



## City Council Staff Report

February 20, 2018

### ITEM

Staff Report: Fiscal Year 2018 Mid-Year Budget Review

### BACKGROUND

Consistent with the Strategic Plan objective of fiscal transparency, this report provides the mid-year status of the City's General Fund operating budget. A first quarter status report was presented on December 19, 2017. The purpose of this report is to review the financial results of the activities of the first half of the current fiscal year and provide projections of revenues and expenditures through the end of the fiscal year. In addition, the report recommends various budget adjustments.

### DISCUSSION

#### First Half of Fiscal Year 2017

The adopted fiscal year 2018 budget for the General Fund includes the City Council-authorized use of \$4.5 million of unassigned fund balance for operating and capital expenditures. Encumbrances for purchase orders carried forward from fiscal year 2017 resulted in a \$0.2 million commitment of unassigned fund balance. And the use of an additional \$0.5 million of unassigned fund balance has been authorized by the City Council subsequent to budget adoption in order to make the first year's energy and water conservation project debt service payments and fund the first year of the 2017-2022 Economic Development Strategic Plan. Combined, these three actions result in an adjusted budget use of unassigned fund balance of \$5.2 million. However, based upon actual revenues and expenditures through December 31, 2017 and expected activities through fiscal year-end, the currently projected use of unassigned fund balance is approximately \$3.9 million, \$1.3 million less than the adjusted budgeted use. The following sections of this report will discuss the significant factors contributing to the variance.

#### Revenues

For fiscal year 2018, General Fund revenues are expected to be greater than amounts budgeted by \$0.8 million. The projected variances in each revenue category resulting in the overall variance are shown in the "Fiscal Year-End Revenue Projections" table. The "Mid-Year

Revenue Comparison” table compares revenues realized through the mid-point of this fiscal year to the mid-point of last fiscal year.

Mid-Year Revenue Comparison

GENERAL FUND REVENUES AS OF DECEMBER 31 <sup>ST</sup>			
<u>Revenue Category</u>	<u>FY 18</u>	<u>FY 17</u>	<u>Difference</u>
Sales & Use Tax	\$ 6,322,315	\$ 6,307,170	\$ 15,145
District Transactions & Use Tax	3,978,559	3,879,072	99,487
Property Tax <sup>1</sup>	835,816	779,950	55,866
Property Tax in Lieu of VLF <sup>2</sup>	-	-	-
Other Revenues	9,289,160	4,003,889	5,285,271
Total	\$20,425,851	\$14,970,082	\$5,455,769

<sup>1</sup> reflects reduction for property tax allocation to the Library and Parks Maintenance funds

<sup>2</sup> VLF – vehicle license fees

The General Fund’s primary sources of revenue are the sales and use tax, the district transactions and use tax, property tax in lieu of vehicle license fees, and property taxes. During the first six months of the current fiscal year, total General Fund revenues totaled \$20.4 million, approximately \$5.5 million more than the same period last year. Significant factors in the year to year difference include the following:

- Sales & use tax receipts and the City’s district transactions & use tax revenues were just above those received for the same period of the prior fiscal year. The building & construction sector, as well as business & industry, fuel & service stations, and restaurants & hotels have been steady or strong overall, but autos & transportation, and general consumer goods have not performed as well as expected.
- “Other Revenues” comprises all other General Fund revenues not specifically identified in the above table. These revenues were \$5.3 million higher during the first half of the year compared to the first half of last year, primarily due to the receipt of \$5.4 million in bond proceeds for the financing of the Energy Services Agreement with Ameresco for the energy and water conservation project. All other accounts in this category are down overall by \$0.1 million. As to be expected, some of the accounts are ahead of last year’s amounts and some are behind because of the nature of the funding source and variations that occur from year to year in the timing of receipts.

While no amounts are reflected in the table for property tax in lieu of vehicle license fees (“VLF”) revenue, it is included in this table because it is a significant funding source for the City. These revenues are distributed to the City, in accordance with State statutes, by the County of San Diego in two equal installments, the first of which is paid in January and the second in May. The revenue anticipated from this source for the current fiscal year is reflected in the table below and discussed in the related narrative.

Fiscal Year-End Revenue Projections

GENERAL FUND  
 REVENUES  
 FISCAL YEAR 2018

<u>Revenue Category</u>	<u>Projected</u>	<u>Adjusted Budget</u> <sup>1</sup>	<u>Projected Balance</u>	<u>% Variance</u>
Sales & Use Tax	\$18,274,000	\$18,627,564	\$ (353,564)	(1.9)%
District Transactions & Use Tax	11,345,000	11,507,650	(162,650)	(1.4)%
Property Tax <sup>2</sup>	2,139,238	2,089,761	49,477	2.4%
Property Tax in Lieu of VLF	6,393,152	6,220,229	172,923	2.8%
Other Revenues	25,928,987	24,826,427	1,102,560	4.4%
<b>Total</b>	<b>\$64,080,377</b>	<b>\$63,271,631</b>	<b>\$ 808,746</b>	<b>1.3%</b>

<sup>1</sup> adopted budget total, plus budget amendments and an adjustment of \$4.7 million to Other Revenues to balance revenues to appropriations for the revenue offset WI-TOD capital improvement project that was carried forward from fiscal year 2017

<sup>2</sup> reflects reduction for property tax allocation to the Library and Parks Maintenance funds

The above table provides projections of fiscal year 2018 General Fund revenues and compares them to their adjusted budgets. As noted above, General Fund revenues are expected to exceed the adjusted budget by approximately \$0.8 million overall. This estimate is based upon year-to-date and historical data, input from the City’s sales tax consultant, and information obtained from the State of California and County of San Diego. Significant elements of the expected overall positive variance include:

- Both sales & use tax and the district transaction & use tax are expected to exceed actuals for last fiscal year, but are projected to be below budgeted amounts by a combined \$0.5 million for the current year;
- Property tax in lieu of VLF revenues will exceed the budgeted amount by \$0.2 million, as a result of stronger than anticipated growth in assessed property values for the City;
- Other Revenues will exceed the budgeted total by \$1.1 million, which is attributable to a combination of projected positive and negative variances in the various individual accounts with the most significant ones noted below:
  - overtime reimbursements from the state and federal governments for the Fire Department’s assistance in fighting wildfires throughout the State during the first half of this fiscal year, +\$0.8 million;
  - anticipated additional plan check and inspection services fees, +\$0.2 million
  - property tax pass-through payments from the Successor Agency, +\$0.1 million;
  - transient lodging tax revenue, +\$0.1 million; and
  - Successor Agency residual balance distributions, -\$0.3 million, as a result of obligations that arose in the preparation of ROPS 18-19 which will reduce the amount of residual property tax available to the City and other affected taxing entities.

**Expenditures**

Expenditure totals at year-end are expected to be under budget by \$0.5 million. The projected variances in each expenditure category resulting in the overall variance are shown in the “Fiscal Year-End Expenditure Projections” table. The “Mid-Year Expenditure Comparison” below compares expenditures through the mid-point of this fiscal year to the mid-point of last fiscal year.

Mid-Year Expenditure Comparison

GENERAL FUND  
 EXPENDITURES  
 AS OF DECEMBER 31<sup>ST</sup>

<u>Expenditure Category</u>	<u>FY 18</u>	<u>FY 17</u>	<u>Difference</u>
Personnel Services	\$19,201,867	\$16,112,148	\$3,089,719
Maintenance & Operations	2,195,354	2,370,367	(175,012)
Capital Outlay	39,528	151,140	(111,612)
Capital Improvement Program	1,914,750	1,604,782	309,968
Internal Service Charges	3,337,302	3,668,872	(331,570)
Other Expenditures	70,141	143,611	(73,470)
<b>Total</b>	<b>\$26,758,942</b>	<b>\$24,050,920</b>	<b>\$2,708,023</b>

As of December 31, 2017, General Fund expenditures totaled \$26.8 million, exceeding those at the same point last fiscal year by \$2.7 million. Significant factors in the year-to-year difference include the following:

- Personnel costs are higher than fiscal year 2017’s at the same point, due to the General Fund’s \$4.3 million share of the lump-sum prepayment for the unfunded actuarial accrued liability (“UAAL”) portion of the City’s annual pension contribution. Effective beginning fiscal year 2018, CalPERS requires the UAAL contribution, whether prepaid or paid monthly, to be paid as a fixed dollar amount rather than as a percentage of payroll, the method by which monthly contributions had been calculated and paid previously. By choosing the annual prepayment option, the City will recognize a budgetary savings of \$0.2 million. Setting aside retirement plan expenditures, all other personnel related expenditures for the first two quarters were \$0.8 million greater than the previous year’s first two quarters, primarily due to compensation increases and overtime charges.
- The expenditure differences shown in all other accounts are primarily the result of timing differences of costs being incurred from one year to the next in the course of the City carrying out its various service responsibilities and capital projects.

The table below provides a projection of General Fund expenditures for all of fiscal year 2018 and compares them to the adjusted budget. As noted above, General Fund expenditures are expected to be less than the adjusted budget by approximately \$0.5 million overall.

Fiscal Year-End Expenditure Projections

GENERAL FUND  
 EXPENDITURES  
 FISCAL YEAR 2018

<u>Expenditure Category</u>	<u>Projected</u>	<u>Adjusted Budget</u> <sup>1</sup>	<u>Projected Balance</u>	<u>% Variance</u>
Personnel Services	\$36,370,452	\$37,300,352	\$ 929,900	2.5%
Maintenance & Operations	6,864,169	6,406,456	(457,713)	(7.1)%
Capital Outlay	137,594	137,594	-	0.0%
Capital Improvements	16,007,489	15,987,489	(20,000)	(0.1)%
Internal Service Charges	8,031,978	8,031,978	-	0.0%
Other Expenditures	627,845	627,845	-	0.0%
<b>Total</b>	<b>\$68,039,527</b>	<b>\$68,491,715</b>	<b>\$ 452,188</b>	<b>0.7%</b>

<sup>1</sup> adopted budget total, plus budget amendments, and encumbrances and capital projects appropriations carried forward from previous fiscal year(s)

- While, as discussed above, personnel costs for the first half of the year are greater than for the same period of the previous year, the savings of approximately \$0.9 million shown in the above table is primarily a combination of anticipated savings in full time salaries and associated health insurance and retirement contributions resulting from vacant authorized positions, and overtime expenditures which are expected to exceed budgeted amounts, largely due to the Fire Department’s assistance in battling wildfires throughout the State.
- The projected negative balance in maintenance & operations of \$0.5 million is a combination of anticipated savings in various accounts offset by unanticipated expenses in others.
- The adjusted budget appropriations for capital outlay and capital improvements are being projected as being entirely spent because none of the current projects are expected to yield any savings from the amounts budgeted. The negative balance in the capital improvements category reflects the need to augment the budget for the pilot squad program. It is likely, however, that some portion of the current year’s budget will be carried over to next fiscal year. Any unspent capital improvements funds will impact the “Assigned” category of fund balance.

Budgetary adjustments recommended to address projected overages are included in the “Supplemental Appropriation Requests” attachment (Exhibit “A”).

Staff will continue to monitor all expenses and provide revised projections in the third quarter budget status report.

**Transfers In/Out**

While technically not revenues and expenditures (and, hence, not shown above), transfers in and out of the General Fund contribute to fund balance increases and decreases, respectively. Neither transfers in nor transfers out is expected to deviate from its budgeted total.

**Net Impact on Unassigned Fund Balance**

As discussed above, the General Fund is expected to realize more revenues than budgeted and spend less overall than budgeted. The combination of the two will result in the use of a lesser amount of unassigned fund balance than reflected in the adjusted budget. As noted earlier, the adjusted budget reflects a use of \$5.2 million in unassigned fund balance. Combining the above revenue and expenditure projections with expected transfers in and out results in an anticipated decrease of \$1.3 million in the use of unassigned fund balance. (See the “Balance” column in the table below.) As a result, the use of unassigned fund balance for the fiscal year is projected to total \$3.9 million.

GENERAL FUND  
 IMPACT ON UNASSIGNED FUND BALANCE  
 FISCAL YEAR 2018

	<u>Projected</u>	<u>Adjusted Budget</u>	<u>Balance</u>
Revenue	\$ 64,080,377	\$ 63,271,631	\$ 808,746
Transfers In	255,500	255,500	-
<b>Total Revenue &amp; Transfers In</b>	<b>\$ 64,335,877</b>	<b>\$ 63,527,131</b>	<b>\$ 808,746</b>
Expenditures	\$(68,039,527)	\$(68,491,715)	\$ 452,188
Transfers Out	(3,443,656)	(3,443,656)	-
<b>Total Expenditures &amp; Transfers Out</b>	<b>\$(71,483,183)</b>	<b>\$(71,935,371)</b>	<b>\$ 452,188</b>
Use of Fund Balance	\$ 7,147,306	\$ 8,408,240	\$1,260,934
Less Use of Assigned Fund Balance *	3,235,308	3,235,308	-
<b>Use of Unassigned Fund Balance</b>	<b>\$ 3,911,998</b>	<b>\$ 5,172,932</b>	<b>\$1,260,934</b>

\* For purpose of estimating use of unassigned fund balance, all appropriations impacting assigned fund balance assumed to be expended.

**BUDGET ADJUSTMENTS**

During the mid-year budget review process, the Department of Finance identified budget adjustments necessary due to expenses unanticipated during the annual budgeting process. In addition, departments have been afforded the opportunity to submit supplemental appropriation requests based upon actual or projected budgetary requirements not anticipated during the annual budgeting process and to request other budget adjustments. The attached schedule reflects the recommended and requested adjustments. The recommendation section below provides a summary of those adjustments by account group and fund.

## RECOMMENDATION

Authorize the City Manager to approve budget adjustments up to the following amounts:

- **General Fund**

- Expenditures

- \$576,695 Personnel
    - \$528,927 Maintenance & Operations
    - \$17,200 Capital Outlay
    - \$20,000 Capital Improvements
    - \$93,441 Transfers to Other Funds

- Revenues

- \$789,622 Other Revenue

- **Facilities Maintenance Fund**

- Expenditures

- \$93,441 Maintenance & Operations

- Revenues

- \$93,441 Transfers from Other Funds

- **Vehicle Replacement Fund**

- Expenditures

- \$4,163 Automotive Equipment

- **Plan Check Revolving Fund**

- Expenditures

- \$1,363 Transfers to Other Funds

## FISCAL IMPACT

The recommended General Fund budget adjustments have been reflected in the projections of total revenues and expenditures to fiscal year end. If approved, they will result in additional appropriations of \$1,236,263 offset by revenues of \$789,622.

## ATTACHMENTS

Resolution

Exhibit “A” – Supplemental Appropriation Requests, Fiscal Year 2018

RESOLUTION NO. 2018 –

RESOLUTION OF THE CITY COUNCIL OF  
THE CITY OF NATIONAL CITY  
AUTHORIZING VARIOUS FISCAL YEAR 2018  
MID-YEAR BUDGET ADJUSTMENTS

WHEREAS, on June 6, 2017, the City Council of the City of National City adopted Resolution No. 2017-96, adopting the budget for Fiscal Year 2018; and

WHEREAS, as part of the mid-year review process, the Finance Department reviewed the first six months for actual revenues and expenditures, and projected the last six months of the fiscal year; and

WHEREAS, the mid-year budget review was presented to the City Council and members of the public on February 20, 2018; and

WHEREAS, the City Manager has recommended approval of the Mid-Year Supplemental Appropriation Requests (Exhibit A).

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of National City hereby approves the Fiscal Year 2018 Mid-Year Supplemental Appropriation Requests (Exhibit A) and authorizes the City Manager to make the associated adjustments to the Fiscal Year 2018 Budget.

PASSED and ADOPTED this 20<sup>th</sup> day of February, 2018.

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Ron Morrison, Mayor

ATTEST:

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Michael R. Dalla, City Clerk

APPROVED AS TO FORM

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Angil P. Morris Jones, City Attorney

**SUPPLEMENTAL APPROPRIATION REQUESTS  
Fiscal Year 2018**

Department	Appropriation Account	Appropriation Amount	Revenue Account if Applicable	Revenue Amount	Net Use of Fund Balance	
<b>General Fund (001)</b>						
1	<b>Building</b>	<b>Professional Services</b>	<b>180,000</b>	<b>Building Permits, Plan Checking Fees</b>	<b>180,000</b>	<b>-</b>
	Additional appropriations are needed to meet estimated plan check and building inspection services. The costs will be offset by revenues.					
2	<b>Building</b>	<b>Printing &amp; Binding</b>	<b>15,000</b>			<b>15,000</b>
	Additional funds are needed to meet the estimated costs of scanning plans and records.					
3	<b>City Clerk</b>	<b>Governmental Purposes</b>	<b>65,000</b>			<b>65,000</b>
	Two Citizen Initiatives have been submitted and are being processed for inclusion with the Statewide June Election. According to the Registrar of Voters, the estimated cost to the City for a June election is \$50,000 to \$70,000.					
4	<b>Community Services</b>	<b>Contract Services</b>	<b>14,000</b>			<b>14,000</b>
	In FY17 Council appropriated \$34,170 for summer programs at the National City Aquatic Center. \$6,130 of that amount was spent in July (FY 18). This adjustment would allow the unspent portion (\$6,130) of the funds authorized in FY 17 to be carried over to FY 18. In addition, this adjustment would provide funds to pay for \$7,870 in unanticipated EXOS staffing costs at Las Palmas Pool as a result of the pool heater being broken.					
5	<b>Engineering &amp; Public Works</b>	<b>Contract Services</b>	<b>170,000</b>			<b>170,000</b>
	The Cities of National City and Chula Vista and the County of San Diego are parties to a cooperative agreement related to the maintenance of the Sweetwater Channel Levee System. The County has the lead to maintain the system and the costs are shared by the three agencies in proportion to the percentage of the system lying within their respective jurisdictional boundaries. In December, the County sent a letter to the City indicating that the City's share of the maintenance costs for fiscal year 2016 was \$55,241. In addition, the letter described the process and costs incurred to provide the necessary accreditation documentation to the Federal Emergency Management Agency (FEMA) to confirm that the System is still protecting the communities against the 100-year flood frequency event. The City's share of that cost is \$113,460. Neither of these costs was anticipated in the fiscal year 2018 budget.					
6	<b>Fire</b>	<b>Overtime</b>	<b>525,558</b>	<b>Overtime Reimbursements</b>	<b>525,558</b>	<b>-</b>
7	<b>Fire</b>	<b>Workers' Comp</b>	<b>51,137</b>	<b>Overtime Reimbursements</b>	<b>51,137</b>	<b>-</b>
8	<b>Fire</b>	<b>Materials &amp; Supplies</b>	<b>32,927</b>	<b>Refunds &amp; Reimbursements</b>	<b>32,927</b>	<b>-</b>
	The Fire department provided assistance in fighting the many wildfires that occurred in various portions of the State during the first half of the fiscal year. Additional appropriations totaling \$609,622 are needed to cover overtime expenses and related workers' compensation and travel expenses. These costs will be revenue offset.					

**SUPPLEMENTAL APPROPRIATION REQUESTS  
Fiscal Year 2018**

9	<b>Fire</b>	<b>Janitorial Supplies</b>	<b>1,000</b>	<b>1,000</b>
Additional appropriations are needed for janitorial supplies at Fire Station #33.				
10	<b>Fire</b>	<b>Medical Supplies</b>	<b>1,000</b>	<b>1,000</b>
Additional appropriations are needed for medical supplies for all fire stations.				
11	<b>Fire</b>	<b>Training Equipment</b>	<b>17,200</b>	<b>17,200</b>
The additional appropriations will enable the installation of an interactive display system at Station #34 to be used for training and Emergency Operations Center (EOC) purposes.				
12	<b>Non- Departmental</b>	<b>CIP - Fire Station 33</b>	<b>20,000</b>	<b>20,000</b>
Additional appropriations are needed to install a station dispatch alerting system for Fire Station #33.				
13	<b>Non- Departmental</b>	<b>Professional Services</b>	<b>50,000</b>	<b>50,000</b>
The additional appropriations will be used to enter into an agreement with an outside labor attorney for the upcoming labor negotiations with FFA and MEA. \$50,000 is the maximum estimated cost, and because it is likely that the full amount won't be spent in this fiscal year, the remainder as of June 30, 2018 will be carried forward to fiscal year 2019.				
14	<b>Non- Departmental</b>	<b>Transfers to Other Funds</b>	<b>38,441</b>	<b>38,441</b>
The build out of Fire Station #33 has required the installation of unanticipated additional equipment, including such items as exterior lights, door hardware panic bar, an air conditioning unit, and a back up generator. These appropriations are needed in order to reimburse the Facilities Maintenance Fund for the unbudgeted costs.				
15	<b>Non- Departmental</b>	<b>Transfers to Other Funds</b>	<b>55,000</b>	<b>55,000</b>
These appropriations are needed to reimburse the Facilities Maintenance Fund for the cost of the unanticipated repair of the fire sprinkler system at the Martin Luther King building.				

<b>Total General Fund</b>	<b><u>1,236,263</u></b>	<b><u>789,622</u></b>	<b><u>446,641</u></b>
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**Facilities Maintenance Fund (626)**

16	<b>Engineering &amp; Public Works</b>	<b>R&amp;M Buildings &amp; Structures</b>	<b>21,000</b>	<b>Transfers from Other Funds</b>	<b>21,000</b>	<b>-</b>
17	<b>Engineering &amp; Public Works</b>	<b>Contract Services</b>	<b>17,441</b>	<b>Transfers from Other Funds</b>	<b>17,441</b>	<b>-</b>
18	<b>Engineering &amp; Public Works</b>	<b>Contract Services</b>	<b>55,000</b>	<b>Transfers from Other Funds</b>	<b>55,000</b>	<b>-</b>
The additional appropriations identified above will be used to pay for the requirements described in items 14 and 15 above. The funding source is the General Fund.						

<b>Total Facilities Maint Fund</b>	<b><u>93,441</u></b>	<b><u>93,441</u></b>	<b>-</b>
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**SUPPLEMENTAL APPROPRIATION REQUESTS**  
**Fiscal Year 2018**

**Vehicle Replacement Fund (644)**

<b>19</b>	<b>Fire Department</b>	<b>Automotive Equipment</b>	<b>4,163</b>	<b>-</b>	<b>4,163</b>
<p>These additional appropriations are needed to cover the cost of extra build-out items for a Fire Battalion Chief vehicle. The funding source is fund balance in the Vehicle Replacement Fund.</p>					

<b>Total Vehicle Replacement Fund</b>	<u><b>4,163</b></u>	<u><b>4,163</b></u>
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**Plan Checking Revolving Fund (120)**

<b>20</b>	<b>Building</b>	<b>Transfers to Other Funds</b>	<b>1,363</b>	<b>-</b>	<b>1,363</b>
<p>The adopted budget for FY 18 authorized the transfer of \$250,000 to the General Fund from the Plan Check Revolving Fund to close out the fund. The actual available balance at the end of FY 17 was \$251,363. This budget adjustment will enable the remaining balance to be transferred to the General Fund.</p>					

<b>Total Plan Checking Revolving Fund</b>	<u><b>1,363</b></u>	<u><b>1,363</b></u>
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