Meeting Date: **11/24/2015**

Report Type: Consent

Report ID: 2015-01020

City of SACRAMENTO 09

City Council Report
915 I Street, 1st Floor
www.CityofSacramento.org

Title: First Quarter Financial Report - Fiscal Year 2015/16

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-First Quarter Financial Report

City Attorney Review

Approved as to Form
Joseph Cerullo
11/18/2015 12:50:37 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 11/9/2015 6:43:53 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 FY2015/16.

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 (2nd Quarter) Report.

Local Business Enterprise (LBE): Not applicable.

OVERVIEW

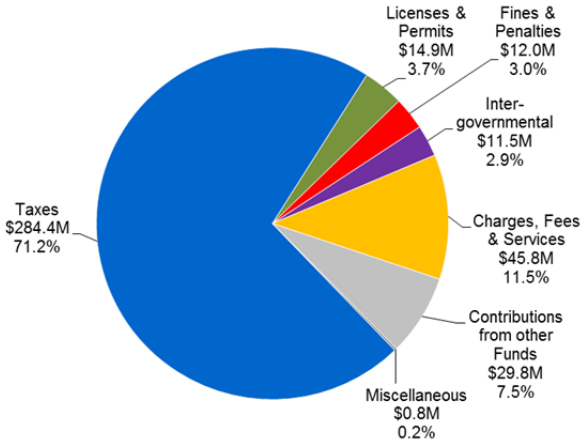
The FY2015/16 Approved Budget includes:

- $951.6 million and 4,299.94 authorized full-time equivalent (FTE) positions (all funding sources)
  - General Fund[1] - $404.2 million and 2,634.87 FTE
  - Measure U Fund[2] - $48.9 million and 445.30 FTE
  - Enterprise Funds[3] - $304.3 million and 850.64 FTE
  - Internal Service Funds[4] - $70.5 million and 127 FTE
  - Other Governmental Funds[5] - $123.7 million and 242.13 FTE

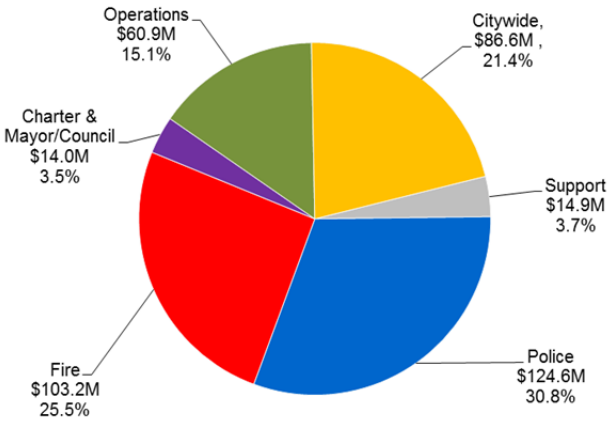
GENERAL FUND

The graphs below represent the City's General Fund revenue and expenditure budgets for FY2015/16.

FY2015/16 General Fund Revenues
$399.2 Million



FY2015/16 General Fund Expenditures
$404.2 Million



- Charter includes: City Attorney, City Clerk, City Manager, and City Treasurer.
- Operations includes: Community Development; Convention and Cultural Services; Economic Development; Parks & Recreation; and Public Works.
- Support includes: Finance, Human Resources, and Information Technology.
- Citywide includes: Debt, Property Taxes, Insurance and capital improvement projects (CIPs).

General Fund Financial Condition. Based on a review of revenue and expenditures to date as included in the FY2015/16 Approved Budget, staff has determined that no adjustments are necessary at this time.

GENERAL FUND ($ in '000s)

	Budget	YTD Actuals	Percent
Balance, Beginning of FY15	-	-	
Revenues	399,209	44,193	11%
Expenditures	404,150	99,661	25%
Total:	**(4,941)**	**(55,468)**	

The above chart reflects budget and actual expenditures for all activities in the General Fund (department operations, debt service, capital projects, etc.). The variance between budgeted revenues and expenditures was closed using available fund balance. Year-to-date (YTD) revenues are trending lower than expenditures due to the timing of receipt of property tax revenues.

[1] **General Fund** is the City's principal operating fund supported by taxes and fees

[2] **Measure U** is the 1/2 cent sales and use tax approved by voters in November 2012

[3] **Enterprise Funds** are used for operations that are supported through user fees which include the Community Center, Parking, Solid Waste, Storm Drainage, Wastewater, and Water Funds

[4] **Internal Service Funds** are used for internal operations that are self-supporting, e.g. Fleet Management and Risk

[5] **Other Governmental Funds** are used to account for activities associated with specific revenues and/or reimbursements restricted to expenditures for specific purposes, e.g. Gas Tax Fund, Operating Grant Fund, Library Parcel Tax Fund

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	FY2015/16 Budget	YTD Actuals	Projected Year-End Variance
City Attorney	52,000	51,397	121,936
City Clerk	52,000	24,017	-
City Treasurer	3,605,958	45,431	-
Community Development	18,035,572	5,039,903	2,158,930
Convention and Cultural Services	778,409	83,362	-
Economic Development	226,880	235,797	-
Finance	1,777,844	148,706	-
Fire	24,700,271	3,841,202	1,000,000
Human Resources	152,000	45,173	-
Parks and Recreation	1,278,859	661,664	-
Police	10,845,499	2,162,806	-
Public Works	16,002,835	3,912,940	440,767
Total General Fund:	**77,508,127**	**16,252,398**	**3,721,633**

GENERAL FUND DEPARTMENT EXPENDITURES

Department	FY2015/16 Budget	YTD Actuals	Projected Year-End Variance
Mayor/Council	3,812,597	947,596	-
City Attorney	4,955,848	1,217,140	(35,510) [1]
City Clerk	1,141,847	328,204	-
City Manager	2,158,261	368,780	215,916
City Treasurer	1,982,156	448,248	13,602
Community Development	26,339,256	5,623,215	1,146,310
Convention and Cultural Services	4,547,474	1,108,222	-
Economic Development	2,037,247	416,340	-
Finance	5,326,913	1,108,255	-
Fire	102,964,744	26,553,614	-
Human Resources	2,684,937	553,069	-
Information Technology	6,893,002	2,386,495	80,480
Parks and Recreation	16,006,556	6,186,770	-
Police	122,128,127	34,089,504	(3,088,286)
Public Works	9,572,998	6,992,392	(249,929) [1]
Total General Fund:	**312,551,963**	**88,327,844**	**(1,917,417)**

[1]Department expenditure shortfalls will be offset by additional revenues.

Police Department

The Police Department is forecasting a $3.1 million year-end budget deficit based on spending patterns for the first three months of the fiscal year. The primary factors contributing to the projected deficit are overtime and technology requirements. 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 positions have been filled. A limited amount of Measure U resources were identified during the FY2015/16 budget process to help cover increased overtime costs, but the amount is not sufficient to cover estimated overages should use of overtime remain at current levels. The Department will continue to monitor their budget during the next quarter and provide recommendations for corrective actions, if necessary, as part of the FY2015/16 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 is 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	136,750	1,674
Sales and Use Tax	70,635	9,199
Utility User Tax[2]	59,572	14,468
Business Operations Tax[2]	8,952	3,810
Public Safety Sales Tax	4,723	785
Transient Occupancy Tax[2]	3,725	582
Total:	**284,357**	**30,518**

[2]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).

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 roll. 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 FY2015/16 property taxes will be received in December 2015. The property transfer tax, which is assessed on all real estate transactions when parcels are sold, is trending upward and will be reevaluated as part of the

FY2015/16 Midyear Report. Property values continue to stabilize which will have a positive effect on the FY2015/16 property tax collections. These revenues are being monitored and will be reassessed during FY2016/17 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 budget.

Utility User Tax (UUT). UUT at 15% is the City's third largest source of General Fund revenue. Measure O was approved by the voters in November 2008, reducing the 7.5% tax rate to 7.0% on telecommunication services, but was 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 2.5% when compared to the same period last year.

Other City Revenue Sources

Business Operations Tax (BOT). BOT is 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. BOT makes 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 two percentage points of the 12% rate. The remaining TOT revenues collected are directed to the Community Center Fund. TOT represents approximately 1% of General Fund revenue. Revenue collected through August 2015 is up approximately 5% when compared to the same period last year, the result of higher occupancy and room rates.

Essential Services Protection Measure - Measure U. Measure U revenue collections continue to be evaluated by MuniServices, the City's sales tax consultant. This tax represents approximately 10.5% of General Fund Revenue. Revenue collected to date is in line with the budget.

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

Key Economic Indicators	9/2014	9/2015
City Unemployment Rate (UR)	8.1%	5.7%
County UR	6.9%	5.4%
State UR	7.3%	5.5%
National UR	5.9%	5.1%
CPI *(7/2014-9/2014 vs. 7/2015-9/2015)*	1.78%	0.11%
30-Year Fixed Mortgage Rate	4.16%	3.89%

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.

Rate Range Intergovernmental Transfer (IGT) Program. On December 16, 2014, Council authorized participation in the IGT program. IGT allows local governments to receive a federal reimbursement for the transport of Medi-Cal patients that are in managed care. The IGT program provides the City the opportunity to recover previously unrecoverable costs and will assist in reducing the Advanced Life Support operations reliance on the General Fund. In fiscal year 2015, the City received $4.8 million in reimbursements. The IGT program is currently undergoing changes related to the time period for claims and claims eligibility which will lower future reimbursements. Additional information from the program sponsors is required to estimate potential reimbursements.

Ground Emergency Medical Transportation (GEMT). In October 2011, AB 678 authorizing the GEMT program was enacted providing for the reimbursement of transports of Medi-Cal patients who are not in managed care. In March 2014, the City Council authorized the agreement with Sacramento

Metropolitan Fire District (Motion No. 2014-0053) to pursue reimbursements through the GEMT program allowing the City to recover costs associated with Medi-Cal transports on an annual basis. Beginning in FY2015/16 the department budget includes $1.2 million in GEMT revenues which provided for addition of positions and expenditures for professional services and equipment. The GEMT Cost Report for FY2014/15 will be prepared and submitted for reimbursement by November 30, 2015.

Medical Marijuana. The State recently enacted three laws that affect the licensing and permitting of medical marijuana for both State and local government.

- AB 266 - establishes a dual licensing structure requiring a state license as well as a local license or permit.
- AB 243 - establishes a regulatory and licensing structure under the Department of Food and Agriculture for cultivation sites if the local government does not establish its own structure.
- AB 643 - establishes criteria for licensing of medical marijuana businesses and recognizes local authority to levy taxes and fees.

In order for the City to preserve its local regulation authority, recommendations will be brought to the Law and Legislation Committee for consideration. In addition, dispensaries need the ability to relocate and the current City Code does not permit relocation. A recommendation for approval to change the existing ordinance will also be brought before the Law and Legislation Committee to allow dispensaries to relocate using the current location requirements.

Of the 30 permitted dispensaries in the City, 29 are currently operating and the 4% tax is trending slightly ahead of budget.

ENTERPRISE FUNDS

All Enterprise Fund revenues and expenditures have been reviewed and are anticipated to come in within budget as reflected below:

ENTERPRISE FUND REVENUES

Fund Name	FY2015/16 Budget	YTD Actuals	Projected Year-End Variance
Community Center	27,774,587	4,036,178	-
Parking	16,980,886	5,238,267	119,114
Solid Waste	59,776,500	12,025,819	147,372
Storm Drainage	36,079,964	7,315,637	-
Wastewater	31,595,123	6,433,588	-
Water	96,591,730	21,061,347	-
Total Enterprise Funds:	**$268,798,790**	**$56,110,836**	**$266,486**

ENTERPRISE FUND EXPENDITURES

Fund Name	FY2015/16 Budget	YTD Actuals	Projected Year-End Variance
Community Center	25,254,596	5,168,910	-
Parking	21,924,748	6,218,301	742,526
Solid Waste	53,310,295	9,434,852	3,062,723
Storm Drainage	34,498,954	6,776,302	-
Wastewater	26,133,594	6,735,421	-
Water	86,745,410	21,808,372	-
Total Enterprise Funds:	**$247,867,597**	**$56,142,158**	**$3,805,249**

PROGRAMS TO WATCH

During the FY2015/16 budget development process staff provided an update to the City Council on programs that were facing fiscal challenges. The following summarizes the measures that have been implemented as well as year-end projections for these funds.

4th R. The 4th R childcare program has depleted reserves and with rising labor costs it required a subsidy from the Measure U Fund this fiscal year. With this support, the program is projected to break even this fiscal year, but projected losses are expected for upcoming fiscal years.

Students Today Achieving Results for Tomorrow (START). The START program has been operating at a loss over the past few years primarily due to rising labor costs. The reimbursements from the school districts and the State have not kept pace with the rising costs to run this program. While the Department of Parks and Recreation implemented cost saving measures as part of the budget development process, such as cutting some program elements, a projected loss is once again anticipated for the current year and beyond unless the City receives additional funding from schools and/or returns the program to school districts to administer.