, By Category (in \$1,000s)

Expenditure Type	Adopted Budget	Actual as of 3/31/14	% of Budget	Projected Year End	Variance
Salaries	\$10,072	\$6,645	66%	\$9,204	(\$868)
Benefits	\$5,048	\$3,068	61%	\$4,343	(\$705)
Non Departmental	\$233	\$360	155%	\$287	\$54
General Expenses	\$748	\$404	54%	\$620	(\$128)
Economic Dev Market Study and Grant Loans	\$50	\$50	100%	\$170	\$120
Professional and Contract Svc	\$801	\$862	108%	\$1,117	\$316
Other Expenditures:					
Conferences and Training	\$196	\$73	37%	\$150	(\$46)
Maintenance and Repairs	\$249	\$136	55%	\$150	(\$99)
Supplies and Materials	\$250	\$129	52%	\$181	(\$69)
Utilities	\$412	\$316	77%	\$415	\$3
Insurance	\$457	\$462	101%	\$454	(\$3)
Promotions and Contributions	\$92	\$66	72%	\$104	\$12
Fixed Assets	\$31	-	-	-	(\$31)
Debt Service	\$0	\$669	n/a	\$890	\$890
Transfer	\$1,746	\$1,746	100%	\$1,768	\$22
Total Expenditures	\$20,385	\$14,986	74%	\$19,853	(\$532)

Table 4 - FY 2013/2014 General Fund Expenditure Summary, By Department (in \$1,000s)

Department	Adopted Budget	Actual as of 3/31/14	% of Budget	Projected Year End	Variance
City Council	\$156	\$85	54%	\$151	(\$5)
City Manager	\$652	\$528	81%	\$672	\$20
City Attorney	\$467	\$286	61%	\$427	(\$40)
City Clerk	\$100	\$11	11%	\$44	(\$56)
City Treasurer	\$11	\$9	82%	\$12	\$1
Economic Development	\$353	\$282	80%	\$554	\$201
Finance	\$945	\$589	62%	\$763	(\$182)
Computer Services	\$15	\$20	133%	\$16	\$1
Human Resources	\$533	\$392	74%	\$432	(\$101)
Risk Management	\$455	\$462	102%	\$453	(\$2)
City Hall Facility	\$156	\$92	59%	\$156	\$0
Non-departmental	\$330	\$280	85%	\$346	\$16
Police	\$10,243	\$6,475	63%	\$9,139	(\$1,104)
Public Works Engineering	\$856	\$537	63%	\$763	(\$93)
Public Works Maintenance	\$1,880	\$1,439	77%	\$1,814	(\$66)
Planning	\$870	\$618	71%	\$865	(\$5)
Building Inspection	\$533	\$410	77%	\$526	(\$7)
Community Relations	\$84	\$56	67%	\$81	(\$3)
Debt Service		\$669	n/a	\$891	\$891
Transfers	\$1,746	\$1,746	100%	\$1,746	\$0
Total Expenditures	\$20,385	\$14,986	74%	\$19,853	(\$532)

Salary and Benefits

Personnel costs (salaries and benefits) account for approximately 68% of General Fund expenditures. Salary and benefits were budgeted at \$15.1 million and are projected to be \$13.5 million at year end, lower than budget by \$1.6 million (10.6%). This variance is primarily due to three factors:

- 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.
- There were several vacant positions in the Police Department during the fiscal year.
- Benefit costs are lower than originally budgeted due to the payoff of the California Public Employees' Retirement System (CalPERS) Public Safety side fund obligation with funding from a loan with Umpqua Bank. Repayment of the loan is budgeted as debt service rather than benefits, which is discussed further in the Other Expenditures category below.

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 payments to former retirees for reimbursement of medical premiums from

their “sick leave bank.” Prior to the establishment of the Retiree Health Savings Plan several years ago, the city contributed the monetary value of unused sick leave for eligible retirees to a sick leave bank. The variance is due to actual reimbursements being more than was budgeted for FY 2013/2014. The contributions to Retiree Health Savings Plan for current retirees are reflected in the benefits category.

General Expenses

This category includes budgeted expenditures of \$748,000 for postage, printing, memberships, publications and subscriptions, and other miscellaneous expenditures. The City is projecting expenditures of \$620,000.

Economic Development Market Study and Grant Loans

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 projecting expenditures of \$170,000 due to the carry forward of unexpended budget from the previous year. When the second quarter report was prepared, we projected expenditures of \$600,000 would be incurred for FY 2013/2014. Due to the timing of continuing Economic Development projects, some of these projected expenditures have shifted to FY 2014/15 and FY 2015/2016.

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. The City is projecting expenditures of \$1.1 million for the fiscal year. The increase of \$314,000 (39%) is primarily due to the shift of expenditures for City Attorney costs from the salaries and benefits category to the professional and contract 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 projecting expenditures will be \$4.1 million. The variance is primarily due to new debt service 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. This shifted this expense from the benefits category to the debt service category. The City is repaying the loan more rapidly than it would have paid down the obligation through regular payments to CalPERS, which will result in savings to the City over time. Annual debt service for the loan with Umpqua Bank is \$891,000.

GENERAL FUND FINANCIAL CONDITION

Projected General Fund Balance as of June 30, 2014

The City's audited General Fund balance as of June 30, 2013 was \$12.7 million. The adopted biennial budget projected a General Fund deficit of approximately \$472,000 for FY 2013/2014. Based on the third quarter review, a surplus of \$701,000 is being projected. 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 third quarter review, the projected General Fund ending balance for the fiscal year is \$13.6 million. This is an improvement over the projection contained in the second quarter report, that the FY 2013/2014 year-end General Fund balance would be \$12.7 million.

Table 5 - FY 2013/2014 General Fund Ending Balance (in \$1,000s)

	Adopted Budget	Projected Year End	Variance
Beginning Fund Balance	\$10,234	\$12,867*	\$2,633
Revenue	\$19,913	\$20,554	\$641
Expenditures	\$20,385	\$19,853	\$(532)
Surplus/Deficit	\$(472)	\$701	\$1,173
Ending Fund Balance	\$9,762	\$13,568	\$3,806

*adjustment for allocation of FY 2012/2013 salaries to capital improvement projects

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 third quarter of FY 2013/2014.

REVENUE

Total budgeted revenues for other funds, including revenue transferred between funds, were \$15.8 million, and actual revenues as of the close of the third quarter were \$9.5 million, 60% of budget.

Table 6 - FY 2013/2014 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Adopted Budget	Actual as of 03/30/14	% of Budget	Projected Year End	Variance
Property Tax	\$434	\$214	49%	\$434	0%
Other – Taxes and Assessments	\$736	\$705	96%	\$736	0%
Intergovernmental	\$11,629	\$5,908	51%	\$11,629	0%
Charges for Services	\$239	\$16	7%	\$239	0%
Fines and Forfeitures	\$96	\$43	45%	\$96	0%
Use of Money and Property	\$69	\$8	12%	\$69	0%
Other	\$151	\$170	113%	\$151	0%
Transfer	\$2,421	\$2,421	100%	\$2,421	0%
Total Revenues	\$15,775	\$9,485	60%	\$15,775	0%

The largest category for non-General Fund revenues is the intergovernmental category. The budget for the intergovernmental category was \$11.6 million and actual revenue as of the end of the third quarter was \$5.9 million, 51% of budget. 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.

EXPENDITURES

The total budgeted expenditures for other funds, including transfers between funds, were \$16.4 million, and actual expenditures as of the end of the third quarter were \$8.7 million, 53% of budget.

Table 7 - FY 2013/2014 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Adopted Budget	Actual as of 03/30/2014	% of Budget	Projected Year End	Variance
General Government	\$237	\$134	57%	\$134	0%
Public Safety	\$233	\$141	61%	\$141	0%
Transportation	\$12,403	\$6,092	49%	\$6,092	0%
Community Development	\$759	\$282	37%	\$282	0%
Capital Outlay	\$1,256	\$560	45%	\$560	0%
Debt Service	\$785	\$743	95%	\$743	0%
Transfer	\$775	\$775	100%	\$775	0%
Total Expenditures	\$16,448	\$8,728	53%	\$8,728	0%

The largest non-General Fund expenditure category is transportation. This is primarily comprised of large transportation-related capital projects that are grant funded. Significant progress has been made on these projects. The variance is due to the timing of expenditures. Descriptions of the projects for FY 2013/2014 can be found in the City's FY 2012/2018 Capital Improvement Plan.

Almost all of the variance from budget in the other categories is also due to the timing of expenditures. As of the close of the third quarter, all of these efforts are considered to be on track for completion by the end of the fiscal year.

FINANCIAL INDICATORS

The table below includes key financial indicators in order to provide the public with additional information about the City’s financial condition and to provide increased transparency. The City analyzes key financial indicators on a quarterly basis.

Table 8 - FY 2013/2014 General Fund Financial Indicators

	<u>FY 2012/2013</u> <u>Year End</u>	<u>FY 2013/2014</u> <u>3rd 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	19.30
<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%	21%
<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%	60%

NEXT UPDATE

A quarterly update for the fourth quarter of FY 2013/2014 will be provided in August 2014.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2013/2014 Third Quarter (January 1 – March 31, 2014) Revenue and Expenditure Report.