



CITY OF POMONA COUNCIL REPORT

October 16, 2017

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

By: Onyx Jones, Finance Director

Subject: Preliminary Fiscal Year 2016-17 June Year-End Report
(Unaudited - 90% complete)

OVERVIEW

Recommendation – It is recommended that the City Council receive and file the FY 2016-2017 June Unaudited Year-End Report.

Fiscal Impact – None. The enclosed Preliminary FY 2016-17 June Unaudited Year-end Report is approximately 90% complete. The year-end audit process will begin in October 2017 and the final audited report is scheduled to be brought to Council no later than February 2018.

Previous Related Action – City Council adopted the FY 2016-17 Operating Budget, Housing Authority Budget, and the Five-Year Capital Improvement Program on June 6 2016, as well as the FY 2016-17 1st Quarter General Fund Fiscal Review on November 16, 2016, the 2016-17 Mid-Year Budget Report on March 6, 2017, and approved various amendments to the Operating and Capital Improvement Program budgets throughout FY 2016-17.

EXECUTIVE SUMMARY

For the second year in a row the Finance Department is presenting Council with a preliminary year-end review of the General Fund's revenues, payroll expenses, operating costs, and maintenance costs. This FY 2016-17 Unaudited June Interim report is approximately 90% complete and is subject to change as the City's year-end audit progresses. This report includes the following information:

1. An overview of the General Fund's FY 2016-17 Unaudited Actuals to date in comparison to the FY 2016-17 Adopted Budget (See Exhibit 1).
2. A recap of the Budget Strategies that were presented in FY 2016-17 and how those strategies were implemented.

DISCUSSION

GENERAL FUND FY 2016-17 OVERVIEW

Based on the unaudited figures to date, the FY 2016-17 General Fund revenues will end at 101.8% of budget; and expenditures are on track to end at 99.2% of budget, which creates a net surplus of \$1,460,400. See Table 1.

Table 1 — Fiscal Year 2016-17 General Fund Summary

	2015-2016 ACTUALS	2016-2017 ADOPTED BUDGET	2016-2017 ACTUALS TO DATE	% ACTUALS/ BUDGET
Total Revenue	91,737,154	94,812,559	96,483,800	101.8%
Total Expense	92,146,899	95,773,175	95,023,400	99.2%
Net	(409,745)	(960,616)	1,460,400	

*Table 1 is unaudited figures ending June 30, 2017, approximately 90% complete.

Actual General Fund revenues exceeded budget by \$1.7M due mainly to unanticipated one-time revenue received in property tax revenue and permit revenue in Development Services. These items are discussed in greater detail below. There is potentially a \$750K budget savings in expenditures due mostly to conservative spending by Departments. The most significant savings was in the area of controllable expenses / contract services.

FY 2016-17 GENERAL FUND REVENUES

As adopted, the City's FY 2016-17 General Fund Revenue Budget reflects \$94.8M in anticipated revenues. To date \$96.5M has been received and no other significant sources are forthcoming. Actual revenues for Property Tax, Sales & Use Tax and Other Tax revenues exceeded budget. Utility User Tax is the only large revenue source that came in significantly below budget.

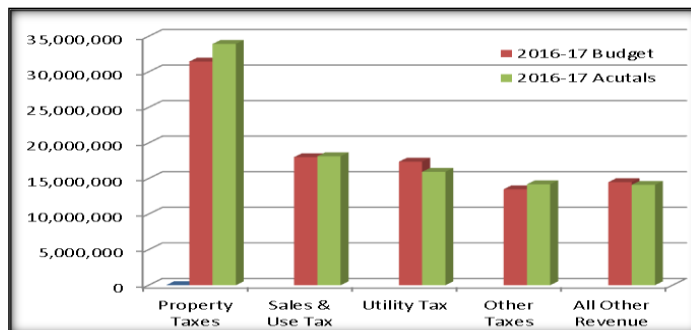


Table 2 – Fiscal Year 2016-17 General Fund Revenue Summary

	2015-2016 ACTUALS	2016-2017 ADOPTED BUDGET	2016-2017 ACTUALS TO DATE	% ACTUALS/ BUDGET
All Property Taxes	29,507,968	31,449,664	33,932,811	108%
All Sales & Use Tax	17,543,901	18,008,817	18,135,287	101%
All Utility Tax	16,419,346	17,364,670	16,022,386	92%
All Other Taxes	13,417,658	13,494,437	14,275,680	106%
All All Fines	2,190,215	2,031,192	2,192,012	108%
All Rev from Use of \$ & Prop	424,788	360,363	370,390	103%
All Intergovernmental Taxes	61,498	65,000	69,708	107%
All Other Intergovernmental	143,791	147,500	45,190	31%
All Licenses	955,356	749,400	836,019	112%
All Permits	2,581,586	1,655,300	1,989,555	120%
All Fees	3,836,960	5,230,951	4,301,845	82%
All Other Misc Revenue	988,298	495,000	548,823	111%
All Charges for Services	3,663,399	2,726,095	2,728,992	100%
All Transfers In	-	1,034,170	1,033,462	0%
All Other Financing Sources	2,390	-	1,640	0%
Total Revenue	91,737,154	94,812,559	96,483,800	102%

*Table 2 is unaudited figures ending June 30, 2017, approximately 90% complete.

Total Tax revenue makes up 85% of the General Fund's budgeted revenues and therefore merits a more detail discussion as presented below:

Property Taxes – Typically, a large portion of the property tax revenues are received during the months of November through May. In addition, due to various State actions (i.e. VLF Swap), the City receives “In Lieu” property tax twice a year in January and June. Property Tax revenue was higher than anticipated for several reasons.

There was \$2.2M that was received as residual property tax revenue from the Successor Agency. Of that \$2.2M, \$1.7M was received from property tax dollars from the former Redevelopment Areas that exceeded the required approved Recognized Obligation Payment Schedule (ROPS) expenditures. Staff does not anticipate this residual will continue in future years based on conversations that have occurred with representatives from Los Angeles County. In 1988 and in 1991 the former Redevelopment Agency (now the Successor Agency) entered into an agreement with the County of Los Angeles that resulted in a current outstanding balance of \$56M owed to the County. Based on the terms of the Agreement, the Successor Agency will be required to start making payments to the County. The repayment amount is based on growth in property tax revenues. The City’s Financial Advisors have calculated that a minimum amount due for FY 2018 would be \$318K and that amount will increase to a minimum of \$2.4M in FY 2019. City Staff and the City’s Financial Advisor, Michael Busch has reached out to the County to initiate a discussion to try and negotiate down the current outstanding balance.

The remaining balance of the \$2.2M property tax residual was a result of land being sold in the former Redevelopment Areas. As part of the dissolution of RDA, the Successor Agency has

been tasked by the State to sell all property held by the Successor Agency by the end of FY 2018. Once the property is sold the proceeds are forwarded to the Department of Finance and allocated to various government agencies in the same manner as property tax dollars. There were two parcels sold in FY 2017 and it resulted in one-time residual of \$452K for the City's General Fund.

Separate from the one-time residual revenue received, there was approximately \$315K increase in property tax revenues due to an increase in property tax values.

Sales Tax – FY 2016-17 marked the end of the State imposed Triple Flip. Cash flow has improved due to the elimination of the Triple Flip, as now revenues are received on a monthly basis. The total revenue budget from Retail Sales Tax is derived from two distinct sources; a 0.75% share of local sales (from the State and County Pools), and allocations of Public Safety Augmentation Fund (PSAF) sales tax from the County. These two sources were budgeted at \$18M. This source of revenue is typically responsive to economic circumstances. Based on the revenues received through June 30, 2017 the total sales tax revenue sources came in \$126K above budget.

Utility User Tax – The UUT receipts for natural gas and water has increased by \$935K over the prior year; however, there continues to be a decline in revenue related to Electric and Telecommunications. UUT receipts for electricity declined by \$370K and telecommunications UUT has been trending downward since FY 2015. The decrease in telecommunications is due to customers removal of land lines, more competitive cell phone plans, a reduction in overage charges, etc. The City is working to offset this declining trend through the registration with the Franchise Tax Board to receive UUT for pre-paid cell phone use in the City of Pomona. Overall, revenues received through June 30, 2017 for Utility User Tax came in \$1.4M below budget.

Other Taxes – Other Taxes exceeded budget by \$781K. Business License Revenue and Transient Occupancy Taxes exceeded budget projections by \$873K. Property Transfer Taxes finished the year on budget. The City's Franchise Fees for cable services was below budget as more customers are using alternate streaming television options, which currently cannot be taxed. Also, Refuse Haulers Franchise fees received \$318K more than budgeted.

Transfers In – This category increased by \$1M in FY 2016-17 compared to FY 2015-16 as it related to the Refinancing of Bond Series AG & AN that were successfully refunded in October 2016. The refinancing generated a one-time budget savings \$1.7M to the General Fund. The savings is shown as a one-time Transfer In of \$974K and the remaining \$1.7M budget savings is shown as a reduction in expenditures, discussed within the expenditure section.

Other Categories – Other Revenue categories were either within budget or above budget. However, there was a large decline of approximately \$1M that was to be received in the area of City Fees. This is a result of decreased Development Services Plan Check Fees as new development was lower than originally anticipated. This decrease in revenues is offset with a decrease in expenditures for Contract Services.

FY 2016-17 EXPENDITURES

As of June 30, 2017 expenditures were at 99%, which is about \$700K less than budgeted. Table 3 highlights the FY 2016-17 General Fund Budget, year-to-date expenditures, and by expenditure category.

Personnel costs are slightly over budget for all operating Departments, mainly related to year end accruals. It should also be noted there was a \$900K vacancy factor included in the budget. This level of vacancies creates lower staff levels and impacts to the level of service that can be offered by the City.

Controllable Expenses are only 85% of budget due to savings in contract services in several Departments. A large portion of the budget savings is due to decreased engineering contract services in Public Works and Contract Services in Development Services. Bids for the Specialty Projects including the Gold Line Consultants, Fee Study Consultants and Pavement Management Plan were lower than the Public Works Engineers' estimates, thus creating a cost savings. Additionally Gold Line Consulting Services were offset using Proposition "A" Funds. There was also significant savings in Development Services due to lower contract cost for building plan check services. This savings; however, is offset by a decrease in plan check revenue.

Transfers to Other Funds shows a \$1.2M savings compared to FY 2015-16. The Budget for this line item was significantly reduced due to lower debt service payments required. As mentioned in the revenue section, Bond Series AG & AN was refinanced and generated a one-time budget savings of \$1.7M. A portion of the savings was budgeted and recorded as revenue (Transfer In) and the remaining budget savings is shown here as a reduction in expenditures.

Table 3 – Fiscal Year 2016-17 General Fund Expenditure By Category

Category	2015-16 Actuals	2016-17 Budget	Actuals To Date	Actuals vs Budget
Personnel	51,007,701	53,622,938	53,991,192	101%
Controllable Expense	7,038,687	7,504,695	6,411,325	85%
Required Expense	26,513,037	27,565,926	27,500,366	100%
Allocation and Utilities	7,308,544	7,494,600	7,267,146	97%
Recovered Costs	(2,339,883)	(2,559,568)	(2,244,510)	88%
Capital	693,710	1,416,430	1,390,077	98%
Transfers to Other Fund	1,925,103	728,154	707,804	97%
Total - General Fund	92,146,899	95,773,175	95,023,400	99%

Table 3 is unaudited figures ending June 30, 2017, approximately 90% complete.

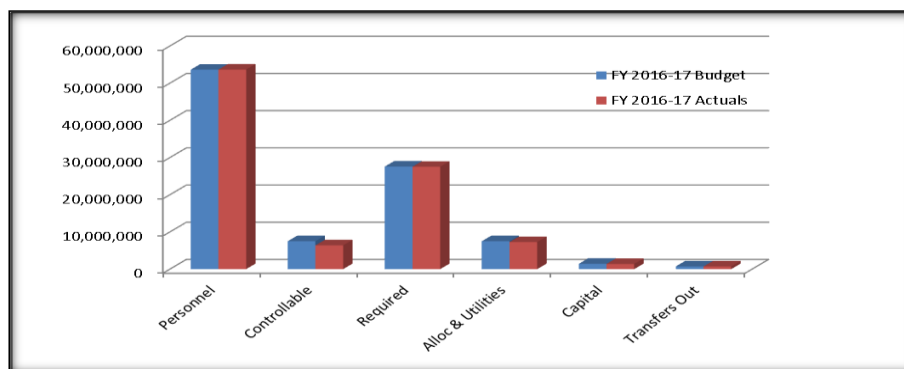


Table 4 includes a chart for expenditures by Department. Many of the Departments expended between 92% - 100% of budget. General Services reflects a figure of 158% of the Department budget spent; however this is due to the \$900K Citywide vacancy factor that was budgeted in General Services as a placeholder. The City Attorney and City Council were slightly over budget due to year end closing accruals and salary increases that were not included with the establishment of the Adopted Budget. The Fire Department budget was also slightly over budget. Fire Services are currently contracted with Los Angeles County; however, the Department Budget reflects \$27K of personnel costs as a result of retirement/termination payout charges for Fire personnel who previously worked for the City of Pomona, before Fire Services were contracted to Los Angeles County. The Water Resources Department budget in the General Fund was significantly lower than budgeted due to restructuring within the Department that has resulted in all expenses now appropriated in the Water Resources Fund.

The Police Department and Development Services Department had the largest budget savings of \$553K and \$566K respectively. Police savings was due in large part to salary savings, while Development Services, as mentioned previously, was due to lower contract costs for plan check services.

Table 4 – Fiscal Year 2016-17 General Fund Expenditure by Department

	2015-2016 ACTUALS	2016-2017 ADOPTED BUDGET	2016-2017 ACTUALS TO DATE	% ACTUALS/ BUDGET
All General Services	2,390,336	1,539,705	2,434,059	158%
All Recovered Costs	(2,323,911)	(2,559,568)	(2,232,197)	87%
All Mayor & Council	400,456	418,096	423,954	101%
All City Clerk	503,084	641,963	622,513	97%
All City Attorney	1,207,312	1,113,542	1,122,322	101%
All Human Resources	876,567	1,028,263	982,125	96%
All Finance	1,947,987	1,962,165	1,951,070	99%
All City Administration	805,047	871,291	848,119	97%
All Development Services	4,257,458	4,320,051	3,754,442	87%
All Police	48,672,908	51,598,124	51,044,779	99%
All Fire	23,445,024	24,306,716	24,333,254	100%
All Water Resources	102,077	110,504	68,657	62%
All Public Works	6,401,199	6,304,823	5,783,310	92%
All Neighborhood Services	2,549,563	3,131,658	2,967,958	95%
All Library	911,792	985,842	919,035	93%
Total Expense	92,146,899	95,773,175	95,023,400	99%

*Table 4 is unaudited figures ending June 30, 2017, approximately 90% complete.

General Fund – Fiscal Year 2016-17 Unaudited Budgetary Comparison Schedule

Attached in Exhibit 1 is the City's Budgetary Comparison Draft Schedule for the Year-Ended June 30, 2017. This report contains data that has not yet been audited, and is based on revenues received and items expended to date. This information reflects similar General Fund information presented above, however Treasury Fund expenditures are also included.

FY 2016-17 BUDGET RECAP

The FY 2016-17 budget projections for revenue and expenditures were determined using various methods such as: a review of actual (unaudited) data through and after June 30, 2016; a comparison of Fiscal Year 2015-16 year-end data; trend analysis, and information provided by various sources such as the City's Property Tax and Sales Tax consultants and Federal and State Agencies.

The FY 2016-17 Budget was adopted on June 6, 2016. The Adopted Budget for FY 2016-17 started the fiscal year with General Fund revenue totaling \$93.5M and expenditures budgeted at \$95.4M, which resulted in a net deficit of \$1.8M to the General Fund. Additional budget amendments were approved by the City Council between July and December 2016, and the total adjusted budget deficit after these amendments totaled \$2.6M.

At that time, Council gave the directive for staff to work on developing budget strategies that would mitigate the deficit. The City Manager, Finance Department, and Citywide Department Heads all worked to develop ways to decrease cost and improve revenues. The strategies developed included Bond Refinancing of Debt Service in the General Fund, which created one-time savings of \$1.7M, Departmental Budget amendments created a savings of \$400K (see [Exhibit 2](#) for details) and adjustments to paramedic pass through revenue contributed savings of \$108K. In total, there was a combined total savings of \$2.2M.

Additionally, there were several significant one-time revenues received that also helped eliminate the budget deficit in the General Fund. As previously discussed, there was \$2.2M in unanticipated one-time residual property tax revenue received from the Successor Agency. There was also an additional \$654K in one-time Host Fee Revenue for the Transfers Station. This revenue was from FY 2015-16; however, because it was not received timely it had to be recorded in FY 2016-17. Finally, there was one time Sales Tax revenue from Alta Gas for \$267K. Table 5 is a summary of significant one-time revenues that were received in FY 2016-17. It is important to note that without these revenues the General Fund would have ended in a deficit. Also, according to the City's Budget Guiding Principles, approved annually by Council, all one time resources shall not be used for current or new ongoing operating expenses. Consideration should first be made to restore the Fund Balance per the Fund Balance Policy requirements and then to be used for one-time expenses only.

ONE-TIME REVENUE SOURCES	AMOUNT
Bond Refinancing	1,724,140
Department Budget Solutions	400,000
Paramedic Pass Thru Increase	108,193
Host Fee Revenue/Transfer Station	654,352
Sales Tax Increase for Alta Gas	266,867
Residual Property Tax Revenue from Successor Agency	2,168,234
	5,321,786

Table 5

FUND BALANCE

FY 2016-17 will end with an estimated \$1.46M increase to Fund Balance. This will allow the City to meet its minimum 17% fund balance requirement and it provides monthly cash flow during the first six months of the fiscal year. Fund balance is projected to be \$18,299,750 at the end of FY 2016-17. The actual cash balance for FY 2016-17 is \$13,160,891.

CONCLUSION

As stated in the Executive Summary, the purpose of this report is to give the City Council a financial update for FY 2016-17. Based on this information, staff is recommending that the City Council receive and file the June Unaudited Year-End report. The final audited financial report will be presented to Council no later than February 2018.

Finally, in November, Finance Staff is scheduled to provide Council with a FY 2017-18 first quarter report (as of September 30, 2017) for expenditures and revenues and will recommend any necessary budget amendments at that time.

Attachments:

1. Exhibit 1 – General Fund Budgetary Comparison Schedule
2. Exhibit 2 – 2016-17 Department Budget Reduction Recap