TO: HONORABLE CITY COUNCIL
ATTENTION: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: DECEMBER 12, 2006 CMR: 422:06
SUBJECT: FIRST QUARTER FISCAL YEAR 2006-07 FINANCIAL RESULTS

This is an informational report and no Council action is required. The purpose of this report is to provide the Council with information on the financial condition of the City’s General Fund (GF) as of the first quarter of 2006-07.

DISCUSSION
The resurgence of the California and the local economies after trailing the nation for the past several years has resulted in robust growth in City revenues. The City’s unemployment rate is 2.7 percent while the nation and the state are in the 4 to 5 percent range. Economically sensitive revenue sources such as sales and transient occupancy taxes have performed well and are expected to continue to do so, but at a slower growth rate than 2005-06.

The cooling of the housing market, uncertainty of future energy prices, and competition from neighboring cities for both retail sales and attempts to attract businesses such as automobile dealerships to their cities pose risks to budgeted revenues.

Revenue Highlights for First Quarter Fiscal Year 2006-07 Financial Results
Attachment A shows first quarter year-to-date actual revenues as a percentage of the Adjusted Budget.

Sales Tax receipts for the first quarter of fiscal year 2006-07 are at 17 percent of budget. This is a consequence of the timing of the State’s “triple flip” biannual payments which are made in January and June. Controlling for the timing difference, receipts are expected to be in line with budget.

First quarter results, unadjusted for one-time events, showed a 7.0 percent or $0.35 million increase over the first quarter of 2005-06. The economic segments displaying strength include department and apparel stores, recreation products, restaurants, and auto sales.
Property Tax payments from the county essentially begin in October and are fully paid for the first half of the fiscal year in January. As a consequence, receipts during the first quarter are not indicative of future results. Staff projects that property tax receipts will exceed the adopted budget and that positive adjustments at midyear will occur.

Transient Occupancy Tax (TOT) revenues are expected to be close to budget at year end, with first quarter receipts being up by 2.8 percent. Due to a timing difference in the receipt of August and September 2006 payments, the 9 percent of budget statistic for the first quarter reflects only one month’s receipt (July 2006). Occupancy and per diem rates in the first quarter have improved over those in 2005-06. The strongest TOT months are April, May and June so staff is optimistic that the $6.4 million target for 2006-07 will be realized.

Other Taxes and Fines well exceed the first quarter 25 percent guideline. Documentary transfer tax represents 65 percent of this revenue source which is 11.4 percent above budget in the first quarter. In the last few years, the transfer tax has exceeded expectations. The vigorous housing market with rising residential prices, high sale volumes, coupled with the low interest rate environment contributed to this performance. The transfer tax is a volatile revenue category that is sensitive to transaction volume, the mix of residential and commercial transactions, and the size of individual transactions. The budgeted amount has taken into consideration the softening housing market so staff is optimistic the budget amount will be realized.

Expense Highlights for First Quarter Fiscal Year 2006-07 Financial Results
In many areas, expenditures are cyclical in nature and a department’s commitments could include items for the entire fiscal year. Given the nature of cyclical expenditures and possible commitments for the entire fiscal year, departments are within their expected target range.

Excess of Overtime Expenditures to Adjusted Budget

General Fund Overtime Analysis:
Attachment B shows total overtime expenditures reaching 45 percent of adjusted budget. Although most of the General Fund departments are below their overtime budgets, the Fire, Community Services and Police Departments exceed their budgets for the following reasons:

- The Fire Department is at 54 percent of adopted budget for overtime. The main factors contributing to overtime usage are disability leave, staffing shortages and coverage due to vacations which are highest during the summertime. Currently, there are eight personnel on disability leave and a staffing shortage due to three retirements and two promotions. The overtime will be partially offset with salary savings due to vacancies.

- The Police Department is at 48 percent of the adopted budget for overtime. The main factors contributing to overtime usage are staffing shortages due to vacancies and disability leave and newly hired officers assigned to the academy and patrol program. In addition, in response to increased crime, the City implemented “Operation Safe Neighborhoods.” This program placed additional police officers on the streets which created an unanticipated increase in overtime. Overtime usage will be partially offset with salary savings due to vacancies.
• The Community Services Department is at 29 percent of the adopted budget for overtime. Overtime usage is cyclical and is due to summer programs and maintenance, holiday usage and emergency needs. Staff anticipates that the department will remain within its overtime budget for the year as a whole.

ENVIRONMENTAL REVIEW
This is not a project for the purposes of the California Environmental Quality Act.

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ATTACHMENTS
Attachment B: 2006-07, First Quarter General Fund Overtime