



Council Agenda Report

From: Ryan Cornell, Finance Manager
Subject: Quarterly Budget Report – 1st Quarter Fiscal Year 2017-18
Date: January 16, 2018

Facts

1. In accordance with the Council adopted fiscal policies, the City prepares periodic financial reports of actual revenues and expenditures for review by the City Council.
2. This report provides an overview of the City’s financial position based on actual transactions incurred for the first quarter of Fiscal Year (FY) 2017-18 ending September 30, 2017.
3. Carry-over appropriations are not new requests. They represent previously approved Council budget appropriations for projects and/or equipment that were not completed in the prior fiscal year. Thus, some or all of the appropriations were not spent.
4. It is City past practice to limit carry-overs to one-time expenditures such as capital outlay, capital improvements, special consultant services, etc.
5. Carry-over requests total \$761,808. Additional detail is provided below.
6. Approval of carry-over requests will adjust the Fiscal Year 2017-18 budget.
7. On December 5, 2017, City Council authorized the City Manager to execute a professional services agreement for the recruitment of the City’s next Assistant City Manager for an amount of approximately \$25,000

Analysis and Conclusions

This quarterly financial report concentrates on the General, Water, and Sewer Funds of the City. Generally speaking, revenues and expenditures are projected to be at or near estimated revenue and appropriation amounts. The information provided below is unaudited and amounts may change as errors and/or misclassifications are detected. The City has established internal control policies and procedures, so that material misstatements can and should be minimized.

With 25% of the fiscal year complete, the General Fund has received \$4.5 million in revenues and has spent \$5.9 million in expenditures. As shown on the chart below, ending General Fund balance was budgeted to be \$21.5 million and is now projected to be \$23.0 million. Further detail is provided below.

GENERAL FUND	Current Budget	Projected End of Year	Variance	% Variance
Revenues	43,260,576	42,863,953	(396,623)	(1)%
Expenditures	46,392,142	44,494,384	(1,897,758)	(4)%
Change in F.B.	(3,131,566)	(1,630,431)		
Beginning Fund Balance	24,612,523	24,612,523		
Estimated Ending Fund Balance	21,480,957	22,982,092		

General Fund Revenues:

The City’s total General Fund revenues are projected to end the fiscal year at \$42.9 million, which is \$400,000, or 1%, under what was originally estimated. Projections are determined by a number of components such as cyclical trends, revenues already received, and known revenues to be received.

Although this financial report discusses items through only the first quarter of the fiscal year, it does take into consideration any revenues received after the first quarter. Regardless, projections are best estimates and will continually change as more information is available.

In total, the City is expecting to exceed the budgeted revenues in sales, property, and transient occupancy tax revenues. These three revenue sources comprise over 75% of the total revenue the General Fund receives

Revenue Source	Received Thru Quarter 1	Projected End of Year	Current Budget	% Variance
Sales Tax	1,686,268	15,459,788	14,861,000	4%
Property Taxes	47,439	10,364,437	10,167,000	2%
Transient Occupancy Tax	1,146,455	5,893,020	6,206,000	(5)%
Franchise Fees	553,827	3,614,257	3,329,929	9%
Licenses & Permits	585,523	1,082,386	2,036,700	(53)%
Charges for Services	378,438	995,665	1,048,000	(5)%
All Other Revenue and Transfers	79,073	5,454,400	5,611,947	(3)%
Total	4,477,023	42,863,953	43,260,576	(1)%

Sales Tax: Bradley-Burns Sales Tax is projected to end the fiscal year approximately \$600,000 more than what was originally anticipated. If current projects hold true, sales tax revenue would increase by approximately 7% when compared to FY 2016-17.

In 2012, Paso Robles voters authorized a 12-year ½ cent sales tax increase commonly known as the Supplemental Sales Tax. For the FY 2017-18, it is anticipated that this will bring in \$4.7 million in the fiscal year. Supplemental Sales Tax is used and appropriated towards street and road maintenance, repairs and improvements.

Property Tax: Property tax revenues are projected to be \$10.4 million, just \$200,000 more than original estimates. This represents a modest 4% increase when compared to FY 2016-17

Transient Occupancy Tax: Transient occupancy tax (TOT), commonly known as Hotel Tax, was originally forecasted to reach \$6.2 million. Actual revenue received through the first quarter was \$1.1 million and is projected to end the year at \$5.9 million. Staff will continue to monitor this revenue source and will provide Council with better estimates as the year continues.

Franchise Fees: Franchise fees continue to increase significantly. They are projected to reach \$3.6 million at the end of the 2017-18 fiscal year, which is a 21% increase from the previous fiscal year.

Licenses & Permits: Licenses and permits received to-date are approximately 22% less than at the same time last year. With that being said, licenses and permits are projected to end the fiscal year just over \$1.0 million. Building permit fees ended the FY 2016-17 at \$815,000 and business licenses at \$784,000. Similar to charges for current services, one event, project and/or development can significantly change the revenues received. Staff is not recommended decreases the originally estimated revenues at this time but will continue to provide updates as they become available.

Charges for Current Services: Charges for current services includes Community Development’s plan check fees, Engineering’s inspection fees and Recreation program activity. This revenue line-item is hard to accurately predict as one event or project can significantly improve this source of revenue. In the prior fiscal year, the City received approximately \$1.25 million. Actual revenues are projecting slightly lower at just under \$1.0 million.

Because the total variance in total General Fund revenue is less than 1%, City staff is not recommending any changes to the current revenue projections or future forecast models. Staff will continue to keep City Council informed on the status of all revenues.

General Fund Expenditures:

GF expenditures are projected to end the fiscal year lower than appropriated. This is not uncommon and through vacant positions, or delay in certain projects, the City does not need to expend every dollar appropriated. Projections again are best estimates based on the data and information known. These amounts will change as the year continues.

Department	Expended In 1 st Quarter	Projected End of Year	Current Budget	Over/ (Under) Budget
Police Department	1,959,979	10,015,724	10,628,643	(612,919)
Community Services	1,377,563	6,393,322	6,487,322	(94,000)
Emergency Services	1,216,474	6,383,723	6,290,688	(93,035)
Public Works	356,374	3,124,233	3,183,490	(59,257)
Community Development	610,412	2,899,067	3,515,080	(616,013)
City Council & Manager	431,427	2,175,403	2,389,265	(213,862)
Administrative Services	805,089	1,254,637	1,649,379	(394,742)
Capital Projects	1,124,628	12,248,275	12,248,275	-0-
Total	7,881,946	44,494,384	46,392,142	(1,897,758)

Key variances include:

- Police Department: Vehicle maintenance has been minimal thus far in the fiscal year because the police fleet is newer. Fleet maintenance is projecting to be \$100,000 under budget, however, one major incident or repair can be costly and can significantly impact this budget line item. Downtown Parking Project is currently be studied and analyzed by department staff but no hard costs has been incurred to-date. There is approximately \$80,000 appropriated towards parking efforts but it not known at this time if any of the funds will be expended by the end of the fiscal year. Salary and Benefits are projecting to come in lower than anticipated by approximately \$400,000. Considering the total budget for personnel costs of the department is \$7.8 million, \$400,000 is within 5% of the total budget.
- Community Development: Salary and Benefits are projecting to be lower than budget by approximately \$200,000 mainly due to one open position in the Building Division. There was discussion with City Council on December 19, 2017 on reorganizing the division staffing levels but as of now there will be savings in this area. Contractual Services is another budget line-item that could have the potential for budget savings. Administrative Services staff are working with Community Development to get a better estimate of what the end of year projections will be and what the need of the department will be moving forward.
- Administrative Services: Salary and Benefits savings will be recognized in the year because of an unfilled Human Resources Manager. Recruitment for this position will begin in the next couple of months and hopefully completed towards the end of the fiscal year.
- Capital Projects: Capital projects have been reviewed and all projects are within budget. The projected end of year amounts reported above are shown at 100% of budget because if the project is not completed at the end of the fiscal year, it will be carried into the next fiscal year. There will be some balances returned to reserves at the end of the project, but those amounts are not known at this time.

Enterprise Funds:

Water Fund: The Water Fund is projecting to end the fiscal year 96% of appropriations with revenues rebounding from prior year and projected to be about \$125,000 over original estimates.

<u>Water Fund</u>	<u>Current Budget</u>	<u>Projected End of Year</u>	<u>Percent</u>
Revenues	12,716,027	12,843,955	101%
Expenditures			
Salary & Benefits	2,677,113	2,550,897	95%
Maintenance & Operations	8,530,251	8,547,896	100%
Capital Expenditures	14,496,455	14,486,295	100%
Total Expenditures	<u>25,703,819</u>	<u>25,585,088</u>	<u>96%</u>

Sewer Fund: The Sewer Fund is projecting to end the fiscal year at 111% of appropriations and with revenues at 102%. The reason for maintenance and operations going over budget is solely contributed to the originally budgeted depreciation expense for the Sewer Fund. With the completion of the wastewater treatment plant, the 2017-18 fiscal year is the first full years' worth of depreciation expense for the \$46.0 million upgrade. Administrative Services staff is working with Public Works to best address this situation and how depreciation should be budgeted moving forward. This is unique because depreciation isn't an actual expense but rather an accounting entry made to allocate the expense over the life of the asset.

<u>Sewer Fund</u>	<u>Current Budget</u>	<u>Projected End of Year</u>	<u>Percent</u>
Revenues	9,418,327	9,611,035	102%
Expenditures			
Salary & Benefits	3,180,396	2,811,796	88%
Maintenance & Operations	5,471,881	6,079,018	111%
Debt Service	3,192,283	3,208,006	100%
Capital Expenditures	36,226,397	36,301,248	100%
Transfers Out	501,209	501,209	100%
Total Expenditures	<u>48,572,166</u>	<u>48,901,277</u>	<u>101%</u>

Carry Over Requests:

There are instances when funds are appropriated by City Council for a specific purpose but staff for a variety of reasons may not be able to complete the purchase by the end of the fiscal year. In those instances, the budget and the actual expense will be in different fiscal years. A mechanism to account for these circumstances is through a carry-over requests. A carry-over will recorded a budget adjustment in the same fiscal year as the expense. Because the carry-over amounts change the ending fund balance for budget purposes, it requires City Council approval to do such. Please note, these are not new requests; they are items that were previously budgeted items in the 2016-17 fiscal year that are to be purchased in the 2017-18 fiscal year. For this fiscal year, staff is requesting the following items to be carried into the 2017-18 fiscal year:

General Fund

- 1) Building Permit System: \$196,667
- 2) Downtown Refurbishment Project: \$100,000
- 3) Wayfinding Signage: \$45,000
- 4) Fire Chief and Battalion Chief Recruitment: \$22,075
- 5) DISC Training: \$21,042
- 6) CJPIA ADA Survey and Inspection Project: \$100,000
- 7) Civic Engagement: \$30,000

Total: \$514,784

Capital Replacement – IT Fund

- 1) Information Technology various network servers, printers, scanners and routers: \$73,212
 - 2) Council Chambers A/V Project: \$72,000
- Total: \$145,212

Water Fund

- 1) DISC Training: \$2,365
 - 2) Network Server (IT): \$6,700
 - 3) Nacimiento Water Treatment Project: \$27,000
- Total: \$36,065

Sewer Fund

- 1) DISC Training: \$3,363
 - 2) Network Switch (IT): \$2,000
- Total: \$5,363

Transportation Development Fund

- 1) Circulation Update: \$60,384

Additional Appropriations:

Two additional items that have been brought to staff's attention that weren't included in the original budget amounts or previously approved Council actions. The first is \$25,000 for the Assistant City Manager Recruitment. On December 5, 2017, the City Council approved the City Manager to retain a recruiter for this vacant position and that staff would come back for a needed budget adjustment.

The second request is in the amount of \$70,000 related to the hard costs related to Phase III of the Oak Park Development. Hard costs associated with this project include mostly engineering and inspection services. City Council approved deferral of development impact fees, however, there are still costs the City is going to incur with this projects that wasn't originally identified. The costs will be added to the loan receivable with the Paso Housing Authority so the City will receive reimbursement when the loan is repaid.

Fiscal Impact

For a variety of reasons, not all projects and/or purchases authorized by City Council in the previous fiscal year were completed. As a result, there were budget savings in the 2016-17 fiscal year from not having spent funds. So the carry-over requests will lower those budget savings. Additional appropriations of \$95,000 from the Assistant City Manager and Oak Park Phase III items are new requests and those funds will come from General Fund reserves. As stated above, total General Fund reserves at June 30, 2017 was \$24.6 million.

Recommendation

1. Receive and file the report, providing any direction or requests for future reports, to ensure they meet Council needs; and
2. Approve resolution 18-XXX approving the carry-over appropriations of \$761,808 and \$95,000 from General Fund reserves.

Attachments

1. Resolution 18-XXX approving the carry-over appropriations for Fiscal Year 2017-18

RESOLUTION NO. 18-XXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
AMENDING THE BUDGET FOR FISCAL YEAR 2017-18

WHEREAS, the City Council is required to adopt a comprehensive operating and capital expenditure budget in order to authorize the receipt of revenues and to authorize, guide, and direct the City's activities; and

WHEREAS, the City Council adopted a biannual budget for Fiscal Years 2016-2017 and 2017-18 on June 21, 2016; and

WHEREAS, that budget contained all projected revenues, appropriations, and transfers, as well as the number and classification of all approved positions, to be implemented by the City Manager; and

WHEREAS, budgets are plans, and plans change as new information comes to light and as the environment in which the City operates changes; and

WHEREAS, the City has historically recorder carry-over request as budget appropriations in the subsequent fiscal year; and

WHEREAS, it is desirable to formally approve appropriations added to the Fiscal Year 2017-18 budget.

NOW THEREFORE BE IT RESOLVED, by the City Council of the City of El Paso de Robles does hereby approve and/or direct the following budgetary actions:

1. The proposed amendments to the FY 2017-18 Operating and Capital Improvement Budget in the amount of \$856,808 as summarized below are hereby approved.
 - a. General Fund: \$609,784
 - b. Capital Replacement-IT Fund: \$145,212
 - c. Water Fund: \$36,065
 - d. Sewer Fund: \$5,363
 - e. Transportation Development Impact Fund: \$60,384

APPROVED by the City Council of the City of Paso Robles this 16th day of January 2018 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

Steven W. Martin, Mayor

Kristen L. Buxkemper, Deputy City Clerk