



City of Palo Alto

Finance Committee Staff Report

(ID # 6351)

Report Type: Action Items

Meeting Date: 12/15/2015

Summary Title: 1st Quarter FY 2016 Financial Results

Title: First Quarter Fiscal Year 2016 Financial Results

From: City Manager

Lead Department: Administrative Services

Motion

Staff recommends that Finance Committee review and approve the first (1st) 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 1st Quarter of fiscal year (FY) 2016.

Discussion

The FY 2016 1st 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 prior year and to the FY 2016 Adjusted Budget.

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.

General Fund revenues (excluding operating transfers and other sources) for the 1st Quarter FY 2016 total \$22.9 million which is \$1.8 million, or 7 percent, lower than the same period prior year. Revenue decreases occurred in the sales tax and charges for services categories, and revenue increases occurred in the transient occupancy tax (TOT) and documentary transfer tax (DTT) categories. These variances are explained in detail in the Revenue Highlights section.

General Fund expenses for 1st Quarter are 8 percent higher than prior year, and are tracking at 23 percent of Adjusted Budget which is identical to the prior year's trend.

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

Revenue Highlights for 1st Quarter FY 2016

Following is a table which highlights the City's major revenue sources for the 1st Quarter, compared to 1st Quarter of the prior year. Each quarter's revenue is expressed as a percentage of the Adjusted Budget for that year. Revised projections for the major tax categories are currently being prepared, and adjustments may be brought forward for City Council consideration as part of the FY 2016 Mid-Year Budget Review.

City of Palo Alto General Fund Revenue FY 2016 1st Quarter (000's)							
	1st Quarter Actuals			Adjusted Budget			
	FY 2016	FY 2015	% change	FY 2016	%	FY 2015	%
Property Tax	\$ 57	\$ 69	N/M	\$ 35,067	0%	\$ 31,927	0%
Sales Tax	1,251	3,624	(65%)	27,630	5%	25,957	14%
Charges for Services	3,450	6,027	(43%)	24,379	14%	24,379	25%
Transient Occupancy Tax	3,283	2,276	44%	18,791	17%	14,156	16%
Utility User Tax	2,635	2,473	7%	11,189	24%	11,285	22%
Permits and Licenses	2,340	1,896	23%	8,211	28%	7,804	24%
Documentary Transfer Tax	1,914	1,302	47%	6,852	28%	7,514	17%
All Other Revenue Sources	8,019	7,121	13%	33,232	24%	29,380	24%
Total Revenue	\$ 22,949	\$ 24,788	(7%)	\$ 165,351	14%	\$ 152,402	16%

Property tax revenue in the 1st Quarter of the fiscal year is typically only a nominal amount as property tax receipts are paid by the County primarily in the months of November and March. FY 2015 actual property tax revenue was \$34.1 million which included a one-time receipt of \$1.0 million from the County of Santa Clara for an Educational Revenue Augmentation Fund (ERAF) distribution. The FY 2016 budgeted amount is \$35.1 million, 2.8 percent higher than the prior year's actual revenue (5.9 percent higher without the one-time receipt).

Sales tax revenue for the 1st Quarter has decreased \$2.4 million from the same period last year due to the one-time accounting adjustment made in FY 2015 which aligned the sales tax accrual with the fiscal year, increasing the FY 2015 revenue and decreasing the FY 2016 revenue. Exclusive of this accounting adjustment, the first receipt of \$1.251 million for the current fiscal year compares to the prior year's first receipt of \$1.256 million.

Charges for services revenue is down \$2.5 million from the same quarter last year. This decrease is due to a combination of the following items:

- Stanford fire service revenue for the 1st Quarter of FY 2016 in the amount of \$2.0 million was invoiced in October (2nd Quarter). In the prior year it was invoiced in September (1st Quarter). This is a timing difference which will be neutralized before the end of the fiscal year.
- Paramedic service fees decreased \$240 thousand from the same period last year due to fewer trips.
- Plan check fees for the 1st Quarter decreased by \$299 thousand from prior year's 1st Quarter due to two large projects in the prior year's 1st Quarter.

Transient occupancy tax (TOT) revenue of \$3.3 million represents approximately two months of collections and compares to revenue of \$2.3 million for the same period prior year. Factors contributing to this increase are:

- TOT rate increased from 12 percent to 14 percent effective January 1 2015, which generated \$0.5 million in receipts in the current year 1st Quarter from all hotels. In addition, the 12 percent TOT from newly opened hotels contributed \$0.7 million in the 1st Quarter, for a total of \$1.2 million that is separated out for transfer to the Infrastructure Plan.
- Daily rates increased 28 percent from prior year - \$190 per day to \$244 per day - however occupancy rates decreased from 85 percent to 80 percent. The total number of rooms available increased by 182, or 9 percent, with the Hilton Garden Inn and Homewood Suites both opening in March 2015.

Documentary transfer tax receipts total \$1.9 million, which is \$0.6 million greater than prior year receipts for the same period. Year over year, the number of transactions is comparable but the dollar value of current year transactions is higher. These receipts are variable in nature and difficult to predict. The 2nd Quarter receipts to date are trending lower than 1st Quarter as a result of fewer transactions.

Permits and licenses revenue totals \$2.3 million, or 28 percent of the FY 2016 Budget, with the \$0.4 million increase from prior year primarily due to an increase in new construction permit revenue.

Expense Highlights for 1st Quarter FY 2016

Following is a table which highlights the City's expenses by function for the 1st Quarter, compared to 1st 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 2016 1st Quarter (000's)								
	1st Quarter Actuals			Adjusted Budget				
	FY 2016	FY 2015	% change	FY 2016	%	FY 2015	%	
	inc (dec)							
Police	\$ 8,675	\$ 8,120	7%	\$ 37,042	23%	\$ 34,399	24%	
Fire	6,902	6,425	7%	27,022	26%	28,597	22%	
Community Services	6,199	5,896	5%	25,966	24%	24,115	24%	
Public Works	3,718	3,191	17%	16,040	23%	14,315	22%	
Development Services	2,235	1,977	13%	12,018	19%	10,772	N/A	
Library	1,944	1,708	14%	8,727	22%	8,253	21%	
Administrative Services	1,859	1,651	13%	7,738	24%	7,326	23%	
Planning and Community Env	1,832	1,616	13%	11,289	16%	8,839	18%	
All Other Departments	4,940	4,781	3%	24,203	20%	19,836	24%	
Total Expenses	\$ 38,304	\$ 35,365	8%	\$ 170,045	23%	\$ 156,452	23%	

Total expenses for the 1st Quarter of the fiscal year are up 8 percent from the same quarter last year, which is right in line at 23 percent of the total budgeted amounts.

Police and Fire expenses comprise 41 percent of total General Fund expenditures for the 1st Quarter, which is comparable to the prior year. Following is a table which highlights Police and Fire overtime for the 1st Quarter.

Police and Fire Overtime Expense FY 2016 1st Quarter (000's)							
	1st Quarter Actuals			Adjusted Budget			
	FY 2016	FY 2015	% change	FY 2016	%	FY 2015	%
	Inc (Dec)						
Police - Overtime	486	465	5%	1,539	32%	1,500	31%
Fire - Overtime	790	780	1%	1,383	57%	1,609	48%

Police overtime is up slightly from prior year, and higher than normal due to overtime in the dispatch center because of staff vacancies. Fire overtime is comparable to prior year, but has consumed a higher percentage of budgeted dollars year to date. This is due to the additional strike teams that were deployed this year to assist with regional fires. Reimbursement will be

received from the state Office of Emergency Services. Further analysis of police and fire overtime can be found in Attachment B.

General Fund Budget Stabilization Reserve (BSR) Balance

As reported to the Finance Committee on November 17, FY 2015 ended with a surplus of \$13.6 million and a BSR balance of \$48.2 million, after transferring \$5.1 million of surplus funds to the Infrastructure Reserve. After deducting the General Fund Adopted Budget BSR balance of \$34.6 million, staff made recommendations for disposition of the remaining surplus funds as noted below. Council review and approval of these recommendations is scheduled for early 2016.

Description	Amount	% of FY 2016 Budget
Beginning BSR balance, July 1, 2015	\$ 48,198	
Previously approved transfer to Roth Rehabilitation Reserve per CMR #5879 dated June 2015	(1,000)	
FY 2016 one-time expenditures per Adopted Budget	(2,123)	
FY 2016 BAOs approved and scheduled for approval	(2,130)	
Reserved for projects in Infrastructure Plan	(7,000)	
Potential funding for Pension Trust Fund	<u>(1,305)</u>	
Ending BSR Balance, September 30, 2015	<u>\$34,640</u>	18.7%

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 2016 1st Quarter

	1st Qtr FY 2016	1st Qtr FY 2015	Increase (Decrease)	% Change
Water	3,277	3,946	(669)	(17%)
Electric	(643)	(744)	101	14%
Fiber Optic	463	600	(137)	(23%)
Gas	295	(205)	500	(244%)
Wastewater collection	632	476	156	33%
Wastewater treatment	268	524	(256)	(49%)
Refuse	2,781	2,873	(92)	(3%)
Storm Drainage	832	777	55	7%
Airport	88	14	74	N/A
Total Change in Net Position	\$ 7,993	\$ 8,261	\$ (268)	(3%)

Water Fund 1st Quarter net position decreased \$0.7 million from prior year due to the continued reduction of operating revenues as a result of the reduced water consumption mandated by the San Francisco Public Utilities Commission.

Electric Fund 1st quarter improved \$0.1 million from prior year. Utility purchase costs remain at a high level due to less hydroelectric power as a result of the continued drought.

Gas Fund increased \$0.5 million from prior year primarily due to reduced operating transfers to the Electric Fund.

Pension Update

Following is a table which shows the employee count in each of the Miscellaneous and Safety Plans as of November 2015 and November 2014.

ATTACHMENT A
CITY OF PALO ALTO
GENERAL FUND FIRST QUARTER FINANCIAL REPORT
FISCAL YEAR ENDING JUNE 30, 2016
(in thousands)

Categories	BUDGET		ACTUALS (as of 09/30/2015)			
	Adopted Budget	Adjusted Budget	Pre Encumbr	Encumbr	Actual	% of Adj Budget*
Revenues & Other Sources						
Sales Tax	27,630	27,630	-	-	1,251	#DIV/0!
Property Tax	35,067	35,067	-	-	57	#DIV/0!
Transient Occupancy Tax	18,791	18,791	-	-	3,283	#DIV/0!
Documentary Transfer Tax	6,852	6,852	-	-	1,914	#DIV/0!
Utility Users Tax	11,189	11,189	-	-	2,635	#DIV/0!
Motor Vehicle Tax, Penalties & Fines	2,180	2,180	-	-	494	#DIV/0!
Charges for Services	25,399	25,399	-	-	3,450	#DIV/0!
Permits & Licenses	8,211	8,211	-	-	2,340	#DIV/0!
Return on Investment	824	824	-	-	5	#DIV/0!
Rental Income	15,296	15,296	-	-	3,817	#DIV/0!
From Other Agencies	373	457	-	-	577	#DIV/0!
Charges To Other Funds	11,930	11,930	-	-	3,017	#DIV/0!
Other Revenues	1,609	1,646	-	-	109	#DIV/0!
Total Revenues	165,351	165,472	-	-	22,949	#DIV/0!
Operating Transfers-In	18,589	18,589	-	-	4,450	#DIV/0!
Encumbrances and Reappropriation		6,452	-	-	-	#DIV/0!
Contribution from Budget Stabilization Reserve As Assumed in the Adopted Budget	1,732	1,732	-	-	-	#DIV/0!
Total Sources of Funds	185,672	192,245	-	-	27,399	#DIV/0!
Expenditures & Other Uses						
City Attorney	3,101	3,683		583	698	#DIV/0!
City Auditor	1,175	1,206		101	258	#DIV/0!
City Clerk	1,328	1,401		66	223	#DIV/0!
City Council	455	496		42	86	#DIV/0!
City Manager	3,008	3,244		200	741	#DIV/0!
Administrative Services	7,635	7,738		270	1,859	#DIV/0!
Community Services	24,804	25,966	268	3,731	6,199	#DIV/0!
Development Services	11,901	12,018	87	264	2,235	#DIV/0!
Fire	26,532	27,022				
Library	8,555	8,727	23	442	1,944	#DIV/0!
Office of Emergency Services	1,051	1,051				
Office of Sustainability	423	423		50	136	#DIV/0!
People Strategy and Operations	3,555	4,037	11	519	812	#DIV/0!
Planning and Community Environment	8,900	11,289	150	1,233	1,832	#DIV/0!
Police	36,859	37,042				
Public Safety		-	126	1,414	15,601	#DIV/0!
Public Works	15,017	16,040	278	1,159	3,718	#DIV/0!
Non-Departmental	8,662	8,662			1,962	#DIV/0!
Total Expenditures	162,961	170,045	943	10,074	38,304	#DIV/0!
Operating Transfers-Out	1,834	2,212	-	-	459	#DIV/0!
Transfer to Infrastructure	20,877	20,877	-	-	5,219	#DIV/0!
Total Use of Funds	185,672	193,134	943	10,074	43,982	#DIV/0!
Net Changes to BSR - Surplus/(Deficit)		(889)				
Current BSR Balance (as of September 30, 2015)		34,640				
BSR % of Total Use of Funds, excluding Prior year reappropriations & encumbrances		18.7%				

Attachment B
Public Safety Departments
Overtime Analysis for Fiscal Years 2013 through 2016

	2013	2014	2015	<i>thru 09/30/15</i> 2016
POLICE DEPARTMENT				
Overtime Expense				
Adopted Budget	\$967,900	\$1,500,000	\$1,500,000	\$1,500,000
Modified Budget	970,382	1,500,000	1,500,000	1,500,000
Net Overtime Cost - see below	(82,849)	593,565	1,119,728	187,398
Variance to Budget	<u>\$1,053,231</u>	<u>\$906,435</u>	<u>\$380,272</u>	<u>\$1,312,602</u>
Overtime Net Cost				
Actual Expense	<u>\$1,542,754</u>	<u>\$1,711,764</u>	<u>\$1,893,220</u>	<u>\$486,302</u>
Less Reimbursements				
Stanford Communications	51,299	54,552	62,000	13,932
Utilities Communications Reimbursement	28,247	29,845	36,614	7,811
Local Agencies (A)	16,255	8,905	10,425	3,838
Police Service Fees	83,785	73,934	69,570	40,234
Total Reimbursements	<u>179,586</u>	<u>167,236</u>	<u>178,608</u>	<u>65,816</u>
Less Department Vacancies	<u>1,446,017</u>	<u>950,963</u>	<u>594,884</u>	<u>233,088</u>
Net Overtime Cost	<u>(\$82,849)</u>	<u>\$593,565</u>	<u>\$1,119,728</u>	<u>\$187,398</u>
Department Vacancies (number of days)	5,543	4,251	2,506	1,009
Workers' Compensation Cases	10	14	11	
Department Disabilities (number of days)	641	776	468	
FIRE DEPARTMENT				
Overtime Expense				
Original Budget	\$1,624,415	\$1,424,414	\$1,424,414	\$1,382,714
Modified Budget	1,624,415	1,750,956	1,608,710	1,382,714
Net Overtime Cost - see below	628,711	1,012,521	484,339	282,420
Variance to Budget	<u>\$995,704</u>	<u>\$738,435</u>	<u>\$1,124,371</u>	<u>\$1,100,294</u>
Overtime Net Cost				
Actual Expense	<u>\$1,812,170</u>	<u>\$2,562,549</u>	<u>\$2,171,795</u>	<u>\$790,604</u>
Less Reimbursements				
Stanford Fire Services (B)	549,088	776,452	658,054	239,553
Cal-Fire/FEMA (Strike Teams)	-	50,542	118,317	-
Total Reimbursements	<u>549,088</u>	<u>826,994</u>	<u>776,371</u>	<u>239,553</u>
Less Department Vacancies	<u>634,371</u>	<u>723,034</u>	<u>911,085</u>	<u>268,631</u>
Net Overtime Cost	<u>\$628,711</u>	<u>\$1,012,521</u>	<u>\$484,339</u>	<u>\$282,420</u>
Department Vacancies (number of days)	2,340	2,618	2,709	963
Workers' Compensation Cases	9	18	12	
Department Disabilities (number of days)	216	489	175	

NOTES:

(A) Includes Animal Services contract with Los Altos and Los Altos Hills.

(B) Stanford reimburses 30.3% of Fire Service expenditures.

Data not available