TO: HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: MAY 13, 2008 CMR: 228:08

SUBJECT: THIRD QUARTER FISCAL YEAR 2007-08 GENERAL FUND FINANCIAL RESULTS

This is an informational report and no Council action is required. The purpose of this report is to provide the Council with insight into the financial condition of the City’s General Fund as of the third quarter of fiscal year 2007-08.

DISCUSSION
At third quarter, General Fund operating revenues and expenditures are at 68 and 76 percent of the adjusted budget respectively. Timing issues related to the collection of tax revenues and recognition of contract encumbrances result in expenditures exceeding revenues. By year-end, General Fund revenues are projected to exceed expenses.

During the first half of this fiscal year, the City experienced growth in its economically sensitive revenue sources such as sales and transient occupancy taxes. In the third quarter, however, this growth has moderated. This is a consequence of recessionary fears heightening, consumer confidence and home values declining, lending standards tightening, and unemployment and inflation rising.

Revenue Highlights for Third Quarter Fiscal Year 2007-08
Attachment A shows third quarter year-to-date actual revenues as a percentage of the Adjusted Budget.

Sales Tax: Receipts for the third quarter of fiscal year 2007-08 are at 68 percent of the adjusted budget. This variance is a consequence of the timing of the State’s “triple flip” biannual payments which are made in January and May. On a quarter to quarter basis, the economic segments showing moderate strength within the City were apparel and department stores, recreation products, and office/electronic equipment. Those showing decreases were auto, drug stores, building materials, and light industry.

Property Taxes: Payments from the County for the second half of the fiscal year essentially begin in March and are fully paid by June. As a result of the timing of payments, receipts show at 61 percent of the adjusted budget at the end of the third quarter. This is not indicative of
expected year-end performance. Staff has noticed, however, a weakening in property tax growth so it is possible that year end results will be moderately under budget.

**Transient Occupancy Taxes (TOT):** By year end, this revenue is expected to slightly surpass the budget even though this report shows 63 percent of budget collected through March. The 63 percent is primarily caused by the timing of hotel payments. In addition, the strongest TOT months are in April, May, and June, so staff is expecting the $7.7 million budget for 2007-08 to be achieved. Compared to the prior year, average citywide occupancy and room rates through January 2008 have steadily risen to 74 percent and $145 per night, respectively.

**Expense Highlights for Third Quarter Fiscal Year 2007-08**

Expenditures are often cyclical in nature and a department’s commitments could include items for the entire fiscal year. Given these facts, departments are generally expected to conclude the year within their adjusted budgets.

**Excess Overtime Expenditures**

Attachment B shows total overtime expenditures reaching 122 percent of the adjusted budget. Although most of the General Fund departments are below their overtime budget, the Fire, Police and Planning Departments are exceeding their budgets for the following reasons:

- The Fire Department is at 134 percent of adjusted budget for overtime. The main factors contributing to cyclical usage are: backfills for disability leave, vacancies, sick leave use, and high vacation use during summer months ($600,000); staffing of Station 8 ($200,000); staffing of Medic-1 ($309,000); in and out-of-county mutual aid Strike Team responses ($125,000, of which $105,382 was reimbursed); mandated training and other personnel leave ($40,000). There are 4 personnel on long-term disability leave (2 of whom recently retired). There are 6 entry-level personnel currently in the fire training academy. When their training is completed in July, the Fire Department will be at full suppression staffing. There was a negligible increase in overtime for minimum staffing backfill due to many of the open firefighter positions being filled.

- The Planning Department is at 100 percent of the adjusted budget for overtime. Staff vacancies in the Building division resulted in other staff working overtime to handle the unusually high workload generated by large construction projects. The Building division is now fully staffed, which should reduce the necessity for overtime for the remainder of the year to budgeted levels.

- The Police Department is at 134 percent of the adjusted budget for overtime. The main factors contributing to overtime usage are: staffing shortages due to disability leave; vacancies in Patrol and the 9-1-1 Dispatch Center; and academy and field training programs ($1,148,000). Also, overtime was incurred for: the response and investigation of the fire on University Avenue ($38,000); the investigation of a sexual assault case ($44,000); traffic control services at Stanford football games ($106,000) which is partially reimbursed by the university; the Tour of California bike race ($32,000); and other city-sponsored events. Overtime usage will be partially offset with salary savings.

With the Police and Fire Departments removed from the overtime analysis, General Fund overtime expense is at 72 percent of adjusted budget as of the third quarter.
ATTACHMENT
Attachment A: 2007-08, Third Quarter Financial Report, General Fund
Attachment B: 2007-08, Third Quarter General Fund Overtime

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