



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
www.CityofSacramento.org

Meeting Date: 5/29/2012

Report Type: Information

Title: FY2011/12 Third Quarter Financial Report

Report ID: 2012-00483

Location: Citywide

Recommendation: Receive and file.

Contact: Leyne Milstein, Finance Director, (916) 808-8491; Dawn Holm, Budget Manager, (916) 808-5574

Presenter: None

Department: Finance

Division: Budget Office

Dept ID: 06001411

Attachments:

1-Description/Analysis

2-Attachment 1

City Attorney Review

Approved as to Form

Gerald Hicks

5/23/2012 4:04:45 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 5/23/2012 3:33:37 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 1) provides an update on the City's major revenues and department expenditures. This report is provided as information 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.

Emerging Small Business Development (ESBD): Not applicable.



Quarterly Financial Report
For Quarter Ending 3/31/12

OVERVIEW

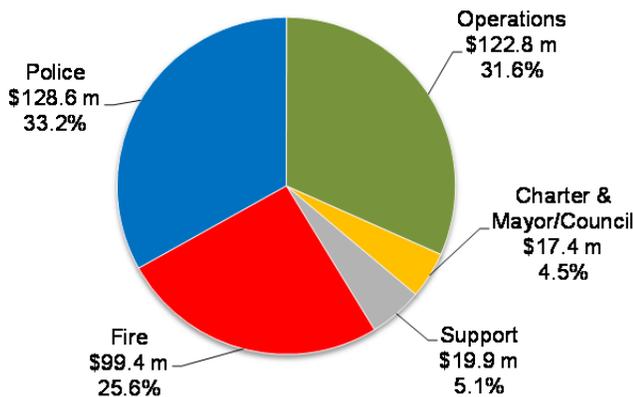
The FY2011/12 Adopted Budget includes:

- \$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 be added to the Economic Uncertainty Reserve (EUR), bringing the total to \$17.7 million. On August 23, 2011, the City Council approved the transfer of \$459,118 from the EUR to assist the Parks and Recreation Department with the transition of community centers to non-profit partners. On January 31, the City Council added \$3 million in one-time funds from a capital project to the EUR bringing the total to \$20.3 million.

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

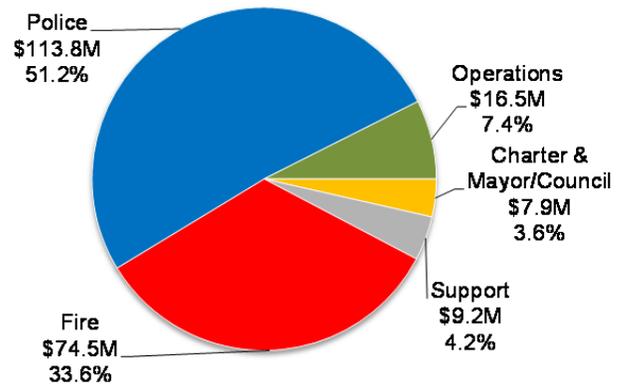
FY2011/12 Gross General Fund Expenditures
\$388.1 Million



- 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

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



As reflected in the chart below, the continuing budget gap expected over the next two fiscal years is \$22.6 million. Closing the gap 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 FORECAST (in '000s)

	Approved FY2011/12	Proposed FY2012/13	Projected FY2013/14
Total Revenues/Resources	359,869	366,055	370,789
Total Expenditures	360,254	365,033	376,727
Other Sources and (Uses)	410	(981)	(1,131)
Annual Operating Surplus/(Deficit)	25	41	(7,069)

GENERAL FUND

General Fund Financial Condition. With 75% of the fiscal year complete, General Fund revenues are at 72% of projections and expenditures are at 80%. 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.



City of Sacramento

Quarterly Financial Report For Quarter Ending 3/31/12

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

GENERAL FUND (in '000s)			
	Approved Budget	YTD Actuals	Percent
Balance, Beginning of FY	-	-	
Revenues	359,869	258,265	72%
Expenditures	360,254	288,120	80%
Other Sources and (Uses)	410		
Total:	25	(29,855)	

As shown above, the General Fund balance at the end of the third 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.

Revenues. The City's top six revenues account for over 70% of total General Fund revenues. By focusing on these revenue sources, we can see the trend of our revenue position for the fiscal year. However, since 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 available 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	YTD Actuals
Property Tax	122,809	92,627
Utility User Tax*	58,398	44,849
Sales Tax	55,978	37,500
Business Operations Tax*	9,007	7,508
Public Safety Sales Tax	4,850	2,842
Transient Occupancy Tax*	2,599	1,806
Total:	253,641	187,132

* 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).

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 second apportionment of the City's FY2011/12 property taxes was received in spring 2012 and has been included in the YTD actual revenues shown above. The 2011 Proposition 8 assessments reduced the value of 59,945 parcels or 39% of all parcels within the City. In addition, there were 4,343 foreclosures or 3% of all parcels. The City's FY2011/12 approved budget assumed a 1% property tax decline for the main property tax roll valuation; however, once the valuations were finalized, an additional 3% reduction was realized and included in the Midyear adjustments.

The property taxes do not include the May disbursement which includes several property tax apportionments such as current secured, property tax in-lieu of VLF, and in-lieu sales tax. The City will also be receiving property tax revenue accruals after the fiscal year ends.

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 March 2012 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.



**Quarterly Financial Report
For Quarter Ending 3/31/12**

The City has had four consecutive quarters of sales tax growth following a prolonged downturn in the economy that extended from FY2007/08 through FY2009/10. Based on the most recent sales tax results we have revised estimates upward by 7% for FY2011/12 and amended the budget at Midyear.

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 General Fund revenues. The BOT revenue budget was reduced by \$250,000 at Midyear based on tightening federal regulations regarding the legality of medical marijuana dispensaries.

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 through the March 2012 period is in line with the amended budget.

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 percentage points 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 amended budget.

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

Key Economic Indicators	3/2011	3/2012
City Unemployment Rate (UR)	14.3%	13.4%
County UR	12.3%	11.5%
State UR	11.9%	11.0%
National UR (Mar/10 vs. Mar/11)	8.8%	8.2%
CPI (1/2011-3/2011 vs. 1/2012-3/2012)	2.14%	2.82%
30-Year Fixed Mortgage Rate	4.84%	3.91%

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.

California Medi-Cal: Ground Emergency Medical Transport Assembly Bill (AB 678). Historically, Medi-Cal has not kept up with inflation or the cost of healthcare, and current Medi-Cal rates do not cover the operating cost of a typical ambulance transport. These non-reimbursed costs are absorbed by the 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. AB 678 was signed by the Governor on October 2, 2011.

There are currently several pilot agencies, including Sacramento Metropolitan Fire District, working with the federal government on a reimbursement structure. Once approved, the process and structure will be rolled out to other fire agencies. It is still too early to know the timing of additional revenues associated with the federal reimbursement, but it will not occur this fiscal year. Staff will continue to monitor and provide updates.

Medical Marijuana. Federal law enforcement efforts to curtail the sale of medical marijuana may negatively affect budgeted revenue. Prior to federal intervention, revenues were tracking on budget. Receipts diminished in the fall after federal action, but picked up again in the first half of FY2011/12. The threat of further federal action is still looming, and so a conservative revenue estimate is appropriate.

Department Projections. Department revenue projections are summarized below:

GENERAL FUND REVENUES			
Department	Budget	YTD Actuals	Projected Year-End Variance
City Attorney	52,000	42,814	14,338
City Clerk	2,000	4,000	4,000
City Treasurer	2,923,500	325,231	0
Community Development	15,700,644	11,831,708	75,000
Economic Development	3,180,251	2,292,614	(887,637)
Finance	2,037,500	536,896	(683,000)
Fire	21,511,604	13,224,880	222,659
General Services	1,416,382	636,964	22,100
Human Resources	272,000	114,619	(120,000)
Parks and Recreation	890,502	598,345	0
Police	2,591,832	1,728,230	0
Transportation	16,082,104	11,249,698	(1,156,022)
Total General Fund:	66,660,319	42,585,999	(2,508,562)



City of Sacramento

Quarterly Financial Report For Quarter Ending 3/31/12

Department expenditure projections are summarized below:

GENERAL FUND EXPENDITURES

Department	Budget	YTD Actuals	Projected Year-End Variance
Mayor/Council	3,930,755	2,423,797	-
City Attorney	3,060,778	2,358,586	180,960
City Clerk	1,101,590	613,303	-
City Manager	1,972,148	1,344,977	91,286
City Treasurer	1,881,672	1,457,008	109
Community Development	19,354,915	14,543,376	-
Convention, Culture & Leisure	4,712,687	5,130,619	-
Economic Development	3,155,469	2,020,006	569,872
Finance	4,165,870	2,358,143	884,500
Fire	96,535,344	71,774,675	-
General Services	9,609,986	7,032,081	22,861
Human Resources	2,545,132	1,811,542	120,000
Information Technology	4,750,667	3,486,820	-
Parks and Recreation	12,038,338	11,290,783	-
Police	113,664,633	80,687,421	(630,140)
Transportation	6,388,609	7,862,041	1,161,153
Total General Fund:	\$288,868,593	\$216,195,178	2,400,601

Details on the departments with significant projected shortfalls are as follows:

Economic Development. The Department is projecting an expenditure savings of approximately \$500,000 which will offset a projected revenue shortfall resulting from decreased reimbursements from the Sacramento Housing and Redevelopment Agency (SHRA) in calendar year 2011 and the dissolution of redevelopment in February of 2012. The loss of redevelopment related revenue has been addressed, and the FY2012/13 Proposed Budget includes a rightsizing of the department budget.

Finance. The Department is projecting a revenue shortfall of approximately \$683,000 due to lower than anticipated revenues from delinquent collections due to start-up time delays. To address anticipated revenue shortfalls, the department has maintained vacancies and reduced operating expenses related to consultant services and supplies. The department will continue to monitor the delinquent collections program and will propose staffing changes as necessary.

Human Resources. The Department is projecting a revenue shortfall of \$120,000 which is related to the loss of labor relations services contracts with the Sacramento Employment and Training Agency (SETA) and SHRA. Labor savings are projected which will be used to offset the loss of these revenues.

Police. The Department's projected deficit of \$600,000 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. The Department labor budget was increased at Midyear by \$1 million to address accrued holiday leave payouts associated with existing labor contracts.

Transportation. The Department is projecting an expenditure savings in excess of \$1 million primarily related to vacancies within the department. The vacancies are being utilized to address a projected revenue shortfall of approximately \$1 million related to parking collections. The department is currently reviewing operations to identify options for balancing vacancies and revenues moving forward.

ENTERPRISE FUNDS

Expenditures. Enterprise Fund expenditures are on target for the current year as reflected below:

ENTERPRISE FUNDS EXPENDITURES

Fund Name	Budget	YTD Actuals	Projected Year-End Variance
Community Center	24,599,344	15,555,089	1,929,124
Marina	1,735,453	1,331,155	97,956
Parking	17,259,056	12,171,201	-
Solid Waste	54,764,492	36,837,028	2,892,912
Storm Drainage	36,776,427	23,895,567	953,752
Wastewater	18,356,057	12,986,465	794,118
Water	63,951,548	41,809,299	849,818

Total Enterprise Funds: \$217,442,377 \$144,585,804 \$7,517,680

Revenues. Enterprise Fund revenues are on target for the current year.

ENTERPRISE FUND REVENUES

Fund Name	Budget	YTD Actuals	Projected Year-End Variance
Community Center	24,170,000	15,512,427	-
Marina	1,410,675	1,094,433	(137,675)
Parking	17,854,368	15,608,462	-
Solid Waste	64,617,060	53,144,467	373,900
Storm Drainage	37,617,781	23,768,649	600,006
Wastewater	21,191,134	13,594,508	1,186,488
Water	79,418,457	51,475,542	2,233,251

Total Enterprise

Funds: \$246,279,475 \$174,198,488 \$4,255,970