



City of Palo Alto

Finance Committee Staff Report

(ID # 10793)

Report Type: Action Items

Meeting Date: 12/3/2019

Summary Title: First Quarter Financial Report FY2020

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From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that the Finance Committee review and approve the financial report for the first quarter of Fiscal Year 2020.

Background

The purpose of this report is to provide information on the financial condition of the City's General Fund and Enterprise Funds as of the end of the first (1st) quarter of fiscal year (FY) 2020.

Discussion

This report summarizes the actual financial activity of the General and Enterprise Funds for the three-month period July 1, 2019 through September 30, 2019 and compares those amounts to the FY 2020 Adjusted Budget as well as to the report for the same period in FY 2019.

Attachment A provides a breakdown of revenues by source and expenses by function, with separate columns for the Adopted Budget and the Adjusted Budget. The Adjusted Budget column includes prior year commitments that were carried forward into this fiscal year and Council approved budget amendments to the FY 2020 Adopted Budget 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 2020 total \$25.7 million, which is 7 percent higher than the same period in FY 2019 and comprises 12 percent of the current year Adjusted Budget. Cash receipts declined in Property tax, Charges for Services and permits & licenses over the prior year's 1st quarter. These lower levels are not indicative of the annual expected receipts in FY 2020, they merely reflect a timing difference.

General Fund expenses for 1st quarter are 3 percent higher than prior year, however, they are tracking at 22 percent of Adjusted Budget which is 1 percent lower than the prior year trend.

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

Revenue Highlights for 1st Quarter FY 2020

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 each year.

City of Palo Alto General Fund Revenue FY 2020 1st Quarter (000's)							
	1st Quarter Actuals			Adjusted Budget			
	FY 2020	FY 2019	% change	FY 2020	%	FY 2019	%
Property Tax	\$ 89	\$107	-17%	\$ 48,634	0%	\$45,332	0%
Sales Tax	2,433	1,800	35%	34,346	7%	31,247	6%
Charges for Services	4,595	4,827	-5%	30,267	15%	28,419	17%
Transient Occupancy Tax	3,199	2,920	10%	29,309	11%	25,049	12%
Utility User Tax	3,528	3,336	6%	17,581	20%	16,092	21%
Permits and Licenses	1,761	1,882	-6%	8,667	20%	8,545	22%
Documentary Transfer Tax	1,926	1,376	40%	8,369	23%	7,434	19%
All Other Revenue Sources	8,170	7,654	7%	33,997	24%	32,535	24%
Total Revenue	\$25,701		7%	\$211,170	12%	\$194,653	12%

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 beginning in the fall and then again beginning in late winter/early spring. FY 2019 actual property tax revenue was \$47.3 million which included unusual receipts of \$2.7 million for excess Educational Revenue Augmentation Fund (ERAF)¹ distributions from the County of Santa Clara.

The FY 2020 budgeted amount is \$48.6 million, 2.75 percent higher than the prior year’s actual revenue. Since the adoption of the FY 2020 budget, the County of Santa Clara has revised the property tax forecast upwards by \$1.9 million which is expected to be reflected in the mid-year

¹ ERAF is the fund used to collect and disburse property taxes that are shifted to/from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the state shifts more local property tax than required to support schools these funds are returned and known as excess ERAF.

budget adjustment. The \$1.9 million increase is attributable to higher than expected excess ERAF estimated at \$3.8 million, which is above prior year levels of \$2.7 million.

Sales tax revenue – for the 1st quarter has increased by \$633,000 or 35 percent, from the same period last year. Due to the timing delay in sales tax collection by the State and remittance to the City, this only represents one month’s sales tax activity. In addition, in fiscal year 2018 the California Department of Tax and Fee Administration (CDTFA) was established and introduced new technology and collection process which had issues resulting to delays of distribution in sales tax. This resulted in fiscal year 2018 being economically lower by \$0.7 million and Fiscal Year 2019 being higher by the same amount. CDTFA also made allocation timing changes so the 35 percent year over year increase for one-month receipts isn’t indicative of economic performance for the remainder of FY 2020. However, base receipts remain healthy and mid-year upward budget adjustment is expected. As in prior years, there is continued erosion of brick and mortar receipts caused by steady growth in on-line retail sales. However, increased receipts from the county pool, which include a growing number of on-line retailers collecting sales and use tax, has been offsetting these losses.

Transient occupancy tax (TOT) – revenue of \$3.2 million represents about one- and one-half month of collections which includes the 1.5 percent TOT rate increase for a total TOT rate of 15.5 percent that went into effect in April 1, 2019. Starting with FY 2019, 4th quarter, the base TOT decreased by 5.4 percent with average occupancy declining by 1.8 percent but average room rates increasing by 2.6 percent. This trend continued in the first two months of FY 2020 with the base TOT decline of 4.6 percent. Based on this trend, which is consistent with most regional trends, a downward mid-year budget adjustment is expected.

For the first two months (July and August) of FY 2020, daily average room rates increased by 0.9 percent from \$272.32 per day to 274.80 per day while the occupancy rate declined by 4.8 percent from 83.5 percent to 79.5 percent. As noted in the table below, this is in line with a similar trend reported in August for most northern California regions with a few exceptions. The below table contains average room rates and occupancy percentage for northern California regions in August 2019 as well as the City of Palo Alto’s August data.

Month of August						
	Avg. Daily Room Rate			Occupancy Percentage		
	2019 (\$)	2018 (\$)	Chg.	2019	2018	Chg.
San Francisco	294.01	286.50	2.6%	91.8%	90.2%	1.8%
San Francisco Airport	212.00	208.51	1.7%	89.5%	91.8%	-2.5%
San Jose/Peninsula	226.56	225.70	0.4%	83.0%	85.4%	-2.9%
Oakland/East Bay	177.85	179.85	-1.1%	83.4%	85.4%	-2.3%
Monterey/Carmel	427.77	393.57	8.7%	86.0%	89.5%	-3.9%
Central Valley	109.12	107.78	1.2%	77.9%	77.8%	0.1%
Sacramento	135.61	133.01	2.0%	79.8%	82.7%	-3.4%
Marin County	203.62	203.63	0.0%	87.5%	86.8%	0.8%
Napa County	304.53	295.45	3.1%	82.4%	79.7%	3.4%
Sonoma County	221.58	216.57	2.3%	83.4%	84.8%	-1.7%
Other Northern California	135.46	129.03	5.0%	82.8%	83.9%	-1.3%
Overall Average	218.42	213.78	2.2%	84.7%	85.8%	-1.2%
City of Palo Alto (August only)	271.26	278.19	2.6%	83.2%	80.5%	-2.7%

Source: CBRE Hotels August 2019 report, Trends in the Hotel Industry except for Palo Alto

Documentary transfer tax – cash receipts total \$1.9 million, or 23 percent of the FY 2020 budgeted amount, and are \$550,000 higher than prior year receipts for the same period due to one large commercial sale. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales. For example, in FY 2018, receipts were boosted due to large commercial sales resulting in total annual receipts of \$9.2 million while FY 2019 had fewer and smaller commercial sales resulting in annual receipts of only \$6.9 million

Permits and licenses revenue – is down primarily due to a decrease in new construction permit revenue.

Expense Highlights for 1st Quarter FY 2020

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 2020 1st Quarter
(000's)**

	1st Quarter Actuals			Adjusted Budget			
	FY 2020	FY 2019	% change inc (dec)	FY 2020	%	FY 2019	%
Police	\$ 10,588	\$ 10,201	4%	\$ 44,822	24%	\$ 42,843	24%
Fire	8,414	7,636	10%	35,261	24%	32,047	24%
Community Services	7,598	7,144	6%	32,481	23%	29,699	24%
Public Works	3,887	3,978	-2%	20,302	19%	19,004	21%
Planning and Development Services	3,977	4,421	-10%	23,258	17%	23,768	19%
Library	2,562	2,295	12%	10,532	24%	9,836	23%
Administrative Services	1,925	1,887	2%	8,755	22%	8,038	23%
All Other Departments	5,109	5,248	-3%	29,274	17%	20,655	25%
Total Expenses	\$ 44,060	\$ 42,810	3%	\$ 204,685	22%	\$ 185,890	23%

Total expenses for the 1st quarter of the fiscal year are up 3 percent from the same quarter last year, but in total they are slightly lower by 1 percent of full-year budgeted amounts from the same quarter last year. Overall, expenses are expected to run higher than FY 2019 with the FY 2020 Adjusted budget of \$204.7 million being approximately 10% higher overall.

In FY 2020, the Office of Transportation was established which previously was a division of the Planning and Community Environment Department and the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department. This reorganization is reflected in the FY 2020 figures by reporting the Office of Transportation under "all other departments" and combining the two prior departments of Development Services and Planning. This is causing much of the year over year variances in that department.

Police and Fire comprises 43 percent of the total General Fund expenditures for the 1st quarter, which is comparable to the prior year. Following is a table which highlights Police and Fire salaries and overtime expenditures for the 1st quarter.

**Police and Fire
Salaries and Overtime Expense
FY 2020 1st Quarter YTD**

(000's)

	1st Quarter YTD Actuals			Adjusted Budget			
	FY 2020	FY 2019	% change	FY 2020	%	FY 2019	%
	Inc (Dec)						
Police - Salaries	\$ 4,426	\$ 4,378	1%	\$ 19,514	23%	\$ 19,272	23%
Police - Overtime	717	674	6%	1,842	39%	1,777	38%
Total Police	<u>5,143</u>	<u>5,052</u>	<u>2%</u>	<u>21,356</u>	<u>24%</u>	<u>21,049</u>	<u>24%</u>
Fire - Salaries	3,378	2,966	14%	14,131	24%	14,356	21%
Fire - Overtime	572	918	-38%	1,673	34%	1,912	48%
Total Fire	<u>3,950</u>	<u>3,884</u>	<u>2%</u>	<u>15,804</u>	<u>25%</u>	<u>16,268</u>	<u>24%</u>
Total Public Safety							
Salaries & Overtime	<u>\$ 9,093</u>	<u>\$ 8,936</u>	<u>2%</u>	<u>\$ 37,160</u>	<u>24%</u>	<u>\$ 37,317</u>	<u>24%</u>

Police overtime is 6 percent higher from prior year due to a major incident that occurred in the first quarter, the President of the United States (POTUS) visit and staff vacancies. On a combined basis, salaries and overtime are at 24% of budget through the 1st quarter of the fiscal year which is consistent with prior year spend. The Department's overtime analysis is included in Attachment B.

Fire overtime is 38 percent lower than FY 2019 primarily due to lesser vacancies this year than the same period in prior year and the City did not send any crews on strike teams during this reported period. Fire is expected to generate overtime savings during the year due to a new deployment model expected to be deployed during the second half of the fiscal year. On a combined basis, salaries and overtime are 25% of the budget through the 1st quarter of the fiscal year. The Department's overtime analysis is included in Attachment B.

The Police and Fire salaries increases are due to new labor contracts and an increased number of filled positions when compared to mainly this period in FY 2019.

General Fund Budget Stabilization Reserve (BSR) Balance

As reported to the Finance Committee on November 19, the General Fund ended with a Budget Stabilization Reserve of \$54.8 million. The chart below outlines the recommended uses. Once all these adjustments are taken into consideration, the remaining BSR would be at \$44.4 million when approved by the City Council, above the City Council target of 18.5 percent of budgeted expenses.

Year-End Budget Stabilization Reserve (BSR) Summary (000's)	
General Fund BSR Balance, June 30 2019	54,811
Uses of the FY 2019 Surplus	
<i>FY 2020 Approved Adjustments to the BSR Balance</i>	
FY 2020 Adopted Budget	1,292
FY 2020 City Manager Reports Budget Amendments	(450)
<i>Recommended Budget Amendments</i>	
Reserve for proceeds from the sale of 335 Webster	(2,900)
Additional funding for General Liability & Workers Compensation Reserves	(1,400)
Transfer to the General Capital Improvement Fund (471)	(3,500)
Transfer to the General Benefits Fund: 115 Pension Trust Fund Contribution	(3,500)
Current Projected FY 2020 BSR Level (June 30, 2019)	\$44,352

Enterprise Funds

Following is a summary of change in net position for each of the Enterprise Funds for the three months ended September 30, 2019, including a comparison of results from the same period last year.

City of Palo Alto Enterprise Funds Change in Net Position FY 2020 1st Quarter				
	1st Qtr FY 2020	1st Qtr FY 2019	Increase (Decrease)	% Change
Water	\$ 8,630	\$ 7,918	\$ 712	9%
Electric	6,941	8,742	(1,801)	-21%
Fiber Optic	415	370	45	12%
Gas	(261)	248	(509)	-205%
Wastewater collection	687	687	0	0%
Wastewater treatment	1,302	1,415	(113)	-8%
Refuse	3,440	3,814	(374)	-10%
Storm Drainage	650	697	(47)	-7%
Airport	522	213	309	145%
Total Change in Net Position	\$ 22,326	\$ 24,104	\$ (1,778)	-7%

Water Fund increased \$0.7 million from prior year due to a combination of an increase in connection and capacity fee revenue and a decrease in operating transfers. In FY 2019, there was a transfer of \$0.3 million for phase 1 of the Smart Grid project.

Electric Fund decreased \$1.8 million from prior year due to an increase in commodity purchases and transmission costs. In addition, the Electric Fund sold large volumes of surplus energy on the spot market in FY 2019 due to above average hydroelectric generation.

Gas Fund decreased \$0.5 million mainly due to lower City sales as a result of the retirement of the incinerators by the Regional Water Quality Control Plant (RWQCP). The RWQCP has moved to Sludge hauling instead.

Refuse Fund decreased \$0.4 million from prior year due to an increase in GreenWaste contract costs.

Airport Fund increased \$0.3 million from first quarter of prior year as a result of the receipt of the federal grant reimbursement for the Airport Apron Reconstruction Project in the first quarter of this year.

Stakeholder Engagement

This report has been prepared by the Accounting Division and reviewed by partner departments, the Treasury team and the Office of Management and Budget for certain sections.

Resource Impact

This is an Informational Report, so no actions or adjustments are needed at this time.

Environmental Review

This is not a project for purposes of the California Environmental Quality Act (CEQA).

Attachments:

- Attachment A: General Fund First Quarter Financial Report FY 2020
- Attachment B: Public Safety Overtime Analysis for Q1 FY 2018- 2020Q1

ATTACHMENT A
CITY OF PALO ALTO
GENERAL FUND FIRST QUARTER FINANCIAL REPORT
FISCAL YEAR ENDING JUNE 30, 2020
(in thousands)

Categories	BUDGET		ACTUALS (as of 09/30/2019)			
	Adopted Budget	Adjusted Budget	Pre Encumbr	Encumbr	Actual	% of Adj Budget*
Revenues & Other Sources						
Sales Tax	34,346	34,346	-	-	2,433	7%
Property Tax	48,634	48,634	-	-	89	0%
Transient Occupancy Tax	29,309	29,309	-	-	3,199	11%
Documentary Transfer Tax	8,369	8,369	-	-	1,926	23%
Utility Users Tax	17,581	17,581	-	-	3,528	20%
Motor Vehicle Tax, Penalties & Fines	2,032	2,032	-	-	349	17%
Charges for Services	30,127	30,267	-	-	4,595	15%
Permits & Licenses	8,667	8,667	-	-	1,761	20%
Return on Investment	1,388	1,388	-	-	540	39%
Rental Income	16,326	16,326	-	-	4,155	25%
From Other Agencies	2,756	2,756	-	-	317	12%
Charges To Other Funds	10,908	10,908	-	-	2,754	25%
Other Revenues	587	587	-	-	55	9%
Total Revenues	211,030	211,170	-	-	25,701	12%
Operating Transfers-In	20,999	20,999	-	-	5,250	25%
Encumbrances and Reappropriation		7,791	-	-	-	-
Total Sources of Funds	232,029	239,960	-	-	30,951	13%
Expenditures & Other Uses						
City Attorney	3,387	3,627	5	250	800	29%
City Auditor	1,235	1,295	10	45	139	15%
City Clerk	1,346	1,441		76	262	23%
City Council	498	540		42	64	20%
City Manager	4,546	5,219	160	472	952	30%
Administrative Services	8,519	8,755	113	189	1,925	25%
Community Services	30,913	32,481	614	5,897	7,598	43%
Fire	34,864	35,261	126	727	8,414	26%
Human Resources	3,902	4,058	-	126	886	25%
Library	10,314	10,532	35	482	2,562	29%
Office of Emergency Services	1,728	1,845		146	219	20%
Office of Transportation	2,312	2,312			218	9%
Planning and Development Services	20,356	23,258	424	4,354	3,977	38%
Police	44,666	44,822	78	886	10,588	26%
Public Works	19,142	20,302	411	1,981	3,887	31%
Non-Departmental	9,024	8,937		30	1,569	18%
Total Expenditures	196,752	204,685	1,976	15,703	44,060	30%
Operating Transfers-Out	5,023	5,023	-	-	1,251	25%
Transfer to Infrastructure	28,962	28,962	-	-	7,240	25%
Total Use of Funds	230,737	238,670	1,976	15,703	52,551	29%

Public Safety Departments
Overtime Analysis for Fiscal Years 2018 through 2020

	2018	2019	Q1 2020
POLICE DEPARTMENT			
Overtime Expense			
Adopted Budget	\$1,700,000	\$1,776,500	\$1,842,231
Modified Budget	1,700,000	1,812,931	1,842,231
Net Overtime Cost - see below	347,677	185,811	194,800
Variance to Budget	<u>1,352,323</u>	<u>1,627,120</u>	<u>1,647,431</u>
Overtime Net Cost			
Actual Expense	<u>\$2,286,527</u>	<u>\$2,604,366</u>	<u>\$717,808</u>
Less Reimbursements			
California OES/FEMA (Strike Teams)	-	36,431	-
Stanford Communications	75,275	91,001	31,253
Utilities Communications Reimbursement	38,227	46,158	15,400
Local Agencies (A)	11,431	12,172	2,562
Police Service Fees	73,600	125,025	25,779
Total Reimbursements	<u>198,533</u>	<u>310,787</u>	<u>74,995</u>
Less Department Vacancies	<u>1,740,318</u>	<u>2,107,768</u>	<u>448,014</u>
Net Overtime Cost	<u>\$347,677</u>	<u>\$185,811</u>	<u>\$194,800</u>
Department Vacancies (number of days)	5,777	7,538	1,547
Workers' Compensation Cases	8	24	2
Department Disabilities (number of days)	219	217	72
FIRE DEPARTMENT			
Overtime Expense			
Adopted Budget	\$1,396,436	\$1,911,761	\$1,672,872
Modified Budget (B)	1,571,436	2,093,761	1,672,872
Net Overtime Cost - see below	2,675,517	2,403,254	572,342
Variance to Budget	<u>(1,104,081)</u>	<u>(\$309,493)</u>	<u>\$1,100,530</u>
Overtime Net Cost			
Actual Expense	<u>\$3,839,426</u>	<u>\$3,047,510</u>	<u>\$572,342</u>
Less Reimbursements			
California OES/FEMA (Strike Teams)	489,062	182,000	-
Total Reimbursements	<u>489,062</u>	<u>182,000</u>	<u>-</u>
Less Department Vacancies	<u>674,847</u>	<u>462,256</u>	<u>-</u>
Net Overtime Cost	<u>\$2,675,517</u>	<u>\$2,403,254</u>	<u>\$572,342</u>
Department Vacancies (number of days)	5,293	1,229	0
Workers' Compensation Cases	4	26	7
Department Disabilities (number of days)	732	343	60

NOTES:

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

(B) FY 2020 does not include adjustments for Strike Teams as of Q1. These amounts will be reported through the year as reimbursements are confirmed.