



## City Council Staff Report

February 21, 2017

### ITEM

Staff Report: Fiscal Year 2017 Mid-Year Budget Review

### BACKGROUND

Consistent with historic practice, staff brings forward a mid-year review of the City's operating budget. The intent of this report is to review the activities of the first half of the current fiscal year and provide revised projections of revenues and expenditures through the end of the fiscal year. In addition, the report recommends various budget adjustments.

This report represents the second budget report of the fiscal year. A first quarter status report was presented on December 20, 2016, consistent with staff's commitment to provide quarterly reports on the status of the budget in keeping with the Strategic Plan objective of fiscal transparency.

### DISCUSSION

#### First Half of Fiscal Year 2017

The adopted fiscal year 2017 budget includes the City Council-authorized use of \$5.4 million of unassigned fund balance for capital projects and operations. Based on actual revenues and expenditures through December 31, 2016 and expected activities through fiscal year-end, the anticipated use of unassigned fund balance is projected to be approximately \$2.6 million less than originally budgeted. The following sections of this report will discuss the significant factors leading to the variance.

#### Revenues

The General Fund's primary sources of revenue are sales and property taxes. The table below compares revenues from July 1<sup>st</sup> through December 31<sup>st</sup> of the current fiscal year to those of the same period of the prior fiscal year.

Mid-Year Revenue Comparison

GENERAL FUND  
 REVENUES  
 AS OF DECEMBER 31<sup>ST</sup>

<u>Revenue Category</u>	<u>FY 17</u>	<u>FY 16</u>	<u>Difference</u>
Sales & Use Tax	\$6,307,170	\$4,439,467	\$1,867,703
District Transactions & Use Tax	3,879,072	3,582,746	296,326
Property Tax <sup>1</sup>	784,521	755,647	28,874
Property Tax in Lieu of VLF <sup>2</sup>	-	24,139	(24,139)
Property Tax in Lieu of Sales Tax <sup>3</sup>	-	-	-
Other Revenue	3,860,023	3,718,770	141,253
Total	<u>\$14,830,786</u>	<u>\$12,520,769</u>	<u>\$2,310,017</u>

<sup>1</sup> reflects reduction for property tax allocation to the Library and Parks Maintenance funds

<sup>2</sup> VLF – vehicle license fee

<sup>3</sup> Eliminated during fiscal year 2016. Revenue returned to sales & use tax.

During the first six months of the current fiscal year, General Fund revenues totalled \$14.8 million, approximately \$2.3 million more than the same period last year. Significant factors in the year to year difference include the following:

- Sales & use tax receipts outpaced those for the same period of the prior fiscal year by nearly \$1.9 million. This increase primarily is due to the restoration of the full one percent local sales tax, following the elimination of property tax in lieu of sales tax, which is further explained below. Stronger activity in the categories of business & industry and building & construction also contributed to the increase.
- The City’s district transactions & use tax revenues are \$296,000 ahead of last year’s total at the same point, as the result of slight increases in several spending categories. (For sales other than walk-in-stores, district transactions & use tax revenue are allocated based upon where the goods are delivered or first placed into use and, as such, do not always “track” sales & use taxes.)

Having received information from the County, staff can report that the City’s fiscal year 2017 distribution of property tax in lieu of vehicle license fee (“VLF”) revenue will be \$5,909,395, a positive change of \$219,303, compared to the previous fiscal year. No totals for this revenue are reflected in the table above, because its first distribution is received in January.

Property tax in lieu of sales tax, which was created in conjunction with the State’s sales-tax-shifting mechanism whereby one-quarter of the one-percent local sales & use tax was taken by the State to repay its economic recovery bonds and replaced with county property tax revenue (the “triple flip”), was eliminated during fiscal year 2016. As a result, the local sales & use tax distribution has been restored to the full one percent collected from retailers, and

no property tax in lieu of sales tax distribution will be received. However, since property tax in lieu of sales tax was eliminated in October 2015, revenue was received during the prior fiscal year and will be reflected in the next budget review, since the first distribution occurred in January.

Fiscal Year-End Revenue Projections

GENERAL FUND REVENUES FISCAL YEAR 2017				
<u>Revenue Category</u>	<u>Projected</u>	<u>Adjusted Budget</u> <sup>1</sup>	<u>Projected Variance</u>	<u>% Variance</u>
Sales & Use Tax	\$18,000,000	\$17,851,000	\$ 149,000	0.8%
District Transactions & Use Tax	11,029,250	10,877,000	152,250	1.4%
Property Tax <sup>2</sup>	2,129,648	2,130,570	(922)	0.0%
Property Tax in Lieu of VLF	5,909,395	5,902,223	7,172	0.1%
Other Revenue	17,456,900	15,814,205	1,642,696	10.4%
Total	<u>\$54,525,193</u>	<u>\$52,574,998</u>	<u>\$1,950,195</u>	<u>3.7%</u>

<sup>1</sup> adopted budget total, plus budget amendments

<sup>2</sup> reflects reduction for property tax allocation to the Library and Parks Maintenance funds

The above table provides a comparison of the adopted, adjusted budget to the current year end projection. Staff projects overall year-end General Fund revenues to exceed the adjusted budget by approximately \$2.0 million. 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 positive variance include:

- the positive effect on sales-related tax revenues from the aforementioned growth in various spending categories; and
- the projection that other revenues will exceed their combined budgets by \$1.6 million, which is attributable to projected positive variances in the following categories:
  - Successor Agency residual RPTTF (Redevelopment Property Tax Trust Fund) balance distributions - \$1,037,814;
  - overtime reimbursements from the State for the Fire Department’s participation in wildfire strike teams - \$393,445;
  - public safety sales tax - \$161,789; and
  - transient lodging tax revenue - \$100,000.

**Expenditures**

As of December 31, 2016, General Fund expenses totaled \$23.6 million, exceeding those at the same point last fiscal year.

Mid-Year Expenditure Comparison

GENERAL FUND  
 EXPENDITURES  
 AS OF DECEMBER 31<sup>ST</sup>

<u>Expenditure Category</u>	<u>FY 17</u>	<u>FY 16</u>	<u>Difference</u>
Personnel Services	\$16,239,963	\$14,437,557	\$1,802,406
Maintenance & Operations	1,810,687	1,914,294	(103,607)
Capital Outlay	151,140	60,220	90,921
Capital Improvement Program	1,577,782	1,664,119	86,336
Internal Service Charges	3,668,872	3,359,826	309,046
Other Expenditures	134,761	107,776	26,984
Total	<u>\$23,583,205</u>	<u>\$21,543,792</u>	<u>\$2,039,413</u>

- The increase in personnel services expenses is due to the City’s now being nearly fully staffed, negotiated increases to bring employees’ compensation more in line with the market, a modest addition to authorized staffing levels, and pension contribution increases.
- The increase in internal service charges results from the budgeted increase to the internal service rates charged to General Fund departments.

Staff will continue to monitor all expenses and provide greater detail in the third quarter budget report.

Fiscal Year-End Expenditure Projections

GENERAL FUND  
 EXPENDITURES  
 FISCAL YEAR 2017

<u>Expenditure Category</u>	<u>Projected</u>	<u>Adjusted Budget <sup>1</sup></u>	<u>Projected Variance</u>	<u>% Variance</u>
Personnel Services	\$34,993,226	\$35,063,608	(\$130,382)	(0.4%)
Maintenance & Operations	5,981,646	6,374,559	(392,913)	(6.2%)
Capital Outlay	300,822	303,425	(2,603)	(0.9%)
Capital Improvement	11,398,221 <sup>2</sup>	11,398,221	-	0.0%
Internal Service Charges	7,392,744	7,392,744	-	0.0%
Other Expenditures	554,039	693,145	(139,106)	(20.1%)
Total	<u>\$60,560,699</u>	<u>\$61,225,701</u>	<u>(\$665,003)</u>	<u>(1.1%)</u>

<sup>1</sup> adopted budget total, plus budget amendments, and encumbrances and capital projects appropriations carried forward from previous fiscal year(s)

<sup>2</sup> actual spending anticipated - \$4.5M; unspent appropriations at fiscal year-end will be designated as assigned fund balance

- Staff currently is projecting actual expenditures to end the fiscal year at approximately \$0.6 below budget, most significantly as the result of savings in maintenance & operations-related costs.
- While personnel costs for the first half of the year are greater than for the same period of the previous year, a savings of approximately \$131,000 is expected to result from vacant authorized positions.
- The projected maintenance & operations variance of \$393,000 is associated primarily with costs not expected to be incurred this fiscal year related to the disposition of properties acquired from the Successor Agency.

### Transfers In/Out

While technically not revenues and expenditures (and, hence, not shown above), transfers in and out of the General Fund contribute to fund balance increases and decreases, respectively. Neither transfers in nor transfers out currently is expected to deviate from its budgeted total.

### Net Impact on Unassigned Fund Balance

The adopted budget reflects a use of \$5.4 million in unassigned fund balance. Combining the above revenue and expenditure projections with expected transfers in and out results in an anticipated decrease of \$2.6 million in the use of unassigned fund balance. As a result, the use of unassigned fund balance for the fiscal is projected to total \$2.8 million.

GENERAL FUND  
 IMPACT ON UNASSIGNED FUND BALANCE  
 FISCAL YEAR 2017

	<u>Projected</u>	<u>Adjusted Budget</u>	<u>Variance</u>
Revenue	\$ 54,525,193	\$ 52,574,998	\$ 1,950,195
Transfers In	519,672	519,672	-
Total Revenue & Transfers In	\$ 55,044,865	\$ 53,094,670	\$ 1,950,195
Expenditures	(\$60,560,699)	(\$61,225,701)	(\$ 665,002)
Transfers Out	(1,950,195)	(1,950,195)	-
Total Expenditures & Transfers Out	(\$ 62,510,894)	(\$63,175,896)	(\$ 665,002)
Unassigned Fund Balance			\$2,615,198

### BUDGET ADJUSTMENTS

During the mid-year budget review process, the Department of Finance identified budget adjustments necessary due to expenses unanticipated during the annual budgeting process. In addition, departments have been afforded the opportunity to submit supplemental appropriation

requests based upon actual or projected budgetary requirements not anticipated during the annual budgeting process and to request other budget adjustments. The attached schedules reflect the recommended and requested adjustments.

### **ADDITIONAL FISCAL YEAR 2017 IMPACTS**

Looking ahead, the City appears to be on pace to outperform its budgeted projections for Fiscal Year 2017, with the currently projected use of fund balance significantly lower than the amount budgeted. Budgeting is a fluid process. As of the time of this report, staff is aware of and monitoring additional matters that are likely to impact the year end budget projections. These items include the following:

- **Fire Department Squad:** On September 20, 2016, the City Council authorized staff to develop and execute a one year Squad Pilot Program designed to enhance public safety and the efficiency of the Fire Department by implementing and evaluating the effectiveness of an alternative service delivery model. The \$184,882 cost for the acquisition of the squad vehicle has been budgeted. Costs related to site improvements and metal structure acquisition have not yet been determined and, therefore, have not been included in projections. Operational costs have not been included, as operations are expected to commence in the next fiscal year. Staff will bring forward a request for appropriations to a future City Council meeting.
- **Energy and Water Savings Measure:** On December 15, 2015, the City Council authorized staff to execute an agreement with AMERESCO, Inc. to conduct an Energy audit of City Facilities (Phase I), develop a project scope of energy and water saving measures to fund capital costs, forecast savings, and present a financing solution. Estimates of these costs are not available at this time. Upon determination of the expected costs, staff will bring forward a request for appropriations to a future City Council meeting.

### **RECOMMENDATIONS**

Staff estimates sufficient resources are available to fund the following recommended and requested appropriation adjustments.

Authorize the City Manager to approve budget adjustments up to the following amounts:

- **General Fund –**
  - **Expenditures**
    - \$438,500 Personnel
    - \$ 83,500 Maintenance & Operations
    - \$ 23,993 Internal Service Charges
    - \$ 12,300 Transfers
  - **Revenues**
    - \$40,000 Other Revenues

- Parks Maintenance Fund –  
**Expenditures**
  - \$ 2,880 Maintenance & Operations
  
- Sewer Service Fund –  
**Expenditures**
  - \$ 30,000 Transfers
  
- Trash Rate Stabilization Fund –  
**Expenditures**
  - \$ 42,000 Transfers
  
- Personnel Compensation Fund –  
**Expenditures**
  - \$ 12,300 Personnel  
**Transfers In**
  - \$ 12,300 Transfers
  
- Vehicle Replacement Fund –  
**Expenditures**
  - \$ 226,000 Capital Outlay  
**Revenues & Transfers In**
  - \$ 72,000 Transfers
  - \$ 26,873 Other Revenues

## FISCAL IMPACT

If all recommendations are approved, the use of unassigned General Fund fund balance for the fiscal year is projected to increase from \$2.8 million to \$3.3 million, the maximum impact of adjustments on appropriations would be as follows:

- General Fund –  
**Expenditures**
  - general ledger clean-up \$357,300
  - supplemental appropriation requests \$200,993  
**Revenues**
  - general ledger clean-up \$40,000
  
- Parks Maintenance Fund –  
**Expenditures**
  - supplemental appropriation requests \$2,880

- Sewer Service Fund –  
**Expenditures**
  - supplemental appropriation requests \$30,000
  
- Trash Rate Stabilization Fund –  
**Expenditures**
  - supplemental appropriation requests \$42,000
  
- Personnel Compensation Fund –  
**Expenditures**
  - general ledger clean-up \$12,300  
**Transfers In**
  - general ledger clean-up \$12,300
  
- Vehicle Replacement Fund –  
**Expenditures**
  - supplemental appropriation requests \$226,000  
**Revenues**
  - supplemental appropriation requests \$98,873

## ATTACHMENTS

- Attachment 1 – Mid-Year Budget Adjustments
- Attachment 2 – Supplemental Appropriation Requests



**City of National City  
Mid-Year Appropriation Adjustments  
Fiscal Year 2017**

**General Fund – \$345,000**

1. Police Department: Budget increase for Salaries and related expenses (Personnel) – \$305,000  
Increase the Salaries appropriation by \$305,000 to account for personnel related expenses as required per the Police Officers Association Memorandum of Understanding (MOU) salary increases.
  
2. Community Services Department: Budget increase for Contract Services (Maintenance & Operations) – \$40,000  
Increase the Contract Services appropriation to account for the National School District – Learn to Swim Program at Las Palmas Pool. An agreement with National School District was approved by the City Council on August 2, 2016 (Resolution 2016-108). This expense request is offset by revenues of \$40,000 from the National School District.

Department of Finance recommendation: Authorize the City Manager to approve budget adjustments totalling up to \$345,000 (total impact) for item #s 1-2 above to be funded by transfers within the General Fund budget or use of fund balance, as necessary.

**Personnel Compensation Fund – \$12,300**

1. Non-Departmental: Budget increase for recent retirements resulting in increased retiree healthcare costs (Personnel) - \$12,300

Department of Finance recommendation: Authorize the City Manager to approve budget adjustments totalling up to \$12,300 for item # 1 above.

**City of National City  
Revenue Budget Adjustment Request  
Fiscal Year 2017**

**General Fund: \$40,000**

1. Revenue budget increase related to National School District Learn to Swim Program at Las Palmas (Community Services) - \$40,000  
Increase the Swimming Pool revenue account for the National School District – Learn to Swim Program at Las Palmas Pool. Agreement with National School District was approved by the City Council on August 2, 2016 (Resolution 2016-108). Corresponding increase of the expenditure budget by \$40,000.

Department of Finance recommendation: Authorize the City Manager to approve budget adjustments totalling \$40,000 for item # 1 above.

**City of National City  
Transfers Budget Adjustment Request  
Fiscal Year 2017**

**Personnel Compensation Fund: \$12,300**

1. Transfer-In appropriation increase from the General Fund due to recent retirements resulting in increased retiree healthcare costs - \$12,300

Department of Finance recommendation: Authorize the City Manager to approve the budget adjustment and transfer-in totalling \$12,300 for item # 1 above.

**General Fund: \$12,300**

1. Transfer-Out appropriation increase to the Personnel Compensation Fund due to recent retirements resulting in increased retiree healthcare costs - \$12,300

Department of Finance recommendation: Authorize the City Manager to approve the budget adjustment and transfer-out totalling \$12,300 for item # 1 above.

**City of National City  
Supplemental Appropriation Requests  
Fiscal Year 2017**

**General Fund: \$200,993**

1. Police: Budget increase for Overtime and related expenses (Personnel) – \$133,500  
Increase the Overtime, Medicare, and Workers Compensation appropriations to account for higher costs related to providing law enforcement support to the City of El Cajon under the regional mutual aid agreement, conducted homicide investigations, and account for Police Officers Association MOU salary increases.
2. Police: Budget increase for Training, Travel & Subsistence (Maintenance & Operations) – \$17,500  
Increase the POST Training appropriation due to the Police department achieving full staffing levels, and ensure staff are meeting the POST certification training requirements.
3. Fire: Budget increase for Materials & Supplies (Maintenance & Operations) – \$26,000  
Increase the Materials & Supplies appropriation for Strike Team that were used during various deployments. This expense request is offset by reimbursement revenues of \$390,000 from the State of California.
4. Police: Budget increase for Vehicle Lease Charge of three (3) investigations vehicles (Internal Service Fund) – \$17,553  
Increase the Vehicle Lease Charge appropriation for the annual lease payments of the purchase of three (3) unmarked investigation vehicles.
5. Public Works: Budget increase for Vehicle Lease Charge of one (1) new Boom Lift (Internal Service Fund) – \$6,440  
Increase the Vehicle Lease Charge appropriation for the annual lease payment of the purchase of one (1) Boom Lift to be used for a variety of purposes, such as: tree trimming, traffic signal maintenance, and use at City facilities.

Authorize the City Manager to approve budget adjustments totalling up to \$200,993 for item #s 1-5 above to be funded by transfers within the General Fund budget or use of fund balance, as necessary.

**Parks Maintenance Fund: \$2,880**

1. Public Works: Budget increase for Vehicle Lease Charge of two (2) new E-Z Go Utility Carts (Internal Service Fund) – \$2,880  
Increase the Vehicle Lease Charge appropriation for the annual lease payment of the purchase of two (2) E-Z Go Utility Carts for parks maintenance.

Authorize the City Manager to approve budget adjustments totalling up to \$2,880 for item # 1 above to be funded by transfers within the Parks Maintenance Fund budget or use of fund balance, as necessary.

**Vehicle Replacement Fund: \$226,000**

1. Public Works: Budget increase for Automotive Equipment to purchase one (1) Gormann Rupp Trash Pump vehicle – \$30,000  
Increase the Automotive Equipment appropriation to purchase one (1) Gormann Rupp Trash Pump vehicle to maintain the sewer system. Transfer of funds from the Sewer Service Fund for this purchase in the amount of \$30,000.
2. Public Works: Budget increase for Automotive Equipment to purchase one (1) Tennant Sweeper vehicle – \$42,000  
Increase the Automotive Equipment appropriation to purchase one (1) Tennant Sweeper vehicle to maintain bike paths. Transfer of funds from the Trash Rate Stabilization Fund for this purchase in the amount of \$42,000.
3. Parks: Budget increase for Automotive Equipment to purchase two (2) E-Z Go Utility Carts – \$12,000  
Increase the Automotive Equipment appropriation to purchase two (2) E-Z Go Utility Carts for parks maintenance. The internal service fund annual lease expense to the Parks Maintenance Fund will be \$2,880 for five years.
4. Police: Budget increase for Automotive Equipment to purchase three (3) investigation vehicles – \$96,000  
Increase the Automotive Equipment appropriation to purchase three (3) unmarked investigation vehicles. Including the replacement of a wrecked Ford Fusion, addition of a new Task Force officer vehicle, and the addition of a new detective vehicle. The internal service fund annual lease expense to the General Fund will be \$17,553 for seven years.
5. Public Works: Budget increase for Automotive Equipment to purchase one (1) new Boom Lift – \$46,000  
Increase the Automotive Equipment appropriation to purchase one (1) Boom Lift to be used for a variety of purposes, such as: tree trimming, traffic signal maintenance, and use at City facilities. The internal service fund annual lease expense to the General Fund will be \$6,440 for ten years.

Authorize the City Manager to approve budget adjustments totalling up to \$226,000 for item #s 1-5 above to be funded by transfers into the Vehicle Replacement Fund budget or use of fund balance, as necessary.

**City of National City  
Transfers Budget Supplemental Request  
Fiscal Year 2017**

**Trash Rate Stabilization Fund: \$42,000**

1. Transfer-Out appropriation increase to the Vehicle Replacement Fund to purchase one (1) Tennant Sweeper - \$42,000

Department of Finance recommendation: Authorize the City Manager to approve the budget adjustment and transfer-out totalling \$42,000 for item # 1 above.

**Sewer Service Fund: \$30,000**

1. Transfer-Out appropriation increase to the Vehicle Replacement Fund to purchase one (1) Gormann Rupp Trash Pump vehicle - \$30,000

Department of Finance recommendation: Authorize the City Manager to approve the budget adjustment and transfer-out totalling \$30,000 for item # 1 above.

**Vehicle Replacement Fund: \$72,000**

1. Transfer-In appropriation increase from the Trash Rate Stabilization Fund to purchase one (1) Tennant Sweeper - \$42,000
2. Transfer-In appropriation increase from the Sewer Service Fund to purchase one (1) Gormann Rupp Trash Pump vehicle - \$30,000

Department of Finance recommendation: Authorize the City Manager to approve the budget adjustment and transfer-in totalling \$72,000 for item #s 1-2 above.