



Fremont City Council

3300 Capitol Avenue
Fremont, CA 94538

SCHEDULED

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Category: Budget

STAFF REPORT (ID # 3674)

Sponsors:
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FISCAL YEAR 2018/19 MID-YEAR BUDGET REVIEW - Update on the Status of the FY 2018/19 General Fund Operating Budget and Preliminary Three-Year Forecast; Approve Adjustments to Budget Estimates and Supplemental Appropriations

Contact Persons:

Name:	Mike Sung	David Persselin
Title:	Deputy Finance Director	Finance Director
Div/Dept:	Finance Department	Finance Department
Phone:	510-494-4608	510-494-4631
E-Mail:	msung@fremont.gov	dpersselin@fremont.gov

EXECUTIVE SUMMARY: The Mid-Year Budget Review is an opportunity for staff to update the City Council on current-year budget performance based on actual operating results through December 31, 2018. Staff will present a brief review of national and local economic trends, discuss any revised General Fund revenue or expenditure projections for the current year, provide a preliminary General Fund forecast for the next three years, and present recommendations for mid-year budget adjustments and supplemental appropriations.

BACKGROUND: The Fiscal Year 2018/19 operating budget was adopted by the City Council on June 12, 2018. The Mid-Year Budget Review is an opportunity for staff to update the City Council on current-year budget performance based on actual operating results through December 31, 2018, and provide a preliminary General Fund forecast for the next three years. Staff will return to the City Council on May 14, 2019, with the FY 2019/20 Proposed Operating Budget and a revised General Fund forecast.

The Mid-Year Budget Review is also an appropriate occasion for staff to recommend any adjustments to the current year budget needed to accommodate changes in revenue or expenditure estimates.

DISCUSSION AND ANALYSIS:

National and Local Economic Trends: Growth in the national and regional economies has slowed over the last two quarters but remains robust, with a continuing strong labor market and relatively high consumer confidence. Although the City's preliminary revenue forecast assumes continued increases over the next few years, it is important to recognize that as time passes the current economic expansion becomes more likely to end.

FY 2018/19 General Fund Revenue and Expenditure Estimates: The General Fund's major sources of revenue are performing better than expected, with sales tax growth particularly strong primarily due to over-performance in auto sales. The sales tax category is currently projected to end the year \$11.1 million higher than the adjusted budget estimate. Staff, along with the City's sales tax consultant, are closely monitoring auto sales tax receipts to determine how much of the increased revenue can be considered ongoing versus one-time in nature. The sales tax projection also includes \$2.1 million of what would have been FY 2017/18 revenues that were delayed by implementation of the State's new sales tax automation system.

The property tax category appears likely to out-perform the budget estimate by approximately \$2.3 million based on data received from the County Auditor-Controller. Business tax is projected to fall below the budget estimate by approximately \$1.4 million due to a drop-off in construction business tax receipts.

Overall, General Fund revenues and transfers in are estimated to grow 6.5% in FY 2018/19 from the FY 2017/18 level, resulting in \$12.0 million more of estimated resources than included in the adjusted budget. This report includes recommended adjustments to bring the budgeted revenue estimates in line with current projections.

General Fund expenditures and transfers out for FY 2018/19 are anticipated to end the year \$1.0 million above the adjusted budget, primarily due to lower than anticipated Citywide vacancy savings resulting from a significant increase in successful recruitments. The adjusted budget includes \$11.1 million of ending fund balance allocated by the City Council as part of the FY 2017/18 Year-End Update for the Warehouse Modernization Project (\$3.0 million), Elevator Modernization Project (\$0.8 million), and a transfer to the Capital Improvement Fund (\$7.3 million) for allocation by the City Council as part of the Capital Improvement Program process. An additional \$2.1 million of FY 2017/18 ending fund balance was left unappropriated to offset sales tax revenue misallocated by the State that is anticipated to be reallocated in FY 2018/19. In total, General Fund expenditures and transfers out are anticipated to increase 13.5% from FY 2017/18.

In early FY 2018/19 changes to the City Manager's Office structure were made by eliminating a vacated Senior Executive position. The elimination of the vacant position will reduce the total City Manager's Office headcount by one full-time equivalent position and is anticipated to result in approximately \$300,000 of personnel savings.

The adjusted budget assumed that the General Fund would end the year with \$3.1 million of unreserved fund balance. The \$12.0 million increase in estimated General Fund resources, combined with \$1.0 million of lower expenditures, results in an estimated ending fund balance for FY 2018/19 of \$14.1 million. Staff will return to the City Council on May 14, 2019, with updated estimates for FY 2018/19 incorporated into the FY 2019/20 Proposed Operating Budget.

The following table presents a comparison of FY 2017/18 actual results with the FY 2018/19 adjusted budget and staff's FY 2018/19 mid-year estimate.

Dollars in Millions	FY 2017/18 Actual	FY 2018/19 Adjusted*	FY 2018/19 Estimate
Sources of funds			
Encumbrance reserve	\$ 1.0	\$ 4.6	\$ 4.6
Unreserved fund balance**	7.0	13.2	13.2
Revenues and transfers in	203.7	205.0	217.0
Total sources of funds	211.7	222.8	234.8
Uses of funds			
Expenditures and transfers out	192.5	217.5	218.5
Encumbrance balance	4.6	0.0	0.0
Total uses of funds	197.1	217.5	218.5
Addition to Reserves	1.4	2.2	2.2
Unreserved fund balance	\$ 13.2	\$ 3.1	\$ 14.1

Preliminary General Fund Forecast: Revenue projections for the next three fiscal years are based on the most current information available and take into account historical trends, current-year performance through mid-year, and scheduled changes in various fees and rates. The revenue projection incorporates staff's expectation that the City's revenue growth will slow as the business cycle matures.

The FY 2019/20 and subsequent year expenditure projections are net of estimated vacancy savings and include adjustments to reflect CalPERS pension contribution increases, higher retiree healthcare contributions, scheduled debt service payments, and contractual obligations. In accordance with the City Council's Pension Liability Funding Policy, an additional pension contribution has been included in each year as well.

As this forecast is preliminary, the expenditures shown represent a "base budget" that delivers the existing level of services with no assumed compensation or staffing increases. These expenditure levels may increase as the FY 2019/20 Proposed Operating Budget is developed with the benefit of additional information, including any recommendations for service level enhancements.

The FY 2019/20, FY 2020/21, and FY 2021/22 transfers out reflect \$2.9 million in annual CIP funding including Street and Sidewalk Maintenance, Parks and Median Capital Replacement, and Facilities Maintenance with corresponding increases to the Budget Uncertainty Reserve. The City Council will have an opportunity to revisit CIP funding levels as the FY 2019/20-2023/24 CIP is developed.

Dollars in Millions	FY 2017/18 Actual	FY 2018/19 Estimate	FY 2019/20 Projected	FY 2020/21 Projected	FY 2021/22 Projected
Sources of funds					
Encumbrance reserve	\$ 1.0	\$ 4.6	\$ 0.0	\$ 0.0	\$ 0.0
Unreserved fund balance	7.0	13.2	0.0	0.0	0.0
Revenues and transfers in	203.7	217.0	219.1	227.8	236.9
Total sources of funds	211.7	234.8	219.1	227.8	236.9
Uses of funds					
Expenditures and transfers out	192.5	218.5	208.6	214.8	219.2
Encumbrance balance	4.6	0.0	0.0	0.0	0.0
Total uses of funds	197.1	218.5	208.6	214.8	219.2
Addition to Reserves	1.4	2.2	3.4	3.9	3.6
Unreserved fund balance	\$ 13.2				
Projected sources over uses		\$ 14.1	\$ 7.1	\$ 9.1	\$ 14.1

Revenue and Expenditure Adjustments: As discussed above, the current sales tax projection is \$11.1 million higher than the budgeted estimate, the property tax projection is \$2.3 million higher, and the business tax projection is \$1.4 million lower. Staff recommends that the City Council increase the budgeted revenue estimates for those categories to the projected levels. Staff also recommends that the City Council reduce the vacancy savings estimate by \$1.0 million to reflect the current projection.

Supplemental Appropriations: Through the first half of FY 2018/19, work activities for special projects and community service requests in the Public Works Engineering Division have been higher than anticipated. These activities include facilitating development of Master License Agreements for small cell wireless infrastructure, preparing an updated flood management plan to comply with FEMA requirements for flood insurance programs, and responding to increased levels of requests/complaints related to traffic congestion, neighborhood traffic intrusion and traffic signal operations. Staff is recommending a \$463,000 increase to the General Fund contribution for the Public Works Engineering Division to align the funding with the current service level.

During the current fiscal year, the Community Development Planning Division was assigned and responded to three City Council referrals that required extensive internal collaboration, community outreach and the use of consultants. The three referrals included the evaluation of the Cloverleaf Bowl and its eligibility for the City's Historic inventory, holding a workshop in the Irvington community to share the Irvington Community Plan and housing related State law changes, and the completion of the Mission San Jose Retail Strategy Study which explored ways to better regulate commercial properties in the Mission San Jose area. Staff

is recommending a \$257,525 increase to the General Fund contribution to the Community Development Planning Division for costs associated with the City Council Referrals.

Additionally, for FY 2018/19, the City Council approved \$50,000 for consultant services to update the Climate Action Plan. As City staff has prepared the solicitation for consultant proposals, it has become apparent that the \$50,000 estimate was too low. The average budget for comparable cities' climate action plan updates is approximately \$100,000. Accordingly, staff is recommending an increase of \$50,000 to the current Climate Action Plan appropriation and the associated transfer from the General Fund to the Development Cost Center for the Community Development Department.

FISCAL IMPACT: The recommended budget adjustments will align the revenue and vacancy savings estimates with the current projections, bringing the estimated General Fund ending fund balance to approximately \$14.1 million. The recommended supplemental appropriations will increase General Fund transfers to the Development Cost Center by \$770,525. Staff will return to the City Council on May 14, 2019, with the FY 2019/20 Proposed Operating Budget and a revised General Fund forecast.

ENVIRONMENTAL REVIEW: Not required.

ATTACHMENTS: None.

RECOMMENDATIONS:

1. Increase revenue estimates in the General Fund by \$11.1 million for sales tax and \$2.3 million for property tax, and reduce the revenue estimate for business tax by \$1.4 million.
2. Reduce the vacancy savings estimate in the General Fund by \$1.0 million.
3. Appropriate a transfer of \$463,000 from the General Fund to the Development Cost Center for the Public Works Department.
4. Appropriate a transfer of \$307,525 from the General Fund to the Development Cost Center for the Community Development Department.