



# CITY COUNCIL REPORT

10A

**DATE: DECEMBER 18, 2018**

**TO: MAYOR AND COUNCIL MEMBERS**

**FROM: ANDREA MILLER, FINANCE DIRECTOR**

**SUBJECT: RECEIVE THE FY 2018-19 FIRST QUARTER FINANCIAL REPORT AND ADOPT A RESOLUTION APPROVING BUDGET ADJUSTMENTS, AND A RESOLUTION TO ESTABLISH A DISASTER RELIEF RESERVE**

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## **RECOMMENDATION**

It is recommended that the City Council:

1. Receive the FY 2018-19 First Quarter Financial Report;
2. Adopt a resolution approving budget adjustments per staff recommendations in Attachment A; and
3. Adopt a resolution to establish a Disaster Relief Reserve.

## **BACKGROUND**

For the period July 1, 2018 through September 30, 2018, cash flows were sufficient to sustain normal City operations and to satisfy Enforceable Obligation payment commitments of the City's Successor Agency.

Staff has reviewed the first quarter financial performance for the City's FY 2018-19 budget. While revenue and expenditures for the first quarter of the fiscal year should average 25% of budget, there are cases where revenue and expenditures are above or below projections for the period based on timing of receipts and expenses. These are explained in this report.

## **REVIEW & ANALYSIS**

### **General Fund Revenue Analysis**

The adopted budget for FY 2018-19 anticipates current year expenditures to be fully offset by operating revenues generating a modest surplus of \$234,969.

The economy in Pinole continues to show signs of improvement with revenues of 14% realized for the first quarter of the fiscal year. The City uses HdL, Coren & Cone Consultants to provide an analysis of property assessed values and Sales Tax projections. Budget projections are based on a 95% conservative estimate of HdL, Coren & Cone's analysis. For FY 2018-19, Sales Tax revenue is the City's second largest General Fund revenue stream which has shown steady increases year-over-year. Sales Tax collections for the first quarter are 31% of projections compared to 27% for the same period in the prior fiscal year. Property Tax is the City's largest revenue stream for FY 2018-19 with first quarter collections at 1% of projections. This low percentage of receipts is because Property Tax settlements are received in December, April, and June.

Utility Users Tax is the City's third largest General Fund revenue stream with 22% realized for the first quarter compared to 26% for the same period in the prior fiscal year. Franchise Tax is at 21% of projections for the first quarter; Other Taxes which includes Transient Occupancy Tax and Business Licenses are at 20% of projections.

Intergovernmental tax which includes Motor Vehicle License Fee and Home Owner Property Tax Relief along with grant receipts has not been received during this period. Motor Vehicle License Fees are usually received in January and May. Public Safety Charges includes Dispatch services, for which the first quarter billing is in progress.

Other revenue categories are in line with expectations for the period with the exception of Interest and Investment Income which exceeds the current budget amount for the period. We are seeing a steady increase in interest on investments due to increased utilization of the Local Agency Investment Fund (LAIF) for more than a year.

**Recommendation:**

Staff is recommending FY 2017-18 General Fund revenue adjustments in the amount of \$4,250 as follows:

	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Interest and Investment Income	5,000	30,000	35,000
<b>Total Adjustments</b>	<b>5,000</b>	<b>30,000</b>	<b>35,000</b>

Total adjustments only reflect revenue with adjustments recommended.

**General Fund Expenditure Analysis**

The City Council approved the FY 2018-19 General Fund Budget with specific expenditure assumptions limiting expenditures to maintain a balance between anticipated revenues and planned expenditures. The goal was to maintain a

balanced budget and continue the process of rebuilding a General Fund Reserve. To build the reserve, we used one-time allocations of Redevelopment Agency residual cash distributed to the City by the County Auditor-Controller, scheduled annual operating transfers in the amount of \$200,000 from Measure S 2014 funds beginning in fiscal year 2016-17, and have now fully funded the reserve per Council's direction at the November 13, 2018 meeting from fiscal year ending June 30, 2018 fund balance.

Operating Budget Expenditures for the City's General Fund are at 25% of projections at the end of the first quarter.

Staff is proposing budget adjustments in the Finance Department in the amount of \$38,830 as follows: \$23,380 for temporary services due to the retirement of a long tenured employee in September, and a carryover from FY 2017-18 of \$15,450 for actuarial services to complete the tri-annual OPEB Actuarial Report.

A budget adjustment of \$20,000 is proposed in Human Resources for investigative services in the amount of \$15,000 and a carryover from FY 2017-18 of \$5,000 to complete the PERS Actuarial Report.

A Non-Departmental adjustment of \$60,000 is proposed for the Verizon Wireless settlement payment that was made, and \$1.3 million (\$1,592,071 loan balance less \$263,300 payment currently appropriated) is indicated for the pay off of the remaining loan principal the City owes the former Redevelopment Agency per Council's direction at the November 13, 2018 meeting from Fund Balance. Each of these expenditures will come from the Fund Balance.

A budget appropriation of \$68,426 is proposed in the Police Department for the new CAD/RMS costs; \$1 million is proposed in the Fire Department for the new fire engine per Council's direction at the November 13, 2018 meeting from Fund Balance; and, \$20,000 is proposed in Public Works for the new Pedestrian Bridge Inspection Program. Keep in mind, the fire engine was budgeted in June with an allocation of \$400,000 from Measure S 2006 Fund Balance. These adjustments are outlined in Attachment A.

**Recommendation:**

Staff is recommending FY 2018-19 General Fund expenditure adjustments in the amount of \$2,536,027 as follows:

	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Finance Department	455,345	38,830	494,175
Human Resources	389,020	20,000	409,020
Non-Departmental	2,734,275	1,388,771	4,123,046
Police Department	5,927,788	68,426	5,996,214

Fire Department	2,988,161	1,000,000	3,988,161
Public Works	819,410	20,000	839,410
<b>Total Adjustments</b>	<b>13,313,999</b>	<b>2,536,027</b>	<b>15,850,026</b>

Of the proposed revisions, \$2,409,221 is to be funded from the General Fund Balance, leaving a residual balance of \$1,092,034. The remainder is to be paid from current year revenues. The adjustments will bring the FY 2018-19 surplus down to \$108,163.

**OTHER FUNDS**

Measure S 2006 and 2014 Analysis

The voter-approved 2006 City General Purpose Use Tax is levied at 0.5% on all retail sales. These taxes have been allocated by the City Council to fund Public Safety programs as their highest funding priority. Measure S 2006 revenue collections were 30% of projections at the end of the first quarter, while expenditures are at 18% of appropriations. Staff is recommending a \$12,000 revenue adjustment for Interest and Investment Income to align with average annual earnings, and an expenditure budget reduction in the Fire Department of \$400,000 for the fire engine which is now fully funded from General Fund balance.

**Recommendation:**

Staff is recommending FY 2018-19 Measure S 2006 budget adjustments as follows:

Revenue	FY 2018-19 Budget	Proposed Revisions	FY 2018-19 Updated Budget
Interest and Investment Income	1,000	12,000	13,000
<b>Total Adjustments</b>	<b>1,000</b>	<b>12,000</b>	<b>13,000</b>

Expenditures	FY 2018-19 Budget	Proposed Revisions	FY 2018-19 Updated Budget
Fire Department	951,046	-400,000	551,046
<b>Total Adjustments</b>	<b>951,0146</b>	<b>-400,000</b>	<b>551,046</b>

The voter-approved 2014 City General Purpose Use Tax is also levied at 0.5% on all retail sales. These funds are used to address some of the City's operational and ongoing and previously deferred capital improvement needs. Measure S 2014 revenue collections are 30% of projections at the end of the first quarter, while expenditures are 7% of appropriations. This level of expenditure is primarily due to capital projects that have not been initiated as of yet. While revenue receipts for Measure S 2014 should mirror that of Measure S 2006, some businesses are still being identified by our consultant, HdL, that may not have implemented the second use tax. Staff is recommending a \$15,000 revenue adjustment for Interest and Investment Income to align with average annual earnings, and expenditure

adjustments for one-time uses from Fund Balance resulting from prior year appropriation savings for the following: City Attorney appropriation of \$35,000 for additional Municipal Code updates per Council direction at the September 18, 2018 meeting; Public Works appropriations of \$10,000 for additional tree trimming, and \$40,000 for the Adobe Road Trail/Alignment Restoration project.

**Recommendation:**

Staff is recommending FY 2018-19 Measure S 2014 adjustments as follows:

Revenue	FY 2018-19 Budget	Proposed Revisions	FY 2018-19 Updated Budget
Interest and Investment Income	1,000	15,000	16,000
<b>Total Adjustments</b>	<b>1,000</b>	<b>15,000</b>	<b>16,000</b>

Expenditures	FY 2018-19 Budget	Proposed Revisions	FY 2018-19 Updated Budget
City Attorney	0	35,000	35,000
Public Works	1,023,447	50,000	1,073,447
<b>Total Adjustments</b>	<b>1,023,447</b>	<b>85,000</b>	<b>1,108,447</b>

Again, these expenditures are proposed to be paid from the Fund Balance, as the FY 2017-18 surplus exceeded this value and has already been credited to the Fund Balance at prior fiscal year end.

**Equipment Reserve Fund Analysis**

With the adoption of the Measure S 2014 Five-Year Funding Plan May 5, 2015, and amended June 21, 2016, June 20, 2017, and June 19, 2018, City Council established equipment reserves to fund vehicle and equipment purchases in Police, Public Works, and Development Services departments. Staff is requesting an appropriation of \$80,000 in the Public Works Department to purchase a chipper truck to replace the current chipper truck. The available Fund Balance is \$146,188.

**Recommendation:**

Staff is recommending a FY 2018-19 Equipment Reserve Fund expenditure adjustment in the amount of \$80,000 as follows:

	FY 2018-19 Budget	Proposed Revisions	FY 2018-19 Updated Budget
Public Works	0	80,000	80,000
<b>Total Adjustments</b>	<b>0</b>	<b>80,000</b>	<b>80,000</b>

Solid Waste Fund Analysis

The Solid Waste Fund accounts for funds received from Republic Services for solid waste capital projects. Staff is proposing revenue adjustments of \$4,000 for Interest and Investment Income, and \$63,000 for a disbursement received from Republic Services for solid waste capital projects. Staff is also proposing expenditure adjustments of \$22,000 for additional consultant services to respond to permit compliance issues, and \$20,000 to install additional trash capture devices in City-owned parking lots.

**Recommendation:**

Staff is recommending FY 2018-19 Solid Waste Fund adjustments as follows:

<b>Revenue</b>	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Interest and Investment Income	0	4,000	4,000
Reimbursements	0	63,000	63,000
<b>Total Adjustments</b>	<b>0</b>	<b>67,000</b>	<b>67,000</b>

<b>Expenditures</b>	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Public Works	0	42,000	42,000
<b>Total Adjustments</b>	<b>0</b>	<b>42,000</b>	<b>42,000</b>

Measure J Fund Analysis

The Measure J Fund accounts for special override sales tax revenues collected by Contra Costa Transportation Authority (CCTA) and reapportioned to cities for local street projects. Staff is proposing a revenue adjustment of \$5,000 for Interest and Investment Income. Staff is also proposing an expenditure adjustment of \$315,552 for Rule 20A credits that were approved by City Council March 6, 2018. The Rule 20A agreement was entered into on June 19, 2018, and the funds were disbursed on July 11, 2018. The FY 2018-19 budget as adopted anticipated a \$367,774 surplus.

**Recommendation:**

Staff is recommending FY 2018-19 Measure J Fund adjustments as follows:

<b>Revenue</b>	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Interest and Investment Income	0	5,000	5,000
<b>Total Adjustments</b>	<b>0</b>	<b>5,000</b>	<b>5,000</b>

<b>Expenditures</b>	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Public Works	286,182	315,552	601,734
<b>Total Adjustments</b>	<b>286,182</b>	<b>315,552</b>	<b>601,734</b>

Housing Administration Fund Analysis

The Housing Administration Fund accounts for activities associated with administering housing programs of the former Pinole Redevelopment Agency, use of Housing Set Aside funds, and the provision of affordable housing within the community. Revenue at the end of the first quarter is at 108% of projections. This is the result of additional sales proceeds received from the sale of the Pinole Assisted Living Community property, and the result of a first-time homebuyer loan that was paid off. Expenditures are 30% of appropriations at fiscal year-end.

**Recommendation:**

Staff is recommending FY 2018-19 Housing Administration Fund revenue adjustments in the amount of \$113,255 as follows:

<b>Revenue</b>	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Other Revenue	0	5,795	5,795
Proceeds from sale of Property	0	1,150	1,150
Loan/Bond Proceeds	10,500	106,310	116,810
<b>Total Adjustments</b>	<b>10,500</b>	<b>113,255</b>	<b>123,755</b>

Interest and Investment Income Analysis

The City pools its cash together into one account to maximize interest earnings, and allocates interest earned to the pooled funds on a quarterly basis. Several funds had Interest and Investment earnings in excess of projections as noted below as items 5 – 10, and in the financial report Attachment A. This is the result of an increased use of LAIF for idle funds.

Sewer Enterprise Fund Analysis

The Sewer Enterprise Fund accounts for fees charged to residents and businesses for sewer utilities. Fees are used to operate the Pinole-Hercules Wastewater Treatment Plant which services the Pinole and Hercules areas. Sewer Usage Fees are received with Property Tax in December, April, and June, and first quarter Hercules billing is in progress. Staff is proposing Interest and Investment Income revenue adjustments of \$50,000, in addition to a \$650 adjustment for a miscellaneous reimbursement received.

**Recommendation:**

Staff is recommending revenue adjustments of \$50,650 to align with actual receipts as follows:

	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Interest and Investment Income	0	50,000	50,000
Reimbursements	0	650	650
<b>Total Adjustments</b>	<b>0</b>	<b>50,650</b>	<b>50,650</b>

**Pinole Community TV Analysis**

As of September 30, 2018, revenues of 6% have been realized for the first quarter of the fiscal year. This is partially due to our practice of quarterly billing, which staff is working with Finance for assistance on. In addition, the operating contribution programmed from General Fund is processed at fiscal year-end based on actual funding need. Staff continues to seek other revenue opportunities. Staff is proposing a revenue adjustment of \$3,900 to account for a donation received from the Car Show.

Expenditures continue to stay on track with 19% expended as of September 30, 2018.

**Recommendation:**

Staff is recommending FY 2018-19 Cable Access TV Fund revenue adjustments in the amount of \$3,900 as follows:

<b>Revenue</b>	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Other Revenue	0	3,900	3,900
<b>Total Adjustments</b>	<b>0</b>	<b>3,900</b>	<b>3,900</b>

**Information Systems Fund Analysis**

The City utilizes an internal service fund to account for information technology services provided to other departments and funds on a cost-reimbursement basis. Staff is proposing budget adjustments of \$40,000 for Microsoft Office 365, and \$10,404 for the increase in cost for Contra Costa County remote access network board services used by the Police Department. These costs will be allocated back to the departments and funds that benefit from these services.



**Recommendation:**

Staff is recommending FY 2018-19 Information Systems Fund adjustments as follows:

<b>Revenue</b>	<b>FY 2018-19 Budget</b>	<b>Proposed Revisions</b>	<b>FY 2018-19 Updated Budget</b>
Professional and Technical Services	442,274	50,404	492,678
Indirect Cost Allocations	-729,824	-50,404	-780,228
<b>Total Adjustments</b>	<b>-287,550</b>	<b>0</b>	<b>-287,550</b>

**FISCAL IMPACT**

Fiscal impact of the First Quarter FY 2018-19 Financial Report proposed adjustments are summarized below and described in detail above and in Attachment A.

1. Net increase in General Fund revenue of \$30,000 offset by a net increase in expenditures of \$2,536,027.
2. Net increase in Measure S 2006 revenue of \$12,000 offset by a net decrease of expenditures of -\$400,000.
3. Net increase in Measure S 2014 expenditures of \$15,000 offset by an increase in expenditures of \$85,000.
4. Net increase in Equipment Reserve Fund expenditures of \$80,000.
5. Net increase in Gas Tax Fund revenue of \$2,000.
6. Net increase in Traffic safety Fund revenue of \$500.
7. Net increase in Supplemental Law Enforcement Service Fund revenue of \$600.
8. Net increase in NPDES Storm Water Fund revenue of \$150
9. Net increase in Building and Planning Fund revenue of \$5,000.
10. Net increase in Refuse Management Fund revenue of 1,000.
11. Net increase in Solid Waste Fund revenue of \$67,000 offset by an increase in expenditures of \$42,000
12. Net increase in Measure J Fund revenue of \$5,000 offset by an increase in expenditures of \$315,552.
13. Net increase in Housing Administration Fund revenue of \$113,255.
14. Net increase in Sewer Enterprise Fund revenue of \$50,650.
15. Net increase in Community Access TV Fund revenue of \$3,900.
16. Net increase in Information Systems Fund Expense of \$50,404 offset by an Expense Cost Allocation of -\$50,404.

## **ATTACHMENTS**

Attachment A – FY 2018-19 First Quarter Financial Report

Attachment B – Resolution Adjusting Fiscal Year 2018-19 Budget

Attachment C – Resolution Establishing a Disaster Relief Reserve

Attachment D – PowerPoint Presentation