



City of Pleasant Hill

MEMORANDUM

TO: Councilmember Timothy Flaherty, Budget Committee Chair
Vice Mayor Sue Noack, Budget Committee Member

FROM: Mary McCarthy, Finance Manager

DATE: February 24, 2020

SUBJECT: Fiscal Year (FY) 2019/20 Second Quarter (October 1 – December 31, 2019)
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 for the second quarter of fiscal year (FY) 2019/20 (October 1 – December 31, 2019) can be found below.

SUMMARY

The City is expecting to end FY 2019/20 with General Fund revenues that are \$144,000 higher than what was originally budgeted. In addition, expenditures are also projected to be higher by \$518,000. Whereas the biennial budget anticipated a General Fund balance of \$9.6 million at the end of FY 2019/20, due to a larger-than-expected beginning fund balance and slightly higher revenues that offset increased expenditures, the City is now projecting the General Fund will end FY 2019/20 with a fund balance of \$10.2 million.

GENERAL FUND REVENUES

General Fund revenues for FY 2019/20 were budgeted at \$26.4 million and are now projected to be \$26.6 million. Table 1 summarizes revenues by category.

Table 1 - FY 2019/20 General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2019/20	Actuals as of 12/31/2019	% of Revised Budget	Projected Year End	Variance
Sales Tax	\$9,734	\$3,899	40%	\$9,534	(\$200)
Property Tax	\$3,264	\$1,885	58%	\$3,356	\$92
Property Tax in Lieu of VLF	\$3,571	\$0	0%	\$3,675	\$104
Other Taxes	\$5,991	\$1,360	23%	\$6,035	\$44
Other:					
Franchise Fees	\$2,067	\$564	27%	\$2,068	\$1
Licenses and Permits	\$748	\$430	57%	\$748	\$0
Charges for Services	\$522	\$213	41%	\$522	\$0
Other Revenue	\$246	\$38	15%	\$256	\$10
Transfer	\$100	\$100	0%	\$100	\$0
Use of Money and Property	\$73	\$29	40%	\$146	\$73
Fines and Forfeitures	\$58	\$25	43%	\$58	\$0
Intergovernmental	\$72	\$66	92%	\$92	\$20
Total Revenues	\$26,446	\$8,609	33%	\$26,590	\$144

Sales Tax

Sales tax revenues were budgeted to be \$9.7 million in FY 2019/20. Based on a recent analysis by the City's sales tax consultant HdL Companies, revenues are now projected to be \$9.5 million for the year. The reduction in sales tax is due to slight declines in projected growth in sales tax revenue across multiple categories.

Property Tax

Property tax revenues were budgeted to be \$3.3 million and based on collections to date, the City is on track to collect a slightly higher amount at \$3.4 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 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 collection of revenue received in February, 2020, the City is anticipating that \$3.7 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 December 2019, the City is projecting year-end revenue will be \$44,000 higher than budgeted due to higher property transfer taxes.

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 Wave Broadband. The City also collects a franchise fee of 12% of revenue from Allied Waste Management. Franchise fee revenues were budgeted to be \$2.1 million in FY 2019/20. 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 \$748,000. This category includes building, electrical, plumbing, and energy permits, primarily generated from construction-related activity. Due to the timing of projects underway this year, staff will re-evaluate projected revenue for this category during the next update.

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 \$1.1 million for FY 2019/20 and is on track to collect a slightly higher amount at \$1.2 million during the year.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2019/20 were budgeted at \$26.7 million and are now projected to be \$27.2 million. The following two tables summarize General Fund expenditures by category and department.

Table 2 - FY 2019/20 General Fund Expenditure Summary, By Category (in \$1,000s)

Expenditure Type	Revised Budget FY 2019/20	Actuals as of 12/31/2019	% of Revised Budget	Projected Year End	Variance
Personnel					
Salaries	\$11,890	\$6,301	53%	\$12,030	\$140
Benefits	\$7,067	\$3,429	49%	\$7,067	\$0
Benefit Buybacks and Contributions to Retiree Health Plans	\$330	\$583	177%	\$610	\$280
General Expenses	\$883	\$321	36%	\$865	(\$18)
Professional and Contract Svc	\$1,751	\$698	40%	\$1,797	\$46
Other Expenditures:					
Conferences and Training	\$454	\$199	44%	\$443	(\$11)
Maintenance and Repairs	\$460	\$96	21%	\$459	(\$1)
Supplies and Materials	\$376	\$184	49%	\$371	(\$5)
Utilities	\$405	\$246	61%	\$437	\$32
Insurance	\$863	\$766	89%	\$863	\$0
Promotions and Contributions	\$437	\$121	28%	\$492	\$55
Fixed Assets	\$25	\$24	96%	\$25	\$0
Transfer	\$1,780	\$1,780	100%	\$1,780	\$0
Total Expenditures	\$26,721	\$14,748	55%	\$27,239	\$518

Table 3 - FY 2019/20 General Fund Expenditure Summary, By Department (in \$1,000s)

Department	Revised Budget FY 2019/20	Actuals as of 12/31/2019	% of Revised Budget	Projected Year End	Variance
City Council	\$180	\$80	44%	\$180	\$0
City Manager	\$1,052	\$524	50%	\$1,052	\$0
City Attorney	\$518	\$222	43%	\$518	\$0
Community Relations	\$400	\$126	32%	\$473	\$73
City Clerk	\$116	\$49	42%	\$116	\$0
City Treasurer	\$12	\$6	50%	\$11	(\$1)
Economic Development	\$408	\$160	39%	\$407	(\$1)
Non Departmental	\$2,526	\$1,896	75%	\$2,779	\$253
Administrative Services:					
Finance	\$839	\$393	47%	\$839	\$0
Computer Services	\$843	\$547	65%	\$923	\$80
Human Resources	\$756	\$353	47%	\$762	\$6
Risk Management	\$863	\$766	89%	\$863	\$0
City Hall Facility	\$145	\$70	48%	\$135	(\$10)
Police	\$11,460	\$6,291	55%	\$11,578	\$118
Engineering	\$1,303	\$592	45%	\$1,303	\$0
Street Resurfacing Transfer	\$206	\$206	100%	\$206	\$0
Maintenance	\$2,745	\$1,254	46%	\$2,745	\$0
Planning	\$1,098	\$434	40%	\$1,098	\$0
Building Inspection	\$925	\$453	49%	\$925	\$0
Transfers to Vehicle Fund	\$223	\$223	100%	\$223	\$0
Transfers to AD 20 and AD 22	\$103	\$104	101%	\$103	\$0
Total Expenditures	\$26,721	\$14,749	55%	\$27,239	\$518

PersonnelSalaries and Benefits

Salaries and benefits were budgeted at \$18.9 million for FY 2019/20. Based on recent analysis, City staff is now projecting these costs will increase slightly by \$140,000 primarily due to increased overtime to provide staff support to the Police Department communications division and for staff time related to a cold case homicide investigation.

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. Projected expenditures are \$280,000 higher than originally budgeted due to higher-than- anticipated benefit buybacks and contributions for sick leave payouts upon employee retirements.

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. Projected expenditures are expected to be slightly lower than budgeted at \$865,000.

Professional and Contract Services

This category includes contractual services such as legal counsel, auditing, videotaping, and animal control. Projected expenditures for FY 2019/20 are expected to be slightly higher by \$46,000 primarily due to additional training cost for new employees.

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 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 \$4.8 million, and actual expenditures are expected to be slightly higher at \$4.9 million. The increase is primarily due to a higher-than-budgeted contribution toward library hours and fixed assets. When the budget was prepared, the City anticipated that the existing building would be closed during the summer of 2019. The Library is still open, and funding is required for the greater number of library hours. Additionally, funds are needed to replace firewalls to support the new mobile terminals in police vehicles.

General Fund Balance

The City actually started FY 2019/20 with a General Fund balance that was \$979,000 higher than was originally budgeted. Based on the second quarter review, the City is now projecting that the General Fund will end FY 2019/20 with a fund balance of \$10.2 million, an overall improvement of \$605,000. This is due to a higher-than-expected beginning fund balance which offset greater-than-originally-budgeted expenditures.

Table 4 - FY 2019/20 General Fund Ending Balance, Excluding Measure K (in \$1,000s)

	Revised Budget	Projected Year End	Variance
Beginning Fund Balance	\$9,848	\$10,827	\$979
Revenue	\$26,446	\$26,590	\$144
Expenditures	\$26,721	\$27,239	\$518
Surplus/Deficit	(\$275)	(\$649)	(\$374)
Ending Fund Balance	\$9,573	\$10,178	\$605

MEASURE K AND LIBRARY CONSTRUCTION FUND REVENUES

Measure K revenues for FY 2019/20 were budgeted at \$4.6 million and are now projected to be \$27.2 million due to the anticipated issuance of bonds during the fiscal year. For purposes of the quarterly update, the FY 2018/2020 Biennial Budget revenue projection for bond issuance proceeds is being used. City staff continues to work closely with PFM, the City’s financial advisors, regarding the timing and actual issuance amount. We anticipate that a revised estimate will be available late March.

Table 5 - FY 2019/20 Measure K Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2019/20	Actuals as of 12/31/2019	% of Projected Results	Projected Year End	Variance
Measure K & Library Construction Fund					
Transactions and Use Tax	\$4,193	\$1,494	33%	\$4,549	\$356
Interest Income	\$378	\$9	2%	\$378	\$0
Bond Proceeds (Based on estimate for FY 2018/19 reported in FY 2018/2020 Biennial Budget.)	\$0	\$0	0%	\$22,300	\$22,300
Total Revenue	\$4,571	\$1,503	31%	\$27,227	\$22,656

Measure K Transactions and Use Tax

Measure K transactions and use tax was budgeted to be \$4.2 million for FY 2019/20. The City is now projecting that year-end transactions and use tax will increase by \$356,000 to \$4.5 million based on a recent analysis by the City’s sales tax consultant HdL Companies.

Bond Proceeds (Library Project)

Measure K bond proceeds for the library were projected to be \$22.3 million for FY 2018/19. When the budget was prepared, staff anticipated that the issuance of bonds for the construction of the library facility would occur last year; however, it is now anticipated that the bonds will be issued during this year.

MEASURE K AND LIBRARY CONSTRUCTION FUND EXPENDITURES

Measure K expenditures for FY 2019/20 were budgeted at \$8.9 million. This projection will be revised once updated cost projections for the library project are completed sometime mid to late March. Table 6 summarizes Measure K expenditures.

Table 6 - FY 2018/19 Measure K Expenditure Summary (in \$1,000s)

Expenditure Type	Revised Budget FY 2019/20	Actuals as of 12/31/2019	% of Revised Budget	Projected Year End	Variance
Measure K & Library Construction Fund					
General Expenses	\$1		0%	\$1	\$0
Measure K Library Project (net reimbursements)	\$5,879	\$213	4%	\$5,879	\$0
Measure K Transfers:					
Gas Tax Fund					
Street Resurfacing Program	\$1,527	\$1,527	100%	\$1,527	\$0
Pedestrian & Bike Program	\$411	\$411	100%	\$411	\$0
Oak Park Monticello Roadway Improvements	\$994	\$994	100%	\$994	\$0
NPDES Fund-Storm Drain	\$63	\$63	100%	\$63	\$0
Subtotal Transfers	\$2,995	\$2,995	100%	\$2,995	\$0
Total Expenditures	\$8,875	\$3,208	36%	\$8,875	\$0

Measure K Related Projects and Transfers

FY 2019/20 Measure K and Library Construction Fund expenditures were budgeted at \$8.9 million. Capital projects and related expenditures to be funded by Measure K were approved by the City Council Resolution No. 37-18 adopting the 2018-2023 Five Year Capital Improvement Plan (CIP) and FY 2018/2020 Biennial Budget.

Measure K and Library Construction Fund Balance

The Measure K and Library Construction Fund balance as of June 30, 2019 was \$1.5 million versus the \$22.6 million projected in the FY 2018/2020 Biennial Budget. This variance was due to the anticipated timing of the bond financing for the construction of the library shifting to FY 2019/20. While estimated revenue and expenditures for FY 2019/20 will be updated in March, for purposes of this quarterly report, staff is projecting that the Measure K and Library Construction Fund balance will be \$19.8 million, \$1.2 million higher than originally budgeted.

Table 7 - FY 2019/20 Measure K and Library Construction Fund Ending Balance (in \$1,000s)

	Revised Budget	Projected Year End	Variance
Beginning Fund Balance	\$22,632	\$1,483	(\$21,149)
Revenue	\$4,927	\$27,227	\$22,300
Expenditures	\$8,875	\$8,875	\$0
Surplus/Deficit	(\$3,948)	\$18,352	\$22,300
Ending Fund Balance	\$18,684	\$19,835	\$1,151

OTHER CITY FUNDS (NON-GENERAL FUND)

In addition to the General Fund and Measure K Fund, the City has other funds that can only be used for specific purposes such as capital improvements, debt service, or a particular program.

NON-GENERAL FUND REVENUE

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, are \$16.2 million.

Table 8 - FY 2019/20 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2019/20	Actuals as of 12/31/2019	% of Revised Budget	Projected Year End	Variance
Property Tax	\$557	\$319	57%	\$557	\$0
Other – Taxes and Assessments	\$434	\$35	8%	\$434	\$0
Intergovernmental	\$8,344	\$1,559	19%	\$8,344	\$0
Charges for Services	\$148	\$57	39%	\$148	\$0
Fines and Forfeitures	\$86	\$26	30%	\$86	\$0
Use of Money and Property	\$109	\$67	61%	\$109	\$0
Other	\$426	\$229	54%	\$426	\$0
Transfer	\$6,138	\$6,138	100%	\$6,138	\$0
Total Revenues	\$16,242	\$8,430	52%	\$16,242	\$0

The largest categories of non-General Fund revenue are the transfer and intergovernmental categories. The majority of revenue in the intergovernmental category is grants for capital projects. These revenues are paid on a reimbursement basis, so the City receives 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 \$19.3 million.

Table 9 - FY 2019/20 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Revised Budget FY 2019/20	Actuals as of 12/31/2019	% of Revised Budget	Projected Year End	Variance
Salaries and Benefits	\$469	\$199	42%	\$469	\$0
General Expenses	\$132	\$34	26%	\$132	\$0
Professional and Contract Services	\$3,332	\$410	12%	\$3,332	\$0
Maintenance and Repairs	\$509	\$157	31%	\$509	\$0
Supplies and Materials	\$221	\$84	38%	\$221	\$0
Utilities	\$816	\$243	30%	\$816	\$0
Promotions and Contributions	\$6	\$2	33%	\$6	\$0
Fixed Asset	\$760	\$119	16%	\$760	\$0
Transfer	\$1,462	\$1,462	100%	\$1,462	\$0
Capital Improvements	\$11,614	\$785	7%	\$11,614	\$0
Total Expenditures	\$19,321	\$3,495	18%	\$19,321	\$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 2019/20 can be found in the City’s 2018-2013 Capital Improvement Plan.

NEXT UPDATE

The FY 2019/20 Third Quarter Revenue and Expenditure Report is expected to be published in April 2020.

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2019/20 Second Quarter (October 1 – December 31, 2019) Revenue and Expenditure Report.