

Meeting Date: 5/21/2013

Report Type: Consent

Report ID: 2013-00422

Title: Third Quarter Financial Report FY2012/13

Location: Citywide

Issue: This report provides a status report to Council on the FY2012/13 budget.

Recommendation: Receive and file.

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

Presenter: None.

Department: Finance **Division:**

Budget Office

Dept ID: 06001411

Attachments:

1-Description/Analysis

2-Attachment 1 Quarterly Report

City Attorney Review

Approved as to Form

Grace Arupo

5/16/2013 9:32:12 AM

Approvals/Acknowledgements

Department Director or Designee: Dawn Holm - 5/15/2013 6:26:56 PM

Description/Analysis

Issue Detail: The City Manager is responsible for fiscal reporting in accordance with the authority granted by Section 61 of the City Charter. This report highlights potential year-end issues and requests any needed adjustments.

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, thereby ensuring City Councilmembers remain informed on the fiscal condition of the city.

Economic Impacts: Not applicable.

Environmental Considerations: Not applicable.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: 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.

Financial Considerations: The quarterly report reflects the City's ongoing efforts to manage expenditures. Staff will continue to work for the remainder of the fiscal year with department staff towards achieving budgetary goals.

Emerging Small Business Development (ESBD): No goods or services are being purchased under this report.



**Quarterly Financial Report
For Quarter Ending 3/31/13**

OVERVIEW

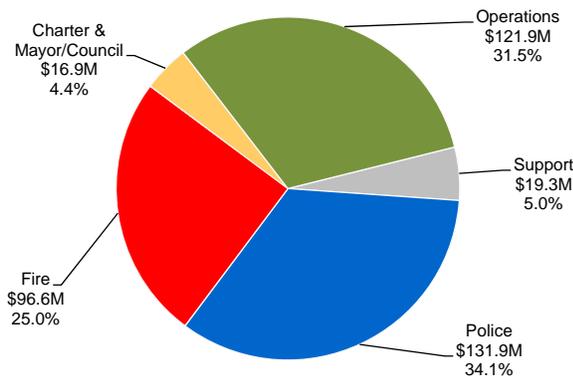
The FY2012/13 Approved Budget as Amended includes:

- \$1.059 billion and 4,002.99 authorized full time equivalent (FTE) positions (all funding sources)
- \$368.2 million and 2,749.24 FTE in the General Fund

GENERAL FUND

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

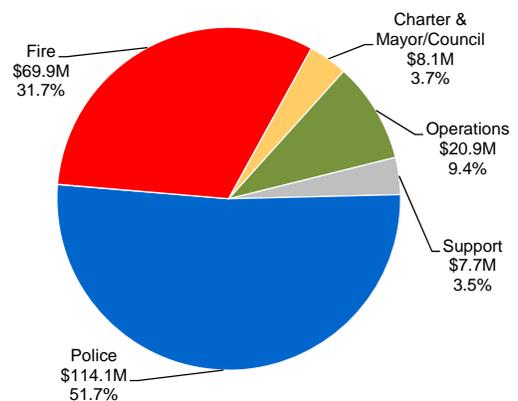
**FY2012/13 Gross General Fund Expenditures
\$386.6 Million**



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

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

**FY2012/13 Net General Fund Expenditures
(expenditures less reimbursements and revenues)
\$220.7 Million**



At the end of the third quarter, General Fund revenues collected and funds expended are tracking in-line with the Citywide General Fund budget for FY2012/13. Some departments identified in this report are facing challenges, but as a whole the General Fund is projected to end FY2012/13 with a positive balance.

General Fund Financial Condition. Based on a review of the major revenue assumptions included in the FY2012/13 Approved Budget, staff has determined that no adjustments to the General Fund's major tax revenues are necessary at this time.

General Fund (\$ in '000s)

	Budget	YTD	
		Actuals	Percent
Balance, Beginning of FY	-	-	
Revenues	369,260	268,650	73%
Expenditures	369,140	267,359	72%
Total:	120	1,291	

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



City of Sacramento

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Department Projections. Department revenue projections are summarized below:

GENERAL FUND REVENUES

Department	Budget	YTD Actuals	Projected Year-End Variance
City Attorney	52,000	56,083	16,683
City Clerk	85,169	41,562	(34,800) ¹
City Treasurer	2,681,000	1,002,440	-
Community Development	15,798,676	12,750,487	(122,866) ¹
Convention, Culture & Leisure	1,559,938	1,352,836	(7,698) ¹
Economic Development	1,230,251	1,349,858	380,485
Finance	2,042,351	605,360	-
Fire	24,162,604	16,580,595	205,095
General Services	1,135,000	890,964	(31,256) ¹
Human Resources	272,000	119,844	(120,000) ¹
Parks and Recreation	1,064,343	1,266,026	88,000
Police	9,883,000	6,055,167	(1,992,888) ¹
Public Works	14,882,104	11,459,577	(488,500) ¹
Total General Fund:	74,848,436	53,530,799	(2,107,745)

¹ Department revenue shortfalls will be offset by savings in expenditures.

Department expenditure projections are summarized below:

GENERAL FUND EXPENDITURES

Department	Budget	YTD Actuals	Projected Year-End Variance
Mayor/Council	2,957,722	2,010,306	-
City Attorney	3,877,516	2,979,570	299,931
City Clerk	1,494,487	1,186,896	34,800 ²
City Manager	1,672,358	1,129,819	98,021
City Treasurer	1,791,429	1,505,509	34,311
Community Development	19,764,293	16,269,016	145,184 ²
Convention, Culture & Leisure	4,757,553	3,647,007	7,732 ²
Economic Development	2,925,099	1,751,875	242,475
Finance	4,459,100	2,882,474	132,204
Fire	94,709,309	74,018,376	(594,184)
General Services	9,192,933	11,142,928	31,256
Human Resources	2,225,304	1,605,198	120,000 ²
Information Technology	3,192,548	5,887,080	-
Parks and Recreation	13,798,837	18,833,499	62,000
Police	123,878,518	98,934,981	1,992,888 ²
Public Works	6,545,731	20,511,388	507,271 ²
Total General Fund:	297,242,737	264,295,922	3,113,889

² Department expenditure savings will be used to offset projected revenue shortfall.

The Highlighted department (Fire) is projecting a budget deficit and will be explained in report.

The Fire Department is projecting to exceed its expenditure budget as reflected in the prior chart, details are as follows:

Fire Department

The Fire Department experienced a period of increased unit utilization hours and added an additional medic unit to assist with this spike. This additional unit did not bring in additional revenues, resulting in higher expenditures of approximately \$370,000. Additionally, the department has been challenged with higher costs related to training academies, military leave, and special operations. Revenues for the department are trending slightly above budget which will be available to help cover the estimated expenditure overage. The department is modifying operations in an effort to reduce the department's estimated year-end budget gap (\$389,089).

Revenues. The City's top six revenues account for 69% 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, many revenues are not received on a monthly basis; therefore, 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.

TOP GENERAL FUND REVENUES (in '000s)

Revenue Type	Budget	YTD Actuals
Property Tax	118,982	90,734
Sales Tax	62,794	38,879
Utility User Tax ³	58,982	42,876
Business Operations Tax ³	8,163	7,194
Public Safety Sales Tax	4,365	3,038
Transient Occupancy Tax ³	3,192	1,893
Total:	256,478	184,614

³ 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 following month (45 days after the reporting period ends).



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City's Major Revenue Sources

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 rolls. The majority of current secured property tax revenues are received in mid-December and mid-April, while the balance of current secured, current unsecured, supplemental, and miscellaneous property tax revenues are received in late January and late May.

The second apportionment of the City's FY2012/13 property taxes was received in April 2013. The second secured roll payment was approximately \$800 thousand or 3% lower than the same payment received in FY2011/12. While property values continue to stabilize, transaction volume in the region remains stagnant.

Sales and Use Tax. Sales and Use Taxes make up approximately 17% 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 second true-up payment for this fiscal year was received in March. Sales tax was up statewide 3.5%, comparing the fourth quarter of 2012 to the fourth quarter of 2011, while Sacramento decreased 3.0%. The lack of new auto dealerships compared to surrounding jurisdictions and a lag in construction due to the building moratorium in Natomas continue to hinder sales tax growth. In addition, the true-up payment for the prior period cash advance was \$150,000 overstated, meaning the City had to refund part of its advance.

Utility User Tax (UUT). UUT is 16% of the General Fund revenue and is the City's third largest source of General Fund revenue. Measure O was approved by the voters on November 4, 2008; it 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 February 2013³ period.

Other City Revenue Sources

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% of General Fund revenues. Revenue collected is in line with the budget through the March 2013³ 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. This tax represents approximately 1% of General Fund revenue. Revenue collected is in line with the budget through the February 2013³ 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 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 budget through the February 2013³ period.

November 2012 Essential Services Protection Measure - Measure U. Voter approval of Measure U in November 2012 authorized the implementation of an additional one-half cent transaction and use tax effective April 1, 2013. We anticipate receipt of monthly revenues beginning in late June 2013. Measure U revenues are estimated at approximately \$5 million in FY2012/13. City Council approved the \$5 million allocation to address critical program needs and to establish a reserve on March 12, 2013.

³ 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 following month (45 days after the reporting period ends).



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

Key Economic Indicators	3/2012	3/2013
City Unemployment Rate (UR)	13.4%	10.8%
County UR	11.0%	9.2%
State UR	10.7%	9.4%
National UR (Sep/10 vs. Sep/11)	8.2%	7.6%
CPI (10/2011-12/2011 vs. 10/2012-12/2012)	2.82%	1.68%
30-Year Fixed Mortgage Rate	3.95%	3.57%

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 Assembly Bill 678: Medi-Cal Ground Emergency Medical Transport (GEMT). A committee of California Fire personnel is currently working with the State of California to develop an acceptable format for submitting claims to the Federal government to provide supplemental reimbursement of approved Medi-Cal costs. The Federal Government has not yet approved the claim process and as such the City is not able to submit a claim form for GEMT revenues. The Fire Department is continuing to monitor this program and will report to Council once the program has been approved and a reimbursement claim has been accepted.

The Fire Department has submitted an application to the Department of Health Care Services to participate in the program to ensure that the City is ready to participate once the process has been approved.

Medical Marijuana. Federal enforcement action on City of Sacramento dispensaries has decreased. A few dispensaries have reopened in their original locations; however, it is still difficult for the dispensaries to relocate and meet all of the City's sensitive use requirements. Even with a little over half of the dispensaries operating, the 4% tax is coming in ahead of budget. This revenue stream will be watched closely given the unknown level of federal enforcement action.

ENTERPRISE FUNDS

Enterprise Fund revenues and expenditures are reflected below:

ENTERPRISE FUNDS EXPENDITURES			
Fund Name	Budget	YTD Actuals	Projection
Community Center	22,339,908	15,903,394	21,118,000
Marina	1,408,965	938,018	1,224,008
Parking	17,149,349	11,285,336	17,149,349
Solid Waste	50,713,829	35,224,168	50,507,697
Storm Drainage	33,095,003	22,821,293	32,949,224
Wastewater	20,393,019	14,244,445	19,625,359
Water	67,964,680	44,312,143	67,239,725
Total Enterprise Funds:	\$213,064,753	\$144,728,797	\$209,813,362

ENTERPRISE FUNDS REVENUE			
Fund Name	Budget	YTD Actuals	Projection
Community Center	23,450,000	16,232,449	23,450,000
Marina	1,415,500	904,754	1,178,000
Parking	17,803,386	15,454,053	18,169,000
Solid Waste	60,251,000	47,764,969	60,956,739
Storm Drainage	35,435,206	27,969,560	35,556,606
Wastewater	24,353,216	19,506,813	25,142,398
Water	85,797,246	70,136,371	88,515,030
Total Enterprise Funds:	\$248,505,554	\$197,968,969	\$252,967,773