



**DATE:** January 25, 2018

**TO:** Council Budget & Finance Committee Members

**FROM:** Director of Finance

**SUBJECT** FY 2018 Mid-Year Budget Review and General Fund Long Range Financial Model Update

### **RECOMMENDATION**

That the Committee reviews and provides comments on the report.

### **SUMMARY**

This report presents the mid-year review of the FY 2018 Adopted Budget, and an update to the General Fund Long Range Financial Model for Committee consideration and comment before presentation to the full City Council. The review analyzes revenues and expenditures through November 30, 2017, and presents proposed changes to the City's FY 2018 Operating Budget. While staff considers the entire City budget in its mid-year review, this report focuses primarily on General Fund.

Mid-year expenditure adjustments submitted by Departments total \$1.05 million in the General Fund. Expenditure adjustments for other funds reflect a net fiscal impact of \$829,034, while CIP/Non-Operating funds project a net fiscal savings of \$3.6 million. The mid-year budget changes presented in this report are still being considered for recommendation by the City Manager and may not reflect the final recommendations.

FY 2018 General Fund revenues are expected to exceed original projected amounts by approximately \$3 million. This is primarily attributed to projected increases in the revenue categories of property tax, sales tax, utility users tax, and other taxes/franchise. This projected increase in revenues was included in the most recent version of the General Fund Long Range Financial Model (the Model) in October 2017.

### **BACKGROUND**

When adopted in May 2017, the FY 2018 Adopted Budget resulted in a projected use of \$2.5 million of General Fund Reserves. Due to the projected increase in General Fund revenues, the City would not need to utilize General Fund Reserves for FY 2018 if an increase to budgeted expenditures was not made.

The Model is updated to reflect revised revenue projections, and requested FY 2018 mid-year budget expenditure adjustments. Increasing budgeted expenditures to fulfill all departmental requests would result in a use of approximately \$600,000 of General Fund Reserves. At this time, staff is still analyzing departmental requests and currently does not anticipate a use of General Fund Reserves at that level once staff presents the final recommendations to the full Council for consideration on February 27, 2018.

**DISCUSSION**

General Fund Revenues

As mentioned above, FY 2018 General Fund revenues are projected to be approximately \$3 million higher than projected at the time of adoption of the FY 2018 Operating Budget in May 2017. Property tax, sales tax, and UUT are the significant drivers in the projected increase in General Fund revenue.

General Fund Expenditures

The table below illustrates the department budget requests by budget category for Mid-Year FY 2018. As shown, department budget requests total \$1.05 million in General Fund. The largest portion of this increase is in the Services and Supplies expenditure requests. Key drivers of the anticipated expenditure variances include implementation of several projects that support the Council Strategic Initiatives (\$416,000), and contract/consulting services (\$315,000) for the Police Department. The remaining expenditure variances include overtime, professional training, and other service and supplies.

<b>FY 2018 MID-YEAR DEPARTMENT REQUESTS BY BUDGET CATEGORY</b>			
	<b>GENERAL FUND</b>	<b>OTHER FUNDS</b>	<b>CIP/NON-OP FUNDS</b>
PERSONNEL	\$ (33,293.47)		
MAINTENANCE & UTILITIES	\$ 10,000.00	\$ 10,300.00	
SERVICES & SUPPLIES	\$ 1,081,900.00	\$ 4,199,500.00	\$ 164,440.33
CAPITAL			\$ (3,775,738.86)
TRANSFER OUT			\$ 121,000.00
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,058,606.53</b>	<b>\$ 4,409,800.00</b>	<b>\$ (3,490,298.53)</b>
REVENUE	\$ (10,000.00)	\$ (3,580,766.00)	
TRANSFER IN			\$ (121,000.00)
<b>TOTAL REVENUE</b>	<b>\$ (10,000.00)</b>	<b>\$ (3,580,766.00)</b>	<b>\$ (121,000.00)</b>
<b>NET FISCAL IMPACT</b>	<b>\$ 1,048,606.53</b>	<b>\$ 829,034.00</b>	<b>\$ (3,611,298.53)</b>

Measure C

The City Council, as well as the ballot language for Measure C, established a number of spending priorities for these funds. These priorities include a mix of capital projects and funding allocations toward operating services. While Measure C revenues are to primarily be used to fund capital projects, operating activities, such as addressing illegal dumping, litter control, and graffiti abatement also fulfill the promises of Measure C.

The FY 2018 mid-year budget includes a request to increase expenditures to address homeless abatement efforts, including \$60,000 in General Fund to address the need for additional field supplies and \$15,000 in Fleet Capital for the purchase of an all-terrain utility cart to assist in debris removal from remote areas along creeks, hillsides, and Caltrans right-of-way. Due to the nature of these requests, staff recommends that Measure C resources be used to fund these expenditures. If Measure C resources are utilized, it would reduce the requested amount in the General Fund expenditures by \$75,000 at FY 2018 Mid-Year. Staff requests feedback on this proposed use of Measure C

#### Other Funds

Total expenditure increases in all other funds equates to \$4.4 million, with increased revenue projections of \$3.6 million. The key drivers of the \$4.4 million in expenditures include \$3.2 million in increased water purchases. With the removal of regional drought restrictions, the City has experienced an increase in water usage. The other \$1.05 million in expenditures variance is related to outside legal services for the Inclusionary Housing Project, conditional backstop loan to Eden Housing that was previously approved by the Housing Authority, and a predevelopment loan agreement for Habitat for Humanity. The increased expenditures in the other funds is offset by \$3.5 million in projected revenue. FY 2018 Mid-Year budget changes for Other Funds results in a net fiscal impact of \$829,034.

#### CIP/Non-Operating Funds

Total expenditure change includes a net savings of \$3.5 million. The key drivers in the projected reduction include the reduction of \$4.2 million in project allocation due to the reduction in the projected revenue from Alameda County Transportation Commission (Alameda CTC). The expenditure changes account for an increase of \$818,000 that includes IT capital projects, an appropriation for former Route 238 parcel Disposition and Development property management and improvements, parking structure security improvements, and the replacement of two police vehicles. Additionally, included in the FY 2018 Mid-Year changes are proposed offsetting revenues of \$121,000 to be transferred in. The FY 2018 Mid-Year budget change for CIP/Non-Operating Funds include a net fiscal savings of \$3.5 million.

#### General Fund Long Range Financial Model Update

The updated General Fund Long Range Financial Model includes a reduction in the projected structural gap in FY 2018. The FY 2018 Adopted budget projected a use of \$2.5 million in General Fund Reserves. The Model reflects the assumptions contained in FY 2018 Adopted Budget and is updated with the mid-year expenditure and revenue projections discussed in this report. It is important to remember that the Council deferred a number of IT and fleet related expenses for FY2018 and implemented a three-month hiring freeze of all non-safety positions in order to reduce the use of General Fund reserves projected. These actions are **one-time** in nature and cannot continue as a strategy for balancing the budget long term. Staff is working diligently on the five year budget balancing strategy based on initial direction from the City Council at the October 14, 2017 budget work session. Staff will be returning to Council over the next few months to finalize this plan.

The current General Fund Reserve goal is 20 percent of General Fund expenditures. Based on the updated Model, the City will fall short of this goal by less than 1 percent in FY 2018

according to the revised projections. It is staff's priority to replenish General Fund Reserves to meet the City's reserve policy.

### **STRATEGIC INITIATIVES**

The FY 2018 mid-year budget includes an increase of \$416,000 in expenditures to fund projects that supports the three Council Strategic Initiatives.

### **FISCAL IMPACT**

The overall fiscal impact of the proposed adjustments results in an increase to General Fund revenue of \$3 million and an increase to General Fund expenditures of \$1.05 million, of which \$386,000 is considered on-going operational expenses. Budget adjustments in all Other Funds reflect a net total impact of \$829,034; and CIP/Non-Operating Funds reflect a net savings of \$3.6 million.

### **SUSTAINABILITY FEATURES**

This report does not have an impact on sustainability.

### **PUBLIC CONTACT/NEXT STEPS**

Staff will continue to consider and refine requests prior to presenting proposed FY 2018 Mid-Year adjustments to the full Council at the regular City Council meeting on February 27, 2018.

### **NEXT STEPS**

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*Recommended by:*       Dustin, Claussen, Director of Finance

Approved by:



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Kelly McAdoo, City Manager