



ADMINISTRATIVE SERVICES DEPARTMENT

MEMORANDUM

DATE: February 10, 2015

TO: The Honorable City Council

FROM: Bryan Cook, City Manager
Via: Tracey L. Hause, Administrative Services Director
By: Lee Ma, Accountant

SUBJECT: FISCAL YEAR (FY) 2014-15 MID-YEAR BUDGET REVIEW

RECOMMENDATION:

The City Council is requested to:

- a) Authorize staff to revise various revenue estimates as indicated in Attachment "A";
- b) Authorize staff to revise various budgeted appropriations as indicated in Attachment "B";
- c) Authorize an increase in the bus passes and tokens subsidy for Temple City residents;
- d) Receive a demonstration of the City's Fiscal Health Diagnostic Tool, a tool for forecasting future revenues and expenditures.

BACKGROUND:

1. On May 22, 2014, the Metropolitan Transportation Authority (MTA) Board of Directors approved a fare increase for bus and rail lines, effective September 15, 2014.
2. On June 3, 2014, the City Council approved the FY 2014-15 City Budget in the amount of \$20,587,925.
3. On August 5, 2014, the City Council approved a budget amendment in the amount of \$26,500 to host and co-sponsor the 2015 Sing Tao Lunar New Year Street Festival. To offset the cost to the City, Sing Tao will reimburse the City \$10,000.
4. On September 2, 2014, the City Council approved a budget amendment in the amount of \$15,000 for relocation of a streetlight pursuant to contractual terms with the Temple City Gateway LLC.

5. On September 16, 2014, the City Council approved a budget amendment in the amount of \$41,610 to purchase a telephone system from KTS Networks.
6. On October 21, 2014, the City Council approved a budget amendment in the amount of \$7,500 awarded to Center of Priority Based Budgeting (CPBB) for the development of the Fiscal Health Diagnostic Tool and related consulting services.
7. On November 18, 2014, the City Council approved first quarter budget amendments in various revenue accounts for a total amount of \$575,000, and \$104,770 in General Fund and \$1,641,125 in non-General Fund appropriations.
8. On December 16, 2014, the City Council appropriated \$10,000 to fund installation of a decorative feature on the Performing Arts Pavilion Dance Floor.
9. On February 3, 2015, the City Council approved the following recommended revenue and appropriation adjustments:
 - An additional \$30,600 from the General Fund Unassigned Fund Balance in appropriations; and
 - An adjustment of \$40,350 in both estimated revenues and appropriations in the Community Development Block Grant (CDBG) Fund to recognize a housing rehabilitation loan repayment.

ANALYSIS:

The FY 2014-15 Mid-Year Budget review process provides the City Council with an opportunity to review and adjust original revenue projections and budgeted appropriations based on six months of actual activity. Adjustments are a result of changes in revenue projections based on actual revenue received from July 1, 2014 through December 31, 2014, as well as unanticipated expenditures due to information that was not previously available. While the City continues to show positive financial growth, staff continues to monitor revenues closely and to strictly control expenditures. Details of revenues and expenditures are provided below.

1. FY 2014-15 REVENUES

An analysis of the City's revenues has been completed for the FY 2014-15. Although some revenues are in line with projections, there are other revenue estimates that require adjustments. The table below summarizes the City's significant revenues and provides an overview of the recommended changes based on mid-year review by staff.

Revenue Source	FY 2014-15 Budget	FY 2014-15 Revised Projection Amendments	Increase (Decrease)	Percentage Change
General Fund				
Real Estate Transfer Tax	\$ 170,000	\$ 200,000	\$ 30,000	17.6%
Franchise Fees	\$ 560,000	\$ 580,000	\$ 20,000	3.6%
Transient Occupancy Tax	\$ 35,000	\$ 50,000	\$ 15,000	42.9%
Property Tax Allocation	\$ 2,700,000	\$ 2,735,000	\$ 35,000	1.3%
Building Permit Fees	\$ 300,000	\$ 500,000	\$ 200,000	66.7%
Encroachment Permit Fees	\$ 120,000	\$ 200,000	\$ 80,000	66.7%
Plan Check Fees	\$ 400,000	\$ 570,000	\$ 170,000	42.5%
Facility Rental Fees	\$ 65,000	\$ 75,000	\$ 10,000	15.4%
Engineering Fees	\$ 50,000	\$ 85,000	\$ 35,000	70.0%
Court Fines	\$ 700,000	\$ 400,000	\$ (300,000)	-42.9%
Rental Income	\$ 65,000	\$ 100,000	\$ 35,000	53.8%
Other Reimbursement	\$ 100,000	\$ 409,000	\$ 309,000	309.0%
Sub-Total	\$ 5,265,000	\$ 5,904,000	\$ 639,000	12.1%
Proposition A Fund				
Charges for Service - Bus Pass Sale	\$ 140,000	\$ 148,900	\$ 8,900	6.4%
Total	\$ 5,405,000	\$ 6,052,900	\$ 647,900	12.0%

A. GENERAL FUND REVENUES

- **Real Estate Transfer Tax:** Real Estate Transfer Tax is tax that is collected when there is a change in ownership of all real properties within City limits. Staff is recommending a \$30,000 increase in this revenue source as a result of a continuing increase in the number of sales of properties.
- **Franchise Fees:** Franchise Fees are fees collected from service providers for use of the City's infrastructure and who provide utility services to the residents, such as Athens Services, The Gas Company, Southern California Edison and cable television. An increase in estimated revenues of \$20,000 is recommended as a result of fee collections through December 2014.
- **Transient Occupancy Tax:** A 10% Transient Occupancy Tax is collected from each guest that rents a room from any hotel located within the City. The tax is remitted directly to the City by the hotel owners on a monthly basis. Based on actual collections for the first six months of the fiscal year, an increase of \$15,000 is recommended.
- **Property Tax Allocation:** Property taxes continue to be one of the City's strongest revenue sources. Under Proposition 13, property is generally reassessed only when there is a change in ownership. In addition assessed

value is adjusted annually by an inflation factor not to exceed two percent. Temple City's assessed valuations continue to increase and the median home prices have exceeded the pre-recession levels of 2007. Staff estimated an increase of 4.4% in property tax revenues for FY 2014-15 during the budget process last spring. However, after analyzing the increases in assessed valuations and property tax receipts to date, it is anticipated receipts will be higher than originally anticipated and an adjustment of \$35,000 is recommended.

- **Building Permit Fees:** Based on the first six months of revenues received in FY 2014-15, staff recommends a \$200,000 increase in the building permit fees as a result of a continued building activity.
- **Encroachment Permit Fees:** An Encroachment Permit is required if private development completes construction in the public right-of-way. Due to continued activities with the Olson Project, Camilla Square and other construction activities, an increase of \$80,000 is recommended.
- **Plan Check Fees:** As indicated above with construction related revenues, an increase in Plan Check Fees in the amount of \$170,000 is recommended due to continued building activities.
- **Facility Rental Fees:** Fees are charged when City facilities are utilized by outside organizations or the general public. Increased activity supports an increase of estimated revenues of \$10,000.
- **Engineering Fees:** Engineering Fees are collected when a review of building plans by the City's contracted engineering firm, Transtech is required for approval of a Building Permit. Based on increased activity, an adjustment of \$35,000 is recommended.
- **Court Fines:** Court Fines are revenues collected from citations written from both the Los Angeles County Sheriff's Department and authorized City staff. A revised estimate decreasing revenues by \$300,000 is recommended due to a reduction of overnight parking citations issued due to compliance by residents.
- **Rental Income:** Staff recommends an increase of \$35,000 in rental income primarily as a result of additional income generated by the Primrose properties.
- **Other Reimbursements:** An increase in Other Reimbursements of \$309,000 as a result of the reimbursement for the windstorm emergency expenses and debris removal, and the recovery of Property Tax administrative fees levied by Los Angeles County.

B. SPECIAL REVENUE FUND – PROPOSITION A FUND

The City currently offers bus passes and tokens for sale to Temple City residents at a reduced rate. The subsidy is funded through the City’s Proposition A funds. With the approval of the new fare increases by MTA for bus and rail passes, most monthly passes increased by over 20%. Following is a table comparing the previous fare and cost to the current fare and cost for Temple City residents:

DESCRIPTION	Prior to 9/15/2014		Current	
	MTA Fare	Cost for TC Residents	MTA Fare	Cost for TC Residents
Regular - MTA	\$75	\$60	\$100	\$85
Regular - EZ	\$84	\$69	\$110	\$95
Senior/Disabled - MTA	\$14	\$11	\$20	\$17
Senior/Disabled – EZ	\$35	\$32	\$42	\$39
Student (K-12)	\$24	\$18	\$24	\$18
College	\$36	\$26	\$43	\$33
Tokens	\$15	\$12	\$17.50	\$14.50

The subsidy amount for each pass has remained the same since the fare increase (i.e. Regular passes were discounted \$15; Senior/Disabled passes discounted \$3; College passes \$10). However, residents are now paying significantly more for some of the passes, in particular Regular passes which increased \$25 per month for Regular MTA (42% increase) and \$26 per month for EZ passes (38% increase). Passes for seniors and disabled persons also increased substantially (55% for MTA and 22% for EZ), while the college monthly passes increased \$7 (27%) per month. Staff is recommending the City Council consider increasing the subsidy amount for the Regular MTA and EZ pass; the MTA and EZ Senior pass; and the MTA College pass. The table below shows the recommended subsidy amounts.

DESCRIPTION	MTA Fare	Resident Price		
		Pre-9/15	Current	Proposed
Regular – MTA	\$100	\$60	\$85	\$75
Regular - EZ	\$110	\$69	\$95	\$85
Senior/Disabled - MTA	\$20	\$11	\$17	\$15
Senior/Disabled – EZ	\$42	\$32	\$39	\$37
Student (K-12)	\$24	\$18	\$18	\$18
College	\$43	\$26	\$33	\$30
Tokens	\$17.50	\$12	\$14.50	\$14

To cover the increase in fares, a revenue adjustment is required as discussed below. The expenditure adjustment will be discussed later in this report. If the City Council approves the recommended increase in the subsidy, the Bus Pass Sales revenue account will increase by approximately \$8,900. If the increase in subsidy is not approved, and the cost for monthly passes for Temple City residents remains at the current rate, the Bus Pass Sales revenue account will increase by approximately \$12,900. A budget amendment in the amount of \$8,900 is recommended along with the increased subsidy.

2. FY 2013-14 EXPENDITURES

The adopted FY 2014-15 City Budget totaling \$16.4 million in Operating Expenditures and Vehicle/Equipment Outlay. The table below summarizes staff's recommendations for adjustments:

Department/Fund	FY 2014-15 Budgeted Expenditures	FY 2014-15 Revised Projections	Increase (Decrease)	Percent Change
City Attorney – Special Counsel - General Fund	\$130,000	\$398,000	\$148,000	114%
Com Dev - Traffic Engineering - General Fund	\$5,115	\$20,115	\$15,000	293%
Com Dev - Traffic Surveys - General Fund	\$2,250	\$17,250	\$15,000	667%
Bus Pass Sales - Proposition A Fund	\$151,540	\$171,540	\$20,000	13%
Engineering Services - State Gas Tax	\$40,500	\$260,500	\$220,000	543%
Special Equipment - General Fund	\$0	\$40,000	\$40,000	-
Total	\$329,405	\$907,405	\$458,000	139%

The total mid-year recommended operating increase is \$418,000 (Attachment "B"). Additional resources are required for special legal services as a result of continued labor negotiations and other personnel matters. With increased engineering services related to traffic and traffic surveys, an increase in two related line items, (Traffic Engineering and Traffic Surveys), an amendment of \$15,000 for each line item is requested. An amendment of \$20,000 is required to cover the increase in the cost of bus passes and tokens purchased from MTA, as discussed above, is required. An adjustment in the State Gas Tax Fund for engineering services, provided by Transtech, for street projects in the amount of \$220,000 is also recommended. The original request of \$40,500 was not sufficient and an amendment is required to cover all services provided by Transtech during this fiscal year.

3. EQUIPMENT/VEHICLE REPLACEMENT

The City adopted a budget for Equipment /Vehicle Replacement of \$141,900 of which \$96,900 is funded by the General Fund. Staff is requesting \$40,000 to upgrade the City's parking permit system to provide better service to Temple City residents and their guests. The funds will be used for two purposes: 1) to replace the parking permit dispenser at City Hall, and 2) to implement an online parking permit system. The parking permit dispenser at City Hall is an older machine that is frequently inoperative and in need of service or repair. It also lacks the functionality of modern machines including the ability to issue more than one type of permit and the ability to print vehicle license numbers on the permits. In addition to overnight parking permits, a new machine could also issue oversized vehicle permits, providing additional convenience for residents. An online parking permit system would provide residents and their guests with the option of obtaining overnight parking permits and oversized vehicle permits online. Permits could be purchased online and printed at home without the need to come to City Hall or use the permit dispenser. An updated dispenser machine and an online service also provide capabilities for further service enhancements in the future, such as license plate-based paperless permits.

4. GENERAL FUND CAPITAL IMPROVEMENT PROJECTS (CIP)

There are no adjustments recommended to the CIP at this time.

5. FUND BALANCE ANALYSIS

Attachment "C" provides an analysis of the fund balance. Estimated General Fund Balances at June 30, 2015 are provided:

- At July 1, 2014, when the FY 2014-15 City Budget was adopted;
- At December 31, 2014, when actual Fund Balance at July 1, 2014 was available due to completion of the audited Comprehensive Annual Financial Report (CAFR). This estimate also includes budget adjustments approved by the City Council for the first eight months of operations; and
- At present, if the recommended adjustments in this report are approved and implemented.

At the time of adoption of the FY 2014-15 City Budget, a structural deficit of \$2.1 million existed as a result of a conscious decision on the City Council's part to commit to one-time, capital expenditures from Reserves, in accordance with the City's adopted Budget Reserve Policy. While a structural deficit remains at approximately \$2.1 million, revised revenue estimates and adjustments in appropriations are recommended to ensure a comprehensive spending plan is in place for the remaining fiscal year and recommended programs are funded.

The analysis further articulates the resources that are available in accordance with the City's adopted Budget Reserve Policy. It is anticipated the City will be moving into the FY 2015-16 City Budget process with an unassigned Fund Balance of \$42,377, and Committed and Assigned Reserves for restricted purposes remain unchanged.

6. FISCAL HEALTH DIAGNOSTIC TOOL

One of the tools identified in the City's Strategic Plan for accomplishing its goals is the development of a Long-Term Financial Plan. A Long-Term Financial Plan will identify potential long-term imbalances and identify strategies to counteract these imbalances. The Long-Term Financial Plan does not just forecast the status quo, it considers various financial and economic environments, forecasts revenues and expenditures both on-going and one time, capital needs and considers future debt.

Staff will be demonstrating CPBB's Fiscal Health Diagnostic Tool (an on-line multi-year forecasting tool) during the FY 2014-15 Mid-Year Budget Special City Council Meeting, to facilitate future comprehensive discussions with the City Council for alternative funding strategies, not only General Fund operational activities, but also long-term infrastructure projects.

CPBB presents 5 key principles of Fiscal Health, which are significant as part of the development of the Fiscal Health Diagnostic Tool:

- Spending Within Our Means- focusing on the alignment between ongoing sources and ongoing uses and on the alignment between one-time sources and one-time uses;
- Establishing and Maintaining Reserves – focusing on fund balance reserves and the monitoring tools in place to protect those reserves;
- Understanding Variances - focusing on disparities between budget projections and actuals to look for opportunities to shift resource allocations from areas where they are not needed and more importantly improve the accuracy of revenue and expenditure forecasts by eliminating the impact of recurring historical variances;
- Being Transparent About the True Cost of Doing Business – focusing on ensuring that appropriate internal service and administrative costs are shouldered by the programs that benefit from those services, ensuring that fees for services are capturing both direct and indirect costs (appropriate for cost recovery objectives) and ensuring that the full cost of offering programs and services is clearly articulated and understood; and
- Incorporating Long-term Planning into Decision Making – focusing on the inclusion of all long-term plans prepared by the City in financial forecasts and the budget process as well as the associated incorporation of relevant external economic influences. Additionally, insuring that the City uses clear and concise modeling tools to communicate forecasts, assess impacts and identify impacts of budget decisions.

Since the Fiscal Health Diagnostic Tool and its results will be incorporated into the City's regular budget process and budget document, staff will be presenting a one-year budget document to the City Council for consideration and adoption. The 5 year forecast generated from the Fiscal Health Diagnostic Tool will provide a more comprehensive and accurate view into the future than the previously two-year budget document.

CONCLUSION:

As the building and development activities remain strong providing for enhanced revenues, the City will continue to apply best fiscal management practices and a conservative approach, including proactive mid-year budget adjustments, a realistic and accurate spending plan for the remaining of the fiscal year.

FISCAL IMPACT:

If the City Council approves the above mentioned FY 2014-15 Mid-Year adjustments, the FY 2014-15 City Budget will be amended to \$23,053,380.

ATTACHMENTS:

- A. FY 2013-14 Mid-Year General Fund Revenue Adjustments
- B. FY 2013-14 Mid-Year General Fund Appropriation Adjustments
- C. FY 2013-14 Fund Balance Analysis

CITY OF TEMPLE CITY
FY 2014-15 MID-YEAR REVENUE ADJUSTMENTS

		Original Budget	Proposed Amendments	Revised Budget
General Fund				
Real Estate Transfer Tax	01-810-32-3201	170,000	30,000	200,000
Franchise Fees	01-810-32-3207	560,000	20,000	580,000
Transient Occupancy Tax	01-810-32-3209	35,000	15,000	50,000
Property Tax Allocation	01-810-32-3211	2,700,000	35,000	2,735,000
Building Permit Fees	01-820-33-3303	300,000	200,000	500,000
Encroachment Permit Fees	01-820-33-3306	120,000	80,000	200,000
Plan Check Fees	01-840-35-3508	400,000	170,000	570,000
Facility Rental Fees	01-840-35-3510	65,000	10,000	75,000
Engineering Fees	01-810-35-3512	50,000	35,000	85,000
Court Fines	01-850-36-3601	700,000	(300,000)	400,000
Rental Income	01-870-38-3811	65,000	35,000	100,000
Other Reimbursement	01-870-38-3815	100,000	309,000	409,000
	Sub-Total	5,265,000	639,000	5,904,000
Proposition A Fund				
Charges for Service - Bus Pass Sales	15-830-34-3507	140,000	8,900	148,900
	Total	5,405,000	647,900	6,052,900

CITY OF TEMPLE CITY
FY 2014-15 MID-YEAR APPROPRIATIONS ADJUSTMENTS

		Original Budget Amount	Proposed Adjustments	Revised Budget Amount	
Special Counsel	01-910-43-4243	130,000	148,000	278,000	City Attorney special legal expenses
Traffic Engineering	01-950-62-4236	5,115	15,000	20,115	Increased Traffic Analysis Activity
Traffic Surveys	01-950-62-4237	2,250	15,000	17,250	Increased Traffic Analysis Activity
Bus Pass Sales	15-940-58-4278	151,540	20,000	171,540	Increase Cost of Bus Passes
Engineering Services	21-960-71-4239	40,500	220,000	260,500	Incorrect Budgeting for In-House Engineering Services
	Total Operating	329,405	418,000	747,405	
Special Equipment	To Be Determined	0	40,000	40,000	Replace Parking Permit Machine
	Total Fixed Assets	0	40,000	40,000	
	Grand Total	329,405	458,000	787,405	

CITY OF TEMPLE CITY FY 2014-15 GENERAL FUND BALANCE ANALYSIS			
	FY 2014-15 Adopted Budget	Budget Amendments (Jul - Feb) and Actual Fund Balance (6-30-14)	FY 2014-15 Mid-Year Budget Review
Estimated Fund Balance July 1, 2014			
Designated	\$ -		
Nonspendable		\$ 10,531	\$ 10,531
Committed	\$ 3,500,000	\$ 3,500,000	\$ 3,500,000
Assigned	\$ 12,769,580	\$ 12,769,580	\$ 13,178,874
Unassigned	\$ 1,586,004	\$ 1,328,611	\$ 919,317
Total Fund Balance Before Reserves	\$ 17,855,584	\$ 17,608,722	\$ 17,608,722
Reserved (Internal Purposes)			
City Loan (Calabee's)	\$ 335,418	\$ 335,418	\$ 335,418
City Loan (Chamber)	\$ 4,100	\$ 4,600	\$ 4,600
City Loans (Homeowners)	\$ 56,775	\$ 56,775	\$ 56,775
CRA Loans	\$ -	\$ -	\$ -
Total Fund Balance July 1, 2014	\$ 18,251,877	\$ 18,005,515	\$ 18,005,515
Revenues	\$ 11,961,300	\$ 12,021,300	\$ 12,660,300
Transfers In	\$ 500	\$ 500	\$ 500
Estimated Expenditures	\$ (11,928,835)	\$ (12,071,435)	\$ (12,249,435)
Operating Surplus/Deficit	\$ 32,965	\$ (49,635)	\$ 411,365
Estimated Equip/Vehicle Replacement	\$ (96,900)	\$ (138,510)	\$ (178,510)
CIP/Transfers Out	\$ (841,025)	\$ (877,495)	\$ (1,097,495)
Use of Reserves for Specific Projects	\$ (1,196,000)	\$ (1,209,300)	\$ (1,209,300)
Surplus/Deficit	\$ (2,100,960)	\$ (2,274,940)	\$ (2,073,940)
Estimated Fund Balance June 30, 2015	\$ 16,150,917	\$ 15,730,575	\$ 15,931,575 *

* Estimated Fund Balance Designations at June 30, 2015, in accordance with the General Fund Budget Reserve Policy

Nonspendable		\$ 10,531
Committed		
Emergency/Disasters	\$ 1,000,000	
Liquidity	\$ 2,000,000	
Local Economic Uncertainty	\$ 500,000	\$ 3,500,000
Assigned		
Fleet Management	\$ 400,000	
Facilities Management	\$ 3,540,000	
Technology Replacement	\$ 49,028	
Economic Development	\$ 3,446,410	
Opportunities for One-Time Expenditures	\$ 4,547,436	\$ 11,982,874
Unassigned		\$ 42,377
Internal Reserves (City Loans)		\$ 395,793
		<u>\$ 15,931,575</u>