



City of Palo Alto

City Council Staff Report

(ID # 10007)

Report Type: Informational Report

Meeting Date: 2/4/2019

Summary Title: First Quarter Financial Report

Title: First Quarter FY 2019 Financial Report

From: City Manager

Lead Department: Administrative Services

This is an information only report and no Council action is required.

Background

The purpose of this report is to provide the Council with information on the financial condition of the City's General Fund and Enterprise Funds as of the end of the first (1st) quarter of fiscal year (FY) 2019 (September 30, 2018).

Discussion

The FY 2019 1st quarter ended on September 30, 2018 and this report summarizes the actual financial activity of the General and Enterprise Funds for the three-month period and compares those amounts to the same period of the prior year and to the FY 2019 Adjusted Budget.

Attachment A provides a breakdown of revenues by source and expenses by function, with separate columns for Adopted Budget and Adjusted Budget. The Adjusted Budget column includes prior year commitments that were carried forward into this fiscal year and amendments to the FY 2019 Adopted Budget through September 30. Encumbrances and actual expenses for the three-month period are also reported.

General Fund revenues (excluding operating transfers and other sources) for the 1st quarter FY 2019 total \$23.9 million, which is 7 percent lower than the same period prior year, and comprises 12 percent of the current year Adjusted Budget. Cash receipts declined in sales tax, transient occupancy, permits & licenses and documentary transfer taxes over prior year's 1st quarter. These lower levels are not indicative of the annual expected receipts in FY 2019, they merely reflect a timing difference.

General Fund expenses for 1st quarter are 2 percent higher than prior year, and are tracking at 23 percent of Adjusted Budget which is similar to the prior year trend.

Following is a detailed discussion of the most significant revenue and expense items.

Revenue Highlights for 1st Quarter FY 2019

Following is a table which highlights the City's major revenue sources for the 1st Quarter, compared to 1st Quarter of the prior year. Each quarter's revenue is expressed as a percentage of the Adjusted Budget for each year.

City of Palo Alto General Fund Revenue FY 2019 1st Quarter (000's)								
	1st Quarter Actuals			Adjusted Budget				
	FY 2019	FY 2018	% change	FY 2019	%	FY 2018	%	
Property Tax	\$ 107	\$ 89	N/M	\$ 45,332	0%	\$ 42,327	0%	
Sales Tax	1,800	1,917	-6%	31,247	6%	30,208	6%	
Charges for Services	4,827	3,647	32%	28,419	17%	25,125	13%	
Transient Occupancy Tax	2,920	4,024	-27%	25,049	12%	24,143	16%	
Utility User Tax	3,336	3,322	0%	16,092	21%	15,367	21%	
Permits and Licenses	1,882	3,352	-44%	8,545	22%	8,432	39%	
Documentary Transfer Tax	1,376	1,471	-6%	7,434	19%	6,930	20%	
All Other Revenue Sources	7,654	7,816	-2%	32,535	24%	33,544	24%	
Total Revenue	\$ 23,902	\$ 25,638	-7%	\$ 194,653	12%	\$ 186,076	16%	

Property tax revenue in the 1st quarter of the fiscal year is typically only a nominal amount as property tax receipts are paid by the County beginning in the month of November and then again beginning in March. FY 2018 actual property tax revenue was \$42.8 million. The FY 2019 budgeted amount is \$45.3 million, 5.8 percent higher than the prior year's actual revenue.

Sales tax revenue for the 1st quarter has decreased \$117,000, or 6 percent, from the same period last year. This doesn't reflect actual economic performance this is discussed further in the next paragraph. The outlook is the FY 2019 budget of \$31.2 million will be met or exceeded.

In FY 2018, the newly established department of California Department of Tax and Fee Administration (CDTFA) took over the responsibility of administrating the collection and distribution of sales and use tax. CDTFA introduced new technology and collection and distribution processes which, unfortunately, had issues leading to delays in processing and distributing sales tax receipts. In addition, changes in the distribution methodology lead to timing differences in FY 2019 Q1 compared to the prior year's receipt.

Charges for services revenue is up \$1.2 million, or 32 percent, from the same quarter last year. This increase is due to a combination of the following items:

- Paramedic service fees increased \$156,000 over the same period last year due to increased paramedic fees.
- Plan check fees for the quarter increased by \$237,000, or 19% from prior year's 1st quarter. 1st quarter revenue of \$1.5 million represents 26 percent of the annual budgeted amount
- Golf course related fees increased \$693,000 from the prior year 1st quarter due to opening in May 2018. Actual revenue for the 1st quarter of \$771,000 represents 21 percent of the full year budgeted amount of \$3.7million.

Transient occupancy tax (TOT) revenue cash receipts for the 1st quarter decreased \$1.1 million or 27 percent due to timing of collections. During this period, average daily room rates and occupancy were \$277 per day and 84.3 percent which is 4.5 percent and 3.2 percent higher over the prior year, respectively. Based on the current trend, the expectation is that actual receipts may exceed the adopted budget of \$25.1 million. This revenue stream will continue to be monitored and adjustments will be brought forward as appropriate.

Documentary transfer tax cash receipts total \$1.4 million, or 19 percent of the FY 2019 budgeted amount, and are \$0.1 million lower than prior year receipts for the same period. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

Permits and licenses revenue is down primarily due to a decrease in new construction permit revenue mainly for the \$1.4 million permits issued to Channing House and Leland Stanford Jr. University Board of Trustee from the same period last year.

Expense Highlights for 1st Quarter FY 2019

Following is a table which highlights the City's expenses by function for the 1st quarter, compared to 1st quarter of the prior year. Each quarter's expense is expressed as a percentage of the Adjusted Budget for each year.

**City of Palo Alto
General Fund Expenses
FY 2019 1st Quarter
(000's)**

	1st Quarter Actuals			Adjusted Budget			
	FY 2019	FY 2018	% change	FY 2019	%	FY 2018	%
	inc (dec)						
Police	\$ 10,201	\$ 9,564	7%	\$ 42,843	24%	\$ 42,774	22%
Fire	7,636	7,981	-4%	32,047	24%	32,627	24%
Community Services	7,144	7,107	1%	29,699	24%	28,967	25%
Public Works	3,978	3,892	2%	19,004	21%	19,079	20%
Development Services	2,804	2,338	20%	13,098	21%	13,194	18%
Library	2,295	2,130	8%	9,836	23%	9,771	22%
Administrative Services	1,887	1,733	9%	8,038	23%	8,253	21%
Planning and Community Env	1,617	1,831	-12%	10,670	15%	10,938	17%
All Other Departments	5,248	5,274	0%	20,655	25%	24,997	21%
Total Expenses	\$ 42,810	\$ 41,850	2%	\$ 185,890	23%	\$ 190,600	22%

Total expenses for the 1st quarter of the fiscal year are up 2 percent from the same quarter last year, but in total they are right in line at 23 percent of full-year budgeted amounts.

Police and Fire comprises 42 percent of total General Fund expenditures for the 1st quarter, which is comparable to the prior year. Following is a table which highlights some Police and Fire salaries and overtime for the 1st quarter.

Public Safety
Salaries and Overtime Expense
FY 2019 1st Quarter YTD
(000's)

	1st Quarter YTD Actuals			Adjusted Budget			
	FY 2019	FY 2018	% change	FY 2019	%	FY 2018	%
	Inc (Dec)						
Police - Salaries	\$ 4,378	\$ 4,089	7%	\$ 19,272	23%	\$ 18,827	22%
Police - Overtime	674	585	15%	1,777	38%	1,700	34%
Total Police	5,052	4,674	8%	21,049	24%	20,527	23%
Fire - Salaries	2,966	3,077	-4%	14,356	21%	13,914	22%
Fire - Overtime	918	972	-6%	1,912	48%	1,571	62%
Total Fire	3,884	4,049	-4%	16,268	24%	15,485	26%
Total Public Safety							
Salaries & Overtime	\$ 8,936	\$ 8,723	2%	\$ 37,317	24%	\$ 36,012	24%

Police overtime is 15 percent higher from prior year due to overtime in the dispatch center because of staff vacancies, more special events held in the city, and more cases handled in the investigation unit. On a combined basis, salaries and overtime are at 24% of budget through the 1st quarter of the fiscal year. The Department's overtime analysis is included in Attachment B.

Fire overtime is 6 percent lower than FY 2018 primarily due to fewer crews out on strike teams for the first quarter in FY 2019. On a combined basis, salaries and overtime are 24% of the budget through the 1st quarter of the fiscal year. The Department's overtime analysis is included in Attachment B.

New labor contracts were recently approved for all public safety groups however, actual activity associated with these contracts is only reflected in the Police Department. Fire Department implications will not reflect in actual activity until the second quarter of the fiscal year due to the implementation timing of the labor contract.

General Fund Budget Stabilization Reserve (BSR) Balance

As reported to the Finance Committee on December 4, FY 2018 ended with a surplus of \$11.5 million when compared to the FY 2019 Adopted Budget and a BSR balance of \$52.8 million. However, over 90 percent of the surplus is already approved to be used. After deducting the 2019 General Adopted Budget and subsequent budget amendments to the reserve through

Council approved actions, the BSR balance is \$42.3 million which is 20.1% of FY2019 expenditures and operating transfers adopted budget. The Finance Committee approved a recommended \$2.0 million reduction in the BSR to transfer funds from the BSR to the Infrastructure Reserve; this would bring the BSR to \$40.3 million or approximately 19 percent of the FY 2019 Adopted Budget expenses. A more updated status of the BSR can be found in the FY 2019 Mid-Year Budget Review, this report only reflects activities through the first quarter of FY 2019.

Enterprise Funds

Following is a summary of change in net position for each of the Enterprise Funds for the three months ended September 30, 2018, including a comparison of results from the same period last year.

City of Palo Alto Enterprise Funds Change in Net Position FY 2019 1st Quarter				
	1st Qtr FY 2019	1st Qtr FY 2018	Increase (Decrease)	% Change
Water	\$ 7,918	\$ 8,044	\$ (126)	-(2%)
Electric	8,742	4,427	4,315	97%
Fiber Optic	370	431	(61)	-(14%)
Gas	248	56	192	343%
Wastewater collection	687	184	503	273%
Wastewater treatment	1,415	682	733	107%
Refuse	3,814	3,457	357	10%
Storm Drainage	697	712	(15)	-2%
Airport	213	103	110	107%
Total Change in Net Position	\$ 24,104	\$ 18,096	\$ 6,008	33%

Electric Fund 1st quarter improved \$4.3 million from prior year due to lower Utility purchase costs. Costs were lower than expected, mainly due to credits stemming from outages during the Carr fire and other credits offset base resource costs. In addition, Western Area Power Administration (WAPA) ceased restoration fund bills in Q1 of FY19. WAPA restoration fund is one of the funding sources for the Central Valley Projects (CVP). The CVP restoration costs were lower than anticipated due to over-collection from power customers and increases in displacement program benefits.

Wastewater Collection Fund increased \$0.5 million from prior year due to an 11% rate increase effective July 1, 2018.

Attachments:

- Attachment A: General Fund First Quarter Financial Report
- Attachment B: Public Safety Overtime Analysis for Q1 FY2017-2019

ATTACHMENT A
CITY OF PALO ALTO
GENERAL FUND FIRST QUARTER FINANCIAL REPORT
FISCAL YEAR ENDING JUNE 30, 2019
(in thousands)

Categories	BUDGET		ACTUALS (as of 09/30/2018)			
	Adopted Budget	Adjusted Budget	Pre Encumbr	Encumbr	Actual	% of Adj Budget *
<u>Revenues & Other Sources</u>						
Sales Tax	31,246	31,247	-	-	1,800	6%
Property Tax	45,332	45,332	-	-	107	0%
Transient Occupancy Tax	25,049	25,049	-	-	2,920	12%
Documentary Transfer Tax	7,434	7,434	-	-	1,376	19%
Utility Users Tax	16,092	16,092	-	-	3,336	21%
Motor Vehicle Tax, Penalties & Fines	2,032	2,032	-	-	495	24%
Charges for Services	28,419	28,419	-	-	4,827	17%
Permits & Licenses	8,545	8,545	-	-	1,882	22%
Return on Investment	1,166	1,166	-	-	423	36%
Rental Income	15,734	15,734	-	-	3,936	25%
From Other Agencies	2,943	2,943	-	-	87	3%
Charges To Other Funds	10,093	10,093	-	-	2,620	26%
Other Revenues	567	567	-	-	93	16%
Total Revenues	194,652	194,653	-	-	23,902	12%
Operating Transfers-In	19,772	19,772	-	-	4,943	25%
Encumbrances and Reappropriation	-	6,045	-	-	-	-
Contribution from Budget Stabilization Reserve	-	-	-	-	-	-
Total Sources of Funds	214,424	220,470	-	-	28,845	13%
<u>Expenditures & Other Uses</u>						
City Attorney	3,264	3,580	23	295	634	27%
City Auditor	1,258	1,296		31	283	24%
City Clerk	1,282	1,317		194	264	35%
City Council	488	501		75	96	34%
City Manager	4,386	4,771		495	871	29%
Administrative Services	7,963	8,038	34	102	1,887	25%
Community Services	28,914	29,699	228	5,791	7,144	44%
Development Services	12,561	13,098	176	1,946	2,804	38%
Fire	31,825	32,047	15	609	7,636	26%
Library	9,664	9,836	25	495	2,295	29%
Office of Emergency Services	1,515	1,678	1	272	219	29%
Human Resources	3,591	3,756	10	162	809	26%
Planning and Community Environment	8,791	10,670	119	1,766	1,617	33%
Police	41,945	42,843	470	930	10,201	27%
Public Works	18,462	19,004	240	3,891	3,978	43%
Non-Departmental	3,823	3,756			2,072	55%
Total Expenditures	179,732	185,890	1,341	17,054	42,810	33%
Operating Transfers-Out	5,726	5,726	-	-	2,350	41%
Transfer to Infrastructure	25,172	25,172	-	-	6,253	25%
Total Use of Funds	210,630	216,788	1,341	17,054	51,413	32%

Public Safety Departments
Overtime Analysis for Fiscal Years 2017 through 2019

	2017	2018	Q1 2019
POLICE DEPARTMENT			
Overtime Expense			
Adopted Budget	\$1,500,000	\$1,700,000	\$1,776,500
Modified Budget	1,500,000	1,700,000	1,776,500
Net Overtime Cost - see below	424,873	347,677	185,358
Variance to Budget	1,075,127	1,352,323	1,591,142
Overtime Net Cost			
Actual Expense	\$2,010,204	\$2,286,527	\$673,885
Less Reimbursements			
Stanford Communications	66,741	75,275	22,431
Utilities Communications Reimbursement	34,416	38,227	11,267
Local Agencies (A)	12,079	11,431	3,819
Police Service Fees	69,396	73,600	21,715
Total Reimbursements	182,632	198,533	59,231
Less Department Vacancies	1,402,699	1,740,318	429,296
Net Overtime Cost	\$424,873	\$347,677	\$185,358
Department Vacancies (number of days)	5,211	5,777	1,541
Workers' Compensation Cases	8	5	3
Department Disabilities (number of days)	219	120	53
FIRE DEPARTMENT			
Overtime Expense			
Original Budget	\$1,413,714	\$1,396,436	\$1,911,761
Modified Budget (B)	1,632,714	1,571,436	1,911,761
Net Overtime Cost - see below	2,300,994	2,675,517	876,311
Variance to Budget	(\$668,280)	(1,104,081)	\$1,035,450
Overtime Net Cost			
Actual Expense	\$3,571,729	\$3,839,426	\$917,987
Less Reimbursements			
Cal-Fire/FEMA (Strike Teams)	55,549	489,062	-
Total Reimbursements	55,549	489,062	-
Less Department Vacancies	1,215,185	674,847	41,676
Net Overtime Cost	\$2,300,994	\$2,675,517	\$876,311
Department Vacancies (number of days)	4,983	5,293	90
Workers' Compensation Cases	4	8	4
Department Disabilities (number of days)	732	223	150

NOTES:

(A) Includes Animal Services contract with Los Altos and Los Altos Hills.

(B) FY 2018 includes Strike Team Reimbursement of \$175,000 recommended in the FY 2018 Mid-Year Review.