



## City Council Report

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**File ID:** 2018-01587

January 8, 2019

**Consent Item 04**

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**Title:** First Quarter Financial Report – Fiscal Year (FY) 2018/19

**Location:** Citywide

**Recommendation:** Receive and file.

**Contact:** Marian Fahy, Interim Budget Manager, (916) 808-7991, Department of Finance

**Presenter:** None

**Attachments:**

1-Description/Analysis

2-First Quarter Financial Report

## Description/Analysis

**Issue Detail:** The purpose of the quarterly report is to provide the City Council with timely information regarding the City's current financial condition. The attached report provides an update on the City's major revenues and department expenditures through the first quarter of FY2018/19 (Attachment 1).

**Policy Considerations:** The quarterly financial reporting to the City Council is intended to provide an overview of the City's financial status consistent with Section 61 of the City Charter.

**Economic Impacts:** Not applicable.

**Environmental Considerations:** Not applicable.

**Sustainability:** Not applicable.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** The City Manager is responsible for reporting in accordance with the authority granted by Section 61 of the City Charter.

**Financial Considerations:** The quarterly report reflects the City's continuing need to actively manage expenditures. Staff will continue to work with department staff toward achieving budgetary goals over the remainder of the fiscal year.

**Local Business Enterprise (LBE):** No goods or services are being purchased under this report.

**OVERVIEW**

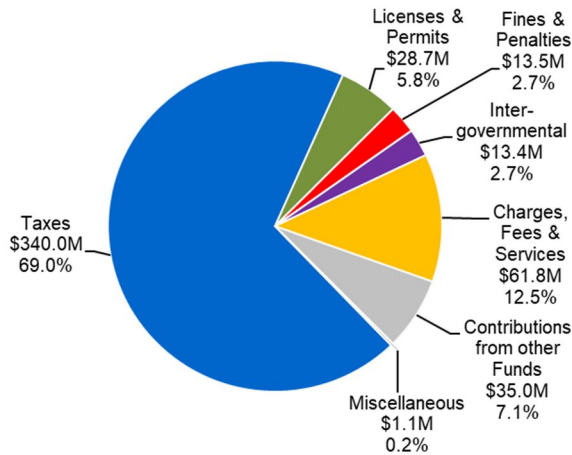
The FY2018/19 Approved Budget includes:

- \$1.1 billion and 4554.98 authorized full-time equivalent (FTE) positions from all funding sources
  - General Fund<sup>1</sup> - \$487.9 million and 3,407.05 FTE
  - Enterprise Funds<sup>2</sup> - \$312.8 million and 874.44 FTE
  - Internal Service Funds<sup>3</sup> - \$85.4 million and 121 FTE
  - Other Governmental Funds<sup>4</sup> - \$200.8 million and 152.49 FTE

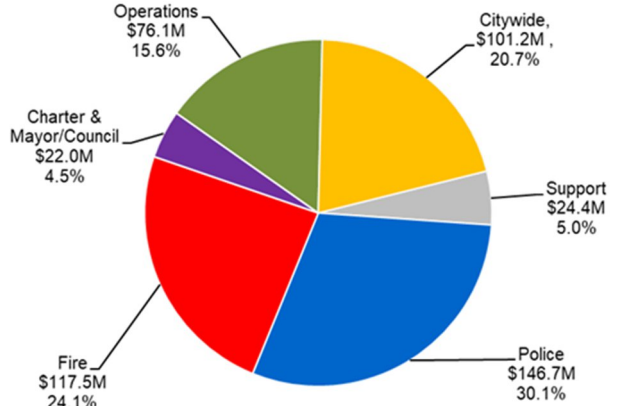
**GENERAL FUND**

The graphs below represent the City's General Fund revenue and expenditure budgets for FY2018/19.

**FY2018/19 General Fund Revenues**  
**\$493.5 Million**



**FY2018/19 General Fund Expenditures**  
**\$487.9 Million**



- Charter: City Attorney, Clerk, Manager, and Treasurer
- Operations: Community Development, Convention and Cultural Services, Public Works, Youth, Parks & Community Enrichment
- Support: Finance, Human Resources, and Information Technology
- Citywide: Debt, Property Taxes, Insurance, and Capital Improvement Projects (CIPs)

**General Fund Financial Condition.** The following chart reflects budget and actual expenditures for all activities in the General Fund (e.g., department operations, debt service, capital projects) through September 30, 2018.

**GENERAL FUND (\$ in '000s)**

	Budget	YTD	
		Actuals	Percent
Balance, Beginning of FY19	8,784	-	
Other Sources and Uses	(11,600)		
Revenues	493,549	57,142	12%
Expenditures	487,853	151,192	31%
<b>Total:</b>	<b>2,880</b>	<b>(94,050)</b>	

Year-to-date (YTD) revenues are trending lower than expenditures due to the timing of receipt of property tax revenues.

<sup>1</sup> **General Fund** - the City's principal operating fund supported by taxes and fees

<sup>2</sup> **Enterprise Funds** - operations supported through user fees including the Community Center, Parking, Solid Waste, Storm Drainage, Wastewater, and Water Funds

<sup>3</sup> **Internal Service Funds** - internal operations, e.g. Fleet Management and Risk

<sup>4</sup> **Other Governmental Funds** - activities associated with specific revenues and/or reimbursements that are restricted to expenditures for specific purposes, e.g. Gas Tax Fund, Operating Grant Fund, Library Parcel Tax Fund

**Department Projections.** The following charts present the projected variance of budget to actual for the General Fund Departments:

**GENERAL FUND DEPARTMENT REVENUES**

Department	FY2018/19 Budget	YTD Actuals	Projected Year-End Variance
City Attorney	75,728	119,614	125,132
City Clerk	52,000	3,186	-
City Manager	4,552,958	428,890	(3,165,860)
City Treasurer	3,495,958	48,354	-
Community Development	25,539,845	8,035,050	3,440,848
Convention and Cultural Services	1,021,827	766,838	-
Finance	765,910	114,653	-
Fire	31,869,456	2,818,237	800,000
Parks and Recreation	4,870,303	1,646,073	169,341 <sup>1</sup>
Police	12,468,000	1,818,850	-
Public Works	22,316,431	5,323,010	924,574
<b>Total General Fund:</b>	<b>107,028,416</b>	<b>21,122,755</b>	<b>2,294,035</b>

<sup>1</sup> Excess revenues will be used to offset expenditure shortfall.

**GENERAL FUND DEPARTMENT EXPENDITURES**

Department	FY2018/19 Budget	YTD Actuals	Projected Year-End Variance
Mayor/Council	5,419,909	1,545,893	-
City Attorney	5,935,241	1,845,491	451,258
City Clerk	1,645,274	554,460	-
City Manager	6,863,852	1,739,827	254,895
City Treasurer	2,141,221	564,343	-
Community Development	33,823,577	9,206,493	1,225,282
Convention and Cultural Services	5,178,796	1,276,484	-
Finance	6,536,593	1,676,781	-
Fire	117,538,619	43,560,520	(4,000,000)
Human Resources	4,205,623	1,112,580	-
Information Technology	13,613,228	4,449,953	-
Parks and Recreation	22,974,786	8,219,085	(58,351)
Police	143,532,529	53,896,836	(1,825,358)
Public Works	12,233,780	13,122,587	(1,476,117)
<b>Total General Fund:</b>	<b>381,643,028</b>	<b>142,771,333</b>	<b>(5,428,391)</b>

Departments projecting to exceed the FY2018/19 Approved Budget (net deficit) have been highlighted in the chart and have provided the following summary explanations.

**City Manager's Office**

The projected revenue shortfall is attributable to the Cannabis program. The number of permits issued for the Cannabis program have been considerably less than what had been projected with the legalization of adult use on January 1, 2018. The revenue budget will be adjusted to reflect actual revenues received as part of the year-end process with a corresponding decrease to the expenditure budget in the Cannabis Policy and Enforcement Program as authorized by City Council (Resolution 2018-0235 (Section 17.3 (16))).

**Fire**

The Fire Department is projecting a net deficit of \$3.2 million at the end of FY2018/19. The contributing factors are unbudgeted expenses for two training academies, the increased use of sworn personnel to perform various administrative assignments, the operation of Medic 15 as a pilot (providing time to determine if expenses can be covered by revenues), and overtime expenses. In previous years, the department used salary savings to offset some of these costs. However, this is no longer an option as the department continues to actively fill vacancies. The department will address these funding shortages as part of the FY2018/19 Midyear budget process.

**Police**

The Police Department is projecting a net deficit of \$1.8 million at the end of FY2018/19. The contributing factors include increased overtime and increased service and supply costs. In previous years, the department used salary savings to bridge this gap; however, this is no longer an option as the department continues to actively fill vacancies. The department will continue to monitor expenditures to try and achieve additional savings. Any projected funding shortages will be addressed as part of the FY2018/19 Midyear budget process.

**Public Works**

The Public Works Department is projecting a net deficit of \$0.5 million at the end of FY2018/19. This is primarily related to requests for increased services for routine maintenance at City facilities and increased illegal dumping activities. The department will address these funding shortages as part of the FY2018/19 Midyear budget process.

**City's Major Revenue Sources**

**TOP GENERAL FUND REVENUES (in '000s)**

Revenue Type	Budget	YTD Actuals
Property Tax	172,678	4,298
Sales and Use Tax	82,371	14,988
Utility User Tax <sup>1</sup>	62,538	14,061
Business Operations Tax <sup>1</sup>	12,250	3,428
Public Safety Sales Tax	5,161	1,547
Transient Occupancy Tax <sup>1</sup>	5,005	682
<b>Total:</b>	<b>340,003</b>	<b>39,004</b>

<sup>1</sup> After the end of each month, businesses have 30 days to remit UUT, BOT, and TOT revenue to the City. After the 30-day remittance period, the City processes/reconciles the transactions over the following 10 days. The monthly reporting data is available by the 15<sup>th</sup> of the following month (45 days after the reporting period ends).

**Property Tax.** Property taxes are the largest General Fund revenue source, accounting for approximately 32% of all General Fund revenues. Revenues related to property taxes are affected by fluctuations in the real estate market, levels of new construction activity, and the corresponding changes to the tax roll. Most of the City's current secured property tax revenues are received in mid-December and mid-April. The balance of the current secured property taxes as well as the current unsecured, supplemental, and miscellaneous property tax revenues are received in late January and late May.

The first apportionment of the City's FY2018/19 property taxes will be received in December 2018. All property tax revenues are being monitored and will be reassessed during FY2019/20 budget development.

**Sales and Use Tax.** Sales and Use Taxes make up approximately 17% of General Fund revenue. Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state, whereas the use tax is imposed on the purchase for storage, use, or other consumption of tangible personal property purchased from any retailer. The City receives monthly apportioned payments and a true-up payment for the prior period at the end of each quarter. The first true-up payment for this fiscal year will be received in December 2018. The City is currently projecting revenue to be in line with the budget.

**Utility User Tax (UUT).** UUT is the City's third largest source of General Fund revenue at 13%. Measure O was approved by the voters in November 2008, reducing the 7.5% tax rate to 7.0% on telecommunication services, but was expanded to include Voice over Internet Protocol (VoIP), text messaging, and many other previously excluded technologies. The 7.5% tax rate continues to be in effect for gas, electric, and cable services. Revenue collected to date is in line with the budget.

**Other City Revenue Sources**

**Business Operations Tax (BOT).** BOT is remitted annually by individuals and businesses that commence, transact, engage in or carry on any business, trade, profession, calling, occupation, or gainful activity in the city. BOT makes up approximately 2% of General Fund revenues. Base BOT revenues and cannabis BOT revenues were realigned last year to isolate revenues related to the regulation of cannabis. BOT revenue

collections will be reevaluated as part of FY2018/19 midyear budget process.

**Public Safety Sales Tax.** On November 2, 1993, California voters enacted Proposition 172 which established a permanent statewide half-cent sales tax for support of local public safety functions in cities and counties. This tax represents approximately 1% of General Fund revenue. Revenue collected to date is in line with the budget.

**Transient Occupancy Tax (TOT).** The current rate of 12% is charged to all guests of hotels, motels, inns, and bed and breakfasts within city limits. The General Fund portion of TOT revenues is equal to two percentage points of the 12% rate. The remaining TOT revenues collected are directed to the Community Center Fund. TOT represents approximately 1% of General Fund revenue. Revenue collected through the first two months of the fiscal year is up 10.4% compared to the same period in FY2017/18.

**Essential Services Protection Measure - Measure U.** Measure U revenues are budgeted at approximately 7.4% of General Fund Revenue. Revenue collected to date is in line with the budget. Measure U revenues will be reviewed and adjusted as part of the FY2018/19 mid-year budget process based on the successful passage of the 2018 ballot measure which increases the sales tax from 8.25% to 8.75% effective April 1, 2019. The City will begin receiving these increased revenues in June 2019.

**Economic Indicators.** The following chart reflects key economic indicators utilized in projecting General Fund revenues.

Key Economic Indicators	9/2017	9/2018
City Unemployment Rate (UR)	4.9%	3.7%
County UR	4.7%	3.6%
State UR	5.1%	3.9%
National UR	4.2%	3.7%
CPI (7/2016-9/2016 vs. 7/2017-9/2017)	1.97%	2.64%
30-Year Fixed Mortgage Rate	3.81%	4.63%

**Revenues to Watch.** The following revenues are subject to state and/or federal legislation and enforcement. Staff will continue to monitor and provide updates to the City Council on these revenues, as well as pending legislation that may affect City revenues.

**Cannabis.** The overall number of permits issued for the Cannabis program are less than what had been projected when the budget was adopted. Additionally, permits cannot be issued to existing registered operators until the businesses have obtained all necessary building permits, including a certificate of occupancy, for any previous unpermitted tenant improvements, resulting in an extended period between the initial permit application fee and the renewal fee.

As such, estimated permit applications and the revenues from these permits are now projected at \$1.2 million, while the initial projection of revenues were budgeted at \$4.4 million. In order to address this shortfall, Council has approved resources to support Cannabis operations until permit revenues are annualized and enforcement efforts are rightsized. The FY2018/19 Adopted Budget Resolution 2018-0235, Section 17.3 (15) authorizes the use of excess Business Operations Taxes as necessary to cover costs and Section 17.3 (24) authorizes fines and administrative penalties collected pursuant to City Code Section 8.132, relating to the cultivation of cannabis, to support enforcement activities based on actual revenues received.

**Ground Emergency Medical Transportation (GEMT).** In October 2011, AB 678 authorizing the GEMT program was enacted providing for the reimbursement of costs associated with transporting Medi-Cal patients who are not in managed care. The GEMT program allows the City to recover costs associated with Medi-Cal transports on an annual basis. The Department has received reimbursements of \$5.6 million from the inception of the program through September 2018.

**Intergovernmental Rate Range Transfer (IGT) Program.** On December 16, 2014, Council authorized participation in the IGT program. IGT allows local governments to receive a federal reimbursement for the transport of Medi-Cal patients that are in managed care. Participation in the IGT program provides the City the opportunity to recover previously unrecoverable costs. The Department has received reimbursements of \$16 million from the inception of the program through September 2018.

Given the volatility of these reimbursements, IGT reimbursements that are not needed to cover the Fire Department's operating expenses at year-end are

committed to the Fire Department and programmed for one-time expenditures.

**ENTERPRISE FUNDS**

The Departments of Convention and Cultural Services, Public Works, and Utilities have prepared projections for the City's enterprise funds:

- Community Center
- Parking
- Solid Waste
- Storm Drainage
- Wastewater
- Water

The funds are anticipated to come in on budget, as shown below:

**ENTERPRISE FUND REVENUES**

Fund Name	FY2018/19 Budget	YTD Actuals	Projected Year-End Variance
Community Center	34,607,129	4,672,634	-
Parking	19,818,211	5,703,314	-
Solid Waste	63,411,500	12,985,376	-
Storm Drainage	37,588,709	7,997,476	-
Wastewater	40,875,297	8,324,096	-
Water	127,222,670	29,922,112	-
<b>Total Enterprise Funds:</b>	<b>\$323,523,516</b>	<b>\$69,605,008</b>	<b>\$0</b>

**ENTERPRISE FUND EXPENDITURES**

Fund Name	FY2018/19 Budget	YTD Actuals	Projected Year-End Variance
Community Center	24,528,611	3,335,909	-
Parking	19,432,942	3,013,451	-
Solid Waste	55,885,112	11,124,166	-
Storm Drainage	36,117,453	8,327,569	-
Wastewater	30,487,360	7,858,594	-
Water	99,890,832	27,142,814	-
<b>Total Enterprise Funds:</b>	<b>\$266,342,310</b>	<b>\$60,802,503</b>	<b>\$0</b>