



## STAFF REPORT

**City Council Meeting Date:** 9/24/2019  
**Staff Report Number:** 19-197-CC

**Consent Calendar:** Receive and file the preliminary year-end close financial review of general fund operations as of June 30, 2019,

### Recommendation

Staff recommends receipt and filing of the preliminary year-end close financial review of general fund operations as of June 30, 2019.

### Policy Issues

The preliminary year-end budget-to-actual report is presented to facilitate better understanding of general fund operations and the overall state of the City's current fiscal affairs by the public and the City Council.

### Background

In order to provide timely information to City Council and the public, the administrative services department prepares a quarterly report on general fund operations. The report provides a review of general fund revenues and expenditures for the most recently completed quarter of the current fiscal year. These results are presented alongside results from the same time period for the previous year, with material differences being explained in the appropriate section of the staff report.

While revenues and expenditures presented in this report are through June 30, which is the end of the fiscal year, adjustments may be made as a result of the City's ongoing audit. A more complete picture of the general fund's final results from fiscal year 2018-19 will be presented in December, when the year-end report is provided to the City Council.

### Analysis

Overall, the report highlights that year-to-date actuals for fiscal year 2018-19 show a preliminary net revenue position of \$5.57 million. The general fund unassigned fund balance is expected to increase by \$0.72 million after assignments and commitments according to the reserve policy have been accounted for. Overall, revenues in the general fund for fiscal year 2018-19 received were 1.35 percent higher than anticipated. Year-to-date expenditures were under budget at almost 94 percent of expected spending.

### Fund balance assignments and commitments

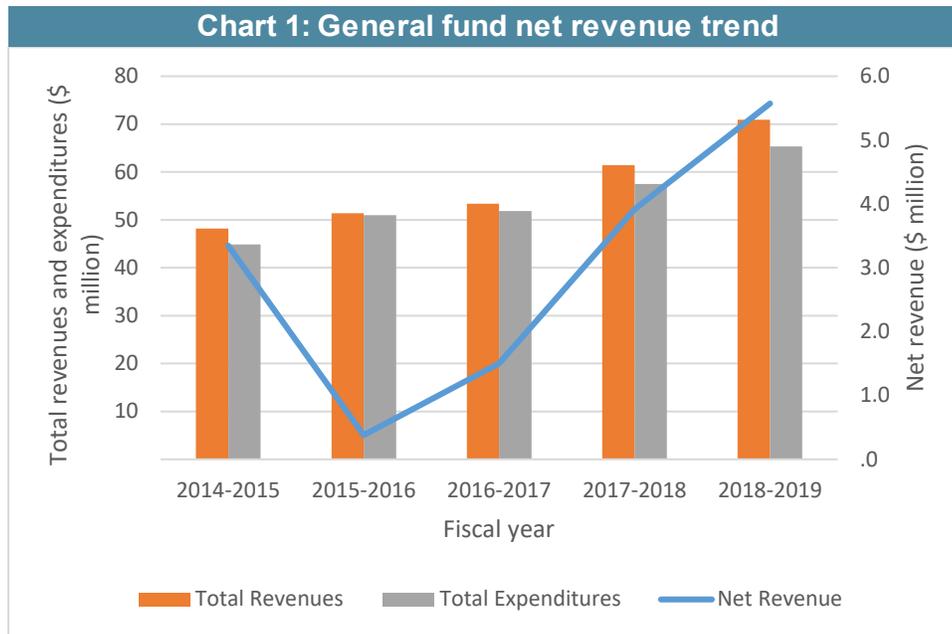
The assignments and commitments as of June 30, 2019, are estimated to include \$28.84 million for reserve commitments including economic stabilization, emergency contingency and strategic pension fund; and \$6.68 million in assignments including infrastructure maintenance, mitigation of development effects on the Menlo Park City School District (MPCSD), and encumbered liabilities. Newly assigned as of June 30, 2019,

are the remaining funds received as part of a \$2.25 million public safety development agreement (PSDA) but not fully expended throughout the year. These funds not yet expended will be dedicated to the public safety uses outlined in the PSDA in future years and are therefore assigned for that purpose as of June 30, 2019. These changes in assignments and commitments are outlined in Table 1 below. The additional designation column provides the funds assigned by agreement during fiscal year 2018-19 or by City Council policy following fiscal year-end, prior to use of reserves to true up the account.

Table 1: Fund balance assignments and commitments				
	Balance July 1, 2018	Additional designation	Use of reserves	Balance June 30, 2019
Assignments:				
Infrastructure maintenance	2,830,000	84,900	-	2,914,900
Community development	1,229,000	-	(1,229,000)	-
Mitigation for MPCSD	1,000,000	-	-	1,000,000
Public safety DA	-	2,054,147	-	2,054,147
Encumbrances	1,155,219	706,146	(1,155,219)	706,146
<b>Total assignments</b>	<b>6,214,219</b>	<b>2,845,193</b>	<b>(2,384,219)</b>	<b>6,675,193</b>
Commitments:				
Emergency contingency	9,300,000	1,500,000	-	10,800,000
Economic stabilization	12,000,000	1,500,000	-	13,500,000
Strategic pension funding	4,300,000	239,355	-	4,539,355
<b>Total commitments</b>	<b>25,600,000</b>	<b>3,239,355</b>	<b>-</b>	<b>28,839,355</b>

General fund trend

Change in the general fund balance, a result of the net revenue in a given time period, is driven by the difference between overall revenue and overall expenditures in the fund. To better display the trend between general fund revenues and expenditures, historical values are presented below in Chart 1 and represent five years of June 30 year-end balances, ending June 30, 2019.



Revenue

Table 2 below shows a summary of 2018-19 preliminary budget-to-actual revenues for fiscal years 2017-18 and 2018-19.

Table 2: Revenues						
	2017-2018			2018-2019		
	Amended Budget	Actual 6/30/18	% of Budget	Amended Budget	Preliminary 6/30/19	% of Budget
<b>Revenues</b>						
Property tax	20,847,249	23,026,432	110.45%	26,524,725	25,918,346	97.71%
Charges For services	9,676,744	9,948,363	102.81%	12,508,581	12,776,412	102.14%
Sales tax	6,253,025	6,910,437	110.51%	5,985,052	7,518,072	125.61%
Licenses and permits	7,428,541	6,740,334	90.74%	6,128,081	5,233,753	85.41%
Transient occupancy tax	7,209,000	7,770,969	107.80%	10,050,155	10,379,872	103.28%
Franchise fees	2,047,000	2,121,386	103.63%	2,047,000	2,077,805	101.50%
Fines	1,262,400	150,112	11.89%	1,262,400	1,399,465	110.86%
Utility users' tax	1,221,000	1,322,169	108.29%	1,211,000	1,661,939	137.24%
Inter-governmental revenue	1,149,284	1,403,524	122.12%	1,062,334	1,523,000	143.36%
Interest and rental income	898,200	1,413,688	157.39%	1,433,656	1,612,292	112.46%
Transfers and other	548,838	583,523	106.32%	598,146	807,337	134.97%
Use of assigned fund balance	1,850,000	-	0.00%	1,155,219	-	0.00%
<b>Total Revenues:</b>	<b>60,391,281</b>	<b>61,390,936</b>	<b>101.66%</b>	<b>69,966,348</b>	<b>70,908,293</b>	<b>101.35%</b>

Through the fourth quarter of fiscal year 2018-19, year-to-date general fund revenues are just under \$71 million, which is a 16 percent increase over the same time period in 2017-18. This increase is driven by several major revenue sources, including property tax, charges for services, fines, transient occupancy tax and sales tax.

Property tax revenues, which represent the largest source of general fund revenue, are up 13 percent, or \$2.89 million over the last year. When comparing budget to actual for the current fiscal year, property tax revenues are 98 percent of what the City had anticipated. This category consists of all property tax revenues, including the secured tax, unsecured tax, property transfer tax and supplemental tax. Of note, secured property tax was slightly lower than anticipated. Receipts did not follow the midyear amendment made based on trends from prior years.

Charges for services are up 28 percent, or \$2.83 million, over fiscal year 2017-18. When compared to the budget, charges for services are 2.14 percent above anticipated revenue. Revenue increases in this

category are primarily being driven by the City’s recreation programs, the City’s public works and community development departments, and developer agreement payments.

Sales tax revenues are up 9 percent when compared to the same period in fiscal year 2017-18 and came in over budget by 25.61 percent for the current fiscal year. It is important to note that the State remits sales tax as advances and conducts adjustments which frequently cross between fiscal years, potentially resulting in an overstated amount for the fiscal year ended June 30, 2019, and reflected as a lower total in the full-year revenues for this category for the 2019–20 fiscal year.

Transient occupancy tax (TOT) revenues are up 34 percent over the same period from last fiscal year. Overall, most hotels in Menlo Park are reporting increases in TOT revenues compared to the prior fiscal year and were bolstered by being the first full fiscal year cycle of operations by several new locations. Revenues in this category are trending slightly higher than those expected during the midyear review process and have exceeded the amended budget by 7.8 percent.

In the 2018-19 fiscal year, fines have returned to the normal expected level. Fines experienced a decrease in the 2017-18 fiscal year due to an unforeseen lack of ability to staff full time traffic officers as well as a delayed remittance to the County.

Expenditures

Consistent with the City Council amended budget, general fund operating expenditures are up \$7.83 million or 14 percent, over the previous year. Overall, expenditures in the general fund are close to expected with 93.91 percent of the budget being spent. Table 3 below details expenditures by operating department for the prior two fiscal years as compared to the final amended budget for each year.

Table 3: Expenditures						
Expenditures	2017-18			2018-19		
	Amended Budget	Actual 6/30/18	% of Budget	Amended Budget	Preliminary 6/30/19	% of Budget
Police	18,294,690	17,820,892	97.41%	19,462,418	19,080,429	98.04%
Public Works	10,801,036	10,299,742	95.36%	11,947,470	11,528,704	96.49%
Community Services	8,573,785	8,537,864	99.58%	9,713,216	9,364,538	96.41%
Community Development	7,311,094	6,294,970	86.10%	8,339,512	6,770,375	81.18%
Administrative Services	2,850,286	3,497,139	122.69%	3,167,233	3,096,624	97.77%
Library	3,065,053	2,811,848	91.74%	3,558,387	3,583,066	100.69%
City Manager's Office	2,211,453	1,789,344	80.91%	2,726,752	2,070,070	75.92%
City Council	725,746	537,985	74.13%	697,013	585,082	83.94%
City Attorney	620,448	604,746	97.47%	750,717	702,399	93.56%
Non-Departmental	3,548,702	5,277,214	148.71%	9,170,950	8,517,809	92.88%
<b>Total Expenditures:</b>	<b>58,002,293</b>	<b>57,471,745</b>	<b>99.09%</b>	<b>69,533,667</b>	<b>65,299,096</b>	<b>93.91%</b>

The majority of the City’s departments’ spending for the 2018-19 fiscal year was under their allocated budgets with a significant share of departmental savings due to vacancies and lower than anticipated

contract costs. Salary savings in departments exceeded even the included vacancy factor resulting in salary savings of approximately \$0.92 million.

Despite coming in under budget, the overall expenditures experienced an increase from the prior year. As the City continues to climb toward full capacity, an increase in services offered to the community increases as well. During the fiscal year ended June 30, 2019, the City made substantial progress toward filling vacant positions, despite the addition of 9.25 full-time equivalent (FTE) positions at the beginning of the fiscal year to support a variety of departments including police, library and public works.

#### Assignments and commitments

Funds not expended from the contribution to the City for operation of the PSDA and its cost of operation for the fiscal year, a remaining total of \$2,054,147, have been assigned for future costs of operation for the PSDA and do not contribute toward net operating surplus or deficit.

In accordance with City Council Procedure #CC-14-003, the City maintains a portion of the fund balance as committed for emergency contingencies, economic stabilization and strategic pension funding opportunities. The procedure outlines a target of 43 to 55 percent of the general fund's budgeted expenditures for the following year and ranges of 15-20 percent and 20-25 percent of the following fiscal year's expenditures for the emergency contingency and economic stabilization reserves respectively. In order to reach the minimum threshold by category and maintain the desired range, the City must increase this committed balance by \$3.00 million entering fiscal year 2019–20. This includes a commitment of \$1.50 million to each the emergency contingency and economic stabilization reserves. Also in accordance with the Procedure, 25 percent of a given year's operating surplus is dedicated to the strategic pension reserve, increasing its balance by an estimated \$0.24 million as of June 30, 2019. It is important to note that the City's fiscal position is strongly bolstered by the City's reserve policy, including being one of the main factors in the City receiving the strongest possible rating, AAA, from two rating agencies shortly after the fiscal year ended June 30, 2019, and the City Council should be commended for continuing this proactive and prudent approach to maintaining City finances.

#### **Impact on City Resources**

There is no impact on City resources.

#### **Environmental Review**

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines §§ 15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment.

#### **Public Notice**

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

#### **Attachments**

None.

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