

**Meeting Date: 11/19/2013**

**Report Type:** Consent

**Report ID:** 2013-00853

**Title: First Quarter Financial Report – Fiscal Year 2013/14**

**Location:** Citywide

**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 provides an update on the City's major revenues and department expenditures through the first quarter of FY2013/14.

**Recommendation:** Receive and file.

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

**Presenter:** None

**Department:** Finance

**Division:** Budget Office

**Dept ID:**

**Attachments:**

1-Description/Analysis

2-Attachment 1 Quarterly Report

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**City Attorney Review**

Approved as to Form

Steve Itagaki

11/13/2013 3:54:05 PM

**City Treasurer Review**

Reviewed for Impact on Cash and Debt

Russell Fehr

11/6/2013 10:37:38 AM

**Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 11/13/2013 12:05:15 PM

## Description/Analysis

**Issue Detail:** 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 provides and update on the City's major revenues and department expenditures through the first quarter of FY2013/14.

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.

**Economic Impacts:** Not applicable

**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 (2<sup>nd</sup> Quarter) Report.

**Emerging Small Business Development (ESBD):** Not applicable

**OVERVIEW**

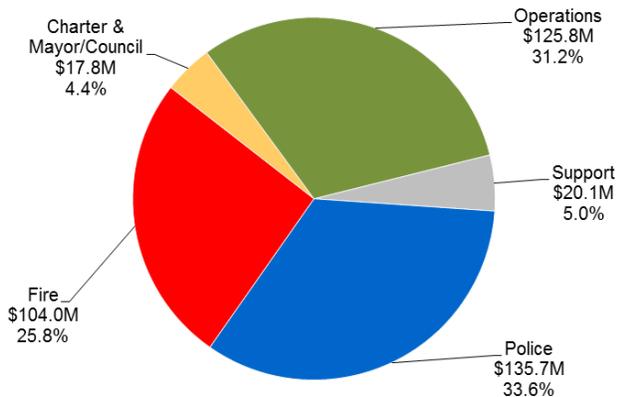
The FY2013/14 Approved Budget includes:

- \$838.6 million and 4,095.07 authorized full-time equivalent (FTE) positions (all funding sources)
- \$372.7 million and 2,896.17 FTE in the General Fund

**GENERAL FUND**

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

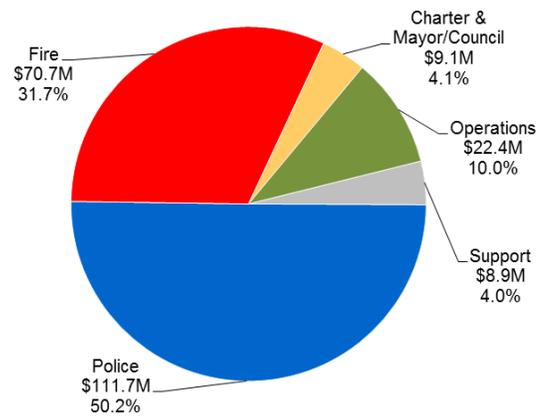
**FY2013/14 Gross General Fund Expenditures**  
(expenditures excluding reimbursements and revenues)  
**\$403.4 Million**



- 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.

**FY2013/14 Net General Fund Expenditures**  
(expenditures less reimbursements and revenues)  
**\$222.8 Million**



With only the first quarter of the fiscal year complete, it is too early to identify major financial trends since the County of Sacramento distributes property taxes in January and May.

Staff received retirement cost estimates in late October which will be used to update the City's General Fund five-year forecast. This information will be provided in the FY2013/14 Midyear Report to Council scheduled for early 2014.

**General Fund Financial Condition.** Based on a review of the major revenue assumptions included in the FY2013/14 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)**

	YTD		
	Budget	Actuals	Percent
Revenues	372,560	34,498	9%
Expenditures	372,559	90,926	24%
<b>Total:</b>	<b>1</b>	<b>(56,428)</b>	

*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 expenditures have exceeded revenues over the first three months of the fiscal year. This is typical for the General Fund and indicates the cyclical cash flow pattern of revenues versus expenditures described in the Revenue section below.

**Department Projections.** Departments highlighted below are projecting a need for midyear budget adjustments and further explanation is provided in the following charts.

Department revenue projections are summarized below.

**GENERAL FUND DEPARTMENT REVENUES**

Department	FY2013/14		QTR 1
	Budget	YTD Actuals	Projected Year-End Variance
City Attorney	52,000	28,547	3,000
City Clerk	52,000	24,000	-
City Treasurer	2,725,000	357,103	-
Community Development	15,800,025	3,626,679	-
Convention, Culture & Leisure	1,564,707	322,352	-
Economic Development	1,382,251	339,164	-
Finance	2,131,823	169,679	-
Fire	23,672,604	4,643,690	806,683
General Services	761,000	357,733	219
Human Resources	152,000	40,474	-
Parks and Recreation	1,054,036	780,100	200,000
Police	10,026,071	2,143,726	(562,242) <sup>1</sup>
Public Works	14,882,104	3,869,532	(652,922)
<b>Total General Fund:</b>	<b>74,255,621</b>	<b>16,702,779</b>	<b>(205,262)</b>

<sup>1</sup> Projected revenue shortfalls will be offset by expenditure savings.

Department expenditure projections are summarized below.

**GENERAL FUND DEPARTMENT EXPENDITURES**

Department	FY2013/14		QTR 1
	Budget	YTD Actuals	Projected Year-End Variance
Mayor/Council	3,120,285	724,548	-
City Attorney	3,937,001	903,121	276,673
City Clerk	1,212,060	308,975	-
City Manager	1,795,785	319,648	105,236
City Treasurer	1,874,251	403,397	2,238
Community Development	19,956,003	4,490,462	44,931
Convention, Culture & Leisure	4,694,186	1,123,352	-
Economic Development	3,163,331	470,651	151,086
Finance	5,050,779	1,093,396	93,785
Fire	93,321,394	23,756,385	(1,775,108)
General Services	9,145,116	2,476,794	165
Human Resources	2,315,889	461,247	-
Information Technology	3,652,761	1,592,654	-
Parks and Recreation	14,350,728	5,745,885	(200,000)
Police	120,544,433	30,645,375	562,242 <sup>2</sup>
Public Works	5,040,366	7,249,226	(284,702)
<b>Total General Fund:</b>	<b>293,174,368</b>	<b>81,765,116</b>	<b>(1,023,454)</b>

<sup>2</sup> Projected Expenditure savings will be used to offset projected revenue shortfall.

The Fire and Public Works Departments are expected to exceed their expenditure budgets as reflected in the prior charts; details are as follows:

**Fire Department**

The Fire Department's payment to the Sacramento Regional Fire/EMS Communications Center (joint powers authority) increased by \$1.2 million from previous years due to full staffing and anticipated infrastructure costs. The Interim Fire Chief is currently exploring whether it may be possible to reduce/cover the costs through other means. Revenues for the department are trending slightly above budget and will be available to help offset a portion of the estimated expenditure overage.

**Parks and Recreation Department**

Parks and Recreation may exceed revenue projections due to higher than anticipated participation in recreation programs. As a result, service and supply expenditures are projected to exceed budgetary authority. The department will be requesting a budget adjustment to recognize revenues and increase expenditure authority at midyear.

**Public Works Department**

Public Works is projecting revenue shortfalls and expenditure overruns totaling \$950,000 in the General Fund. There are four areas within the department that may require midyear actions: concrete maintenance, citations, parking meters, and traffic signs and markings. Public Works is developing a corrective action plan which will be included in the FY2013/14 Midyear Report.

**Revenues.** The City's top six revenue sources account for 70% of total General Fund revenues. By focusing on these revenue sources, we can see the trend of revenues 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 available information on each revenue source to evaluate the potential 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	119,325	1,501
Sales Tax	65,305	7,612
Utility User Tax <sup>3</sup>	58,982	13,133
Business Operations Tax <sup>3</sup>	8,919	2,635
Public Safety Sales Tax	4,843	735
Transient Occupancy Tax <sup>3</sup>	3,287	368
<b>Total:</b>	<b>260,661</b>	<b>25,984</b>

<sup>3</sup> 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 15<sup>th</sup> of the following month (45 days after the reporting period ends).

**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.

As of November 2013, properties within the City are currently on the secured roll at \$5.8 billion below their Proposition 13 (1978, peoples' initiative to limit property taxation) values due to Proposition 8 (1978, allowing for a reassessment of real property values in a declining market) assessments. Single-family residences account for 89% of these properties, which account for \$3.2 billion of the reduction below Proposition 13 values. The \$5.8 billion for Proposition 8 assessments equates to \$13 million the City has lost in annual property tax revenue.

The first apportionment of the City's FY2013/14 property taxes will be received in December 2013. Based on early indications from the County Assessor, property values continue to stabilize, which will have a positive effect on the FY2013/14 property tax collections and could result in positive assessed valuation growth for FY2014/15 budget development.

**Sales and Use Tax.** Sales and Use Taxes make up approximately 18% of General Fund revenue. 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 for this fiscal year will be received in December. The City is currently projecting a 2% increase over the FY2012/13 actual collections. This increase was already factored into the revenue budget as adopted for FY2013/14. (See Measure U discussion on next page.)

**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, reducing the 7.5% tax rate to 7.0% on telecommunication services, but expanding the tax 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 actuals are 4% below the FY2012/13 collections through August 2013.

**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.

**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.

**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.

**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. The City received three advances totaling \$4.8M during FY2012/13. The first quarter of FY2013/14 Measure U sales tax receipts will be received in December and will be detailed in the FY2013/14 midyear report.

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

Key Economic Indicators	9/2012	9/2013
City Unemployment Rate (UR)	11.9%	10.4% <sup>1</sup>
County UR	10.2%	8.9% <sup>1</sup>
State UR	10.2%	8.9% <sup>1</sup>
National UR (9/2012 vs. 9/2013)	7.8%	7.2%
CPI (7/2012-9/2012 vs. 7/2013-9/2013)	1.70%	1.55%
30-Year Fixed Mortgage Rate	3.47%	4.49%

<sup>1</sup>Due to the federal government shutdown, employment statistics are only available through August 2013 for the City, County, and State.

**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).** In August 2013, the California Department of Health Care Services (DHCS) along with a committee of California fire personnel conducted a training session to review the GEMT claim process. Subsequently, the State established a GEMT website with the requirements, forms, due dates and other pertinent information. Below are some of the base requirements to participate in the GEMT program:

- Enter into a Provider Participation Agreement (PPA) with DHCS which requires the City to enter into an agreement with Sacramento Metropolitan Fire District (SMFD)
- Agree to reimburse DHCS for its allocated share of the administrative costs associated with overseeing the program (The provider's allocated administrative share will be collected by SMFD on behalf of DHCS and is anticipated to be a flat fee per transport)
- Enter into an agreement with SMFD authorizing it to pay DHCS. In addition, the agreement will require the City to pay an administrative fee to SMFD for their services (currently estimated at one percent of gross reimbursements)
- Complete an Annual Participation Survey, indicating intention to participate in the specified fiscal year's GEMT reimbursement program

The GEMT program is retroactive to January 30, 2010, and staff is currently working on completing claims for FY2009/10 (reimbursement is only available for the last five months of the fiscal year) and FY2010/11. These reports are due to be submitted to DHCS by December 2, 2013.

**Medical Marijuana.** Federal enforcement action on the 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. On October 1, 2013, the City Council amended the City Code (Ordinance 2013-0024) making it easier for dispensaries to relocate. The ordinance became effective November 1, 2013; it is too soon to know the impact. Even with a little over half of the dispensaries operating, the 4% tax is trending 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 REVENUE

Fund Name	Budget	YTD Actuals	Projection
Community Center	23,861,000	4,333,020	23,861,000
Parking	17,891,738	5,243,176	17,891,738
Solid Waste	59,013,000	12,381,947	58,586,635 <sup>1</sup>
Storm Drainage	35,435,206	7,352,398	35,435,206
Wastewater	28,467,753	6,101,621	28,467,753
Water	96,062,689	22,589,755	98,085,786
<b>Total Enterprise Funds:</b>	<b>\$260,731,386</b>	<b>\$58,001,917</b>	<b>\$262,328,118</b>

### ENTERPRISE FUNDS EXPENDITURES

Fund Name	Budget	YTD Actuals	Projection
Community Center	21,571,337	2,904,907	21,571,337
Parking	17,197,692	2,295,533	17,004,787
Solid Waste	52,152,244	8,799,506	51,352,346 <sup>1</sup>
Storm Drainage	33,609,911	6,643,914	33,609,911
Wastewater	21,570,218	4,507,948	21,570,218
Water	72,708,068	16,223,349	72,708,068
<b>Total Enterprise Funds:</b>	<b>\$218,809,470</b>	<b>\$41,375,157</b>	<b>\$217,816,667</b>

<sup>1</sup> Department projected revenue shortfalls will be offset by expenditure savings.