




Office of the City Manager

WORK SESSION
February 24, 2015

To: Honorable Mayor and Members of the City Council
From:  Christine Daniel, City Manager
Submitted by: Teresa Berkeley-Simmons, Budget Manager
Subject: FY 2015 Mid-Year Budget Update

INTRODUCTION

This report presents to the Council the FY 2015 Mid-Year Budget Update and focuses on projected General Fund revenues and expenditures. This report also provides information on expenditure projections in the special funds.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley is currently in FY 2015, the second of two years in the FY 2014 & FY 2015 Biennial Budget cycle. When the Council adopted the FY 2015 budget this past June, the General Fund was balanced as is shown in the chart below. In November the City Council approved “rollover and carryover” expenditures of \$5.2 million (the Adjusted Budget) relying on revenues accumulated in previous years for projects that had not yet been completed.

General Fund Summary			
<i>(dollars in millions)</i>	FY 2015 Adopted	FY 2015 Adjusted	FY 2015 Projected
Projected Revenue	154.4	154.4	158.6
Projected Expenses	154.4	159.6	159.6
Use of Fund Balance	0	5.2*	1.0
Balance	0	0	0

*Adjusted includes carryover for projects and programs that were not completed in FY 2014 and were approved by Council as part of the [Amendment: FY 2015 Annual Appropriations Ordinance](#)¹ on November 18, 2014.

On November 18, 2014, the Council was provided with the [FY 2014 Year End Review and FY 2015 First Quarter Review](#)² Information report. At the time, both General Fund revenues and General Fund expenditures were tracking within budget.

¹ http://www.cityofberkeley.info/Clerk/City_Council/2014/11_Nov/City_Council_11-18-2014_-_Regular_Meeting_Annotated_Agenda.aspx

² http://www.cityofberkeley.info/Clerk/City_Council/2014/11_Nov/City_Council_11-18-2014_-_Regular_Meeting_Annotated_Agenda.aspx

At the FY 2015 Mid-Year point, General Fund revenues are now projected to be up by \$4.2 million. General Fund expenditures are projected to be just over the Adjusted Budget by \$53,000. This means that our projected use of reserves as part of the appropriation carryover will reduce from \$5.2 million to \$1.0 million.

The projected increase in General Fund revenues is primarily due to an increase in the Property Transfer Tax. This General Fund revenue stream is projected to go from an Adopted Budget of \$11.0 million to a projected year-end balance of \$13.8 million. This is a \$2.8 million increase over the Adopted Budget. In order to help fund the City's underfunded capital needs, Property Transfer Tax revenue exceeding \$10.5 million is treated as one-time revenue to be used for the City's capital infrastructure needs. If the projections are realized \$3.3 million will be transferred into the Capital Improvement Fund to help support some of the City's underfunded capital needs. Another General Fund revenue stream that is projected to exceed the Adopted Budget is Transient Occupancy Taxes (TOT). TOT is projected to increase from the Adopted Budget of \$6.0 million to a projected year-end balance of \$6.8 million. This is an \$800,000 increase over the Adopted Budget.

General Fund expenditures are tracking just over the Adjusted Budget which includes an additional appropriation of \$5.2 million adopted by Council on November 18, 2014 for projects and programs which were not completed in FY 2014 and were carried forward into FY 2015. Although several departments are projecting savings, these savings will be absorbed by the Police Department which is projected to exceed its budget by \$1.2 million. The majority of the \$1.2 million is due to overtime expenditures exceeding the budget amount. Over \$868,000 of the overage is due to overtime and non-personnel costs related to the demonstrations that took place in December 2014. These costs include both demonstrations in Berkeley and in other cities where Berkeley provided mutual aid.

FY 2015 General Fund Second Quarter – Projected Revenue (up \$4.3 million)

FY 2015 Mid-Year revenues reflect that most General Fund revenues streams are on track. However, both property transfer tax and transient occupancy taxes are projected to come in over budget. In addition, the City changed the methodology used when reporting General Fund revenues in budget reports. Instead of reporting on an accrual basis, going forward the City will report General Fund revenue on a cash basis. The General Fund revenue streams most impacted by this change are the reporting of Sales Tax and Interest Income going into the General Fund. For additional information on General Fund revenues please see Attachment 1.

FY 2015 General Fund Second Quarter – Projected Expenditures (over adjusted budget amount by just over \$53,000)

General Fund expenditures are trending slightly over the adjusted budget. Although several departments are projecting savings, these savings will be absorbed by the Police Department which is projected to exceed its budget by \$1.2 million. The majority

of the \$1.2 million is due to overtime expenditures exceeding the budget amount due to overtime and non-personnel costs related to the demonstrations that took place in December 2014. We will include an additional appropriation for the Police Department in the amount of \$868,000 in the Second Amendment to the FY 2015 Annual Appropriation Ordinance in the spring as we can anticipate now that the department will otherwise go significantly over budget.

FY 2015 Special Funds Second Quarter – Projected Expenditures (under adjusted budget amount by \$26.3 million)

Special Funds exclude the General Fund and are made up of a number of dedicated revenue funds, enterprise funds, and state and federal grant funds. Expenditures in these Special Funds are projected to be under budget by just over \$26 million. Although salary savings from vacant positions were realized, the majority of savings in the special funds are due to several large capital improvement projects that are in progress and will not be completed in this fiscal year. Unspent capital funds will be carried over to FY 2016.

For additional information on both General Fund expenditures and Special Funds please see Attachment 2.

ENVIRONMENTAL SUSTAINABILITY

Actions included in the budget will be developed and implemented in a manner that is consistent with the City's environmental sustainability goals and requirements.

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Attachments:

- 1: FY 2015 Second Quarter General Fund Revenue Summary
- 2: FY 2015 Second Quarter General Fund and All Funds Expenditure Summaries

FY2015 FIRST HALF GENERAL FUND REVENUE YEAR-END PROJECTIONS

Revenue Categories	Adopted FY2015	Actual 7/1/14 - 12/31/14	% Received To Date	Projected FY 2015	Variance
Secured Property	\$ 44,352,255	\$22,852,780	51.53%	\$ 44,352,255	-
Unsecured Property Taxes	2,498,523	2,226,188	89.10%	2,498,523	-
Supplemental Taxes	760,000	513,547	67.57%	760,000	-
Property Transfer Tax	11,000,000	8,193,132	74.37%	13,838,868	2,838,868
Sales Taxes	16,365,826	8,538,505	52.17%	16,721,418	355,592
Utility Users Taxes	14,629,742	6,953,967	47.53%	14,629,742	-
Transient Occupancy Taxes	5,957,082	3,836,207	64.40%	6,814,748	857,666
Business License Tax	16,253,126	877,538	5.40%	16,253,126	-
Vehicle In-Lieu Taxes	9,671,582	4,832,211	49.96%	9,671,582	-
Parking Fines-Regular Colle	7,000,000	3,617,914	51.68%	7,000,000	-
Parking Fines-Booting Colle	200,000	67,064	33.53%	150,000	(50,000)
Moving Violations	230,000	524,599	228.09%	600,000	370,000
Interest Income	2,600,000	1,148,189	44.16%	2,400,000	(200,000)
Ambulance Fees	4,386,689	2,216,179	50.52%	4,386,689	-
Franchise Fees	1,841,403	477,887	25.95%	1,841,403	-
Other Revenue	8,604,970	5,044,008	58.73%	8,588,970	(16,000)
Transfers	8,030,303	4,004,325	49.87%	8,030,303	-
Total Revenue:	\$ 154,381,501	\$75,924,241	49.18%	\$ 158,537,627	4,156,126

FY2015 FIRST HALF GENERAL FUND REVENUE SUMMARY							
Revenue Categories	Adopted FY2015	Actual 7/1/14 - 12/31/14	% Received	Adopted FY2014	7/1/13 - 12/31/13*	% Received	Variance 1st Half Year FY14 vs. FY15
Secured Property	\$44,352,255	\$22,852,780	51.53%	\$ 41,180,566	21,804,398	52.95%	1,048,382
Unsecured Property Taxes	2,498,523	2,226,188	89.10%	2,447,266	2,148,352	87.79%	77,836
Supplemental Taxes	760,000	513,547	67.57%	630,000	280,442	44.51%	233,105
Property Transfer Tax	11,000,000	8,193,132	74.48%	10,000,000	7,300,805	73.01%	892,327
Sales Taxes	16,365,826	8,538,505	52.17%	15,972,075	8,238,260	51.58%	300,245
Utility Users Taxes	14,629,742	6,953,967	47.53%	15,011,223	6,941,168	46.24%	12,799
Transient Occupancy Taxes	5,957,082	3,836,207	64.40%	5,234,447	3,421,441	65.36%	414,766
Business License Tax	16,253,126	877,538	5.40%	15,852,545	381,367	2.41%	496,171
Vehicle In-Lieu Taxes	9,671,582	4,832,211	49.96%	9,259,210	4,614,305	49.83%	217,906
Parking Fines-Regular Collections	7,000,000	3,617,914	51.68%	8,285,000	3,605,915	43.52%	11,999
Parking Fines-Booting Collections	200,000	67,064	33.53%	350,000	90,953	25.99%	(23,889)
Moving Violations	230,000	524,599	228.09%	300,000	126,592	42.20%	398,007
Interest Income	2,600,000	1,148,189	44.16%	3,200,000	1,205,166	37.66%	(56,977)
Ambulance Fees	4,386,689	2,216,179	50.52%	3,988,508	1,992,810	49.96%	223,369
Franchise Fees	1,841,403	477,887	25.95%	1,800,799	467,621	25.97%	10,266
Other Revenue	8,604,970	5,044,008	58.62%	8,860,283	3,980,488	44.93%	1,063,520
Transfers	8,030,303	4,004,325	49.87%	8,428,628	3,938,615	46.73%	65,710
Total Revenue:	\$154,381,501	\$75,924,241	49.18%	\$150,800,550	70,538,699	46.78%	5,385,543

The first half review focuses on the major revenue fluctuations:

Secured Property Tax (+\$1,048,382 over FY 2014 Actual) Change in projection (\$0)

During the first half of FY 2015, Secured Property Tax revenues totaled \$22,852,780, which was \$1,048,382 or 4.87% more than the \$21,804,398 received for the same period in FY 2014. This growth is in line with the restoration of decline in market value projection based on the assessed value increase anticipated by the County Assessor.

Property Transfer Tax (+\$892,327 over FY 2014 Actual) Change in projection (\$0)

During the first half of FY 2015, Property Transfer Tax revenue increased by \$892,327 to \$8,193,132 or 12.2% more than the \$7,300,805 received for the same period in FY 2014. The last quarter saw a continuation of the strong property sales received in the first quarter and staff believes the third and fourth quarters will continue to register this growth trend. Staff will closely monitor this revenue for a possible increase in the projection.

Sales Tax (+\$300,245 over FY 2014 Actual) Change in projection (\$0)

For the first half of FY 2015, Sales Tax revenue totaled \$8,538,505 which is \$300,245 or 3.6% more than the \$8,238,260 received for the first half of FY 2014. The second quarter of the fiscal year which ended December 31, 2014 saw robust sales tax revenues which accounted for most of the increase. With the economy growing at a decent pace, this revenue stream will continue to have decent growth.

Transient Occupancy Tax (+\$414,766 over FY 2014 Actual) Change in projection (\$0)

Transient Occupancy Tax (TOT) revenue for the first half of FY 2015 totaled \$3,836,207 which is \$414,766 or 12.12% more than the \$3,421,441 received for the first half of FY 2014. This result shows the continuation of the strong performance recorded by all the ten major hotels, in some cases double digit increase in grow was recorded. This increase is also in line with the strong performance that was anticipated when the FY 2015 budget was adopted.

Parking Fines (+\$11,999 over FY 2014 Actual) Change in projection (\$0)

Parking fines revenue increased this first half of 2015 fiscal year by \$11,999 over the 2014 first half actual. Even though there was a 10.36% drop in ticket writing during this reporting period, the adopted budget for FY 2015 was lowered by \$1,635,000 from FY 2014 budget. There were a total of 79,981 tickets written for same period of fiscal 2014 as opposed to 71,690 written in this reporting period for FY 2015.

Moving Violations (+\$398,007 over FY 2014 Actual) Change in projection (\$0)

Moving violations revenue increased this first half of 2015 fiscal year by \$398,007 which is 314.40% over the 2014 first half actual. This increase is primarily due to a check of \$370,570 received from the Alameda County Auditor-Controller office for court fees collected in FY 2014 and apportioned to the City. This is not a recurring revenue stream.

Interest Income (-\$56,977 less FY 2014 Actual) Change in projection (\$0)

For the first half of FY 2015, interest income totaled \$1,148,189 which is \$56,977 or 4.72% less than the total of \$1,205,166 received for the same period in FY 2014. This revenue source continues to trend lower than adopted because of the low interest rates environment which has been the Federal Reserve's policy since the start of the 2008 recession. It is anticipated that this might change as the Federal Reserve has hinted it might begin to raise rates if the economy continues to grow as it has been for the past three quarters.

FY 2015 General Fund Expenditures (7/1/14 – 12/31/14)

Department	FY 2015 Adopted	FY 2015 Adjusted	YTD Actuals + Encumbrances	% Budget Spent	Year-End Projected	Surplus/ Deficit	% Over/ Under
Mayor & Council	1,768,200	1,779,983	823,386	46%	1,779,983	0	0.0%
Auditor	2,052,561	2,375,359	826,998	35%	1,945,221	430,138	18.1%
City Manager	4,796,940	4,860,371	2,333,870	48%	4,786,800	73,571	1.5%
Police Review Commission	549,881	557,311	265,287	48%	557,311	0	0.0%
City Attorney	2,300,900	2,345,900	1,098,502	47%	2,345,900	0	0.0%
City Clerk	1,897,904	2,540,204	1,126,559	44%	2,358,671	181,533	7.1%
Information Technology	5,260,048	7,499,661	3,619,725	48%	7,499,661	0	0.0%
Finance	5,536,002	5,837,017	2,608,554	45%	5,837,017	0	0.0%
Human Resources	1,890,079	1,998,843	914,805	46%	1,998,843	0	0.0%
Health, Housing & Community Svcs.	12,211,374	12,884,752	5,857,361	45%	12,783,342	101,410	0.8%
Public Works	2,600,255	2,718,485	1,277,673	47%	2,566,440	152,045	5.6%
Parks, Recreation and Waterfront	5,562,004	5,712,660	2,983,556	52%	5,669,387	43,273	0.8%
Fire	27,718,065	27,774,964	13,513,060	49%	27,592,815	182,149	0.7%
Police	55,820,901	56,118,306	28,101,890	50%	57,355,974	-1,237,668	-2.2%
Planning	1,687,798	1,697,607	759,140	45%	1,677,458	20,149	1.2%
Economic Development	2,027,532	2,207,727	1,580,169	72%	2,207,727	0	0.0%
Non-Departmental	20,701,040	20,658,844	12,189,868	59%	20,658,844	0	0.0%
Total	154,381,484	159,567,994	79,880,403	50%	159,621,394	-53,400	0.0%

FY 2015 Special Funds Expenditures (7/1/14 – 12/31/14)

Note: Special Funds are non-discretionary funds allocated for specific purposes (e.g. Community Development Block Grant, Sewer Fund, and Parks Taxes).

Department	FY 2015 Adopted	FY 2014 Adjusted	YTD Actual + Encumbrances	% Budget Spent	Year -End Projected	Surplus/ Deficit	% Over/ Under
Mayor & Council							
Auditor	130,027	130,027	60,321	46%	114,630	15,397	11.8%
City Manager	451,961	488,535	167,277	34%	435,931	52,604	10.8%
Police Review Commission						-	
City Attorney	1,719,633	2,214,694	823,345	37%	1,706,522	508,172	22.9%
City Clerk						-	
Information Technology	3,453,425	5,588,186	2,199,584	39%	5,397,550	190,636	3.4%
Finance	1,878,587	1,908,653	720,328	38%	1,908,653	-	0.0%
Human Resources	1,333,418	1,565,065	558,807	36%	1,565,065	-	0.0%
Health, Housing & Community Svcs.	25,490,291	33,345,172	12,679,719	38%	24,521,662	8,823,510	26.5%
Public Works	92,642,275	120,083,360	66,037,002	55%	109,656,584	10,426,776	8.7%
Parks and Waterfront	17,962,391	22,077,475	10,782,625	49%	19,544,758	2,532,717	11.5%
Fire	7,056,428	7,059,172	3,192,155	45%	6,907,601	151,571	2.1%
Police	4,613,303	4,833,531	1,897,621	39%	3,976,527	857,004	17.7%
Planning	11,417,342	13,442,038	6,774,456	50%	12,965,179	476,859	3.5%
Economic Development	2,227,862	3,035,612	1,187,349	39%	3,035,612	-	0.0%
Rent Board	4,245,000	4,248,730	2,084,505	49%	4,248,730	-	0.0%
Library	19,094,157	19,492,810	8,850,706	45%	17,275,389	2,217,421	11.4%
Non-Departmental	27,604,152	29,892,981	18,890,334	63%	29,892,981	-	0.0%
Total All Other Funds	221,320,252	269,406,041	136,906,134	51%	243,153,374	26,252,667	9.7%
Total General Fund	154,381,484	159,567,994	79,880,403	50%	159,621,394	(53,400)	0.0%
Total Citywide Budget	375,701,736	428,974,035	216,786,537	51%	402,774,768	26,199,267	6.1%

Budget Assumptions

- ⇒ Budgeted target savings for departments are built into FY 2015 Adopted and Adjusted General Fund budgets.
- ⇒ Year-to-date payroll through 12/31/14 equals 48% of the payroll budget expended.
- ⇒ Non-personnel YTD expenditures through 12/31/14 are generally assumed to be fully expended, except for capital improvement project funding. If non-personnel budgets are not fully expended, additional savings will be realized at year-end.
- ⇒ Expenses are measured against the Adjusted Budget, which includes carryover of funds from FY 2014 into FY 2015 as approved by Council on November 18, 2014.

Second Quarter Variance Analysis

The following variance analysis is an expenditure snapshot by City departments and is intended to present possible expenditure trends for this fiscal year.

General Fund spending by department

The General Fund is projected to end FY 2015 over the adjusted budget by just over \$53,000.

The Police Department expenditures are projected to be over budget by approximately \$1.2 million due to overtime expenditures exceeding the budgeted amounts. Over \$868,000 of the overage is due to overtime and non-personnel costs related to the demonstrations that took place in December 2014. An appropriation for the \$868,000 will be included in the Second Amendment to the FY 2015 Annual Appropriations Ordinance.

The City Auditor's Office is projected to finish under budget by approximately \$430,000. This includes \$321,002 previously set aside for consulting for audits, electronic time entry, and replacement of the FUNDS payroll module. In 2010, Information Technology estimated that replacement of the payroll module, which would include electronic time entry, will cost over \$1 million, including staff implementation time.

Special Funds spending by department

Special Funds excludes the City's General Fund and are made up of numerous dedicated revenue funds, enterprise funds, and state and federal grant funds. Revenues generated by these activities are restricted. Staff is projecting unspent funds totaling approximately \$26 million in FY 2015. This is due mainly to several large capital improvement projects that are in progress and will not be completed in this fiscal year, as well as salary savings from vacancies.

Public Works (General Fund +\$152,045; Special Funds +\$10,426,776)

The vast majority of the unspent funds in the Public Works are attributed to pending capital projects.

- *Sanitary Sewer Fund (\$4.0 million)*: Projected expenditures in this fund are expected to be under budget by \$4.0 million due to salary savings (\$1.5 million) and non-completion of rolled over non-personnel and capital project funds (\$2.5 million). All unspent project funds will be carried over to FY 2016.

- *Zero Waste Fund (\$1.1 million):* The Zero Waste Fund is projected to finish FY 2015 under budget by \$1.1 million. This is due primarily to salary savings from vacant positions in FY 2015.
- *State Transportation Tax Fund (\$1.7 million):* Expenditures in the State Transportation Tax Fund are projected to be under budget by almost \$1.7 million. Salary savings of \$393,000 plus under spending of non-personnel by \$1.3 million are the main reasons for the projected unspent funds.
- *Measure M (\$0.5 million):* The Measure M projected year-end balance of \$0.5 million is allocated to the design and construction of the FY 2015 streets and green infrastructure projects approved by Council. All unencumbered funding will be requested for carryover to complete projects in FY 2016.
- *CALTRANS Grant (\$0.5 million):* Grant funds will not be fully spent for the Berkeley Transportation Action Plan – Parking Management project, Berkeley Transportation Action Plan – Transportation Demand Management, and Ashby Corridor Improvement project by the end of FY 2015. The unspent funds will be carried over to FY 2016.

Health, Housing & Community Services (General Fund +\$101,410; Special Funds +\$8,823,510)

Health, Housing & Community Services expenditures are projected to be under the adjusted budget by almost \$8.8 million at the end of FY 2015. \$4.6 million of these unspent funds represent funds committed to Housing Trust Fund projects that will not be expended until after FY 2015. \$243,000, remaining from a \$1 million CalHome grant to provide low interest loans to disabled and/or senior households must be spent by April 2016. An additional \$1.1 million are unspent CDBG funds committed to capital projects that have not been completed and will be carried over for use in FY2016. In Mental Health, there is almost \$500,000 in unspent Mental Health Service Act Funds. These funds will be spent according the plan Council will adopt in March 2015. Also in Mental Health, there is a \$625,000 balance in Short/Doyle Medi-Cal in expenses due to vacancies and cost shifts to other available funding sources. This reserve allows the department to set aside funds to cover the costs of continued unresolved audit findings from past years.

Parks Recreation & Waterfront (General Fund +\$43,273; Special Funds +\$2,532,717)

Under-spending in the special funds in the Parks Recreation & Waterfront Department is due primarily to capital improvement work that will begin this year, but be completed in FY 2016. The Department's capital program funds include: the CIP Fund, the Camps Fund, the Parks Tax, Measure WW funds, and several other grants. These funds have been programmed and funds that are not fully spent in FY 2015 will be requested for carryover to FY 2016.

Library (General Fund \$0; Special Funds +\$2,217,421)

Library is projected to finish under budget by almost \$2.2 million. The savings is due to salary and non-personnel savings in the Library Tax Fund and the completion and close out of the branch libraries renovation projects.

Police (General Fund -\$1,237,668; Special Funds +857,004)

Although Police is projected to be overspent in the General Fund, the department is projecting a savings of \$857,004 in special funds. The savings is due to not fully spending grant funds that will be carried over to FY 2016 and salary savings in Proposition 172 and Parking Meter Funds.

City Attorney (General Fund +\$181,533; Special Funds +\$508,172)

The City Attorney's Office is projected to be under budget in special funds by \$508,172. This is due to projected savings in the Public Liability Fund for claims and judgments pending the results of the Utility User Tax Refunds lawsuit.

Planning (General Fund +\$20,149; Special Funds +\$476,859)

A combination of unspent appropriations for non-personnel expenditures and salary savings in the Permit Service Center Fund and several other funds is expected to result in Planning finishing FY 2015 under budget by \$476,859

