

# City of Los Alamitos

## Agenda Report Discussion Items

February 18, 2015  
Item No: 10A

**To:** Mayor Richard D. Murphy & Members of the City Council

**Via:** Bret M. Plumlee, City Manager

**From:** Jason Al-Imam, Administrative Services Director

**Subject:** Mid-Year General Fund Budget Review for Fiscal Year 2014/15 and Fiscal Year 2015/16 Financial Forecast

**Summary:** This report provides the City Council with a Mid-Year General Fund budget and financial update for the Fiscal Year 2014/15. The report also makes recommendations for budget amendments, both to estimated revenues and to expenditures and provides a financial forecast for Fiscal Year 2015/16.

### Recommendations:

1. Receive and file the mid-year budget report for Fiscal Year 2014/15 and approve the budget amendments to the Fiscal Year 2014/15 Operating Budget as discussed and recommended in this report; and,
2. Review the projected financial forecast for Fiscal Year 2015/16 and direct staff regarding the potential use of reserves and related replenishment of reserves as discussed in this report.

### Background

It is customary to conduct a thorough analysis of all estimated revenues and appropriations at the end of the first six months of the fiscal year. This process updates the City Council on the fiscal status of the City at the midpoint of the fiscal year and provides a forum to address potential budget amendments or adjustments.

### Discussion

#### Update on Final Fiscal Year 2013/14 General Fund Reserve Balance

The City Council adopted the City of Los Alamitos Fiscal Year 2014/15 Operating and Capital Improvement Program Budget at a public hearing on June 16, 2014. Fund balance was projected to be \$8,108,720 at June 30, 2014. As staff completed the year-end financial closing process, it was determined that fund balance was \$8,274,788. As

shown in the table below, the projected surplus at the time the budget was adopted was \$247,589. The actual surplus was \$413,657, which is \$166,068 better than projected. This is after taking into account the one-time expenditure of \$261,281 associated with the payoff of the 2003 side-fund liability for safety. One of the primary reasons for the surplus being better than projected is due to utility users tax revenues coming in \$133,000 higher than expected, which is largely attributable to electric utility revenue. Also, red light camera revenue came in \$62,000 higher than expected and property and sales tax revenues were \$54,000 better than projected. Budget to actual comparisons for revenues and expenditures for the year ended June 30, 2014 are outlined in Attachment "A".

	2013/14 Amended Budget	2013/14 Projected	2013/14 Actual
Beginning Fund Balance	\$ 7,861,131	\$ 7,861,131	\$ 7,861,131
Add: Revenue and Transfers In	11,845,210	12,320,373	12,711,220
Less: Expenditures and Transfers Out	(11,977,377)	(12,072,784)	(12,297,563)
<b>Ending Fund Balance</b>	<b>7,728,964</b>	<b>8,108,720</b>	<b>8,274,788</b>
<b>Change in Fund Balance</b>	<b>\$ (132,167)</b>	<b>\$ 247,589</b>	<b>\$ 413,657</b>

At June 30, 2014, fund balance for the General Fund consisted of \$8,196 in nonspendable fund balance, \$7,048,565 in assigned fund balance and \$1,218,027 in unassigned fund balance. Assigned fund balance consisted of:

Emergencies	\$3,123,565
PERS Reserves	3,150,000
Workers' Comp/Liability	250,000
Other Post-Employment Benefits (OPEB)	250,000
Los Alamitos Boulevard	200,000
General Plan	<u>75,000</u>
Total Assigned Fund Balance	\$7,048,565

### **Fiscal Year 2014/15 General Fund Budget Overview**

The original adopted fiscal year 2014/15 budget projected a balanced General Fund budget in which anticipated operating revenues (\$12,216,297) exceeded operating appropriations (\$12,180,547) by \$35,750. The original adopted budget also included the use of General Fund Reserves to fund two new internal service funds (\$1,100,000) and \$40,000 for the Los Alamitos Blvd. Project. In addition, \$75,000 was carried-over from the prior year to be spent on contractual services related to the General Plan.

The amended fiscal year 2014/15 budget includes \$36,000 in supplemental appropriations (\$20,000 for non-capital expenditures for Los Alamitos Television, \$15,000 for parking meter consultant services and \$1,000 for legal services in connection with the ADA self-evaluation and transition plan.)

Below is an overview of the amended budget and projected revenues, expenditures and fund balance.

	<b>2014/15 Amended Budget</b>	<b>2014/15 Projected</b>	<b>Budget Variance</b>
Beginning Fund Balance	8,274,788	8,274,788	-
Add: Revenue and Transfers In	12,216,297	12,407,536	191,239
Less: Operating Expenditures/Transfers Out	(12,216,547)	(11,914,467)	302,080
Less: Non-Operating Expenditures/Transfers Out	(1,215,000)	(1,215,000)	-
<b>Ending Fund Balance</b>	<b>7,059,538</b>	<b>7,552,857</b>	<b>493,319</b>
<b>Change in Fund Balance</b>	<b>\$ (1,215,250)</b>	<b>\$ (721,931)</b>	<b>\$ 493,319</b>

### **Fiscal Year 2014/15 Budget Amendments**

It is recommended that the General Fund revenue estimate be increased by \$191,239 to \$12,407,536. It is also recommended that the General Fund appropriations for Community Development and Recreation and Community Services be increased by \$5,000 and \$10,000, respectively. The recommended changes along with additional projected departmental savings of approximately \$317,000 will result in a projected surplus of approximately \$493,000, which is projected to result in \$7,552,857 in General Fund balance at the end of the year. The forecast is based on the most likely projected scenario, which is based on a number of assumptions. As the year unfolds staff will continue to monitor the General Fund revenues and expenditures and will provide the City Council with an update later in the fiscal year.

### **Fiscal Year 2014/15 General Fund Projected Revenues**

The adopted fiscal year 2014/15 budget forecasted revenues for the General Fund totaling \$12.2 million. For the reasons outlined on the following pages, the mid-year forecast of General Fund revenue is \$12.41 million.

Revenues and Transfers In	2014/15	2014/15	Budget
	Amended Budget	Projected	Variance
Property Taxes	\$ 3,171,380	\$ 3,193,049	\$ 21,669
Sales & Use Taxes	2,903,000	2,992,000	89,000
Utility Users Taxes	2,123,560	2,217,598	94,038
Transient Occupancy Tax	110,000	115,000	5,000
Franchise Fees	676,000	676,284	284
Licenses & Permits	695,100	742,902	47,802
Fines & Forfeitures	577,550	594,900	17,350
Investment Earnings	25,000	38,000	13,000
Revenue From Other Agencies	105,070	98,403	(6,668)
Charges for Services	1,368,820	1,282,564	(86,256)
Miscellaneous Revenues	110,000	68,519	(41,481)
Interfund Transfers	350,817	388,317	37,500
<b>Total Revenues and Transfers In</b>	<b>\$ 12,216,297</b>	<b>\$ 12,407,536</b>	<b>\$ 191,239</b>

**Property Tax** revenue is projected to be slightly higher than what was budgeted based on property tax receipts collected to-date and assessed valuation data provided by the County of Orange (assessed values are up 6% citywide). \$1.16 million in property tax revenue had been collected as of December 31, 2014. Property taxes are collected throughout the fiscal year with major payments being received in December and April; Property Tax in Lieu – VLF (VLF), included in this category, is received in January and May; and the January VLF payment of \$494,187 indicates that the City will exceed its revenue estimate. Prior Year Property Tax, Supplemental Property Tax and Real Estate Transfer Tax revenues are projected to be lower than budgeted based on receipts collected to-date.

**Taxes** – Included in the taxes category are Sales & Use tax revenues, Transient Occupancy Tax and Business License revenue.

- ❖ **Sales & Use Tax** is collected in arrears on a monthly basis. This results in the revenue lagging behind due to the fact that revenue received in July and August are accrued back to the previous fiscal year. The City has received 38% of its budgeted \$2,112,000 as of December 31<sup>st</sup>. This represents a third of the year's collections (September thru December). The amount collected from September thru December for 2014 is 14% higher than what was received in 2013 for the same period. This is mainly due to strong growth in building and construction and restaurants. Sales and use tax revenue is projected to be 5.5% higher than the previous year, which is approximately 3% over the budgeted amount.
- ❖ **Property Tax in Lieu – Sales Tax** – due to the Triple Flip, the State takes 25% of the City's 1% sales tax and replaces it with an additional allocation of property tax. These payments are received twice a year, once in January and the other in May. The City's January payment was \$380,165. According to the

City's sales tax consultant, HDL Companies, it is estimated that the City will receive a total of approximately \$727,000 which is on pace with the budget.

- ❖ **Sales Tax Guarantee – Consolidated** – As a part of the solid waste franchise agreement, the waste hauler guarantees the City additional sales tax in the amount of \$75,000 per calendar year. Consolidated Disposal will again be required to pay the City \$75,000 in FY2014/15.
- ❖ **Transient Occupancy Tax** – TOT is collected on a quarterly basis with payments being due in July, October, January and April. As of December 31<sup>st</sup>, the City has collected only one quarter's payment because the payment received in July was applicable to the prior fiscal year. It is anticipated that the City will meet or exceed its revenue projection.
- ❖ **Business License** – The bulk of business license revenue is received in the month of July due to the fact that business license renewals are due by the 1<sup>st</sup> of August. The City has received \$506,358 as of December 31<sup>st</sup>, which is 92% of the budgeted amount. It is expected that business license revenue will meet or exceed its revenue projection.

**Utility Users Tax** - Based on actual revenue receipts so far this fiscal year and based on revenue projections provided by Southern California Edison (SCE), Utility Users Tax revenue is projected to exceed its revenue estimate by \$94,000 (4.4%). This is largely due to a projected increase of \$80,500 in electric revenue. Electric utility users tax revenue collected through December 31, 2014 amounted to \$607,675, which is 8% higher than the amount collected for the same six-month period in 2013.

**Franchise Fees** - The City collects franchise fees on cable television, trash collection, electric, natural gas, water, and pipeline services. This revenue stream has remained fairly level with only slight variations from year to year. Electric, natural gas, and water franchise fees are collected once a year in April which accounts for the low percentage collected in December. It appears this category of revenue will come in on target with budget.

**Licenses and Permits** are projected to exceed the amount budgeted by approximately \$42,000, which is largely due to building permit and inspection revenue associated with the Los Alamitos Medical Center improvements. It should be noted that there are also offsetting expenditure increases attributable to the medical center improvements project.

**Fines and Forfeitures** revenue is received throughout the year. Revenue estimates for this category appear to be in line with collections.

**Investment Income** – investment income is projected to be approximately \$38,000 for the year based on the weighted average yield (0.709%) of the City's investment portfolio and based on projected cash balances. It should be noted that credit card fees of approximately \$13,000 were previously netted against investment income but have

been broken out and accounted for as an expenditure in non-departmental expenditures.

**Revenue from Other Agencies** consist of funds received from other agencies such as grants and other reimbursements. Revenues in this category are projected to come in on target with budget.

**Charges for Services** – charges for services revenue is up 2% compared to the prior year but projected to be less than budgeted. This is partly due to parking meter revenue (\$30,000) and a decline in participation in certain activities offered through recreation and community services (such as adult and youth basketball).

**Miscellaneous Revenue** accounts for one-time revenue items such as the sale of property, insurance reimbursements, funds collected for damages to city property and other miscellaneous receipts. The City has collected approximately \$25,000 as of December 31<sup>st</sup>. Based on receipts to-date, the amount projected through year-end has been reduced to \$68,519.

**Transfers In** consists of transfers from the Gas Tax, PSAF, SLESF, and Traffic Safety Funds. These transfers cover eligible street and public safety related costs borne by the General Fund. Gas tax revenue is projected to be \$75,000 higher than what was budgeted based on revenue estimates from the California Department of Finance. Staff recommends that 50% of the additional Gas Tax Revenue (\$37,500) be used to cover operating expenditures in the General Fund for street maintenance with the remaining projected surplus (\$37,500) to be used to cover capital related street and highway rehabilitation and reconstruction costs in the Gas Tax Fund.

## Fiscal Year 2014/15 General Fund Projected Expenditures

Department	2014/15		Budget Variance
	Amended Budget	2014/15 Projected	
City Council	\$ 72,835	\$ 72,835	\$ -
City Manager/City Clerk	561,309	538,302	23,007
City Attorney	156,000	156,000	-
Administrative Services	564,700	559,042	5,658
Non-Departmental	885,721	884,861	860
Community Development	586,433	590,962	(4,529)
Police	5,644,809	5,407,545	237,264
Public Works	1,818,310	1,768,726	49,584
Recreation and Community Services	1,712,010	1,721,774	(9,764)
Interfund Operating Transfers	214,420	214,420	-
<b>Total Operating Expenditures and Transfers</b>	<b>\$ 12,216,547</b>	<b>\$11,914,467</b>	<b>\$ 302,080</b>
<b>Non-Operating Expenditures and Transfers</b>			
Los Alamitos Blvd. Project	\$ 40,000	\$ 40,000	\$ -
General Plan	75,000	75,000	-
Transfer to Police Capital Replacement Fund	700,000	700,000	-
Transfer to Facilities Capital Replacement Fund	400,000	400,000	-
<b>Total Non-Operating Expenditures and Transfers</b>	<b>\$ 1,215,000</b>	<b>\$ 1,215,000</b>	<b>\$ -</b>

Material variances from the amended budget are as follows:

- ❖ City Manager/City Clerk - savings is largely due to the cancellation of the election, which resulted in approximately \$12,000 of savings.
- ❖ Community Development – budget variance is primarily due to contractual services for building inspections related to the medical center improvements, which is offset with building permit revenue.
- ❖ Police –savings primarily due to vacancies, which has been partially offset with an increase in overtime costs.
- ❖ Public Works - savings largely associated with a vacancy in the park maintenance division.
- ❖ Recreation and Community Services – budget variance is largely due to a vacation payout for an employee that is expected to retire this fiscal year.



- ❖ Sales & Use Taxes – up approximately 8% on a budgetary (60-day accrual) basis (3% on an economic full-accrual basis). Estimated sales & use taxes are distributed by the State each month using the prior year’s quarterly tax allocation as a starting point. The State withholds 10% of the estimated monthly allocations from the 3 monthly advances. The quarterly reconciliation payment (cleanup) is distributed in conjunction with the first advance for the subsequent quarter. Approximately \$158,000 of the growth in revenue is attributable to the State catching-up on amounts owed to the City and advancing larger amounts. Approximately 3% in growth is due mainly to strong growth in building and construction and restaurants.
- ❖ Utility Users Taxes - UUT revenue for 2015/16 is projected to be approximately 2% higher than what is projected for 2014/15 primarily due to electric revenue.
- ❖ Charges for Services – approximately \$250,000 of parking meter revenue has been estimated for fiscal year 2015/16. This assumes 46% occupancy and assumes the parking meters are in place on July 1, 2015. This estimate may need to be decreased if parking meters are not expected to be up and running by July 1, 2015.

As shown below, expenditures are projected to increase by approximately \$1,238,471 to \$13,470,018.

Department	2014/15 Amended Budget	2015/16 Preliminary Estimate	Increase/ (Decrease)
City Council	\$ 72,835	\$ 74,835	\$ 2,000
City Manager/City Clerk	561,309	557,563	(3,746)
City Attorney	156,000	156,000	-
Administrative Services	564,700	695,514	130,814
Non-Departmental	885,721	1,305,849	420,128
Community Development	591,433	612,325	20,892
Police	5,644,809	5,992,383	347,574
Public Works	1,818,310	1,947,906	129,596
Recreation and Community Services	1,722,010	1,917,643	195,633
Interfund Operating Transfers	214,420	210,000	(4,420)
<b>Total Operating Expenditures and Transfers</b>	<b>\$ 12,231,547</b>	<b>\$ 13,470,018</b>	<b>\$ 1,238,471</b>

\* 2014/15 Amended Budget includes aforementioned recommended budget amendments.

This increase in expenditures is primarily due to:

Non-Discretionary Costs:

- ❖ Increase in PERS contribution rates based on the new amortization and smoothing periods, which will fund the City's unfunded pension liability. The Chief Actuary at CalPERS is in the process of establishing a program that would allow for relief in certain situations whereby the required contributions would be restructured and amortized over a longer period of time. The Chief Actuary is taking this item to the CalPERS board for consideration in February 2015. If the CalPERS board approves this, it would provide the Chief Actuary with the authority to extend the amortization period in certain limited situations, which may provide up to \$100,000 of relief. \$288,000
- ❖ Increase in insurance costs related to workers' compensation and general liability insurance (includes **\$146,815 one-time cost** associated with 2014 annual retrospective adjustment for liability) 210,000
- ❖ Salary increases net of PERS savings 100,000
- ❖ Police Department vacation payouts (**one-time cost**) 62,000

Discretionary Costs:

- ❖ The Internal Service Fund Reserve Policy was adopted on September 8, 2014, which outlined the City Council's commitment to replenish capital reserves for the City's three Internal Service Funds beginning in fiscal year 2015/16. The capital replacement charges are as follows: \$35,000 for Police capital needs; \$40,000 for facilities, streets, parks and the pool; and \$50,000 for vehicles. 125,000
- ❖ Estimated capital cost for new parking meters (**one-time capital cost**) 100,000
- ❖ In 2015, the Police Department's executive staff (Chief, Captain and Support Services Manager) will all become eligible for retirement. The current structure of the Department has created obstacles for succession planning. As part of a long-term planning strategy, staff has requested that the City Council consider restructuring the Department by filling the vacancy to be created by the anticipated retirement of the Support Services Manager with a sworn Captain, creating a two-captain command structure that would provide for a second promotional path to the rank of Police Chief. The incremental cost to convert the Support Services Manager position into a 2<sup>nd</sup> Police Captain position is \$75,000. 75,000
- ❖ Two part-time parking attendants (offset by parking meter revenue) 40,000

## Use and Replenishment of Reserves

It is recommended that:

- ❖ A portion of the fiscal year 2013/14 surplus be set-aside into unassigned fund balance to possibly be used in future years.
- ❖ The capital component (\$100,000) for the estimated cost to purchase parking meters be paid from reserves.

In conjunction with funding certain costs from reserves, staff has compiled a list of measures to consider to close this budget gap. These measures include:

- ❖ Paying for one-half of the increase in PERS contributions in 2015/16 from unassigned fund balance reserves. The estimated 2015/16 PERS increase is \$288,000 – one-half of which is \$144,000. It should also be noted that if the CalPERS Board approves the City's request to extend the amortization period that savings would further reduce the budget gap. \$144,000
- ❖ An estimated salary savings vacancy factor 100,000
- ❖ Prepaying PERS 17,000

## Capital Related Expenditures

Staff is in the process of reassessing the City's capital related needs and will bring back an item to City Council during the budget process to discuss future anticipated capital related expenditures.

## **Fiscal Impact**

The projections and related recommendations provide for a balanced General Fund budget for Fiscal Year 2014/15 and builds reserves. The forecast is based on the most likely projected scenario, which is based on a number of assumptions. As the year unfolds staff will continue to monitor the General Fund revenues and expenditures and will provide the City Council with an update later in the fiscal year.

Increases in the City's PERS reserve and future increases in contributions to PERS will continue to improve the City's funded status. The most recent actuarial valuation indicated that the City's pension funds were 77% funded and when combined with the City's PERS reserve brings the funded status to 83%. It is expected that the City's funded status will remain well above 80%, which paves the way for long-term fiscal sustainability.

Submitted By:

  
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Jason Al-Imam  
Administrative Services Director

Approved By:

  
\_\_\_\_\_  
Bret M. Plumlee  
City Manager

Attachment:      A. Fiscal Year 2013/14 General Fund Budget to Actual Comparison

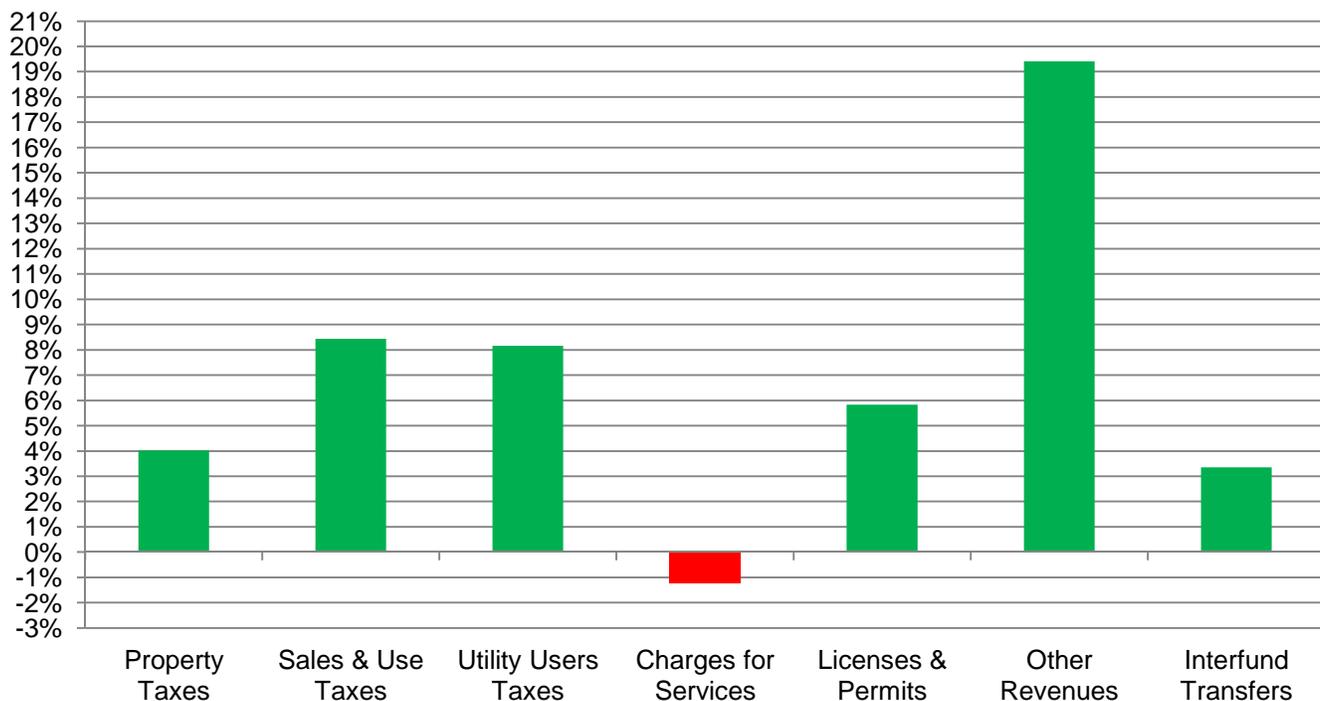
**CITY OF LOS ALAMITOS**  
**General Fund Revenues - Budget to Actual**  
**For the Year Ended June 30, 2014**

Revenues and Transfers In	2013/14 Amended Budget	2013/14 Actual	Budget Variance <sup>1</sup>
Property Taxes	\$ 2,989,810	\$ 3,109,887	\$ 120,077
Sales & Use Taxes	2,615,725	2,836,328	220,603
Utility Users Taxes	2,023,360	2,188,436	165,076
Transient Occupancy Tax	103,000	112,866	9,866
Franchise Fees	638,347	657,057	18,710
Licenses & Permits	991,800	1,049,678	57,878
Fines & Forfeitures	583,950	709,809	125,859
Investment Earnings	5,000	1,746	(3,254)
Revenue From Other Agencies	112,000	116,574	4,574
Charges for Services	1,270,218	1,254,703	(15,515)
Miscellaneous Revenues	130,000	279,312	149,312
Interfund Transfers	382,000	394,824	12,824
<b>Total Revenues and Transfers In</b>	<b>\$ 11,845,210</b>	<b>\$ 12,711,220</b>	<b>\$ 866,010</b>

<sup>1</sup> Includes the following material items:

- a. Property Taxes - Primarily due to an increase in assessed values.
- b. Sales & Use Taxes - Due to better than expected consumer spending at the local level.
- c. Utility Users Taxes - Largely related to an increase in electric revenue associated with SCE rate increases.
- d. Licenses & Permits - Primarily associated with permits related to the medical center improvements.
- e. Other Revenues - Primarily related to one-time insurance reimbursements and red light camera revenue.

**Budget Variance Percentage by Revenue Category**



**CITY OF LOS ALAMITOS**  
**General Fund Expenditures - Budget to Actual**  
**For the Year Ended June 30, 2014**

Department	2013/14 Amended Budget	2013/14 Actual	Budget Variance <sup>1</sup>
City Council	\$ 67,915	\$ 78,250	\$ (10,335)
City Manager/City Clerk	552,214	516,831	35,383
City Attorney	155,000	104,764	50,236
Administrative Services	533,389	471,164	62,225
Non-Departmental	603,775	891,208	(287,433)
Community Development	750,457	829,491	(79,034)
Police	5,727,107	5,874,050	(146,943)
Public Works	1,763,754	1,685,815	77,939
Recreation and Community Services	1,593,815	1,619,937	(26,122)
Interfund Transfers	229,951	226,053	3,898
<b>Total Expenditures and Transfers Out</b>	<b>\$ 11,977,377</b>	<b>\$ 12,297,563</b>	<b>\$ (320,186)</b>

<sup>1</sup> Material variances from the amended budget are as follows:

- a. City Council - partly due to \$5,000 paid to Townsend Public Affairs for advocacy efforts relating to the I-405 Improvement Project.
- b. Non-Departmental - primarily due to larger than expected workers' compensation costs, which was partially offset with insurance reimbursements.
- c. Community Development - contractual services for plan checks and inspections were higher due to the medical center improvements, which was offset with building permit revenue
- d. Police - includes \$261,281 payment to CalPERS for payoff of 2003 side-fund liability.
- e. Public Works - savings largely associated with a vacancy in the park maintenance division.

**Budget Variance Percentage by Department**

