

## **CITY OF NORCO STAFF REPORT**

TO: Honorable Mayor and Members of the City Council

FROM: Andy Okoro, City Manager

PREPARED: Gina Schuchard, Finance Officer

DATE: October 18, 2017

SUBJECT: Fiscal Year 2016-2017 Year-End Budget to Actual Report

RECOMMENDATION: Receive and file the Fiscal Year 2016-2017 Year-End Budget to Actual Report.

**SUMMARY:** During Fiscal Year 2016-2017 all key Operating Funds of the City including General Fund, Water Fund and Sewer Fund showed positive financial performance with actual revenues exceeding actual expenditures. Actual General Fund revenues exceeded budget while actual expenditures came in below budget. The combination of better revenue performance and lower expenditures in the General Fund resulted in increased fund balance above the amount previously projected. Similarly, Water Fund and Sewer Fund performed favorably on both revenues and expenditures resulting in positive addition to working capital.

For the Fiscal Year, total actual General Fund revenues of \$18,587,250 were less than the final budget projection amount of \$18,604,113 by \$16,863. Total actual expenditures of \$17,318,389 were less than final budget projection amount of \$17,787,085 by \$468,695. The net result is an increase of \$451,832 to fund balance above the estimated year-end projection of \$817,028. As a result, the General Fund balance increased by \$1,268,860 during the Fiscal Year. This brings FY 2016-2017 year-end fund balance to \$11,352,022 (Attachment 2).

Regarding the Water Fund, total actual revenues of \$11,553,383 exceeded total actual expenditures of \$8,394,210 by \$3,159,724. The Sewer Fund financial performance during the year was also positive as total revenues of \$7,244,517 exceeded total expenditures of \$5,178,948 by \$2,065,569. A summary report of all Funds is included (Attachment 1). A schedule of revenues, expenditures and fund balance for the Landscape Maintenance Districts has also been presented as additional information (Attachment 5).

**BACKGROUND/ANALYSIS:** The City's independent auditors, White, Nelson, Diehl, Evans, LLP, have completed their field-work on the City audit for the Fiscal Year ended June 30, 2017. The Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) will be submitted to

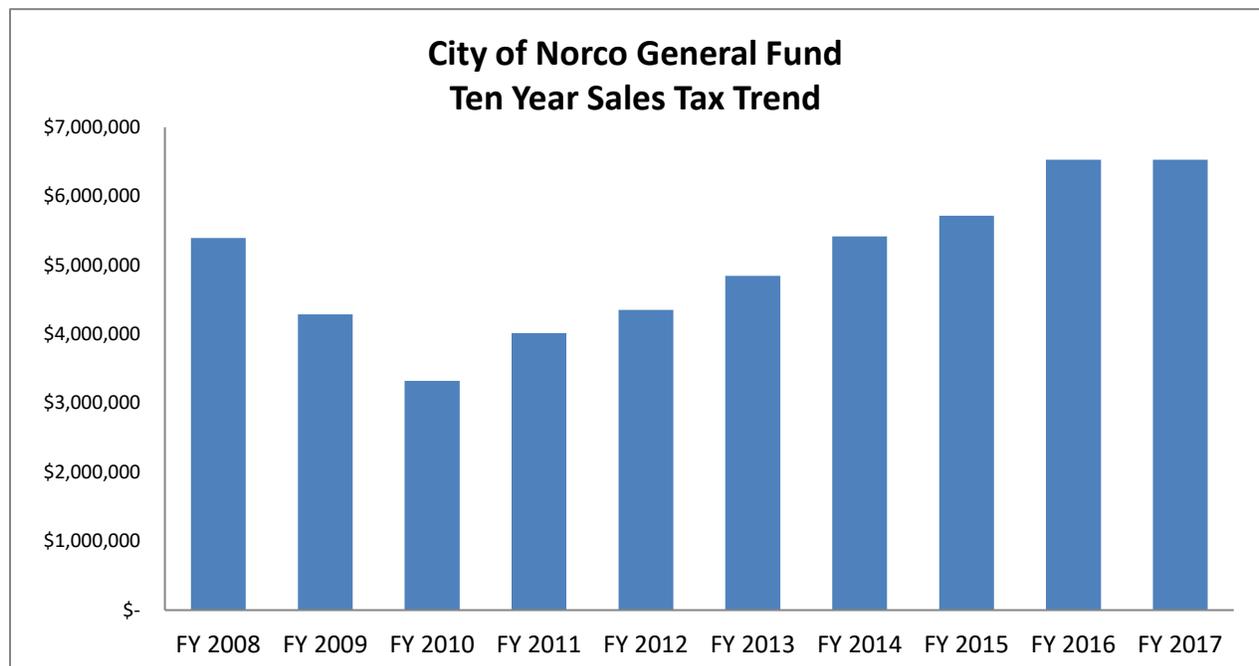
**AGENDA ITEM: 5.A.**

the Council at a later date. A presentation will be scheduled with the independent auditors to further review and discuss the CAFR with the City Council. At this time, staff is presenting this important report as information to show how the various Operating Funds performed relative to the approved budget for Fiscal Year 2016-2017.

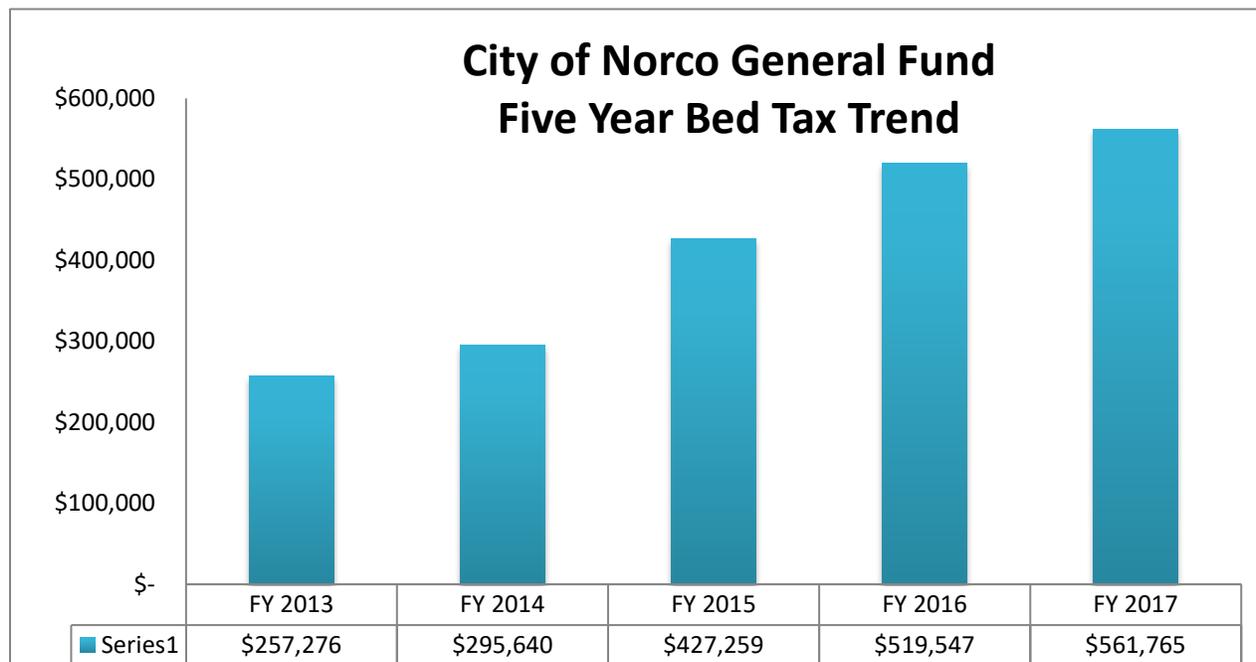
**FY 2016-2017 General Fund Revenue Performance**

Attachment 1 is a schedule showing General Fund budget to actual data for the Fiscal Year ended June 30, 2017. For the Fiscal Year, total actual revenues were lower than final year-end estimate by \$16,683 but higher than the final approved budget by \$235,682. This net favorable revenue performance was mainly from the following:

1. **Sales Tax:** Sales Tax receipts totaled \$6,528,108 or \$124,892 less than the estimated year-end amount. Staff estimates that the City actually earned \$6.7 million but actual receipts were lower due to under-advancement in the fourth quarter by the State Board of Equalization. The true-up payment was received in FY 2017-2018. This will likely lead to upward revision in FY 2017-2018 sales estimate during the mid-year budget review. City sales tax increased due to gasoline, RV, and used automobile sales. Sales tax is General Fund's most significant revenue category accounting for over 35% of total revenue. Since the end of the recession in Fiscal Year 2010, the City's sales tax receipt has steadily increased and is currently at a record high. The chart below provides a ten year trend of the City's sales tax receipt. It highlights economic development efforts to increase and diversify sales tax base. There is a direct link between City sales tax receipt and the financial health of the General Fund.



2. **Property Tax:** Property Tax receipts totaled \$1,728,161 or \$74,159 more than anticipated for year-end amount. The net increase is attributable to residual monies associated with the Successor Agency.
  
3. **Other Taxes:** Other Taxes includes Public Safety Sales Tax, Property Transfer Tax, Business Licenses and Transient Occupancy Tax (TOT). Other Taxes increased by \$17,322 over year-end estimates for a total of \$1,234,658. TOT totaled \$561,766 or \$9,766 more than anticipated for year-end. Property Transfer Tax also increased by \$7,800 as compared to year-end estimates. In recent years, the City has been aggressive with efforts to attract new hotels to the City. As a result two new hotels were built and others are in the pipeline. Even with the limited rebate the City provides to one of the new hotel operators, TOT revenues have more than doubled over the last five years as shown by the chart below.



4. **Franchise Fees:** Franchise Fees include revenue from Refuse, Electricity, Gas and Cable TV franchises. Franchise fee revenue totaled \$1,400,635 or \$4,151 more than anticipated at year-end. Overall, the trend in franchise fees, excluding refuse, has decreased due to lower electricity rates compounded with electricity rebates provided to ratepayers in 2016, lower natural gas costs and fewer cable TV subscribers.
  
5. **Fines and Penalties:** Fines and Penalties totaled \$158,811 or \$27,340 more than anticipated at year-end. The increase is attributed to increase in vehicle code fines and code enforcement citations.

6. **Community Development Fees:** Community development fees include planning, building and engineering fees. During the year, actual revenue receipts from these sources exceeded year-end projections by \$54,784. The total for Community Development fees was \$1,043,848 or \$198,590 higher than the amended budget. The increase was due to better than anticipated increase in building, planning and engineering activities.
7. **Community Services/Recreation:** These fees include programs, events and activities associated with recreation. During the year, program revenue for Wee People was \$60,164 less than the adopted budget revenue. Events at Ingalls Park contributed \$26,809 more than anticipated. Overall revenue receipts from all Community Services/Recreation sources were \$5,625 less than year-end projections.
8. **Other Revenues:** These fees include such revenues as Emergency Medical Subscriptions, Dog Licenses, Animal Shelter Fees and Reimbursements. Dog Licenses exceeded year-end estimates by \$41,881 due to the demand for multi-year licenses. Overall, Other Revenues totaled \$1,129,528 or \$85,960 less than the year-end projection.

### **General Fund Expenditures**

Total General Fund expenditures for the Fiscal Year were below the final budget estimate by \$468,695. This net savings were achieved mainly due to the budget savings of \$465,168 in CalFire contract. Savings in the Fire Department came from lower than anticipated expenditures related to salary increases for the CalFire contract. The Sheriff's budget was underspent during the fiscal year due to the delay in filling the dedicated Traffic Deputy and Community Service Officer positions. Expenditure savings were also realized in Park Maintenance, Fiscal & Support, Non-Departmental professional services and various recreation programs.

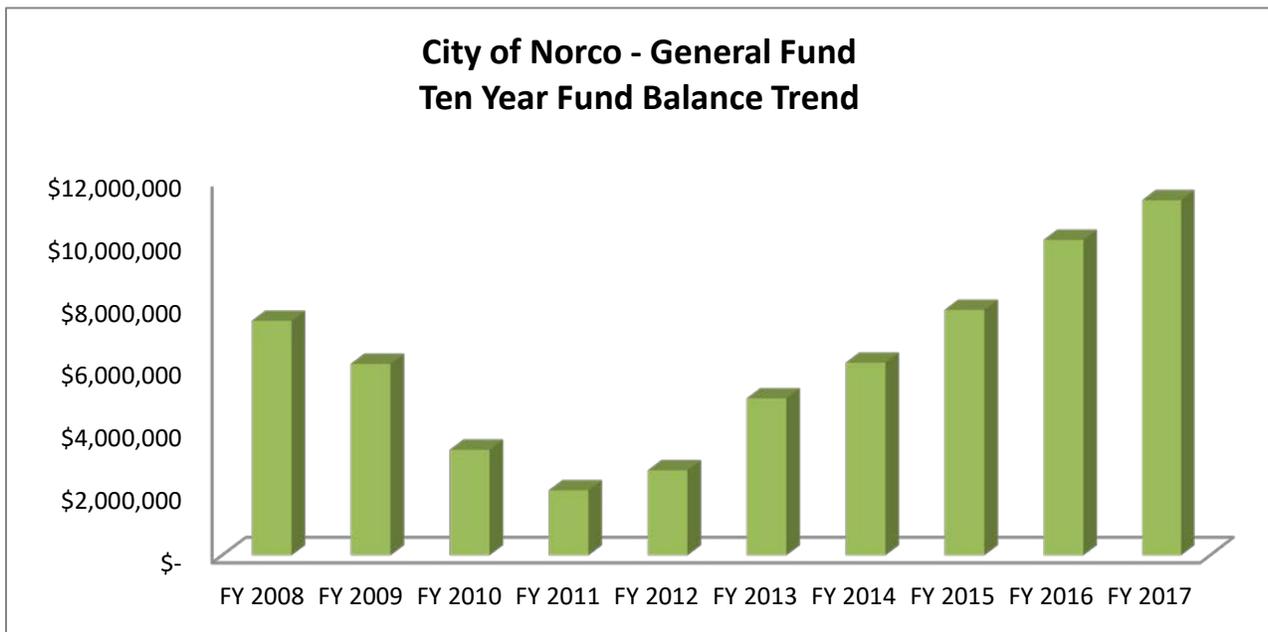
These savings were offset by expenditures that were over year-end projections in Public Buildings Maintenance Division due to unexpected improvements for HVAC repairs, plumbing, and electrical repairs. Recreation Division exceeded budget estimates due to higher than anticipated utility expenditures. Code enforcement had increased contractual services related to legal assistance.

Other departments such as the City Manager, City Clerk and Human Resources exceeded budgets primarily due to year-end accounting adjustments related to compensated leave balances.

### **General Fund (Fund Balance)**

Fund balance is the City's "rainy day funds." It provides a measure of the City's ability to mitigate future risks associated with providing important services in times of economic uncertainties. The level of acceptable fund balance depends on the City's specific

circumstances including revenue diversification, rate of anticipated increase in expenditures versus increase in revenues, and whether other sources of funds are readily available to provide essential services. To provide funding for emergencies, the City Council has adopted a policy that requires fund balance to be maintained at a minimum level equal to 25% of General Fund's budget. The chart below provides a ten year fund balance trend for the General Fund. While the City now maintains a very healthy fund balance ("rainy day funds"), it is anticipated that future revenues are not likely to offset projected increases in expenditures.



The audited fund balance at the beginning of the fiscal year was \$10,083,161 (Attachment 2). During the Fiscal Year, total revenues exceeded total expenditures by \$1,268,860 resulting in estimated ending fund balance of \$11,352,022 as of June 30, 2017.

As previously noted, City Council policy requires a minimum emergency fund balance representing 25% of total General Fund expenditures. For Fiscal Year 2017-2018, total estimated General Fund expenditures are \$20,432,569 resulting in \$5,108,142 required to be maintained as emergency fund balance. As of June 30, 2017, the estimated total fund balance is \$11,352,022 which represents 55.5% of the FY 2017-2018 estimated General Fund expenditures. A total of \$324,244 of the fund balance has been designated for deposits and donations for special projects and events.

**Other Fund Balances**

**Special Asset Revenue Fund:** The City established the Special Asset Revenue Fund in FY 2008 to accumulate revenues generated from one-time asset sales and special

revenue receipts. The Fund had achieved a maximum spendable fund balance (cash) of \$1.5 million in FY 2012. This balance dropped to a low of \$0.9 million in FY 2016 following the use of \$0.8 to purchase vacant land parcel previously owned by the Successor Agency. As of the end of FY 2016-2017, the spendable fund balance was \$1.1 million. In addition to the available spendable fund balance, the Special Asset Revenue Fund also has over \$3.9 million in long term receivables from sale of assets. The spendable balance of funds in the Special Asset Revenue Fund can be appropriated for any legal expenditure of the City by the City Council. However, City Council resolution requires a super majority approval for appropriation from the Special Asset Revenue Fund.

### **Other Operating Funds**

Attachment 1 also provides a summary of revenues and expenditures for other Operating Funds. Other Operating Funds included in this report are Water, Sewer, Gas Tax, NPDES, CDBG and Miscellaneous Grants.

### **Water Fund**

During the Fiscal Year, total actual Water Fund revenues of \$11.6 million (including \$1.1 million from sale of water and \$0.7 million transfer from Water Fund capital component) exceeded budgeted revenues of \$10.6 million by \$0.9 million due to higher than anticipated revenues generated from rate adjustments and higher consumption. Total actual Water Fund expenditures of \$8.4 million were lower than budgeted expenditures of \$9.9 million by \$1.5 million due to savings in water purchases, salaries, benefits, supplies and services. As a result of lower expenditures and higher revenues, working capital increased by \$3.1 million which eliminated the negative balance of \$0.5 million at the beginning of the Fiscal Year. However, it is to be noted that this increase came primarily from one time sale of water and transfer from Water Fund capital component. The Water Fund has working capital balance of \$2.6 million as of June 30, 2017.

As part of the rate adjustment, the City Council adopted a policy that sets a Rate Stabilization Reserve target of \$2 million and Operating Reserve target equal to three months of operating expenditures. Based on FY 2017 total expenditures, operating reserve target would be approximately \$2.1 million. Once the Rate Stabilization and Operating Reserves requirements are met, any additional working capital generated will be transferred to Water Fund capital component to provide funding for unfunded future capital projects currently estimated to be \$26 million. As of June 30, 2017 the required target of Operating and Rate Stabilization Reserves has not been met. Additional information on the Water Fund is presented as Attachment 3.

### **Sewer Fund**

For the Sewer Fund, total actual revenues of \$7.2 million exceeded budgeted revenues of \$6.4 million by \$0.8 million largely due to the implementation of increased contractual rates with California Rehabilitation Center (CRC) which was not included in the budget. Total actual expenditures of \$5.2 million were below budgeted amount of \$6.4 million by

\$1.2 million. Expenditure savings came from less than anticipated cost for sewer treatment, salaries, benefits and claims settlements. Actual debt service payment exceeded budget by \$88,024 due to more than anticipated payment on State Revolving Fund loan for the treatment plant expansion. As June 30, 2017 the Sewer Fund had working capital balance of \$5.5 million.

The City Council has also adopted a policy that requires three months of Operating Reserves which based on FY 2017 expenditures is estimated to be \$1.3 million. Any working capital above this amount will be available for transfer to Sewer Fund capital component for future capital projects. Based on working capital balance \$5.5 million and required operating reserve of \$1.3 million, the estimated amount available for transfer to the Sewer Fund Capital Project component is \$4.2 million. With this existing available balance, and additional revenues being generated from the implementation of new contract rate for CRC, staff will be determining if the sewer rate adjustments scheduled to commence in FY 2019 will be implemented. For more details regarding Sewer Fund budget to actual revenues and expenses, please refer to Attachment 4.

### ***Other Funds***

Gas Tax Fund actual revenues were lower than anticipated at \$533,940 while actual expenditures were \$676,752, still lower than the adopted budget of \$735,270. Gas Tax Funds are used for street maintenance projects. Fund balance as of June 30, 2017 is \$658,155. NPDES total revenues were \$138,114 compared to actual expenditures of \$85,814. Fund Balance as of June 30, 2017 is \$105,771.

### **Capital Project Funds**

Capital Projects Funds are used to account for financial resources and uses pertaining to the acquisition and construction of governmental infrastructure and other assets such as streets, storms drains, public buildings, trails, park improvements, fire equipment and water and sewer infrastructure. Except for the water and sewer capital projects which are funded with ongoing revenues derived from user rates, the other capital project categories have no dedicated ongoing revenue source. The table below provides summary information regarding the balances available to fund future capital projects for each category. It is to be noted that street, public facilities, parks, trails are estimated to have minimal available balance beyond Fiscal Year 2017-2018 to provide for future capital projects.

FY 2016-2017 Year-End Budget to Actual Report

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Fund Number	Fund Name	Cash As of 6/30/2017	FY 17-18		FY 18-19 Est. Available Cash
			Adopted Revenue	Other Revenue	
144	Enterprise - Water	\$ 4,219,969	\$ 996,400	\$ 4,665,000	\$ 551,369
147	Sewer Facilities Development	3,586,832	1,489,733	4,015,000	1,061,565
148	Sewer Connection Fund	395,554	2,677	25,000	373,231
129	Storm Drain Fund	159,025	4,246,493	4,255,000	150,518
140	Gen Gov't Improvement Fund	558,835	50,023	176,200	432,658
141	Park Improvement Fund	411,534	633,845	826,562	218,817
142	Fire Improvement Fund	660,252	41,379	-	701,631
143	Trail Improvements Fund	227,934	1,488	220,000	9,422
146	Public Meeting	64,656	7,076	71,842	(110)
149	Street Improvement Fund	2,896,762	1,152,605	3,855,000	194,367
152	Facility Improvement	150,098	1,021	15,000	136,119
		<b>\$ 13,331,451</b>	<b>\$ 8,622,740</b>	<b>\$ 18,124,604</b>	<b>\$ 3,829,587</b>

***Landscape Maintenance Districts (LMD)***

As information for the benefits of residents whose property are assessed to pay for the cost of maintaining Landscape Maintenance Districts, this year-end budget to actual report provides revenues and expenditures information for each District. For all Districts, actual revenues and expenditures for the Fiscal Year were reasonably within the amount in the Engineer's Estimate. Also included in the schedule is each District's beginning and ending fund balance. LMD #2 continues to reflect negative fund balance. For additional details, please see Attachment 5.

FINANCIAL IMPACT: Not Applicable

RELATIONSHIP TO STRATEGIC PLAN: The FY 2017-2018 Year-End Budget to Actual Report is consistent with Strategic Direction #3 - "Assure financial stability by identifying new revenue sources and continuing prudent financial management."

- Attachments: 1) Budget to Actual Report FY 2016-2017  
 2) Summary of General Fund Balance  
 3) Water Fund Statement of Revenues and Expenses  
 4) Sewer Fund Statement of Revenues and Expenses  
 5) Schedule of LMD Revenues and Expenses