

Meeting Date: 6/10/2014

Report Type: Consent

Report ID: 2014-00360

Title: Third Quarter Financial Report - Fiscal Year 2013/14

Location: Citywide

Recommendation: Receive and file.

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

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
Steve Itagaki
6/2/2014 9:45:36 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 5/22/2014 8:48:53 AM

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 (Attachment 1) provides an update on the City's major revenues and department expenditures through the third 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 for the remainder of the fiscal year with department staff toward achieving budgetary goals.

Local Business Enterprise (LBE): Not applicable.

OVERVIEW

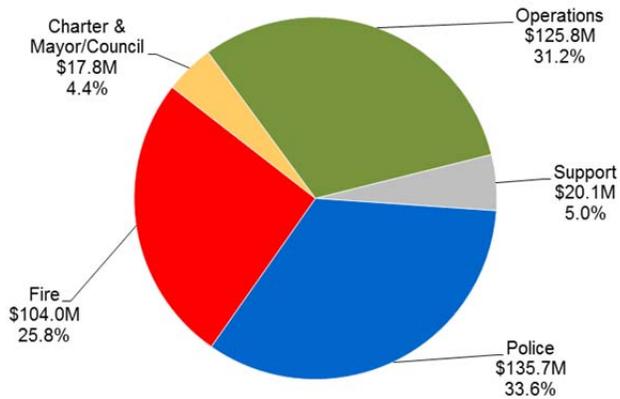
The FY2013/14 Approved Budget includes:

- \$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.

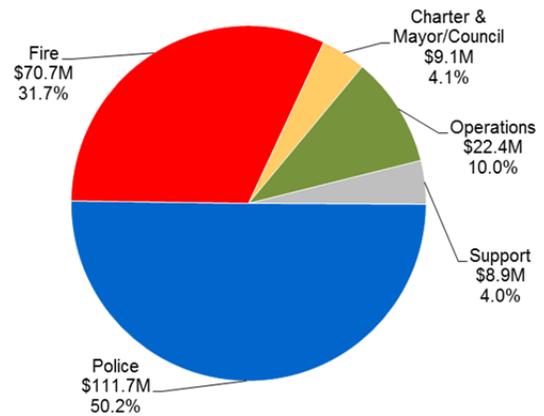
FY2013/14 Gross General Fund Expenditures
(expenditures excluding reimbursements and revenues)
\$403.4 Million



- 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



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 FY2013/14. Some departments identified in this report are facing challenges, but as a whole the General Fund is projected to end FY2013/14 with a positive balance.

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)

| | Budget | YTD | |
|--------------------------|----------|-----------------|---------|
| | | Actuals | Percent |
| Balance, Beginning of FY | - | - | |
| Revenues | 372,560 | 236,494 | 63% |
| Expenditures | 372,559 | 300,369 | 81% |
| Total: | 1 | (63,875) | |

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

Department Projections. Departments highlighted below are projecting a deficit at the fiscal year end and further explanation is provided after the following charts.

GENERAL FUND DEPARTMENT REVENUES

| Department | FY2013/14 | | 3rd Qtr |
|-------------------------------|-------------------|-------------------|-----------------------------|
| | Budget | YTD Actuals | Projected Year-End Variance |
| City Attorney | 52,000 | 51,863 | 3,000 |
| City Clerk | 52,000 | 32,300 | - |
| City Treasurer | 2,725,000 | 2,063,318 | - |
| Community Development | 15,800,025 | 12,579,337 | (762,448) |
| Convention, Culture & Leisure | 1,564,707 | 1,287,232 | (43,555) |
| Economic Development | 1,382,251 | 1,071,609 | - |
| Finance | 2,131,823 | 611,385 | - |
| Fire | 24,339,876 | 16,677,146 | 658,781 |
| General Services | 761,000 | 815,451 | 31,409 |
| Human Resources | 152,000 | 80,949 | - |
| Parks and Recreation | 1,293,596 | 1,397,870 | 100,000 |
| Police | 10,026,071 | 8,035,066 | (388,273) |
| Public Works | 13,882,104 | 10,666,222 | 8,209 |
| Total General Fund: | 74,162,453 | 55,369,748 | (392,877) |

¹ Department projected revenue shortfalls will be offset by expenditure savings.

GENERAL FUND DEPARTMENT EXPENDITURES

| Department | FY2013/14 | | 3rd Qtr |
|-------------------------------|--------------------|--------------------|-----------------------------|
| | Budget | YTD Actuals | Projected Year-End Variance |
| Mayor/Council | 3,507,431 | 2,280,897 | - |
| City Attorney | 3,937,001 | 2,810,127 | 192,806 |
| City Clerk | 1,210,763 | 900,163 | - |
| City Manager | 1,795,785 | 1,074,054 | 65,322 |
| City Treasurer | 1,874,251 | 1,298,733 | - |
| Community Development | 19,942,453 | 13,685,058 | 406,776 |
| Convention, Culture & Leisure | 4,663,686 | 3,227,993 | 15,186 |
| Economic Development | 3,163,331 | 1,644,056 | 203,453 |
| Finance | 5,050,779 | 3,741,489 | 72,963 |
| Fire | 93,991,209 | 71,702,241 | (1,001,504) |
| General Services | 9,145,116 | 6,838,144 | (31,409) |
| Human Resources | 2,310,889 | 1,614,939 | - |
| Information Technology | 3,652,761 | 3,092,663 | 100,000 |
| Parks and Recreation | 14,387,039 | 16,579,312 | (100,000) |
| Police | 120,895,161 | 94,442,433 | 388,273 |
| Public Works | 5,017,490 | 15,159,091 | 1,260 |
| Total General Fund: | 294,545,145 | 240,091,393 | 313,126 |

² Department expenditure savings will be used to offset projected revenue shortfall. Additional detail will be provided as part of the Midyear Budget Report.

³ Department expenditure shortfalls will be offset by additional revenues.

The Community Development, Convention, Culture & Leisure and Fire Departments have identified budgetary shortfalls as reflected in the prior charts; details are as follows:

Convention, Culture & Leisure Department

The department is projecting an overall deficit of approximately \$28,000 in the General Fund mainly due to the decrease in Hornblower lease revenue. Although Hornblower is under a lease agreement with the City to operate two boats at the Old Sacramento public docks, in April 2013, one of the boats left Sacramento resulting in a drastic decline in revenue. The department is projecting expenditure savings that will mitigate some of the revenue shortfall. The department is the process of reviewing the terms of the agreement with Hornblower as well as the overall operation in Old Sacramento for a long-term solution. The deficit will be reviewed and addressed during the year-end process.

Community Development Department

The department is projecting a \$356,000 deficit primarily due to lower revenues from code enforcement fees and penalties. The revenue shortfall has been mitigated by expenditure savings and increased building permit fees. The department will continue to evaluate expenditures in an effort to further reduce the projected deficit. The FY2014/15 Proposed Budget includes revised revenue projections to address the change in compliance.

Fire Department

The City Council approved the use of up to \$2.17 million in FY2012/13 year end results to correct identified shortfalls in the Fire Department. Following the midyear action the department received \$2.4 million in reimbursements from California Assembly Bill 678: Medi-Cal Ground Emergency Medical Transport (GEMT). With the receipt of the GEMT reimbursements, the Fire Department is currently projecting a deficit of \$343,000.

The projected deficit is the result of a significant increase in the payment to the Sacramento Regional Fire Emergency Communications Center (SRFECC), a joint powers authority. The funds approved at midyear have been set aside and will be used to correct the department's overspending if any, at year end. The FY2014/15 Proposed Budget has been adjusted to address the increased costs of participation associated with the SRFECC.

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 | 69,455 |
| Sales and Use Tax | 65,305 | 40,073 |
| Utility User Tax ³ | 58,982 | 37,633 |
| Business Operations Tax ³ | 8,919 | 6,191 |
| Public Safety Sales Tax | 4,843 | 2,812 |
| Transient Occupancy Tax ³ | 3,287 | 1,696 |
| Total: | 260,661 | 157,861 |

³After 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).

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 first apportionment of the City's FY2013/14 property taxes was received in December 2013. The first secured roll payment was approximately \$1.3 million or 4% higher than the same payment received in FY2012/13. This increase can be attributed to fewer temporary reductions due to Proposition 8 assessments.

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. Sales tax was up statewide 8.7%, comparing Jan-Mar 2014 to Jan-Mar 2013, while Sacramento increased 7.8%. Wholesale construction materials and new auto sales were the largest contributors to the City's sales tax increase.

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, 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 through the March 2014 period is up approximately 0.80% when compared to the same period last year.

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 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. 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. As of the end of March 2014, the City has received three quarters of sales tax receipts since inception. To date, the collections have been erratic, the result of confusion over the applicability of the sales tax rate by non-City businesses. Staff will have final numbers for these quarters once they have been corrected and reconciled with the State Board of Equalization. Staff is estimating that the corrected receipts will be consistent with or slightly above budgeted revenues.

Given we only have three quarters on which to base the out-years of the Measure U forecast, the forecast remains conservative. The forecast will be updated when additional performance experience becomes available and we are able to express more confidence in the accuracy of collections and the indicators that will serve to inform the trends of this revenue source. Additional information on the Measure U Sales Tax revenues and the programs funded with these resources was presented on May 27, 2014 as part of the FY2014/15 budget hearings.

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

| Key Economic Indicators | 3/2013 | 3/2014 |
|---------------------------------------|--------|--------|
| City Unemployment Rate (UR) | 10.8% | 9.6% |
| County UR | 9.2% | 8.1% |
| State UR | 9.4% | 8.1% |
| National UR (12/2012 vs. 12/2013) | 7.6% | 6.7% |
| CPI (1/2013-3/2013 vs. 1/2014-3/2014) | 1.68% | 1.41% |
| 30-Year Fixed Mortgage Rate | 3.57% | 4.34% |

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.

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.

The GEMT program is retroactive to January 30, 2010, and staff has filed claims for FY2009/10 (reimbursement is only available for the last five

months of the fiscal year) through FY2012/13. The total amount of the reimbursement claim for these fiscal periods is approximately \$3.4 million. The City has received approximately \$2.4 million to date from the State. The funds will be used to offset the Fire Department's projected deficit.

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. March 2014 was the deadline for dispensaries to submit their phase two applications. The applications are being reviewed. Of the 31 applications submitted, 11 already have their conditional use permits. There are currently 25 dispensaries operating and the 4% tax is trending ahead of budget.

ENTERPRISE FUNDS

Enterprise Fund revenues and expenditures are reflected below:

ENTERPRISE FUND REVENUES

| Fund Name | Budget | YTD Actuals | Projection |
|--------------------------------|----------------------|----------------------|--------------------|
| Community Center | 23,861,000 | 16,149,060 | 705,000 |
| Parking | 17,891,738 | 14,350,250 | - |
| Solid Waste | 59,013,000 | 44,082,225 | (256,069) |
| Storm Drainage | 35,435,206 | 21,800,162 | 823,983 |
| Wastewater | 28,467,753 | 17,368,842 | 261,662 |
| Water | 96,062,689 | 59,631,852 | (2,464,849) |
| Total Enterprise Funds: | \$260,731,386 | \$173,382,391 | (\$930,273) |

ENTERPRISE FUND EXPENDITURES

| Fund Name | Budget | YTD Actuals | Projection |
|--------------------------------|----------------------|----------------------|---------------------|
| Community Center | 21,571,337 | 16,336,092 | 144,766 |
| Parking | 17,195,099 | 11,212,161 | 594,648 |
| Solid Waste | 52,152,244 | 33,885,380 | 939,091 |
| Storm Drainage | 32,959,911 | 23,076,813 | 1,108,560 |
| Wastewater | 21,439,426 | 14,801,451 | 1,752,957 |
| Water | 81,912,391 | 54,956,036 | 7,190,448 |
| Total Enterprise Funds: | \$227,230,408 | \$154,267,933 | \$11,730,470 |

The General Services and Utilities Departments have identified revenue shortfalls as reflected in the prior charts; details are as follows:

General Services Department

Solid Waste revenues are projected to come in less than budget primarily due to changes in the customers' garbage collection. As the customers become more proficient at recycling, they are exchanging larger garbage containers for smaller containers. There are sufficient operational savings identified in the expenditure budget to offset this decrease in revenues.

Utilities Department

Water revenues are projected to come in less than budget as a result of current drought conditions which required the City to implement a 20% conservation measure. Additionally, revenue for the wholesale water customers, which is traditionally volatile, has been projected to come in less than budget.

There are significant operational savings identified in the expenditure budget that will more than offset the loss of revenues. These savings include vacancies, the decline of bad debt expenses as the economy improves, the transition to alternative chemicals, and the installation of solar panels at the water treatment plant.