



City of Pleasant Hill

MEMORANDUM

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

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

DATE: November 7, 2019

SUBJECT: Unaudited Fiscal Year (FY) 2018/19 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 status of the City's budget condition. A summary of the City's unaudited financial results for the fiscal year (FY) 2018/19 can be found below.

SUMMARY

The City is expecting to end FY 2018/19 with General Fund revenues (excluding the Measure K transactions and use tax) that are \$138,000 greater than the revised budget. In addition, expenditures are projected to be slightly higher by \$54,000. The revised biennial budget anticipated a General Fund balance of \$9.4 million at the end of FY 2018/19. Due to a larger-than-expected beginning fund balance, staff is projecting that the General Fund will end FY 2018/19 with a fund balance of \$10.8 million.

GENERAL FUND REVENUES

General Fund revenues for FY 2018/19 were budgeted at \$25.1 million. Actual General Fund revenues were \$25.2 million, an increase of \$138,000. Table 1 summarizes revised budget and actual revenues by category.

Table 1 - FY 2018/19 General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	% of Revised Budget	Variance
Sales Tax	\$9,107	\$8,596	94%	(\$511)
Property Tax	\$3,126	\$3,262	104%	\$136
Property Tax in Lieu of VLF	\$3,418	\$3,428	100%	\$10
Other Taxes	\$5,620	\$5,776	103%	\$156
Other:				
Franchise Fees	\$2,026	\$1,961	97%	(\$65)
Licenses and Permits	\$726	\$936	129%	\$210
Charges for Services	\$507	\$571	113%	\$64
Other Revenue	\$238	\$171	72%	(\$67)
Transfer	\$100	\$100	0%	\$0
Use of Money and Property	\$71	\$311	438%	\$240
Fines and Forfeitures	\$57	\$45	79%	(\$12)
Intergovernmental	\$70	\$47	67%	(\$23)
Total Revenues	\$25,066	\$25,204	101%	\$138

Sales Tax

Sales tax revenues were budgeted to be \$9.1 million in FY 2018/19. Based on analysis by the California Department of Tax and Fee Administration (CDTFA), the City earned \$8.8 million. Due to the timing of remittances for the final fourth quarter sales tax allocations for FY 2017/18 and 2018/19, sales tax revenue of \$8.6 million is being reported for this fiscal year. The final remittance for FY 2018/19 of \$880,000 was not received within the 45 day modified accrual period and consequently it is being reported in FY 2019/20. Likewise, since the final remittance for FY 2017/18 of \$619,000 was not received timely last year, it is included in the sales tax revenue being reported for FY 2018/19. The remainder of the variance is primarily due to the delay in the development of Diablo Valley Plaza Shopping Center and the closure of a Pleasant Hill operation of Pacific States Petroleum.

Property Tax

Property tax revenues were budgeted to be \$3.1 million, and actual year-end revenues were \$3.3 million, exceeding budget by \$136,000.

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." The City budgeted and received \$3.4 million 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 hotel transient occupancy tax (TOT), property transfer tax, and utility user tax. The City budgeted \$5.6 million for the year and actually received \$5.8 million. The increase was due to higher-than-anticipated business license revenue. Note that the revised budget reflects a \$200,000 reduction in TOT tax due to the delayed opening of the Hilton Homewood Suites hotel.

Other Revenue

The City collects a number of non-tax General Fund revenues, as described below.

Franchise Fees

Franchise fees are payments made 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. The City also collects a franchise fee of 12% of revenue from Allied Waste Management. Actual franchise fee revenues were \$2.0 million which was 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 \$726,000. This category includes building, electrical, plumbing, and energy permits, primarily generated from construction-related activity. The City collected \$936,000, an increase of \$210,000. The increase is due to the high number of projects underway this year.

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 \$1.0 million for FY 2018/19 and actual revenues were \$1.2 million, an increase of \$202,000. Higher-than-budgeted revenue was due to greater than anticipated interest income.

GENERAL FUND EXPENDITURES

General Fund expenditures for FY 2018/19 were budgeted at \$25.4 million. Actual expenditures were \$25.5 million, a slight increase of \$54,000. The following two tables summarize General Fund expenditures by category and department.

Table 2 - FY 2018/19 General Fund Expenditure Summary, By Category (in \$1,000s)

Expenditure Type	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	% of Revised Budget	Variance
Personnel				
Salaries	\$11,576	\$11,925	103%	\$349
Benefits	\$6,336	\$6,555	103%	\$219
Benefit Buybacks and Contributions to Retiree Health Plans	\$320	\$309	97%	(\$11)
General Expenses	\$845	\$685	81%	(\$160)
Professional and Contract Svc	\$1,866	\$1,924	103%	\$58
Other Expenditures:				
Conferences and Training	\$234	\$210	90%	(\$24)
Maintenance and Repairs	\$440	\$283	64%	(\$157)
Supplies and Materials	\$409	\$338	83%	(\$71)
Utilities	\$369	\$337	91%	(\$32)
Insurance	\$840	\$708	84%	(\$132)
Promotions and Contributions	\$428	\$452	106%	\$24
Fixed Assets	\$37	\$28	76%	(\$9)
Transfer	\$1,743	\$1,743	100%	\$0
Total Expenditures	\$25,443	\$25,497	100%	\$54

Table 3 - FY 2018/19 General Fund Expenditure Summary, By Department (in \$1,000s)

Department	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	% of Revised Budget	Variance
City Council	\$176	\$180	102%	\$4
City Manager	\$1,027	\$906	88%	(\$121)
City Attorney	\$505	\$452	90%	(\$53)
Community Relations	\$391	\$448	115%	\$57
City Clerk	\$152	\$112	74%	(\$40)
City Treasurer	\$10	\$10	100%	\$0
Economic Development	\$470	\$329	70%	(\$141)
Non Departmental	\$2,029	\$2,621	129%	\$592
Administrative Services:				
Finance	\$810	\$639	79%	(\$171)
Computer Services	\$830	\$870	105%	\$40
Human Resources	\$719	\$676	94%	(\$43)
Risk Management	\$834	\$708	85%	(\$126)
City Hall Facility	\$141	\$144	102%	\$3
Police	\$11,154	\$11,289	101%	\$135
Engineering	\$1,061	\$1,222	115%	\$161
Street Resurfacing Transfer	\$200	\$200	100%	\$0
Maintenance	\$2,653	\$2,343	88%	(\$310)
Planning	\$1,061	\$1,147	108%	\$86
Building Inspection	\$896	\$877	98%	(\$19)
Transfers to Vehicle Fund	\$216	\$216	100%	\$0
Transfers to AD 20 and AD 22	\$108	\$108	100%	\$0
Total Expenditures	\$25,443	\$25,497	100%	\$54

Personnel*Salaries and Benefits*

Salaries and benefits were budgeted at \$17.9 million for FY 2018/19, and actual expenditures were \$18.5 million, an increase of \$568,000. The increase was primarily due to lower than anticipated savings from vacancies and attrition and higher than anticipated overtime costs for the Police department due to understaffing earlier in the year and for staff's time working on the implementation of a new computer aided dispatch (CAD) system.

Note that for departmental budgeting purposes, anticipated savings from vacancies and attrition were reported under the Non Departmental department. Actual savings generated by vacancies and attrition were reported in individual departments.

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. Expenditures were budgeted at \$320,000 and actual expenditures were \$309,000, a slight decline of \$11,000.

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. Actual expenditures were \$160,000 lower than budgeted, due to moderate savings across multiple expenditure categories.

Professional and Contract Services

This category includes contractual services such as legal counsel, auditing, videotaping, and animal control. Expenditures for FY 2018/19 were budgeted at \$1.9 million and actual expenditures were slightly higher than budgeted by \$58,000.

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 \$4.5 million, and actual expenditures were \$4.1 million, lower than budgeted by \$401,000. The variance was due to lower than anticipated maintenance and repair and insurance litigation costs were.

General Fund Balance

The City actually started FY 2018/19 with a General Fund balance that was \$1.3 million higher than what was included in the FY 2018/19 – FY 2019/20 Biennial Budget. Based on unaudited actual results for FY 2018/19, the General Fund had a deficit of \$293,000. The City now expects that the General Fund will end FY 2018/19 with a fund balance of \$10.8 million. The projected \$1.4 million increase in the ending fund balance aligns with the higher-than-expected beginning fund balance. Note that per the updated General Fund Reserve Policy adopted by the City Council in January 2019, \$10.0 million of the General Fund budget is reserved for working capital and budget stabilization.

Table 4 - FY 2018/19 General Fund Ending Balance, Excluding Measure K (in \$1,000s)

	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	Variance
Beginning Fund Balance	\$9,809	\$11,121	\$1,312
Revenue	\$25,066	\$25,204	\$138
Expenditures	\$25,443	\$25,497	\$54
Surplus/Deficit	(\$377)	(\$293)	\$84
Ending Fund Balance	\$9,432	\$10,828	\$1,396

MEASURE K AND LIBRARY CONSTRUCTION FUND REVENUES

Measure K revenues for FY 2018/19 were budgeted at \$4.4 million. Actual Measure K revenues were \$4.5 million, an increase of \$39,000. Table 5 summarizes revised budget and projected revenue by category.

Table 5 - FY 2018/19 Measure K Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	% of Revised Budget	Variance
Measure K & Library Construction Fund				
Transactions and Use Tax	\$4,192	\$4,419	105%	\$227
Interest Income	\$236	\$48	20%	(\$188)
Bond Proceeds (Library Project)	\$0	\$0	0%	\$0
Total Revenues	\$4,428	\$4,467	101%	\$39

Measure K Transactions and Use Tax

Measure K transactions and use taxes were budgeted at \$4.2 million for FY 2018/19, and actual transactions and use taxes revenue was \$4.4 million, an increase of \$227,000.

Interest Income

Measure K bond proceeds for the library were originally budgeted at \$22.3 million for FY 2018/19. Since the issuance of bonds for the construction of the library facility will not occur during this fiscal year, actual interest income was lower than budgeted at \$48,000. City staff continues to work closely with PFM, the City's financial advisors, regarding the issuance of bonds.

MEASURE K AND LIBRARY CONSTRUCTION FUNDS EXPENDITURES

Measure K expenditures for FY 2018/19 were budgeted at \$7.7 million. Actual Measure K expenditures were \$496,000 less than budgeted at \$7.2 million. Table 6 summarizes the revised Measure K expenditures and projected expenditures by category.

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

Expenditure Type	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	% of Revised Budget	Variance
Measure K & Library Construction Fund				
General Expenses	\$1	\$1	100%	\$0
Measure K Library Project	\$3,418	\$2,922	85%	(\$496)
Measure K Transfers to other funds:				
Gas Tax Fund-Street Resurfacing	\$3,098	\$3,098	100%	\$0
Gas Tax Fund-Pedestrian & Bike	\$156	\$156	100%	\$0
Gas Tax Fund-Oak Park Monticello	\$365	\$365	100%	\$0
NPDES Fund-Storm Drain	\$676	\$676	100%	\$0
Total Expenditures	\$7,714	\$7,218	94%	(\$496)

Measure K Related Projects and Transfers

FY 2018/19 Measure K and Library Construction Funds expenditures were budgeted at \$7.7 million and actual expenditures were \$7.2 million due to the timing of projects. Capital projects and related expenditures to be funded by Measure K were approved by the City Council through the 2018-2023 Five Year Capital Improvement Plan (CIP) and FY 2018/19 FY 2019/20 Biennial Budget.

Measure K and Library Construction Fund Balance

The FY 2018/19 and 2019/20 Biennial Budget projected an ending fund balance of \$22.6 million for the Measure K and Library Construction Funds. Due to the shifting of the bond finance timing, the revised budgeted fund balance is \$526,000 and the unaudited fund balance for FY 2018/19 is \$1.5 million.

**Table 7 - FY 2018/19 Measure K and Library Construction Funds Ending Balance
(in \$1,000s)**

	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	Variance
Beginning Fund Balance	\$3,812	\$4,238	\$426
Revenue	\$4,428	\$4,467	\$39
Expenditures	\$7,714	\$7,218	(\$496)
Surplus/Deficit	(\$3,286)	(\$2,751)	\$535
Ending Fund Balance	\$526	\$1,487	\$961

OTHER CITY FUNDS (NON-GENERAL FUND)

In addition to the General Fund and Measure K and Library Construction Funds, the City has other funds that can only be used for specific purposes, such as capital improvements, debt service, or a particular program. The following provides an update on these funds for FY 2018/19.

NON-GENERAL FUND REVENUE

Total budgeted revenues for other (non-General Fund) funds, including revenue transferred between funds, are \$14.6 million and actual revenues were \$12.4 million.

Table 8 - FY 2018/19 Non-General Fund Revenue Summary (in \$1,000s)

Revenue Type	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	% of Revised Budget	Variance
Property Tax	\$534	\$566	106%	\$32
Other – Taxes and Assessments	\$434	\$416	96%	(\$18)
Intergovernmental	\$5,407	\$3,021	56%	(\$2,386)
Charges for Services	\$264	\$232	88%	(\$32)
Fines and Forfeitures	\$84	\$68	81%	(\$16)
Use of Money and Property	\$98	\$295	301%	\$197
Other	\$423	\$425	100%	\$2
Transfer	\$7,384	\$7,330	99%	(\$54)
Total Revenues	\$14,628	\$12,353	84%	(\$2,275)

The largest categories of non-General Fund revenues 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 \$17.8 million and actual expenditures were \$11.3 million.

Table 9 - FY 2018/19 Non-General Fund Expenditure Summary (in \$1,000s)

Expenditure	Revised Budget FY 2018/19	Unaudited Results FY 2018/19	% of Revised Budget	Variance
Salaries and Benefits	\$663	\$524	79%	(\$139)
General Expenses	\$144	\$0	0%	(\$144)
Professional and Contract Services	\$1,505	\$922	61%	(\$583)
Maintenance and Repairs	\$562	\$417	74%	(\$145)
Supplies and Materials	\$164	\$115	70%	(\$49)
Utilities	\$828	\$625	75%	(\$203)
Promotions and Contributions	\$6	\$8	133%	\$2
Fixed Asset	\$1,262	\$673	53%	(\$589)
Transfer	\$1,446	\$1,392	96%	(\$54)
Capital Improvements	\$11,183	\$6,594	59%	(\$4,589)
Total Expenditures	\$17,763	\$11,270	63%	(\$6,493)

The largest non-General Fund expenditure category is capital improvements, which primarily consist 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 2018/19 can be found in the City's 2018-2023 Capital Improvement Plan.

NEXT UPDATE

The audited financial results for FY 2018/19 will be presented to the Budget Committee in December 2019 as part of the Comprehensive Annual Financial Report (CAFR).

STAFF RECOMMENDATION

Accept the Fiscal Year (FY) 2018/19 Revenue and Expenditure Report.