



City of San Leandro

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Staff Report

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Agenda Number: 8.F.

TO: City Council

FROM: Chris Zapata
City Manager

BY: David Baum
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FINANCE REVIEW: David Baum
Finance Director

TITLE: Staff Report for Fiscal Year (FY) 2015-16 Year End Financial Review

SUMMARY AND RECOMMENDATION

This report provides an update on FY 2015-16 financial performance for all City funds through June 30, 2016 and unaudited year-end results for the General Fund and the City's other operating funds. This report is for informational purposes only. Audited year-end results will be provided in the City's Comprehensive Annual Financial Report (CAFR); scheduled to be completed in December 2016.

BACKGROUND

The City Council adopted the 2015-16 budget on June 1, 2015 and has modified it at various points since. General Fund revised revenue projections for FY 2015-16 equal \$95.3 million; an increase of approximately \$70,000 over original adopted revenue projections of \$95.2 million. General Fund adjusted expenditure appropriations for FY 2015-16 equal \$99.2 million; an increase of \$5.7 million over original adopted expenditure appropriations of \$93.5 million.

DISCUSSION

This report provides the City Council with a summary of revenues and expenditures through June 30, 2016 and compares them to the adjusted budget. As previously mentioned, the presentation of financial data to the City Council is prior to the completion of the audited financial statements.

Now that most of the major revenues for the fiscal year have been received and expenditures appropriately charged to last year have been posted, the Finance Department is better able to analyze year-to-date trends and year-end projections. Below is an analysis of revenues and expenditures for the General Fund and other key operating funds.

General Fund Revenue

In total, year-end actuals for General Fund revenues indicate a positive variance of \$8.8 million over adjusted revenue projections for FY 2015-16. This is primarily due to the receipt of an additional \$2.1 million in sales tax (including a full year of Measure HH sales tax add-on), \$1.0 million in property taxes, \$612,000 in licenses and permits, \$606,000 in interest and property income, and \$1.9 million in document property transfer tax. These are slightly offset by a \$530,000 decrease in other revenues due to decreases in reimbursements and interdepartmental charges. *Please refer to Table 1 in the attachment.*

Sales Tax (+\$2,058,000) Sales tax represents San Leandro's largest General Fund revenue source. This increase has been led by a full year of Measure HH revenues and across the board increases in most all sales tax categories with the construction sector, department stores, auto sales - new, heavy industry, building materials - wholesale, building materials - retail, and office equipment showing the largest increases. These gains are slightly offset by decreases in auto parts/repair, service stations, and light industry. Per the last quarterly report (Q1 2016) from the City's sales tax consultants, San Leandro's business to construction sector increased by 12.2% when compared to Quarter 1 (Q1) of 2015. Over the same time period, department stores rose 7.0%, auto sales - new rose 16.9%, heavy industry rose 19.9%, building materials - wholesale rose 16.6%, building materials - retail rose 6.2%, and office equipment rose 17.2%. Auto parts/repair decreased 6.5%, service stations decreased 9.4%, and light industry decreased 15.8%.

Property Tax (+\$1,010,000) Property Tax continues to improve as properties are resold for higher values and Proposition 8 exemptions are removed due to an improving economy. Staff expects this upward trend to continue into the near future, but is susceptible to erosion should another recession occur. Proposition 13 allows for up to 2% annual growth on assessed valuations if a property remains with the same owner and staff will continue to be cautious when projecting property tax.

Licenses and Permits (+\$612,000) Licenses and Permits are heavily influenced by the economy and the willingness of homeowners and contractors to build. In this revenue category, Building Permits saw a \$552,000 increase when compared to FY 2014-15. And Long Range Planning Fees rose by \$164,000.

Interest and Property Income (+\$606,000) Since the City's Investment Policy attempts to meet the goals of safety, liquidity, and return, in that order, staff invests heavily in fixed income instruments and the Local Agency Investment Fund (LAIF). Nevertheless, the City has been able to increase its returns on assets over the past year and has also seen an increase in interest income collected from loans and rent to community centers.

Document Property Transfer Tax (+\$1,943,000) Document Property Transfer Tax is received by the City each time property within San Leandro changes ownership. A positive increase demonstrates an active housing market. Nevertheless, the revenue source can be highly volatile and mirrors the general state of the economy. Thus, staff typically is conservative in its projection of it and cautions against using it as a reliable source to fund ongoing operations or increase appropriations.

General Fund Expenditures

In total, year-end actuals for General Fund expenditures indicate a savings of \$5.0 million when compared to adjusted budget appropriations for FY 2015-16. This represents a 5.1% variance. *Year-End activity by department is summarized on Table 2 of the attached document.*

Summary Expenditures

Most all departments are under budget, with some under budget significantly. This shows great fiscal restraint by City departments not to expend every dollar they are appropriated. Overages for each department are as follows:

Engineering and Traffic has a budget overage of \$92,000 and this is due to full staffing in several key positions for the year as well as increased construction project activity requiring both more staff time and the time of outside consultants.

The Library has a budget overage of \$190,000 and this is due to increased staffing in several full and part-time positions and increased utility charges at several locations. With the implementation of a green energy project over the next year, utility costs should start to decrease Citywide.

General Fund Year-End Summary

The 2015-16 year-end forecast for the General Fund has improved over the Adopted Budget, largely due to a greater amount of year-end revenues than expenditures. Revised projections for 2015-16 reflect an operating increase in fund balance of \$17.1 million over the adopted budget. Overall, staff projects a net fund balance in the General Fund of \$34.6 million; 36.73% of General Fund Expenditures and 20.06% over the Council required mandate of 16.67%. In the future, staff will request that up to 50% of General Fund operating surplus for FY 2015-16 be directed toward the Prioritization Unfunded Liability Liquidation (PULL) program. *Please refer to Table 3 in the attachment for the General Fund Year-End Summary.*

All Other Funds

In addition to the City's General Fund, City operations are supported by a number of other funds. Projected savings and budget modifications are all reflected in the estimated ending fund balances. *Please refer to Table 4 in the attachment.*

- The Gas Tax Operations Fund decreased by \$815,000 due to lower fuel prices which thereby result in lower gas tax revenues received by the City.
- The Water Pollution Control Plant (WPCP) Fund increased by \$2.2 million and this was primarily due to the settlement of a lawsuit for its non-operational co-generation unit.

CONCLUSION

This report provides an update on the 2015-16 budget performance and unaudited results for the General Fund and the City's other operating funds. Better than expected revenues across the board and lower than expected expenditures in each department were the primary drivers in producing a positive budget balance.

Staff will present recommendations for designating portions of fund balance with the first quarter FY 2016-17 report, expected in the next few months.

ATTACHMENTS

- Table 1 - General Fund Revenues
- Table 2 - General Fund Expenditures
- Table 3 - General Fund Summary
- Table 4 - All Other Funds Summary

PREPARED BY: David Baum, Finance Director

Year-End Financial Report - FY 2016

City of San Leandro

Table 1 - General Fund Revenues*(in thousands)*

	2015-16 Adjusted	2015-16 Actual	\$Over/ (Under)
Taxes:			
Property Taxes	19,034	20,044	1,010
Sales Tax	40,279	42,337	2,058
Utility User Tax	10,215	10,808	592
Franchise Fees	4,463	4,969	506
Document Property Transfer Tax	2,519	4,462	1,943
Business Licenses	4,742	5,353	611
911 Tax	2,727	2,918	191
Other Taxes	403	632	229
Subtotal Taxes	84,382	91,522	7,140
Other Revenues:			
Licenses & Permits	2,019	2,631	612
Interest & Property Income	1,202	1,808	606
Revenue From Other Agencies	1,019	1,050	32
Service Charges	2,903	2,924	21
Fines, Fees & Forfeitures	1,118	1,685	567
Other Revenue	2,634	2,430	(203)
Subtotal Other Revenue	10,894	12,529	1,635
Subtotal Operating Revenue	95,276	104,051	8,775
Operating Transfers	-	-	-
Total General Fund Revenue	95,276	104,051	8,775

Table 2 - General Fund Expenditures*(in thousands)*

Department	2015-16 Adjusted	2015-16 Actual	\$Over/ (Under)
General Administration	4,826	4,323	(503)
Council, Clerk, City Attorney			
City Manager, Human Resources			
Community Development	6,705	5,142	(1,563)
Engineering & Transportation	2,880	2,973	92
Finance	2,726	2,608	(118)
Fire Contract	19,985	19,893	(92)
Fire Supplies & OPEB	2,599	1,002	(1,597)
Library	4,773	4,963	190
Police	31,168	30,592	(576)
Public Works	5,021	4,950	(71)
Recreation & Human Services	5,122	4,898	(225)
Non Departmental	3,041	2,876	(165)
Debt Service	4,772	4,309	(464)
Subtotal Operating Expenditures	93,618	88,528	(5,090)
Transfers	5,557	5,627	70
Total Expenditures	99,175	94,155	(5,020)

Table 3 - General Fund Summary*(in thousands)*

	2015-16 Adopted	2015-16 Projected	Variance
Major Emergencies	5,000	5,000	-
Economic Uncertainty	12,464	29,571	17,107
Total Fund Balance	17,464	34,571	17,107

Table 4 - All Other Funds Summary*(in thousands)*

	2015-16 Beginning Fund Balance	2015-16 Ending Fund Balance	Change to Fund Balance
132 Parking	(104)	(115)	(10)
140 Gas Tax Operations	1,600	785	(815)
146 Asset Seizure	752	796	44
147 Heron Bay Maintenance District	820	818	(2)
148 Cherrywood Maintenance District	342	368	26
165 - 167 Housing Funds	436	525	89
168 Affordable Housing Asset Fund	2,098	2,221	123
170 Business Improvement District	117	285	168
180 Public Education & Government	312	476	164
593 Water Pollution Control Plant	44,556	46,729	2,172
594 Environmental Compliance	1,575	1,291	(285)
597 Shoreline	(1,222)	(779)	443
598 Storm Water	205	87	(118)
687 Building Maintenance	1,582	1,645	63
688 Information Technology	1,894	1,911	17
689 Insurance Services	2,229	2,628	399
690 Equipment Maintenance	3,588	3,563	(25)
Total Change to Fund Balance - Other Funds			2,455