



City Council Report

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www.cityofsacramento.org

File #: 2016-01396

December 6, 2016

Consent Item 06

Title: First Quarter Financial Report – Fiscal Year 2016/17

Recommendation: Receive and file.

Location: Citywide

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

Presenter: None

Department: Finance

Attachments:

1-Description/Analysis

2-First Quarter Financial Report

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 FY2016/17.

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: This action is not a project subject to CEQA because it involves only organizational or administrative activities that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines §15378(b)(5).)

Sustainability: Not applicable.

Commission/Committee Action: None.

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 to actively 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): No goods or services are being purchased under this report.

OVERVIEW

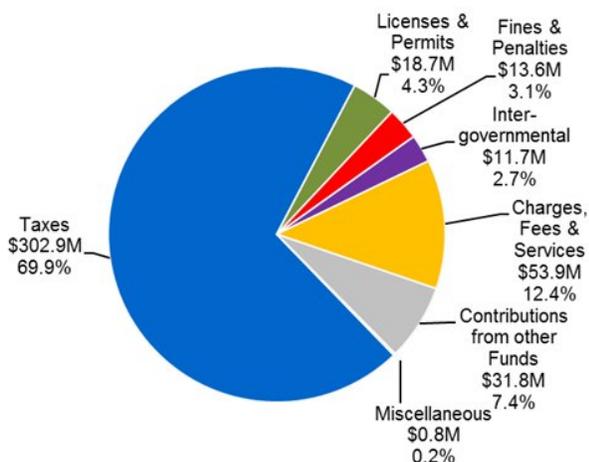
The FY2016/17 Approved Budget includes:

- \$978.4 million and 4,457.73 authorized full-time equivalent (FTE) positions from all funding sources
 - General Fund¹ - \$438.8 million and 2,797.41 FTE
 - Measure U Fund² - \$49.1 million and 462.58 FTE
 - Enterprise Funds³ - \$290.7 million and 838.94 FTE
 - Internal Service Funds⁴ - \$71.4 million and 121 FTE
 - Other Governmental Funds⁵ - \$128.4 million and 237.80 FTE

GENERAL FUND

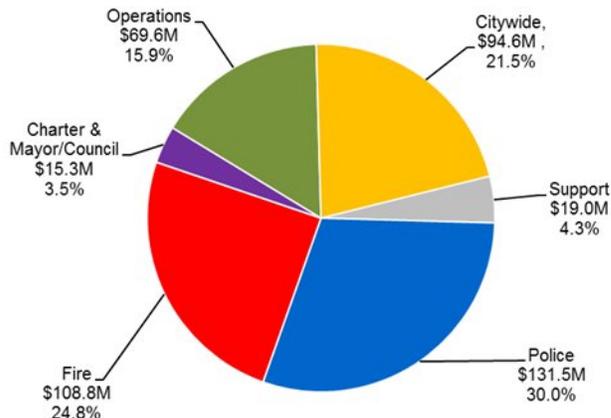
The graphs below represent the City's General Fund revenue and expenditure budgets for FY2016/17.

FY2016/17 General Fund Revenues
\$433.4 Million



¹ **General Fund** - the City's principal operating fund supported by taxes and fees
² **Measure U** - 1/2 cent sales and use tax approved by voters in November 2012
³ **Enterprise Funds** - used for operations supported through user fees includes the Community Center, Parking, Solid Waste, Storm Drainage, Wastewater, and Water Funds
⁴ **Internal Service Funds** - used for internal operations, e.g. Fleet Management and Risk
⁵ **Other Governmental Funds** - used to account for activities associated with specific revenues and/or reimbursements and are restricted to expenditures for specific purposes, e.g. Gas Tax Fund, Operating Grant Fund, Library Parcel Tax Fund

FY2016/17 General Fund Expenditures
\$438.8 Million



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

General Fund Financial Condition. Based on a review of revenue and expenditures to date, staff has determined that no adjustments are necessary at this time.

GENERAL FUND (\$ in '000s)

	Budget	YTD Actuals	Percent
Balance Beginning of FY17	7,042	-	
Revenues	438,908	47,730	11%
Expenditures	438,834	109,304	25%
Total:	7,116	(61,574)	

The chart above reflects budget and actual expenditures for all activities in the General Fund (e.g., department operations, debt service, capital projects). 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.

Department Projections. The following charts represent the projected variance of budget to actual for the General Fund Departments:

GENERAL FUND DEPARTMENT REVENUES

Department	FY2016/17 Budget	YTD Actuals	Projected Year-End Variance
City Attorney	52,000	19,310	48,440
City Clerk	52,000	27,783	-
City Treasurer	3,605,958	36,570	-
Community Development	21,175,073	5,730,450	1,734,909
Convention and Cultural Services	869,650	143,743	-
Economic Development	158,208	218	-
Finance	706,844	184,398	-
Fire	25,450,271	2,858,602	79,942
Human Resources	152,000	-	-
Parks and Recreation	4,305,284	1,574,090	494,716
Police	11,192,499	2,176,903	-
Public Works	22,176,147	4,672,497	1,157,508
Total General Fund:	89,895,934	17,424,564	3,515,515

GENERAL FUND DEPARTMENT EXPENDITURES

Department	FY2016/17 Budget	YTD Actuals	Projected Year-End Variance
Mayor/Council	4,068,972	999,870	-
City Attorney	5,387,217	1,297,956	297,250
City Clerk	1,287,453	371,532	-
City Manager	2,595,994	463,107	271,269
City Treasurer	2,097,715	438,268	-
Community Development	28,860,962	5,778,367	847,483
Convention and Cultural Services	4,694,936	902,090	-
Economic Development	2,625,377	568,391	184,980
Finance	5,955,257	1,090,842	155,050
Fire	108,751,741	27,836,376	(1,513,606)
Human Resources	3,173,567	669,583	-
Information Technology	10,072,034	3,349,277	200,000
Parks and Recreation	21,634,377	6,112,182	316,246
Police	129,671,737	35,701,615	(3,763,701)
Public Works	10,124,024	7,147,890	(2,027,539)
Total General Fund:	341,021,363	92,727,366	(5,032,568)

Departments projecting to exceed their FY2016/17 Approved Budget have provided the following summary explanations. Additional information and budgetary adjustments will be included in the Midyear Report.

Fire Department

The projected expenditure deficit of \$1.5 million is related to costs associated with the Fire Academy. To address mandatory overtime and fill the remaining vacancies the department will be running three recruit academies in FY2016/17 (two new hire and one lateral academy). In previous years, the academy was funded through labor savings, however as positions have been filled labor savings are not available to cover the required overtime to staff fire companies and academy costs (instructors, recruit salaries and uniforms, and material costs). The department will continue to

monitor its budget and will bring forward recommendations for corrective actions as part of the Midyear Report.

Police Department

The projected expenditure deficit of \$3.8 million is related to a mandatory one percent labor savings associated with a prior labor agreement (\$1.4 million) and increasing overtime costs. In previous years, the department used labor savings to bridge this gap; however, this is no longer an option as most the remaining vacancies are not funded by the General Fund. The department will continue to monitor its budget and will bring forward recommendations for corrective actions as part of the Midyear Report.

Public Works

The projected net deficit of \$0.8 million is primarily related to increasing construction contract costs for the maintenance and repair of sidewalks, curbs and gutters, and alleyways throughout the City. The department is projecting to bring in almost \$1.2 million in revenue above budget, which will be adjusted in the Midyear Report to help offset the departments projected overspending of \$2 million. The department will continue to monitor its budget and will bring forward recommendations for corrective actions, as part of the Midyear Report.

TOP GENERAL FUND REVENUES (in '000s)

Revenue Type	Budget	YTD Actuals
Property Tax	147,736	3,002
Sales and Use Tax	74,500	12,207
Utility User Tax ³	60,406	15,810
Business Operations Tax ³	8,145	2,824
Public Safety Sales Tax	4,865	810
Transient Occupancy Tax ³	4,400	656
Total:	300,052	35,309

¹After 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 FY2016/17 property taxes will be received in December 2016. The property transfer tax, which is assessed on all real estate transactions when parcels are sold, continues to trend upward and will be reevaluated as part of the Midyear Report. All property tax revenues are being monitored and will be reassessed during FY2017/18 budget development.

Sales and Use Tax. Sales and Use Taxes make up approximately 17% 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 is the City's third largest source of General Fund revenue at 14%. 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 during the first two months of the fiscal year is 1.7% lower than the same period last year. UUT revenue collections will be monitored and will be reassessed during FY2017/18 budget development.

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 are trending below the FY2016/17 budget and will be reevaluated as part of the midyear report.

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 the first two months of the fiscal year is down 1.4% compared to the same period in FY2015/16.

Essential Services Protection Measure - Measure U. Measure U revenue collections continue to be evaluated by MuniServices, the City's sales tax consultant. This tax is equivalent to approximately 10% 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	9/2015	9/2016
City Unemployment Rate (UR)	5.7%	5.7%
County UR	5.4%	5.4%
State UR	5.5%	5.4%
National UR	5.1%	5.0%
CPI (7/2015-9/2015 vs 7/2016-9/2016)	0.11%	1.12%
30-Year Fixed Mortgage Rate	3.89%	3.46%

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). In October 2011, AB 678 authorizing the GEMT program was enacted providing for the reimbursement of costs associated with transporting Medi-Cal patients who are not in managed care. In March 2014, the City Council authorized an agreement with the 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. The Department has received reimbursements of \$4 million from the inception of the program through

June 2016. The FY2015/16 GEMT Cost Report for reimbursement was submitted to the State in November 2016, approximately \$0.7 million is anticipated to be received by the end of the fiscal year.

Intergovernmental Rate Range 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. Participation in the IGT program provides the City the opportunity to recover previously unrecoverable costs, reducing the Advanced Life Support operations subsidy from the General Fund. The Department has received reimbursements of \$6.5 million from the inception of the program through June 2016.

Given the volatility of these reimbursements, IGT reimbursements are committed and programmed for one-time Fire Department capital expenditures.

Medical Marijuana. In 2015, the State of California enacted the Medical Marijuana Regulations and Safety Act (MMRSA) which created a comprehensive licensing system for commercial cultivation, delivery, distribution, manufacturing, sales, testing and transportation of medical marijuana while allowing local governments to retain control over their respective jurisdictions.

Regulation of additional medical marijuana businesses will increase tax revenue opportunities for the City, estimated to be at least \$2 million. Currently the 4% BOT for medical marijuana dispensaries is anticipated to bring in approximately \$4.5 million, approximately \$1.6 million above budget. Given the relationship to the City's BOT which is trending below budget, these revenue sources will need to be reevaluated and adjusted as part of the Midyear Report.

ENTERPRISE FUNDS

The Departments of Convention and Cultural Services, Public Works, and Utilities have prepared projections for the City's enterprise funds:

- Community Center
- Parking
- Solid Waste
- Storm Drainage
- Wastewater
- Water

The revenues and expenditures for these funds are anticipated to come in on budget.

ENTERPRISE FUND REVENUES			
Fund Name	FY2015/16		Projected Year-End Variance
	Budget	YTD Actuals	
Community Center	30,136,650	4,380,894	-
Parking	20,175,724	5,732,964	-
Solid Waste	62,046,500	12,379,581	(7,49,672)
Storm Drainage	36,152,193	7,506,198	-
Wastewater	34,634,222	6,822,738	-
Water	106,042,782	24,369,828	-
Total Enterprise Funds:	\$289,188,071	\$61,192,203	(\$749,672)

ENTERPRISE FUND EXPENDITURES			
Fund Name	FY2015/16		Projected Year-End Variance
	Budget	YTD Actuals	
Community Center	25,816,233	6,326,022	-
Parking	19,354,303	2,874,226	792,760
Solid Waste	56,038,069	9,349,383	2,261,736
Storm Drainage	33,975,149	7,325,080	-
Wastewater	26,506,844	7,189,337	-
Water	89,235,805	23,763,378	-
Total Enterprise Funds:	\$250,926,403	\$56,827,426	\$3,054,496

¹ Department projected revenue shortfalls will be offset by expenditure savings