



**CITY OF LOS ALTOS
CITY COUNCIL MEETING
November 24, 2015**

DISCUSSION ITEMS

Agenda Item # 8

SUBJECT: Receive the Fiscal Year 2014/15 Year-End Financial Update and approve proposed year-end transfers

BACKGROUND

The City Council-approved Operating Budget serves as the annual plan and resource allocation that guides and ensures implementation of City Council policies and priorities. The budget implements the vision and direction for the range of services that meet the needs of the community.

The 2014/15 year-end review provides the City Council with an update of fiscal performance and adherence to the adopted budget. This review also provides an update of year-end fund balances and provides the City Council the opportunity to assign fund balances for specific purposes.

EXISTING POLICY

None

PREVIOUS COUNCIL CONSIDERATION

February 24, 2015

DISCUSSION

City finances ended the year on a very positive note. Overall, City revenues continue to show recovery from recessionary lows and, in some cases, are achieving new highs. City expenditures remained well under budget as a result of salary savings from reduced staffing levels, resulting in a year-end surplus. The attached 2014/15 Year-End Financial Report as of June 30, 2015 provides the revenue and expenditure summary for the General Fund, the City's primary operating fund.

General Fund

The 2014/15 General Fund revenue budget was increased \$2.3 million over the prior year to \$33 million. Even with this increase to the General Fund revenue budget, total General Fund revenues surpassed the budget by \$3 million, primarily driven by significant gains in property tax and transient occupancy tax.

The 2014/15 General Fund expenditure budget was increased \$2 million over the prior year to \$32.4 million. The City ended the fiscal year under budget by \$2.1 million, primarily the result of salary savings from positions that were held vacant during the economic downturn and were in the process of being filled during the year.

A more detailed review of key revenues and expenditures is presented below:

General Fund Revenue

- **Property Tax (111% of budget)**

The 2014/15 budget for property tax was \$1.25 million higher than the prior year to reflect significant increases in property values experienced by the City. Even with this increase,

property tax revenues were up 12% over the prior year and surpassed the budget by \$1.7 million at year-end.

- **Sales Tax (104% of budget)**
Sales tax revenues were up 4% over last year, with the growth in sales tax experienced during the first half of the year offset by lower gas prices in the second half of the year.
- **Transient Occupancy Tax (136% of budget)**
Transient Occupancy Tax revenues were bolstered by the strong business climate in the region. The strong economy, coupled with the opening of a third hotel in the City, resulted in TOT revenues ending the year at an all-time high of \$2.45 million.
- **Recreation Revenues (115% of budget)**
Recreation revenues achieved a high of \$2.16 million, which are partially offset by increased expenditures for expanded programming.
- **Community Development Fees (114% of budget)**
Community Development fees amounted to \$3.18 million, an amount that exceeds the budget due to the high level of building activity currently being experienced by the City. These higher revenues are partially offset by increased plan check costs on the expenditure side.

While most General Fund revenue sources experienced gains during the 2014/15 fiscal year, some revenues did not meet budget projections. Interest income continues to struggle due to historically low interest rates and Utility Users Tax continues to be impacted by increased conservation efforts and the increased use of wireless telecommunication services, which have not been subject to the UUT (State law will change this effective January 1, 2016).

General Fund Expenditures

- **Public Safety (95% of budget)**
Expenditures in this category include Administration, Support Services, Investigation, Patrol Services, Traffic Operations, and the Fire Services contract. The department finished the year well under budget driven largely by salary savings as positions were filled during the course of the fiscal year.
- **Community Development (104% of budget)**
Community Development expenditures increased as a result of increased building activity during the fiscal year which resulted in higher than anticipated use of outside plan check review services. This is offset by higher plan check revenues.
- **Recreation (105% of budget)**
The Recreation budget finished the year above budget due to expanded programming costs, which generates increased revenues. Department revenues covered 90% of the department's expenses during the 2014/15 fiscal year.

The General Fund budget surplus at fiscal year-end totaled \$5.9 million. This one-time surplus provides an opportunity for evaluation of priorities in need of funding. The following chart shows the City's undesignated reserve balances as of June 30, 2015 along with the proposed year-end transfers, which are explained in further detail below:

Receive the Fiscal Year 2014/15 Year-End Financial Update and approve proposed year-end transfers

	Preliminary Balance as of 6/30/2015	Proposed Year-End Transfers	Ending Balance as of 6/30/2015
Unrestricted Reserve Funds			
General Fund			
Unrestricted Fund Balance	7,273,879	(2,200,000)	5,073,879
Operating Reserve	6,405,000	300,000	6,705,000
OPEB Reserve	850,000	1,150,000	2,000,000
PERS Reserve	600,000		600,000
Technology Reserve	750,000	750,000	1,500,000
Real Property Proceeds Fund	10,504,566		10,504,566
Community Facilities Renewal Fund	8,415,593		8,415,593
Equipment Replacement Fund	3,040,025		3,040,025
Total Unrestricted Reserve Funds	\$ 37,839,063	\$ -	\$ 37,839,063

- **Unrestricted Fund Balance** – The proposed transfer recommends utilizing \$2.2 million of unrestricted fund balance to fund other high priority needs, which would leave \$5 million remaining for other Council priorities.
- **Operating Reserve** – The proposed transfer of \$300,000 to the City’s Operating Reserve would bring the Operating Reserve to 20% of the 2015/16 Operating Budget of \$33.5 million.
- **OPEB Reserve** – The proposed transfer of \$1.15 million to the OPEB reserve would bring the funding of the City’s OPEB obligation to 80% if placed in an Irrevocable Trust Fund. A separate Council action item with this recommendation is being considered at the November 24, 2015 Council meeting.
- **Technology Reserve** – The proposed transfer of \$750,000 to the City’s Technology Reserve would bring the total set-aside for technology needs to \$1.5 million. The 2015/16 Operating Budget appropriates \$750,000 to implement several high priority projects identified in the City’s IT Roadmap. This additional set-aside would be for appropriation in future budget cycles. An overview of the planned improvements will be presented at the Council’s 2016 Annual Retreat.

PUBLIC CONTACT

Posting of the meeting agenda serves as notice to the general public.

FISCAL/RESOURCE IMPACT

The proposed transfer of City reserve funds would be effective in the City’s Comprehensive Annual Financial Report as of June 30, 2015. The CAFR will be finalized in December 2015 and presented for Council acceptance in January 2016. The proposed transfers would earmark funds for the identified priorities, but are subject to appropriation by the Council prior to utilizing any funds.

ENVIRONMENTAL REVIEW

Not applicable

Receive the Fiscal Year 2014/15 Year-End Financial Update and approve proposed year-end transfers

RECOMMENDATION

Receive the Fiscal Year 2014/15 Year-End Financial Update and approve proposed year-end transfers

ALTERNATIVES

1. Consider transfer of funds to additional and/or other priorities
2. Do not approve any proposed year-end transfers

Prepared by: Kim Juran-Karageorgiou, Administrative Services Director

Approved by: Marcia Somers, City Manager

ATTACHMENT:

1. 2014/15 Fiscal Year End Summary



Year End Financial Summary

	2012/13 Actual	2013/14 Actual	2014/15 Adopted	2014/15 Actual	2015/16 Budget	2016/17 Budget
Revenues						
Taxes	22,973,363	24,234,293	24,471,600	26,689,839	27,048,982	27,738,795
Investment Income	104,225	106,158	386,200	178,275	174,000	184,000
Fees	7,960,091	7,996,418	7,726,800	8,384,859	8,103,342	8,211,392
Miscellaneous Revenue	237,350	166,257	178,200	112,675	124,060	124,060
Total General Fund Revenues	31,275,029	32,503,126	32,762,800	35,365,648	35,450,384	36,258,246
Transfers In / One-time Revenue	282,395	308,087	316,900	847,528	421,900	166,900
Total General Fund Revenues/Transfers In	\$ 31,557,424	\$ 32,811,213	\$ 33,079,700	\$ 36,213,176	\$ 35,872,284	\$ 36,425,146
Expenditures						
Legislative	132,336	126,463	176,810	107,870	306,027	297,565
Executive	1,397,658	1,210,681	1,476,291	1,356,257	1,819,218	1,878,326
Administrative Services	2,927,877	2,297,523	3,229,317	2,424,337	2,847,134	2,925,138
Public Safety	14,194,039	14,893,826	15,940,502	15,127,728	16,562,763	17,270,648
Community Development	2,700,582	2,675,807	2,599,630	2,719,386	2,706,268	2,791,918
Recreation & Community Services	2,101,714	2,228,903	2,268,520	2,388,776	2,474,933	2,526,277
Public Works	5,853,278	5,845,592	6,446,834	5,847,729	6,941,973.09	7,257,765
2% Vacancy Factor	--	--	--	--	(392,036)	(410,334)
Total General Fund Expenditures	29,307,484	29,278,795	32,137,904	29,972,083	33,266,281	34,537,302
Transfers Out	167,383	164,533	274,237	275,716	923,511	197,134
Total General Fund Expenditures/ Transfers Out	\$ 29,474,867	\$ 29,443,328	\$ 32,412,141	\$ 30,247,799	\$ 34,189,792	\$ 34,734,436
Revenues Over Expenditures	\$ 2,082,557	\$ 3,367,884	\$ 667,559	\$ 5,965,377	\$ 1,682,492	\$ 1,690,710

Revenues Over Expenditures by Fiscal Year

