



City Council Staff Report

March 17, 2020

ITEM

Staff Report: Fiscal Year 2020 Mid-Year Budget Review

BACKGROUND

Consistent with the Strategic Plan objective of fiscal transparency, this report provides the mid-year status of the City's General Fund budget. A first quarter status report was presented on December 17, 2019. The purpose of this report is to review the financial results of the activities of the first half of the current fiscal year and provide projections of revenues and expenditures through the end of the fiscal year, to assess the likely impact on the General Fund's unassigned fund balance at year-end. In addition, the report recommends various budget adjustments.

DISCUSSION

First Half of Fiscal Year 2020

The adopted fiscal year 2020 budget authorizes a use of \$4.1 million of unassigned fund balance for operating and capital expenditures. Based on year-to-date actual revenues and expenditures through December 31, 2019 and expected activities through year-end, the anticipated use of unassigned fund balance is less than originally projected by approximately \$2.5 million. The following sections of this report will discuss the significant factors leading to the variance.

Revenues

For fiscal year 2020, General Fund revenues are expected to be greater than amounts budgeted by \$1.2 million. The projected variances in each revenue category resulting in the overall variance are shown in the "Fiscal Year-End Revenue Projections" table. The "Mid-Year Revenue Comparison" table below compares revenues realized through the mid-point of this fiscal year to the mid-point of last fiscal year.

Mid-Year Revenue Comparison

GENERAL FUND REVENUES AS OF DECEMBER 31 ST			
<u>Revenue Category</u>	<u>FY 20</u>	<u>FY 19</u>	<u>Difference</u>
Sales & Use Tax	\$ 6,252,367	\$ 6,581,756	\$ (329,388)
District Transactions & Use Tax	4,134,378	4,347,216	(212,838)
Property Tax ¹	946,832	840,602	106,227
Property Tax in Lieu of VLF ²	-	-	-
Other Revenues	4,143,678	4,273,976	(130,298)
Total	<u>\$15,477,255</u>	<u>\$16,043,550</u>	<u>\$(566,295)</u>

1 reflects reduction for property tax allocation to the Library and Parks Maintenance funds
 2 VLF – vehicle license fees

The General Fund’s primary sources of revenue are the sales & use tax, the district transactions & use tax, property tax in lieu of vehicle license fees, and property taxes. During the first six months of the current fiscal year, these revenues were approximately \$11.3 million, \$0.4 million behind last year, while General Fund revenues as a whole totaled \$15.5 million, approximately \$0.6 million less than the same period last year. Significant factors in the year-to-year difference include the following:

- Combined, receipts from the sales-related taxes, sales & use tax and the City’s district transactions & use tax, were \$0.3 million below those received for the same period of the prior fiscal year. Contributing to the negative variance of these revenues were allocations received by the City during the 1st quarter of the fiscal year 2019 that had been delayed from fiscal year 2018 as the State transitioned to a new sales tax reporting system. In general, however, all business sectors except for the building & construction sector have been steady or strong overall with autos & transportation, general consumer goods, and allocations from County and State pools generating approximately 80% of these revenues.
- “Other Revenues” comprises all other General Fund revenues not specifically identified in the above table. These revenues were \$0.1 million lower during the first half of the year compared to the first half of last year. As is to be expected, some of the accounts are ahead of last year’s amounts and some are behind, because of the nature of the funding source and variations that occur from year to year in the timing of receipts.

While no amounts are reflected in the table for property tax in lieu of vehicle license fees (“VLF”) revenue, it is included in this table because it is a significant funding source for the City. In accordance with State statutes, this revenue, which is based on the change in assessed property valuations, is distributed to the City by the County of San Diego in two equal installments, the first of which is paid in January and the second in May. The revenue anticipated from this source for the current fiscal year is reflected in the table below and represents a \$0.4 million increase over fiscal year 2019.

Fiscal Year-End Revenue Projections

GENERAL FUND
 REVENUES
 FISCAL YEAR 2020

<u>Revenue Category</u>	<u>Projected</u>	<u>Adjusted Budget</u> ¹	<u>Projected Balance</u>	<u>% Variance</u>
Sales & Use Tax	\$19,520,000	\$18,690,000	\$ 830,000	4.3%
District Transactions & Use Tax	12,350,000	11,965,000	385,000	3.1%
Property Tax ²	2,255,750	2,200,893	54,857	2.4%
Property Tax in Lieu of VLF	7,128,882	7,000,000	128,882	1.8%
Other Revenues ³	19,399,379	19,635,246	(235,867)	(1.2)%
Total	\$60,654,011	\$59,491,139	\$ 1,162,872	1.9%

¹ adopted budget total, plus budget amendments and an adjustment of \$4.8 million to Other Revenues to balance revenues to appropriations for the revenue offset WI-TOD and Paradise Creek Park Remediation capital improvement projects that were carried forward from fiscal year 2019.

² reflects reduction for property tax allocation to the Library and Parks Maintenance funds

³ Transfer(s) In not reflected

The above table provides projections of fiscal year 2020 General Fund revenues and compares them to their adjusted budgets. As noted above, General Fund revenues are expected to exceed the adjusted budget by approximately \$1.2 million overall. This estimate is based upon year-to-date and historical data, input from the City’s sales tax consultant, and information obtained from the State of California and County of San Diego. Significant elements of the expected overall positive variance include:

- As explained above, both sales & use tax and the district transaction & use tax are below actuals for the same time period last fiscal year, more recent revenue receipts suggest that the City will finish the year with revenues in these two accounts combined exceeding budget by \$1.1 million.
- Overall, revenues in the “Other Revenues” category are expected to end the year below budget by \$0.2 million, which is attributable to a combination of projected positive and negative variances in the various individual accounts.

Expenditures

Expenditure totals at year-end are expected to be below budget by \$1.3 million. The projected variances in each expenditure category resulting in the overall variance are shown in the “Fiscal Year-End Expenditure Projections” table. The “Mid-Year Expenditure Comparison” below compares expenditures through the mid-point of this fiscal year to the mid-point of last fiscal year.

Mid-Year Expenditure Comparison

GENERAL FUND
 EXPENDITURES
 AS OF DECEMBER 31ST

<u>Expenditure Category</u>	<u>FY 20</u>	<u>FY 19</u>	<u>Difference</u>
Personnel Services	\$21,852,855	\$21,011,040	\$841,815
Maintenance & Operations (M&O)	2,075,400	2,637,010	(561,610)
Capital Outlay	45,129	46,383	(1,254)
Capital Improvement Program	1,691,765	2,630,357	(938,592)
Internal Service Charges	3,572,848	3,770,772	(197,925)
Total	\$29,237,996	\$30,095,562	\$(857,565)

1 Transfer(s) Out not reflected

As of December 31, 2019, General Fund expenditures totaled \$29.2 million, below those at the same point last fiscal year by \$0.9 million. The most significant factors in the year-to-year difference were:

- higher personnel costs than for fiscal year 2019 at the same point, primarily due to negotiated compensation increases, increased health insurance costs and rate increases for retirement plan contributions. These increases were offset, in part, by lower overtime costs for Fire Department personnel, due to a lesser requirement for Strike Team support than in the prior year;
- lower spending on capital projects due largely to the timing of work and invoicing from contractors;
- slower rates of spending for M&O spread across various accounts, but most notably in contract services where timing can vary from year to year and in emergency animal treatment as a result of delayed invoices from the City of Chula Vista; and
- lower internal service charges resulting from an overall reduction in budgeted amounts from fiscal year 2019.

The table below provides a projection of General Fund expenditures for all of fiscal year 2020 and compares them to the adjusted budget. As noted above, General Fund expenditures are expected to be below the adjusted budget by approximately \$1.3 million overall.

Fiscal Year-End Expenditure Projections

GENERAL FUND
 EXPENDITURES
 FISCAL YEAR 2020

<u>Expenditure Category</u> ¹	<u>Projected</u>	<u>Adjusted Budget</u> ²	<u>Projected Balance</u>	<u>% Variance</u>
Personnel Services	\$40,408,628	\$41,389,121	\$ (980,493)	(2.4)%
Maintenance & Operations	6,598,712	6,946,012	(347,301)	(5.0)%
Capital Outlay	639,827	639,827	-	0.0%
Capital Improvements	11,818,167	11,818,167	-	0.0%
Internal Service Charges	7,270,695	7,270,695	-	0.0%
Total	\$66,736,029	\$68,063,822	\$(1,327,793)	(2.0)%

1 Transfer(s) Out not reflected

2 adopted budget total, plus budget amendments, and encumbrances and capital projects appropriations carried forward from previous fiscal year(s)

Personnel costs at fiscal-year-end are projected to be less than budgeted by \$1.0 million, primarily resulting from anticipated savings in full-time salaries, and health insurance premiums, attributable to vacant authorized positions.

Maintenance & operations expenditures are projected to be 5% below budget, due to a combination of anticipated savings in various accounts partially offset by unanticipated expenses in others.

All appropriations for capital outlay and capital improvements are being projected as being entirely spent, because none of the current projects are expected to yield any savings from the amounts budgeted. It is likely, however, that some portion of the current year’s appropriations will be unspent at year-end and will be carried over to next fiscal year. Similarly, all amounts budgeted for internal service charges are projected to be spent, although at year-end actual expenditures of the service provider funds will be reviewed for savings and charges will be adjusted accordingly.

Staff will continue to monitor all expenses and provide updated projections in the third quarter budget status report.

Transfers In/Out

While technically not revenues and expenditures (and, hence, not shown above), transfers in and out of the General Fund may contribute to fund balance increases and decreases, respectively. Transfers in and out are not expected to deviate from the budgeted amounts.

Net Impact on Unassigned Fund Balance

The table below combines the revenue and expenditure projections discussed above. The “Projected” column shows an anticipated use of \$1.8 million of unassigned fund balance rather than the \$4.3 million reflected in the adjusted budget, a decrease of \$2.5 million in the use of unassigned fund balance compared to budget (see “Variance” column).

GENERAL FUND
 IMPACT ON UNASSIGNED FUND BALANCE
 FISCAL YEAR 2020

	<u>Projected</u>	<u>Adjusted Budget</u>	<u>Variance</u>
Revenue	\$ 60,654,011	\$ 59,491,139	\$ 1,162,872
Transfers In	6,000	6,000	-
Total Revenue & Transfers In	\$ 60,660,011	\$ 59,497,139	\$ 1,162,872
Expenditures	\$66,736,029	\$68,063,822	\$(1,327,793)
Transfers Out	1,924,479	1,924,479	-
Total Expenditures & Transfers Out	\$68,660,508	\$69,988,301	\$ 1,327,793
Use of Fund Balance	\$ (8,000,497)	\$(10,491,162)	\$ 2,490,665
Less Use of Assigned Fund Balance *	2,575,396	2,575,396	-
Less Use of Committed Fund Balance *	3,635,000	3,635,000	-
Use of Unassigned Fund Balance	\$ (1,784,342)	\$(4,280,766)	\$ 2,490,665

* For purpose of estimating use of unassigned fund balance, all appropriations impacting assigned and committed fund balance are assumed to be expended.

BUDGET ADJUSTMENTS

During the mid-year budget review process, the Department of Finance, in conjunction with department staff, identified budget adjustments necessary due to expenses unanticipated during the annual budgeting process. The attached schedule (“Exhibit ‘A’”) details the recommended adjustments. The recommendation section below provides a summary of those adjustments by account group and fund.

RECOMMENDATIONS

1. Authorize the City Manager to approve budget adjustments up to the following amounts:
 - **General Fund**
Expenditures
 - \$253,501 Maintenance & Operations

- \$8,418 Capital Outlay
 - **Parks Maintenance Fund**
Expenditures
 - \$9,000 Capital Outlay
 - **Library Capital Outlay Fund**
Expenditures
 - \$10,000 Capital Improvements
 - **Development Impact Fees Fund**
Expenditures
 - \$100,000 Capital Improvements
 - **Housing Authority Fund**
Expenditures
 - \$100,000 Maintenance & Operations
 - **Facilities Maintenance Fund**
Expenditures
 - \$5,000 Capital Outlay
 - \$41,665 Fixed Charges & Debt Services
 - **Vehicle Replacement Fund**
Expenditures
 - \$75,000 Capital Outlay
2. Ratify the City Manager’s authorization to proceed with the acquisition of two motorcycles due to the urgent need for the vehicles. The total cost of the motorcycles exceeds the amount the City Manager can approve without the City Council’s authority.

FISCAL IMPACT

The recommended General Fund budget adjustments have been reflected in the projections of total revenues and expenditures to fiscal year end. If approved, they will result in additional General Fund appropriations and use of unassigned fund balance of \$261,919. The adjustments for the six other funds combined total \$340,665 with \$14,000 of that amount funded by transfers from the General Fund and the remainder from available fund balance in the respective funds.

ATTACHMENTS

Resolution
Exhibit “A” – Recommended Mid-Year Budget Adjustments, Fiscal Year 2020