



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: January 17, 2017
TO: Carolyn Lehr, City Manager
FROM: Susan Hsieh, Finance Director
SUBJECT: 2nd Quarter FY16-17 Financial Update

RECOMMENDATION

Staff recommends that the City Council review and accept the quarterly financial report for the period ended December 31, 2016. This report is for information only.

BACKGROUND

Quarterly financial reports are intended to update the City Council and the community on the City's financial condition. This is the first time that the quarterly financial report is being presented to the City Council. The Budget and Governance Committee and the Budget Advisory Committee review the City's General Fund revenues and expenditures on a regular basis. Quarterly reports prepared for the two committees will also be submitted to the City Council for review going forward.

Quarterly reports are on a cash basis, meaning only revenues received and expenditures paid by quarter-end are recorded. This report summarizes the City's General Fund financial performance for the six months ended December 31, 2016. Revenue and expenditure data for the same period in FY 15-16 are shown for comparative purposes.

DISCUSSIONS

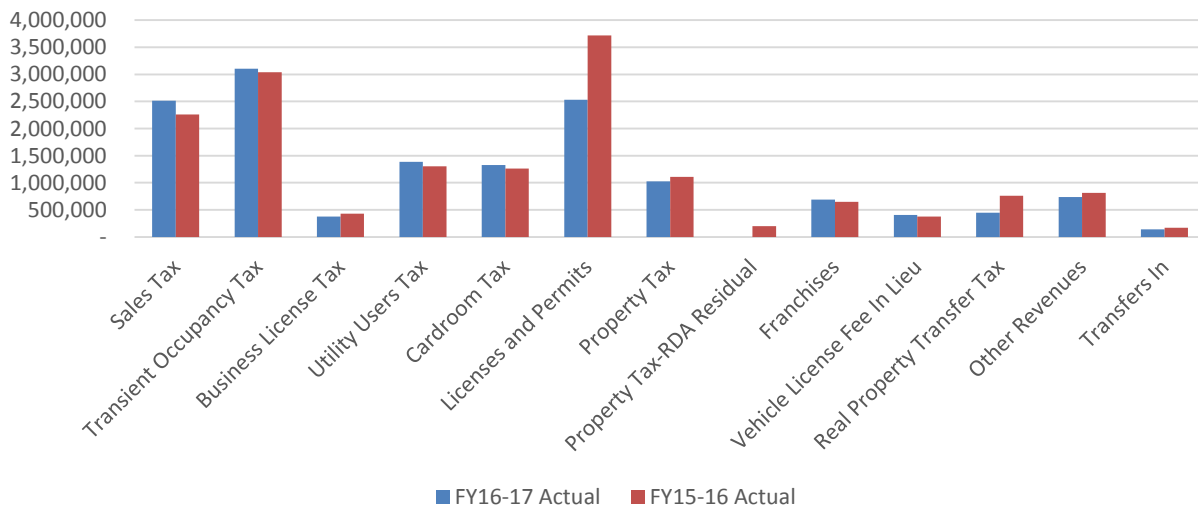
The General Fund is the general operating fund for the City. It is used to support the City's vital services and programs including police, fire, public works, development services (economic development, housing, planning, and building), community services, and general administrative services). The analysis below summarizes the significant revenue and expenditure variances. The budgets for certain revenue and expenditure categories will be adjusted based on more current financial data during the mid-cycle budget review process. Staff will present the revised budget to the Council in March 2017.

General Fund Revenues

General Fund revenues through the second quarter totaled \$14.7 million, or 37% of the \$40 million annual budget. Revenue is \$1.4 million lower than the same period last year mainly due to decreases in license and permit and real property transfer tax revenues. Revenues by category are summarized as follows:

Revenues By Category	FY16-17 Budget	FY16-17 Actual	Budget vs. Actual Variance	% of Budget	FY15-16 Actual	FY16-17 vs FY15-16 Variance	
Sales Tax	8,149,000	2,515,323	5,633,677	31%	2,259,171	256,152	11%
Transient Occupancy Tax	7,400,000	3,103,649	4,296,351	42%	3,042,331	61,318	2%
Business License Tax	5,196,000	379,546	4,816,454	7%	431,253	(51,708)	-12%
Utility Users Tax	3,000,000	1,384,030	1,615,970	46%	1,302,919	81,111	6%
Cardroom Tax	2,400,000	1,327,501	1,072,499	55%	1,263,650	63,851	5%
Licenses and Permits	5,831,100	2,534,756	3,296,344	43%	3,717,627	(1,182,871)	-32%
Property Tax	1,873,000	1,025,888	847,113	55%	1,109,961	(84,074)	-8%
Property Tax-RDA Residual	-	-	-	-	201,347	(201,347)	-100%
Franchises	1,567,400	691,597	875,803	44%	647,867	43,730	7%
Vehicle License Fee In Lieu	775,200	403,664	371,537	52%	379,812	23,852	6%
Real Property Transfer Tax	1,800,000	445,699	1,354,301	25%	758,576	(312,876)	-41%
Other Revenues	1,740,136	736,936	1,003,200	42%	815,623	(78,687)	-10%
Transfers In	285,000	142,500	142,500	50%	167,500	(25,000)	-15%
Total	\$ 40,016,836	\$ 14,691,087	\$ 25,325,749	37%	\$ 16,097,636	\$(1,406,549)	-9%

FISCAL YEAR TO DATE RECEIPTS THROUGH DECEMBER 31, 2016 AND DECEMBER 31, 2015



The City's top two revenue sources are sales tax and transient occupancy tax. They represent about 38% of total General Fund revenues. The following are highlights of key revenue results:

Sales Tax: Sale tax receipts of \$2.5 million through October were 31% of budget. November and December receipts will be included in the Q3 report. These receipts include net reductions of \$253 thousand for the East Bay Bridge (EBB) shopping center revenue sharing agreement with the City of Oakland, which was processed for the first two quarters. When compared to prior year, the 11% increase is a result of higher monthly advances from July to October.

Transient Occupancy Tax (TOT): Transient occupancy tax totaled \$3.1 million including remittances through November. December receipts will be recorded in the third quarter. Year-to-date actual is 42% of budget and 2% higher than the same time period last year.

The City's fifth hotel (Hyatt Place) was opened in late November. The projected revenue from this new hotel is included in the FY 16-17 budget.

Business License Tax: Business license renewals are on a calendar year basis and are delinquent if not paid by March 1. Renewal notices are mailed to businesses in December each year. As a result, significant cash receipts are usually received in the third quarter. Actual revenue through December 31st is 7% of budget. Staff continues to employ an active discovery program to collect revenue in this area.

Utility Users Tax (UUT): UUT receipts through November of \$1.4 million is reflected at 46% of budget. December receipts will be included in the Q3 report. Current year actual is 6% above prior year actual.

Cardroom Tax: Cardroom tax receipts through December of \$1.3 million are consistent with the budget at 55% and are 5% greater than prior year's total.

Licenses and Permits: License and permit revenues are derived primarily from the Planning and Building divisions including reimbursement/cost recovery income from development projects. Year-to-date total of \$2.5 million is reflected at 43% of budget. Fees from large development projects and major tenant improvements include Heritage Square Garage, Emery Transit Center, AVG Location Lab, and SAE Expression College. Amount is 32% lower than prior year's total of \$3.7 million. License and permit revenues correspond to professional services because the City engages outside firms for certain planning and building activities. Increase/decrease in revenues also means increase/decrease in expenditures. Staff will monitor the revenue closely and adjust the revenue and expenditure estimates if necessary.

Real Property Transfer Tax: Real property transfer tax through October of \$446 thousand is 25% of budget. This is 41% lower than the prior year actual. It is anticipated that the budget will need to be reduced during the mid-cycle budget review process. The General Fund budget only includes the projection for "residential" transfer tax while "commercial" transfer tax is committed for CIP projects and is budgeted in the General Capital Fund.

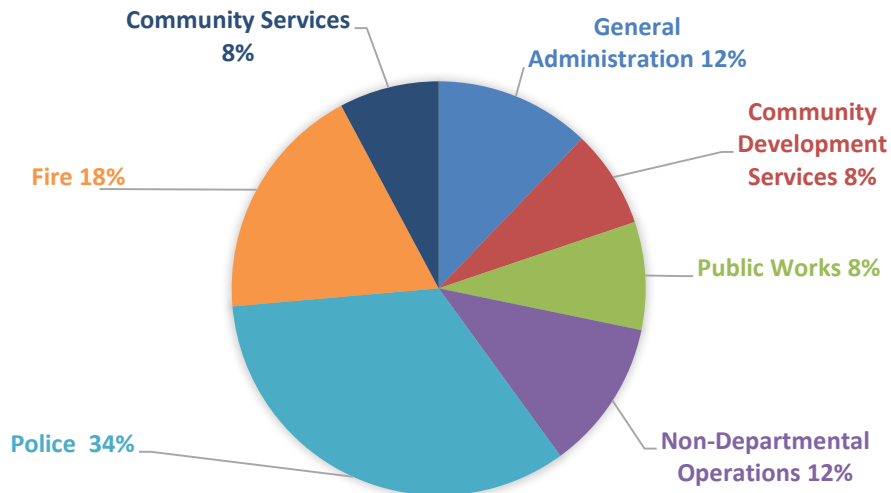
General Fund Expenditures

General Fund expenditures through the second quarter totaled \$17.2 million, or 43% of the \$40 million annual budget. Current year expenditures are \$3.2 million higher than the same period last year due to increases in salaries and benefits and transfers to the Information Technology and Childcare funds. Year-to-date expenditures are within budget and are summarized by category and department as follows:

Expenditures By Type	FY16-17 Budget	FY16-17 YTD Actual	Budget vs. Actual Variance	% of Budget	FY15-16 YTD Actual	FY15-16 vs. FY16-17 Variance	
Staffing	\$ 21,573,548	\$ 10,550,240	\$ (11,023,308)	49%	\$ 8,205,983	\$ 2,344,258	29%
Contract Services	10,577,197	3,232,275	(7,344,922)	31%	3,354,627	(122,352)	-4%
Maintenance	2,295,659	1,017,383	(1,278,276)	44%	908,364	109,019	12%
Supplies	1,224,700	295,444	(929,256)	24%	387,210	(91,766)	-24%
Utilities	735,920	280,490	(455,430)	38%	279,446	1,045	0%
Insurance	499,000	453,303	(45,697)	91%	426,407	26,896	6%
Education & Training	339,367	73,634	(265,733)	22%	92,790	(19,156)	-21%
Advertising/Printing & Publication	256,250	72,031	(184,219)	28%	54,743	17,288	32%
Fees & Charges	55,000	8,081	(46,919)	15%	6,796	1,286	0%
Programs & Grants	76,500	18,460	(58,040)	24%	9,929	8,531	86%
Rental & Leases	126,700	46,666	(80,034)	37%	42,580	4,086	10%
Other	386,000	10,460	(375,540)	3%	(55,301)	65,761	-119%
Capital	113,000	0	(113,000)	0%	4,390	(4,390)	0%
Transfers Out	1,758,000	1,134,392	(623,608)	65%	280,907	853,485	304%
Total	\$40,016,841	\$ 17,192,861	\$ (22,823,980)	43%	\$ 13,998,871	\$ 3,193,990	23%

Expenditures By Department	FY16-17 Budget	FY16-17 YTD Actual	Budget vs. Actual Variance	% of Budget	FY15-16 YTD Actual	FY15-16 vs. FY16-17 Variance	
City Council	\$ 194,986	\$ 85,998	\$ (108,988)	44%	\$ 76,416	\$ 9,582	13%
City Manager	581,538	339,946	(241,592)	58%	344,893	(4,946)	-1%
City Clerk	1,175,611	244,376	(931,235)	21%	146,928	97,448	66%
Public Information Office	144,000	20,198	(123,802)	14%	21,649	(1,450)	-7%
City Attorney	680,040	207,785	(472,255)	31%	171,842	35,943	21%
Information Technology	682,078	314,543	(367,535)	46%	259,851	54,692	21%
Finance	1,175,719	496,225	(679,494)	42%	413,569	82,657	20%
Human Resources	855,230	379,463	(475,767)	44%	380,817	(1,355)	0%
Community Development Services	4,740,554	1,316,914	(3,423,640)	28%	1,423,175	(106,261)	-7%
Public Works	3,429,677	1,449,701	(1,979,976)	42%	1,394,871	54,830	4%
Non-Departmental Operations	3,378,061	2,022,054	(1,356,007)	60%	1,139,912	882,141	77%
Police	12,686,853	5,778,175	(6,908,678)	46%	4,733,978	1,044,198	22%
Fire	6,906,422	3,196,454	(3,709,968)	46%	2,314,617	881,837	38%
Community Services	3,386,072	1,341,027	(2,045,045)	40%	1,176,352	164,674	14%
Total	\$40,016,841	\$ 17,192,861	\$ (22,823,980)	43%	\$ 13,998,871	\$ 3,193,990	23%

FISCAL YEAR TO DATE EXPENDITURES BY DEPARTMENT



Police and Fire comprise about 50% of total General Fund expenditures as depicted by the pie chart above. Departments with significant variances include City Clerk, Public Information Office, City Attorney, Community Development Services, and Non-Departmental Operations. Key factors contributing to these favorable/unfavorable variances are discussed below.

Staffing costs through December 31, 2016 were below budget by 1%, or \$236 thousand. There were savings from unfilled positions, but these savings were offset by a \$1.3 million pension payment made to CalPERS in the first quarter. The City has the options to fund the FY 16-17 unfunded pension liability with a lump sum payment or monthly payments, but the latter option is subject to interest charge. To save interest costs, the City chose to make a one-time payment.

When compared to prior year, personnel costs increased by \$2.3 million due to increases in salaries and benefits and the pension contribution stated above. To sustain high-quality services, positions were restored and added in FY 15-16 and FY 16-17. In the prior fiscal year, the pension payment to CalPERS was initially paid out of the PERS Reserve Fund but reclassified to the General Fund in the third quarter, partly contributing to this year-over-year variance.

Contract services through the second quarter were under budget by 19% mainly due to the timing of receiving invoices. In general, December invoices and some late invoices from October and November are not received until January in which expenditures will be included in the Q3 report. As noted in the revenue analysis section, certain budgeted professional services expenditures correspond to budgeted license and permit revenues. These costs will not occur until revenues for new development projects are recognized.

Supplies for the first six months were below budget by 26% primarily due to the timing of receiving invoices and delayed purchases.

Insurance and Transfers Out were over budget by 41% and 15%. The variances are the results of yearly general liability payment and transfers to the Information Technology and Childcare funds in the first quarter. Transfers out are higher than prior year due to a one-time transfer to the Information Technology Fund during the current fiscal year. Also, the transfer to the Childcare Fund was spread over a 12-month period in prior year. This year the transfer was made at the beginning of the fiscal year to ensure funds are available for the operations of the Child Development Center.

Other operating expenditures such as training, printing and communications, grants, and contract obligations are cyclical in nature depending on program activities and timing of expenditures. Some costs incurred in the first six months of the year, but more costs will incur later during the year.

The City Clerk's Office budgeted approximately \$600 thousand in professional services and supplies for the Citywide Records Management Project. A portion of the budget may be expended in FY 17-18 depending on project progress in the next six months.

FISCAL IMPACT

This is an information only report to the Council and no budget adjustments are recommended at this time. Staff will revise certain revenue and expenditure projections during the mid-cycle budget review process. The revised budget will be presented to the Budget Committee and the City Council in March 2017.

PREPARED BY: Susan Hsieh, Finance Director

**APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE:**



Carolyn Lehr, City Manager