



City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814
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Meeting Date: 11/8/2011

Report Type: Staff/Discussion

Title: First Quarter Financial Report – Fiscal Year 2011/12

Report ID: 2011-00922

Location: Citywide

Recommendation: Receive and file.

Contact: Dawn Holm, (916) 808-5574, Finance Department.

Presenter: None

Department: Finance

Division: Budget Office

Dept ID: 06001411

Attachments:

1-Description/Analysis

2-Quarterly Report

City Attorney Review

Approved as to Form

Marcos A. Kropf

11/2/2011 4:03:21 PM

City Treasurer Review

Reviewed for Impact on Cash and Debt

Russell Fehr

11/1/2011 3:43:38 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 11/2/2011 3:37:25 PM



Description/Analysis:

Issue: 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 (Attachment 2) provides an update on the City's major revenues and department expenditures. It is recommended that the City Council receive this report as informational only.

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.

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 for ongoing efforts to manage expenditures. Staff will continue to work with departments to meet budget goals for the remainder of the fiscal year, and will evaluate adjustments that may be needed with the Midyear Budget (2nd Quarter) Report.

Emerging Small Business Development (ESBD): Not applicable.



Quarterly Financial Report
For Quarter Ending 9/30/11

OVERVIEW

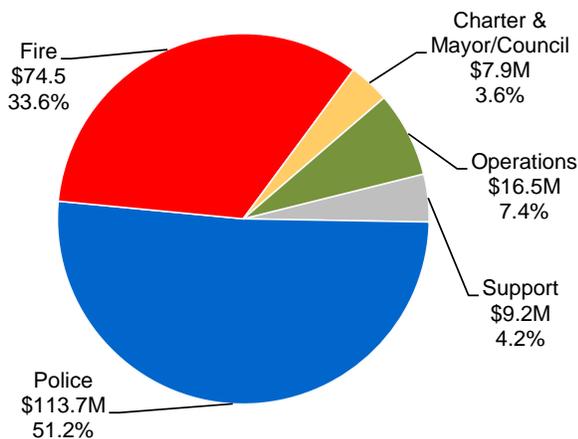
The FY2011/12 Adopted Budget includes:

- \$797 million and 4,083.23 authorized full time equivalent (FTE) from all funding sources;
- \$360.3 million and 2,796.48 FTE from the General Fund;
- \$34.4 million in ongoing reductions, including the elimination of 302.76 FTE positions; and
- \$4.6 million in one-time resources.

In addition, the City Council directed \$3.36 million to the Economic Uncertainty Reserve (EUR), bringing the total to \$17.7 million. In August Council approved the expenditure of \$459,118 from the EUR to assist the Parks and Recreation Department with the transition of community centers to non-profit partners.

The following graph represents the City's Net General Fund expenditure budget based on major departmental groupings:

FY2011/12 Net General Fund Expenditures
(expenditures less reimbursements and revenues)
\$221.9 Million



- Charter includes: City Attorney; City Clerk; City Manager; and City Treasurer.
- Operations includes: Community Development; Convention, Culture & Leisure; Economic Development; General Services; Parks and Recreation; and Transportation.
- Support includes: Finance; Human Resources; and Information Technology

With only the first quarter of the fiscal year complete, it is too early to identify major financial trends however, the City still needs to address the ongoing \$26 million structural deficit as reflected below:

GENERAL FUND FORECAST (in '000s)			
	Approved		
	FY2011/12	FY2012/13	FY2013/14
Total Revenues/Resources	363,644	366,118	372,108
Total Expenditures	363,619	377,546	397,669
Annual Operating Surplus/(Deficit)	25	(11,428)	(25,561)
Cumulative Operating Results	25	(11,428)	(36,989)

The continuing budget gaps expected over the next two fiscal years will continue to require changes to the way we conduct the business of the City and the programs and services we are able to offer. These changes are necessary and inevitable if the City is to regain fiscal sustainability.

GENERAL FUND

General Fund Financial Condition. With 25% of the year complete, General Fund revenues are at 13% of projections and expenditures are at 25%. One reason for the large variance in revenues is due to the nature and timing of the receipt of property taxes, the largest single General Fund revenue source. Additionally, some expenditures are seasonal and as such, will reflect higher levels of expenditures in the summer months and lower expenditures during the remainder of the fiscal year.

GENERAL FUND (in '000s)			
	Budget	YTD	
		Actuals	Percent
Balance, Beginning of FY	-	-	
Revenues	360,279	46,550	13%
Expenditures	360,254	89,152	25%
Total:	25	(42,602)	

This chart reflects budget and actual expenditures for all activities in the General Fund (department operations, capital projects, debt service, etc.).

As shown above, the General Fund balance at the end of the 1st quarter is negative. This is typical for the General Fund and indicates the cyclical cash flow pattern of revenues versus expenditures described in the Revenue section below.



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Revenues. The City's top six revenues account for over 70% of total General Fund revenues. By focusing on these revenue sources, we can begin to see the trend of our revenue position for the fiscal year. However, for this first report because many revenues are not received on a monthly basis, it is difficult to evaluate actuals to date as a percent of budget. In these cases, it will be important to utilize any important information on each revenue source to evaluate the potential revenue variance. Additional information for the analysis of a particular revenue source is provided in the descriptions below if available.

TOP GENERAL FUND REVENUES (in '000s)

Revenue Type	Budget	D Actuals
Property Tax	125,661	658
Utility User Tax*	58,398	10,140
Sales Tax	55,978	3,923
Business Operations Tax*	9,007	1766
Public Safety Sales Tax	4,850	808
Transient Occupancy Tax*	2,599	557
Total:	256,493	17,852

* 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 15th of the month (45 days after the reporting period ends).

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

Key Economic Indicators	9/2010	9/2011
City Unemployment Rate (UR)	14.9%	13.9%
County UR	12.8%	11.9%
State UR	12.5%	11.9%
National UR	9.8%	9.1%
CPI (7/2010-9/2010 vs. 7/2011-9/2011)	1.18%	3.76%
30 Year Fixed Mortgage Rate	4.35%	4.11%

Property Tax. Property taxes are the largest General Fund revenue source, accounting for approximately 34% 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 rolls. The majority of current secured property tax revenues are received in mid-December and mid-April, while the balance of current secured and current unsecured, supplemental, and miscellaneous property

tax revenues are received in late January and late May.

The first apportionment of the City's FY2011/12 property taxes will be received in December 2011. Based on early indications from the County Assessor, property values continue to decline at a higher than expected rate which will have an effect on the FY2011/12 budget and will be addressed in the midyear report in January. The budget projection was -1% based on the FY2010/11 budget, however, when the pending Proposition 8 appeals are processed and reduced property values are finalized, it could be closer to -2% or -3%.

Utility User Tax (UUT). UUT is 16% of the General Fund revenue and is the City's second largest source of General Fund revenue. Measure O was approved by the voters on November 4, 2008, and reduced the 7.5% tax rate to 7.0% on telecommunication services but 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 is in line with the budget through the August 2011* period.

Sales and Use Tax. Sales and Use Taxes make up approximately 15.5% of General Fund revenue. The 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 will be received in December. The UCLA Anderson Forecast is projecting taxable sales in California to increase by 1.7% in 2011. The City is currently projecting a 4% increase over the FY2010/11 budget. Due to prior year sales tax results being better than anticipated, these revenues will offset the decline in property taxes outlined above.

Business Operations Tax (BOT). Business Operations Taxes are 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. Business Operations Taxes make up approximately 2.5% of



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General Fund revenues. Revenue collected is in line with the budget through the August 2011* period.

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. Public Safety Sales Tax represents approximately 1% of General Fund revenue. Revenue collected is in line with the budget through the August 2011* period.

Transient Occupancy Tax (TOT). The current rate of 12% is charged to all transient guests of hotels, motels, inns, and bed and breakfasts within City limits. The General Fund portion of TOT revenues is equal to 2% of the 12% rate of total TOT revenues. The remaining TOT revenues collected are for use by the Community Center Fund. TOT represents approximately 1% of General Fund revenue. Revenue collected is in line with the budget through the August 2011* period.

Revenues to Watch.

California Medi-Cal: Ground Emergency Medical Transport Assembly Bill (AB678). Historically, Medi-Cal has not kept up with the cost of inflation or healthcare and current Medi-Cal rates do not cover the operating cost of a typical ambulance transport. These non-reimbursed costs are subsequently absorbed into a fire department's General Fund and paid for by the taxpayers. This new law provides for a 50% federal match to local agencies who provide Medi-Cal ground emergency medical transportation services less state administrative expenses. AB678 was signed by the Governor on October 2, 2011. It is still too early to know the timing of additional revenues associated with the federal reimbursement. Staff will continue to monitor and provide updates.

Medical Marijuana. Current law enforcement efforts to curtail the sale of medical marijuana may negatively impact budgeted revenue. Prior to recent federal intervention revenues were tracking on budget, however receipts have since diminished. Staff will continue to monitor and provide updates.

Expenditures. Department operating costs are summarized below:

GENERAL FUND EXPENDITURES			
Department	Budget	YTD Actuals	Projected Year End
Mayor/Council	3,030,481	743,791	-
City Attorney	3,060,778	815,835	47,029
City Clerk	1,101,590	222,069	-
City Manager	1,991,621	491,463	236,538
City Treasurer	1,881,672	497,746	21,864
Community Development	19,369,515	4,620,988	-
Convention, Culture & Leisure	4,721,252	2,016,566	(175,321)
Economic Development	3,155,469	711,053	59,147
Finance	4,184,270	672,412	170,966
Fire	95,323,249	23,422,224	(2,252,803)
General Services	9,609,986	2,735,162	422,876
Human Resources	2,430,232	557,153	-
Information Technology	4,850,667	2,094,217	-
Parks and Recreation	10,746,762	4,573,918	(715,000)
Police	114,214,224	29,409,357	(3,108,756)
Transportation	6,388,609	2,283,980	1,355,379
Total General Fund:	286,060,377	75,867,934	(3,938,081)

The highlighted Departments are projecting a budget deficit. Details on the projected deficits are as follows:

Convention, Culture & Leisure. The Department is transferring Golf maintenance to a private contractor as approved by the City Council on October 25, 2011. The City will incur one-time expenses associated with this transfer that had not been budgeted.

Fire. The Staffing for Adequate Fire and Emergency Response (SAFER) grant allows for the hiring of 27.0 new FTE to restore two browned-out fire companies. To restore the browned-out fire companies on July 1, 2011, the Department authorized the use of overtime to staff these companies until a Fire Recruit Academy could be conducted. The SAFER grant is for new staff and does not provide reimbursement for overtime. The use of overtime to restore the brown-out prior to the availability of grant funding will result in an approximate expenditure overage of \$2 million in FY2011/12.

The Department completed a lateral academy in August for six of the new SAFER positions. A recruit academy is underway and the Department is anticipating bringing the remaining 18 firefighters on line in January 2012. The Department will be bringing forward a report to Council prior to the midyear report to discuss the SAFER grant and options to cover the overtime expenses incurred.



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Parks and Recreation. The Department has incurred significant utility expenses, primarily in water and drainage for parks, which have exceeded budget over the last few years. The overspending for utilities is projected to be \$910,000 in the current fiscal year. However, the Department plans to mitigate a portion of the overspending with projected savings in labor and service and supplies so that the net projected deficit is \$715,000.

Police. The Department's projected deficit is composed of unfunded employee services benefits, additional overtime because of staffing reductions, unfunded information technology expenses, and unexpected reductions in grant and contract service reimbursements. The deficit will be partially offset by anticipated labor savings.

ENTERPRISE FUNDS

Overall revenues and expenditures are on target for the Enterprise Funds for the year elapsed. The following chart provides department projections based on first quarter actuals:

ENTERPRISE FUNDS EXPENDITURES

Fund Name	Budget	YTD Actuals	Projection
Community Center	25,849,344	3,623,841	25,760,000
Marina	1,758,928	811,001	1,672,000
Parking	16,924,790	2,410,330	16,924,790
Solid Waste	50,107,202	9,243,483	50,107,202
Storm Drainage	32,428,247	6,319,644	32,428,247
Wastewater	17,166,203	4,172,730	17,166,203
Water	51,080,037	11,469,210	51,080,037
Total Enterprise Funds:	195,314,751	38,050,239	195,138,479