

# CITY OF NORCO STAFF REPORT

TO: Honorable Mayor and Members of the City Council

FROM: Andy Okoro, City Manager

PREPARED BY: Gina Schuchard, Finance Officer

DATE: February 20, 2019

SUBJECT: Fiscal Year 2019 Second Quarter Budget Performance Report

RECOMMENDATION: Receive and file the Fiscal Year 2019 Second Quarter Budget Performance Report.

**SUMMARY:** One of the Department's annual goals is to timely inform the City Council on actual operating budget results relative to the annual adopted budget. This report provides information on how actual results through December 31, 2018, compared to the adopted budget. Any significant variances identified as a result of reviewing/analyzing the budget performance through December 31, 2018 have been recommended as a mid-year budget amendment. This report also provides budget to actual information on the City's five Landscape Maintenance Districts.

**BACKGROUND/ANALYSIS:** As part of revenue and expenditure reporting and monitoring program, staff has provided the City Council with quarterly budget performance reports since Fiscal Year 2004. This report provides information as of the second quarter ended December 31, 2018. As a result of timing differences, the first six months of actual recorded data may not serve as accurate prediction of what the year-end numbers are likely to be at June 30, 2019. For example, traditionally the majority of Property Taxes, Sales Taxes and Franchise Fees are received during the second half of the fiscal year. With this in mind, these numbers have been analyzed in conjunction with other historic and currently available data through the first week in February in order to identify material variances with the adopted budget.

Attachment 1 provides a summary of revenues and expenditures for each operating fund through December 31, 2018.

## **General Fund Revenues**

Including the effects of timing differences, the following variances have been identified between adopted budget and actual results through December 31, 2018. These variances are being incorporated as part of the mid-year budget amendments.

- **Property Tax:** The low percentage of property tax revenue received as of December 31, 2018, is due to the uneven distribution of property tax receipts during the fiscal year. The bulk of property tax revenues are received in the months of January and May of each year. Based on the most recent assessed value and receipt information from the County, it is anticipated that actual property tax receipts will be higher by year-end. An appropriate budget adjustment has been recommended.
- **Sales Tax:** There is usually a time lag between when sales transactions occur and the time the state receives payment from retailers and then sends payments to local governments. Due to an under advancement by the State Board of Equalization in the final quarter for FY 17-18 receipts, the true up payment has been received in FY 18-19 which has inflated FY 18-19 receipts. An appropriate budget adjustment has been recommended.
- **Motor Vehicle In-Lieu Fees (MVLFF):** In 2004, the Legislature permanently reduced the VLF tax rate and eliminated state general fund backfill to cities and counties. Instead, cities and counties now receive additional transfers of property tax revenues in lieu of VLF. Annually, half of the first installment of the replacement property tax is received during the first week of February 2019. Based on the amount of the first installment receipt, MVLFF actual receipts is expected to be higher than budget. An appropriate adjustment has been recommended for mid-year budget adjustment.
- **Other Taxes:** The other taxes category includes public safety sales tax, property transfer tax, bed tax and business license tax. Total revenue for this category is tracking slightly ahead of budget due to better than anticipated performance in Transient Occupancy Tax and Public Safety Tax. Recommended adjustments have been included in the mid-year budget amendment report.
- **Franchise Fees:** Significant amount of the revenues in this category are from electric and gas franchises fees which are received once a year. The City receives payment for electric or gas franchise fees in June. Refuse franchise revenues are received monthly while cable TV franchises are received quarterly. The mid-year budget amendment report includes an increase due to better than expected Refuse Franchise Fee revenue.
- **Fines and Penalties:** This revenue category includes vehicle code violation fines, parking citations and abandoned vehicle impound fees. Based on actual receipts through December 31, 2018, this revenue category is anticipated to be more than budgeted due to increased Parking Citations and one-time Code Enforcement Legal Recovery. An appropriate adjustment is being incorporated into the mid-year budget adjustments.

- **Community Development Fees:** Planning, building and engineering revenues are tracking ahead of budget due to an increase in engineering, planning and building activities. Appropriate adjustments are being incorporated into the mid-year budget.
- **Community Services/Recreation:** This category includes recreation activities fees, facilities rental, Wee-People Program and revenues related to special events. Although some revenue items have exceeded budget, all other revenues are anticipated to stay within budget. Appropriate adjustments are being incorporated into the mid-year budget.

### **General Fund Expenditures**

Overall General Fund expenditures are tracking to the adopted budget. As shown on Attachment 1, expenditures in the Sheriff's and Fire Departments are below budget as of December 31, 2018, because County billing for contract services usually lag behind by at least 45 days for police services and three months or more for fire services. CalFire costs are billed and paid on a quarterly basis. This year, the first payment for CalFire was paid in January 2019.

### **Water and Sewer Funds Revenues and Expenditures**

Water Fund revenues are tracking slightly behind projections and appropriate adjustments have been included in the mid-year budget adjustments. All other expenditures are tracking according to the approved expenditure budget. However, expenditures can be volatile due to purchased water costs which can change rapidly due to changes in consumption. Similarly, revenues can also change quickly due to changes in weather conditions which affect consumption. Water revenue trends tend to be at their highest in the fall months due to hotter weather while revenue trends decrease in the spring months. Although Water Fund revenues are trending at 45% with seven billable months remaining in the fiscal year, consumption trends since October have decreased as compared to last year at this time. Additionally, the City of Riverside has completed the transition of two customers to their water system. Adjustments are being incorporated into the mid-year budget for a more conservative year-end projection.

Sewer Fund revenues are trending at 44% with seven billable months remaining in the fiscal year. An adjustment will be included in the mid-year budget due to decreasing trends in water consumption, primarily from the California Rehabilitation Center, which also decreases sewer revenue.

### **Other City Funds**

This second quarter report also provides summary information on CDBG, Gas Tax, NPDES and Miscellaneous Grant Funds. NPDES expenditures are tracking to budget. The lower than anticipated revenue received through December for the NPDES Fund is due to the timing of property tax payments from the County.

Over the last few years, Gas Tax Fund has been delayed with the majority of the receipts received after the second half of the fiscal year. In late January, the City received revised gas tax revenue estimates from the State indicating that projected receipts will be less than the adopted budget due to a delay in the enacting of a legislated increase. This impacts only the Section 2103 Variable Gas Tax allocations to Cities and Counties. This revision is being included as part of the mid-year budget revisions.

### **Landscape Maintenance Districts**

Through meetings and other discussions with residents of Landscape Maintenance Districts (LMDs) in 2012, it was agreed between staff and residents that quarterly budget to actual reports on the LMDs would help residents to better understand how LMD assessment receipts are expended. Attachment 1 (starting at page 3) provides a budget to actual comparison of each district's revenues and expenditures through December 31, 2018. The quarterly budget to actual report is also intended to assist staff to better monitor and control costs to ensure expenditures are within amounts approved and levied to homeowners.

As of December 31, 2018, no revenues have been received for any of the districts. The first installment of the assessments was received during the first week of February 2018. Based on the amounts received for the first installment for each of the districts, staff believes that budgeted revenue numbers would be achieved by the end of the fiscal year. Actual expenditure amounts shown for each district represent costs that have been paid through December 31, 2018. These costs are typically lower than actual costs incurred due to the time lag between when services are provided by contractors and the time their invoices are submitted and paid. It is to be noted that District Number 2 continues to operate with insufficient revenues to cover costs. Consequently, staff is exploring potential solutions on how to balance the budget with District 2 residents. Staff will be reviewing these options with the City Council under a separate agenda item tonight.

**FISCAL IMPACT:** This report is informational. Budget changes identified as a result of the second quarter budget to actual review are being included in the mid-year budget amendment staff report.

**RELATIONSHIP TO STRATEGIC PLAN:** The Second Quarter Report is consistent with Strategic Direction #3 "Assure financial stability by identifying new revenue sources and continuing prudent financial management."

Attachment: Attachment 1 - Budget and Actual Comparative Analysis

**City of Norco**  
**General Fund Budget to Actual**  
**Second Quarter Budget Performance Ending December 31, 2018**

General Fund	Adopted Budget	Amended Budget as of 12/31	12/31/2018 Actual	Remaining Budget	%
					Achieved
<b>REVENUES</b>					
Property Taxes	\$ 1,961,378	-	\$ 475,328	\$ 1,486,050	24%
Sales Taxes	7,033,706	-	2,652,032	4,381,674	38%
Motor Vehicle License Fees	2,556,934	-	-	2,556,934	0%
Other Taxes	1,327,136	-	705,454	621,683	53%
Franchise Fees	1,574,740	-	504,422	1,070,318	32%
Intergovernmental	1,200	-	40	1,160	3%
Fines and Penalties	173,265	-	72,993	100,272	42%
Interest/Lease Income	719,236	-	429,300	289,936	60%
Community Development Fees	775,681	-	746,883	28,798	96%
Community Services/Recreation	699,715	-	325,039	374,676	46%
Other Revenues	1,150,706	-	801,471	349,235	70%
Administrative Overhead/Operating Transfers	1,506,852	-	734,198	772,654	49%
<b>Total Revenues</b>	<b>\$ 19,480,549</b>	<b>\$ -</b>	<b>7,447,160</b>	<b>\$ 12,033,389</b>	<b>38%</b>
<b>EXPENDITURES</b>					
Sheriff	\$ 6,472,622	\$ -	2,062,639	\$ 4,409,983	32%
Citizens on Patrol	20,755	-	6,999	13,756	34%
Crossing Guards	50,610	-	15,483	35,127	31%
Total Sheriff Protection	6,543,987	-	2,085,121	4,458,866	32%
Fire Suppression & EMS (CalFire)	4,478,167	-	26,580	4,451,587	1%
Norco Animal Rescue Team	1,500	-	217	1,283	14%
Total Fire	4,479,667	-	26,797	4,452,870	1%
Recreation	805,688	-	363,255	442,433	45%
Special Events	94,261	-	40,561	53,700	43%
Park Maintenance	843,677	-	327,028	516,650	39%
Public Buildings	1,024,220	-	432,850	591,370	42%
Total Parks, Bldg. & Rec. Svcs	2,767,846	-	1,163,694	1,604,152	42%
Animal Control	640,283	-	305,405	334,878	48%
Non-Departmental	2,393,821	-	1,231,899	1,161,922	51%
City Clerk	388,553	-	151,349	237,204	39%
City Manager	365,064	-	169,514	195,550	46%
Human Resources	116,873	-	52,149	64,724	45%
Economic Development	228,713	-	86,739	141,975	38%
Fiscal & Support Services	651,816	-	320,952	330,864	49%
Total Admin, Econ. Dev & Finance	1,751,019	-	780,703	970,316	45%
City Council	93,251	-	42,960	50,291	46%
City Attorney	205,000	-	91,723	113,277	45%
Total City Council & City Attorney	298,251	-	134,683	163,568	45%
Engineering	207,524	-	94,808	112,716	46%
Inspection	45,726	-	19,824	25,902	43%
Parkway Maintenance	94,796	-	26,069	68,727	28%
Total Public Works & Engineering	348,046	-	140,700	207,346	40%
Code Enforcement	146,996	-	69,315	77,681	47%
Building & Safety	436,986	-	155,509	281,477	36%
Community Development	468,515	-	188,652	279,863	40%
Total Plan., Bldg. Safety & Code	1,052,497	-	413,477	639,020	39%
Youth & Teen	310,972	-	110,551	200,421	36%
Senior Citizens	160,378	-	92,134	68,244	57%
Senior-RCTC	79,152	-	17,677	61,475	22%
Total Teens & Seniors	550,502	-	220,361.67	330,140	40%
<b>Total Expenditures</b>	<b>\$ 20,825,919</b>	<b>\$ -</b>	<b>6,502,839.81</b>	<b>\$ 14,323,079</b>	<b>31%</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ (1,345,370)</b>	<b>\$ -</b>	<b>944,320</b>	<b>\$ (2,289,690)</b>	

**City of Norco**  
**Schedule of Other Funds Revenues & Expenditures**  
**Second Quarter Budget Performance Ending December 31, 2018**

<u>Fund Description</u>	Adopted Budget	FY 18-19 Actual	% Achieved
<b><u>WATER FUND</u></b>			
Revenues	12,905,371	5,860,652	45%
Expenditures	12,149,528	4,145,187	34%
Revenues Over (Under) Expenditures	755,843	1,715,465	
<b><u>SEWER FUND</u></b>			
Revenues	7,893,980	3,477,060	44%
Expenditures	7,788,888	2,502,468	32%
Revenues Over (Under) Expenditures	105,092	974,592	
<b><u>GAS TAX</u></b>			
Revenues	694,674	186,460	27%
Expenditures	878,579	280,349	32%
Revenues Over (Under) Expenditures	(183,905)	(93,889)	
<b><u>NPDES FUND</u></b>			
Revenues	111,165	2,051	2%
Expenditures	152,735	50,399	33%
Revenues Over (Under) Expenditures	(41,570)	(48,348)	
<b><u>CDBG</u></b>			
Revenues	311,400	235,090	75%
Expenditures	311,400	168,330	54%
Revenues Over (Under) Expenditures	-	66,760	
<b><u>MISCELLANEOUS GRANTS</u></b>			
Revenues	116,000	23,769	20%
Expenditures	116,000	37,609	32%
Revenues Over (Under) Expenditures	-	(13,839)	
<b><u>SUPPLEMENTAL LAW ENFORCEMENT</u></b>			
Revenues	100,000	73,747	74%
Expenditures	100,000	73,747	74%
Revenues Over (Under) Expenditures	-	-	

**City of Norco**  
**Schedule of Landscape Maintenance District Revenues & Expenses**  
**Second Quarter Budget Performance Ending December 31, 2018**

<u>Landscape Maintenance District #1</u>	<u>FY 2019 Adopted Budget</u>	<u>Year-End Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
LMD # 1 Assessments	\$ 13,355	\$ -	\$ (13,355)
Interest Income	-	49	49
Miscellaneous	-	-	-
Total Revenues	<u>\$ 13,355</u>	<u>\$ 49</u>	<u>\$ (13,306)</u>
<b>Expenditures:</b>			
Observation	\$ 2,524	\$ 1,138	\$ 1,386
Tree Replacement	1,000	-	1,000
Water Charges	3,977	1,386	2,591
Electricity Charges	312	136	176
Telephone Charges	189	96	93
Landscape Maintenance	2,717	946	1,771
Contractual	1,400	564	836
Administrative Overhead	586	292	294
Admin Fees-Property Taxes	150	-	150
Incidentals	500	-	500
Total Expenditures	<u>\$ 13,355</u>	<u>\$ 4,558</u>	<u>\$ 8,797</u>
<b>Revenues Over (Under) Expenditures</b>	<u>\$ -</u>	<u>\$ (4,509)</u>	<u>\$ (4,509)</u>
<b>Fund Balance:</b>			
Ending Fund Balance June 30, 2018		\$ 10,266	

**City of Norco**  
**Schedule of Landscape Maintenance District Revenues & Expenses**  
**Second Quarter Budget Performance Ending December 31, 2018**

<u>Landscape Maintenance District #2</u>	<u>FY 2019 Adopted Budget</u>	<u>Year-End Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
LMD # 2 Assessments	\$ 188,963	\$ -	\$ (188,963)
Interest Income	-	(306)	(306)
Miscellaneous Revenue	-	3,366	3,366
<b>Total Revenues</b>	<b>\$ 188,963</b>	<b>\$ 3,060</b>	<b>\$ (185,904)</b>
<b>Expenditures:</b>			
Observation	\$ 12,639	\$ 5,688	\$ 6,951
Tree Replacement	7,500	-	7,500
Equestrian Trails	37,177	9,707	27,470
Water Charges	49,474	31,399	18,075
Electricity Charges	5,400	1,886	3,514
Telephone Charges	227	93	134
Landscape Maintenance	37,619	18,921	18,698
Wet Lands Area	500	-	500
Park Maintenance	8,743	-	8,743
Contractual	2,500	1,995	505
Administrative Overhead	7,942	3,970	3,972
Admin Fees-Property Taxes	242	-	242
Incidentals	3,000	3,067	(67)
Storm Sewer Lines- Construction	16,000	-	16,000
<b>Total Expenditures</b>	<b>\$ 188,963</b>	<b>\$ 76,727</b>	<b>\$ 112,236</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ (73,667)</b>	<b>\$ (73,667)</b>
<b>Fund Balance:</b>			
Ending Fund Balance June 30, 2018		\$ (47,421)	

**City of Norco**  
**Schedule of Landscape Maintenance District Revenues & Expenses**  
**Second Quarter Budget Performance Ending December 31, 2018**

<u>Landscape Maintenance District #3</u>	<u>FY 2019 Adopted Budget</u>	<u>Year-End Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
LMD # 3 Assessments	\$ 92,635	\$ -	\$ (92,635)
Interest Income	-	208	208
Miscellaneous Revenue	-	905	905
<b>Total Revenues</b>	<u>\$ 92,635</u>	<u>\$ 1,113</u>	<u>\$ (91,523)</u>
<b>Expenditures:</b>			
Observation	\$ 10,135	\$ 4,551	\$ 5,584
Equestrian Trails	5,981	905	5,077
Trail Maintenance	2,000	1,994	6
Water Charges	32,393	19,094	13,299
Electricity Charges	1,300	800	500
Telephone Charges	63	20	43
Landscape Maintenance	29,097	9,860	19,237
Contractual	2,500	1,715	785
Administrative Overhead	5,068	2,536	2,532
Admin Fees-Property Taxes	266	-	266
Incidentals	1,000	-	1,000
Operating Contingency	2,832	-	2,832
<b>Total Expenditures</b>	<u>\$ 92,635</u>	<u>\$ 41,475</u>	<u>\$ 51,161</u>
<b>Revenues Over (Under) Expenditures</b>	<u>\$ -</u>	<u>\$ (40,362)</u>	<u>\$ (40,362)</u>
<b>Fund Balance:</b>			
Ending Fund Balance June 30, 2018		\$ 46,966	

City of Norco

**Schedule of Landscape Maintenance District Revenues & Expenses**  
**Second Quarter Budget Performance Ending December 31, 2018**

---

Landscape Maintenance District #4	FY 2019 Adopted Budget	Year-End Actual	Variance
<b>Revenues:</b>			
LMD # 4 Assessments	\$ 431,020	\$ -	\$ (431,020)
Interest Income	-	1,954	1,954
Miscellaneous Revenue	-	203	203
Total Revenues	<u>\$ 431,020</u>	<u>\$ 2,157</u>	<u>\$ (428,864)</u>
<b>Expenditures:</b>			
Observation	\$ 17,767	\$ 7,964	\$ 9,803
Equestrian Trails	75,230	25,865	49,365
Tree Replacement	5,000	-	5,000
Water Charges	101,200	51,323	49,877
Electricity Charges	7,000	2,523	4,477
Telephone Charges	717	304	413
Landscape Maintenance	137,527	52,200	85,327
Natural Open Space	12,300	-	12,300
Wet Lands Area	5,000	-	5,000
Contractual	3,600	2,353	1,248
Administrative Overhead	30,724	15,364	15,360
Admin Fees-Property Taxes	401	-	401
Incidentals	2,000	-	2,000
Operating Contingency	12,554	-	12,554
Land Improvements	-	26,782	(26,782)
Storm Sewer Lines	20,000	-	20,000
Total Expenditures	<u>\$ 431,020</u>	<u>\$ 184,677</u>	<u>\$ 246,343</u>
<b>Revenues Over (Under) Expenditures</b>	<u><u>\$0</u></u>	<u><u>\$ (182,520)</u></u>	<u><u>\$ (182,520)</u></u>
<b>Fund Balance:</b>			
Ending Fund Balance June 30, 2018		\$ 311,740	

City of Norco

**Schedule of Landscape Maintenance District Revenues & Expenses**  
**Second Quarter Budget Performance Ending December 31, 2018**

---

Landscape Maintenance District #5	FY 2019 Adopted Budget	Year-End Actual	Variance
<b>Revenues:</b>			
LMD # 5 Assessments	\$ 49,909	\$ -	(49,909)
Interest Income	-	564	564
Miscellaneous Revenue	-	-	-
Total Revenues	<u>\$ 49,909</u>	<u>\$ 564</u>	<u>\$ (49,345)</u>
<b>Expenditures:</b>			
Observation	\$ 7,591	\$ 3,413	\$ 4,178
Equestrian Trails	7,584	-	7,584
Trail Maintenance	-	2,523	(2,523)
Tree Replacement	500	-	500
Water Charges	8,596	5,327	3,269
Electricity Charges	556	228	328
Telephone Charges	66	29	37
Landscape Maintenance	5,905	5,167	738
Park Maintenance	9,262	-	9,262
Contractual	2,500	1,370	1,130
Administrative Overhead	2,956	1,480	1,476
Admin Fees-Property Taxes	243	-	243
Incidentals	1,000	-	1,000
Operating Contingency	3,150	-	3,150
Total Expenditures	<u>\$ 49,909</u>	<u>\$ 19,536</u>	<u>\$ 30,373</u>
<b>Revenues Over (Under) Expenditures</b>	<u>\$ -</u>	<u>\$ (18,972)</u>	<u>\$ (18,972)</u>
<b>Fund Balance:</b>			
Ending Fund Balance June 30, 2018		\$ 112,528	