

# City Council

## Staff Report

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**TO:** Honorable Mayor and City Council  
**FROM:** John Jansons, City Manager  
**DATE:** April 25, 2016  
**SUBJECT:** Quarterly Financial Report: 3<sup>rd</sup> Quarter Fiscal Year 15/16

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**RECOMMENDED ACTION:**

- 1) That the City Council hear a brief presentation from Director of Finance on the Quarterly Financial Report encompassing the period January 1, 2016 through March 31, 2016.
- 2) Receive and file quarterly report (third quarter FY 15/16).

**BACKGROUND / DISCUSSION:**

Oral presentation by Director of Finance, Mr. Steve Huntley.

**COORDINATION AND REVIEW:**

The report and presentation has been coordinated with the City Manager.

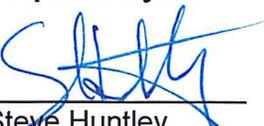
**FISCAL IMPACT:**

None

**CONCLUSION:**

- 1) That the City Council hear a brief presentation from Director of Finance on the Quarterly Financial Report encompassing the period January 1, 2016 through March 31, 2016.
- 2) Receive and file Quarterly Report (third quarter FY 15/16).

**Prepared By:**

  
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Steve Huntley  
Director of Finance

**Approved By:**

  
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John Jansons  
City Manager

CITY OF FARMERSVILLE  
FINANCE DEPARTMENT  
APRIL 25, 2016



## FINANCE UPDATE: FY 2016 – THIRD QUARTER

### BUDGET UPDATE

The Finance Department is in full swing with budget preparations for FY 2016/2017 by meeting with department heads and reviewing current year trends. Now that we are more than 75% of the way through this fiscal year we can start looking back to examine just how things are working out:

**REVENUE UPDATE:** Major Revenue sources are coming together as we near the end of the fiscal year. The major revenue source status are as follows:

Property tax has received its first major payments at the end of December and the next payment isn't due until May. However, the revenue that arrived in December trended higher than last year by about 1.5%. This could be explained away easily by one time changes in the tax law but it could also be a good early indicator. We will keep monitoring it as payments come in.

Sales tax is always paid about two months behind the month in which it was incurred. So far these payments are looking weaker than they did originally earlier this year. However, they have typically trended this way at this time of the year. While Sales Tax has recently trended down over 20% from this time last year, we know that the State is correcting for an over allocation of Sales Tax to us from last year, so we will just trend lower overall this year to make up for it. There is still some evidence that this may be a combination of one-time struggles (potentially tax payment lag associated with new business, potential slowing of other businesses) with longer trends issues (falling gas prices). Service Station sales accounts for a significant piece of our revenue and since their income is down 12% for the year, mostly due to depressed gas prices (down 35% from 2014), we can expect this to impact Sales Tax revenues going forward but we are not sure how much or for how long yet. We will continue to make sure that we understand everything we can as far as these revenue trends as we near the planning for next year.

**Vehicle License Fees:** The first of two payments came through in late December about 8% higher than budgeted. The budget has now been adjusted and this reflects several years in a row of significant growth for this category.

**EXPENDITURE UPDATE:** So far most expenses are tracking with the budget set for the year with a few exceptions in supplies and repairs in the Police Department, and some one-time expenses for equipment in the Fire Department, all within the general fund. These aren't unexpected and are largely unavoidable or have one-time revenue offsets so there is limited to no impact on the General Fund. Several of the grant funded projects are lagging but they have minimal real impact since they are funded by outside sources of funds.

The advances from TCAG for the Roundabout project has been critical for our cash flow. We have almost invoiced all of our CMAQ & HSIP funding which should make things quicker since it will eliminate submitting invoices to CalTrans.

Spending on the Sports Park is also now in full swing and we are attempting to navigate the confusing labyrinth of how all the different grants work together for reimbursement while managing how their separate budgets, matching funds, and reporting requirements come together. More spending will commence shortly in regard to projects with Visalia Road construction, The Urban Streams Grant (Deep Creek Restoration), The Water-Energy Grant (City-wide water metering) and perhaps even more of the grants we have lined up and waiting. This could cause the City to float a lot more expense until reimbursements are processed. **Keeping as much cash on hand will be critical to the success of our projects.**

## ECONOMIC UPDATE

Job growth was about flat with a 5% growth nationally but this was expected and is still positive momentum. Unemployment stayed just about level at 5.0% nationally, but returned back up to 6.3% in California, and Tulare County held steady at about 11.5%.

Consumer confidence remains positive with the core CPI (Consumer Price Index less food and energy) increasing about 2.3% and the core PCE (Personal Consumption Expenditures less food and energy) increasing about 1%. This means that the economy continues to grow but inflation is still below "normal". The Federal Open Market Committee increased the fed funds target rate in December to 0.25%-0.50% resulting in limited impacts to national markets. There are now only two future rate increases anticipated for the rest of 2016 (previously anticipated four).

The global oil glut persists even though there is a seasonal short term spike in gas prices coming but this is expected to fall again slowly over the summer and then return to price levels similar to early 2016 (about \$2.10 per gallon nationally). While there was some speculation as to OPEC striking a deal with non-OPEC oil producing countries to reduce crude oil output, this has officially fallen apart will continue. Saudi Arabia and Russia recently agreed to tentatively slow production, it requires agreement from Iran too, who is refusing. Gas prices will likely remain low when compared to this time over the last few years given this stalemate.

**So what does this mean for the City?** Economic trends continue to be decent – corporate balance sheets are stable and economic growth is slow but steady. However, everything on a national scale doesn't necessarily translate to Farmersville. Revenues here are continuing to flow in but these do not come in evenly so it is hard to determine exactly where we will end up.

Generally, our expectation is that we will arrive at or a few percentage points under budgeted revenue amounts (mostly because of Sales Tax issues). The lower gas prices will likely be with us for a quite some time and could have some long-lasting impacts depending upon varying factors. Sales Tax income does appear to be lagging from lower gas prices thus far but may be marginally offset by other spending elsewhere. The only revision made at mid-year for revenues was

property tax, which was reduced by about 3% lower but this was completely offset by a more accurate number for property tax in lieu of Vehicle Licenses Fees (about 8% higher). We will just have to wait and see where Sales Tax ends up in the short term.

## NOTEWORTHY NEWS & FUTURE OUTLOOK

There are several major news items for the City of Farmersville:

1. **Major Projects:** We are making good progress on construction projects and will be likely be bringing more projects online before the end of the year. If we continue to get lucky with the timing of projects (not too many at once) we will be able to handle the workload and not run up against any cash flow issues. However, if they start simultaneously we may encounter some serious problems. Finance Staff is evaluating ways that we can avoid this and still get all the approved projects done within the grant funding timelines.
2. **Budget Season:** We will be working diligently to get the 2017 Budget together in a timely fashion for approval well before the end of the current year. We are completing our first full cycle of using our new budgeting process/documents and we thinking that it has worked well to streamline the process and keep things simple and organized. The next year will likely have some tough decisions ahead of us but we are hopeful we can make something work to keep service levels constant.
3. **Midyear Review Update:** We covered six major topics in the midyear review that would have significant impact on the City going forward (CalPERS UAL, Vacation Accrual Caps, Revenue losses, increasing benefit rates, Enterprise Fund Performance, Litigation Costs). We are continuing to evaluate these impacts and plan to present their direct impacts within the 2017 Budget to City Council.