CITY COUNCIL AGENDA REPORT

MEETING DATE: March 3, 2015 **ITEM NUMBER:** NB-3

SUBJECT: FISCAL YEAR 2014-15 MID-YEAR BUDGET REPORT

DATE: February 20, 2015

FROM: FINANCE DEPARTMENT

PRESENTATION BY: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR

FOR FURTHER INFORMATION CONTACT: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR, (714) 754-5243

RECOMMENDED ACTIONS:

1. Approve allocation of the FY 2013-14 net budget variance:
   a. $2,000,000 to reserves
   b. $4,000,000 transfer to Capital Projects designated for capital facility projects
2. Approve recommended FY 2014-15 budget adjustments:
   a. Parks & Community Services
   b. Police Department
   c. Vehicle Replacement Fund

BACKGROUND:

The City Council adopted the FY 2014-15 budget on June 17, 2014. The total budget was $138,321,084 including the General Fund budget of $109,451,662. In October 2014, as the FY 2013-14 financial records were being closed, a General Fund net budget variance of $6 million was reported. This report reviews the FY 2013-14 net budget variance, the status of FY 2014-15 General Fund revenues, expenditures and other budget issues.

ANALYSIS:

FY 2013-14 net budget variance: Last fiscal year, revenues exceeded expenses and there were overall net positive budget variances. These variances are partly reduced by encumbrances (open purchase orders or contracts with unspent balances). These amounts have been reported in the recently published FY 2013-14 Comprehensive Annual Financial Report (CAFR) and are summarized in the following table for the City's General Fund:

	Original Budget	Final Budget	Actual	Budget Variance
Revenues	$103,250,486	$105,159,033	$107,395,938	$2,236,905
Expenditures	95,684,648	101,127,122	93,748,045	7,379,077
Transfers	7,506,623	9,093,127	9,094,008	(881)
Net change in fund balance	$ 59,215	$ (5,061,216)	$ 4,553,885	9,615,101
Carryovers & encumbrances				(3,268,475)
Net budget variance				$6,346,626

Positive revenue variances were primarily from additional distributions received from the Lehman Brothers investment, sales tax, transient occupancy tax, franchise fees and building and other permits. Positive spending variances (actuals below budget) were primarily in regular salaries and related employee costs, potential property acquisition funds, internal rent—equipment maintenance partly offset by additional spending on overtime due to vacant positions. The combination of these factors result in an overall increase in fund balance rather than the planned use of fund balance contemplated in last year's mid-year report.

As there are many significant needs and potential uses for the net budget variance, including capital projects such as the library, community center and fire stations, significant unfunded pension liabilities and the opportunity to increase reserves, recommendations regarding the use of the net budget variance are as follows:

1. Set aside $3,268,475 for carryovers including $1,000,000 for potential property acquisition.
2. Allocate the net budget variance of $6,346,626 as follows:
    a. $2,000,000 to reserves
    b. $4,000,000 to Capital Projects (targeted for capital facility projects)
    c. Leave the remaining balance in unassigned fund balance

The Finance Advisory Committee reviewed a draft of this report along with the draft budget and financial policies. The Committee recommended the following priorities for use of the net budget variance:

1. Increase reserves if reserves are below target.
2. Examine opportunities for prepayment and accelerated payoff of debt.
3. Allocate additional funds to capital facilities.

The recommendation above is consistent with the Committee's priorities regarding increasing reserves and capital facilities. The City's pension prepayment (for the miscellaneous group) and additional payments to unfunded liability currently begin to address the City's debt with the highest interest cost.

FY 2014-15 General Fund Revenues:

Total year-to-date General Fund revenue by month is displayed in Attachment 1. The graph displays last fiscal year actual revenue, current fiscal year-to-date budget allocated in the same proportion as last fiscal year actual and year-to-date actual revenues by month. Through December 31, total General Fund revenue is $36,631,740; 4.8% over year-to-date

budget plan. Revenues are generally on track with budget expectations with positive variances in secured property tax, sales tax, building permits and other building-related fees and permits. Revenue from parking citations is running below year-to-date budget expectations and are being monitored. Overall, total revenue is expected to be on budget by fiscal year end. Attachment 2 provides revenue detail by category and account.

FY 2014-15 General Fund Expenditures:

Year-to-date General Fund expenditures by month are displayed in Attachment 3. The graph displays last fiscal year actual expenditures, current fiscal year-to-date budget allocated in the same proportion as last fiscal year actual and year-to-date actual expenditures by month. Attachment 4 displays employee costs in the same format. Through December 31, total General Fund expenditures are $52,315,040; 6.8% below year-to-date budget plan. A few exceptions are above-budget use of part-time help and overtime due to vacant positions and will be offset by salary savings. Overall, total expenditures are expected to be below budget by fiscal year end. Attachment 5 provides expenditure detail by division and major expenditure category.

General Fund Department Items:

Parks & Community Services:

- The Hoag Hospital Benefit Program recently awarded the city a $106,710 grant for the Senior Medical Transportation Program. These funds will be used to provide round-trip transportation for seniors from the Costa Mesa Senior Center to their medical appointments. It is recommended that the Parks & Community Services revenue and expense budget be increased to recognize and make use of these funds.
- Macy's donated $1,165 to Shiffer Park as part of their Heart Your Park Campaign. Customers were asked to give back to their local park by donating $1 or more at check-out. Donations were made last March; received by the City in June and held pending a discussion with the Parks & Recreation Commission on their use. Parks & Community Services staff recommend using the funds to purchase and plant ten tulip trees in the park. It is recommended that the Parks & Community Services revenue and expense budget be increased to recognize the receipt and use of these funds. (budget adjustment 15-004 on file with the Finance Department)

Police Department

- The City's balance of the County allocation of 2012 State Proposition 69 funds (related to the collection and use of criminal offender DNA samples) is $29,518. These funds need to be budgeted as they have been approved for the replacement of the department's freezer and for the purchase of heavy duty storage containers for homicide cases. (budget adjustment 15-011 on file with the Finance Department)

Allocation of Contingencies:

The current Non-Departmental section of the General Fund budget includes a $1,000,000 contingency appropriation. The CEO added $80,000 to this amount from part-time salary savings. Attachment 6 lists $717,127 in items that the City Council and/or the CEO has approved for use by the various departments and divisions listed. It is recommended that these appropriations be transferred out of the General Fund Non-departmental contingency account and into the various General Fund department budgets for the purposes indicated on Attachment 6. This will result in a revised balance of $362,873 in this account.

Attachment 7 summarizes all recommended changes to the FY 2014-15 General Fund budget. The revised General Fund budget is $112,857,530 including carryovers.

Other Funds:

Fund 601 Vehicle Replacement:

Several items were requested for this fund that were not originally included in the FY 2014-15 budget. The following items have been reviewed and are recommended for funding from the Fund 601 carry over funds and are partially offset by a reduction in the overtime budget:

	Cost	Purpose
$	1,005	Increase in mechanic certification cost
	1,620	On-line vehicle repair manuals
	10,700	Replace metal cutter, welder, A/C coolant recycler
	9,000	Emergency generator testing and repair contract
	50,000	Fire apparatus and motorcycle repairs by support contract
	(6,000)	Reduced need for overtime
$	66,325	Total

CONCLUSION:

The review and approval of the recommended budget changes will update the City's budget to reflect the current revenue expectations and expenditure requirements that help enable the City to continue providing the community with quality programs and services.

Stephen Dunivent
Interim Finance Director

Thomas R. Hatch
City CEO

Attachments:
1. General Fund Revenue Chart
2. Budget to Actual Analysis - General Fund Revenues
3. General Fund Total Expenditure Chart
4. General Fund Salary & Benefit Chart
5. Budget to Actual Analysis - General Fund Expenditures
6. Contingency Funds
7. Mid-year Budget Report Summary - General Fund