



City of Palo Alto

Finance Committee Staff Report

(ID # 4927)

Report Type: Action Items

Meeting Date: 8/5/2014

Summary Title: FY 2014 3rd Qtr Financial Report

Title: FY 2014 Third Quarter Financial Report

From: City Manager

Lead Department: Administrative Services

Motion

Staff recommends that Finance Committee consider a motion to review and approve the 3rd Quarter financial report.

Background

The purpose of this report is to provide information on the financial status of the General Fund and Enterprise Funds through the first nine months of fiscal year (FY) 2014.

As reported during the mid-year budget review in March, the City's major tax revenue streams are exceeding expectations. In particular, sales tax, transient occupancy tax and documentary transfer tax revenues are continuing to trend upward. As a result, the mid-year budget changes included a \$6.4 million upward adjustment in revenues, an increase of 4.0 percent over the Adopted Budget. Expenses were also adjusted upward and, after subtracting Budget Amendments authorized by Council, the net projected surplus for the year stands at \$4.2 million. Attachment A contains a line by line report of major revenues and expenditures, as well as a comparison of FY 2014 Adopted and the Adjusted Budget through March 31, 2014.

Levels of revenue activity in the 3rd and 4th Quarters of the fiscal year continue to support the trends seen in the first half of FY 2014, with revenue levels having exceeded the projections in the FY 2014 Adjusted Budget. As discussed during the Finance Committee and City Council review of the FY 2015 Proposed Budget, staff projects that the FY 2014 budget surplus will be approximately \$6 million due to higher than anticipated revenues and expenditure savings. Based on City Council direction, and provided the \$6 million surplus is realized, in support of the approved Infrastructure Plan as part of closing the FY 2014 budget, \$4 million of this budget surplus will be transferred to the Infrastructure Reserve. The approximately \$2 million in remaining surplus will be carried into FY 2015 to cover one-time expenditures for the upcoming fiscal year.

Discussion

GENERAL FUND

Revenue Highlights for FY 2014 3rd Quarter Year To Date (YTD)

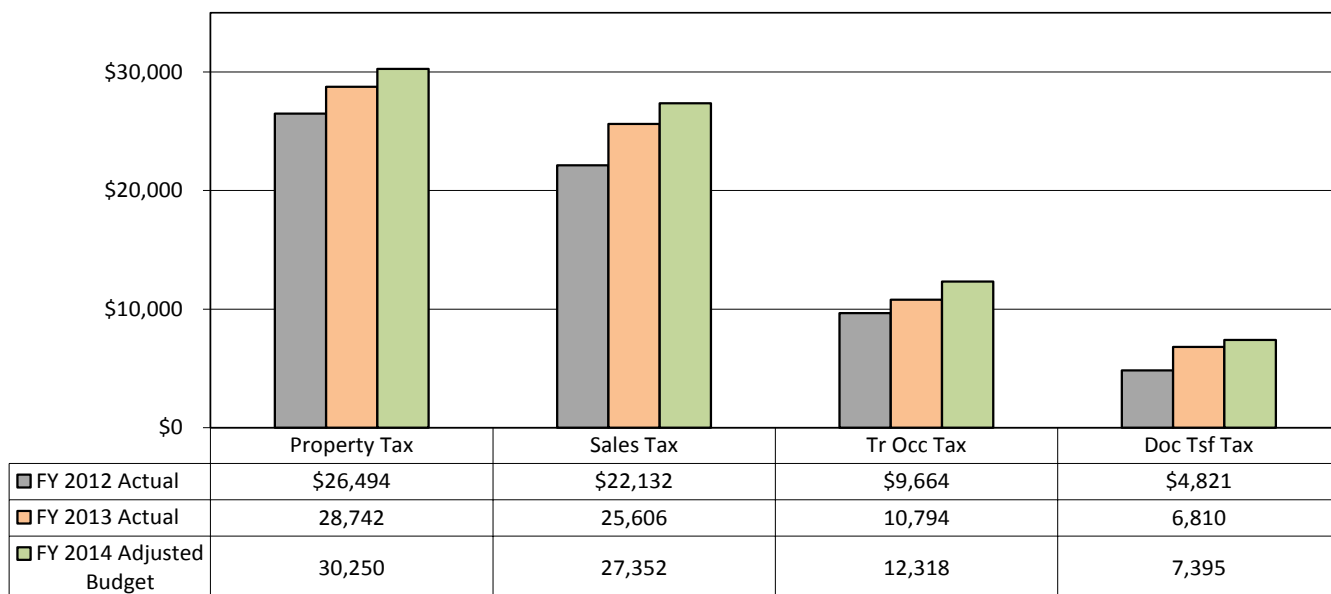
Following is a table which highlights the City’s major revenue sources for the 3rd Quarter YTD, compared to the same period of the prior year. In addition, revenue for the period is expressed as a percentage of the Adjusted Budget.

City of Palo Alto General Fund Revenues FY 2014 3rd Quarter YTD (000's)								
	3rd Quarter YTD Actuals			Adjusted Budget		Final Budget		
	FY 2014	FY 2013	% change	FY 2014	%	FY 2013	%	
	Inc(Dec)							
Property tax	\$ 19,042	\$ 18,320	4%	\$ 30,251	63%	\$ 27,912	66%	
Sales tax	20,425	16,554	23%	27,352	75%	23,364	71%	
Charges for services	15,334	16,221	(5%)	22,445	68%	25,646	63%	
Utility user tax	8,048	7,760	4%	11,386	71%	10,825	72%	
Transient occupancy tax	7,553	6,775	11%	12,318	61%	10,439	65%	
Documentary transfer tax	5,610	4,916	14%	7,395	76%	6,800	72%	
Permits and licences	4,961	5,548	(11%)	7,942	62%	7,998	69%	
All other revenue sources	21,646	21,574	0%	30,027	72%	27,965	77%	
Total General Fund Revenues	\$ 102,619	\$ 97,668	5%	\$ 149,116	69%	\$ 140,949	69%	

In total, revenue is up 5 percent, or \$5.0 million, from prior year as of the end of the 3rd Quarter YTD, driven primarily by sales tax and transient occupancy tax increases. In total, receipts are at 69 percent of Adjusted Budget, which is typical for the end of the 3rd Quarter due to property tax receipts which spike in the last quarter of the fiscal year.

Following is a graph which demonstrates the three year trend for major sources of General Fund tax revenue, and compares FY 2012 and FY 2013 actuals with FY 2014 Adjusted Budget. While the overall trajectory for tax revenue sources continues to be an upward trend, the year-over-year increase is at a slower pace for all categories except transient occupancy tax, which demonstrates an accelerated rate of growth. The graph is followed by a more detailed discussion of each major revenue category.

General Fund Revenues
FY 2012 and 2013 Actuals Compared to FY 2014 Adjusted Budget
(000's)



Property tax revenue at the close of 3rd Quarter YTD was \$19.0 million, or 63 percent of the Adjusted Budget. Property tax is received from the County of Santa Clara during the 2nd, 3rd and 4th quarters of the year, and we expect the remaining 37 percent of budgeted revenue will be received in the 4th Quarter. The FY 2014 budgeted amount is \$30.3 million, 5.2 percent higher than the prior year’s actual revenue of \$28.7 million.

Sales tax revenue for the 3rd Quarter YTD has increased \$3.9 million, or 23 percent, from the same period last year for a total of \$20.4 million. The Adjusted Budget incorporated an increase of \$3.5 million due to higher than expected receipts from a single vendor in the first two quarters of the current fiscal year. Through the first three quarters of the fiscal year, receipts are right at 75 percent of Adjusted Budget, and we expect to receive the remaining 25 percent in the 4th Quarter.

Transient occupancy tax revenue reached \$7.6 million through the end of the 3rd Quarter. This represents 61 percent of the Adjusted Budget amount, and we expect to receive the remaining 39 percent during the 4th Quarter. Daily rates increased 14 percent from prior year - \$177 per day to \$202 per day - while occupancy rates remained flat at 78 percent. The total number of

rooms available increased by 86, or 5 percent, in March, 2014 with the opening of the Epiphany Hotel.

Documentary transfer tax revenue totals \$5.6 million, or 76 percent of the FY 2014 Adjusted Budget amount. If the current trend is maintained, receipts may exceed budget by the end of the current fiscal year.

Charges for services revenue through the first three quarters of FY 2014 is down \$0.9 million, or 5 percent, from the same period last year. This decrease is due to the following items, all of which were adjusted for in the Mid-Year budget:

- Golf related fees have declined by \$0.4 million from the same period prior year due to course closure for renovations.
- Plan check fees for the 3rd Quarter YTD have decreased by \$0.4 million from same period prior year due to reduced volume of activity.
- Spay and neuter fees at Animal Services have decreased by \$0.1 million from the same period prior year due to decreased services available to the public.

Permits and licenses revenue for 3rd Quarter YTD is down \$0.6 million from the same period prior year due to a decrease in new construction permits.

Expense Highlights for FY 2014 3rd Quarter YTD

Following is a table which highlights the City's expenses by function for the 3rd Quarter YTD, and compares expenses to the same period prior year. In addition, the expense for the period is expressed as a percentage of the annual budget for each of the years.

**City of Palo Alto
General Fund Expenses
FY 2014 3rd Quarter YTD
(000's)**

	3rd Quarter YTD Actuals			Adjusted Budget		Final Budget	
	FY 2014	FY 2013	% change	FY 2014	%	FY 2013	%
	Inc (Dec)						
Public safety	\$ 45,548	\$ 42,782	6%	\$ 62,418	73%	\$ 61,498	70%
Community services	16,172	15,158	7%	24,042	67%	22,518	67%
Public works	9,906	9,394	5%	14,564	68%	14,753	64%
Planning and community env	8,972	7,388	21%	15,141	59%	13,382	55%
Library	5,384	4,798	12%	8,622	62%	7,683	62%
Administrative services	5,276	5,059	(4%)	7,512	70%	7,525	67%
All other departments	14,499	13,302	9%	20,932	69%	20,749	64%
Total General Fund Expenses	\$ 105,757	\$ 97,881	8%	\$ 153,231	69%	\$ 148,108	66%

Actual expenses through the first three quarters of the fiscal year total \$105.7 million, an 8 percent increase over prior year. The expenses are right in line with the Adjusted Budget at 69 percent of full-year budgeted amounts.

Planning and Community Environment expenses are higher than prior year by \$1.6 million. This difference is temporary and is due to the timing of a correction to contractor payment expense which was made in the 4th Quarter of the prior year.

Library expenses are up over prior year due to increased book purchases, which were budgeted.

Public Safety comprises the largest portion of General Fund expenditures. Following is the detail for Public Safety salaries and overtime expenses through the 3rd Quarter of the current fiscal year:

Public Safety
Salaries and Overtime Expense
FY 2014 3rd Quarter YTD
(000's)

	3rd Quarter YTD Actuals			Adjusted Budget		Final Budget	
	FY 2014	FY 2013	% change	FY 2014	%	FY 2013	%
	Inc (Dec)						
Police - Salaries	\$ 11,146	\$ 10,673	4%	\$ 15,825	70%	\$ 14,631	73%
Police - Overtime	1,358	1,173	16%	1,500	91%	970	121%
Fire - Salaries	8,920	9,057	(2%)	12,813	70%	12,932	70%
Fire - Overtime	1,768	1,367	29%	1,475	120%	1,624	84%

Police overtime has increased \$0.2 million, or 4 percent, over the same period last year. The increase occurred in the 1st Quarter of the fiscal year, and has remained flat since then. The increase is attributable to the following factors:

- One-time special events, such as an event in Mountain View, and 400 hours of overtime at Cubberley Community Center (\$35,000);
- Significant number of new officers hired, and reinstatement of the traffic team, necessitated more overtime than usual to train new motor and entry-level officers;
- Backfill for 4 injuries, compared to 1 in the prior year;
- Backfill for an Academy Training Officer due to the significant number of recruits currently in the Police Academy.

Events or incidents that might not normally have a significant impact during other times of the year had a disproportionately negative impact on overtime when they occurred together and were coupled with the summer vacation season, which is normally the Department's heaviest vacation period. The Department receives partial reimbursement for overtime 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 special events are partially offset by reimbursements from the University and other organizations.

Fire overtime has increased \$0.4 million, or 29 percent, over the same period last year. The increase is attributable to the following factors:

- Front-line vacancies during the first two quarters of the fiscal year;
- Eight Workers Comp absences, compared to five in the same period last year;
- Mutual aid fire response to the Rim Fire in the Yosemite area, for which the City has been reimbursed \$50,000 from the State of California;
- Support of succession planning and career development in anticipation of key leadership changes and at least twenty anticipated retirements;

- Participation in a nationally recognized command and control system which required training for Captains and Acting Captains.

Overall, the Department is under budget in regular salaries and benefits, due primarily to the aforementioned vacancies.

General Fund Budget Stabilization Reserve (BSR) Balance

The FY 2014 General Fund Adopted Budget reflects a surplus position of \$0.9 million. As detailed in Attachment A, after giving effect to Budget Amendments and adjustments during the mid-year process, the projected surplus for the year is \$4.2 million. This will result in an ending BSR balance of \$34.6 million, or 21.2 percent of Total Uses of Funds. Staff anticipates the City could end the year with a \$6.0 million surplus due to continuing upward revenue trends through the 3rd and 4th Quarters as well as expenditure savings.

ENTERPRISE FUNDS

Following is a summary of change in net position for each of the Enterprise Funds for the nine months ended March 31, 2014, including a comparison of results from the same period last year.

Enterprise Funds Operating Revenue					
	3rd Quarter YTD Actuals		% Change Inc(Dec)	Mid-Year Budget	
	FY 2014	FY 2013		FY 2014	%
Water	\$ 30,686	\$ 27,637	11%	\$ 38,785	79%
Electric	92,248	88,943	4%	127,615	72%
Fiber Optic	2,799	3,424	(18%)	3,828	73%
Gas	27,804	27,161	2%	38,202	73%
Wastewater collection	11,533	11,819	(2%)	15,627	74%
Wastewater treatment	16,317	16,206	1%	22,400	73%
Refuse	22,538	22,790	(1%)	29,449	77%
Storm Drainage	4,550	4,442	2%	5,897	77%
Airport	0	0	N/A	325	0%
Operating Revenue YTD	\$ 208,475	\$ 202,422	3%	\$ 282,128	74%

Water Fund 3rd Quarter YTD revenue has increased \$3.0 million, or 11 percent, from same period prior year due to increased operating revenues as a result of a 7 percent water rate increase effective July 1, 2013, as well as dramatically dry weather conditions which are driving increased usage.

Electric Fund YTD revenue increased \$3.3 million, or 4 percent, due to increased operating revenues of \$1.8 million, increased service connection charges of \$1.0 million, and \$0.4 million more in Carbon Cap and Trade revenue.

Fiber Optics Fund 3rd Quarter YTD revenue decreased \$0.6 million from prior year due to prior year revenue of \$0.6 million Stanford connection fee and \$0.2 million bad debt recovery, offset by a 2.2 percent CPI rate increase for commercial dark fiber customers effective July 1, 2013.

Enterprise Funds Operating Expenses						
	3rd Quarter YTD Actuals		% Change Inc(Dec)	Mid-Year Budget		%
	FY 2014	FY 2013		FY 2014		
Water	\$ 18,639	\$ 18,294	2%	\$ 26,297		71%
Electric	69,862	61,829	13%	106,994		65%
Fiber Optic	977	843	16%	1,521		64%
Gas	16,690	16,044	4%	24,537		68%
Wastewater collection	9,217	8,974	3%	13,561		68%
Wastewater treatment	12,864	12,280	5%	18,352		70%
Refuse	18,829	18,953	(1%)	27,782		68%
Storm Drainage	1,577	1,619	(3%)	2,371		67%
Airport	304	139	119%	440		69%
Operating Expenses YTD	\$ 148,959	\$ 138,975	7%	\$ 221,855		67%

Electric Fund operating expenses through the 3rd Quarter total \$69.9 million, or 13 percent higher than the same period last year due to increased commodity purchases as a result of less hydroelectric power being generated.

Fiber Optics Fund expenses are 16 percent higher than the same period last year due to higher operations and administrative expenses.

Airport Fund expenses have increased due to salary and benefit expenses for the Airport Manager. The position was filled as of the 4th Quarter of FY 2013. Airport expenses are being funded by a loan from the General Fund.

Pension Update

The City implemented a second tier pension formula in 2011 (2% @ 60) 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 of 2% @ 62 effective January 1, 2013. Following is a table which shows the employee count in each of the

Miscellaneous plans as of June 3, 2014 compared to May 20, 2013. Staff will include comparable data for the Safety plans in the FY 2015 1st Quarter financial report.

Employee Group		# of Employees		Change Inc (Dec)
		06/03/2014	5/20/2013	
Council Appointed Officers	Tier 1	2	2	0
	Tier 2	2	2	
	Tier 3	0	0	
Sub-total		4	4	
Fire Chiefs Association (non-sworn)	Tier 1	1	1	0
	Tier 2	0	0	
	Tier 3	0	0	
Sub-total		1	1	
Management and Professional	Tier 1	115	137	1
	Tier 2	38	34	
	Tier 3	20	1	
Sub-total		173	172	
Service Employees International Union	Tier 1	404	442	1
	Tier 2	79	84	
	Tier 3	52	8	
Sub-total		535	534	
Utilities Management	Tier 1 **	42	40	2
	Tier 2	0	1	
	Tier 3	1	0	
Sub-total		43	41	
Total	Tier 1	564	622	(58)
	Tier 2	119	121	(2)
	Tier 3	73	9	64
Grand Total		756	752	4

Tier 1	2.7% @ 55
Tier 2	2% @ 60
Tier 3	2% @ 62

** Tier 1 increased due to promotions from SEIU to Utilities Management.

Attachments:

- Attachment A: FY2014 3rd Qtr Financial Report General Fund (XLSX)

Attachment A

**CITY OF PALO ALTO
FISCAL YEAR 2014 THIRD QUARTER FINANCIAL REPORT
GENERAL FUND
(in thousands of dollars)**

Categories	BUDGET		ACTUALS (as of 03-31-14)			
	Adopted Budget	Adjusted Budget	Pre Encumbr	Encumbr	Actual	% of Adjusted Budget
Revenues & Other Sources						
Sales Tax	23,846	27,352	-	-	20,425	75%
Property Tax	29,613	30,251	-	-	19,042	63%
Transient Occupancy Tax	11,545	12,318	-	-	7,553	61%
Utility Users Tax	11,013	11,386	-	-	8,048	71%
Documentary Transfer Tax	5,699	7,395	-	-	5,610	76%
Motor Vehicle Tax, Penalties & Fines	2,107	2,107	-	-	1,581	75%
Charges for Services	24,379	22,445	-	-	15,334	68%
Permits & Licenses	8,346	7,942	-	-	4,961	62%
Return on Investment	769	769	-	-	693	90%
Rental Income	12,891	14,010	-	-	9,885	71%
From Other Agencies	252	381	-	-	167	44%
Charges To Other Funds	10,574	10,604	-	-	7,916	75%
Other Revenues	2,010	2,156	-	-	1,404	65%
Total Revenues	143,044	149,116	-	-	102,619	69%
Operating Transfers-In	17,529	17,910	-	-	13,111	73%
Encumbrances and Reappropriation		5,571	-	-		-
From Infrastructure Reserve			-	-		-
Total Sources of Funds	160,573	172,597	-	-	115,730	67%
Expenditures & Other Uses						
City Attorney	2,453	2,967	45	508	1,891	82%
City Auditor	1,088	1,110	5	35	718	68%
City Clerk	1,258	1,283	-	17	824	66%
City Council	497	659	-	62	367	65%
City Manager	2,499	2,737	8	155	2,040	80%
Administrative Services	7,280	7,512	26	198	5,276	73%
Community Services	22,700	24,042	92	1,815	16,172	75%
Library	7,793	8,622	117	186	5,384	66%
People Strategy and Operations	3,265	3,761	13	248	2,157	64%
Planning and Community Environment	13,608	15,141	228	1,107	8,972	68%
Public Safety	60,962	62,418	198	1,042	45,548	
Public Works	13,751	14,564	100	1,071	9,906	76%
Non-Departmental	1,228	1,147	-	-	1,074	94%
Cubberley Lease	7,268	7,268	-	-	5,428	75%
Total Expenditures	145,650	153,231	832	6,444	105,757	74%
Operating Transfers-Out	843	1,843	-	-	10,552	573%
Transfer to Infrastructure	13,226	13,226	-	-	-	0%
Total Uses of Funds	159,719	168,300	832	6,444	116,309	73%
Net Surplus (Deficit)	854	4,297				
Budget Amendments Authorized by Council:						
CSD park maintenance (6/12/13)		227				
Election costs (9/9/13)		585				
Homeless Systems (11/18/13)		125				
Management Compensation Update (1/27/14)		98				
Comprehensive Plan (3/17/14)		200				
Midyear (5/5/14)		(4,678)				
Total Augmentations Authorized by Council	-	(3,443)				
Net Surplus/(Deficit) Excluding BAOs	854	854				
Budget Amendments Authorized by Council after 3/31:						
Golf Course (4/29/14)		100				
Total Augmentations Authorized by Council after 3/31:	-	100				
Net Surplus/(Deficit) After BSR Drawdown	854	4,197				
Beginning Reserves	30,355	30,355				
Projected Ending Reserves	31,209	34,552				
BSR % of Total Use of Funds	19.5%	21.2%				