



CITY COUNCIL REPORT

10A

DATE: NOVEMBER 21, 2017

TO: MAYOR AND COUNCIL MEMBERS

FROM: ANDREA MILLER, FINANCE DIRECTOR

SUBJECT: RECEIVE THE FY 2017-18 FIRST QUARTER FINANCIAL REPORT
AND ADOPT A RESOLUTION APPROVING BUDGET
ADJUSTMENTS

RECOMMENDATION

Receive the FY 2017-18 First Quarter Financial Report and adopt a resolution approving budget adjustments per staff recommendations in Attachment A.

BACKGROUND

For the period July 1, 2017 through September 30, 2017, cash flows were sufficient to sustain normal City operations and to satisfy Enforceable Obligation payment commitments of the City's Successor Agency.

Staff has reviewed the first quarter financial performance for the City's FY 2017-18 budget. While revenue and expenditures for the first quarter of the fiscal year should average 25% of budget, there are cases where revenue and expenditures are above or below projections for the period based on timing of receipts and expenses. These are explained in this report.

REVIEW & ANALYSIS

General Fund Revenue Analysis

The adopted budget for FY 2017-18 anticipates current year expenditures to be fully offset by operating revenues generating a modest surplus of \$836,366.

The economy in Pinole continues to show signs of improvement with revenues of 19% realized for the first quarter of the fiscal year. The City uses HdL, Coren & Cone Consultants to provide an analysis of property assessed values and Sales Tax projections. Budget projections are based on a 95% conservative estimate of HdL, Coren & Cone's analysis. Sales Tax revenue is the City's largest General Fund revenue stream which has shown steady increases year-over-year. Sales Tax collections for the first quarter are 27% of projections compared to 14% for the same period in the prior fiscal year. Property Tax is the City's second largest revenue

stream with first quarter collections at 22% of projections. This is the result of receipt of an RPTTF 19% proportionate share disbursement from the sale of a Successor Agency asset (Gateway). Property Tax settlements are received in December, April, and June.

Utility Users Tax is the City's third largest General Fund revenue stream with 26% realized for the first quarter compared to 18% for the same period in the prior fiscal year. Franchise Tax is at 18% of projections for the first quarter; Other Taxes which includes Transient Occupancy Tax and Business Licenses are at 16% of projections.

Intergovernmental tax which includes Motor Vehicle License Fee and Home Owner Property Tax Relief along with grant receipts has not been received during this period. Public Safety Charges includes Dispatch services, for which the first quarter billing is in progress.

Other revenue categories are in line with expectations for the period with the exception of the following: Reimbursements are at 164% of budget due to reimbursement of a prior year of duplicate payment; Other revenue is at 116% of budget due to reimbursement received for Police staffs attendance at training; and, Proceeds from Sale of Property is at 106% of budget due to sale of a surplus 1998 fire engine and other miscellaneous surplus property.

Recommendation:

Staff is recommending FY 2017-18 General Fund revenue adjustments in the amount of \$4,250 as follows:

	FY 2017-18 Budget	Proposed Revisions	FY 2017-18 Updated Budget
Reimbursements	2,000	1,500	3,500
Other Revenue	10,000	2,000	12,000
Proceeds from Sale of Property	10,000	750	10,750
Total Adjustments	22,000	4,250	26,250

Total adjustments only reflect revenue with adjustments recommended.

General Fund Expenditure Analysis

The City Council approved the FY 2017-18 General Fund Budget with specific expenditure assumptions limiting expenditures to maintain a balance between anticipated revenues and planned expenditures. The goal was to maintain a balanced budget and continue the process of rebuilding a General Fund Reserve. To build the reserve, we have used one-time allocations of Redevelopment Agency residual cash distributed to the City by the County Auditor-Controller, and have scheduled annual operating transfers in the amount of \$200,000 from Measure S 2014 funds beginning in fiscal year 2016-17.

Operating Budget Expenditures for the City's General Fund are at 34% of projections at the end of the first quarter. This is slightly higher than the average due to a discovery with the setup of the new financial software, employee health benefits are getting allocated to an expense account during payroll processing instead of a liability account. This resulted in overstating health benefit expenses. We have worked with our consultants to resolve this issue and a journal entry to adjust the expense accounts will be processed to the quarter ending September 30, 2017.

The only expenditure adjustment is \$2,000 in the City Council budget to host the Mayor's Conference, which was moved up to January 2018. This is outlined in Attachment A.

Recommendation:

Staff is recommending FY 2017-18 General Fund expenditure adjustments in the amount of \$2,000 as follows:

	FY 2017-18 Budget	Proposed Revisions	FY 2017-18 Updated Budget
City Council	111,248	2,000	113,248
Total Adjustments	111,248	2,000	113,248

OTHER FUNDS

Measure S 2006 and 2014 Analysis

The voter-approved 2006 City General Purpose Use Tax is levied at 0.5% on all retail sales. These taxes have been allocated by the City Council to fund Public Safety programs as their highest funding priority. Measure S 2006 revenue collections were 31% of projections at the end of the first quarter, while expenditures are at 29% of appropriations. Staff is recommending a budget adjustment for a reimbursement received from Contra Costa County for Battalion Chief services.

Recommendation:

Staff is recommending FY 2017-18 Measure S 2006 revenue adjustments in the amount of \$6,500 as follows:

	FY 2017-18 Budget	Proposed Revisions	FY 2017-18 Updated Budget
Reimbursements	0	6,500	6,500
Total Adjustments	0	6,500	6,500

The voter-approved 2014 City General Purpose Use Tax is also levied at 0.5% on all retail sales. These funds are used to address some of the City's operational and ongoing and previously deferred capital improvement needs. Measure S 2014 revenue collections are 18% of projections at the end of the first quarter, while expenditures are 8% of appropriations. This level of expenditure is primarily due to capital projects that have not been initiated as of yet. While revenue receipts for Measure S 2014 should mirror that of Measure S 2006, some businesses are still being identified by our consultant, HdL, that may not have implemented the second use tax. Staff is recommending expenditure adjustments for one-time uses from fund balance resulting from prior year appropriation savings for the following: Information Systems appropriation of \$25,000 for Finance Department software implementation budgeted in FY 2016-17 that continued into FY 2017-18; and Fire Department appropriation of \$97,500 for communication devices and computer monitors (\$15,000), Fire Academy for two (2) new Firefighter/Paramedics (\$20,000), self-contained breathing apparatus (SCBA) compressor (\$45,000), and overtime for training (\$17,500).

Recommendation:

Staff is recommending FY 2017-18 Measure S 2014 expenditure adjustments in the amount of \$122,500 as follows:

	FY 2017-18 Budget	Proposed Revisions	FY 2017-18 Updated Budget
Information Systems	95,000	25,000	120,000
Fire Department	262,260	97,500	359,760
Total Adjustments	357,260	122,500	479,760

Again, these expenditures are proposed to be paid from the fund balance, as the FY 2016-17 surplus exceeded this value and has already been credited to the fund balance at prior fiscal year end.

Pinole Cable TV

As of September 30, 2017, revenues of 6% have been realized for the first quarter of the fiscal year. This is partial due to our practice of quarterly billing, which staff is reevaluating and partially due to the loss of a contract agency. This fiscal year, the City initiated new contracts with various cities/agencies that contract with the City of Pinole for broadcast services. The charges for services were reflective of the City analysis for full cost recovery. One city/agency elected not to continue its services with the City which will result in a negative financial impact to the revenues of \$43,000 or 19% of the overall projected revenues. Staff is seeking other revenue opportunities.

Expenditures continue to stay on track with 25% of expended as of September 30, 2017.

Recommendation:

Staff is continuing to evaluate the impact of the loss of revenues to PCTV with any adjustments to revenues and expenditures occurring at mid-year.

Recreation Department

Overall, the Recreation Department has realized 22% of projected revenues and 19% of projections at the end of the first quarter. Upon a closer evaluation of each Program, the Youth Center has realized 11% of projected revenues and 21% of projected expenditures. The decrease in revenues is directly tied to less students registering for our after school program, which is attributed to the elimination of transportation from Schools to the program followed by an increase in the rates. Staff is working on a change to the Program which will include enrichment based activities which can be individually selected by students. This new program is aimed at offering more educational, cultural and enrichment opportunities for the students.

Recommendation:

Staff will continue to monitor this Program with any adjustment to revenues and expenditures occurring at the mid-year review.

Asset Seizure Fund

The Asset Seizure Fund accounts for proceeds from sales of assets seized during drug-related arrests and disbursed for authorized public safety purposes. Funds remain in the fund balance until equipment is identified for their use. Staff is requesting an appropriation from fund balance for vehicle wrap, decals and lights on Police vehicles.

Recommendation:

Staff is recommending FY 2017-18 Asset Seizure Fund expenditure appropriations in the amount of \$4,018 as follows:

	FY 2017-18 Budget	Proposed Revisions	FY 2017-18 Updated Budget
Police Department	0	4,018	4,018
Total Adjustments	0	4,018	4,018

Sewer Enterprise Fund Analysis

The Sewer Enterprise Fund accounts for fees charged to residents and businesses for sewer utilities. Fees are used to operate the Pinole-Hercules Wastewater Treatment Plant which services the Pinole and Hercules areas. The revenue budget was increased in FY 2016-17 based on the sewer model projection without taking into account historical actuals. Staff is proposing a budget reduction of \$971,914, in addition to a reduction in depreciation expense of \$290,000 to account for the Pinole only share of depreciation.

Recommendation:

Staff is recommending revenue adjustments of -\$971,814 to align with actual receipts as follows:

	FY 2017-18 Budget	Proposed Revisions	FY 2017-18 Updated Budget
Sewer Enterprise Charges	7,214,424	-971,814	6,242,610
Total Adjustments	7,214,424	-971,814	6,242,610

Staff is recommending expenditure adjustments of -\$290,000 for depreciation expense as follows:

	FY 2017-18 Budget	Proposed Revisions	FY 2017-18 Updated Budget
Sewer	5,835,948	-290,000	5,545,948
Total Adjustments	5,835,948	-290,000	5,545,948

FISCAL IMPACT

Fiscal impact of the First Quarter FY 2017-18 Financial Report proposed adjustments are summarized below and described in detail above and in Attachment A.

1. Net increase in General Fund revenue of \$4,250 offset by a net increase in expenditures of \$2,000.
2. Net increase in Measure S 2006 revenue of \$6,500.
3. Net increase in Measure S 2014 expenditures of \$122,500.
4. Net increase in Asset Seizure Fund expenditures of \$4,018.
5. Net decrease in Sewer Enterprise Fund revenue of -\$971,814 offset by a net decrease in expenditures of -\$290,000.

ATTACHMENTS

Attachment A – FY 2017-18 First Quarter Financial Report

Attachment B – Resolution Adjusting Fiscal Year 2017-18 Budget

Attachment C – PowerPoint Presentation