



City of Pleasant Hill

MEMORANDUM

TO: Tim Flaherty, Budget Committee Chair
Sue Noack, Budget Committee Member

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

DATE: November 1, 2017

SUBJECT: Fiscal Year (FY) 2016/17 Fourth Quarter (April 1 – June 30, 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 fourth quarter of fiscal year (FY) 2016/17 (April 1 – June 30, 2017) is provided below.

SUMMARY

Table 1 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 2016/17, the City had General Fund revenues that were \$671,000 higher than what was budgeted, primarily due to Measure K transaction and use tax revenue that was received in the last quarter. In addition, expenditures were \$590,000 lower than what was budgeted due to lower personnel related costs. This resulted in the actual year-end deficit declining from \$2.6 million originally budgeted to \$1.3 million. Other City Fund revenues are \$3 million lower than budgeted and expenditures are \$1.8 million lower than budgeted, due to the timing of capital improvement projects and grant reimbursements. The actual ending General Fund balance for FY 2016/17 was \$13 million, \$2 million higher than the \$11 million anticipated in the adopted biennial budget. This is due to a larger than expected beginning fund balance, Measure K transaction and use tax revenues, and lower expenditures.

Table 1 - FY 2016/17 Revenue and Expenditure Summary (in \$1,000s)

		General Fund	Other City Funds	Total
Revenue	Budgeted	\$23,054	\$11,929	\$34,983
	Year End Projected	\$23,725	\$8,876	\$32,601
	Variance	\$671	(\$3,053)	(\$2,382)
Expenditures	Budgeted	\$25,612	\$15,291	\$40,903
	Year End Projected	\$25,022	\$13,472	\$38,494
	Variance	(\$590)	(\$1,819)	(\$2,409)
Surplus/Deficit	Budgeted	(\$2,558)	(\$3,361)	(\$5,919)
	Year End Projected	(\$1,297)	(\$4,596)	(\$5,893)
	Variance	\$1,261	(\$1,235)	\$26

GENERAL FUND REVENUES

General Fund revenues for FY 2016/17 were budgeted at \$23.1 million. Actual General Fund revenue for FY 2016/17 was \$23.7 million, \$671,000 over the budgeted amount. The following table summarizes General Fund revenue by category.

Table 2 - FY 2016/17 General Fund Revenue Summary (in \$1,000s)

Revenue Type	Adopted Budget	Actual as of 06/30/17 (Unaudited)	% of Budget	Variance
Sales Tax	\$8,642	\$8,437	98%	(\$205)
Measure K Transaction and Use Tax		\$478		\$478
Property Tax	\$2,824	\$3,010	107%	\$186
Property Tax in Lieu of VLF	\$3,076	\$3,101	101%	\$25
Other Taxes	\$5,028	\$5,161	103%	\$133
Other:				
Franchise Fees	\$1,938	\$1,958	101%	\$20
Licenses and Permits	\$632	\$673	106%	\$41
Charges for Services	\$454	\$469	103%	\$15
Other Revenue	\$171	\$148	87%	(\$23)
Transfer	\$100	\$100	100%	\$0
Use of Money and Property	\$52	\$61	117%	\$9
Fines and Forfeitures	\$56	\$88	157%	\$32
Intergovernmental	\$81	\$41	51%	(\$40)
Total Revenues	\$23,054	\$23,725	103%	\$671

Sales Tax

Sales tax revenues were budgeted at \$8.6 million in FY 2016/17. Actual sales tax revenues were \$8.4 million, slightly lower than budgeted by \$205,000. The reduction was primarily due to one-time adjustments processed by the Board of Equalization for previous sales tax allocations.

Measure K Transaction and Use Tax

The Measure K transaction and use tax became effective on April 1, 2017 and the City collected \$478,000 during the year. Expenditures for specific projects to be funded by Measure K will be approved by the City Council through the Capital Improvement Plan (CIP).

Property Tax

Property tax revenue was budgeted to be \$2.8 million, and actual year-end revenue was \$3.0 million, exceeding budget by \$186,000. The increase in property tax was primarily due to the recapture of Proposition 8 valuation reductions and higher assessed valuations on residential properties that have changed ownership.

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." Based on collections, the City received \$3.1 million for the year.

Other Taxes

The City collects a business license tax and a number of other smaller 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. The year-end revenue for these taxes was \$5.2 million, or \$133,000 greater than was originally budgeted, due to higher transient occupancy tax revenue and property transfer tax.

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 \$1.9 million in FY 2016/17. Actual revenue was \$20,000 higher than budgeted.

Licenses and Permits

The revenue in this category is due to permits and fees, which were budgeted at \$632,000. This category includes building, electrical, plumbing, and energy permits, primarily

generated from construction-related activity. Actual revenue was \$673,000, a slight increase of \$41,000.

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 \$914,000 for FY 2016/17 and actual revenues were \$907,000, a slight decline of \$7,000.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2016/17 were budgeted at \$25.6 million. Actual expenditures for FY 2016/17 were \$25.0 million, a decrease of \$590,000. The following two tables summarize General Fund expenditures by category and department.

Table 3 - FY 2016/17 General Fund Expenditure Summary, By Category (in \$1,000s)

Expenditure Type	Adopted Budget	Actual as of 06/30/17 (Unaudited)	% of Budget	Variance
Personnel				
Salaries	\$10,822	\$10,702	99%	(120)
Benefits	\$5,711	\$5,416	95%	(295)
Benefit Buybacks and Contributions to Retiree Health Plans	\$427	\$566	133%	139
Public Safety PERS Side Fund Loan Debt	\$892	\$890	100%	(2)
Measure K		37		37
General Expenses	\$844	\$929	110%	85
Professional and Contract Svc	\$1,579	\$1,422	90%	(157)
Other Expenditures:				
Conferences and Training	\$195	\$181	93%	(14)
Maintenance and Repairs	\$316	\$213	67%	(103)
Supplies and Materials	\$264	\$271	103%	7
Utilities	\$456	\$429	94%	(27)
Insurance	\$608	\$548	90%	(60)
Promotions and Contributions	\$626	\$564	90%	(62)
Fixed Assets	\$33	\$15	45%	(18)
Transfer	\$2,839	\$2,839	100%	
Total Expenditures	\$25,612	\$25,022	98%	(590)

Table 4 - FY 2016/17 General Fund Expenditure Summary, By Department (in \$1,000s)

Department	Adopted Budget	Actual as of 06/30/17 (Unaudited)	% of Budget	Variance
City Council	\$162	\$163	101%	1
City Manager	\$991	\$944	95%	(47)
City Attorney	\$492	\$464	94%	(28)
Community Relations	\$410	\$377	92%	(33)
City Clerk	\$157	\$122	78%	(35)
City Treasurer	\$11	\$11	100%	-
Economic Development	\$620	\$488	79%	(132)
Non Departmental	\$497	\$1,052	212%	555
Administrative Services:				
Finance	\$801	\$815	102%	14
Computer Services	\$705	\$555	79%	(150)
Human Resources	\$661	\$627	95%	(34)
Measure K		37		37
Risk Management	\$606	\$555	92%	(51)
City Hall Facility	\$148	\$147	99%	(1)
Police	\$11,143	\$10,803	97%	(340)
Public Safety PERS Side Fund Loan Debt	\$890	\$890	100%	-
Engineering	\$1,049	\$1,212	116%	163
Street Resurfacing Transfer	\$1,500	\$1,500	100%	
Maintenance	\$2,548	\$2,356	92%	(192)
Planning	\$1,269	\$1,095	86%	(174)
Building Inspection	\$847	\$704	83%	(143)
Transfers to AD 20 and AD 22	\$105	\$105	100%	
Total Expenditures	\$25,612	\$25,022	98%	(590)

PersonnelSalary and Benefits

Salary and benefits were budgeted at \$16.5 million and personnel costs for the year were \$16.1 million, \$493,000 lower than originally budgeted. The variance was 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. Actual expenditures for FY 2016/17 were \$485,000, an increase over budget of \$55,000 for the year.

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. This category also included a one-time settlement payment. Expenditures for FY 2016/17 were \$929,000, \$85,000 higher than budgeted.

Professional and Contract Services

This category includes contractual services such as legal counsel, auditing, videotaping, and animal control. Expenditures for FY 2016/17 were \$1.4 million, \$157,000 lower than budgeted.

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 \$5.4 million and actual expenditures were \$5.1 million, a reduction of \$277,000. The variance was primarily due to lower than anticipated maintenance and repairs; insurance, and promotions and contributions costs.

GENERAL FUND FINANCIAL CONDITION

General Fund Balance

The adopted biennial budget included a beginning General Fund balance of \$13.6 million and projected a deficit of approximately \$2.6 million, resulting in an ending General Fund balance of \$11.0 million. Based on audited FY 2015/16 results, the City actually started FY 2016/17 with a

General Fund balance that was \$707,000 higher at \$14.3 million. Actual FY 2016/17 revenues were \$671,000 higher than budgeted and expenditures were \$590,000 lower than budgeted. As a result, the General Fund ended FY 2016/17 with a fund balance of \$13.0 million, an overall improvement of \$2.0 million.

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

	Adopted Budget	Projected Year End	Variance
Beginning Fund Balance	\$13,603	\$14,310	\$707
Revenue	\$23,054	\$23,725	\$671
Expenditures	\$25,612	\$25,022	(\$590)
Surplus/Deficit	(\$2,558)	(\$1,297)	\$1,261
Ending Fund Balance	\$11,045	\$13,013*	\$1,968

*Includes \$441,000 in net Measure K proceeds

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 FY 2016/17.

NON-GENERAL FUND REVENUE

Total budgeted revenue for other (non-General Fund) funds, including revenue transferred between funds, was \$12.0 million, and actual revenue for FY 2016/17 was \$8.9 million, as shown in the table below.

Table 6 - FY 2016/17 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Adopted Budget	Actual as of 6/30/17 (Unaudited)	% of Budget	Variance
Property Tax	\$453	\$508	112%	55
Other – Taxes and Assessments	\$528	\$382	72%	(146)
Intergovernmental	\$6,262	\$2,907	46%	(3,355)
Charges for Services	\$3	\$306	10200%	303
Fines and Forfeitures	\$94	\$108	115%	14
Use of Money and Property	\$31	\$31	100%	-
Other	\$372	\$419	113%	47
Transfer	\$4,186	\$4,215	101%	29
Total Revenues	\$11,929	\$8,876	74%	(3,053)

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 projected expenditures for other funds, including transfers between funds, were \$15.3 million and actual expenditures for FY 2016/17 were \$13.5 million.

Table 7 - FY 2016/17 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Adopted Budget	Actual as of 6/30/17 (Unaudited)	% of Budget	Variance
Salaries and Benefits	\$525	\$553	105%	28
General Expenses	\$982	\$949	97%	(33)
Professional and Contract Services	\$1,360	\$768	56%	(592)
Maintenance and Repairs	\$483	\$614	127%	131
Supplies and Materials	\$263	\$176	67%	(87)
Utilities	\$620	\$451	73%	(169)
Promotions and Contributions	\$5	\$4	80%	(1)
Fixed Asset	\$576	\$467	81%	(109)
Transfer	\$1,447	\$1,479	102%	32
Capital Improvements	\$9,030	\$8,011	89%	(1,019)
Total Expenditures	\$15,291	\$13,472	88%	(1,819)

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 2016/17 can be found in the City's FY 2016/17-2021 Capital Improvement Plan.

NEXT UPDATE

The audited financial results for FY 2016/17 will be presented to the Budget Committee in December 2017.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2016/17 Fourth Quarter (April 1 – June 30, 2017) Revenue and Expenditure Report.