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City Council

Staff Report

TO: Honorable Mayor and City Council

FROM: John Jansons, City Manager *[Signature]*

DATE: September 26, 2016

SUBJECT: Quarterly Financial Report: 4th Quarter Fiscal Year 15/16

RECOMMENDED ACTION:

- 1) That the City Council hear a brief presentation from The Finance Director on the Quarterly Financial Report encompassing the period April 1, 2016 through June 30, 2016.
- 2) Receive and file quarterly report (Fourth Quarter FY 15/16).

BACKGROUND / DISCUSSION:

The attached report is an update as of the end of the Fourth Quarter for Fiscal Year 2015/2016 which ended on 6/30/2016. Spending was over budget by \$44,943 in the General Fund or 1.3%. However, revenues in the General Fund missed the budget target of \$3,467,990 by \$119,405 (3.4%) creating an overall shortage of \$164,348 actual spending over income for the year.

General Fund Expense - Budget vs. Actual



While missing our target on the General Fund is not ideal, much of that is due to revenues not being received timely within the year and some expenses that were, in part, out of the control of the City and part of necessary response to events occurring last year.

The main issues causing revenues to miss their target were delays in getting reimbursement for Police Department Expenses, revenues from other agencies not arriving or performing as expected, and a decline in Sales Tax income. Sales tax was down nearly 10% from budget even with the one time bump in additional income from the unwinding of the "triple flip".

The main issues causing expenditures to overshoot their budget were the Police Department's overtime and vehicle repair expenses. An Animal Control truck was also purchased and impacted that department's budget as well. Other overages were slight with exception of the Water Utility Fund which, adjusting for Cameron Creek Reimbursements, was operating at a loss of \$88,455 for the year.

The job market is continuing to improve here and across the nation. Inflation is staying pretty level and the housing market is starting to do better. These are all positive signs for the economy here in Farmersville and across the nation. However, dropping oil and gas prices will continue to impact the Sales Tax revenue of the City moving forward. Future revenues have already been adjusted to account for this.

Financing the Waste Water Treatment Plant and the cash flow of the many projects we have lined up continue to be at the top of the list for concerns going forward. City staff is working hard to achieve another favorable audit which plays a large part in allowing the City access to grants and other programs. Overall, the City is making progress and is still in a healthy cash position to handle the current burdens put upon it.

COORDINATION AND REVIEW:

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

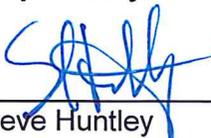
FISCAL IMPACT:

None

CONCLUSION:

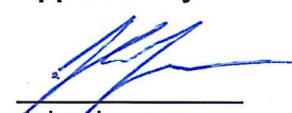
- 1) That the City Council hear a brief presentation from Finance Director on the Quarterly Financial Report encompassing the period April 1, 2016 through June 30, 2016.
- 2) Receive and file Quarterly Report (Fourth Quarter FY 15/16).

Prepared By:



Steve Huntley
Finance Director

Approved By:



John Jansons
City Manager



FINANCE UPDATE: FY 2016 – FOURTH QUARTER

BUDGET UPDATE

The Finance Department is in full swing with year-end process and final steps to create the Financial Statements for the year ending June 30, 2016. It takes a couple months to finalize everything from the prior year so we delayed this report to try to strike the balance between timely and accurate. Now that we are nearly complete with wrapping up Fiscal Year 2016 we can take a look back to see where the City ended:

REVENUE UPDATE: Major Revenue sources are now finalized for the year ending 6/30/2016. The major revenue source status are as follows:

Property tax was trending higher at midyear but not by enough to expect that it would be significant. However, with the final payments in from the County, Farmersville did receive a bump in property tax revenue of nearly 11% (about \$32,000) over the budgeted amount which allowed this category to finish the year strong.

Sales tax is always paid about two months behind the month in which it was incurred. So the final payment for FY 2016 was received in August which was a solid amount but overall continued to be weak despite a one-time bump from the unwinding of the Triple Flip. Sales tax revenues missed the budgeted amount for the year by 9.8% (about \$73,000) which will cause the City to use reserves to shore up this shortfall for the period. It seems clear now that the likely causes are a combination of one-time struggles with lower service station sales in general, construction interference with gross business receipts, and depressed gas prices (down 28% from June 2015). Future Sales Tax expectations for FY 2017 have been revised down 10% to account for this trend.

Vehicle License Fees: The second of two payments came in May and was on target with the revised budget which reflected an 8% increase from last year. The FY 2017 budget is set for a flat return on this revenue given the economic conditions but this may be revised at midyear once better information is available in October from the State.

EXPENDITURE UPDATE: The General Fund spent more than it took in for the period ending 6/30/2016 (unaudited results). In addition to this, revenues totaled \$119,405 (3.4%) less than expected and expenditures were higher than budgeted by \$64,557 (1.8%). Revenues suffered the most in Sales Tax (down 9.8%) and Police Department revenues were down 17% part of which is attributed to POST training reimbursements that are still pending from the State.

The majority of General Fund expenses over budget was in the Police Department (about \$107,000 over budget). Overtime expenses were 29% over budget which is in part attributed to their ending the year three positions down requiring overtime to cover shifts. Repairs and Maintenance continued to be the biggest loss of cash ending 28% over budget, in large part due to the aging fleet and necessity to keep vehicles not only running but in good repair and capable of emergency operations. In addition, the one-time purchase of a much needed truck for Animal Control also

contributed to the overage. City Memberships and City Sponsorships were the only other General Fund departments over budget for the period.

After washing out the late reimbursement from the State for the work on Cameron Creek water connections, the Water Utility Fund spent \$88,455 more than revenue received, up from \$81,605 last year but below budget expectation of \$90,358 expenses exceeding revenue.

Other funds finished the year generally in good shape with exceptions around our major projects in Fund 12 (CDBG Home Assistance), Fund 26 (Roundabouts), and Fund 31 (Sports Park). These are timing issues with reimbursements lagging the incurred expenses already on our books.

We will need to keep a watchful eye on Fund 21 (Gas Tax) as it was marginally overspent. Revenues from the State for Gas Tax keep dropping but our costs keep rising. The Governor's proposed transportation package which would help agencies like ours with transportation funding was discussed by legislators in August 2016 but no decision was made on the future of transportation funding.

ECONOMIC UPDATE

Job growth has been unpredictable with a major disappointment in May followed by a glowing report in June. Unemployment (compared to last quarter) dropped to 4.9% nationally, 5.7% in California, and 10.8% in Tulare County.

Consumer confidence over the last quarter has declined while core CPI (Consumer Price Index less food and energy) continued to hold at 2.3%. This means that the economy continues to grow very slowly and inflation is still in the "normal" range. So it is expected that the Federal Open Market Committee (The Fed) won't increase the federal funds target rate until December 2016.

Housing starts are still growing nationally and existing home sales were up 1.8% but new home sales declined. Experts agree that the real estate market trend remains positive but growth will be slower than originally anticipated.

Gasoline prices have largely matched the forecasts for this year. This means that while there is still a seasonal spike in prices through August, the peak in May has already passed and gas prices are anticipated to decline to a national average of around \$2.00/gallon by December. Oil Futures rallied by nearly 38% from April to June but the market volatility and consumer prices are still expected to drop going forward.

So what does this mean for the City? The economy seems to be growing consistently but the growth rate is slowing. According to economic experts, it is still early to say if this is the start of a full scale economic slowdown or just more of the same very slow growth that we've had for several years now. The low rates continue to make this a prime opportunity for the City to finance purchases if needed.

Decreasing unemployment in the area is good for Farmersville, but wage growth is still lagging historical trends. Inflation is still relatively low although reports suggest that lower-end retail prices continue to rise disproportionately impacting our residents and potentially our sales tax revenues.

The housing market, based upon property tax and other fee receipts at the City shows that existing home sales are down from last year and new starts are dramatically up, contrary to the national average.

Gas prices continue to be a persistent problem for City revenue. Gas prices are now on par with prices in June of 2009 (the lowest seasonal high in a decade). As long as domestic production stays high and OPEC continues to price out competitors, prices will remain at similar lows.

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 on line very soon. Construction of the Roundabouts is almost complete and Phase 1 of the Sports Park is also almost complete. Both of these projects appear to be very close to budget and timely. This is a very good thing as not all projects tend to go so well. Work has started toward what is needed for the Water Energy Grant and the Urban Streams Restoration projects. These projects need to progress quickly as their grant deadlines will be here soon (Dec 2017) and our capacity to handle projects efficiently will start to fall off. Work with our Bond Counsel and Financing has begun on the biggest project which is the new Waste Water Treatment Plant. This project has the most risk to the City and ideally should be done with no other projects competing for attention, cash flows, and effort. However, we don't have that situation, so we need to do the best planning we can to try and layer projects and prioritize our efforts. Cash Flow remains the most significant concern with this project.
2. **Audit Season:** We will be working diligently to get the 2016 Audit together in a timely fashion to meet our deadline by the end of the calendar year. We completed our initial audit visit and were able to complete that portion in only a day (the expectation was three days) which is a good sign that we will have another successful audit this year. Good Audit results are critical to making projects and new efforts possible for the City. Without a good financial standing all other functions will be hampered and the City will be exposed to more risk.
3. **Key Factor Update:** We covered six major topics in the midyear review and in the FY 2017 Budget Report 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). These items all had significant impact on this year's budget but some significant changes have occurred recently that applies to these topics.
 - a. First, the SAFER grant was awarded to the City and will greatly help the adverse general fund budget situation.
 - b. Second, it appears that Tulare County Fire is still set on moving out of the leased space at 907 W Visalia Rd which could have significant consequences for the general fund as well, but as of yet, do not know when.
 - c. Third, staff continues to look at ways that we can help trim benefits expense without impacting the employee and secondly without making major changes. The industry is changing rapidly and this may provide some opportunity for savings.

- d. Fourth, the City hosted its very first onsite training event through ERMA to become compliant with our AB 1825 training and mitigate risk to the City. This is a great opportunity for the City and will be the first step in many improvements.



FY 2015-2016
AMENDED BUDGET

FY 2015-2016
ACTUAL A/O 06/30/2016

VARIANCE TO BUDGET
AMOUNT

VARIANCE TO BUDGET
PERCENTAGE

REASON FOR VARIANCE
EXPLANATION

	FY 2015-2016 AMENDED BUDGET	FY 2015-2016 ACTUAL A/O 06/30/2016	VARIANCE TO BUDGET AMOUNT	VARIANCE TO BUDGET PERCENTAGE	REASON FOR VARIANCE EXPLANATION	
01 GENERAL FUND						
400 GENERAL REVENUES	(2,252,713)	(2,152,991)	99,721	-4%		
401 CITY COUNCIL	7,100	5,655	(1,445)	-20%	SALES TAX LOW, STP EXCHANGE DELAYED	
404 ADMINISTRATION	(73,862)	(83,707)	(9,845)	13%		
405 MEMBERSHIP LEGISLATION	24,000	27,867	3,867	16%	NEW MEMBERSHIP EXPENSES	
406 ADMINISTRATIVE OVERHEAD	36,907	32,438	(4,469)	-12%	PRIOR YEAR SPONSORSHIP EXPENSES	
407 CITY SPONSORSHIPS	6,000	6,645	645	11%		
409 CITY PROPERTIES	13,185	9,881	(3,304)	-25%	OT, REPAIRS, PROFESSIONAL EXPENSES	
411 POLICE	1,517,025	1,624,304	107,278	7%		
414 COMMUNITY DEVELOPMENT	80,050	78,355	(1,695)	-2%		
415 CODE ENFORCEMENT	39,573	38,748	(825)	-2%		
420 FIRE DEPARTMENT	346,938	334,077	(12,861)	-4%		
425 PARKS, BUILDINGS & GROUNDS	148,789	137,701	(11,088)	-7%		
426 ANIMAL CONTROL	87,393	105,375	17,981	21%	PURCHASE OF ANIMAL CONTROL VEHICLE	
TOTAL GENERAL FUND	(19,614)	164,348	183,962	-938%		
TOTAL REVENUES	(3,487,604)	(3,368,199)	119,405	-3%		
TOTAL EXPENSES	3,467,990	3,532,547	64,557	2%		
02 WATER UTILITY						
TOTAL REVENUES	(571,274)	(375,439)	(1,063,023)	(465,796)	-516%	
TOTAL EXPENSES	661,692	687,584	25,952	4%	ADDITIONAL FEES FROM THE STATE	
03 WATER DEVELOPMENT						
TOTAL REVENUES	(2,561)	(52,782)	(49,675)	1961%		
TOTAL EXPENSES	5,000	4,454	(546)	-11%		
04 SEWER UTILITY						
TOTAL REVENUES	(757,835)	(688,965)	58,870	-8%	DELAY OF WWTP PROJECT	
TOTAL EXPENSES	(5,232,317)	(1,545,575)	3,686,742	-70%	DELAAY OF WWTP PROJECT	
05 SEWER DEVELOPMENT						
TOTAL REVENUES	48,184	(91,829)	(140,013)	-291%		
TOTAL EXPENSES	(23,816)	(91,829)	(68,013)	286%		
06 REFUSE						
TOTAL REVENUES	(64,321)	(75,148)	(10,827)	17%		
TOTAL EXPENSES	(752,880)	(763,343)	(10,463)	1%		
11 DRUG ENFORCEMENT						
TOTAL REVENUES	835	4,959	(4,124)	494%		
TOTAL EXPENSES	(165)	(166)	(1)	1%	WEAPONS EXPENSES	
12 FEDERAL AND STATE GRANTS						
TOTAL REVENUES	33,436	327,444	(294,008)	879%	REIMBURSEMENTS FROM GRANTS PENDING	
TOTAL EXPENSES	(2,408,618)	(151,765)	2,256,853	-94%		
14 POLICE SISEF						
TOTAL REVENUES	114,903	104,055	(10,849)	-9%	HIGHER WORKERS COMP & UNIFORM COSTS	
TOTAL EXPENSES	(100,960)	(124,822)	(23,862)	24%		
15 POLICE DEPARTMENT AB109						
TOTAL REVENUES	215,864	228,877	(13,013)	6%		
TOTAL EXPENSES	-	(11,171)	(11,171)	-		
TOTAL EXPENSES	-	11,171	11,171	-		



	FY 2015-2016 AMENDED BUDGET	FY 2015-2016 ACTUAL A/O 06/30/2016	VARIANCE TO BUDGET AMOUNT	VARIANCE TO BUDGET PERCENTAGE	REASON FOR VARIANCE EXPLANATION
20 STP	(5,047)	(5,706)	(659)	13%	
TOTAL REVENUES	(5,047)	(5,706)	(659)	13%	
TOTAL EXPENSES	-	-	-	-	
21 GAS TAX	(1,458)	5,498	6,956	-477%	
TOTAL REVENUES	(240,469)	(240,985)	(516)	0%	HIGHER ENGINEERING COSTS
TOTAL EXPENSES	239,011	246,493	7,472	3%	
22 TDA	166,783	(283,882)	(450,666)	-270%	
TOTAL REVENUES	(278,217)	(340,607)	(62,391)	22%	
TOTAL EXPENSES	445,000	56,725	(388,275)	-87%	
23 STORM DRAIN	19,201	(18,097)	(37,298)	-194%	
TOTAL REVENUES	(1,799)	(18,097)	(16,298)	906%	
TOTAL EXPENSES	21,000	-	(21,000)	-100%	
26 MEASURE R	157,619	(1,317,364)	(1,474,984)	-936%	
TOTAL REVENUES	(6,870,128)	(7,085,874)	(218,746)	3%	
TOTAL EXPENSES	7,027,747	5,771,510	(1,256,237)	-18%	
30 PARK DEVELOPMENT	(45)	(2,252)	(2,207)	4917%	
TOTAL REVENUES	(45)	(2,252)	(2,207)	4917%	
TOTAL EXPENSES	-	-	-	-	
31 PARK IMPROVEMENTS	66,997	524,746	457,749	683%	
TOTAL REVENUES	(1,301,779)	(226,952)	1,074,827	-83%	
TOTAL EXPENSES	1,368,776	751,697	(617,079)	-45%	
35 MAINTENANCE DISTRICTS	(367)	(3,030)	(2,663)	727%	
TOTAL REVENUES	(60,570)	(61,390)	(819)	1%	
TOTAL EXPENSES	60,204	58,360	(1,844)	-3%	
39 CHURCH MUSEUM	(37)	(546)	(509)	1374%	
TOTAL REVENUES	(37)	(546)	(509)	1374%	
TOTAL EXPENSES	-	-	-	-	
40 CDBG PROGRAM INCOME	(2,618)	262,087	264,705	-10112%	
TOTAL REVENUES	(127,618)	(22,888)	104,730	-82%	
TOTAL EXPENSES	125,000	284,975	159,975	128%	
41 HOME PROGRAM INCOME	-	(12,000)	(12,000)	-	
TOTAL REVENUES	-	(12,000)	(12,000)	-	
TOTAL EXPENSES	-	-	-	-	
42 CALHOME PROGRAM INCOME	(120)	(22,957)	(22,838)	19079%	
TOTAL REVENUES	(120)	(22,957)	(22,838)	19079%	
TOTAL EXPENSES	-	-	-	-	
71 FIRE DEVELOPER FEES	(2,944)	(36,946)	(34,002)	1155%	
TOTAL REVENUES	(2,944)	(40,574)	(37,630)	1278%	
TOTAL EXPENSES	-	3,628	3,628	-	
81 POLICE DEVELOPER FEES	16,342	(10,813)	(27,155)	-166%	NEW OFFICE FOR FIRE CHIEF



FY 2015-2016
AMENDED BUDGET

FY 2015-2016
ACTUAL A/O 06/30/2016

VARIANCE TO BUDGET
AMOUNT

VARIANCE TO BUDGET
PERCENTAGE

REASON FOR VARIANCE
EXPLANATION

TOTAL REVENUES (2,976) (37,367) (34,391) 1156%
 TOTAL EXPENSES 19,318 26,554 7,236 37%

TECHNOLOGY AND WEAPONS EXPENSES

82 STATE ASSET FORFEITURE (20) (22) (3) 13%
 TOTAL REVENUES (20) (22) (3) 13%
 TOTAL EXPENSES 5,125 - (5,125) -100%

83 LIVE SCAN - 511 511 -
 TOTAL REVENUES - (2,368) (2,368) -
 TOTAL EXPENSES 2,879 2,879 -

TOTAL REVENUES (21,476,993) (15,300,714) 6,176,279 -29%
 TOTAL EXPENDITURES 21,399,791 13,686,583 (7,653,208) -36%
 REVENUE (OVER) OR UNDER (137,201) (1,614,131) (1,476,929) 1076%