CITY OF SALINAS
COUNCIL STAFF REPORT

DATE: FEBRUARY 19, 2019

DEPARTMENT: FINANCE

FROM: MATT N. PRESSEY, CPA, FINANCE DIRECTOR

TITLE: FY 2018-19 MID-YEAR BUDGET REVIEW AND BUDGET ADJUSTMENTS

RECOMMENDED MOTION:

A motion to accept the mid-year FY 2018-19 budget review reports, approve a resolution approving amendments to the FY 2018-19 operating and capital budgets for the City of Salinas.

RECOMMENDATION:

It is recommended that the City Council:

1) Accept the mid-year FY 2018-19 budget review reports; and
2) Approve a resolution approving amendments to the FY 2018-19 operating and capital budgets for the City of Salinas.

EXECUTIVE SUMMARY:

At mid-year, revenues are coming in as expected and expenditures are on budget. The mid-year review includes a variety of budget adjustments that are more fully discussed in Exhibit A and are funded from 13 different funding sources. Revenue adjustments total $3,999,336, appropriations total $1,461,828, and adjustments to the CIP total $2,169,608.

	Total Avail. Fund Bal.	Mid-Year Adjustments: Revenue	Mid-Year Adjustments: Appropriations	Mid-Year Adjustments: CIP	Ending Available Fund Balance 6/30/19
Mid-Year Budget Adjustments:					
1000 - General Fund	$ 2,348,976	$ 1,600,000	$ (1,077,814)	$ (1,551,900)	$ 1,319,262
1200 - Measure G	-	79,136	(79,136)	(250,000)	(250,000)
2102 - Woodside Park Maint District	88,739	-	(26,000)	-	62,739
2202 - Supplemental Law Enf - AB3229	249,167	-	(106,000)	(145,000)	(1,833)
2402 - Gas Tax - 2106	244,330	-	-	(30,000)	214,330
2506 - PEG Cable Franchise	43,805	-	(40,000)	-	3,805
2511 - SB1 Road Maintenance & Rehab	(1,115,900)	1,636,700	-	(520,800)	-
6400 - Sewer	1,606,319	-	(25,178)	18,810	1,599,951
6500 - Storm Sewer (NPDES)	-	83,500	(83,500)	-	-
6801 - Downtown Parking District	(1,303,835)	-	120,000	-	(1,183,835)
6803 - Parking Enforcement	219,600	-	(40,000)	-	179,600
6900 - Permit Services	278,390	-	(52,800)	-	225,590
xxxx - CESH Grant	51,400	-	(51,400)	-	-
Total	2,710,991	3,399,336	(1,461,828)	(2,478,890)	2,169,608

DISCUSSION:

Revenue

At mid-year, the General Fund revenues are coming in as expected. As of December 31, 2018, the City received $51,216,396, or 52% of the budget, as shown in the table below. The five major revenues, representing 86% of all General Fund Revenues, are coming in on budget and are projected to end the year right on budget, so no mid-year adjustments are proposed for these top five revenues. As part of the mid-year review, staff is recommending increasing the estimated revenue by $1,200,000 for transient occupancy tax (TOT) and $400,000 for investment earnings. The City has received $2,114,947 through 12/31/2018, or 73% of the budgeted amount of $2,900,000. Last year, at this time, the TOT was $1,644,462. Part of the increase is a result of performing desk audits for 100% of the motels and hotels and billing for under reporting errors. For a detailed revenue report of the above information, please see Exhibit D.

	Adopted Budget	Actual	Difference	% Rec.	Proposed Adjustments
Sales Tax	$ 29,267,000	$ 16,225,048	$ 13,041,952	55%	$ -
Property Tax	28,869,660	15,821,448	13,048,212	55%	-
Utility Users Tax	12,237,000	6,018,384	6,218,616	49%	-
Franchise Fees	8,865,000	3,948,850	4,916,150	45%	-
Business License Tax	4,964,000	1,154,081	3,809,919	23%	-
All Other	13,422,964	8,048,585	5,374,379	60%	1,600,000
Total Revenue	$97,625,624	$51,216,396	$46,409,228	52%	$ 1,600,000

Operating Expenditures

Operating Expenditures of the General Fund are under budget mid-way through the year. The General Fund total expenditures were $47,485,464 as of December 31, 2018, or 48% spent. Mid-year adjustments to the General Fund operating budget totaled $1,077,814 and are detailed in Exhibit A to this staff report.

	Adopted Budget	Actual	Difference	% Spent	Proposed Adjustments
Police	$ 39,244,570	$ 19,024,342	$ 20,220,228	48%	$ 400,000
Fire	20,050,370	9,733,178	10,317,192	49%	165,000
Public Works	9,535,140	4,337,760	5,197,380	45%	212,500
Library & Com. Serv.	988,795	401,053	587,742	41%	55,314
Community Dev.	3,187,248	1,339,253	1,847,995	42%	210,000
Administration	3,736,980	1,380,035	2,356,945	37%	35,000
Finance	4,411,170	1,723,611	2,687,559	39%	-
City Attorney	882,950	290,569	592,381	33%	-
City Council	253,385	127,888	125,497	50%	-
Non-Dep.	5,428,855	3,686,289	1,742,566	68%	-
Non-Dep.-Trans Out	12,187,957	5,441,486	6,746,471	45%	-
Total Operating Exp.	$99,907,420	$47,485,464	$52,421,956	48%	$ 1,077,814

Capital Improvement Program (CIP) Expenditures

The total CIP budget of $101,162,134 includes $127,520,434 budgeted as part of the FY 2018-19 adopted budget and $54,926,722 of projects in progress where the budget carries over year-to-year until completed. Initially the adopted budget included the Police Services Headquarters, but going forward only the City's equity portion of the project will be accounted for in the City's CIP. The private non-profit will use the bond proceeds to build it and then lease it to the City. Accordingly, the CIP was reduced. Year-to-date CIP expenditures totaled $10,910,929 and encumbrances totaled $12,899,553 as of December 31, 2018. Mid-year adjustments to the CIP budget total $2,478,890 and includes $500,000 from the General Fund for City-wide clean-ups, $500,000 for technology systems, $250,000 for the Constitution Soccer Complex match, $120,000 for Police CSO vehicles, and a number of smaller projects that Public Works will manage, as described in detail in Exhibit A to this staff report.

CIP By Dept.	Budget	Actual	Encumb.	Difference	% Spent & Enc.	Proposed Adjustments
Police	$ 12,064,519	$ 3,292,185	$ 3,413,258	$ 5,359,076	56%	$ 145,000
Fire	3,772,160	648,627	337,586	2,785,947	26%	-
Public Works	73,847,117	5,256,394	6,936,966	61,653,757	17%	1,583,890
Library & Com. Serv.	6,724,934	1,364,299	1,583,519	3,777,116	44%	250,000
Community Dev.	3,639,539	207,196	567,642	2,864,701	21%	-
Administration	594,726	50,000	8,600	536,126	10%	-
Finance	519,139	92,228	51,982	374,929	28%	500,000
Total CIP	$ 101,162,134	$ 10,910,929	$ 12,899,553	$ 77,351,652	24%	$ 2,478,890

Mid-Year CIP Adjustments by Funding Sources:	Proposed Adjustments
1000 - General Fund	$ 1,551,900
1200 - Measure G (reserve funds)	250,000
2202 - Supplemental Law Enf - AB3229	145,000
2402 - Gas Tax - 2106	30,000
2511 - SB1 Road Maintenance & Rehab	520,800
6400 - Sanitary Sewer	(18,810)
Total	$ 2,478,890

Measure E

The Measure E Committee met on January 17, 2019. They reviewed the status of the FY 2018-19 operating and capital projects funded with Measure E. To date, there was a total of $5,665,458 in operating expenditures spent and $7,045,349 was collected in revenue. Please see the attached "10-Exhibit H - December 31, 2018 Measure E Financial Report" for more details.

Measure G

The Measure G Committee met on January 24, 2019. They reviewed the status of the FY 2018-19 operating and capital projects funded with Measure G. To date, there was a total of $10,170,119 spent and $14,164,016 was collected in revenue. Please see the attached “8-Exhibit F - December 31, 2018 Measure G Financial Report” for more details.

Also included as an attachment to this report is the status of Measure G funded projects. The report is titled, “9-Exhibit G - December 31, 2018 Measure G Funded CIP Projects”. The Measure G funded capital project report shows $4,019,507 spent, or 20% of the budget and $19,621,372 spent life-to-date (LTD) as of December 31, 2018. The following table summarizes the Measure G funded CIP activity for the first six months of the year by department:

Measure G CIP

	FY 2017-18				Total (LTD)
Department	Budget	Actual Exp.	Balance	% Spent	Actual Exp.
12 - Administration	$ 50,000	$ 50,000	$ -	100%	$ 254,846
20 - Finance	184,821	66,799	118,022	36%	1,696,221
30 - Community Development	1,507,153	61,815	1,445,338	4%	996,304
40 - Police	11,062,081	2,751,503	8,310,578	25%	4,521,776
45 - Fire	2,547,762	490,987	2,056,775	19%	3,200,181
50 - Public Works	3,143,296	407,279	2,736,017	13%	6,906,683
55 - Community Services	1,126,259	191,124	935,135	17%	936,514
Total	$ 19,621,372	$4,019,507	$15,601,865	20%	$18,512,525

As mentioned above, the detailed list of Measure G funded CIP projects are included as an attachment to this report.

Investment Activity

Cash and Investments total $168,409,792. The General Fund totals $19,023,393 or 11.3 % of the total portfolio. Please see, “Exhibit B – Summary of Cash and Investments” as of December 31, 2018. It shows that the City has sufficient liquid funds to meets its cash requirements for at least the next six months. The Financial Report includes all investment detail required by SB564 (Johnston) and is presented to Council in compliance with the City’s investment policy.

Cash Balances

The Housing and Urban Development Fund has a deficit of $127,264 and will be cleared when revenues are received from various HUD grants. The Downtown Parking District Fund has a deficit of $613,112 which will be covered by the General Fund until the Downtown Parking strategy is implemented. Please see, "Exhibit C – Statement of Cash Balances – All Funds".

Fiscal Forecast and Sustainability Plan

Fiscal Forecast

The NRN study determined the fiscal forecast as follows before and after corrective action from implementing the 32 recommendations:

General Governmental Funds' Baseline Projection – Prior to Corrective Action

	FY19 Budget	FY20 Proj.	FY21 Proj.	FY22 Proj.	FY23 Proj.	FY24 Proj.	FY25 Proj.	FY26 Proj.	FY27 Proj.	FY28 Proj.
Operating Revenues	$135.9	$139.3	$142.1	$145.0	$147.8	$151.6	$155.8	$159.8	$163.9	$168.1
Operating Expenditures	$138.6	$140.5	$144.6	$149.4	$154.9	$158.9	$164.2	$168.5	$174.3	$178.6
Net Operating Results	**($2.8)**	**($1.2)**	**($2.5)**	**($4.4)**	**($7.1)**	**($7.2)**	**($8.3)**	**($8.7)**	**($10.4)**	**($10.5)**
Operating Reserve[3]	**$9.6**	**$8.4**	**$5.8**	**$1.4**	**($5.6)**	**($12.8)**	**($21.2)**	**($29.9)**	**($40.3)**	**($50.8)**
Net Operating Results Projections after corrective action	**($2.8)**	**($0.5)**	**$1.7**	**$1.7**	**$2.0**	**$2.0**	**$2.5**	**$3.3**	**$2.1**	**$2.6**

Staff is working to implement this plan and will be reporting back monthly to the Finance Committee and quarterly to the City Council.

Reserves

The City's Financial Policies provide that the City "strive" to maintain an eight (8%) percent General Fund Operating Reserve. Five (5%) percent of the reserve is required primarily for cash flow purposes. Reserves above the five (5%) percent level can be characterized more as "rainy day" funds to guard against economic uncertainties.

While a prudent reserve is certainly a worthy policy, it must be balanced with the fact that residents pay taxes for one purpose – to benefit from programs and services paid for with those taxes.

During the Great Recession, the FY 2009-10 Budget was balanced using $9.4 million of General Fund/Measure E reserves. The use of reserves in both FY 2008-09 and FY 2009-10 was required to maintain services and were depleted to zero. Over the last six fiscal years using carryover funds and at the mid-year budget review, the City Council has approved replenishing the reserve with amounts each time. The General Fund, Measure G and E reserves have grown and are now at $9.6 million or 8.9% of operating expenditures. The Measure G reserve of $1,760,000 is 8% of the 1st year estimated Measure G sales tax of $22,000,000 and will function both as an operating reserve and a capital reserve. In addition to these reserves, the City has reserved $2,500,000 for the New York Life Retirement Reserve and $1,300,000 remaining in the deficit reduction reserve.

Fund Balance Reserves Goal:				
8% Reserve Goal	$ 7,002,300	$ 943,500	$ 1,760,000	$ 9,705,800
Actual Reserve	6,830,000	962,000	1,760,000	9,552,000
Over (Under) Reserve Goal	$ (172,300)	$ 18,500	$ -	$ (153,800)
Reserve % of FY 18-19 Appropriations	7.8%	8.2%	12.4%	8.4%

CEQA CONSIDERATION:

Not a Project. The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378).

STRATEGIC PLAN INITIATIVE:

Although the mid-year review and adjustments applies to all the strategic plan initiatives, the main Council goal is Effective, Sustainable Government.

FISCAL AND SUSTAINABILITY IMPACT:

		Mid-Year Adjustments			
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Total	2,710,991	3,399,336	(1,461,828)	(2,478,890)	2,169,608

ATTACHMENTS:

Resolution - FY 2018-19 Mid-Year Budget Amendments
Exhibit A - FY 2018-19 Mid-Year Budget Adjustments Detail
Exhibit B - December 31, 2018 Summary of Cash and Investments
Exhibit C - December 31, 2018 Statement of Cash Balances – All Funds
Exhibit D - December 31, 2018 Revenue Report (General Fund, Measure E(V) and Measure G)
Exhibit E - December 31, 2018 General Fund Expenditure Report

Exhibit F - December 31, 2018 Measure G Financial Report
Exhibit G - December 31, 2018 Measure G Funded CIP Projects
Exhibit H - December 31, 2018 Measure E Financial Report
Exhibit I - December 31, 2018 CIP Projects
Exhibit J - December 31, 2018 Revenue Report - All Funds
Exhibit K - December 31, 2018 Operating Expenditure Report By Program - All Funds