



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS **DATE: FEBRUARY 13, 2020**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2019/20 FIRST QUARTER FINANCIAL REPORT AND MEASURE Z UPDATE

ISSUE:

That the Budget Engagement Commission receive and provide input on the attached Fiscal Year 2019/20 First Quarter Financial Report and Measure Z update.

RECOMMENDATION:

That the Budget Engagement Commission receive and provide input on the attached Fiscal Year 2019/20 First Quarter Financial Report and Measure Z update.

BACKGROUND:

On June 12, 2018, the City Council adopted Resolution No. 23316 approving the Fiscal Year (FY) 2018-2020 Two-Year Budget. On June 18, 2019, the City Council adopted Resolution No. 23457 approving amendments to the Fiscal Year (FY) 2019/20 Budget.

DISCUSSION:

FINANCIAL REPORT

Throughout the fiscal year, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. For the first quarter report, City departments analyzed financial status for all funds and appropriations under their purview. The results of the City's major funds as well as areas of concern in other funds (if any) are reported in the quarterly financial report.

General Fund

The General Fund's FY 2018-2020 Two-Year budget is balanced over two (2) years, with a projected shortfall of \$1.2 million in FY 2019/20 funded by savings realized in FY 2018/19. As of June 30, 2019, the General Fund carries a 20% reserve balance and \$4.4 million (1.6%) in surplus reserves. \$1.2 million is separately reserved to offset the adopted FY 2019/20 shortfall. \$4.9 million is reserved for Pension Stability an investment in the Section 115 Pension Trust. On

January 16, 2020, the Budget Engagement Commission voted to recommend to the City Council that the surplus reserves of \$4.4 million be allocated to the Section 115 Pension Liability Trust.

The FY 2019/20 First Quarter analysis projects total General Fund revenues to come in as estimated. As of September 30, 2019, all General Fund departments, with the exception of the Police Department, expect to end the fiscal year within their appropriation limits. The Police Department is projecting a budget shortfall of approximately 7.6% (\$4.4 million) of the department’s total budget. The overage is attributable to overtime trends due to an increase in significant criminal events. If no mitigating actions or offsetting savings are identified, the budget shortfall will reduce General Fund reserves by 1.6%.

Supplemental appropriations recorded in the first quarter total \$8,117 and are entirely related to donations received and appropriated by City Departments in compliance with the City’s donation policy.

Measure Z

The FY 2018-2023 Measure Z Spending Plan was approved by the City Council on June 12, 2018, with the adoption of the FY 2018-2020 Two-Year Budget. Subsequent updates to the Spending Plan include the allocation of funding for the Public Safety and Engagement Team Program, security guards at City libraries, and increased allocations for street projects. As of June 30, 2019, Measure Z held \$18.7 million in unallocated fund reserves. Separately, \$5 million is held in reserves to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

Measure Z’s FY 2018/19 revenue outperformed expectations; however, the City’s sales tax consultant projects a potential 2% to 3% decrease in revenue in FY 2019/20. At this time, no revenue adjustments for FY 2019/20 are recommended. Staff will continue to work with the City’s consultant to track sales tax trends, economic factors, and actual revenues received, and may recommend adjustments in future quarterly reports.

Measure Z expenditures are 15% of total budget at September 30, 2019, reflective of large projects that have yet to ramp up and record significant expenditures, such as technology projects, the update of the General Plan, and street projects.

| MEASURE Z SUMMARY | | | | |
|-----------------------------------|-------------------------------|-------------------------------|-------------------------------|-----------------------------------|
| Category | FY 2016/17 Actuals | FY 2017/18 Actuals | FY 2018/19 Actuals | FY 2019/20 Allocations |
| Revenue | \$12,606,428 | \$56,222,806 | \$62,692,745 | \$59,000,000 |
| Spending Allocations | 9,973,447 | 36,134,811 | 61,702,430 | 62,360,436 |
| Carryovers | | | (20,714,281) | 20,714,281 |
| Net Change in Fund Balance | 2,632,981 | 20,087,995 | 21,704,596 | (24,074,717) |
| Fund Balance Reserve | - | - | 5,000,000 | - |
| Fund Balance | \$2,632,981 | \$22,720,976 | \$39,425,572 | \$15,350,855 |

Sewer Fund

The overall financial position of the Sewer Enterprise fund is good and operating in accordance

with the 2016 Sewer Fund Reserve Policy objectives. Revenue and expenditures are tracking in line with the Sewer Fund financial model and five-year plan projections. Staff projects total revenues will exceed expenditures by the end of FY 2019/20.

Refinancing of the 2009A Sewer Revenue Bonds bolstered the Sewer Fund's financial stability in FY 2018/19. The Public Works Wastewater Division is in the process of completing a Wastewater Treatment and Collection Master Plan Update project, which includes a comprehensive financial and cost of service analysis and evaluation of various rate structure alternatives for consideration. The outcome of this study will inform future rate discussions.

Refuse Fund

The Refuse Fund is operating at a deficit, as projected in the FY 2018-2020 Two-Year Budget. The most recent projections predict a \$4.1 million use of fund reserves in FY 2019/20 and ending fund reserves of \$4.2 million at fiscal year ending June 30, 2020. Public Works has retained a consultant to perform a comprehensive review of refuse operations to optimize services and cash flow; the results of the study were presented to City Council in January 2020.

Refuse Fund revenue and expenditures are tracking at 23% and 19%, respectively in the first quarter. Expenditures are artificially low in the first quarter due to fluctuating expenditure requirements during the fiscal year, including debt and contract payments. The fund is expected to end the fiscal year in line with budget.

Revenue projections have been reduced by approximately \$800,000 as a result of lower than expected parking citations and curbside materials. Parking citations were temporarily suspended during a sign replacement project; revenue activity is expected to return to normal in the third quarter as signs are replaced and the routes are scheduled for enforcement. Curbside revenue represents revenue received in excess of the cost of recycling services. This residual revenue is no longer expected to be received due to a decline in market demand for recyclables. Projections for other revenues remain unchanged.

Electric Fund

The first quarter analysis of the Electric Fund shows operating revenues and expenses trending on target. Overall, Electric revenues are trending at 28% of total budget at September 30, 2019 due to higher retail sales in the first quarter of the fiscal year and higher interest revenue as a result of rebalancing the investment portfolio. Weather can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

At September 30, 2019, Electric Fund expenditures, excluding capital projects, are trending slightly lower than 25% of the total budget. Capital projects are progressing consistently with the Capital Improvement Program (CIP). The Electric Fund's completed capital improvements during the first three months of FY 2019/20 included projects in the Substation, Underground and Recurring categories which are part of the Utility 2.0 initiative. Completed projects in these categories benefit system reliability and mitigate the potential for widespread, prolonged customer outages, as well as fulfill the City's obligation to expand facilities to meet customer needs.

Water Fund

The first quarter analysis of the Water Fund shows operating revenues and expenses trending on target. Overall, Water revenues are trending at 29% of total budget at September 30, 2019, which is more than anticipated primarily due to higher interest revenue resulting from rebalancing the

investment portfolio. Retail sales are typically higher during the summer months but are 3.6% lower than expected for the first quarter due to milder temperatures. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

At September 30, 2019, Water Fund expenditures, excluding capital projects, are trending less than 25% of the total budget, primarily due to the timing of debt service payments. Capital projects are progressing consistently with the CIP and include:

- Installation of recycled water infrastructure which benefits all Water customers by freeing up water supply through making recycled water available for landscaping and irrigation needs.
- Installation of new mains which provides water to new customers and supports the City's development and growth.
- Pipeline and distribution facilities replacements along with well rehabilitations which help address aging infrastructure and improve system reliability to maintain a high level of service to Water customers.

FISCAL IMPACT:

The City's General Fund is currently operating under an adopted FY 2018-2020 Two-Year Budget, balanced over two fiscal years. The fund reserve goal of 20% has been achieved as of June 30, 2019. Fund reserves of \$1.2 million are intact, separate from the 20% reserve, to balance the projected FY 2019/20 shortfall. The potential shortfall resulting from excess Police overtime costs could present a \$4.4 million draw on fund balance at fiscal year-end, in the absence of offsetting savings.

The Enterprise Funds (Electric, Water, Refuse and Sewer) are all expected to remain within their appropriation limits. Planned operational analyses for both Refuse and Sewer will incorporate long-term financial outlooks for the respective funds.

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availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Charlie Myers, Deputy City Manager

Attachments:

1. Quarterly Financial Report
2. Measure Z Financial Summary
3. Presentation