



# City of Palo Alto

## Finance Committee Staff Report

(ID # 5358)

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**Report Type: Action Items**

**Meeting Date: 12/16/2014**

**Summary Title: 1st Quarter FY 2015 Financial Results**

**Title: First Quarter Fiscal Year 2015 Financial Results**

**From: City Manager**

**Lead Department: Administrative Services**

### **Motion**

Staff recommends that Finance Committee review and approve the first (1<sup>st</sup>) Quarter financial report.

### **Background**

The purpose of this report is to provide the Council with information on the financial condition of the City's General Fund and Enterprise Funds as of the end of the 1<sup>st</sup> quarter of fiscal year (FY) 2015.

### **Discussion**

The FY 2015 1<sup>st</sup> quarter ended on September 30, and this report summarizes the actual financial activity of the General and Enterprise Funds for the three months then ended, and compares those amounts to the same period of the prior fiscal year and to the FY 2015 and FY 2014 Adjusted Budgets.

Attachment A provides a breakdown of revenues by source and expenses by function, with separate columns for Adopted Budget and Adjusted Budget. The Adjusted Budget column includes prior year commitments that were carried forward into this fiscal year and Budget Amendment Ordinances (BAOs) through September 30. Encumbrances and actual expenses for the three month period are also reported.

Compared to the same time last year, General Fund revenue (excluding Operating Transfers, Encumbrances and Reappropriations, and other Sources) for the 1<sup>st</sup> quarter is \$24.8 million, or 3.6 percent higher than the prior year. As of the end of the 1<sup>st</sup> quarter, the General Fund has received 16 percent of the current year Adjusted Revenue Budget. In comparison to the same quarter in prior year, actual revenue received was 17 percent of the Adjusted Budget. To date, Sales Tax is currently trending downward from prior year due to lower receipts from a particular vendor in comparison to the previous year and is expected to end the year higher

than the currently budgeted amount. This downward trend in Sales Tax is offset by an improvement in Charges for Services, Permits and Licenses, and Rental Income. These revenue improvements are discussed later in this report.

General Fund department expenses (including commitments) for 1<sup>st</sup> quarter are tracking at 28.4 percent of Adjusted Budget. Compared to the same quarter prior year, this is slightly higher than prior year which was 29 percent.

Following is a detailed discussion of the most significant revenue and expense items.

**Revenue Highlights for 1<sup>st</sup> Quarter FY 2015**

Following is a table which highlights the City’s major revenue sources for the 1<sup>st</sup> Quarter, compared to the 1<sup>st</sup> Quarter of the prior year. Each quarter’s revenue is expressed as a percentage of the Adjusted Budget for each year.

City of Palo Alto General Fund Revenue FY 2015 1st Quarter (000's)								
	1st Quarter Actuals			Adjusted Budget				
	FY 2015	FY 2014	% change	FY 2015	%	FY 2014	%	
Sales tax	\$ 3,624	\$ 5,421	33%	\$ 25,957	14%	\$ 23,846	23%	
Property tax	69	43	60%	31,927	0%	29,613	0%	
Transient occupancy tax	2,276	1,977	15%	14,156	16%	11,545	17%	
Utility users tax	2,473	2,614	(5%)	11,285	22%	11,013	24%	
Documentary transfer tax	1,302	1,602	(19%)	7,514	17%	5,699	28%	
Charges for services	6,027	3,253	85%	24,314	25%	24,379	13%	
Permits and licences	1,896	1,323	43%	7,804	24%	8,346	16%	
All other revenue sources	7,121	7,667	(7%)	29,218	24%	28,681	27%	
<b>Total Revenue</b>	<b>\$ 24,788</b>	<b>\$ 23,900</b>	<b>4%</b>	<b>\$ 152,175</b>	<b>16%</b>	<b>\$ 143,122</b>	<b>17%</b>	

**Sales tax revenue** for the 1<sup>st</sup> quarter has decreased \$1.8 million, or 33 percent, from the same period last year. The quarter over quarter decline is due to a single vendor whose receipts temporarily spiked last year. First quarter receipts are at 14 percent of the full year budgeted amount of \$26 million. Typically, receipts in the 1<sup>st</sup> quarter trend lower because of the timing of the “Triple Flip” quarter cent tax payment which is received in January and May. Based on the preliminary activity to date and local economic trends, staff is expecting receipts to be higher than the budgeted amount of \$26 million.

**Property tax revenue** in the 1<sup>st</sup> quarter of the fiscal year is typically only a nominal amount as property tax receipts are paid by the County beginning in the month of November and then

again beginning in March. FY 2014 actual property tax revenue was \$30.6 million. The FY 2015 budgeted amount is \$31.9 million, 4.4 percent higher than the prior year's actual revenue.

**Transient occupancy tax (TOT) revenue** of \$2.3 million represents about two months of collections and is trending at 16 percent of the FY 2015 budgeted amount of \$14.2 million. Daily rates increased 15 percent from prior year – \$191 per day to \$220 per day – while occupancy rates remained flat at 84 percent. The total number of rooms available increased by 86, or 5 percent, in March 2014 with the opening of the Epiphany Hotel. In November 2014, Palo Alto voters approved Measure B which increases TOT by 2 percent and staff will bring forward a recommendation as part of the Fiscal Year 2015 Midyear Budget Review to revise TOT revenue upward.

**Documentary transfer tax** receipts total \$1.3 million, or 17 percent of the FY 2015 Adopted Budget. This is \$300,000, or 19 percent, lower than prior year receipts for the same period. Prior year receipts were exceptionally high due to robust real estate activity. Budgeted amount for the current year may be reduced at mid-year if receipts continue to track lower.

**Charges for services revenue** is up \$2.8 million, or 85 percent, from the same quarter last year. This increase is due to a combination of the following items:

- Stanford fire service revenue for the 1<sup>st</sup> quarter of FY 2015 was \$2.0 million. This is \$2.0 million more than prior year because the prior year 1<sup>st</sup> quarter billing was delayed until the 2<sup>nd</sup> quarter. This variance of \$2.0 million will be neutralized in 2<sup>nd</sup> quarter.
- Paramedic service fees have increased \$309,000 over the same period last year due to more service calls in the quarter and a higher average amount billed per service call. 1<sup>st</sup> quarter revenue of \$1.0 million is 31 percent of the Adopted Budget.
- Plan check fees for the 1<sup>st</sup> quarter have increased by \$241,000, or 25 percent, from prior year's 1<sup>st</sup> quarter. 1<sup>st</sup> quarter revenue of \$1.2 million represents 21 percent of the annual budgeted amount.

**Permits and licenses revenue** is up \$573 thousand, or 43 percent, primarily due to an increase in new construction permit revenue.

#### **Expense Highlights for 1<sup>st</sup> Quarter FY 2015**

Following is a table which highlights the City's expenses by function for the 1<sup>st</sup> quarter, compared to 1<sup>st</sup> quarter of the prior year. Each quarter's expense is expressed as a percentage of the Adjusted Budget for each year.

**City of Palo Alto  
General Fund Expenses  
FY 2015 1st Quarter  
(000's)**

	1st Quarter Actuals			Adjusted Budget			
	FY 2015	FY 2014	% change inc (dec)	FY 2015	%	FY 2014	%
Administrative services	\$ 1,651	\$ 1,629	(1%)	\$ 7,326	23%	\$ 7,363	22%
Community services	5,895	5,767	2%	24,115	24%	23,888	24%
Development services	1,977	0	--	10,772	18%	0	--
Library	1,708	1,678	2%	8,253	21%	8,254	20%
Planning and community env	1,616	2,606	(38%)	8,839	18%	15,150	17%
Public safety	14,546	14,599	(0%)	62,997	23%	63,628	23%
Public works	3,191	3,272	(2%)	14,315	22%	14,380	23%
All other departments	4,781	4,955	(4%)	26,091	18%	19,447	25%
<b>Total Expenses</b>	<b>\$ 35,365</b>	<b>\$ 34,506</b>	<b>2%</b>	<b>\$ 162,708</b>	<b>22%</b>	<b>\$ 152,110</b>	<b>23%</b>

Total General Fund department expenses (including commitments) for the 1<sup>st</sup> quarter of the fiscal year are relatively flat compared to the same quarter last year, and trend at 28.4 percent of the Adjusted Budget.

As approved in the Fiscal Year 2015 Adopted Budget, effective July 1, 2014, Development Services was split out into its own department so that development partners could work together more comprehensively and provide a higher quality of service. Salary and non-salary expenses were identified and transferred out of the Planning, Fire, Information Technology, and Public Works departments. The largest expense transfer was from the Planning Department.

Public Safety represents 41 percent of total General Fund actual expenditures for the 1<sup>st</sup> quarter, which is comparable to the prior year. Following is a table which highlights some Public Safety expenses and statistics for the 1<sup>st</sup> quarter.

Public Safety								
Salaries and Overtime Expense								
FY 2015 1st Quarter								
(000's)								
	1st Quarter Actuals				Adjusted Budget			
	FY 2015	FY 2014	% change	FY 2015	%	FY 2014	%	
			Inc (Dec)					
Police - Overtime	465	540	(14%)	1,500	31%	1,500	36%	
Police - # vacancies	8	14						
Police - # disability	5	4						
Fire - Overtime	780	718	9%	1,424	55%	1,424	50%	
Fire - # vacancies	8	7						
Fire - # disability	4	8						

**Police:**

The Police Department has used \$465,000 or 31 percent of its annual overtime budget through September 2014 compared to \$540,000 during the same period in the prior year. The decrease is attributable to the absence of several events that increased overtime spending in the 1<sup>st</sup> quarter last year, such as extra staffing at Cubberley Community Center, staffing assistance to Mountain View for a special event, training 12 new police officers over the summer period, training related to re-starting the Traffic Team during the summer period, and backfilling for military leave, family leave and injuries that compounded a severe staffing shortage in the 1<sup>st</sup> quarter of last year. While 1<sup>st</sup> quarter FY 2015 overtime decreased from prior year, it is still higher than normal due to a sizable increase in the Communications Division overtime in our dispatch center due to staff vacancies. The Department receives partial reimbursement for overtime worked from Stanford and the Utilities Department for dispatch services, and from neighboring cities for animal control and care services. Traffic control services at Stanford football games and other events are partially offset by reimbursements from the University and other organizations.

**Fire:**

The Fire Department has used \$780,000 or 55 percent of its annual overtime budget, compared to \$718,000 or 50 percent for the same period in the prior year. The primary drivers of overtime were vacant positions, workers' compensation (light duty/full disability), succession planning, sick leave, vacation, other leaves (military, bereavement, jury duty), special events (Stanford Football, Senior Games and Earthquake's Soccer), seasonal fire station coverage and multiple mutual aid responses to wild land fires and fire station cover assignments throughout Northern California.

A lack of qualified firefighter paramedic candidates in the recent entry level hiring and several retirements in the last two quarters of Fiscal Year 2014 created eight vacancies. Palo Alto competes in a very challenging hiring environment where there are limited qualified and experienced paramedics. Paramedics are essential in order to sustain Council approved emergency medical service levels that mandate first responders arrive in 8 minutes or less 90 percent of the time and ambulances arrive in 12 minutes or less 99 percent of the time. Community expectations identified in the Fire Department's Community Driven Strategic Plan identified prompt emergency medical services as the number one service priority.

As noted in the department's performance and workforce planning report, 40 percent of the department is eligible to retire in five years or less. The department invested in overtime to support succession planning and career development in anticipation of several key leadership promotions in the current fiscal year. Specifically, the Department has been training personnel to work out of class in the Apparatus Operator, Captain, and Battalion Chief positions and moved a frontline employee to provide assistance in the Training Division which also created a need for backfill overtime. In addition, the department continues training Battalion Chiefs, Captains and Acting Captains in a nationally recognized command and control system which has created a temporary need for additional overtime.

The Fire Department staffed the seasonal Fire Station #8 with overtime to support the Palo Alto Foothills communities during wild land fire season and the Community Services' youth summer programs held at Foothills Park. Due to the extremely dry vegetation caused by the drought, the department opened the Station earlier than usual, extended some hours due to high fire danger and closed the station on October 31.

Overtime expenses are reimbursed through the Stanford Fire agreement at a rate of 30.3 percent and reported as department revenue. The mutual aid Strike Team responses to the Lodge and King Fires, Humboldt Unit Cover (Cal Fire) and Santa Clara Unit Cover (Cal Fire) will be reimbursed through the State of California Office of Emergency Services.

### General Fund Budget Stabilization Reserve (BSR) Balance

As reported to the Finance Committee on December 2, FY 2014 ended with an \$8.7 million surplus and a Budget Stabilization Reserve of \$35.1 million on an accounting basis. After adjusting for the unrealized gain on investment of \$285,000, the Budget Stabilization Reserve ended at \$34.8 million on a budgetary basis. The FY 2015 Adopted Budget assumes a \$1.7 million contribution from the BSR to fund one-time items. Therefore, the BSR balance at the beginning of Fiscal Year 2015 was \$33.1 million. As detailed in the table below, as of September 30, Council approved six Budget Amendment Ordinances, which reduced the BSR balance by \$367,000 from \$33.1 million to \$32.7 million or 19% of the Fiscal Year 2015 Adopted Operating Expenditure Budget.

Description	Date	Amount	BSR % of Total Use of Funds
Budgetary BSR balance, 6/30/14		\$ 34,798	20.3%
BSR Contribution (Adopted Budget)		(1,732)	
<b>Budgetary BSR balance, 7/1/14</b>		<b>33,066</b>	<b>19.3%</b>
BAOs Authorized by Council:			
Shuttle Contract, EPA Contribution	6/23/14	0	
Golf Course Operating Budget	6/23/14	0	
Transportation Management Authority	8/4/14	(30)	
Sustainability and Climate Action Plan	8/18/14	(137)	
Airport Fund loan for legal counsel	9/22/14	(200)	
Golf Course Operating Loss Reserve	9/22/14	0	
<b>Total BAOs Authorized by Council</b>		<b>(367)</b>	
<b>Ending Budgetary BSR Balance, 9/30/14</b>		<b><u>\$32,699</u></b>	<b><u>19.0%</u></b>

### Enterprise Funds

Following is a summary of change in net position for each of the Enterprise Funds for the three months ended September 30, 2015, including a comparison of results from the same period last year.

**City of Palo Alto  
Enterprise Funds Change in Net Position  
FY 2015 1st Quarter**

	1st Qtr FY 2015	1st Qtr FY 2014	Increase (Decrease)	% Change
Water	5,074	6,053	(979)	(16%)
Electric	(1,160)	4,319	(5,479)	(127%)
Fiber Optic	433	464	(31)	(7%)
Gas	249	615	(366)	(60%)
Wastewater collection	442	336	106	32%
Wastewater treatment	579	828	(249)	(30%)
Refuse	2,369	1,870	499	27%
Storm Drainage	795	793	2	0%
Airport	14	1	13	N/A
<b>Total Change in Net Position</b>	<b>\$ 8,795</b>	<b>\$15,279</b>	<b>\$ (6,484)</b>	<b>(42%)</b>

**Water Fund** 1<sup>st</sup> quarter net position decreased \$1.0 million from prior year due to reduced operating revenues as a result of the 10 percent voluntary reduction in water consumption requested by San Francisco Public Utilities Commission.

**Electric Fund** 1<sup>st</sup> quarter declined \$5.5 million from prior year. \$1.3 million was due to less revenue due to decreased consumption as a result of less construction activity. Connection charges in prior year were extraordinarily high. Other contributing factors are corrections made for prior year meter malfunctions and the new Hewlett Packard solar installation. Utility purchase costs were \$4.4 million higher than prior year due to higher market purchases as a result of less hydroelectric power due to the drought.

**Gas Fund** decreased \$0.4 million from prior year due to increased utility purchase costs and program fees for behavioral energy efficiency programs.

**Refuse Fund** change in net position increased \$0.5 million due to reduced contract services expense and reduced indirect and cost plan charges.

**Pension Update**

The City implemented a second tier pension formula in 2011 (2% @ 60 for Miscellaneous and 3% @ 55 for Safety) as a measure to control the cost of future pension expense. In addition, the California Public Employees' Pension Reform Act of 2013 (PEPRA) mandated a third tier pension formula effective January 1, 2013 (2% @ 62 for Miscellaneous and 2.7% @ 57 for

Safety). Following is a table which shows the employee count in each of the Miscellaneous Plans as of November 2014 compared to May 2013, and the Safety Plans as of November 2014 compared to October 2013.

Miscellaneous Plans				Safety Plans					
Employee Group		# of Employees		Change Inc.(Dec)	Employee Group		# of Employees		Change Inc.(Dec)
		11/10/2014	5/20/2013				11/10/2014	10/28/2013	
City Council and Council Appointed Officers	Tier 1	7	8		IAFF	Tier 1	85	101	
	Tier 2	2	2			Tier 2	6	0	
	Tier 3	1	1			Tier 3	6	0	
	Sub-total	10	11	(1)		Sub-total	97	101	(4)
Fire Chiefs Association (non-sworn)	Tier 1	1	1		PAPOA	Tier 1	67	69	
	Tier 2	0	0			Tier 2	3	2	
	Tier 3	0	0			Tier 3	11	7	
	Sub-total	1	1	0		Sub-total	81	78	3
Management and Professional	Tier 1	119	137		Police Management	Tier 1	8	8	
	Tier 2	37	34			Tier 2	0	0	
	Tier 3	26	1			Tier 3	0	0	
	Sub-total	182	172	10		Sub-total	8	8	0
Service Employees International Union	Tier 1	385	442						
	Tier 2	74	84						
	Tier 3	73	8						
	Sub-total	532	534	(2)					
Utilities Management	Tier 1	43	40						
	Tier 2	0	1						
	Tier 3	1	0						
	Sub-total	44	41	3					
Total	Tier 1	555	628	(73)	Total	Tier 1	160	178	(18)
	Tier 2	113	121	(8)		Tier 2	9	2	7
	Tier 3	101	10	91		Tier 3	17	7	10
Grand Total Misc Plans		769	759		Grand Total Safety Plans		186	187	
%	Tier 1	72%	83%	(11%)	%	Tier 1	86%	95%	(9%)
	Tier 2	15%	16%	(1%)		Tier 2	5%	1%	4%
	Tier 3	13%	1%	12%		Tier 3	9%	4%	5%
	Tier 1	2.7% @ 55				Tier 1	3% @ 50		
	Tier 2	2% @ 60				Tier 2	3% @ 55		
	Tier 3	2% @ 62				Tier 3	2.7% @ 57		

### Baylands Interpretive Center

At the December 2 Finance Committee meeting the Committee discussed the status of the capital improvement project for the Baylands Interpretive Center and Boardwalk, as well as the future operations of the Center. It was agreed that more discussion was needed on the future options for operating the Center as well as whether to repair or replace the Center. The City Manager suggested that the discussion come before the Policy and Services Committee. The City Manager recommended that the Finance Committee discuss the item as part of the 1st Quarter financial report during the December 16, Finance Committee meeting.

#### Attachments:

- Attachment A: FY 2015 1st Qtr Financial Report General Fund (XLSX)

**ATTACHMENT A**  
**CITY OF PALO ALTO**  
**GENERAL FUND FIRST QUARTER FINANCIAL REPORT**  
**FISCAL YEAR ENDING JUNE 30, 2015**  
**(in thousands)**

Categories	BUDGET		ACTUALS (as of 9/30/14)			
	Adopted Budget	Adjusted Budget	Pre Encumbr	Encumbr	Actual	% of Adj Budget*
<b>Revenues &amp; Other Sources</b>						
Sales Tax	25,957	25,957	-	-	3,624	14.0%
Property Tax	31,927	31,927	-	-	69	0.2%
Transient Occupancy Tax	14,156	14,156	-	-	2,276	16.1%
Documentary Transfer Tax	7,514	7,514	-	-	1,302	17.3%
Utility Users Tax	11,285	11,285	-	-	2,473	21.9%
Motor Vehicle Tax, Penalties & Fines	2,164	2,164	-	-	375	17.3%
Charges for Services	23,013	24,130	-	-	6,027	25.0%
Permits & Licenses	7,804	7,738	-	-	1,896	24.5%
Return on Investment	685	685	-	-	6	0.9%
Rental Income	14,254	14,230	-	-	3,711	26.1%
From Other Agencies	453	453	-	-	53	11.7%
Charges To Other Funds	10,647	10,647	-	-	2,653	24.9%
Other Revenues	1,060	1,289	-	-	323	25.1%
<b>Total Revenues</b>	<b>150,919</b>	<b>152,175</b>	-	-	<b>24,788</b>	<b>16.3%</b>
Operating Transfers-In	18,433	18,528	-	-	4,402	23.8%
Encumbrances and Reappropriation		6,355	-	-	-	0.0%
Contribution from Budget Stabilization Reserve As Assumed in the Adopted Budget	1,732	1,732	-	-	-	0.0%
<b>Total Sources of Funds</b>	<b>171,084</b>	<b>178,790</b>	-	-	<b>29,190</b>	<b>16.9%</b>
<b>Expenditures &amp; Other Uses</b>						
City Attorney	2,578	3,129	25	516	542	34.6%
City Auditor	1,065	1,075	-	150	229	35.3%
City Clerk	1,276	1,286	50	27	284	28.1%
City Council	432	517	-	71	86	30.4%
City Manager	2,728	2,980	75	180	455	23.8%
Administrative Services	7,175	7,326	42	140	1,651	25.0%
Community Services	22,764	24,095	329	3,180	5,895	39.0%
Development Services	10,535	10,522	-	287	1,977	21.5%
Library	7,521	8,253	35	931	1,708	32.4%
Office of Sustainability	272	479	50	39	54	29.9%
People Strategy and Operations	3,264	3,757	259	216	717	31.7%
Planning and Community Environment	7,015	8,839	313	1,245	1,616	35.9%
Public Safety	62,054	62,996	276	1,203	14,546	25.4%
Public Works	13,397	14,315	239	903	3,191	30.3%
Non-Departmental	13,272	13,139	-	-	2,414	18.4%
<b>Total Expenditures</b>	<b>155,348</b>	<b>162,708</b>	<b>1,693</b>	<b>9,088</b>	<b>35,365</b>	<b>28.4%</b>
Operating Transfers-Out	2,077	2,276	-	-	519	22.8%
Transfer to Infrastructure	13,659	13,659	-	-	3,415	25.0%
<b>Total Use of Funds</b>	<b>171,084</b>	<b>178,643</b>	<b>1,693</b>	<b>9,088</b>	<b>39,299</b>	<b>28.0%</b>
<b>Net Change to BSR</b>	-	147				
<b>Budget Amendments Authorized by Council thru 9/30/14:</b>						
Shuttle Contract, EPA Contribution (6/23/14)		-				
Golf Course Operating Budget (6/23/14)		-				
Transportation Management Authority (8/4/14)		(30)				
Sustainability and Climate Action Plan (8/18/14)		(137)				
Increase Airport Fund loan for legal counsel (9/22/14)		(200)				
Golf Course Operating Loss Reserve (9/22/14)		-				
<b>Total Budget Amendments Authorized by Council</b>	-	(367)				
<b>Net Change to BSR Excluding BAOs</b>	-	(220)				
<b>BSR Balance</b>	33,066	32,699				
<b>BSR % of Total Use of Funds, excluding Prior year reappropriations &amp; encumbrances</b>	19.3%	19.0%				
<b>Earmarked Reserves, 9/30/14:</b>						
Shuttle Service Reserve	1,000	1,000				
Transportation Management Authority	150	-				
Human Services Resource Allocation Process (HSRAP)	50	50				
Golf Course Operating Loss	-	540				
	1,200	1,590				

\* Including reappropriations and prior year encumbrances