



INFORMATION A

DATE: November 12, 2013
TO: Mayor and Members of the City Council
FROM: Daniel E. Keen, City Manager
Deborah Lauchner, Finance Director
Ron Millard, Assistant Finance Director
SUBJECT: GENERAL FUND FINANCIAL UPDATE

RECOMMENDATION

No action is being requested. This is an informational item only.

BACKGROUND AND DISCUSSION

Tonight's report is designed to update the City Council on the status of General Fund revenues and expenditures for the 1st quarter of the Fiscal Year (FY) 2013-14, (i.e., July 1 to September 30, 2013), based on the preliminary financial and economic information that is currently available. A more comprehensive report on revenues and expenditures will be provided and presented to City Council with the mid-year Budget Update at the City Council's first meeting in March 2014, after the end of the 2nd quarter of the year.

On June 25, 2013, the City Council discussed and approved a Resolution adopting the FY 2013-14 budget, <http://www.ci.vallejo.ca.us/common/pages/DisplayFile.aspx?itemId=50088> including General Fund revenues of \$71,670,547 and Measure B revenues of \$11,100,000 totaling \$82,770,547. During these budget discussions, the City Council requested staff to report back at the end of the 1st quarter of the fiscal year, with an update on General Fund finances.

National/Regional Context

The City of Vallejo economy is subject to trends in the regional and national economies. The national unemployment rate dropped to 7.3% nationally in August; California's unemployment rate increased 0.2% to 8.9%; and locally, the unemployment rate for the City of Vallejo dropped from 10.5% in July to 10.1%. Construction related employment and economic activity has improved slightly nationally and in California; while the City of Vallejo has not yet experienced a significant increase in construction related activities.

Revenues

Overall, City of Vallejo revenues are estimated to increase by \$452,000 over our original budget projections.

Estimated revenues from Property Tax are up \$47,200 from our original Adopted Budget projection for FY 2013-14. Although assessed property values have increased, this is not translating into the same level of increased property tax revenues. Growth in property tax revenues are limited by statute and appeals.

Property Tax-in lieu Motor Vehicle License fees (MVLFF) revenues, also referred to as the "triple flip" by the State, are estimated to increase \$540,100 or 8% based on information provided by Solano County.

Sales Tax revenue estimates are up \$111,300 or 1% from our original FY 2013-14 Adopted Budget projection. The State Board of Equalization has identified one assessment under appeal in the amount of \$231,119 which reduced Sales Tax revenue estimates significantly.

Measure B Sales Tax revenue estimates are currently expected to hold steady with an increase of \$6,300 expected.

Franchise fees are expected to decline by \$19,400 or >-1% as a result of a three (3) year overpayment adjustment by one utility firm.

Program revenues include fees and grants received by the Economic Development, Administration, Fire, Police and Public Works departments. These revenues are expected to be lower by \$227,000 or 2%, with the main declines due to lower Solano County lien collections from Code Enforcement citations and lower revenue from the Vallejo Parking Station. These declines are partially offset by an increase in Business License Tax revenues.

Business License Tax revenues are estimated to increase by approximately \$100,000 as a result of increased Marijuana tax revenues offset by a decline in other Business License revenue collections.

In the Code Enforcement program, a decrease of \$202,000 is anticipated as a result of estimated uncollectable fines by Solano County. This situation arises when the assessments which the County initially paid to the City in the fiscal year following the lien, have not been collected by the County after five years.

The Vallejo Parking Station program is not expected to meet their estimated revenues. Estimated FY 2013-14 revenues were \$772,107. Staff currently anticipates \$647,107 in collections. The lower revenue forecast is due to a later start date for instituting paid parking than originally expected.

Why aren't Property Tax revenues higher?

The assessed values of properties in Solano County rose by an estimated 6.77% and in the City of Vallejo by an estimated 8.13% this year, according to the County Assessor's office.

Property tax revenues for the City of Vallejo are coming in "on budget". In the Adopted Budget for FY 2013-14 the City budgeted \$14,080,079 for property tax revenues, an \$877,080 or 6.64% increase over the Adopted Budget for FY 2012-13. The City of Vallejo is not realizing the full 8.13% percentage increase in property tax revenues due to the potential revenue reduction resulting from estimated pending appeals.

The Assessed Values of all properties are determined by the Solano County Assessor. These values are subject to appeal and the City of Vallejo has several property owners that are appealing the assessed values as determined by the County Assessor. The City of Vallejo currently has 86 parcels that are pending appeal. The requested reduction in values is \$188 million. Not all appeals are successful, but their outcomes are difficult to predict and often reduce revenues unexpectedly.

Property Tax Legislation

Under Proposition 13, when a change in ownership occurs or when new construction is completed, property is reassessed and a base year value is established. Annual increases thereafter are capped at 2 percent per year.

Under Proposition 8, the County Assessor's office is allowed to make temporary reductions in assessed value when the market value -- what a property would sell for in the open market -- falls below the Proposition 13 determined value. Properties sold while under a Proposition 8 reduction, establish a new lower "base" assessed value.

Since the Proposition 8 assessed value is temporary, it is not subject to the Proposition 13 cap. This means that as the market value of properties fluctuate, the Proposition 8 value may increase more than 2 percent per year until it reaches the Proposition 13 value. But once it returns to the Proposition 13 value, further increases are capped at the 2%, which has a dampening effect on property tax revenue increases.

Expenditures

Estimated expenditures for the City of Vallejo are primarily driven by personnel costs; with Salaries and Benefits making up 81% of the General Fund budget. The bi-weekly payroll for the City of Vallejo for all funds has been averaging 448 employees at \$3.1 million dollars; of this amount, approximately 76% is charged to the General Fund.

At current staffing levels the City is projecting that we will be able to meet the originally budgeted "Vacancy Factor" (budgeted underspend due to unfilled budgeted positions) amount of \$2,000,000.

After reviewing current departmental spending for non-personnel related expenditures, Service and Supplies, we expect these costs to remain within their currently allocated budget for the FY 2013-14.

Next Steps

Staff is currently evaluating other post-employment benefits ("OPEB") trust options through a Request for Qualifications process. We are expecting to return to City Council at the second meeting in December 2013 to recommend the trust structure and contract for services. The funding of an OPEB trust will have a positive effect on the FY 2013-14 budget, by reducing the annual required contribution ("ARC") for our other post-employment benefits.

FISCAL IMPACT

The City of Vallejo staff currently estimates a net positive impact of \$452,200 on the FY 2013-14 Adopted budget for the General Fund. Staff is not recommending an amendment to the FY 2013-14 Adopted Budget at this time. We will be returning to Council in March 2014 with a mid-year budget report and a formal budget amendment at that time.

The focus of this budget report has been the General Fund. Status information on the other programs will be included in the Mid-Year budget report in March 2014.

ENVIRONMENTAL REVIEW

This informational item is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

ATTACHMENTS

General Fund (not including Measure B) – Revenue Summary – Q1 Estimates FY 2013-14.

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General Fund Revenue Summary

(Net of Mare Island General Tax Revenue Share)

Q1 Estimates FY 13-14 (excluding Measure B)

REVENUES	Actual FY 11-12	Projected FY 12-13	Adopted FY 13-14	% of Total FY 13-14	Q1 Estimate FY 13-14	Q1 Estimate \$ Change	Q1 Estimate % Change
Property Tax	\$ 13,225,841	\$ 13,893,006	\$ 14,080,079	24%	\$ 14,127,279	\$ 47,200	0%
Property Tax-in lieu (MVLFF)	7,416,440	7,105,128	7,100,000	12%	7,640,100	540,100	8%
	<u>20,642,281</u>	<u>20,998,134</u>	<u>21,180,079</u>	<u>36%</u>	<u>21,767,379</u>	<u>587,300</u>	
Sales Tax	11,064,759	11,743,773	12,189,354	21%	12,300,654	111,300	1%
Utility User Tax	12,464,938	12,444,169	12,444,169	22%	12,444,169	-	0%
Property Transfer Tax	1,401,264	1,493,000	1,493,000	2%	1,493,000	-	0%
Franchise	4,461,934	4,620,202	4,619,536	8%	4,600,136	(19,400)	0%
Other	6,491,597	5,764,421	6,074,252	11%	6,074,252	-	0%
Subtotal, General Revenues	<u>56,526,773</u>	<u>57,063,699</u>	<u>58,000,390</u>	<u>100%</u>	<u>58,679,590</u>	<u>679,200</u>	<u>1%</u>
Program Revenues	13,258,582	11,827,400	13,670,157		13,443,157	(227,000)	-2%
Total Revenues	<u>\$ 69,785,355</u>	<u>\$ 68,891,099</u>	<u>\$ 71,670,547</u>		<u>\$ 72,122,747</u>	<u>\$ 452,200</u>	<u>1%</u>
Measure B	<u>\$ 2,521,056</u>	<u>\$ 10,148,000</u>	<u>\$ 11,100,000</u>		<u>\$ 11,106,300</u>	<u>\$ 6,300</u>	<u>0%</u>