



## *City of Pleasant Hill*

---

### MEMORANDUM

TO: City Council

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

DATE: April 7, 2014

SUBJECT: Fiscal Year (FY) 2013/2014 Second Quarter (October 1 – December 31, 2013)  
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 second quarter of fiscal year (FY) 2013/2014 (October 1 – December 31, 2013).

#### **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 \$46,000.

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

		<b>General Fund</b>	<b>Other City Funds</b>	<b>Total</b>
<b>Revenue</b>	Budgeted	\$19,912	\$15,775	\$35,687
	Year End Projected	\$20,372	\$15,775	\$36,147
	Variance	\$460	\$0	\$460
<b>Expenditures</b>	Budgeted	\$20,385	\$16,448	\$36,833
	Year End Projected	\$20,326	\$16,448	\$36,774
	Variance	(\$59)	\$0	(\$59)
<b>Surplus/Deficit</b>	Budgeted	(\$473)	(\$673)	(\$1,146)
	Year End Projected	\$46	(\$673)	(\$627)
	Variance	\$519	\$0	\$519

The year-end General Fund surplus of \$46,000 projected as of the end of the second quarter is a considerable improvement over the projection as of the end of the first quarter, a \$1.3 million deficit. The change is due both to projected increases in revenues and decreases in expenditures over those projected as of the end of the first 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 second quarter that the City will end FY 2013/2014 with a General Fund balance of \$12.7 million.

**GENERAL FUND REVENUES**

General Fund revenues for FY 2013/2014 were budgeted at \$19.9 million. As of the close of the second quarter, the City is projecting that year-end General Fund revenue will equal \$20.4 million, exceeding budget by \$463,000 (2.3%). The following table summarizes General Fund revenue by category. 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 12/31/13	% of Budget	Projected Year End	Variance
Sales Tax	\$7,415	\$2,391	32%	\$7,512	\$97
Property Tax	\$2,267	\$1,296	57%	\$2,252	-\$15
Property Tax in Lieu of VLF	\$2,421	-	-	\$2,651	\$230
Other Taxes	\$1,854	\$820	44%	\$2,055	\$201
Other:					
Franchise Fees	\$2,099	\$458	22%	\$1,998	-\$101
Licenses and Permits	\$2,697	\$515	19%	\$2,853	\$156
Transfer	\$100	-	0%	\$100	\$0
Charges for Services	\$579	\$330	57%	\$733	\$154
Other Revenue	\$176	\$39	22%	\$64	-\$112
Use of Money and Property	\$178	-	0%	\$50	-\$128
Fines and Forfeitures	\$76	\$18	24%	\$55	-\$21
Intergovernmental	\$47	\$35	74%	\$49	\$2
Rental	\$3		-		\$0
<b>Total Revenues</b>	<b>\$19,912</b>	<b>\$5,902</b>	<b>30%</b>	<b>\$20,372</b>	<b>\$463</b>

### 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 (1.3%).

### 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 \$2.3 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. Although no revenue has yet been received by the City this fiscal year, due to the timing of payments from the State, the City is projecting that year-end revenue will equal \$2.7 million, exceeding budget by \$230,000 (10%).

### 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 \$200,000 (10%), 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 be \$2.0 million or 10.0% under budget, 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 fees, electrical permits, plumbing permits, and energy permits primarily generated from construction-related activity. The City is projecting revenue of \$585,000 for the fiscal year. This is an increase of \$156,000, or 36.3%, 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 \$1.0 million. The variance is due to a decline in revenue from fines and forfeitures being offset by 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. Additionally, use of money and property is lower than budgeted due to historically low interest rates.

**GENERAL FUND EXPENDITURES**

General Fund expenditures for FY 2013/2014 were budgeted at \$20.4 million. As of the close of the second quarter, the City is projecting that year-end General Fund expenditures will equal \$20.3 million, essentially matching the budget. The following two tables provide summaries of General Fund expenditures by category and department.

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

<b>Expenditure Type</b>	<b>Adopted Budget</b>	<b>Actual as of 12/31/13</b>	<b>% of Budget</b>	<b>Projected Year End</b>	<b>Variance</b>
Salaries	\$10,072	\$4,541	45%	\$9,461	(\$611)
Benefits	\$5,048	\$2,211	44%	\$4,354	(\$694)
Non Departmental	\$233	\$75	32%	\$83	(\$150)
General Expenses	\$748	\$241	32%	\$622	(\$126)
Economic Dev Market Study and Grant Loans	\$50	\$50	100%	\$600	\$550
Professional and Contract Svc	\$801	\$528	66%	\$1,115	\$314
<b>Other Expenditures:</b>					
Conferences and Training	\$196	\$45	23%	\$150	(\$46)
Maintenance and Repairs	\$249	\$77	31%	\$150	(\$99)
Supplies and Materials	\$250	\$84	34%	\$181	(\$69)
Utilities	\$412	\$240	58%	\$415	\$3
Insurance	\$457	\$450	99%	\$454	(\$3)
Promotions and Contributions	\$92	\$49	53%	\$104	\$12
Fixed Assets	\$31	-	-	-	(\$31)
Debt Service	\$0	\$446	n/a	\$891	\$891
Transfer	\$1,746	\$1,746	100%	\$1,746	\$0
<b>Total Expenditures</b>	<b>\$20,385</b>	<b>\$10,783</b>	<b>53%</b>	<b>\$20,326</b>	<b>(\$59)</b>

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

Department	Adopted Budget	Actual as of 12/31/13	% of Budget	Projected Year End	Variance
City Council	\$156	\$47	30%	\$151	(\$5)
City Manager	652	321	49%	673	\$21
City Attorney	467	232	50%	427	(\$40)
City Clerk	100	18	18%	44	(\$56)
City Treasurer	11	6	55%	12	\$1
Economic Development	353	174	49%	984	\$631
Finance	945	366	39%	763	(\$182)
Computer Services	15	5	33%	15	\$0
Human Resources	533	315	59%	432	(\$101)
Risk Management	455	450	99%	453	(\$2)
City Hall Facility	156	67	43%	156	\$0
Non-departmental	330	109	33%	345	\$15
Police	10,243	<u>4446</u>	43%	<u>9,138</u>	(\$1,105)
Public Works Engineering	856	343	40%	763	(\$93)
Public Works Maintenance	<u>1,880</u>	<u>985</u>	52%	1,883	\$3
Planning	870	399	46%	841	(\$29)
Building Inspection	533	266	50%	527	(\$6)
Community Relations	<u>84</u>	<u>42</u>	50%	<u>82</u>	(\$2)
Debt Service	0	446		891	\$891
Transfers	1,746	1,746	100%	1,746	\$0
<b>Total Expenditures</b>	<b>\$20,385</b>	<b>\$10,783</b>	<b>53%</b>	<b>\$20,326</b>	<b>(\$59)</b>

### Salary and Benefits

Personnel costs (salaries and benefits) account for approximately 75% of General Fund expenditures. Salary and benefits were budgeted at \$15.1 million and are projected to be \$13.8 million at year end, lower than budget by \$1.3 million (8.6%). 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 Retiree Health Savings Plan several years ago, the city contributed the unused sick leave for eligible retirees to a sick leave bank. The variance is due to actual reimbursements being less than were 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 \$622,000.

#### 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 \$600,000 due to the carryforward of unexpended budget from the previous year due to the timing of 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. 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. 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 second quarter review, a surplus of \$46,000 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 second quarter review, the projected General Fund ending balance for the fiscal year is \$12.7 million.

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

	<b>Adopted Budget</b>	<b>Projected Year End</b>	<b>Variance</b>
Beginning Fund Balance	\$10,234	\$12,667	\$2,433
Revenue	\$19,913	\$20,372	\$459
Expenditures	\$20,385	\$20,326	\$(59)
Surplus/Deficit	\$(472)	\$46	\$518
Ending Fund Balance	\$9,762	\$12,713	\$2,951

This is an improvement over the projection contained in the first quarter report, that the FY 2013/2014 year-end General Fund balance would be \$11.2 million.

The preliminary fiscal year 2014/2019 five-financial forecast was presented to the Budget Committee on March 25, 2014. To create the preliminary forecast, staff reviewed FY 2013/2014 year to date expenditures and revenues through the second quarter. While the forecast assumes a small surplus for FY 2013/2014, the City is projecting deficits for FY 2014/2015 and FY 2015/2016 due to relatively stable revenues being offset by escalating costs.

## **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 second 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 second quarter were \$7.7 million, 49% of budget.

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

<b>Revenue Type</b>	<b>Adopted Budget</b>	<b>Actual as of 12/31/13</b>	<b>% of Budget</b>
Property Tax	\$434	\$214	49%
Other – Taxes and Assessments	736	195	27%
Intergovernmental	11,629	\$4,463	38%
Charges for Services	\$239	\$43	18%
Fines and Forfeitures	\$96	\$29	30%
Use of Money and Property	\$69	\$2	3%
Other	\$151	\$355	235%
Transfer	\$2,421	\$2,421	100%
<b>Total Revenues</b>	<b>\$15,775</b>	<b>\$7,722</b>	<b>49%</b>

The largest category variance 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 second quarter was \$4.5 million, 38% of budget. The majority of revenues in this category is for 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 second quarter were \$6.9 million, 42% of budget.

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

<b>Expenditure</b>	<b>Adopted Budget</b>	<b>Actual as of 12/31/13</b>	<b>% of Budget</b>
General Government	\$237	\$78	33%
Public Safety	233	77	33%
Transportation	12,403	4,764	38%
Community Development	759	152	20%
Capital Outlay	1,256	307	24%
Debt Service	785	743	95%
Transfer	775	775	100%
<b>Total Expenditures</b>	<b>\$16,448</b>	<b>\$6,896</b>	<b>42%</b>

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 second quarter, all of these efforts are considered to be on track for completion by the end of the fiscal year.

Staff plans to incorporate new budget appropriations, including carryforwards of previous years' unexpended appropriations, in an "adjusted budget" column in future quarterly reports.

**FINANCIAL INDICATORS**

**Table 8 - FY 2013/2014 General Fund Financial Indicators**

	<u>FY 2012/2013</u> <u>Year End</u>	<u>FY 2013/2014</u> <u>2<sup>nd</sup> Quarter</u>
<p><b><u>CASH SOLVENCY RATIO</u></b></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> <p><b>(Cash + Cash Equivalents + Investments)/Current Liabilities</b></p>	<b>5.58</b>	<b>16.15</b>
<p><b><u>FUND BALANCE RATIO</u></b></p> <p>This ratio measures the portion of unreserved and reserved 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> <p><b>(Unreserved and Reserved General Fund Balance/Operating expenditures)</b></p>	<b>60%</b>	<b>64%</b>
<p><b><u>LONG TERM LIABILITY RATIO</u></b></p> <p>This ratio measures a government's long term liabilities as compared to fund balance.</p> <p><b>(Long-Term Liabilities/Total General Fund Balance)</b></p>	<b>61%</b>	<b>60%</b>

**NEXT UPDATE**

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

**STAFF RECOMMENDATION**

Accept the Fiscal Year (FY) 2013/2014 Second Quarter (October 1 – December 31, 2013) Revenue and Expenditure Report.