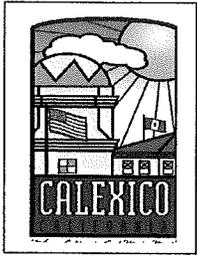


**AGENDA  
ITEM**

**15**



# AGENDA STAFF REPORT

**DATE:** March 15, 2017

**TO:** Mayor and City Council

**APPROVED BY:** Armando G Villa, City Manager

**PREPARED BY:** Eduardo Gutierrez, Interim Finance Director

**SUBJECT:** 2015-16 General Fund Unaudited Financial Results  
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**Recommendation:**

It is recommended that the City Council receive a briefing on the 2015-16 unaudited General Fund financial results. This information will update the City Council on the City’s financial condition and the availability of funds to finance City operations.

**Background:**

The Finance Department is preparing for the annual external audit of its 2015-16 financial statements. At this time, the pre-audit draft of the General Fund is ready for discussion with the City Council. This pre-audit information is brought forward in advance of the audit to update the City Council on the General Funds’ fragile financial condition. This information provides context for ongoing budget policy decisions that come before the City Council.

**Discussion & Analysis:**

*Net Results (unaudited)*

The City’s General Fund has accumulated a \$3.7 million deficit during fiscal year 2015-16. This approximates the \$3.5 million deficit anticipated at the time of the two year 2015-17 budget adoption in June 2016. Information about key revenues and expenditures by department are included in attachments to this report. Highlights:

- The General Fund started the year with a nominal fund balance deficit of \$114,000.
- Combined 2015-16 General Fund and Measure H Revenues reached \$16.6 million.
- Combined 2015-16 General Fund and Measure H Expenditures totaled \$20.2 million, which overspent revenues by \$3.6 million.
- The Combined General Fund and Measure H ending fund deficit balance at June 2016 is \$3.7 million.

<p><b>AGENDA ITEM</b></p> <p><b>15</b></p>
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### *Lapses in Fiscal Control*

A number of major fiscal control issues created the conditions in which led to the 2015-16 operating loss and current General Fund deficit.

- A proposed 2015-16 budget presented to City Council at the beginning of the fiscal year double counted the Measure H sales tax revenue, repeating a condition from 2014-15 that contributed to the City exhausting its General Fund reserves at June 2015. This caused to departments to proceed in 2015-16 with false assurance that their expenditures had supporting revenues. The 2015-16 proposed budget was not adopted and a budget was not loaded into the general ledger software to facilitate budget monitoring.
- The City lacked current financial records and audits to measure its financial position. The June 2014 audit was published a year late in July 2015. Revenue and expenditure transactions were not being recorded on a timely basis. Bank reconciliations were not prepared. Information about the City's depleted General Fund financial position was not apparent until late in 2015, half way through the 2015-16 fiscal year.
- A General Ledger software conversion was stalled and lacked planning for a full chart of accounts to meet City department budget monitoring requirements. For a 12 month period, from February 2015 until February 2016, financial transactions were split between two different general ledgers, comingled between fiscal years, and consolidated into summary accounts. Consolidated, detailed financial status reports were not available to monitor the City's financial position.
- The City Manager and Finance Director both left the City near the beginning of the 2015-16 fiscal year. Virtually all finance department staff positions turned over within a few months.

While not yet current with its financial reporting, the City has demonstrated significant progress in restoring financial controls. Budgets for 2015-16 and 2016-17 have been adopted. The General Ledger conversion is complete. Bank reconciliations are close to current. A six month 2016-17 midyear expenditure budget monitoring report has been presented to City Council. Systems and reports continue to be improved to strengthen the City's analysis and monitoring of its financial condition to prevent a reoccurrence of the devastating 2015-16 \$3.6 million General Fund operating deficit.

### *2016-17 Budget Takes Steps to Rebalance Going Forward*

The adopted 2016-17 budget implements significant steps to reduce operating costs and to rebalance the General Fund budget. Operating expenditures have been budgeted to drop by \$3 million from 2015-16 to 2016-17. Most employee contracts have been renegotiated. These reductions represent very difficult service and employee cost reductions as the City readjusts its services to fit within available revenues.

**Fiscal Impact:**

At June 30, 2016, the (unaudited) General Fund Balance is a deficit \$3.7 million.

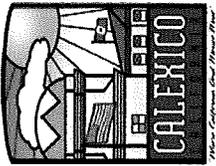
To finance this deficit, City Council has authorized a long-term financing lease from the Wastewater Fund. The purpose of this loan is to provide the City with a work-out period to rebalance its operating budget; build a long-term financial strategy; and rebuild contingency reserves to insure future stability for the City.

**Coordinated With:**

All General Fund Departments have contributed information on their program revenues, grants, and expenditures to assist the Finance Department with the year-end close of its 2015-16 General Ledger.

**Attachments:**

1. 2015-16 General Fund Unaudited Results – Fund Balance Summary.
2. 2015-16 General Fund Unaudited Results – Revenue Budget vs. Actual.
3. 2015-16 General Fund Unaudited Results – Expenditures Budget vs. Actual.



Combined General Fund and Measure H  
Unaudited Results at 3-9-17

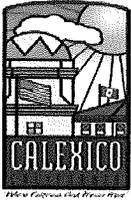
	Budget		Actual (Unaudited)		Variance
	General Fund	Measure H	General Fund	Measure H	
<b>Revenues</b>	\$ 14,490,115	\$ 2,700,000	\$ 14,079,024	2,533,395	\$ (577,696)
<b>Expenditures</b>					
Salaries and Benefits					
Full cost	(14,582,104)		(14,523,532)		
Measure H Salary Reimbursement	1,250,000	(1,250,000)	1,212,840	(1,212,840)	
Public Safety Grant Reimbursements	350,000	-	457,343		
Subtotal, Salaries and Benefits	(12,982,104)	(1,250,000)	(12,853,349)	(1,212,840)	(14,066,188)
Operations					
Services and Supplies	(5,751,150)	(345,000)	(5,614,094)	(346,532)	
Measure H Bond Payment		(990,000)		(974,023)	
Indirect Cost Allocation	723,106	-	736,906		
Draw Measure H Operating Funds	115,000	(115,000)			
Subtotal, Operations	(4,913,043)	(1,450,000)	(4,877,187)	(1,320,555)	(6,197,743)
<b>Total Expenditures</b>	(17,895,147)	(2,700,000)	(17,730,536)	(2,533,395)	(20,263,931)
<b>Net Annual Results</b>					
Beginning Fund Balance					
Ending Fund Balance	52,857		(114,972)	-	(114,972)
Interfund loan/Wastewater Fund	(3,352,175)	-	(3,766,484)	(0)	(3,766,484)
Ending Working Capital	3,500,000		3,500,000		
% Annual Revenues	\$ 147,825	\$ -	\$ (266,484)	\$ (0)	\$ (266,484)
	0.8%	0.0%	-1.5%	0.0%	-1.3%
					331,216
					(246,480)



**General Fund  
REVENUES  
June 30, 2016 Results  
Unaudited 3-9-17**

	2013-14	2014-15	2015-16			2016-17	Notes
	Actual	Actual	Budget	Unaudited	Variance	Budget	
<b>General Revenues</b>							
<b>Property Tax</b>							
PROPERTY TAX	4,014,458	\$ 4,225,573	\$ 4,701,000			\$ 4,892,000	
RESIDUAL TAX INCREMENT	1,252,060	382,134	495,000			500,000	
	5,266,518	4,607,708	5,196,000	5,169,429	(26,571)	5,392,000	
<b>Sales Tax</b>							
SALES & USE TAX	4,143,249	4,599,187	4,635,000				
Triple Flip Unwind		-	245,000				
	4,143,249	4,599,187	4,880,000				
MEASURE H TAX	2,523,008	-					
	6,666,258	4,599,187	4,880,000	4,516,742	(363,258)	4,400,000	Risk
<b>Business License</b>							
BUS LIC FEES	691,775	757,358	460,000			760,000	Fee Increase
BL LATE FEES	16,047	31,617	11,000			11,000	
	707,822	788,975	471,000	480,892	9,892	771,000	
<b>Franchise Fees</b>							
PGE/Cable/Other	325,616	179,998	367,000	324,828		367,000	
Solid Waste	573,197	444,954	600,000	432,146		600,000	Risk
Reclassifications		133,568					
	898,813	758,519	967,000	756,974	(210,026)	967,000	
<b>Other Taxes</b>							
TRANSIENT TAX	140,021	191,445	273,000	190,341		273,000	30% IVECA
RL PROP TRNS TX	26,769	33,404	29,000	44,528		29,000	
HSG ATH IN LIEU	59,403	4,884	62,000	61,649		62,000	
	226,194	229,733	364,000	296,518	(67,482)	364,000	
<b>Money and Property</b>							
INVEST EARNINGS	49,781	3,807	5,000	(9,569)		5,000	
RENTS AND CONCESSIONS	214,227	250,303	220,000	218,239		220,000	
SALE OF ASSETS		65,000	-	-		-	
	264,008	319,110	225,000	208,670	(16,330)	225,000	
<b>Other Miscellaneous Revenue</b>							
VEHICLE LIC FEE	17,179	16,623	16,000	-		16,000	
SB90 ST.MANDATE	671	124,365	50,000	49,801		-	
CONTRIBUTIONS/DONATIONS		1,168		3,202			
MISC INCOME	200,153	5,723	1,200	955		1,200	
	218,003	147,879	67,200	53,958	(13,242)	17,200	
<b>Subtotal, General Revenues</b>	<b>14,247,616</b>	<b>11,451,111</b>	<b>12,170,200</b>	<b>11,483,182</b>	<b>(687,018)</b>	<b>12,136,200</b>	
<b>Program Revenues</b>							
<b>Police</b>							
AB 109	-	-	10,000	10,000		10,000	
VEHICLE CODE FINES AND PARKING CITATIONS	254,430	346,818	335,000	304,410		335,000	
ALARM PERMITS	1,850	1,850	2,000	2,000		2,000	
SRO PROGRAM	-	216,576	-	-		-	
SPECIAL SERVICE	36,862	44,102	10,000	28,701		10,000	
TOWING FEES	41,753	37,431	40,000	40,168		40,000	
LIVSCAN	39,808	37,344	30,000	32,775		30,000	
MISC INCOME	9,805	799	36,000	35,699		36,000	

	2013-14	2014-15	2015-16			2016-17	Notes
	Actual	Actual	Budget	Unaudited	Variance	Budget	
<b><u>General Fund Revenues, Continued</u></b>							
PRKG MTRS/LOTS	341,543	351,541	230,000	233,035		280,000	
TRAFFIC CONTROL GRANT	-	-	-	-		150,000	New Grant
ANIMAL LICENSES	5,665	4,537	5,000	4,828		5,000	
ANIMAL CONTROL	9,517	10,433	10,000	8,242		10,300	
	<u>741,233</u>	<u>1,051,432</u>	<u>708,000</u>	<u>699,858</u>	(8,142)	<u>908,300</u>	
<b><u>Fire</u></b>							
AMBULANCE FEES	580,671	507,154	500,000	489,481		500,000	
AMBULANCE FEES -One time catch up				120,377			
FIRE PREVENTION	360,289	316,420	203,000	216,843		303,000	Fee Increase
FIRE LATE AND OTHER FEES	3,300	9,511	7,000	9,147		7,000	
	<u>944,260</u>	<u>833,085</u>	<u>710,000</u>	<u>835,848</u>	125,848	<u>810,000</u>	
<b><u>Engineering and Development Services</u></b>							
BUILDING PRMTS	386,072	186,257	210,000	219,134		210,000	
MECHANICAL PRMT	80,480	43,565	32,000	35,001		32,000	
PLUMBING PRMTS	46,312	24,344	23,000	15,828		23,000	
ELEC PERMITS	90,630	45,134	110,000	108,230		110,000	
OTHER CONSTRUCTION PERMITS	3,817	5,997	2,000	2,259		2,000	
ENCROACH PERMIT	22,500	55,955	33,000	34,635		33,000	
PLAN CHECK FEES	150,773	280,053	140,000	148,816		140,000	
PLANNING ADMIN	605		8,690	7,377		90,000	
ZONING FEES	147,613		-	-		-	
ENGINEERING FEES	15,154	63,873	15,000	10,796		15,000	
SALE OF MAPS	53	10	165	165		200	
CODE ENFORCEMENT	9,888	22,280	20,000	14,890		25,000	
	<u>953,896</u>	<u>727,468</u>	<u>593,855</u>	<u>597,131</u>	3,276	<u>680,200</u>	
<b><u>Public Works</u></b>							
MAINT STATE HWY	31,811	42,463	42,000	53,018		42,465	
OTHER REVENUES	1,086		60	-		-	
PARK EVENTS	2,330	2,297	3,000	-		3,000	
	<u>35,227</u>	<u>44,760</u>	<u>45,060</u>	<u>53,018</u>	7,958	<u>45,465</u>	
<b><u>Parks, Recreation, and Library</u></b>							
Recreation program fees	43,841	44,376	36,000	35,773		36,000	
Library fines and penalties	6,649	9,451	5,000	4,878		5,000	
Community Center activities	29,890	34,680	30,000	28,870		30,000	
Parks activities and events	-	11,740	10,000	1,837		10,000	
Leases	12,000	12,000	12,000	12,600		12,000	
	<u>92,380</u>	<u>112,247</u>	<u>93,000</u>	<u>83,958</u>	(9,042)	<u>93,000</u>	
<b><u>Administration/Other</u></b>							
Successor Agency Admin Fee	-	219,767	170,000	164,897		220,000	Risk
<b>Subtotal, Program Revenues</b>	<u><b>2,766,995</b></u>	<u><b>2,988,757</b></u>	<u><b>2,319,915</b></u>	<u><b>2,434,710</b></u>	<u><b>114,795</b></u>	<u><b>2,756,965</b></u>	
<b>Total, External Sources</b>	<u><b>17,014,611</b></u>	<u><b>14,439,868</b></u>	<u><b>14,490,115</b></u>	<u><b>13,917,892</b></u>	<u><b>(572,223)</b></u>	<u><b>14,893,165</b></u>	
Memo - Without Measure H	<b>14,491,603</b>	<b>14,439,868</b>	<b>14,490,115</b>	<b>13,917,892</b>	<b>(572,223)</b>	<b>14,893,165</b>	
<b><u>Interfund Transfers</u></b>							
Measure H	920,453	1,965,574	-	-	-	-	
Other Transfers	758,868	-	-	161,133	161,133	-	
	<u>1,679,321</u>	<u>1,965,574</u>	<u>-</u>	<u>161,133</u>	<u>161,133</u>	<u>-</u>	
<b>Total General Fund Revenues</b>	<u><b>18,693,932</b></u>	<u><b>16,405,443</b></u>	<u><b>14,490,115</b></u>	<u><b>14,079,024</b></u>	<u><b>(411,091)</b></u>	<u><b>14,893,165</b></u>	
Memo - Baseline Revenues Without Measure H and one time transfers	<u>\$ 14,491,603</u>	<u>\$ 14,439,868</u>	<u>\$ 14,490,115</u>	<u>\$ 13,917,892</u>	<u>\$ (572,223)</u>	<u>\$ 14,893,165</u>	
		(0)					



General Fund  
**EXPENDITURES**  
 June 30, 2016 Results  
 Unaudited 3-9-17

	2014-15		2015-16		2016-17	Notes
	Actual	Budget	Unaudited	Variance	Budget	
<b>Police</b>						
Salaries and Benefits	\$ 6,562,149	\$ 5,676,064	\$ 5,657,349	\$ 18,715	4,456,712	
Salary Reimbursement - Measure H	(850,000)	(850,000)	(812,840)	(37,160)	(850,000)	
Salary Reimbursement - Grant Funds	(524,292)	(300,000)	(377,600)	77,600	(300,000)	
Administration/Office Costs	76,919	72,348	72,926	(578)	74,518	
Materials/Supplies	247,151	237,900	171,728	66,172	218,922	
Contracts/Professional Services	977,108	656,480	887,824	(231,344)	653,374	
General Liability Insurance	512,080	455,674	373,092	82,582	147,541	
Repairs/Maintenance	122,214	127,000	94,404	32,596	269,810	
Capital Outlay	101,871	105,000	60,394	44,606	52,065	
	<u>7,225,200</u>	<u>6,180,466</u>	<u>6,127,278</u>	<u>53,189</u>	<u>4,722,942</u>	
<b>Parking</b>						
Salaries and Benefits	169,028	197,852	195,360	2,492	224,495	
Administration/Office Costs	12,675	4,200	9,060	(4,860)	4,326	
Materials/Supplies	27,177	26,800	22,433	4,368	26,282	
Contracts/Professional Services	230,740	194,690	199,107	(4,417)	200,368	
General Liability Insurance	15,031	25,793	3,398	22,395	11,963	
Repairs/Maintenance	16,698	7,000	6,321	679	6,695	
	<u>471,349</u>	<u>456,335</u>	<u>435,679</u>	<u>20,656</u>	<u>474,129</u>	
<b>Animal Control</b>						
Salaries and Benefits	134,050	159,511	156,900	2,611	140,837	
Administration/Office Costs	-	1,200	322	878	1,236	
Materials/Supplies	8,391	12,500	7,457	5,043	9,875	
Contracts/Professional Services	14,713	7,310	9,905	(2,595)	7,530	
General Liability Insurance	12,433	17,195	2,265	14,930	7,975	
Repairs/Maintenance	11,560	4,300	1,554	2,746	4,429	
	<u>181,146</u>	<u>202,017</u>	<u>178,404</u>	<u>23,613</u>	<u>171,882</u>	
<b>Fire</b>						
Salaries and Benefits	3,814,062	4,159,837	3,950,012	209,825	3,161,237	Mutual Aid Reimb
Measure H Reimbursements	(400,000)	(400,000)	(400,000)	-	(400,000)	
Grant Reimbursements	(287,058)	(50,000)	(79,743)	29,743	(50,000)	
Administration/Office Costs	11,057	16,800	22,904	(6,104)	26,680	
Materials/Supplies	207,052	205,263	175,193	30,070	220,650	
Contracts/Professional Services	117,116	104,965	133,998	(29,033)	110,662	
General Liability Insurance	302,433	283,722	203,784	79,938	111,652	
Repairs/Maintenance	111,628	49,650	60,585	(10,935)	94,300	
Capital Outlay	61,519	53,881	53,348	533	224,000	
	<u>3,937,807</u>	<u>4,424,118</u>	<u>4,120,080</u>	<u>304,038</u>	<u>3,499,181</u>	
<b>Community Development</b>						
Salaries and Benefits	702,580	777,984	770,538	7,446	751,574	
Administration/Office Costs	54,202	14,850	25,852	(11,002)	19,384	
Materials/Supplies	94,637	25,720	28,906	(3,186)	34,953	
Contracts/Professional Services	141,894	17,750	97,299	(79,549)	102,663	Temporary Staff
General Liability Insurance	65,998	34,390	11,551	22,839	31,901	
Repairs/Maintenance	13,825	4,400	5,666	(1,266)	8,300	
Capital Outlay	1,029	15,000	9,546	5,454	6,000	
	<u>1,074,164</u>	<u>890,094</u>	<u>949,357</u>	<u>(59,263)</u>	<u>954,775</u>	
<b>Public Works</b>						
Salaries and Benefits	906,611	861,439	853,880	7,559	640,390	
Administration/Office Costs	9,954	5,730	30,730	(25,000)	8,750	
Materials/Supplies	219,004	82,574	114,505	(31,932)	144,725	
Contracts/Professional Services	373,502	54,450	159,651	(105,201)	247,150	Temporary Staff

	2014-15		2015-16		2016-17	Notes
	Actual	Budget	Unaudited	Variance	Budget	
<b><u>General Fund Expenditures, Continued</u></b>						
General Liability Insurance	84,399	96,293	60,036	36,258	50,642	
Repairs/Maintenance	170,452	43,025	56,598	(13,573)	93,000	
Capital Outlay	180,999	48,000	-	48,000	8,000	
	<u>1,944,920</u>	<u>1,191,511</u>	<u>1,275,401</u>	<u>(83,890)</u>	<u>1,192,657</u>	
<b>Community Services</b>						
Salaries and Benefits	767,143	844,745	837,712	7,034	780,999	
Administration/Office Costs	14,725	25,340	19,603	5,737	29,091	
Materials/Supplies	206,889	185,400	174,945	10,455	149,279	
Contracts/Professional Services	145,374	333,800	316,745	17,055	231,700	
General Liability Insurance	70,821	85,976	14,373	71,603	39,876	
Repairs/Maintenance	76,047	13,000	16,399	(3,399)	12,450	
Capital Outlay	39,099	1,000	23,239	(22,239)	1,500	
	<u>1,320,099</u>	<u>1,489,262</u>	<u>1,403,015</u>	<u>86,246</u>	<u>1,244,895</u>	
<b>Housing</b>						
Salaries and Benefits	-	-	232,156	(232,156)	443,649	Grant Administration
	-	-	232,156	(232,156)	443,649	
<b>Administration and Finance</b>						
Salaries and Benefits	1,868,094	1,677,988	1,661,788	16,200	1,385,046	
Administration/Office Costs	102,264	54,900	137,257	(82,357)	97,320	Bank Fees
Materials/Supplies	148,130	46,340	52,357	(6,017)	57,865	
Contracts/Professional Services	595,812	983,810	965,601	18,209	931,318	
General Liability Insurance	172,812	-	-	-	-	
Repairs/Maintenance	5,279	11,650	11,793	(143)	12,300	
Capital Outlay	10,636	-	-	-	-	
Transfers/Cost Allocation	(598,119)	(510,290)	(524,090)	13,800	(457,639)	
	<u>2,304,910</u>	<u>2,264,398</u>	<u>2,304,707</u>	<u>(40,309)</u>	<u>2,026,210</u>	
<b>Non-Department</b>						
Salaries and Benefits	(156,636)	226,682	207,837	18,846	(574,772)	16-17: Vacancies
Administration/Office Costs	116,605	12,500	53,171	(40,671)	-	
Materials/Supplies	95,394	11,900	13,128	(1,228)	1,725	
Contracts/Professional Services	407,125	125,480	119,826	5,654	137,655	
General Liability Insurance	-	746,450	520,269	226,182	304,697	
Repairs/Maintenance	21,600	1,750	3,046	(1,296)	1,750	
Capital Outlay	11,946	-	-	-	-	
Debt Service - 2015-16 Interfund Loan	-	-	-	-	778,300	
Transfers to other funds	105,141	-	-	-	-	
Transfers/Cost Allocation	(84,860)	(212,817)	(212,817)	-	(200,689)	
Transfers/Measure H Reimbursement	-	(115,000)	-	(115,000)	(340,000)	
	<u>516,314</u>	<u>796,946</u>	<u>704,460</u>	<u>92,486</u>	<u>108,666</u>	
<b>Total, General Fund</b>						
<b><u>Salaries and Benefits</u></b>						
Full Cost	14,767,082	14,582,104	14,523,532	58,572	11,410,169	
Salary Reimbursement - Measure H	(1,250,000)	(1,250,000)	(1,212,840)	(37,160)	(1,250,000)	
Salary Reimbursement - Grant Fund	(811,350)	(350,000)	(457,343)	107,343	(350,000)	
	<u>12,705,731</u>	<u>12,982,104</u>	<u>12,853,349</u>	<u>128,755</u>	<u>9,810,169</u>	
<b><u>Operating Costs</u></b>						
Administration/Office Costs	398,402	207,868	371,825	(163,957)	261,305	
Materials/Supplies	1,253,825	834,397	760,653	73,744	864,276	
Contracts/Professional Services	3,003,383	2,478,735	2,889,956	(411,221)	2,622,420	
General Liability Insurance	1,236,005	1,745,494	1,188,767	556,727	706,247	
Repairs/Maintenance	549,303	261,775	256,366	5,409	503,034	
Capital Outlay	407,100	222,881	146,527	76,354	291,565	
Transfers to other funds	105,141	-	-	-	-	
	<u>6,953,158</u>	<u>5,751,150</u>	<u>5,614,094</u>	<u>137,056</u>	<u>5,248,847</u>	
Debt Service/Wastewater Loan	-	-	-	-	778,300	
Transfers/Cost Allocation	(682,979)	(723,106)	(736,906)	13,800	(658,328)	
Transfers/Measure H Reimbursement	-	(115,000)	-	(115,000)	(340,000)	
	<u>\$ 18,975,911</u>	<u>\$ 17,895,147</u>	<u>\$ 17,730,536</u>	<u>\$ 164,611</u>	<u>\$ 14,838,988</u>	