



## CITY COUNCIL STAFF REPORT

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**TO:** Honorable Mayor and City Council                      **DATE:** September 16, 2019  
**FROM:** Matthew Bronson, City Manager  
**PREPARED BY:** Deanne Purcell, Administrative Services Director  
**SUBJECT:** FY 2018-19 General Fund Year-End Financial Review

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### **RECOMMENDATION**

Receive and file the FY 2018-19 General Fund Year-End Financial Review.

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### **BACKGROUND**

In accordance with the Council's adopted fiscal policies, the City prepares quarterly, mid-year, and year-end financial reports comparing actual revenue and expenditures to budgeted amounts for review by City Council. The City Council was presented with the first quarter budget report on November 19, 2018 and the mid-year budget review on February 4, 2019. On June 17, 2019, the City Council adopted the annual budget for fiscal year (FY) 2019-20 which included year-end estimates for FY 2018-19 ending June 30, 2019.

Staff is working with the City's auditors on the FY 2018-19 annual audit which is anticipated to be completed in December 2019 and brought to the Council for approval in January 2020. Staff has conducted an initial FY 2018-19 year-end review of the General Fund to provide a summary to the Council prior to the completion of the audit. This summary represents preliminary information based on actual transactions for the fiscal year ending June 30, 2019. The preliminary information provided is subject to change pending further review and the potential for audit adjustments that may be discovered during the year-end audit. Staff is still working on year-end closing and reconciliation for the Water and Wastewater Funds given the transition to the new utility billing system and thus year-end information for these funds will be provided as part of the annual audit.

### **General Fund Overview**

The General Fund is the City's primary fund where proceeds of taxes, major user fees and other general revenues are accounted for. Basic public services are funded from these resources and include Police, Fire, Public Works, Community Development, Administration, and Parks and Recreation. The General Fund is the largest fund that comprises the City's total budget.

Table 1 on the following page shows a preliminary assessment of year-end totals. As shown in the table, the FY 2018-19 original budget adopted by Council in June 2018 anticipated ending reserves to be \$2.2 million equating to 20% of operating expenditures. Actual (unaudited) ending reserves are \$3.4 million equating to 31% of operating expenditures. The Council's adopted General Fund reserve policy for the City is established as a minimum of 15% of operating expenditures with a goal of at least 20% of operating expenditures. At June 30, 2019, the actual ending reserves are \$1.2 million over the 20% goal and \$1.7 million over the minimum 15% reserve policy.

Table 1

<b>General Fund</b>	<b>2017-18 Actual</b>	<b>2018-19 Budget Original</b>	<b>2018-19 Estimated</b>	<b>2018-19 Actuals Unaudited</b>
Beginning Reserves	\$4,490,800	\$ 2,820,680	\$ 2,698,921	\$ 2,698,921
<b>REVENUES</b>				
Revenues/Transfers In	<b>9,668,712</b>	<b>10,888,749</b>	<b>11,437,400</b>	<b>12,064,722</b>
<b>EXPENDITURES</b>				
Operating Expenditures	10,368,565	11,091,744	10,531,646	11,035,823
CIP/Debt Service	952,026	245,781	187,441	182,992
Transfers Out/Other	140,000	150,000	150,000	150,000
<b>TOTAL EXPENDITURES</b>	<b>11,460,591</b>	<b>11,487,525</b>	<b>10,869,087</b>	<b>11,368,815</b>
<b>ANNUAL SURPLUS</b>	<b>(\$1,791,879)</b>	<b>(\$621,814)</b>	<b>\$568,313</b>	<b>\$695,907</b>
Ending Reserves	\$2,698,921	\$ 2,198,866	\$ 3,267,234	\$ 3,394,828
Percent of Operating Expenditures	26%	20%	31%	31%

**General Fund Revenues**

For FY 2018-19, the City's top five revenues (property tax, sales tax, cannabis tax, franchise fees, and transient occupancy tax) comprised approximately 75% of total revenue. Total General Fund revenues are projected to end the fiscal year at \$12.1 million compared to \$10.9 million budgeted. Table 2 below highlights the General Fund revenue for the FY 2018-19 budget compared to projected revenue at year-end. As shown in the table, revenues are anticipated to be higher by \$1.2 million, however it should be noted that approximately \$435,000 is for one-time proceeds from capital leases that include police vehicles and equipment (\$340,000) and a dispatch system (\$95,000). This revenue was offset with the recording of the expense for the purchase of these capital assets.

Table 2

<b>General Fund Revenue</b>	<b>Budget</b>	<b>Actual (unaudited)</b>	<b>Actual Amount Over Budget</b>	<b>% of Budget</b>
1. Property Tax	\$ 4,523,342	\$ 4,527,629	\$ 4,287	100.1%
2. Sales Tax	2,156,798	2,565,683	408,885	119.0%
3. Cannabis Tax	700,000	953,105	253,105	136.2%
4. Franchise Fees	548,900	555,460	6,560	101.2%
5. TOT	387,600	433,249	45,649	111.8%
*All Other Revenue and Transfers	2,582,109	3,029,596	447,487	117.3%
<b>Total General Fund Revenues</b>	<b>\$ 10,898,749</b>	<b>\$ 12,064,722</b>	<b>\$ 1,165,973</b>	<b>110.7%</b>

\* Other revenue includes Utility Users Tax, Licenses and Permits, Service Charges, transfers and other miscellaneous.

Below are highlights of specific General Fund revenues:

- Property Tax is on track with budget with a small variance of \$4,287. The County of San Luis Obispo estimated a 6.4% increase in property tax revenue from the prior year, which falls in line with the City’s budgeted numbers.
- Cannabis Tax is a new revenue source for the City as the original budget was based on an initial estimate and the actuals came in significantly higher than anticipated. The original budget for cannabis tax revenue was \$700,000 while actual revenue received by June 30, 2019 was \$953,105, or \$253,105 higher than budgeted.
- Sales Tax is \$408,885 higher than budgeted, in part due to the new cannabis industry that collects sales tax for retail businesses.
- Transient Occupancy Tax (TOT) actual revenue collected is \$45,649 higher than budgeted, mainly due to a half-year of the approved 2% rate increase from 10% to 12% with passage of Measure L-18 in November 2018.

### **General Fund Expenditures**

General Fund expenditures are projected to end FY 2018-19 slightly lower than the original budget primarily due to salary savings from vacant positions and delay in completing General Fund-related capital improvement projects given the extent of non-General Fund projects. As shown below in Table 3, the FY 2018-19 budget compared to actuals by department shows the City ended the year at 99% of the budgeted amount or \$118,710 under budget.

Table 3

<b>Department</b>	<b>FY 2018-19 Budget</b>	<b>FY 2018-19 Actual</b>	<b>Over/ (Under) Budget</b>	<b>% of Budget</b>
City Management	1,049,570	894,355	(155,215)	85.2%
Administrative Services	568,333	521,173	(47,160)	91.7%
Community Development	963,800	804,203	(159,597)	83.4%
Public Works	1,173,095	1,286,911	113,816	109.7%
Parks and Recreation	428,400	430,032	1,632	100.4%
Police	4,177,176	4,327,317	150,141	103.6%
Capital Improvement Projects	88,750	27,560	(61,190)	31.1%
Transfers Out	150,000	150,000	-	100.0%
Non-Departmental	2,888,401	2,927,264	38,863	101.3%
<b>Total GF Expenditures</b>	<b>11,487,525</b>	<b>11,368,815</b>	<b>(118,710)</b>	<b>99.0%</b>

Key variances in expenditures by departments include:

- City Management – Under budget by \$155,215 due to savings in various operational expenditures, including contractual obligations, economic development activities, and cannabis auditing services that were delayed until the first quarter of FY 2019-20.
- Community Development – Under budget by \$159,597 mainly due to salary savings and various operational expenditures including contractual obligations for the housing element update that is delayed until FY 2019-20 and planning and engineering services that are offset and related to plan check fees.
- Public Works – Over budget by \$113,816 in the General Fund mainly due to more staff

time being charged to General Fund projects and services and less to Enterprise Funds than what was originally budgeted, unanticipated maintenance and repair costs to the Police Station, and the purchase of a backhoe that was budgeted in FY 2017-18, but not received and recorded until FY 2018-19 though the budget was not carried over.

- Police – Over budget by \$150,141, due to the capital leases for the dispatch system and PD vehicles and equipment (not included in original budget, but offset by lease proceeds), though overage is lessened by salary savings from vacant positions.

Table 4 below highlights the General Fund expenditures by type:

Table 4

Type	FY 2018-19 Budget	FY 2018-19 Actual	Over/ (Under) Budget	% of Budget
Salaries and Benefits	6,983,779	6,622,129	(361,650)	94.8%
Supplies and Services	3,992,957	3,919,114	(73,843)	98.2%
Minor Capital	115,008	494,580	379,572	430.0%
Major Capital	88,750	27,560	(61,190)	31.1%
Debt Service	157,031	155,432	(1,599)	99.0%
Transfers Out	150,000	150,000	-	100.0%
<b>Total GF Expenditure</b>	<b>11,487,525</b>	<b>11,368,815</b>	<b>(118,710)</b>	<b>99.0%</b>

Key variances by type include:

- Salaries and Benefits – The total budget for salaries and benefits is \$6.9 million and actual expenditures are \$6.6 million. The \$360,000 savings is mainly due to salary savings from vacant positions in the Police Department.
- Minor Capital – Capital leases for the purchase of patrol vehicles and equipment of \$340,000 and the dispatch system of \$95,000 were not included in the budget. These amounts were offset with the recording of the one-time proceeds in revenue.

Overall, the City’s General Fund ended FY 2018-19 in a good financial position with higher than budgeted revenues and lower than budgeted expenditures leading to a strong level of reserves above the Council’s policy goal. Staff would still recommend caution with these reserves at this time since most of the higher revenues were generated by the new cannabis industry that is continuing to evolve. The City also continues to face ongoing service needs to address over this next year particularly in the area of police, fire, and emergency medical services. Staff will present the FY 2019-20 first quarter financial report to the Council in November 2019 along with the mid-year review in February 2020 and the results of this information may inform potential allocation of reserve funds towards specific one-time needs determined by the Council.

**FISCAL IMPACT**

There is no fiscal impact from receiving this report.

### **ALTERNATIVES**

The City Council has the following alternatives to consider:

1. Receive and file the FY 2018-19 General Fund Year-End Financial Review; or
2. Provide alternative direction to staff.

### **PUBLIC NOTIFICATION**

The agenda was posted in accordance with the Brown Act.

### **ATTACHMENTS**

N/A