



DATE: February 24, 2015

AGENDA ITEM # 7

TO: City Council

FROM: Marcia Somers, City Manager
Kim Juran-Karageorgiou, Administrative Services Director

SUBJECT: Fiscal Year 2014/15 Mid-Year Operating Budget Review

RECOMMENDATION:

- A. Receive the mid-year operating budget financial report
 - B. Approve and appropriate recommended budget adjustments
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SUMMARY:

Estimated Fiscal Impact:

Amount:	\$ 48,500	General Fund service and supplies
	\$ 412,350	Sewer Fund service and supplies
	\$ 20,000	Workers Compensation Fund claims
	\$ 100,000	Liability Fund claims

Budgeted: Yes; Proposed FY 2014/15 Budget Amendments per this report

Public Hearing Notice: Not applicable

Previous Council Consideration: June 24, 2014

CEQA Status: Not applicable

Attachment:

1. Mid-Year Budget to Actual Report

BACKGROUND

The City Council approved 2014/15 Operating Budget is 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 financial review as of December 31, 2014 provides the mid-year budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through December 31, 2014 measures the budget's adherence to the established resource allocation plan. Proposed budget amendments make the necessary adjustments identified during the mid-year financial review.

DISCUSSION

City finances are trending positively at the mid-year point. Overall, City revenues continue to show recovery from recessionary lows and, in some cases, are achieving new highs. City expenditures demonstrate prudent fiscal management as departments are operating well within their allocated budget amounts. The attached 2014/15 Mid-Year Financial Report as of December 31, 2014 provides the revenue and expenditure summary for the City's major operating funds which include the General Fund, Sewer Fund, and Self Insurance Funds (Workers Compensation and Liability).

General Fund

The 2014/15 General Fund revenue budget was increased \$2.3 million over the prior year to \$32.7 million. Even with this increase to the General Fund revenue budget, total General Fund revenues are at 41% of budget as of December 31, 2014, which is the same as the prior year. It should be noted that revenues are expected to trend below the 50% mark at mid-year due to timing delays in the receipt of major revenues. As of December 31, 2014, revenues were up 6% or \$712,000 over the same time last year and are expected to exceed the budget at year-end.

The 2014/15 General Fund expenditure budget was increased \$2 million over the prior year to \$32.3 million. As of December 31, 2014, expenditures were at 42% of budget, well below the expected 50% level. Overall, expenditures are up 7% over the prior year as key vacant positions are filled to authorized levels.

A more detailed review of key revenues and expenditures is presented below, with the percent of budget achieved at the mid-year point noted in parenthesis:

General Fund Revenue

- **Property Tax (38% of budget)**

The 2014/15 budget for property tax is \$1.25 million higher than the prior year to reflect significant increases in property values experienced by the City. Current year revenues are up 9% over last year and are anticipated to exceed the budget at year-end.

- **Sales Tax (38% of budget)**
Sales tax revenues are up 12% over last year as anticipated. While this growth in sales tax is encouraging, a slowing is expected in the second half of the year as lower gas prices reduce the amount of sales tax generated. Revenues are still expected to achieve the budget for the current year.
- **Transient Occupancy Tax (52% of budget)**
Transient Occupancy Tax revenues are at 52% of budget despite the fact that revenues at the mid-year point are for five months of the year (payments are received one month after they are earned). Revenues are up 5% from the prior year and are expected to perform better in the second half of the year with the opening of a new hotel in the City.
- **Recreation Revenues (47% of budget)**
Recreation revenues are trending 18% or \$132,389 above this same time last year due to expanded programming. These higher revenues are partially offset by increased expenditures, but still meet the cost recovery goals of the department.
- **Community Development Fees (61% of budget)**
The Community Development revenue budget was increased by \$296,600 in 2014/15 to reflect prior year revenue levels. As a result, revenues at mid-year are at 61% of budget compared to 70% last year. Revenues are trending 3% below last year but are anticipated to meet budget projections.

Two revenue sources, interest income and business tax and are expected to fall short of the budget this year. Investment income was budgeted at \$361,800 but actual revenues are expected to only generate approximately \$100,000 this year. The business tax budget was increased to \$514,500; however, actual revenues are projected to be approximately \$425,000.

General Fund Expenditures

- **Legislative/Administration (29% of budget)**
Expenditures in this category are down 2% from this same time last year and are at 38% of budget (same as the prior year) when adjusted to remove the \$400,000 budget for the community center election included in 2014/15.
- **Administrative Services (34% of budget)**
Expenditures in this category which include Finance, Human Resources, and Information Technology are down 6% from this same time last year. The overall budget for this category was increased by \$461,600 over the prior year as previously deferred positions were authorized in the budget. Department expenditures are anticipated to increase as vacant positions are filled, but will remain well within the budget at year-end.
- **Public Safety (42% of budget)**
Public Safety expenditures are up 14% over last year largely due to an additional month's payment for Fire Services that occurred in the first half of the year compared to the prior year. While overall public safety expenditures are up compared to last year as previously vacant positions are filled, the department remains well within its budget amount.

- **Recreation (53% of budget)**

The Recreation budget is trending slightly above budget at 53% at mid-year due to expanded programming costs, which generates increased revenues. Budget adjustments are being proposed to account for the expanded programming.

Based on the information analyzed at the mid-year point, General Fund revenues are estimated to surpass the budget at year-end by approximately \$1 million. General Fund Expenditures are anticipated to be below budget, with a projected surplus at year-end. While this projected surplus is encouraging news, additional budget considerations to be discussed further in the coming months include necessary staffing levels to deliver city services, identifying an ongoing funding source for the City's Capital Improvement Program, and future increases in CalPERS costs. After year-end close, staff will return to Council to review ending fund balances and discuss recommended transfers to reserves.

Sewer Fund

- **Sewer Revenues (2% of budget)**

Sewer revenues are primarily received via property assessments placed on the property tax roll. The City historically receives these assessments in January; therefore, revenues at mid-year do not provide sufficient information to gauge performance.

- **Sewer Expenditures (54% of budget)**

Expenditures as of December 31, 2014 are up 43% compared to the prior year which is due to a significant credit the City received from Palo Alto Water Quality Control Plant in 2013/14 that kept expenditures well below budgeted levels. In addition, the 2014/15 budget for City administrative costs to the Sewer enterprise is understated and is included as a proposed budget amendment. With the proposed budget adjustment, expenses will be at 48% of budget.

Self-Insurance Funds

- **Workers Compensation Expenditures (64% of budget)**

Expenditures are trending 31% above the same time last year as a result of several settlements paid in the first six months of the year. Expenditures at this time are anticipated to exceed the budget at year-end by approximately \$20,000, requiring a budget amendment in that amount.

- **Liability Expenditures (85% of budget)**

Expenditures are up 31% over this same time last year due to increased litigation and claims activity in the current year. It is anticipated that expenditures at year-end will exceed the budget by approximately \$100,000, requiring a budget amendment of this amount.

Proposed Mid-Year Budget Adjustments

In addition to actions taken by Council since July 2014, the mid-year budget review is useful in bringing to Council's attention the need for any operating budget adjustments. The proposed budget adjustments are recommended to be funded by existing budgeted revenues.

- **Economic Development** – Increase services and supplies budget by \$25,000 for downtown survey as approved in 2013/14 budget (this budget item was not carried forward to the 2014/15 budget)
- **Recreation** – Increase service and supplies budget by \$12,000 to account for the additional costs incurred by program expansion (offset by increased revenues)
- **Finance** – Increase service and supplies budget by \$11,500 for the update of the City’s OPEB actuarial in accordance with GASB requirements
- **Sewer** – Increase service and supplies budget by \$412,350 for administrative overhead charges in accordance with the City’s Cost Allocation Plan
- **Workers Compensation** – Increase claims expense budget by \$20,000 due to increased claims activity in the current year
- **Liability** – Increase claims expense budget by \$100,000 due to increased claims activity in the current year. This budget amendment will require a transfer of \$100,000 from the operating departments to the Liability Fund.

FISCAL IMPACT

The mid-year financial update report as of December 31, 2014 is for informational purposes only and does not have a fiscal impact. The proposed budget amendments increase the General Fund budget by \$48,500, Sewer Fund budget by \$412,350, Workers Compensation budget by \$20,000, and Liability budget by \$100,000.

PUBLIC CONTACT

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

City of Los Altos Mid-Year Financial Analysis Report as of December 31, 2014

GENERAL FUND REVENUES	2013/14 Budget	As of 12/31/13	2014/15 Budget	As of 12/31/14	2014/15 % of Budget	2013/14 % of Budget	Year over Year Change %	Year over Year Change \$
PROPERTY TAX	\$ 14,497,582	\$ 5,467,950	\$ 15,746,700	\$ 5,970,108	0.38	0.38	1.09	\$ 502,157
SALES TAX	2,615,600	949,355	2,825,700	1,064,190	0.38	0.36	1.12	114,836
UTILITY USERS TAX	2,629,800	1,055,590	2,756,700	1,155,570	0.42	0.40	1.09	99,980
MOTOR VEHICLE TAX	-	12,639	-	12,281	-	-	0.97	(358)
TRANSIENT OCCUPANCY TAX	1,663,100	897,601	1,796,100	941,275	0.52	0.54	1.05	43,674
RECREATION FEES	1,817,100	739,259	1,871,600	871,648	0.47	0.41	1.18	132,389
INTEREST INCOME	361,800	70,822	361,800	34,940	0.10	0.20	0.49	(35,882)
COMMUNITY DEVELOPMENT FEES	2,488,200	1,737,730	2,784,800	1,689,043	0.61	0.70	0.97	(48,687)
FRANCHISE FEES	1,726,200	363,881	1,740,100	400,610	0.23	0.21	1.10	36,728
ADMIN. FEES	918,500	459,252	918,500	459,250	0.50	0.50	1.00	(2)
BUSINESS LICENSE TAX	418,400	220,620	514,500	183,107	0.36	0.53	0.83	(37,513)
RENTAL INCOME	23,700	-	24,400	-	0.00	0.00	0.00	-
DOCUMENTARY TRANSFER TAX	479,900	234,839	503,900	225,780	0.45	0.49	0.96	(9,059)
POLICE FEES	112,900	18,930	127,000	29,606	0.23	0.17	1.56	10,676
BUILDING DEVELOPMENT TAX	285,200	252,191	328,000	150,537	0.46	0.88	0.60	
ALL OTHER REVENUE	415,200	140,407	463,000	145,324	0.31	0.34	1.04	4,917
TOTAL GENERAL FUND REVENUES	\$ 30,453,182	\$ 12,621,067	\$ 32,762,800	\$ 13,333,269	0.41	0.41	1.06	\$ 712,202

GENERAL FUND EXPENDITURES								
LEGISLATIVE/ADMNISTRATION	1,553,510	594,643	2,028,101	583,371	0.29	0.38	0.98	(11,272)
ADMINISTRATIVE SERVICES	2,805,780	1,185,690	3,267,418	1,111,564	0.34	0.42	0.94	(74,125)
PUBLIC SAFETY	15,205,295	5,884,589	15,940,502	6,726,442	0.42	0.39	1.14	841,853
PUBLIC WORKS	5,999,713	2,624,700	6,189,354	2,632,239	0.43	0.44	1.00	7,539
RECREATION	2,204,310	1,099,197	2,256,520	1,186,566	0.53	0.50	1.08	87,369
COMMUNITY DEVELOPMENT	2,554,850	1,209,164	2,599,630	1,246,116	0.48	0.47	1.03	36,952
TOTAL GENERAL FUND EXPENDITURES	\$ 30,323,459	\$ 12,597,982	\$ 32,281,525	\$ 13,486,298	0.42	0.42	1.07	\$ 888,316

SEWER FUND								
REVENUES	5,627,883	509,660	5,416,000	95,537	0.02	0.09	0.19	(414,123)
EXPENDITURES	3,629,443	1,448,867	3,833,928	2,073,744	0.54	0.40	1.43	624,877

WORKERS COMPENSATION FUND								
REVENUES	642,000	348,887	642,000	392,836	0.61	0.54	1.13	43,949
EXPENDITURES	595,000	291,468	595,000	381,348	0.64	0.49	1.31	89,880

LIABILITY FUND								
REVENUES	605,000	235,659	465,000	211,743	0.46	0.39	0.90	(23,916)
EXPENDITURES	450,000	297,878	456,200	389,619	0.85	0.66	1.31	91,741