



## CITY OF MOUNTAIN VIEW

### MEMORANDUM

Finance and Administrative  
Services Department

**DATE:** December 8, 2015

**TO:** City Council

**FROM:** Rafaela Ocegüera Duran, Administrative Analyst  
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**VIA:** Daniel H. Rich, City Manager

**SUBJECT:** **Analysis of Fiscal Year 2014-15 Audited Financial Results for the  
General Operating Fund and General Fund Available Balance**

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#### **PURPOSE**

To provide an analysis of Fiscal Year 2014-15 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 General Operating Fund's financial position.

## ANALYSIS

### FISCAL YEAR 2014-15 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 GOF are as follows (dollars in thousands):

	2013-14 <u>Audited</u>	2014-15 Adopted <u>Budget</u>	2014-15 Adjusted <u>Budget<sup>(1)</sup></u>	2014-15 <u>Audited</u>	Variance of Audited to Adjusted
Revenues	\$102,045	99,644	101,134	106,940	5,806
Expenditures <sup>(2)</sup>	(94,933)	(97,978)	(100,851)	(97,677)	3,174
Rebudgets <sup>(3)</sup>	<u>(321)</u>	<u>-0-</u>	<u>1,658</u>	<u>66</u>	<u>(1,592)</u>
Operating Balance	\$ <u>6,791</u>	<u>1,666</u>	<u>1,941</u>	<u>9,329</u>	<u>7,388</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 \$1.0 million OPEB contribution and are net of adopted budget savings of \$2.0 million.

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

The Fiscal Year 2014-15 total audited revenues are \$5.8 million (5.7 percent) above the adjusted budget, \$7.3 million (7.3 percent) above the adopted budget, and \$4.9 million (4.8 percent) higher than the Fiscal Year 2013-14 total audited revenues. Audited expenditures are \$3.2 million (3.1 percent) below the adjusted budget, on target with the adopted budget, and \$2.4 million (2.5 percent) higher than the Fiscal Year 2013-14 total audited expenditures.

The City has recovered from the greatest recession since the Great Depression and has weathered 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.

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 <u>Audited</u>	2014-15 <u>Adopted Budget</u>	2014-15 <u>Adjusted Budget</u>	2014-15 <u>Audited</u>	Variance of Audited to Adjusted
Operating Revenues:					
Property Taxes	\$ 31,120	33,782	33,782	35,173	1,391
Sales Tax	16,936	17,608	17,608	19,773	2,165
Other Local Taxes	13,089	13,643	13,643	14,805	1,162
Use of Money and Property Licenses, Permits & Fees/	10,690	10,663	10,663	10,928	265
Fines & Forfeitures	6,383	5,434	5,434	5,645	211
Intergovernmental	679	560	564	773	209
Charges for Services	5,196	2,541	2,919	3,166	247
Miscellaneous Revenues	2,483	1,641	2,602	3,152	550
Interfund Revenue and Transfers	13,575	13,772	13,919	13,525	(394)
Loan Repayments	<u>1,894</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Operating Revenues	<u>\$102,045</u>	<u>99,644</u>	<u>101,134</u>	<u>106,940</u>	<u>5,806</u>

A summary of revenues by category follows:

- The July 1, 2014 City (GOF) property tax roll increased 6.5 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 \$35.2 million were \$1.4 million (4.1 percent) higher than budget and \$4.1 million (13.0 percent) higher than the Fiscal Year 2013-14 audited.

- Sales tax revenues are \$2.2 million (12.3 percent) higher than budget and \$2.8 million (16.8 percent) higher than the Fiscal Year 2013-14 audited. This is the fifth consecutive fiscal year of year-over-year growth, the result of increased activity and the recognition of prior fiscal year sales tax in Fiscal Year 2014-15 due to the prior period accrual adjustment.
- Other Local Taxes are \$1.2 million (8.5 percent) higher than budget and \$1.7 million (13.1 percent) higher than the Fiscal Year 2013-14 audited. Transient Occupancy Tax revenues declined significantly during the recession, but occupancy began recovering in the spring of 2010 and has continued to grow through Fiscal Year 2014-15. Utility Users Tax revenues grew as a result of increased usage, telecommunication providers' compliance with the City's amended ordinance, the ongoing impact of the compliance audit which was completed in January 2014, and a telecommunication service provider who came into compliance with the City's ordinance during the fiscal year and made payments for the entire fiscal year.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$265,000 (2.5 percent) higher than budget and \$238,000 (2.2 percent) higher than Fiscal Year 2013-14 audited. Although Fiscal Year 2014-15 Investment Earnings budget projections included an 8.7 percent reduction due to low reinvestment yields, Investment Earnings are \$120,000 (8.9 percent) higher than the Fiscal Year 2013-14 audited. Rents and Leases revenue is \$118,000 (1.3 percent) higher than the Fiscal Year 2013-14 audited, primarily as a result of annual increases in various property leases.
- Licenses, Permits, and Fees/Fines and Forfeitures are \$211,000 (3.9 percent) higher than budget and decreased by \$738,000 (11.6 percent) compared to the Fiscal Year 2013-14 audited. The decrease in actuals is primarily related to the consolidation of development-related functions into the Development Services Fund. Beginning with Fiscal Year 2014-15, development-related revenues and expenditures were consolidated with the Development Services Fund which decreased revenue in the GOF for several categories, including this one.
- Intergovernmental revenues are \$209,000 (37.1 percent) higher than budget as a result of SB 90 reimbursements received, but not anticipated in the adopted budget. This revenue is \$94,000 (13.8 percent) higher compared to the Fiscal Year 2013-14 audited.

- Charges for Services are a net \$247,000 (8.5 percent) higher than budget. 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 2014-15 Recreation service charge revenues are \$142,000 (8.8 percent) higher than budget and \$265,000 (17.8 percent) higher than the Fiscal Year 2013-14 audited. Fiscal Year 2014-15 revenues for General Service Charges are \$105,000 (8.0 percent) higher than budget, mainly as a result of revenue received from Google Inc. for the reimbursement agreement to fund two limited-period positions related to development. These funds were recorded in GOF Charges for Services for Fiscal Year 2014-15, but will be recorded in the Development Services Fund for Fiscal Year 2015-16. Compared to Fiscal Year 2013-14 audited, General Services Charges are \$2.3 million (62.0 percent) lower as a result of the consolidation of development-related functions into the Development Services Fund as mentioned above.
- Miscellaneous Revenues are \$550,000 (21.1 percent) higher than budget, primarily resulting from reimbursements which are budgeted conservatively due to annual fluctuations. The City received \$304,000 in donations and contributions and \$1.6 million in reimbursements during the fiscal year, of which only \$887,000 was included in the adopted budget. Miscellaneous Revenues are \$669,000 (26.9 percent) higher than Fiscal Year 2013-14 audited.
- Interfund Revenues are \$404,000 (3.5 percent) higher than budget. Interfund Transfers are \$798,000 (32.1 percent) below budget primarily as no funds were transferred from the Earned Lease Revenue Reserve as the low interest rate environment has been longer than anticipated. In total, Interfund Revenues and Transfers are approximately the same as Fiscal Year 2013-14 audited.

## Expenditures

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

	<u>2013-14 Audited</u>	<u>2014-15 Adopted Budget</u>	<u>2014-15 Adjusted Budget</u>	<u>2014-15 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$52,379	52,564	52,872	52,231	641
Retirement	11,219	12,297	12,297	11,799	498
Health Benefits	8,215	8,986	8,986	7,886	1,100
All Other Benefits	<u>4,385</u>	<u>5,009</u>	<u>5,009</u>	<u>4,791</u>	<u>218</u>
	76,198	78,856	79,164	76,707	2,457
Services and Supplies	13,608	14,531	16,971	14,386	2,585
Capital Outlay/Capital					
Replacement	2,562	2,589	2,714	2,582	132
Self-Insurances	2,565	3,002	3,002	3,002	-0-
Budget Savings	Included	(2,000)	(2,000)	Included	(2,000)
Contribution to OPEB	<u>-0-</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-0-</u>
Operating Expenditures	<u>\$94,933</u>	<u>97,978</u>	<u>100,851</u>	<u>97,677</u>	<u>3,174</u>

A summary of expenditures by category follows:

- Although vacant positions were filled throughout the fiscal year, there is a \$2.5 million (3.1 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. Departments carefully monitored their expenditures, resulting in \$2.6 million (15.2 percent) of savings. There are encumbrances totaling \$1.1 million identified to be carried over into Fiscal Year 2015-16. Including these encumbrances, the variance to budget would be \$1.5 million, or 9.0 percent.
- The General Operating Fund's \$2.3 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay, with a

favorable variance of \$132,000, is 69.6 percent expended compared to budget; \$35,000 of this has been encumbered to be expended in Fiscal Year 2015-16.

The budget savings of \$2.0 million takes into consideration the anticipated savings in expenditure accounts. The audited amounts indicated on the table do not include \$1.1 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):

	2014-15 Adjusted Budget	2014-15 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 316	233	6	77	24.4%
City Clerk	588	564	1	23	3.9%
City Attorney	1,815	1,713	68	34	1.9%
City Manager	3,209	3,089	63	57	1.8%
Information Technology	3,244	2,821	19	404	12.5%
Finance and Administrative Services	5,445	4,704	256	485	8.9%
Community Development	1,911	1,644	84	183	9.6%
Public Works	8,066	7,511	212	343	4.3%
Community Services	13,887	12,859	171	857	6.2%
Library Services	5,383	4,899	-0-	484	9.0%
Fire	20,296	19,840	104	352	1.7%
Police	32,397	31,510	120	767	2.4%
Nondepartmental <sup>(1)</sup>	5,294	5,290	-0-	4	0.1%
Contribution to OPEB	1,000	1,000	-0-	-0-	0.0%
Budget Savings	<u>(2,000)</u>	<u>Included</u>	<u>-0-</u>	<u>(2,000)</u>	0.0%
Total Operating Expenditures	<u>\$100,851</u>	<u>97,677</u>	<u>1,104<sup>(2)</sup></u>	<u>2,070</u>	2.1%

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

(2) Encumbrance balance includes pre-encumbrances.

All departments ended the 2014-15 fiscal year with expenditures below the adjusted budget.



## FISCAL YEAR 2014-15 GENERAL OPERATING FUND BALANCE AND ONE-TIME REVENUES AND EXPENDITURE SAVINGS

As discussed earlier, the City's GOF ended the 2014-15 fiscal year with a positive operating balance of \$9.3 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	\$ 9,329
Transfer to General Fund Reserve	(1,555)
One-Time Revenues and Expenditure Savings:	
SRPC Loan Payment	1,894
SB 90 Prior-Year Reimbursement	1,098
Reimbursements and Miscellaneous Revenue	714
Unspent Limited-Period Expenditures	252
Reclassification of SRPC Loan from GOF to Non-Operating Fund	(2,938)
Council Action 12/16/14 Item 4.4, Project 15-14	<u>(148)</u>
Total Available for Allocation	8,646
Less Allocations in the Fiscal Year 2015-16 Adopted Budget:	
Capital Improvement Reserve	(3,000)
Compensated Absences Reserve	(760)
PERS	(1,000)
Workers' Compensation Fund	(913)
New Limited-Period Expenditures and Capital Outlay	<u>(1,481)</u>
Total Allocated	(7,154)
Remaining Unallocated Balance	<u>\$ 1,492</u>

The GOF ended the 2014-15 fiscal year with a positive operating balance of \$9.3 million. Of this, \$1.6 million was transferred to the General Fund Reserve to bring the balance to policy level. Including the General Operating Fund balance, one-time revenues, and expenditure savings, there is a total of \$8.6 million available for allocation. Allocations in the Fiscal Year 2015-16 Adopted Budget include the transfers of up to \$3.0 million to the CIP Reserve for future projects, \$760,000 to the Compensated Absences Reserve, \$1.0 million to PERS to reduce the unfunded liability, and \$913,000 to supplement the Workers' Compensation Fund, as well as funding new limited-period and capital outlay

expenditures of \$1.5 million. This results in a remaining unallocated balance of \$1.5 million. Staff will return to Council with a recommendation and seek direction for the use of these funds with the Midyear Budget Status Report in February 2016.

## **CONCLUSION**

Total Fiscal Year 2014-15 GOF revenues are \$106.9 million, \$5.8 million (5.7 percent) higher than adjusted budget and \$7.3 million (7.3 percent) higher than the adopted budget. Total GOF net expenditures are \$97.7 million, \$3.2 million (3.1 percent) below adjusted budget and are on target with the adopted budget. This does not include the \$1.1 million in encumbrances outstanding at the end of Fiscal Year 2014-15. The GOF ended Fiscal Year 2014-15 with a positive operating balance of \$9.3 million, which provided funding for Fiscal Year 2015-16 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 \$1.5 million.

An updated estimate of the City's financial position for Fiscal Year 2015-16 and Fiscal Year 2016-17 will be presented to Council in February 2016 with the Midyear Budget Status Report. A five-year financial forecast will be presented to Council with the Narrative Budget Report in April 2016.

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