

**Meeting Date:** 12/2/2014

**Report Type:** Consent

**Report ID:** 2014-00862

**Title:** First Quarter Financial Report - Fiscal Year 2014/15

**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 - Quarterly Report\_Draft

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**City Attorney Review**

Approved as to Form

Steve Itagaki

11/24/2014 3:53:08 PM

**Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 11/24/2014 2:54:45 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 (Attachment 1) provides an update on the City's major revenues and department expenditures through the first quarter of FY2014/15.

**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:** This action is not a project that is subject to CEQA because it is an administrative activity and relates to government fiscal activities that do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment. (CEQA Guidelines § 15378(b)(2) and (b)(4).)

**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.

**Local Business Enterprise (LBE):** Not applicable.

**OVERVIEW**

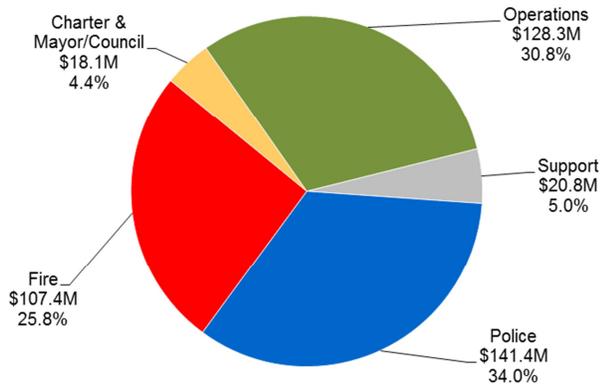
The FY2014/15 Approved Budget includes:

- \$873 million and 4,156.87 authorized full-time equivalent (FTE) positions (all funding sources)
- \$383 million and 2,942.07 FTE in the General Fund

**GENERAL FUND**

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

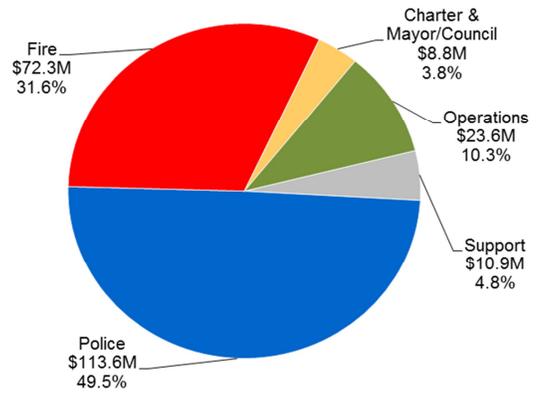
**FY2014/15 Gross General Fund Expenditures**  
(expenditures excluding reimbursements and revenues)  
**\$416 Million**



- Charter includes: City Attorney, City Clerk, City Manager, and City Treasurer.
- Operations includes: Community Development; Convention and Cultural Services; 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.

**FY2014/15 Net General Fund Expenditures**  
(expenditures less reimbursements and revenues)  
**\$229.2 Million**



**General Fund Financial Condition.** Based on a review of the major revenue assumptions included in the FY2014/15 Approved Budget, staff has determined that adjustments will be necessary to some of the General Fund's major tax revenues. These revenue sources will continue to be evaluated and adjustments will be included the FY2014/15 Midyear Report.

**GENERAL FUND (\$ in '000s)**

	Budget	YTD	
		Actuals	Percent
Balance, Beginning of FY 15	-	-	
Revenues	385,213	41,504	11%
Expenditures	383,437	97,276	25%
<b>Total:</b>	<b>1,776</b>	<b>(55,772)</b>	

*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	FY2014/15 Budget	YTD Actuals	Projected Year-End Variance
City Attorney	52,000	44,473	55,497
City Clerk	52,000	2,571	-
City Treasurer	2,875,000	39,601	-
Community Development	15,900,025	4,009,145	-
Convention and Cultural Services	933,409	461,439	-
Economic Development	1,382,251	411,443	-
Finance	1,733,551	219,795	-
Fire	22,740,271	5,549,442	1,107,631
General Services	761,000	211,258	(38,418) <sup>1</sup>
Human Resources	152,000	40,954	-
Parks and Recreation	1,059,843	713,197	300,000
Police	10,265,067	2,047,269	184,933
Public Works	15,663,335	4,293,184	284,000
<b>Total General Fund:</b>	<b>73,569,752</b>	<b>18,043,771</b>	<b>1,893,643</b>

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

**GENERAL FUND DEPARTMENT EXPENDITURES**

Department	FY2014/15 Budget	YTD Actuals	Projected Year-End Variance
Mayor/Council	3,402,979	781,768	-
City Attorney	3,975,565	949,653	74,696
City Clerk	1,205,051	304,004	-
City Manager	1,824,782	296,486	352,606
City Treasurer	1,820,062	431,680	958
Community Development	20,402,883	4,356,594	89,575
Convention and Cultural Services	4,480,259	1,130,957	-
Economic Development	3,265,827	532,887	120,209
Finance	4,876,393	1,138,588	-
Fire	95,188,945	24,586,132	(875,631) <sup>3</sup>
General Services	8,621,351	2,435,333	60,339 <sup>2</sup>
Human Resources	2,583,813	571,757	-
Information Technology	5,362,936	1,841,417	-
Parks and Recreation	14,826,699	5,438,722	(300,000) <sup>3</sup>
Police	119,535,994	31,738,480	(1,702,116) <sup>3</sup>
Public Works	5,565,433	7,402,180	(24,258) <sup>3</sup>
<b>Total General Fund:</b>	<b>296,938,972</b>	<b>83,936,638</b>	<b>(2,203,622)</b>

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

<sup>3</sup> Department expenditure shortfalls will be offset by additional revenues.

**Police Department**

Through the first quarter of FY2014/15 the Police Department forecasts a year-end budget deficit of approximately \$1 million. The primary factors contributing to the deficit are overtime and technology requirements. The department has recently implemented core teams in a number of geographical areas that have resulted in increased overtime. In addition, expenditures for both overtime and technology have not been adjusted in a number of years to match associated cost increases. Additionally,

in previous years, the Department was able to use labor savings to bridge this gap; however, that is no longer an option as most of the General Fund funded positions have been filled.

The Police Department will continue to monitor their budget during the next quarter and will provide recommendations for corrective actions, if necessary, as part of the FY2014/15 Midyear Report.

**Revenues.** The City's top six revenue sources account for 71% 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	130,509	2,833
Sales and Use Tax	67,918	8,007
Utility User Tax <sup>3</sup>	58,982	11,257
Business Operations Tax <sup>3</sup>	8,827	3,103
Public Safety Sales Tax	4,586	718
Transient Occupancy Tax <sup>3</sup>	3,386	525
<b>Total:</b>	<b>274,208</b>	<b>26,443</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 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, current unsecured, supplemental, and miscellaneous property tax revenues are received in late January and late May.

The first apportionment of the City's FY2014/15 property taxes will be received in December 2014. The property transfer tax, which is assessed on all real estate transactions when parcels are sold, is trending upward through September collections and will be reevaluated as part of the FY2014/15 Midyear Report. Property values have stabilized which will have a positive effect on the FY2014/15 property tax collections and will be monitored and reassessed for FY2015/16 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 revenue to be in line with the FY2014/15 budget.

**Utility User Tax (UUT).** UUT is 15% 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 August 2014 is up approximately 2.6% 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 to date 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 to date 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.** Measure U revenue collections continue to be evaluated by MuniServices, the City's sales tax consultant. Preliminary results received to date are trending above budget. A revised forecast for the remaining term of the Measure U sales tax will be included in the FY2014/15 Midyear Report and staff will recommend revenue adjustments at that time.

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

Key Economic Indicators	9/2013	9/2014
City Unemployment Rate (UR)	10.4%	8.1%
County UR	8.5%	6.9%
State UR	8.8%	7.3%
National UR (9/2012 vs. 9/2013)	7.2%	5.9%
CPI (7/2013-9/2013 vs. 7/2014-9/2014)	1.55%	1.78%
30-Year Fixed Mortgage Rate	4.49%	4.16%

**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.

**Ground Emergency Medical Transportation (GEMT).** The GEMT program allows the City to recover costs associated with medi-cal transports. The GEMT Cost Report for FY2013/14 must be submitted on or before November 30, 2014. The estimated reimbursement claim for this period is \$702,000.

**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 October 31, 2013. March 2014 was the deadline for dispensaries to submit their phase two applications. The applications are being reviewed. There have been several appeals of approved conditional use permits. To allow time for the appeal process to run its course, an item went before City Council on November 25, 2014, to extend the deadline to May 31, 2015, for dispensaries that are currently in the process of getting their conditional use permit.

Of the 31 applications submitted, 25 already have their conditional use permits. There are currently 26 dispensaries operating and the 4% tax is trending ahead of budget.

**ENTERPRISE FUNDS**

Enterprise Fund revenues and expenditures are reflected below:

**ENTERPRISE FUND REVENUES**

<b>Fund Name</b>	<b>Budget</b>	<b>YTD Actuals</b>	<b>Projection</b>
Community Center	25,605,000	5,101,903	25,605,000
Parking	17,883,633	4,228,052	14,503,500
Solid Waste	58,046,000	13,957,027	58,374,731
Storm Drainage	36,295,187	7,304,632	36,295,187
Wastewater	31,570,123	6,603,490	31,570,123
Water	96,357,721	22,428,722	96,357,721
<b>Total Enterprise Funds:</b>	<b>\$265,757,664</b>	<b>\$59,623,826</b>	<b>\$262,706,262</b>

**ENTERPRISE FUND EXPENDITURES**

<b>Fund Name</b>	<b>Budget</b>	<b>YTD Actuals</b>	<b>Projection</b>
Community Center	24,462,157	5,189,293	24,462,157
Parking	21,320,216	5,143,659	19,941,456
Solid Waste	51,995,154	8,953,299	50,039,024
Storm Drainage	34,615,701	6,935,995	34,615,701
Wastewater	24,064,833	5,654,333	24,064,833
Water	83,481,101	20,302,337	83,481,101
<b>Total Enterprise Funds:</b>	<b>\$239,939,162</b>	<b>\$52,178,916</b>	<b>\$236,604,272</b>

**Public Works Department**

The FY2014/15 Parking Fund (Fund 6004) budget was developed while the City owned and operated the three Downtown Plaza garages. In order to implement the budgetary adjustments necessary to reflect the ownership changes associated with the Entertainment and Sports Center (ESC) several budgetary adjustments will be necessary as part of the FY2014/15 Midyear Report. These adjustments will

reflect the transfer of the three parking garages to Sacramento Downtown Arena, LLC (ArenaCo), as well as revenue and expenditure adjustments needed to accurately present the Parking Fund based on revised revenue and expenditure trends. In addition, the Parking Fund debt service will be increased by \$2.9 million for a one-time payment to cover of a portion of the ESC forward bond purchase agreement costs.