



## CITY OF MOUNTAIN VIEW

**MEMORANDUM**Finance and Administrative  
Services Department

**DATE:** December 12, 2017

**TO:** City Council

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

**SUBJECT:** **Analysis of Fiscal Year 2016-17 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 2016-17 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 2016-17 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 2015-16 audited and Fiscal Year 2016-17 adopted budget, adjusted budget, and audited results for the GOF are as follows (dollars in thousands):

	2015-16 <u>Audited</u>	2016-17 Adopted <u>Budget</u>	2016-17 Adjusted <u>Budget<sup>(1)</sup></u>	2016-17 <u>Audited</u>	Variance of Audited to Adjusted
Revenues	\$115,911	118,718	120,141	126,689	6,548
Expenditures <sup>(2)</sup>	(102,590)	(114,933)	(117,871)	(110,936)	6,935
Rebudgets <sup>(3)</sup>	<u>(4,078)</u>	<u>-0-</u>	<u>1,937</u>	<u>(697)</u>	<u>(2,634)</u>
Operating Balance	<u>\$ 9,243</u>	<u>3,785</u>	<u>4,207</u>	<u>15,056</u>	<u>10,849</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 for Fiscal Year 2015-16 include \$2.0 million toward the CalPERS liability and \$1.0 million toward the OPEB liability. Expenditures for Fiscal Year 2016-17 include \$2.0 million toward the CalPERS liability, \$2.0 million toward the OPEB liability, \$2.0 million toward the Strategic Property Acquisition Reserve (SPAR), and a \$500,000 transfer to the General Non-Operating Fund (GNOF). Both Fiscal Years 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 2016-17 total audited revenues are \$6.5 million (5.5 percent) above the adjusted budget, \$8.0 million (6.7 percent) above the adopted budget, and \$10.8 million (9.3 percent) higher than the Fiscal Year 2015-16 total audited revenues. The Fiscal Year 2016-17 total audited expenditures are \$6.9 million (5.9 percent) below the adjusted budget, \$4.0 million (3.5 percent) below the adopted budget, and \$8.3 million (8.1 percent) higher than the Fiscal Year 2015-16 total audited expenditures.

The City experienced strong revenue growth resulting from the continued strong economy during the recently completed fiscal year. It is unknown how long this strong economic cycle will last and the City continues to practice fiscal restraint in budgeting by adding limited-period positions to address heavy workload and continuing to find efficiencies. It is fortunate the City continues to be generating significant operating balances, as it provides an opportunity to add critical positions, address some infrastructure needs, contribute to the retirees' health liability, and implement a strategy to contribute to the City's unfunded CalPERS pension liability.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2015-16 audited and Fiscal Year 2016-17 adopted budget, adjusted budget, and audited results for General Operating Fund revenues are as follows (dollars in thousands):

	<u>2015-16</u> <u>Audited</u>	<u>2016-17</u> <u>Adopted</u> <u>Budget</u>	<u>2016-17</u> <u>Adjusted</u> <u>Budget</u>	<u>2016-17</u> <u>Audited</u>	<u>Variance</u> <u>of Audited</u> <u>to Adjusted</u>
Operating Revenues:					
Property Taxes	\$ 39,461	40,208	40,208	43,774	3,566
Sales Tax	21,401	20,091	20,091	21,828	1,737
Other Local Taxes	15,137	16,082	16,082	15,866	(216)
Use of Money and Property	12,219	16,403	16,403	16,896	493
Licenses, Permits & Fees/ Fines & Forfeitures	5,566	5,666	5,666	5,743	77
Intergovernmental	1,158	595	727	741	14
Charges for Services	2,962	2,672	2,691	2,840	149
Miscellaneous Revenues	2,757	1,630	2,847	3,611	764
Interfund Revenue and Transfers	<u>15,250</u>	<u>15,371</u>	<u>15,426</u>	<u>15,390</u>	<u>(36)</u>
Total Operating Revenues	<u>\$115,911</u>	<u>118,718</u>	<u>120,141</u>	<u>126,689</u>	<u>6,548</u>

A summary of revenues by category follows:

- The July 1, 2016 City (GOF) property tax roll included growth for both secured and unsecured assessed values (AV) (including recaptured Proposition 8 value and roll

reductions resulting from resolved appeals), resulting in a 12.0 percent increase compared to the prior year tax roll. Property tax revenues totaling \$43.8 million were \$3.6 million (8.9 percent) higher than budget and \$4.3 million (10.9 percent) higher than the Fiscal Year 2015-16 audited.

- Sales tax revenues are \$1.7 million (8.6 percent) higher than budget and \$427,000 (2.0 percent) higher than the Fiscal Year 2015-16 audited, primarily as a result of changes in businesses and adjustments for one-time payments received in Fiscal Year 2016-17.
- Other Local Taxes are \$216,000 (1.3 percent) lower than budget and \$729,000 (4.8 percent) higher than the Fiscal Year 2015-16 audited. Transient Occupancy Tax did not achieve the growth level in the budget, but did increase \$452,000 (6.9 percent) compared to the 2015-16 audited. In total, Utility Users Tax revenues grew, the net of increased energy usage and a one-time retro payment received in Fiscal Year 2015-16 for telecommunication services.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$493,000 (3.0 percent) higher than budget and \$4.7 million (38.3 percent) higher than the Fiscal Year 2015-16 audited. Investment Earnings are \$408,000 (27.8 percent) higher compared to the Fiscal Year 2015-16 audited, the Federal Open Market Committee increased the benchmark interest rate a total of 75 basis points between December 2016 and June 2017. Rents and Leases revenues are \$4.3 million (39.7 percent) higher than the Fiscal Year 2015-16 audited, primarily as a result of the decennial revaluations of the North Charleston and Crittenden leases. The North Charleston lease revaluation resulted in a 141.0 percent rent increase (\$3.3 million for a full year) and went into effect April 1, 2016 while the Crittenden lease revaluation resulted in a 104.8 percent rent increase (\$3.1 million for a full year) and went into effect January 1, 2017.
- Licenses, Permits, and Fees/Fines and Forfeitures are \$77,000 (1.4 percent) higher than budget and \$177,000 (3.2 percent) higher than the Fiscal Year 2015-16 audited. License, Permits, and Fees remained stagnant compared to the Fiscal Year 2015-16 audited. Fines and Forfeitures are \$133,000 (19.1 percent) higher than the Fiscal Year 2015-16 audited as a result of a change in categorization of Library fines from Charges for Services to Fines and Forfeitures.
- Intergovernmental revenues are \$14,000 (1.9 percent) higher than budget. The Fiscal Year 2016-17 revenues are \$417,000 (36.0 percent) lower than the Fiscal Year

2015-16 audited, primarily as a result of payments for deferred SB 90 reimbursements received in Fiscal Year 2015-16.

- Charges for Services are \$149,000 (5.5 percent) higher than budget and \$122,000 (4.1 percent) lower than the Fiscal Year 2015-16 audited. Revenues in this category are mainly derived from City Recreation programs and miscellaneous other services. The Fiscal Year 2016-17 revenues are higher than budget primarily due to higher registration fee revenue from Recreation camps and classes, and lower than the Fiscal Year 2015-16 audited primarily as a result of the changes mentioned previously with the categorization of Library fines.
- Miscellaneous Revenues are \$764,000 (26.8 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 the reimbursements were a result of a greater number of Shoreline Amphitheatre events and strike team services rendered for wildfires throughout the State. Compared to Fiscal Year 2015-16 audited, Miscellaneous Revenues are \$854,000 (31.0 percent) higher, primarily as a result of \$390,000 more Shoreline Amphitheatre reimbursements, \$255,000 more donations, and \$218,000 more strike teams reimbursements received in Fiscal Year 2016-17.
- Interfund Revenues and Transfers are on target with budget and approximately the same as Fiscal Year 2015-16 audited.

Expenditures

The Fiscal Year 2015-16 audited and Fiscal Year 2016-17 adopted budget, adjusted budget, and audited results for General Operating Fund expenditures are as follows (dollars in thousands):

	<u>2015-16</u> <u>Audited</u>	<u>2016-17</u> <u>Adopted</u> <u>Budget</u>	<u>2016-17</u> <u>Adjusted</u> <u>Budget</u>	<u>2016-17</u> <u>Audited</u>	<u>Variance</u> <u>of Audited</u> <u>to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 54,024	56,850	57,051	55,262	1,789
Retirement	12,575	14,721	14,720	13,606	1,114
Health Benefits	8,102	9,780	9,780	8,320	1,460
All Other Benefits	<u>5,372</u>	<u>6,279</u>	<u>6,279</u>	<u>5,968</u>	<u>311</u>
	80,073	87,630	87,830	83,156	4,674
Supplies and Services	13,969	16,175	18,581	14,926	3,655
Capital Outlay/ Equipment Replacement	2,696	3,024	3,356	2,950	406
Interfund Expenditures and Transfers	2,852	3,404	3,404	3,404	-0-
Budget Savings Included	Included	(1,800)	(1,800)	Included	(1,800)
Transfer to GNOF	-0-	500	500	500	-0-
CalPERS Contribution	2,000	2,000	2,000	2,000	-0-
OPEB Contribution	1,000	2,000	2,000	2,000	-0-
Transfer to SPAR	<u>-0-</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>-0-</u>
Operating Expenditures	<u>\$102,590</u>	<u>114,933</u>	<u>117,871</u>	<u>110,936</u>	<u>6,935</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 \$4.7 million (5.3 percent) favorable variance in Salaries and Benefits. Approximately a third of the vacancies were filled through promotions, thus creating additional vacancies. This is higher than savings in prior fiscal years, averaging \$3.1 million per year over the last five fiscal years.

- Historically, every fiscal year, there are savings in Supplies and Services. For Fiscal Year 2016-17 there was savings of \$3.7 million (20.0 percent). There are encumbrances totaling \$1.5 million identified to be carried over into Fiscal Year 2017-18. Including these encumbrances, the variance to budget would be \$2.1 million, or 11.3 percent.
- The GOF's \$2.6 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay has a favorable variance of \$406,000 (55.0 percent) compared to budget; \$153,000 of this has been encumbered to be expended in Fiscal Year 2017-18.

The budget savings of \$1.8 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2016-17 audited amounts indicated in the table do not include \$1.7 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):

	2016-17 Adjusted Budget	2016-17 Audited	<u>Encumbrances</u>	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 397	300	8	89	22.4%
City Clerk	614	605	-0-	9	1.5%
City Attorney	1,848	1,692	45	111	6.0%
City Manager	3,783	3,316	124	343	9.1%
Information Technology	3,817	3,358	58	401	10.5%
Finance and Administrative Services	6,393	5,036	325	1,032	16.1%
Community Development	1,793	1,506	143	144	8.0%
Public Works	9,282	8,222	377	683	7.4%
Community Services	15,386	13,582	203	1,601	10.4%
Library Services	5,926	5,223	7	696	11.7%
Fire	22,077	21,693	43	341	1.5%
Police	35,817	33,878	367	1,572	4.4%
Nondepartmental <sup>(1)</sup>	6,038	6,025	-0-	13	0.2%
Transfer to GNOF	500	500	-0-	-0-	0.0%
CalPERS Contribution	2,000	2,000	-0-	-0-	0.0%
OPEB Contribution	2,000	2,000	-0-	-0-	0.0%
Transfer to SPAR	2,000	2,000	-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>\$117,871</u>	<u>110,936</u>	<u>1,700</u>	<u>5,235</u>	4.4%

<sup>(1)</sup> Nondepartmental expenditures include Interfund Transfers for equipment replacement and Interfund Expenditures and Transfers.

All departments ended the 2016-17 fiscal year with expenditures below the adjusted budget.



FISCAL YEAR 2016-17 GENERAL OPERATING FUND BALANCE AND ONE-TIME REVENUES AND EXPENDITURE SAVINGS

As discussed earlier, the City's GOF ended the 2016-17 fiscal year with a positive operating balance of \$15.1 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	\$15,056
One-Time Revenues and Expenditure Savings:	
Unspent Limited-Period Expenditures	511
State Grant Revenue	116
Miscellaneous Revenue	<u>7</u>
Total Available for Allocation	<u>15,690</u>
Allocations in the Fiscal Year 2017-18 Adopted Budget:	
Transfer from the General Fund Reserve	3,171
Limited-Period Expenditures and Capital Outlay	(4,284)
Compensated Absences Reserve	(550)
CalPERS	(6,000)
Retirees' Health OPEB	(2,000)
Capital Improvement Reserve	<u>(4,000)</u>
Total Allocated	<u>(13,663)</u>
Remaining Unallocated Balance	<u>\$ 2,027</u>

The GOF ended the 2016-17 fiscal year with a positive operating balance of \$15.1 million. Including the GOF balance, one-time revenues, and expenditure savings, there is a total of \$15.7 million available for allocation.

In response to the latest CalPERS reduction in the discount rate used for pension obligations, Council approved modifying the General Fund Reserve from 25.0 percent to a range of 20.0 to 25.0 percent and the Compensated Absence Reserve from fully funded to a minimum of 80.0 percent funded. Allocations in the Fiscal Year 2017-18 Adopted Budget include the transfer of \$3.2 million from the General Fund Reserve, reducing the reserve to 20.0 percent, funding new limited-period and capital outlay

expenditures of \$4.3 million, and the transfers of \$550,000 to the Compensated Absences Reserve (to bring this reserve up to 80.0 percent), \$6.0 million to CalPERS, \$2.0 million to Retirees' Health, as well \$4.0 million (up to \$4.0 million authorized) to the CIP Reserve for future projects. This results in a remaining unallocated balance of \$2.0 million. Staff will return to Council with a recommendation and for direction of the use of these funds with the Midyear Budget Status Report in February 2018.

## CONCLUSION

Total Fiscal Year 2016-17 GOF revenues are \$126.7 million, \$6.5 million (5.5 percent) above the adjusted budget and \$8.0 million (6.7 percent) above the adopted budget. Total Fiscal Year 2016-17 GOF expenditures are \$110.9 million, \$6.9 million (5.9 percent) below the adjusted budget and \$4.0 million (3.5 percent) below the adopted budget. This does not include the \$1.7 million in encumbrances outstanding at the end of Fiscal Year 2016-17. The GOF ended Fiscal Year 2016-17 with a positive operating balance of \$15.1 million, which provided funding for Fiscal Year 2017-18 limited-period and capital outlay expenditures and transfers to reserves and unfunded liabilities. The remaining unallocated balance is \$2.0 million.

An updated estimate of the City's financial position for Fiscal Year 2017-18 and preliminary projections for Fiscal Year 2018-19 will be presented to Council in February 2018 with the Midyear Budget Status Report. A 10-year financial forecast will be presented to Council with the Narrative Budget Report in May 2018.

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