



MEMORANDUM

Finance and Administrative
Services Department

DATE: December 2, 2014

TO: City Council

FROM: Helen Ansted, Principal Financial Analyst
Suzanne Niederhofer, Assistant Finance and Administrative
Services Director
Patty J. Kong, Finance and Administrative Services Director

VIA: Daniel H. Rich, City Manager

SUBJECT: **Analysis of Fiscal Year 2013-14 Audited Financial Results for the
General Operating Fund and General Fund Available Balance**

PURPOSE

To provide an analysis of Fiscal Year 2013-14 audited financial results for the General Operating Fund and General Fund available balance (including one-time revenues and expenditure savings).

BACKGROUND

Final audited numbers have been used for the purposes of this report. Some amounts will not match the CAFR as certain revenue and expenditure reclassifications have been made for financial statement purposes. In addition, the CAFR groups all General Fund revenues and expenditures together, including reserves. For purposes of this analysis, one-time General Fund revenues and expenditures have been reclassified to conform to the City's definition of operating and are presented separately. The City defines "operating" as the recurring revenues and expenditures supporting ongoing City services. These classification differences do not affect the evaluation of the fund's financial position.

ANALYSIS

FISCAL YEAR 2013-14 GENERAL OPERATING FUND AUDITED FINANCIAL RESULTS

The General Operating Fund (GOF) accounts for recurring unrestricted revenues and general operating expenditures. It is a subset of, and distinguished from, the General Fund, which accounts for total unrestricted revenues and total General Fund expenditures, including reserves and nonrecurring revenues and expenditures in nonoperating accounts.

The adopted budget, adjusted budget, and audited results for the General Operating Fund are as follows (dollars in thousands):

	2013-14 <u>Adopted Budget</u>	2013-14 <u>Adjusted Budget⁽¹⁾</u>	2013-14 <u>Audited</u>	Variance of Audited to Adjusted
Revenues	<u>\$97,567</u>	<u>98,859</u>	<u>102,045</u>	<u>3,186</u>
Expenditures	(98,076)	(100,653)	(94,933)	5,720
Estimated Budget Savings	2,800	2,800	Included	(2,800)
Rebudgets ⁽²⁾	<u>-0-</u>	<u>1,448</u>	<u>(321)</u>	<u>(1,769)</u>
Net Expenditures	<u>(95,276)</u>	<u>(96,405)</u>	<u>(95,254)</u>	<u>1,151</u>
Operating Balance	<u>\$ 2,291</u>	<u>2,454</u>	<u>6,791</u>	<u>4,337</u>

⁽¹⁾ The adjusted budget includes the adopted budget increases for reimbursed expenditures, grants and donations, and any budget changes approved during the fiscal year.

⁽²⁾ Rebudgets for encumbrances and grant/donation carryovers from the prior fiscal year.

The Fiscal Year 2013-14 total audited revenues are \$3.2 million (3.2 percent) above the adjusted budget, \$4.5 million (4.6 percent) above the adopted budget, and \$5.2 million (5.4 percent) higher than the Fiscal Year 2012-13 total audited revenues. Audited net expenditures are \$1.2 million (1.2 percent) below the net adjusted budget, on target with the adopted budget, and \$2.2 million (2.4 percent) higher than the Fiscal Year 2012-13

total audited expenditures. Fiscal Year 2013-14 was the first year since the “Great Recession” with revenue strong enough to support expenditure growth without budget reductions. Recovery from the recession has continued, the combination of responsible actions during the postrecession years and the growing revenue base, both contributing to an increasingly positive outlook.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The adopted budget, adjusted budget, and audited results for General Operating Fund revenues are as follows (dollars in thousands):

	2013-14 Adopted <u>Budget</u>	2013-14 Adjusted <u>Budget</u>	2013-14 <u>Audited</u>	Variance of Audited to Adjusted
Operating Revenues:				
Property Taxes	\$30,149	30,149	31,120	971
Sales Tax	17,268	17,268	16,936	(332)
Other Local Taxes	12,009	12,009	13,089	1,080
Use of Money and Property Licenses, Permits & Fees/ Fines & Forfeitures	10,605	10,605	10,690	85
Intergovernmental	5,727	5,727	6,383	656
Charges for Services	559	604	679	75
Miscellaneous Revenues	4,168	4,897	5,196	299
Interfund Revenue and Transfers	1,510	1,892	2,483	591
Loan Repayments	13,678	13,814	13,575	(239)
	<u>1,894</u>	<u>1,894</u>	<u>1,894</u>	<u>-0-</u>
Total Operating Revenues	<u>\$97,567</u>	<u>98,859</u>	<u>102,045</u>	<u>3,186</u>

A summary of revenues by category follows:

- The July 1, 2013 City property tax roll increased 10.1 percent compared to the prior year tax roll, reflecting increased secured and unsecured assessed values (AV) offset by roll reductions resulting from resolved appeals and Proposition 8 adjustments. Property tax revenues totaling \$31.1 million were \$971,000 (3.2 percent) higher than budget and \$3.0 million (10.7 percent) higher than the Fiscal Year 2012-13 audited.

- Sales tax revenues are \$332,000 (1.9 percent) lower than budget and \$192,000 (1.1 percent) higher than the Fiscal Year 2012-13 audited. Although there continue to be mixed signs of recovery, this is the fourth consecutive fiscal year of year-over-year growth. This revenue continues to lag the prerecession level by approximately 2.0 percent.
- Other Local Taxes are \$1.1 million (9.0 percent) higher than budget as all sources (Business License, Transient Occupancy Tax (TOT), and Utility Users Tax (UUT)) exceeded budget and are also \$1.1 million (8.9 percent) higher than the Fiscal Year 2012-13 audited. TOT revenues declined significantly during the recession, but occupancy began recovering in the spring of 2010 and has continued to grow through Fiscal Year 2013-14. UUT revenues grew as a result of increased usage, telecommunication providers' compliance with the City's amended ordinance, and the ongoing impact of the compliance audit which was completed in February 2014.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases are on target with budget. Investment Earnings are \$355,000 (20.9 percent) lower than the Fiscal Year 2012-13 audited, reflecting the lower reinvestment yields that have been available in the market. Rents and Leases revenue is slightly higher than the Fiscal Year 2012-13 audited, primarily as a result of annual increases in various property leases.
- Licenses, Permits, and Fees/Fines and Forfeitures are \$656,000 (11.5 percent) higher than budget and increased \$473,000 (8.0 percent) compared to the Fiscal Year 2012-13 audited. Development and increased commercial occupancy are contributing to the increase in Licenses, Permits, and Fee revenues. The increase in Fines and Forfeiture revenue is related to a change in the deployment of Community Service Officers, which led to increased parking enforcement.
- Intergovernmental revenues are \$75,000 (12.4 percent) higher than budget as a result of the Federal grants received, but not anticipated in the adopted budget. This revenue is \$14,000 (2.1 percent) higher compared to the Fiscal Year 2012-13 audited.
- Charges for Services are a net \$299,000 (6.1 percent) higher than budget and \$758,000 (17.1 percent) higher than the Fiscal Year 2012-13 audited. Revenue in this category is mainly derived from City recreation programs and private development activity. As part of the Fiscal Year 2010-11 budget process, the City

Council approved a Recreation Cost Recovery Policy and since approval of the policy, staff has implemented some pricing and program changes. The Fiscal Year 2013-14 Recreation service charge revenues are \$142,000 (8.7 percent) below budget, but \$108,000 (7.8 percent) higher than the Fiscal Year 2012-13 audited. Development activity continued to increase during Fiscal Year 2013-14, generating a higher level of revenues compared to both budget and the Fiscal Year 2012-13 audited.

- Miscellaneous Revenues are \$591,000 (31.2 percent) higher than budget, primarily resulting from reimbursements which are budgeted conservatively due to annual fluctuations. In addition, the City received reimbursements for special events and strike team response which were not budgeted for Fiscal Year 2013-14. Miscellaneous Revenues are approximately the same as Fiscal Year 2012-13.
- Interfund Revenues are \$88,000 (0.8 percent) below budget as Capital Improvement Project (CIP) Administration did not meet the projection. Interfund Transfers are \$151,000 (5.7 percent) below budget primarily as there were insufficient funds available in the Shoreline Golf Links Fund for the budgeted transfer of net operating income. In total, Interfund Revenues and Transfers is \$206,000 (1.5 percent) below the Fiscal Year 2012-13 audited.
- Loan Repayments are as budgeted.

Expenditures

The adopted budget, adjusted budget, and audited results for General Operating Fund expenditures are as follows (dollars in thousands):

	2013-14 Adopted <u>Budget</u>	2013-14 Adjusted <u>Budget</u>	2013-14 <u>Audited</u>	Variance of Audited to Adjusted
Operating Expenditures:				
Salaries and Benefits:				
Salaries and All Pays	\$53,012	53,339	52,379	960
Retirement	11,400	11,400	11,219	181
Health Benefits	9,586	9,586	8,215	1,371
All Other Benefits	<u>4,724</u>	<u>4,724</u>	<u>4,385</u>	<u>339</u>
	78,722	79,049	76,198	2,851
Services and Supplies	14,244	16,241	13,608	2,633
Capital Outlay/Capital				
Replacement	2,545	2,798	2,562	236
Self-Insurances	2,565	2,565	2,565	-0-
Budget Savings	(2,800)	(2,800)	Included	(2,800)
Rebudgets ⁽¹⁾	<u>-0-</u>	<u>(1,448)</u>	<u>321</u>	<u>(1,769)</u>
Net Operating				
Expenditures	<u>\$95,276</u>	<u>96,405</u>	<u>95,254</u>	<u>1,151</u>

⁽¹⁾ Rebudgets for encumbrances and grant/donation carryovers from the prior fiscal year.

A summary of expenditures by category follows:

- Although vacant positions were filled throughout the fiscal year, there is a \$2.9 million (3.6 percent) favorable variance in Salaries and Benefits. This is comparable to savings in prior fiscal years and is not unexpected as there is a lag time in the process of filling vacant positions.
- Every fiscal year, there are savings in Services and Supplies. As customary, departments carefully monitored their expenditures, resulting in \$2.6 million (16.2 percent) of savings. There are encumbrances totaling \$1.1 million identified to be carried over into Fiscal Year 2014-15. Including these encumbrances, the variance to budget would be \$1.5 million, or 9.3 percent.

- The General Operating Fund's \$2.2 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay, with a favorable variance of \$236,000, is 58.1 percent expended compared to budget; \$84,000 of this has been encumbered to be expended in Fiscal Year 2014-15.

The budget savings of \$2.8 million takes into consideration the anticipated savings in expenditure accounts. The audited amounts indicated on the previous table do not include \$1.2 million of encumbrances outstanding as of the end of the fiscal year. In accordance with the City Charter, appropriations for lawful encumbrances remaining at the end of each fiscal year are reappropriated in the following fiscal year.

Expenditures by Department

A summary of the General Operating Fund audited expenditures compared to adjusted budget by department are as follows (dollars in thousands):

	2013-14 Adjusted Budget	2013-14 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 314	193	-0-	121	38.5%
City Clerk	562	547	-0-	15	2.7%
City Attorney	1,767	1,537	90	140	7.9%
City Manager	3,060	2,653	97	310	10.1%
Information Technology	3,062	2,765	23	274	8.9%
Finance and Administrative Services	5,251	4,598	267	386	7.4%
Community Development	3,451	2,931	209	311	9.0%
Public Works	8,978	8,248	105	625	7.0%
Community Services	13,222	12,267	138	817	6.2%
Library Services	5,295	4,651	2	642	12.1%
Fire	19,774	19,307	57	410	2.1%
Police	31,105	30,430	220	455	1.5%
Nondepartmental ⁽¹⁾	4,812	4,806	-0-	6	0.1%
Budget Savings	<u>(2,800)</u>	<u>Included</u>	<u>-0-</u>	<u>(2,800)</u>	
Total Operating Expenditures	<u>\$97,853</u>	<u>94,933</u>	<u>1,208⁽²⁾</u>	<u>1,712</u>	1.7%

(1) Nondepartmental expenditures include Interfund Transfers for equipment replacement and self-insurances.

(2) Encumbrance balance includes pre-encumbrances.

All departments ended the 2013-14 fiscal year with expenditures below the adjusted budget.

FISCAL YEAR 2013-14 GENERAL OPERATING FUND BALANCE AND ONE-TIME REVENUES AND EXPENDITURE SAVINGS

As discussed earlier, the City's GOF ended the 2013-14 fiscal year with a positive operating balance of \$6.8 million. The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

General Operating Fund Balance	\$6,791
Transfer to General Fund Reserve	(322)
One-Time Revenues and Expenditure Savings:	
UUT Settlement	108
Reimbursements	6
Unspent Limited-Period Expenditures	188
Reimbursement from Development Services Fund	1,521
Loan in exchange for RDA Property	<u>(1,150)</u>
Total Available for Allocation	7,142
Less Allocations in the Fiscal Year 2014-15 Adopted Budget:	
Capital Improvement Reserve	(2,000)
Compensated Absences Reserve	(1,200)
OPEB Trust	(1,000)
PERS	(1,000)
Workers' Compensation Fund	(300)
New Limited-Period Expenditures and Capital Outlay	<u>(1,114)</u>
Total Allocated	<u>(6,614)</u>
Remaining Unallocated Balance	\$ <u>528</u>

The GOF ended the 2013-14 fiscal year with a positive operating balance of \$6.8 million. Of this, \$322,000 was transferred to the General Fund Reserve to bring the balance to policy level. Including the transfer from the General Operating Fund, one-time revenues, and expenditure savings, there is a total of \$7.1 million available for allocation. Allocations included in the Fiscal Year 2014-15 Adopted Budget include the transfers of \$2.0 million to the CIP Reserve for future projects, \$1.2 million to the Compensated Absences Reserve, \$1.0 million each to the OPEB Trust (Retirees Health) and to PERS to reduce the unfunded liabilities and \$300,000 to supplement the Workers'

Compensation Fund, as well as funding new limited-period and capital outlay expenditures of \$1.1 million. This results in a remaining unallocated balance of \$528,000. Staff will return to Council with a recommendation for the use of these funds with the Midyear Budget Status Report in February 2015.

CONCLUSION

Total Fiscal Year 2013-14 GOF revenues are \$102.0 million, \$3.2 million (3.2 percent) higher than adjusted budget and \$4.5 million (4.6 percent) higher than the adopted budget. Total GOF expenditures are \$94.9 million, \$2.9 million (3.0 percent) below adjusted budget and are on target with the adopted budget, not including \$1.2 million in encumbrances outstanding at the end of Fiscal Year 2013-14. The GOF ended Fiscal Year 2013-14 with a positive operating balance of \$6.8, which provided funding for Fiscal Year 2014-15 limited-period and capital outlay expenditures and transfers to a variety of reserves to bring reserve balances to policy levels or to reduce unfunded liabilities. The remaining unallocated balance is \$528,000.

An updated estimate of the City's financial position for Fiscal Year 2014-15 and Fiscal Year 2015-16 will be presented to Council in February 2015 with the Midyear Budget Status Report. A five-year financial forecast will be presented to Council with the Narrative Budget Report in late April 2015.

HA-SN-PJK/3/FIN
541-12-02-14M-E