



## Legislation Text

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Recommendation to receive and file the Fiscal Year 2017 First Budget Performance Report. (Citywide)

This report includes information on the City's Fiscal Year 2017 (FY 17) budget performance through January 31, 2017 for all funds.

### Summary

As of January 31, 2017, no significant issues have been identified with any City funds. On the whole, the General Fund revenues and expenditures are projected to end the year within appropriation. The City, however, is taking a precautionary approach to account for some potential uncertainties related to oil revenue, Measure A revenue, negotiations, and medical marijuana implementation.

### General Fund

On September 13, 2016, the City Council adopted a structurally balanced FY 17 budget. General Fund revenues are showing that several key revenue streams, such as Utility Users Tax and Franchise Fees, are currently less than anticipated. The Financial Management Department will continue to closely monitor these revenues. On the positive side, as discussed during the March 14, 2017 Fiscal Outlook presentation, the price of oil is currently higher than budgeted in FY 17. FY 17 Adopted Budget oil projections are based on \$35 per barrel, yet oil has priced at between \$45 and \$50 per barrel. It is important to note, however, that there continues to be volatility in the market. Additionally, City oil revenue is dependent on more than just the price. Other key factors affecting revenue include production levels, exploration and production costs. Steady or growing revenues such as oil and property tax may help mitigate the impacts of other General Fund revenues that may potentially come in under budget in FY 17. This will continue to be closely monitored and reported throughout the year.

Additionally, the General Fund is anticipated to receive an estimated \$35.6 million in new Sales and Use Tax revenue due to the historic passage of Measure A that will maintain and enhance public safety services, and make a significant investment into infrastructure projects. In late March, the City will receive its first allocation for the year based on estimates calculated by the State Board of Equalization for the period January through March. As the \$35.6 million amount in FY 17 is an estimate at this time, staff will continue to monitor receipts and update Measure A revenue projections throughout the year.

With regards to General Fund expenditures, initial review is showing that General Fund Departments are expected to end the year within appropriation. However, there are some uncertainties that need to be evaluated and monitored further such as the Medical Marijuana implementation costs in FY 17. It is anticipated that approximately \$3.5 million of costs related to the medical marijuana implementation will be incurred by departments in FY 17. As described in the FY 16 Year-End Performance Report, \$1.4 million of the funding was appropriated, and the remaining \$2.1 million in anticipated costs will be tracked and covered by any medical marijuana revenue. Other funding sources, such as the use of reserves, may be needed if sufficient revenue for medical marijuana implementation is not available and there are no other budget savings. This will continue to be closely monitored and reported throughout the year.

The City has approved Memorandums of Understanding effective at the beginning of the fiscal year with two Unions - the International Association of Machinists and Aerospace Workers (IAM) and the Police Officers Association (POA) - and is negotiating with the remaining City unions. It is projected that the FY 17 General Fund costs of these agreements will be covered by healthcare cost savings, higher than expected revenues, vacancy savings, and additional funding achieved from taking less conservative budgetary actions such as reducing charges for insurance and funding for unfunded retirement liabilities. Costs for FY 18 and FY 19 will be addressed as part of those annual budget processes. The actual costs of these contracts along with the offsets will continue to be monitored. Other funding sources, such as the use of reserves, may be needed if the offsets such as higher than expected revenues are not sufficient.

Due to some of these uncertainties with General Fund revenue and expenses, on March 15, 2017, City management requested that departments save 0.5 percent of their total FY 17 General Fund budget less any one-times. The target effectively represents approximately a 1 percent cut for the remainder of the year. These savings targets will help to ensure the General Fund ends the year in balance and to fund one-time needs such as the medical marijuana implementation. Unless there are material changes, updated projections for FY 17 year-end will be provided as part of the next Budget Performance Report.

## **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 closely monitor revenues and expenses, and will report any significant changes.

City Council action is requested on April 4, 2017.

There is no fiscal impact associated with this recommendation.

Approve recommendation.

JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST  
CITY MANAGER