This is an informational report and no Council action is required.

**BACKGROUND**

The purpose of this report is to provide the Finance Committee with insight into the financial condition of the City’s General Fund (GF) as of the third quarter of 2003-04.

**DISCUSSION**

Revenue Highlights for Third Quarter Fiscal Year 2003-04 Financial Results
Attachment A shows third quarter year-to-date actual revenues as a percentage of the Adjusted Budget. One would expect that by the end of the third quarter, the City would receive ¾ or 75 percent of projected revenues. In fact, due to seasonal, State and county payment schedules, and other timing variations, revenues reflected in the City’s General Ledger may not represent three quarters of activity. It is only when the City “closes its books” at year-end that performance compared to budget can be realistically assessed. Nevertheless, staff has attempted to describe variances that are at least 5 percentage points below the 75 percent level and to comment on whether budget goals will be met in these categories.

*Transient Occupancy Taxes (TOT):*
Attachment A shows that transient occupancy taxes are 61 percent of the Adjusted Budget. The primary reason for this variance is that the City’s General Ledger reflects revenues through February instead of March. Staff estimates that with March revenues, the City has received nearly 70 percent of budget. The remaining variance is a result of
low room rates charged by hotels to attract customers in a weak economy. The average daily rate through March has been $113 compared to $123 for the same period last year.

On a positive note, February and March data indicate that occupancy and daily rates are beginning to steady and move marginally higher. Average occupancy rates for the past 6 months have exceeded those in the prior year and, more importantly, average room rates have moved from a low of $97 in December to a yearly high of $125 in March. Staff is hopeful that final quarter receipts will close part of the variance cited above.

Property Taxes:
Property taxes also show that 61 percent of budget revenues have been received. Taking into account a late entry that belongs in March, actual receipts jump to 68 percent of budget. Because of a timing issue whereby the county makes a final reconciliation payment in late June and based on property tax receipts through the first half of the year, staff believes actual receipts at year-end will be close to the adjusted budget of $14.1 million.

Sales Tax:
Sales tax receipts through March are 72 percent of budget. As with TOT, this economically sensitive and important revenue source has been weaker than expected due to the extended economic downturn. All economic segments have performed poorly in 2003-04 with special emphasis on automobile sales. Although the rates of decline in the past two quarters compared to prior year quarters has gone down and local economic conditions are slowly improving, staff foresees continued softness in final quarter sales tax revenues. This would lead to year-end revenues below budget.

Charges for Services:
Charges for services receipts are 70 percent of adjusted budget as of the third quarter. With two large projects expected to remit plan check fees in the near future, this category of revenue is expected to reach its $17.4 million projection at year-end.

Permits and Licenses:
Permits and licenses receipts are 46 percent of the $4.2 million adjusted budget. The $1.2 million variance is primarily due to delayed processing of the new Public Works Department street cut fee ($0.7 million) and cyclical delay in payments of building permit fees. Revenues are expected to reach the adjusted $4.2 million by year-end.

Other Revenues:
Other revenues are 40 percent of budget or $0.6 million below projection. This variance is primarily due to delays in receipt of grant payments for capital projects. These payments are expected to be received by year-end.
Expense Highlights for Third Quarter Fiscal Year 2003-04 Financial Results

Just as revenues are cyclical in nature, so too are some expenditures. Given that the percentage of adjusted budget used could include commitments for the entire fiscal year, departments are within their expected target range. By year-end, staff expects that department actual expenditures will meet their adjusted budget goals.

Excess of Overtime Expenditures to Adjusted Budget

**General Fund Overtime Analysis:**
Attachment B shows total overtime expenditures reaching 102 percent of adjusted budget. Although most of the General Fund Departments are below or close to 75 percent of their overtime budget, the Police, Fire and Human Resources Departments exceed their budget for the following reasons.

- The Fire Department is at 118 percent of adjusted budget for overtime. The Fire Department is expecting to receive reimbursement of $91,000 from the Southern California fires. With this reimbursement, the adjusted excess of actual overtime over budget is 108 percent. However, savings in regular salary expenditures due to vacancies will offset excess overtime. As of 3/31/04, the Fire Department has used 75.4 percent of the adjusted budget for total “Salaries and Benefits” expenditures.

- The Human Resources Department is at 350 percent of adjusted budget for overtime; although the percentage is high, the dollar amount is only $4,000. The excess overtime was due to SAP implementation of Phase II, HR/Payroll module. Conversion of master data for HR/Payroll process had to be processed between the last pay period of the previous calendar year and the first pay period of the current calendar year. Use of overtime was the only option to meet this critical deadline. As of 3/31/04, the Human Resources Department has used 78.6 percent of the adjusted budget for total “Salaries and Benefits” expenditures.

- The Planning Department is at 88 percent of adjusted budget for overtime. However the excess of actual overtime over budget is offset in salary savings. As of 3/31/04, the Planning Department has used 73 percent of the adjusted budget for total “Salaries and Benefits” expenditures.

- The Police Department is at 103 percent of adjusted budget for overtime. The Police Department has received reimbursement of approximately $50,000 from Stanford University football games and the IKEA store opening. With this reimbursement, actual overtime equals 98 percent of adjusted budget. Savings in salary expenditures due to vacancies offsets excess overtime. As of 3/31/04, the
Police Department has used 68.6 percent of the adjusted budget for total “Salaries and Benefits” expenditures.

ENVIRONMENTAL REVIEW

The action recommended is not a project for the purposes of the California Environmental Quality Act.

ATTACHMENT

Attachment B: 2003-04, Third Quarter General Fund Overtime

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