



City of La Quinta

CITY / SA / HA / FA MEETING DATE: March 4, 2014

ITEM TITLE: Mid-Year Budget Report for Fiscal Year 2013/2014

AGENDA CATEGORY:

BUSINESS SESSION: 3

CONSENT CALENDAR:

STUDY SESSION:

PUBLIC HEARING:

RECOMMENDED ACTION:

Approve the recommendations contained in the Mid-Year Budget Report and direct staff to make necessary expenditure and revenue budget adjustments to implement the Report recommendations.

EXECUTIVE SUMMARY:

- A mid-year report providing information regarding expenditure and revenue status (budget versus actuals) is prepared annually to allow the City Council an opportunity to consider recommended adjustments to the annual operating budget.
- Each City Department reviews its operating budget and provides recommendations regarding the need for additional appropriations to cover expenses not anticipated when the annual budget was adopted in June 2013.
- The Finance Department, in conjunction with other City Departments and the City Manager, reviews revenue receipts versus budget at mid-year to provide recommendations regarding potential revenue increases or decreases.
- Based on the results of the comprehensive mid-year review, staff is recommending adjustments to various Department expenditure accounts, along with adjustments to key revenue budgets, as outlined in the body of this staff report.

FISCAL IMPACT:

The recommended action requires the following appropriation and revenue adjustments:

Additional Appropriations	
General Fund	\$713,250
Revenue Adjustments	
General Fund	\$821,300
CDBG Fund	\$208,645
JABG Grant	\$ 29,558

BACKGROUND/ANALYSIS:

Each year, the City conducts a mid-year review of its revenues and expenditures in order to provide the City Council with relevant financial data and to recommend adjustments. This process helps ensure that the Council is aware of budget variances and is provided the opportunity to consider adjustments prior to the close of the fiscal year. The process also provides an opportunity for the City’s Executive Team to request budget adjustments for unforeseen expenses that took place after the time of initial budget adoption.

Fiscal Year 2013/2014 Adopted Budget

In June 2013 the City Council adopted the annual operating and five-year Capital Improvement Program budgets. The adopted budget contains general fund expenditures and revenues of \$34,385,700, reflecting a balanced general fund budget that continues to provide the service levels that the La Quinta community expects. In addition, the budget contains financial data for all of the City’s operating and capital funds. Attachment 1 is a summary of the general fund revenue and expenditure adjustments, which are described in more detail below.

Revenues - \$821,300 Increase

Staff reviewed the status of the City’s major revenue sources to identify potential anomalies between budgeted and actual revenues, and to make recommendations for revenue budget adjustments. The City’s primary revenue sources include property, sales, and transient occupancy taxes. The other major revenue source is development related revenue. Property tax, transient occupancy tax (TOT) and development fee income has increased. Sales tax revenue is not expected to exceed the original projected revenue.

Property Tax Revenue - \$300,000. Revenue receipts at mid-year indicate that the City's property tax revenue at the end of the fiscal year will exceed budget projections, and staff recommends adjusting the revenue budget by \$300,000. This increase is due to improving property values combined with the elimination of redevelopment.

TOT Revenue - \$300,000. TOT revenue has experienced growth in the past year as a result of increased rentals along with the implementation of an audit process to capture single-family, short-term rentals. As a result, TOT revenue is expected to exceed budget by \$300,000.

Development Permit/Fee Revenue - \$221,300. A review of development related and other revenue in Public Works and Community Development found several variances in the budget versus actual amounts at mid-year. As a result, the following revenue account adjustments are being recommended:

Plumbing Permits	\$ 17,000
Mechanical Permits	\$ 30,000
Electrical Permits	\$ 17,000
Miscellaneous Permits	\$ 65,000
Plan Check Fees	\$150,000
Village Use Permit	(\$ 4,000)
Specific Plan Amendment	(\$ 1,500)
Tentative Tract Map	(\$ 4,000)
Conditional Use Permit	(\$ 5,000)
Site Development Permit	\$ 40,000
Zone Change	(\$ 5,200)
Environmental Assessments	(\$ 1,000)
General Plan Amendment	(\$ 6,000)
Parcel Map	\$ 9,000
Administrative Citations	(\$ 10,000)
Lot Abatement	(\$ 20,000)
Vehicle Abatement	(\$ 15,000)
Vehicle Impound Fee	(\$ 5,000)
Motor Vehicle Code Fines	(\$ 30,000)
TOTAL	\$221,300

Finally, during the budget development process staff failed to budget for the Juvenile Accountability Block Grant (JABG) in the amount of \$29,558 and Community Development Block Grant (CDBG) funding in the amount of \$208,645; thus this amount is being recommended to be added to the revenue budget in the grant funds account. The expenditure budget for both the JABG grant and the CDBG funds were already accounted for in the FY 2013/14 operating budget; therefore an adjustment to the expenditures is not required.

Expenditures

As a part of the mid-year review process, each Department conducted a review of their budgets, comparing budgeted amounts with actual year-to-date expenditures. The results of this review identified the following items that staff is recommending the City Council consider for adjustment:

Human Resources - \$95,000

As the City workforce continues to grow and change, there is a need to reestablish a budget for employee recruitment. The recruitment budget was significantly reduced during budget cutbacks, and staff is recommending reinstating an amount of \$10,000 for recruitment for the remainder of FY 2013/14.

The City was required to fund unemployment benefits for employees who were released during the reorganization of personnel. The City budgeted \$127,600 for these costs, and anticipated paying the full costs during FY 2012/13. However, the State only billed the City for a portion of the costs (\$57,539) in FY 2012/13, and the remaining billing was received in the current fiscal year, causing an overage of \$85,000 in the current year.

Community Services - \$25,500

At the request of the City Council, staff is recommending additional hours of operation for the La Quinta Boys and Girls Club. The recommendation will require additional funding of \$2,500 from the general fund for the remainder of the fiscal year.

As part of the City's ongoing desire to improve the customer service experience at City facilities, staff is proposing new signs at City Hall to help identify the departments and direct visitors. This proposal requires an additional \$23,000.

SilverRock Resort - \$100,000

During the severe storms in August 2013, the golf course at SilverRock Resort suffered extensive damage. Since that time, staff has overseen the major repairs necessary to correct the damage and restore the course to operational status. The City carries insurance for such occurrences, and the policy contains a \$100,000 deductible. In order to properly account for the expenses associated with the loss, and the associated reimbursement, it is appropriate to increase the expenditure budget for the repairs by \$778,046 and increase the associated revenue budget by \$678,046 to account for the insurance company's reimbursement for the expenses. The financial activities of SilverRock Resort are accounted for in a separate fund; therefore the expenditure and revenue adjustments associated with the storm damage would be made in that fund. As the Council is aware, the golf course will be closed during the last part of this fiscal year as a result of the canal work being done; thus the SilverRock budget was already anticipated to end the year with a budget deficit. Therefore, the \$100,000 needed to cover the

difference between what insurance will pay and the cost of the required improvements (the \$100,000 deductible) resulting from the August 2013 storm damage requires the additional general fund appropriation.

Public Works - \$230,000

The City has been experiencing higher volumes of development-related activity. As a result, Public Works is requesting an additional \$75,000 for on-call plan check services and \$40,000 for contract inspection services.

Additionally, Public Works has been engaged in several unanticipated activities including research relating to potential north La Quinta landscape assessment district modifications, Congestion Mitigation and Air Quality application process, feasibility studies relating to traffic matters, drainage studies resulting from the August 2013 storms, and on-call signal technician services during the transition of the Department's newly hired Traffic Signal Technician. These unanticipated items require additional funding of \$55,000.

Finally, the City's median and parkway landscape maintenance costs are increasing due to additional areas that must be maintained, along with higher utility and water costs. As a result, Public Works is requesting \$60,000 to cover the anticipated costs for the remainder of the fiscal year.

Community Development - \$262,750

As a result of higher levels of development-related activity, the Department is requesting adjustments to the following budget line items: \$12,000 for temporary clerical staff services; \$6,000 for public hearing and other meeting advertising; and \$198,000 for contract services for planning, plan check and building inspection services.

Community Development is also requesting adjustments to their current staffing structure in an effort to improve the overall customer service experience, administration of the forthcoming permit tracking software and to respond to the pending retirement of key Department staff. The proposed positions and associated costs for the remainder of FY 2013/14 include funding new positions of Permit Operations Supervisor (\$27,750) and an Office Assistant (\$17,500), and reclassifying the current Secretary position (\$1,500). The ongoing annual cost of these additional positions is estimated to be \$187,000, which will be partially offset by not filling a currently vacant Assistant Planner position (\$70,000 annually).

City Reserves

With regard to the current revenue budget, it should also be noted that in January 2014 the City received \$1,993,965 from the County of Riverside that is not a part of the City's regular property tax receipts. These funds are the City's proportional share of the \$41.3 million payment the City was required to remit to the County

pursuant to the California Department of Finance. Since the \$41.3 million originated from General Fund Reserves, these funds were deposited in Reserves. As of June 30, 2013, the City had \$92,572,590 of Reserves. These reserves are comprised of \$65,225,273 of Non-Spendable (non-cash) reserves, and \$27,347,317 of Restricted and Unassigned (cash) reserves. The Non-Spendable Reserves are primarily comprised of loans due the General Fund from other funds and other governmental agencies. \$41.3 million of this amount is the repayment of the \$41.3 million the City remitted to the County pursuant to the California Department of Finance.

Of the remaining \$27,347,317 of cash reserves, \$16,034,995 is restricted for use only in a fiscal emergency, \$5,385,671 is reserved for capital projects, post-retirement health benefits and continuing appropriations, and \$2,836,820 for annual cash flow needs. This leaves \$3,089,831 in unassigned reserves. The \$1,993,965 received from the County in January was added to the unassigned reserves; this category now totals \$5,083,796.

The City currently has two reserve policies:

- A Cash Flow Reserve of 8.25% of the annual general fund operations budget, which sets aside funds to cover operating expenses in anticipation of annual revenue; and
- An Emergency Reserve of 35% of the annual general fund operations budget plus \$4,000,000; this Reserve is to be used only when there is a fiscal emergency, meaning an acute revenue drop due to a disaster or declining economic conditions.

As part of the FY 2014/15 budget process, staff will be bringing forth additional reserve policies for Council consideration. Staff anticipates that the City will gain future income that should not be used to cover operations. This income would be gained on a one-time basis as follows:

- The sale of City real property assets. The City has purchased various properties for economic development investment. As these properties are sold, the Council should consider reserving these sale proceeds for additional investments that would increase City revenue.
- The repayment of the \$41.3 million of City loans to the former Redevelopment Agency, which is projected to occur over the next 29 years. Twenty percent of this amount (\$8.3 million) must be pledged for affordable housing preservation or development; the remaining \$33.0 million may be used for City purposes. Staff feels that a portion of the \$33.0 million should be pledged to unassigned reserves and a portion pledged to fund capital improvements that benefit the community.

ALTERNATIVES:

There are no alternatives to the recommended revenue adjustments. Staff employed conservative revenue projections and believes that this additional revenue will be realized. Regarding expenditure, staff is making these recommendations because we believe they maintain or improve critical services. However, the Council may elect to modify the recommended funding levels, which would then modify service levels.

Report prepared by: Patrick Griffin, Interim Finance Director

Report approved for submission by: Frank J. Spevacek, City Manager

Attachment: 1. FY 2013/14 General Fund Mid-Year Budget Requests

FY 2013/14 General Fund Mid Year Budget Requests

REVENUES	
Property Tax	300,000
Transient Occupancy Tax	300,000
Development Permit Fee	221,300
	\$ 821,300
EXPENDITURES	
Human Resources	
Recruitment/Development	10,000
Unemployment Benefits	85,000
	\$ 95,000
Community Services	
Boys and Girls Club Hours	2,500
City Hall Signage	23,000
	\$ 25,500
SilverRock Resort	
SRR Storm Repairs	100,000
	\$ 100,000
Public Works	
Plan Check Services	75,000
Construction Inspection	40,000
NLQ/CMAQ/studies/Signal Tech	55,000
Parkway Maintenance	60,000
	\$ 230,000
Community Development	
Temporary Agency Services	12,000
Advertising	6,000
Contract Services	198,000
Permit Operations Supervisor	27,750
Office Assistant	17,500
Secretary Reclassification	1,500
	\$ 262,750
TOTAL	\$ 713,250
Surplus/(Deficit)	\$ 108,050