



City of Chula Vista

Staff Report

File#: 15-0692, **Item#:** 2.

A. QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDING DECEMBER 31, 2015

B. RESOLUTION NO. 2016-028 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2015/16 BUDGET TO ADJUST FOR VARIANCES AND APPROPRIATING FUNDS THEREFOR (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council accept the report and adopt the resolution.

SUMMARY

The Finance Department prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes. The quarterly financial reports are in compliance with Section 504 (f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

In preparing the quarterly financial projections, staff has identified various budget changes that are needed to better reflect actual revenues and expenditures or address changes in budgetary needs. For government entities, a budget creates a legal framework for spending during the fiscal year. After the budget is approved there are circumstances, which arise that could require adjustments to the approved budget. Council Policy 220-02 "Financial Reporting and Transfer Authority" was established in January of 1996 and allows for budget transfers to be completed. This report discusses budget adjustments that staff recommends in the General Fund as well as various other funds.

ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that filing of the quarterly financial status report is not a "Project" as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change to the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the actions proposed are not subject to CEQA.

Environmental Notice

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

BOARD/COMMISSION RECOMMENDATION

Not applicable.

DISCUSSION

The Finance Department prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes. The quarterly financial reports are in compliance with Section 504 (f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

General Fund Overview

Attachment A - Quarterly Financial Report provides the financial outlook for the General Fund for the current fiscal year and includes summary information for revenues and expenditures.

The following chart summarizes the projections for June 30, 2016 based on the revenue and expenditure trends through the second quarter of fiscal year 2015/16 for the City's General Fund. The amended budget column includes all Council approved changes to the fiscal year 2015/16 adopted budget that have taken place through the end of the second quarter ending December 31, 2015. The projected column lists the fiscal year 2015/16 projections for revenues and expenditures as of June 30, 2016. The following table reflects the audited General Fund reserves as of July 1, 2015 (beginning fund balance) as well as the projected General Fund reserves for June 30, 2016 (projected ending fund balance).

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2015 (audited)	\$ 16.30	\$ 16.30
Revenues & Transfers ¹ In	\$ 141.87	\$ 140.87
Expenditures & Transfers ² Out	\$ (141.81)	\$ (141.03)
Pending Appropriations ³	\$ -	\$ (0.60)
Projected Surplus/Deficit	\$ 0.06	\$ (0.76)
Projected Fund Balance for June 30, 2016	\$ 16.36	\$ 15.54
Percentage of Operating Budget	11.5%	11.0%

General Fund Summary

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund. The budgeted surplus reflected in the Amended Budget column is a result of mid-year Council approved budget amendments that have resulted a minor surplus of revenues over expenditures.
2. The Amended Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$5.3 million that were carried forward into the fiscal year 2015/16 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2015 and are therefore not included in the above table.

3. Pending appropriations reflect transfers from the General Fund to the Workers Compensation Fund and Developments Services Fund. Claims activity in the Workers Compensation Fund has resulted in higher than expected total claims payouts for the year. Increased development activity supports the need for additional plan check consulting services within the Development Services Fund. Accordingly, these costs are reflected in the amounts for pending appropriations. While these appropriations are outside of the reporting period, staff is including them in the report to better reflect projected expenditures for fiscal year 2016.

The City's financial outlook appears moderately negative through the end of the second quarter. Revenues are projected to decrease modestly from the amended budget level based on updated assumptions for fiscal year 2015 actuals and trends in the second quarter. Major factors affecting expenditures include pending appropriations to the Workers Compensation Fund and a transfer to the Development Services Fund for unanticipated expenses. The General Fund is projected to end the fiscal year with an estimated decrease in fund balance of \$0.76 million.

The City's discretionary revenues are in large part projected to meet or exceed their budgeted levels. Departmental program revenues however are anticipated to fall short of their targets. Particularly Police jail reimbursements and grant revenue, as well as Fire permit and reimbursement revenue are not projected to meet the budgeted level. Overall, General Fund revenues are projected at \$1.0 million below the current amended budget. This is due to projected shortfalls in the following revenue categories: Charges for Services (\$0.9 million), Revenue from Other Agencies (\$0.3 million), Transfers In (\$0.2 million), Licenses and Permits (\$0.1 million), and Fines, Forfeitures, and Penalties (\$0.1 million). These shortfalls were partially offset with improvements in the Other Local Taxes category of \$0.6 million. The projected fluctuations for these revenues are based on a review of previous fiscal year actuals, an analysis of actuals through December 31, 2015, and revised assumptions since the first quarter projections.

There are no variances to report for expenditures projected as of the end of the second quarter. Departmental expenditures are tracking within budgeted levels as the majority of the departments are projected to realize savings as of the end of the fiscal year. As stated in the first quarter report, salary savings levels are not projected to be achieved based on the current trend. This is primarily due lower than anticipated employee attrition rates. Salary savings are currently budgeted at \$1.6 million in the General Fund reflecting staff's first quarter recommendation to recognize the savings voluntary work furlough program and health insurance savings costs and apply these savings to reduce the budgeted salary savings in the Non-Departmental budget. Staff will continue to monitor salary savings levels and look for other potential cost saving measures in order to remain within budget.

Working with the City's Sales Tax Consultant's, HdL, staff has identified one-time revenues the City will receive as a result of the end of the triple flip. These revenues will help address expenditures for major projects that were not included in the fiscal year 2015-16 adopted budget, but will likely require funding in the current fiscal year. A portion of the triple flip revenues have already been appropriated towards outside attorney services related to outstanding litigation. Staff will return to Council to make a recommendation on the allocation of those funds to address funding needs once the impact of the triple flip and remaining sales tax revenues are determined during the 3rd quarter sales tax review.

Development Services Fund Overview

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The Development Services Department Enterprise fund consists of Land Development, Development Planning, the DSF Front Counter and the Building Division. As of July 1, 2015 The Development Services Fund had accumulated a deficit of \$16.5 million. This is in contrast to what was previously reported in the fiscal year 2015 third quarter report, which projected the fund at a deficit of \$0.2 million. The variance is due to the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71 requiring the accrual of net pension liabilities and the inclusion of compensated absences, which were formerly reported differently. If these liabilities are excluded from the calculation, as detailed in the table below, the projected reserves of the Development Services Fund was \$52,074, as of July 1, 2015.

Development Services Fund	Actuals
Total Net Position - July 1, 2015	(16,492,07
Net Pension Contributions/Liabilities	16,164,01
Compensated Absences	380,13
Reserves - July 1, 2015	52,07

Comparing the budgeted revenue and expenditures to the projected revenues and expenditures for June 30, 2016, expenditures are currently on trend to exceed revenues. Although expenditures are projected to be under the current amended budgeted level, revenues are tracking at a much lower rate than anticipated. Based on trends through the second quarter, staff is conservatively projecting to end the current fiscal year with a projected deficit of \$0.7 million, which would put the Development Services Fund in an overall deficit (excluding the deficit caused by GASB 68 and 71 and compensated absences). Projections for the last fiscal year indicated a similar trend. Staff will be proposing adjustments to eliminate the deficit and mitigate any future impacts to the Development Services Fund.

Development Services Fund Summary

Development Services Fund	Amended Budget	Projected
Reserves - July 1, 2015	52,074	52,07
Revenues & Transfers In	7,303,694	6,665,560
Expenditures & Transfers Out	(7,424,953)	(7,382,890)
Projected Surplus/Deficit	(121,259)	(717,330)
Projected Fund Balance for June 30, 2016	(69,185)	(665,256)

It is important to note that the nature of the work in the enterprise fund is beginning to change from one of processing planning documents (deposit account based) to one of processing building and improvement plans (flat fee based). This change in activity may require modification to the existing composition of staff in Development Services Fund in order to remain responsive to the type and quantity of work being processed.

Staff is recommending budget amendments in the City Council, Non-Departmental, Public Works and

Library departments. These changes result in no net fiscal impact to the General Fund.

City Council - The Mayor's Office has received a sponsorship in the amount of \$3,200 from the World Wildlife Fund to offset the costs of attending the United Nations Paris Climate Conference. Staff is requesting that this sponsorship be appropriated to the Supplies and Services expense category of the City Council budget.

Non-Departmental - Staff is recommending the following budget adjustments to the Non-Departmental budget:

- Staff is requesting a \$53,000 appropriation to the Supplies and Services expense category of the Non-Departmental Budget to offset contracted attorney services costs. The City has received revenue in the amount of \$25,756 in reimbursement for a legal case involving the City and a business operator to offset these costs. The balance of the appropriated amount will be offset by other unanticipated revenues.
- An appropriation of \$377,487 is requested to the Supplies and Services category of the Non-Departmental budget. This request is for the financing of a capital lease for the procurement of 99 Mobile Data Computers (MDCs) for use in Police vehicles and facilities. This appropriation will be offset by revenues of an equal amount derived from the secured lease financing of the MDCs.
- A transfer of \$503,346 from the General Fund to the Workers Compensation Fund. This transfer is needed as a result of the City recently reaching a settlement in a Workers Compensation related case that has a net fiscal impact of \$503,346. The available reserves in the Workers Compensation Fund are insufficient to address both this settlement and the unanticipated increase in Workers Compensation claim expenses. The requested appropriation may result in an impact to the General Fund reserves if offsetting revenues or expenditure savings are not identified.
- Staff is requesting a \$100,000 appropriation to the Transfers Out category of the Non-Departmental Budget to offset contracted services for processing planning building and improvement plans. The requested appropriation may result in an impact to the General Fund reserves if offsetting revenues or expenditure savings are not identified.

Public Works - The following budget amendments are recommended for the Public Works Department:

- A \$27,200 transfer to the Other Expenses category of the Public Works budget is recommended for the repair and replacement of traffic operation equipment due to vehicle accidents. The requested repairs and replacement of traffic operation equipment is vital to traffic safety. This transfer will be offset by a reduction in Personnel Services.
- A transfer of \$135,000 to the Supplies and Services budget category of the Construction &

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Repair Budget for unanticipated facility emergencies and CAL OSHA fines. This transfer will be made from the water Utilities budget that is projecting savings in the current fiscal year due to the Governor's State drought mandate that has resulted in lower water usage.

- An appropriation of \$6,784 funded by revenue received from recycled copper used for HVAC and electrical systems to the Supplies and Services expense category. The funds will be appropriated to the Construction & Repair Budget for unanticipated facility preventative maintenance repairs.

Library - Library has received several donations from the Chula Vista Woman's Club, Connie Fey (in memory of Jackie Fey Lindensmith), and Esther & Dennis Pearson (in memory of Barbara Palmer). The donations totaling \$925 will help fund books for the Library's collection. The Library department is requesting that the donations be appropriated to the Supplies and Services expense category of the Library Department.

Development Services Fund - Due to an increase in activity for processing building and improvement plans, staff is requesting an appropriation of \$100,000 to the Supplies and Services expenditure category of the Development Services Fund. This appropriation will be offset by a Transfer In from the General Fund. Development Services has also experienced a sharp increase in the use of credit cards as a form of payment. As a result, the Department has exceeded the budget for credit card transaction fees and is requesting a transfer of \$150,000 from Personnel Services to the Other Expenses category for these increased expenditures.

State Grants Fund - The Library has received the first installment of the California Library Literacy Services (CLLS) grant in the amount of \$18,000. Staff is requesting the CLLS grant (\$18,000) be appropriated to the Personnel Services expense category of the State Grants Fund.

Workers Compensation Fund - Staff is requesting an appropriation of \$2.1 million to the Workers Compensation Fund. These funds are needed due to two settlements that were not included in the fiscal year 2015-16 budget and higher than anticipated claim expenses. This appropriation will be partially offset by \$666,654 from insurance reimbursement revenues and a transfer of \$503,346 from the General Fund. The remaining funds will be appropriated from the available reserves of the Workers Compensation Fund. The actual fiscal impact of this appropriation will be determined by the actual expenditures in the Workers Compensation fund at year end.

Transportation Sales Tax (TransNet) Fund - Capital Improvement Project OP218 - Cactus Wren Habitat Restoration was funded by a SANDAG Grant within the Transportation Sales Tax Fund. All eligible capital improvement costs for OP218 have been incurred and reimbursed; however an overpayment in the amount of \$2,615 was received from SANDAG and posted to the TransNet Fund in error. Staff is requesting an appropriation of \$2,615 to the Other Expenses category to be made from the available balance of the TransNet Fund in order to refund the overpayment amount to SANDAG.

DECISION-MAKER CONFLICT

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Staff has reviewed the decision contemplated by this action and has determined that it is not site specific and consequently, the 500-foot rule found in California Code of Regulations Title 2, section 18702.2(a)(11), is not applicable to this decision for purposes of determining a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.). Staff is not independently aware, and has not been informed by any City of Chula Vista City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. This action supports the Operational Excellence goal by communicating the City's projected financial position for the current fiscal year in an open and transparent manner. This transparency supports City Initiative 1.3.1. - "Foster public trust through an open and ethical government."

CURRENT YEAR FISCAL IMPACT

There is no fiscal impact resulting from accepting the Quarterly Financial Report.

General Fund - Approval of the resolution amending the fiscal year 2015/16 budget will result in the following appropriations to the General Fund.

DEPARTMENT/FUND	DESCRIPTION	EXPENSE	REVENUE	NET COST
GENERAL FUND				
City Council	World Wildlife Fund Donation for Paris Climate Conference	\$ 3,200	\$ 3,200	\$ -
Non-Departmental	Bay and E St. Attorney Svcs. Revenue Appropriation	\$ 53,000	\$ 53,000	\$ -
	Mobile Data Computer Capital Asset Leasing Finance	\$ 377,487	\$ 377,487	\$ -
	Workers Compensation Fund Augmentation for Increased Claims	\$ 503,346	\$ -	\$ 503,346
	Transfer to Development Services Fund for Increased Plan Processing Costs	\$ 100,000	\$ -	\$ 100,000
Public Works	Personnel Svcs. Transfer to Other Expenses for Traffic Signal Repair \$27,200	\$ -	\$ -	\$ -
	Public Works Scrap Metal Revenue Appropriation for Preventative Maintenance \$6,784	\$ 6,784	\$ 6,784	\$ -
	Public Works Transfer from Utilities to Supplies and Services.	\$ -	\$ -	\$ -
Library	Library Donations from Various Sources for Books	\$ 925	\$ 925	\$ -
	TOTAL GENERAL FUND	\$ 1,044,742	\$ 441,396	\$ 603,346

The recommended changes in the General Fund may result in a \$603,346 net impact to General Fund reserves if offsetting revenues or expenditure savings are not identified. As mentioned in this report, the City will receive one-time revenues as a result of the end of the sales tax triple flip which may be available to offset this net impact. Additional information will be provided as part of the third quarter financial report.

Other Funds - Approval of the resolution amending the fiscal year 2015/16 budget will result in the following appropriations. The resulting fiscal impacts to various funds are also listed in the following table:

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OTHER FUNDS	DESCRIPTION	EXPENSE	REVENUE	NET COST
State Grants Fund	Library CLLS Grant for Literacy Programs	\$ 18,000	\$ 18,000	\$ -
Workers Compensation	Workers Compensation Fund Augmentation for Increased Claims Costs	\$ 2,100,000	\$ 1,170,000	\$ 930,000
Development Services Fund	Credit Card Transaction Fees Transfer from Personnel Services \$150,000.	\$ -	\$ -	\$ -
	Transfer from General Fund for Increased Plan Processing Costs	\$ 100,000	\$ 100,000	\$ -
Transet Fund	Appropriation for SANDAG refund for Catus Wren Habitat Project	\$ 2,615	\$ -	\$ 2,615
	TOTAL OTHER FUNDS	2,220,615	1,288,000	932,615

The recommended budget amendments will not impact the State Grants Fund and the Development Services Fund. The appropriations to the Workers Compensation Fund will result in a \$930,000 impact that will be funded by the available balance of this fund. The appropriation to the Transnet Fund will also be funded by the available balance of this fund.

ONGOING FISCAL IMPACT

Staff will continue to monitor and analyze revenue and expenditure trends and incorporate changes as necessary into future financial reports and/or budgets.

ATTACHMENT

1. Second Quarter Financial Report

Staff Contact: David Bilby, Finance Department