



STAFF REPORT CITY COUNCIL

DATE: October 17, 2017

TO: Honorable Mayor and City Councilmembers

FROM: Christopher L. Foss, City Manager

SUBJECT: Fiscal Year 2016-17 4th Quarter Financial Review
Prepared by: Colleen Tribby, Director of Administrative Services

EXECUTIVE SUMMARY:

The City Council will receive a financial report on the fourth quarter of Fiscal Year 2016-17 and consider amendments to General Fund reserve designations.

STAFF RECOMMENDATION:

Receive the report and confirm General Fund reserve designations as of June 30, 2017.

FINANCIAL IMPACT:

City Council confirmation of reserve designations will not alter amounts received or spent, but will allow Staff to close the Fiscal Year 2016-17 financial books.

Total General Fund reserves are projected at \$122.4 million at June 30, 2017, with \$38.0 million in the unassigned cash flow reserve, representing 5.4 months of the Fiscal Year 2017-18 Adopted Budget. It should be noted that this is above the target of 4.0 months in cash flow reserve, and the City Council has discretion to make additional reserve designations allowable by the City's Fund Balance and Reserves Policy. All balances in other funds are in compliance with the Policy.

DESCRIPTION:

This report transmits the preliminary financial results of the Fiscal Year 2016-17 year-end, focusing on the General Fund. At this time, the numbers are essentially final, and though adjustments may happen as the audit is finalized, Staff does not expect substantial changes from the numbers in this report. The Comprehensive Annual Financial Report, which will be presented to the City Council at its second meeting in December 2017, will contain the final audited results.

General Fund Overview

General Fund revenues came in at \$84.0 million (\$4.1 million over budget) in FY 2016-17, while expenditures totaled \$66.2 million (\$4.3 million under budget). Transfers from

the General Fund to Capital Improvement Project Funds totaled \$5.5 million. There was also a one-time adjustment (a \$1.1 million decrease) to accrued expenditures. The resulting impact on total General Fund Reserves was an increase of \$13.2 million, as shown in Table 1.

Table 1: Total Reserves

	FY 2015-16	FY 2016-17
Total Reserves, Beginning of Year	\$97,706,495	\$109,184,026
Total Revenue	82,935,416	83,950,420
Total Expenditures	(69,048,878)	(66,244,975)
Total Transfers to CIP Projects	(2,409,006)	(5,542,414)
Adjustment to Accrued Expenditures		1,069,534
Total Reserves, End of Year	\$109,184,026	\$122,416,591
	Change	\$13,232,565

In June 2017, based on estimated revenues and expenditures at that time, the City Council designated \$1.3 million of the estimated year-end surplus to specific Committed Reserves, and confirmed \$7.9 million in allocations to Assigned Reserves (the largest of which was \$5.2 million for the Chevron Debt Payoff). These designations, as well as reserve allocations for budget carryovers and for set asides required by accounting rules and/or City policy, have been incorporated into the General Fund Reserve Balances (Attachment 2). In addition, Staff is recommending the following changes, which require City Council approval:

1. Within the Committed Reserves category:
 - a. Increase the Public Safety Reserve by \$600,000, for a total of \$1.6 million set aside for future enhancements to Police Services.
 - b. Increase the Economic Development Reserve by \$1 million for a total of \$2 million for future efforts in this area.
 - c. Increase the Storm Drain Trash Capture Reserve by \$243,251 to match the remaining project budget.
2. Within the Assigned Reserves category:
 - a. Increase the Catastrophic Loss Reserve by \$2,550,000 to account for the addition of The Wave to the City's assets. This is based on 15% of the construction value of \$34 million, phased in over two years (\$5.1 million attributed to The Wave by Fiscal Year 2017-18 year end). This reserve may be adjusted further as the financial books are finalized.
 - b. Increase the Pension Rate Stabilization Plan Reserve by \$500,000, in addition to the \$1.5 million allocated here by the City Council in June.
 - c. Increase the HVAC Replacement Reserve by \$500,000 in addition to the \$500,000 allocated here by the City Council in June. This would bring total HVAC funding to approximately \$2.8 million (\$2 million in the General Fund and \$833,000 in the Equipment Replacement Fund).
 - d. Set up a new Assigned Reserve for Façade Improvement Grants, with \$250,000 from funds that have been budgeted over the last several years but not yet utilized.

With approval of the recommendations above, the Unassigned Cash Flow Reserve, estimated at \$38.0 million (or 5.4 months of the Fiscal Year 2017-18 Adopted Budget), is above the reserve target as provided for in the City Policy. However, Staff is not recommending any additional allocations from that reserve, pending the City Council's strategic planning session scheduled for February 2018 and the recommendations from the Fiscal Sustainability Task Force, anticipated in early 2018. The table below illustrates the General Fund Cash Flow coverage over the last five years.

Table 2: Five-Year General Fund Cash Flow Coverage

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Months of Cash Flow Coverage	2.62	2.68	3.61	5.49	5.44

The following is a discussion of the major factors in budgetary variances (+/- \$250,000) that occurred in Fiscal Year 2016-17. The General Fund Summary (Attachment 1) presents this data by major category.

Revenue

Property Tax: \$876,848 higher than budget. Property taxes in Fiscal Year 2016-17 saw an increase in net assessed valuation (AV) by \$1.1 billion (9.1%) over the prior year, which was the second largest percentage growth in Alameda County, after Newark's 9.8% growth.

Sales Tax: \$664,881 lower than budget. While total Sales Tax came in \$648,216 (3.2%) higher than Fiscal Year 2015-16, the growth that was planned for in the budget did not occur. Specifically, the Autos and Transportation sector grew only 2.4% over the prior year, adding just \$155,815 to Sales Tax revenues, after three years of average annual growth of 7.8%. Moreover, the majority of the growth in Fiscal Year 2016-17 occurred in the third quarter of 2016, followed by two quarters of flat revenue, and a final quarter that reflected a loss of 7.9% (\$133,241). The Building and Construction sector also grew 2.4% (\$101,231) for the year, compared to 7.0% the prior year. Staff will continue to closely monitor Sales Tax and adjust the 10-Year Forecast accordingly.

Development Revenue: \$1,372,236 higher than budget. Development Permits includes all permits associated with new development (primarily building permits), as well as tenant improvements on current structures. Development Services includes fees for City services provided, most typically Zoning and Plan Checking services. The net increase in these revenue streams is related to development activity that had been originally anticipated to occur over the course of the next few fiscal years.

Other Taxes: \$969,545 higher than budget. The majority of the increase in this category comes from an increase in Property Transfer Tax (\$464,805), linked to increased home sales and AV. In addition, hotel occupancy and room rates brought Transient Occupancy Tax revenue in \$198,493 over budget; and Garbage franchise fee revenue came in \$227,372 above budget due to expanded services and the incorporation of the annual rate adjustment.

Interest: \$446,062 higher than budget. Interest earnings reflect the health of the economy and the strategies used by Chandler Asset Management in managing the City's portfolio.

Charges for Services: \$368,858 higher than budget. The City received \$289,977 in revenue above the budgeted amount in reimbursement for services provided by Alameda County Fire Services at the Santa Rita Jail. The remainder of the variance was spread across all other revenues in this category, including fire inspection services and waste management administration fees.

Other Revenue: \$391,483 higher than budget. This increase is due primarily to a \$250,000 developer contribution towards the Dublin Historic Park, which was set aside in the Restricted Reserve for this purpose. General reimbursements from a variety of sources were also higher than budgeted.

Expenditures

Salaries and Wages: \$677,910 lower than budget. Staff costs came in lower than budgeted due to vacant positions and budgeting practices for new hires.

Benefits: \$567,084 lower than budget. This budget variance is due to vacant positions and the fact that health insurance rates came in \$306,419 lower than budgeted in Fiscal Year 2016-17.

Services and Supplies: \$841,587 lower than budget. This variance occurred primarily in fuel costs, linked to lower gas prices, advertising services for The Wave, and lower training costs related to vacancies and the timing of new hires. Staff out-of-state travel during the fourth quarter included the Mayor's attendance at the US Mayors Conference in Miami Beach, Florida in June 2017.

Utilities: \$450,319 lower than budget. The City realized savings again this year in both potable and recycled water budgets, and received higher-than-budgeted solar rebates throughout the year.

Contracted Services: \$3,157,618 lower than budget. Of the remaining budgets for contracted services, \$1,193,397 has been carried forward to be utilized in the current fiscal year. The largest carryover is \$612,351 for the true-up of Police Services – Dispatch costs, which occurs each year after the books are closed.

Contingency: \$515,064 lower than budget. This savings resulted from not using Non-Departmental budgeted contingency funds.

Transfers Out for Capital Improvement Projects

The General Fund transferred out \$5.5 million in Fiscal Year 2016-17 for capital project expenditures, the largest of which was the \$3.0 million contribution to The Wave, followed by \$1.8 million for Fallon Sports Park Phase II. Both of those transfers were covered by Committed Reserves.

General Fund Reserve Balances

After transfers out to CIP projects, total reserves increased \$13.2 million in FY 2016-17. Table 3 summarizes how those funds are allocated among reserve categories. Some of the reserve shifts occur for accounting purposes or are dictated by the Fund Balance and Reserves Policy, while the other shifts are based on City Council approval and/or Staff recommendation. Attachment 2 provides the detail of these allocations.

Table 3: Summary of Reserve Changes

Reserve Category	Change	Amount
Non-Spendable	Accounting Adjustment	(471,005)
Restricted	Accounting Adjustment	1,123,000
Committed	Additions to Reserve	3,173,924
Committed	Spending of Reserves	(5,888,964)
Assigned	Additions to Reserve	14,677,696
Assigned	Spending of Reserves	(3,629,584)
Unassigned	Unrealized Gains	(1,663,177)
Unassigned	Additions to Cash Flow	5,910,675
Total		\$13,232,565

Summary

As discussed in this report, General Fund surpluses over the last several years have allowed the City to bolster essential reserves that help the City prepare for unforeseen events and economic downturns. However, rising contracted service costs, unsustainable annual growth in ongoing operating revenue (Property Tax and Sales Tax revenues), and the inevitable decline in development revenue call for increased vigilance in revising the City's long-term financial plan. Staff will continue to focus on providing the City Council with accurate, up-to-date information throughout the budget year.

NOTICING REQUIREMENTS/PUBLIC OUTREACH:

None.

ATTACHMENTS:

1. General Fund Summary, 4th Quarter 2016-17
2. General Fund Reserves Summary


Chris Foss, City Manager

10/10/2017

**GENERAL FUND SUMMARY
FY 2016-17 4TH QUARTER**

ATTACHMENT 1

	Actual 2015-16	Adopted 2016-17	Amended 2016-17	Actual 2016-17	\$ Change from Budget	% Change	\$ Change from PY	% Change
Revenues								
Property Taxes	33,598,601	35,182,061	36,087,937	36,964,785	876,848	2.4%	3,366,184	10.0%
Sales Taxes (1)	20,938,826	20,666,260	20,666,260	20,001,379	(664,881)	-3.2%	(937,446)	-4.5%
Development Revenue	10,562,963	8,568,899	10,978,502	12,350,738	1,372,236	12.5%	1,787,775	16.9%
Other Taxes	6,606,016	5,465,000	5,865,000	6,834,545	969,545	16.5%	228,529	3.5%
Licenses & Permits	310,286	292,140	292,140	318,981	26,841	9.2%	8,695	2.8%
Fines & Penalties	116,016	109,932	109,932	94,205	(15,727)	-14.3%	(21,811)	-18.8%
Interest Earnings	1,068,351	465,880	840,880	1,286,942	446,062	53.0%	218,591	20.5%
Rentals and Leases	1,114,747	1,033,488	1,033,488	1,117,593	84,105	8.1%	2,845	0.3%
Intergovernmental	324,075	198,618	198,618	258,508	59,890	30.2%	(65,567)	-20.2%
Charges for Services	5,396,964	4,838,466	4,905,866	5,274,724	368,858	7.5%	(122,240)	-2.3%
Community Benefit Payments	424,000	100,000	550,000	699,000	149,000	27.1%	275,000	64.9%
Other Revenue	604,944	256,344	519,078	910,561	391,483	75.4%	305,617	50.5%
Total Revenues	81,065,789	77,177,088	82,047,701	86,111,961	4,064,259	5.0%	5,046,172	6.2%
Unrealized Gains/Losses	1,869,627			(2,161,541)				
Total Revenues	82,935,416	77,177,088	82,047,701	83,950,420	1,902,718	2.3%	1,015,004	1.2%
Expenditures								
Salaries & Wages	9,437,426	11,100,241	11,065,241	10,387,331	(677,910)	-6.1%	949,905	10.1%
Benefits	4,172,485	5,707,982	5,976,982	5,409,898	(567,084)	-9.5%	1,237,413	29.7%
Services & Supplies	1,875,458	2,946,394	2,919,392	2,077,805	(841,587)	-28.8%	202,347	10.8%
Internal Service Fund Charges	2,637,354	3,065,342	3,040,284	3,040,296	12	0.0%	402,942	15.3%
Utilities	1,723,204	2,248,261	2,243,857	1,793,538	(450,319)	-20.1%	70,334	4.1%
Total Contracted Services *	39,869,473	43,297,583	45,757,765	42,600,147	(3,157,618)	-6.9%	2,730,674	6.8%
Capital Outlay	133,477	719,801	1,172,805	935,960	(236,845)	-20.2%	802,483	601.2%
Contingency	-	989,112	515,064	-	(515,064)	-100.0%	-	
Subtotal Expenditures	59,848,878	70,074,716	72,691,390	66,244,975	(6,446,415)	-8.9%	6,396,097	10.7%
Contribution to OPEB/PERS	9,200,000							
Total Expenditures	69,048,878	70,074,716	72,691,390	66,244,975	(6,446,415)	-8.9%	(2,803,903)	-4.1%
Operating Impact	13,886,538	7,102,372	9,356,311	17,705,444				
One Time Adjustment for Accruals				1,069,534				
Transfers Out	(2,409,006)	(759,510)	(9,074,188)	(5,542,414)				
Impact on Total Reserves	11,477,531	6,342,862	282,123	13,232,565				
TOTAL RESERVES	109,184,026			122,416,591				

1) FY 2015-16 Sales Tax included a final triple flip payment.

	Actual 2015-16	Adopted 2016-17	Amended 2016-17	Actual 2016-17	\$ Change from Budget	% Change	\$ Change from PY	% Change
* Contracted Services Detail								
Police Services	15,868,735	17,055,970	17,167,881	16,245,666	(922,215)	-5.4%	376,930	2.4%
Fire Services	11,046,058	11,950,705	11,950,705	11,788,015	(162,690)	-1.4%	741,957	6.7%
Maintenance Services (MCE)	3,997,800	4,296,214	4,611,915	4,484,851	(127,064)	-2.8%	487,051	12.2%
Development (Reimbursable)	2,775,306	2,295,394	2,927,063	2,700,966	(226,097)	-7.7%	(74,340)	-2.7%
Development (Not Reimbursable)	1,804,082	2,276,432	4,965,640	4,649,928	(315,712)	-6.4%	2,845,846	157.7%
Other Contracted Services	4,377,491	5,422,868	4,134,561	2,730,721	(1,403,840)	-34.0%	(1,646,770)	-37.6%
Total Contracted Services	39,869,473	43,297,583	45,757,765	42,600,147	(3,157,618)	-6.9%	2,730,674	6.8%

**GENERAL FUND RESERVES SUMMARY
FY 2016-17 DESIGNATIONS**

ATTACHMENT 2

	Actual 2015-16	Increase 2016-17	Decrease 2016-17	NET CHANGE	Projected 2016-17
Reserve Balances					
Non-Spendable	669,880	-	(471,005)	(471,005)	198,875
Prepaid Expenses	39,262			-	39,262
Advance to Public Facility Fees	-			-	-
Advance to Fire Impact Fee	80,672		(80,672)	(80,672)	-
Advance to PERS Side Fund	549,946		(390,333)	(390,333)	159,613
Restricted	639,000	1,123,000	-	1,123,000	1,762,000
Heritage Park Maintenance	500,000	250,000		250,000	750,000
Cemetery Endowment	60,000			-	60,000
Developer Contr - Downtown	-	873,000		873,000	873,000
Developer Contr - Nature Pk	60,000			-	60,000
Developer Contr - Heritage Pk	19,000			-	19,000
Committed	38,928,756	3,173,924	(5,888,964)	(2,715,040)	36,213,716
Economic Stability	8,000,000			-	8,000,000
Public Safety Reserve		1,600,000		1,600,000	1,600,000
Downtown Public Impr	1,000,000		(547,830)	(547,830)	452,170
Economic Development	1,000,000	1,000,000		1,000,000	2,000,000
Emergency Communications	741,000			-	741,000
Fire Svcs OPEB	3,004,000	330,672		330,672	3,334,672
Innovations & New Opport	2,122,785		(309,377)	(309,377)	1,813,408
One-Time Initiative	1,341,408			-	1,341,408
Specific Committed Reserves					
Emerald Glen Aquatic Complex	3,000,000		(3,000,000)	(3,000,000)	-
Maintenance Facility	215,101		(139,069)	(139,069)	76,033
Cemetery Expansion	5,272,210			-	5,272,210
Fallon Sports Park	2,000,000		(1,800,000)	(1,800,000)	200,000
Civic Ctr Expansion	27,773		(5,027)	(5,027)	22,746
Storm Drain Trash Capture	546,878	243,251	(67,931)	175,320	722,198
Shannon Center Parking Lot	987,410		(19,730)	(19,730)	967,680
Utility Undergrounding	1,170,190			-	1,170,190
Advance to Public Facility Fee	6,000,000			-	6,000,000
Dublin Sports Ground	2,500,000			-	2,500,000
Assigned	39,078,695	14,677,696	(3,629,584)	11,048,113	50,126,808
Accrued Leave	988,708	9,527		9,527	998,235
Operating Carryovers	1,612,658	1,240,217	(1,612,658)	(372,441)	1,240,217
CIP Carryovers	1,227,829	1,739,331	(1,227,829)	511,502	1,739,331
Non-Streets CIP Commitments	3,879,516			-	3,879,516
Catastrophic Loss	11,368,531	2,550,000		2,550,000	13,918,531
Service Continuity	3,000,000	150,000		150,000	3,150,000
Pension Rate Stabilization Plan		2,000,000		2,000,000	2,000,000
Chevron Debt Payoff		5,238,622		5,238,622	5,238,622
Pension & OPEB	10,614,353			-	10,614,353
Fiscally Responsible Adj	325,000			-	325,000
Municipal Regional Permit	2,250,000		(379,970)	(379,970)	1,870,030
HVAC Replacement	1,000,000	1,000,000		1,000,000	2,000,000
Relocate Parks Dept	250,000			-	250,000
Specific Assigned Reserves					
Civic Ctr Renovation-Police	1,962,100			-	1,962,100
Façade Improvement Grants		250,000		250,000	250,000
Contribution to ISF		500,000		500,000	500,000
Fire Equipment Replacement	600,000		(409,127)	(409,127)	190,873
Unassigned	29,867,695	9,989,553	(5,742,055)	4,247,497	34,115,193
Unassigned-Unrealized Gains	(2,197,354)	249,182	(1,912,359)	(1,663,177)	(3,860,531)
Unassigned (Available)	32,065,049				37,975,723
TOTAL RESERVES	109,184,026	28,964,173	(15,731,608)	13,232,565	122,416,590