



CITY OF MOUNTAIN VIEW

MEMORANDUMFinance and Administrative
Services Department

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TO: City Council

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SUBJECT: **Analysis of Fiscal Year 2015-16 Audited Financial Results for the
General Operating Fund and General Fund Available Balance**

PURPOSE

To provide an analysis of Fiscal Year 2015-16 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 Comprehensive Annual Financial Report (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 General Operating Fund's financial position.

ANALYSIS

FISCAL YEAR 2015-16 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 Fiscal Year 2014-15 audited and Fiscal Year 2015-16 adopted budget, adjusted budget, and audited results for the GOF are as follows (dollars in thousands):

	2014-15 <u>Audited</u>	2015-16 <u>Adopted Budget</u>	2015-16 <u>Adjusted Budget⁽¹⁾</u>	2015-16 <u>Audited</u>	Variance of Audited to Adjusted
Revenues	\$106,940	107,134	108,237	115,911	7,674
Expenditures ⁽²⁾	(97,677)	(105,589)	(107,922)	(102,590)	5,332
Rebudgets ⁽³⁾	<u>66</u>	<u>-0-</u>	<u>1,606</u>	<u>(4,078)</u>	<u>(5,684)</u>
Operating Balance	<u>\$ 9,329</u>	<u>1,545</u>	<u>1,921</u>	<u>9,243</u>	<u>7,322</u>

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

(2) Expenditures include \$2.0 million toward the PERS liability, \$1.0 million toward the OPEB liability, and are net of adopted budget savings of \$1.8 million.

(3) Rebudgets include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

The Fiscal Year 2015-16 total audited revenues are \$7.7 million (7.1 percent) above the adjusted budget, \$8.8 million (8.2 percent) above the adopted budget, and \$9.0 million (8.4 percent) higher than the Fiscal Year 2014-15 total audited revenues. The Fiscal Year 2015-16 total audited expenditures are \$5.3 million (4.9 percent) below the adjusted budget, \$3.0 million (2.8 percent) below the adopted budget, and \$4.9 million (5.0 percent) higher than the Fiscal Year 2014-15 total audited expenditures.

The City has recovered from the greatest recession since the Great Depression and weathered the tough economic times while continuing to balance the GOF. This was

accomplished by strategically reducing expenditures, establishing more efficient operating models, and working closely with employee organizations to contain employee compensation costs, as well as implementing limited revenue enhancements where appropriate. It is fortunate the City is once again in the position to be generating significant operating balances. It provides an opportunity to add critical positions, address some infrastructure needs, and partially pay down unfunded liabilities related to employee benefits (PERS and OPEB liabilities), which were unable to be addressed during tough economic times.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2014-15 audited and Fiscal Year 2015-16 adopted budget, adjusted budget, and audited results for General Operating Fund revenues are as follows (dollars in thousands):

	<u>2014-15</u> <u>Audited</u>	2015-16 <u>Adopted</u> <u>Budget</u>	2015-16 <u>Adjusted</u> <u>Budget</u>	<u>2015-16</u> <u>Audited</u>	Variance of Audited to Adjusted
Operating Revenues:					
Property Taxes	\$ 35,173	35,932	35,932	39,461	3,529
Sales Tax	19,773	19,380	19,380	21,401	2,021
Other Local Taxes	14,805	14,333	14,333	15,137	804
Use of Money and Property Licenses, Permits & Fees/ Fines & Forfeitures	10,928	11,202	11,202	12,219	1,017
Intergovernmental	5,645	5,968	5,969	5,566	(403)
Charges for Services	773	566	713	1,158	445
Miscellaneous Revenues	3,166	2,471	2,519	2,962	443
Interfund Revenue and Transfers	3,152	1,662	2,459	2,757	298
Loan Repayments	13,525	15,620	15,730	15,250	(480)
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Operating Revenues	<u>\$106,940</u>	<u>107,134</u>	<u>108,237</u>	<u>115,911</u>	<u>7,674</u>

A summary of revenues by category follows:

- The July 1, 2015 City (GOF) property tax roll increased 17.8 percent compared to the prior year tax roll, the net of increased secured and decreased unsecured assessed values (AV) (including recaptured Proposition 8 value) and roll

reductions resulting from resolved appeals. Property tax revenues totaling \$39.5 million were \$3.5 million (9.8 percent) higher than budget and \$4.3 million (12.2 percent) higher than the Fiscal Year 2014-15 audited.

- Sales tax revenues are \$2.0 million (10.4 percent) higher than budget and \$1.6 million (8.2 percent) higher than the Fiscal Year 2014-15 audited. The State's Economic Recovery Bonds approved by voters in 2004 to close the State's then operating deficit were paid off during Fiscal Year 2015-16, thus ending the "triple flip" swap. Fiscal Year 2015-16 sales tax is slightly higher due to a true-up payment received as part of the end of the swap.
- Other Local Taxes are \$804,000 (5.6 percent) higher than budget and \$332,000 (2.2 percent) higher than the Fiscal Year 2014-15 audited. Transient Occupancy Tax revenues declined significantly during the recession, but began recovering in the spring of 2010 and has continued to grow through Fiscal Year 2015-16. Utility Users Tax 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 January 2014.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$1.0 million (9.1 percent) higher than budget and \$1.3 million (11.8 percent) higher than the Fiscal Year 2014-15 audited. As a result of continued low interest rates, Investment Earnings were flat compared to the Fiscal Year 2014-15 audited. Rents and Leases revenues are \$1.3 million (13.6 percent) higher than the Fiscal Year 2014-15 audited, primarily as a result of the decennial revaluation of the North Charleston lease which resulted in a 141.0 percent rent increase (\$3.3 million for a full year). The new rent amount was effective April 1, 2016.
- Licenses, Permits, and Fees/Fines and Forfeitures are \$403,000 (6.8 percent) lower than budget and \$79,000 (1.4 percent) lower than the Fiscal Year 2014-15 audited. License, Permits, and Fees are \$144,000 (3.0 percent) higher compared to the Fiscal Year 2014-15 audited. Fines and Forfeitures are \$223,000 (24.3 percent) lower than the Fiscal Year 2014-15 audited as a result of position vacancies, change in legislation, or a focus on higher priorities, depending on the specific revenue.
- Intergovernmental revenues are \$445,000 (62.4 percent) and \$385,000 (49.8 percent) higher than budget and the Fiscal Year 2014-15 audited, respectively. This is the result of payments for deferred SB 90 reimbursements and higher than expected Public Safety Realignment allocation received in Fiscal Year 2015-16.

- Charges for Services are a net \$443,000 (17.6 percent) higher than budget. Revenues in this category are mainly derived from City Recreation programs and miscellaneous other services. The Fiscal Year 2015-16 Recreation service charge revenues are \$349,000 (22.4 percent) higher than budget and \$150,000 (8.6 percent) higher than the Fiscal Year 2014-15 audited. The Fiscal Year 2015-16 general service charge revenues are \$94,000 (9.7 percent) higher than budget and \$354,000 (25.1 percent) lower than the Fiscal Year 2014-15 audited. The Fiscal Year 2015-16 revenues are lower primarily due to revenue received from Google Inc. in Fiscal Year 2014-15 for the reimbursement agreement to fund two limited-period positions related to development. The reimbursement was recorded in the GOF in Fiscal Year 2014-15 but was recorded in the Development Services Fund for Fiscal Year 2015-16 as part of the consolidation of development-related functions into the Development Services Fund.
- Miscellaneous Revenues are \$298,000 (12.1 percent) higher than budget, primarily resulting from one-time reimbursements that are not included in the adopted budgeted due to annual fluctuations. The City budgets various donations and reimbursements only if they are ongoing in nature. A significant portion of reimbursements were a result of strike team services rendered for wildfires throughout the State. Compared to Fiscal Year 2014-15 audited, Miscellaneous Revenues are \$395,000 (12.5 percent) lower, primarily as a result of \$199,000 less donations and \$124,000 less reimbursements received in Fiscal Year 2015-16.
- Interfund Revenues are approximately the same as budget. Interfund Transfers are \$417,000 (20.7 percent) below budget primarily as transfers from the Earned Lease Revenue Reserve have been discontinued until the balance is brought back to the policy level. Due to the low interest rate environment having lasted longer than anticipated, interest earnings have lagged the original projections. In addition, the annual transfer from Shoreline Golf Links was \$67,000 less than budget, the available balance from golf course operations was below projected. In total, Interfund Revenues and Transfers are \$1.7 million (12.8 percent) higher than Fiscal Year 2014-15 audited as a result of a higher level of administrative overhead reimbursement.

Expenditures

The Fiscal Year 2014-15 audited and Fiscal Year 2015-16 adopted budget, adjusted budget, and audited results for General Operating Fund expenditures are as follows (dollars in thousands):

	<u>2014-15 Audited</u>	<u>2015-16 Adopted Budget</u>	<u>2015-16 Adjusted Budget</u>	<u>2015-16 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$52,231	55,081	55,113	54,024	1,089
Retirement	11,799	13,445	13,445	12,575	870
Health Benefits	7,886	9,185	9,185	8,102	1,083
All Other Benefits	<u>4,791</u>	<u>5,719</u>	<u>5,719</u>	<u>5,372</u>	<u>347</u>
	<u>76,707</u>	83,430	83,462	80,073	3,389
Supplies and Services	14,386	15,365	17,458	13,969	3,489
Capital Outlay/					
Equipment Replacement	2,582	2,742	2,950	2,696	254
Self-Insurances	3,002	2,852	2,852	2,852	-0-
Budget Savings	Included	(1,800)	(1,800)	Included	(1,800)
PERS Contribution	-0-	2,000	2,000	2,000	-0-
OPEB Contribution	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-0-</u>
Operating Expenditures	<u>\$97,677</u>	<u>105,589</u>	<u>107,922</u>	<u>102,590</u>	<u>5,332</u>

A summary of expenditures by category follows:

- Although vacant positions were filled as quickly as possible throughout the fiscal year, there were still many unfilled positions due to a significant increase in the volume of recruitments, resulting in a \$3.4 million (4.1 percent) favorable variance in Salaries and Benefits. A quarter of the vacancies were filled through promotions, thus creating additional vacancies. This is higher than savings in prior fiscal years, averaging \$2.6 million per year over the last five fiscal years.
- Historically, every fiscal year, there are savings in Supplies and Services. For Fiscal Year 2015-16 there was \$3.5 million (20.0 percent) of savings. There are encumbrances totaling \$1.5 million identified to be carried over into Fiscal Year

2016-17. Including these encumbrances, the variance to budget would be \$2.0 million, or 11.3 percent.

- The GOF's \$2.4 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay, with a favorable variance of \$254,000, is 50.0 percent expended compared to budget; \$64,000 of this has been encumbered to be expended in Fiscal Year 2016-17.

The budget savings of \$1.8 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2015-16 audited amounts indicated in the table do not include \$1.6 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 GOF audited expenditures compared to adjusted budget by department are as follows (dollars in thousands):

	2015-16 Adjusted Budget	2015-16 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 367	273	10	84	22.9%
City Clerk	624	540	7	77	12.3%
City Attorney	1,842	1,628	69	145	7.9%
City Manager	3,479	3,131	90	258	7.4%
Information Technology	3,436	3,126	78	232	6.8%
Finance and Administrative Services	5,642	4,808	378	456	8.1%
Community Development	1,752	1,397	70	285	16.3%
Public Works	8,663	7,837	328	498	5.7%
Community Services	14,801	13,047	212	1,542	10.4%
Library Services	5,564	5,117	15	432	7.8%
Fire	21,099	20,651	170	278	1.3%
Police	34,132	32,746	159	1,227	3.6%
Nondepartmental ⁽¹⁾	5,321	5,289	-0-	32	0.6%
PERS Contribution	2,000	2,000	-0-	-0-	0.0%
OPEB Contribution	1,000	1,000	-0-	-0-	0.0%
Budget Savings	<u>(1,800)</u>	<u>Included</u>	<u>-0-</u>	<u>(1,800)</u>	0.0%
Total Operating Expenditures	<u>\$107,922</u>	<u>102,590</u>	<u>1,586⁽²⁾</u>	<u>3,746</u>	3.5%

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

(2) Encumbrance balance includes pre-encumbrances.

All departments ended the 2015-16 fiscal year with expenditures below the adjusted budget.

FISCAL YEAR 2015-16 GENERAL OPERATING FUND BALANCE AND ONE-TIME REVENUES AND EXPENDITURE SAVINGS

As discussed earlier, the City's GOF ended the 2015-16 fiscal year with a positive operating balance of \$9.2 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	\$ 9,243
Transfer to General Fund Reserve	(2,248)
 One-Time Revenues and Expenditure Savings:	
Utility Users Tax Settlement	1,597
SRPC Loan Repayment	1,472
Council Actions - Transfers from General Fund Reserve	610
Unspent Limited-Period Expenditures	276
Miscellaneous Revenue	<u>52</u>
 Total Available for Allocation	 <u>11,002</u>
 Less Allocations in the Fiscal Year 2016-17 Adopted Budget:	
Capital Improvement Reserve	(3,798)
Compensated Absences Reserve	(1,500)
PERS	(1,000)
Retirees' Health OPEB	(1,000)
Strategic Property Acquisition Reserve (SPAR)	(1,000)
Limited-Period Expenditures and Capital Outlay	<u>(2,704)</u>
 Total Allocated	 <u>(11,002)</u>
Remaining Unallocated Balance	 <u>\$ 0</u>

The GOF ended the 2015-16 fiscal year with a positive operating balance of \$9.2 million. Of this, \$2.2 million was transferred to the General Fund Reserve to bring the balance to policy level. Including the GOF balance, one-time revenues, and expenditure savings, there is a total of \$11.0 million available for allocation. Allocations in the Fiscal Year 2016-17 Adopted Budget include the transfers of \$3.8 million (up to \$4.0 million authorized) to the CIP Reserve for future projects, \$1.5 million to the Compensated Absences Reserve, \$1.0 million each to PERS, Retirees' Health and SPAR, as well as

funding new limited-period and capital outlay expenditures of \$2.7 million. This results in no remaining unallocated balance.

CONCLUSION

Total Fiscal Year 2015-16 GOF revenues are \$115.9 million, \$7.7 million (7.1 percent) above the adjusted budget and \$8.8 million (8.2 percent) above the adopted budget. Total Fiscal Year 2015-16 GOF expenditures are \$102.6 million, \$5.3 million (4.9 percent) below the adjusted budget and \$3.0 million (2.8 percent) below the adopted budget. This does not include the \$1.6 million in encumbrances outstanding at the end of Fiscal Year 2015-16. The GOF ended Fiscal Year 2015-16 with a positive operating balance of \$9.2 million, which provided funding for Fiscal Year 2016-17 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. There is no remaining unallocated balance.

An updated estimate of the City's financial position for Fiscal Year 2016-17 and Fiscal Year 2017-18 will be presented to Council in February 2017 with the Midyear Budget Status Report. A 5-year financial forecast will be presented to Council with the Narrative Budget Report in April 2017.

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