



Legislation Text

File #: 19-0298, **Version:** 1

Recommendation to receive and file the Fiscal Year 2019 First Budget Performance Report.
(Citywide)

This report includes information on the City's Fiscal Year 2019 (FY 19) budget performance through January 31, 2019, for all funds.

Summary

As of January 31, 2019, no significant issues have been identified within any City funds that have not been previously reported. For the General Fund, while there are some revenues that are underperforming, there appear to be more revenues with a positive outlook to mitigate some revenue shortfall. General expenditure spending is trending within budgeted appropriation but staff is also monitoring a potential need for some unbudgeted one-time costs in FY 19. It is too early in the year to project whether there may be a net surplus at year-end, but staff will continue to monitor and evaluate revenues and expenses as more information becomes available.

General Fund

On September 4, 2018, the City Council adopted a structurally balanced FY 19 budget. Currently, the General Fund revenues are showing that several key revenues streams are projecting to come in over budget, which is helping to mitigate some revenue streams that are underperforming. Positive revenue trends include the following:

- The price of oil is budgeted at \$55 per barrel in FY 19. Year-to-date, the average price per barrel has been \$63 but has experienced large swings from \$79 in early October to a low of \$48 in December. If prices remain steady and do not fall again, additional revenues can be anticipated at year-end. This will be closely monitored, however, as there continues to be volatility in the market and other factors impacting oil revenues such as production levels, exploration, and production costs.
- Sales Tax (non-Measure A) is also expected to do better than budgeted, but not to the level of FY 18 actuals, which had significantly exceeded budget due to one-time use tax revenue from construction projects and a one-time benefit derived from the State changing its allocation schedule resulting in an extra remittance in FY 18 that is not anticipated to continue.

- A similar pattern is anticipated for Measure A revenue as well. It is important to note that FY 18 was the first full year of Measure A revenues. A short collection history along with the unique and non-repeatable receipt patterns in FY 18 from a new State tax system that did not function well, makes it difficult to project Measure A. Staff will continue to closely monitor trends in FY 19.
- A potential ongoing new revenue source for the City is the Ground Emergency Medical Transport Quality Assurance Fee (QAF) program authorized by SB 523. Under this program, the California Department of Health Care Services (DHCS) will impose a quality assurance fee on ambulance revenue received by each emergency medical transport provider. In return, DHCS will increase reimbursements for ambulance transports provided for Medi-Cal patients. The revenue anticipated for the City, net of the fees, is currently estimated at \$1 to \$2 million annually. A more accurate revenue estimate will be available in the next several months as the program is finalized by DHCS.
- Another revenue source that is showing positive signs is cannabis-related revenue. For the past two years, cannabis-related revenue has been significantly under budget as businesses took longer to start operations. In FY 18, cannabis-related revenues were \$1.3 million while the budgeted amount was \$5.2 million. In FY 19, as of January 31, 2019, cannabis-related revenues have already generated \$2 million. Staff is currently evaluating to assess whether this trend is anticipated to continue. Even if cannabis revenues fall short again of the budgeted \$5 million, it is anticipated that it will end the year much closer to budget than in the previous year.

These positive revenue projections are anticipated to offset some of the revenue sources that are trending lower than budgeted, including revenue from general ambulance billing and parking citations. The impact of the increase in ambulance fees and parking citations appears to be less than projected and additional analysis will be done over the next few months. Revenue from short-term rentals is also expected to be below budget. In FY 19, a total of \$1.4 million was budgeted to be received from short-term rentals, of which \$700,000 is budgeted in the General Fund. Collection of short-term revenue will commence April 1, 2019, as authorized by the City Council. Due to the timing of the contract agreement and implementation with Airbnb, the current revenue projection is anticipated to be below budget. Telephone Utility Users Tax is also trending below budget due to a continued decline in the number of land-lines and competitive prices.

With regard to General Fund expenditures, initial review is showing that General Fund departments are expected to end the year within appropriation. There are, however, potential unbudgeted one-time costs that may require funding. These potential costs include costs for a special election, emergency facility repair issues,

potential future cost of Police recruit academies, additional holding costs for Community Hospital and armory, and other unanticipated expenditures. In addition, tracking citywide expenditure trends and projections may be challenging for the remainder of FY 19 as the City transitions into the new ERP system (LB COAST), and new systems of projections and year-end estimates needs to be developed.

Overall, while net revenue trends appear to be positive, there may be unanticipated revenue shortfalls or potential unbudgeted one-time needs as stated above. At this point, it is uncertain whether there will be surplus funds at the end of FY 19 or how well any surplus will be able to be projected because of the transition to the new LB COAST and the time it may take to get and understand new monitoring reports. Staff will continue to monitor and evaluate both revenue and expenditure trends.

Other Funds

All other funds appear to be generally on target based on the first period review for both revenues and expenditures.

This financial review is based on information from the first four months of the fiscal year. Therefore, this initial report may be subject to material change as the year progresses. As usual, staff will continue to monitor revenues and expenses, and will report any significant changes.

This matter was reviewed by Deputy City Attorney Amy R. Webber on March 18, 2019.

City Council action is requested on April 2, 2019.

There is no fiscal impact associated with this recommendation.

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER