

TO: Administrative Services Committee for September 9, 2015
 FROM: Nancy Brewer, Finance Director NB
 DATE: August 21, 2015
 THROUGH: Mark W. Shepard, P.E., City Manager
 SUBJECT: Fourth Quarterly Operating Report – FY 14-15 MWS



Action Requested

Staff requests the Administrative Services Committee recommend the City Council accept the FY 14-15 Fourth Quarterly Operating Report and the Annual Investment Compliance report.

Discussion

Data for this report is provided as soon as possible after June 30 to give City Council and the community information about the City's financial status. Year-end accounting entries will continue to be made through October, adjusting both revenues and expenditures. As a result some of the numbers are expected to change slightly between this report and the Comprehensive Annual Financial Report in December.

The Fourth Quarterly Operating Report (QOR) is available for review on the City's website, with the first five pages provided as Attachment A. Overall, fourth quarter results were generally in line with expectations.

Total revenues were about 92% of budget for the year ended FY 14-15. Operating revenues are nearly \$8 million higher in FY 14-15 than in FY 13-14. This situation was partly due to the \$1.4 million refund for the Hewlett-Packard appeal made in FY 13-14; in FY 14-15 about \$2.5 million more in property tax revenue was received due to the 4.5% valuation increase and the new local operating levy, and \$3.3 million more was received in system development charges.

Operating expenditures across departments are generally below target at about 91% of the amended budget. Although additional entries remain to be made to close out the fiscal year, all funds are expected to end with positive balances as required by law. Highlights for ASC's interest include:

- The Community Development Revolving Fund (CDRF) ended the year with a very small positive fund balance, though still a negative cash position (which is permitted, due to the City's organizationally pooled cash approach). The \$300,000 one-time infusion of General Fund resources in FY 14-15 as well as a projected need for a \$100,000 transfer in FY 15-16, was approved by Council as part of the FY 15-16 budget process, and served to bolster the CDRF. This 2-year support will allow time for work to be done on Council Goals related to both the Sustainable Budget and Housing Development.
- Risk Management – The fund's draw on contingencies for payments of insurance premiums and deductibles was not fully utilized, and workers compensation ended up coming in under budget, so the reduction to the catastrophic reserve will be less than anticipated. Additionally, final resolution on claims related to the Timberhill Fire was achieved just after fiscal year end, and the City was able to recoup over \$121,000 of the costs incurred to extinguish the fire. A final report will be part of the Council packet in coming weeks once all of the data has been compiled by the Risk Manager.
- 9-1-1 Emergency Fund – Only a portion of contingencies ended up being needed for this fund, and revenues came in slightly higher than projected; nevertheless, the FY 14-15 fund balance is expected to end down nearly \$30,000 from revised levels. This fund is a focus for the Sustainable Budget Task Force (SBTF) and consideration may be given to new funding models in future years.
- At \$63.4 million on June 30th, the City's total portfolio of cash and investments was roughly \$16 million higher than the same time last year. This growth was due in part to more property

tax revenue from the City's local operating levy, as well as improvements in the local economy leading to increased system development charges and other economically influenced revenues. As stated last quarter, staff has proceeded to increase the Core Portfolio of investments with a plan to reach \$30 million over the next few months as market opportunities present themselves to optimize the portfolio's risk/return balance. The annual investment compliance memo is attached, as required by policy.

An income statement for each fund and the Council Goals update as of June 30, 2015 are linked to the full 16-page online quarterly operating report, to provide readers more information.

The Capital Project budget is about 35% expended at the end of the fourth quarter. It is typical for capital project spending to come in significantly under budget based on delays from design time or project savings over initial estimates. The following projects were substantially completed as of the end of the fourth quarter: the Willamette Community Garden construction including an irrigation system, garden shed, and fencing; the Fire Training Facility, which had its grand opening on June 4th; various Pedestrian Crossing safety improvements along 9th St. and Walnut Blvd.; and FY 14-15 sanitary sewer rehabilitation design.

Budget Impact

None, other than staff time to prepare and post the report.



4th Quarter Financial Summary FY 2014-15

This report provides summary information on the City's financial status as of the end of June, 2015; more detailed comparative income statement format data is available on-line at this [link](#).

PERFORMANCE AT A GLANCE (YEAR TO DATE)		COMMENTS
GENERAL FUND		
General Fund Expenditure vs. Revenue	WATCH	With year-end revenues almost \$500,000 higher than revised estimates and expenditures more than \$500,000 lower, FY 14-15 results appear better than anticipated. However, not all adjustments, such as reserve contributions, have been processed yet. Long-term fiscal health in the General Fund remains a concern following news after fiscal year end close that the State lost the HP appeal, as well as PERS rate increases in July 2017.
Property Tax Revenue	POSITIVE	The 2014 tax certification of 4.3% AV growth resulted in revenues higher than Adopted budget, but with discounts/adjustments, final receipts were less than Revised estimates.
Transient Room Tax	POSITIVE	FY14-15 total receipts came in approximately 12% over budget and about 13% over FY13-14 actuals. The increase stems from good summer weather and higher OSU enrollment; a Special Olympics event in March also added to greater revenues this year.
Franchise Fees	POSITIVE	Despite no utility rate increases in 2015, franchise fees exceeded budget by nearly 5%, and FY 13-14 actual results by almost 3%.
State Shared Revenue	POSITIVE	Receipts by year-end exceeded budget by nearly 7% and were higher than last year. However, the League of Oregon Cities continues to predict lower cigarette/alcohol demand which will result in less State revenue available for local government distribution.
Fines & Forfeitures	WATCH	FY14-15 saw lower traffic fine revenue receipts due to significant CPD vacancies and absences, as well as the learning curve with e-citation and e-ticketing implementation.
General Fund Expenditures vs. Budget	WATCH	General Fund expenditures came in under budget; some vacancy-related personnel service savings was used on delayed projects during FY 14-15. The rest of the savings will be set aside in reserves to be budgeted in FY 16-17 to begin addressing deferred maintenance.
SPECIAL REVENUE FUNDS		
9-1-1 Emergency Services	WATCH	Declining fund balance; Council approved contingencies were not fully used which left the fund slightly better than expected, however, user charges and other future year revenues may be insufficient to maintain service levels.
Community Development Revolving	NEGATIVE	Due to reduced federal grant funding availability and ineligible administrative costs, Council approved \$400,000 in one-time funds transfer from the General Fund to ensure positive fund balances while the Sustainable Budget and Affordable Housing task forces deliberate on possible funding alternatives to continue support of this Fund's programs.
Development Services	POSITIVE	Permit revenues exceeded last fiscal year and overall revenues exceeded budget due to significant growth in volume and valuation of development projects.
Parking	WATCH	Revenues are marginally higher than prior year, but lagging budget and fund balance has declined. Parking citation revenue should improve with Parking Enforcement Officers hired.
Street	WATCH	Declining fund balance; future revenues may not be adequate to maintain service levels.
Transit	POSITIVE	Current revenues are lower than last fiscal year, yet expenditures remain stable; FY13-14 net revenues contributed to a higher ending fund balance.
ENTERPRISE FUNDS		
Airport	POSITIVE	Revenues and expenditures are stable and sufficient to maintain current operations.
Storm Water	POSITIVE	Increased metered revenues and stable expenditures maintain current levels of service.
Wastewater	POSITIVE	Increased metered revenues and stable expenditures maintain current levels of service.
Water	POSITIVE	Metered usage, new rate structure, stable expenditures maintain current service levels.
INTERNAL SERVICE FUNDS		
Risk Management	WATCH	Council approved use of contingencies on over-target self-insurance spending. Loss recovery revenue from the Timberhill fire and an ambulance chassis replacement, as well as workers compensation reimbursements resulted in higher revenues to partly offset the higher costs, and reduced the impact on the catastrophic reserve of contingency use.

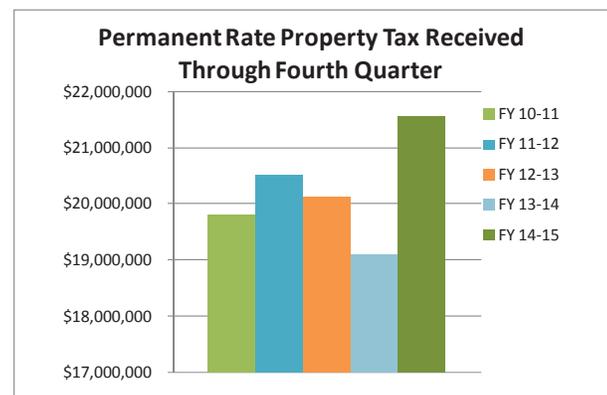
What the ratings mean: **Positive** – Current revenues and City Council-adopted use of reserves are sufficient to support the current level of service. Fund balances appear stable over a three-year forecast. No significant negative issues are identified.
Watch – Various stressors may cause current revenues to be flat or decline and impact the fund's capacity to support the current level of service. Factors exist that may contribute to higher than anticipated expenditure levels in more than one category over the next 6-12 months.
Negative – Current expenditures exceed or revenues are significantly behind forecast assumptions. Fund balance is unstable. Immediate action to balance fund is likely required.

REVENUE	AMENDED BUDGET	4th Quarter FY 13-14	Y-T-D FY 13-14	FY 13-14 % REC/EXPEND	AMENDED BUDGET	4th Quarter FY 14-15	YTD FY 14-15	FY 14-15 % REC/EXPEND
Budgeted Beg. Fund Balance (incl reserves)	6,265,564				\$6,451,158			
Property Taxes	\$20,617,620	\$730,720	\$19,153,218	92.90%	\$24,447,050	\$912,492	\$24,935,602	102.00%
Other Tax	1,372,600	527,347	1,424,997	103.82%	1,427,600	585,720	1,604,370	112.38%
Licenses/Permits	5,925,060	1,814,312	5,889,568	99.40%	5,741,280	1,989,970	6,025,880	104.96%
Charges for Service	5,889,850	1,282,620	6,114,839	103.82%	5,892,810	1,442,818	6,468,356	109.77%
Intergovernmental	4,227,760	570,681	4,005,722	94.75%	3,907,120	619,250	3,943,615	100.93%
Fines/Forfeitures	771,390	212,740	747,489	96.90%	759,660	159,025	706,510	93.00%
Miscellaneous	1,307,680	145,758	1,144,677	87.53%	652,660	205,162	682,578	104.58%
Other Financing Sources	7,075,308	304,721	6,394,046	90.37%	1,223,330	237,988	1,145,273	93.62%
TOTAL CURRENT REVENUE	\$47,187,268	\$5,588,899	\$44,874,556	95.10%	\$44,051,510	\$6,152,425	\$45,512,184	103.32%
EXPENDITURE BY DEPARTMENT								
City Manager's Office	\$326,250	\$93,418	\$320,760	98.32%	\$293,300	\$70,337	\$293,156	99.95%
Community Development	1,309,840	354,930	1,236,566	94.41%	1,498,870	458,954	1,405,383	93.76%
Finance	646,770	153,555	615,548	95.17%	647,260	132,155	568,759	87.87%
Fire	10,485,960	2,872,873	10,441,729	99.58%	11,397,090	2,848,087	11,095,984	97.36%
Library	6,524,140	1,583,426	6,476,062	99.26%	6,151,640	1,487,850	5,841,918	94.97%
Parks & Recreation	6,295,130	1,775,566	6,189,511	98.32%	6,367,630	1,790,197	6,272,447	98.51%
Police	10,688,290	2,952,245	10,580,791	98.99%	11,293,220	3,115,036	11,209,367	99.26%
Public Works	1,026,260	317,726	864,228	84.21%	991,940	297,168	894,745	90.20%
Non-Departmental	1,480,870	378,839	1,296,680	87.56%	994,420	224,740	854,523	85.93%
TOTAL OPERATING EXPENDITURES	38,457,260	10,482,578	38,021,875	98.87%	\$39,635,370	\$10,424,524	\$38,436,282	96.97%
Debt Service	\$243,180	\$0	\$243,174	100.00%	\$837,160	\$0	\$279,053	33.33%
Transfers / Other Financing Uses	7,085,818	773,878	6,434,774	90.81%	3,665,640	1,007,613	3,490,692	95.23%
Contingencies/Reserves	597,200	0	0	0.00%	330,000	0	0	0.00%
TOTAL ALL EXPENDITURES	\$46,383,458	\$11,256,456	\$44,699,823	96.37%	\$44,468,170	\$11,432,137	\$42,206,027	94.91%
CURRENT REVENUE LESS TOTAL EXPENDITURES		(\$5,667,558)	\$174,733		(\$416,660)	(\$5,279,712)	\$3,306,157	

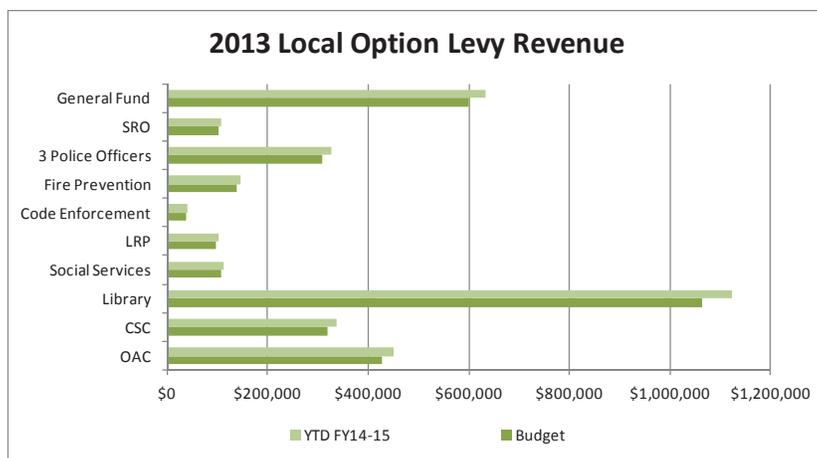
* General Fund Combined includes component reserve funds effective FY 14/15

The General Fund Income Statement format above illustrates that the Fund did better in FY 14-15 than FY 13-14, including exceeding budget and previous year revenues as well as underexpending the operating budget.

Property Tax –The chart to the right shows only the permanent rate property taxes (including delinquent accounts) received over the past five years through the fourth quarter of each fiscal year and illustrates how an increase in assessed value (AV) has positively impacted receipts in FY 14-15, and also how the Hewlett-Packard (HP) refund in FY 13-14 resulted in a significant reduction in revenues in that year. At least 3% growth in AV is anticipated again in FY 15-16, with real-market values continuing to rise with economic improvement; the City continues to have little to no compression in most properties' AV. New development in multi-family and commercial units should serve to offset industrial depreciation for the most part in FY 15-16.

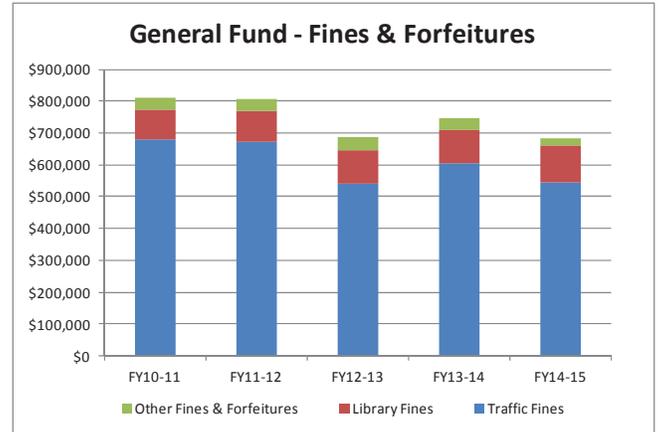


The 4.5% increase in the FY 14-15 AV also had an impact on the 2013 local option levy (LOL). As seen in the graph below, all LOL funded services received more than what was originally budgeted for FY 14-15;

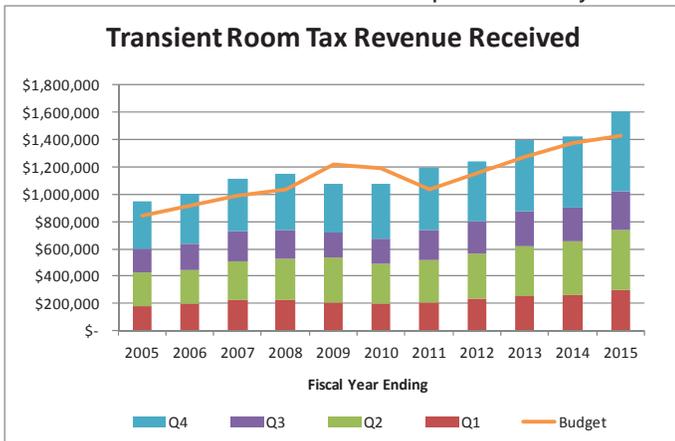


budgeted for FY 14-15; expenditures will be monitored closely to ensure that available LOL funds are spent in the following fiscal years on the use for which they are restricted. This is key to planning for spending over a five-year LOL, since in years where the anticipated 3% growth is not achieved, having funds reserved from higher year growth will also be critical to maintaining committed service levels. The volatility of these growth patterns can also be impacted by events such as the final August 2015 Supreme Court ruling on the State's appeal of HP's contest of its 2008-2010 valuation levels. With a decision in HP's favor, the City's share of the interest to be refunded to HP will be in the range of \$100,000 to be netted against the November 2015 tax turnover. Fortunately the County has deferred billings for both HP and Comcast, so remaining refunds on future appeals should have a minimal revenue impact.

Fine & Forfeiture Revenues – At less than 2% of total revenues, fines and forfeitures are not one of the larger sources of General Fund support. However, at over half a million dollars total, the volatility shown can have a noticeable impact on the fund balance. In particular, traffic fines are heavily impacted each year by both Police department and court clerk vacancies or prolonged absences. When fine rates are increased, it may cause total revenue to go up substantially, or conversely it may go down based on improved behavior to avoid the higher fines, and/or due to more bad debts turned over to collections. An uptick occurred in fine revenue in FY 10-11 and FY 11-12 due to improved collection efforts by the City; but, when this effort had run its course and was compounded by more staff vacancies, it led to a decline again in FY 12-13. Traffic fine revenues increased marginally in FY 13-14 by year-end, but then decreased in FY 14-15, again due to vacancies. Library fine revenues are at the highest level in five years, due in part to increased rates in recent years.

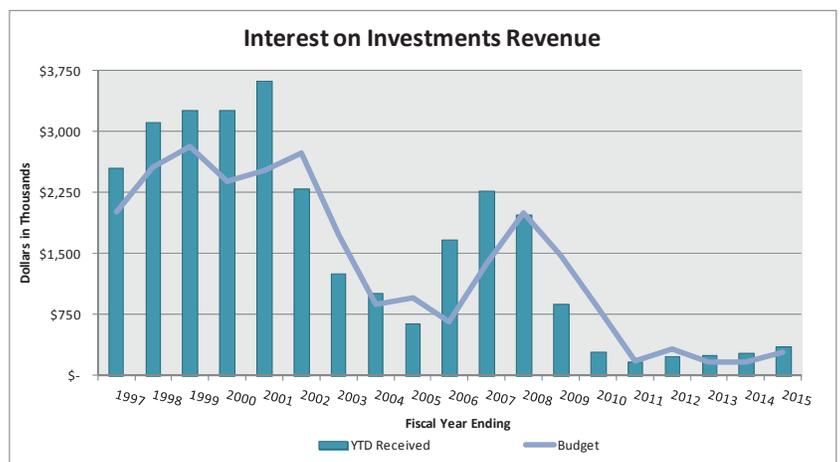


Transient Room Tax – The TRT represents only about 3% of total General Fund revenue, but is one of the larger non-dedicated sources, bringing in over \$1 million annually. After experiencing a significant slump back in FY 08-09 and FY 09-10 due to the poor economy, hotel stays have increased, along with related tax revenues, in the past several years. Because of dependency on economic factors, it is difficult to forecast TRT levels, as seen in FY 08-09 and 09-10 in the adjacent graph, where the trend was heavily impacted by the economy. As such, budgeting has typically erred on the conservative side. Local businesses may determine the number of special events or conferences held in Corvallis; enrollment at Oregon State University may influence the number of family members coming to visit students; hotels have control over raising or lowering room rates; and gas prices may dictate travel plans. All of these elements impact how much TRT is collected and paid to the City. FY 14-15



finished nearly 13% higher than last year. With renewed focus on growing online hotel sales, and construction of a new hotel about to begin, City staff is optimistic that FY 15-16 projected room tax revenues of \$1,511,830 may be surpassed.

Interest on Investments – Investment interest earnings on the City’s portfolio reflect the current low market rates for governmental investments. The graph depicts this revenue source as quite volatile in nature, due to its direct relationship with economic factors. From the late 1990’s to the early 2000’s, this revenue source, which is allocated among all City funds based upon the proportionate share of total average cash balances, generated as much as \$3 million annually. Since then, a combination of depleted cash reserves and significantly decreased interest rates led to earnings falling to about \$200K per year. With the assistance of an investment advisor over the last four years, cash balances have been better deployed, using a laddered investment strategy, to bolster what interest earning capacity the City has. Growing reserves, a higher influx of property taxes from the new local operating levy, plus increased system development charge revenues from new development have also provided more funds to invest. While still significantly lower than 10-15 years ago, interest earnings have stabilized and are steadily increasing; at the end of FY 14-15, total interest earnings exceeded \$300K, with the General Fund earning over a third of that, which is the highest amount earned since FY 08-09.



GENERAL FUND					
BUDGETARY BASIS	AUDITED FY 13-14	AMENDED FY 14-15	REVISED FY 14-15	Year-To-Date FY 14-15	% of Budget Year-to-Date
RECURRING					
NON DEDICATED REVENUE					
Property Taxes - Permanent Rate	\$18,632,793	\$20,808,660	\$21,283,510	\$21,048,894	98.90%
Local Op Levy 2013 - HP Replacement/Social Services Funding	0	706,340	773,920	745,536	96.33%
Prior Year Delinquent Tax Revenue	451,986	438,280	452,000	508,655	112.53%
Transient Room Tax	1,424,997	1,427,600	1,481,270	1,604,370	108.31%
Franchise Fees	5,486,499	5,374,000	5,436,900	5,635,615	103.65%
State Revenue Sharing	537,106	531,160	553,240	563,487	101.85%
Alcohol/Cigarette Tax	847,782	826,580	866,430	883,334	101.95%
Pass-Throughs	618,750	1,215,130	1,215,130	1,144,768	94.21%
Miscellaneous Other Revenues	1,194,000	103,690	691,650	687,136	99.35%
TOTAL NON-DEDICATED RECURRING REVENUE	\$29,193,914	\$31,431,440	\$32,754,050	\$32,821,795	100.21%
DEDICATED REVENUE					
Property Tax - Local Option Levy	\$1,910,761	\$2,493,770	\$2,732,720	\$2,632,517	96.33%
City Manager's Office	121,176	121,000	121,000	122,690	101.40%
Community Development	140,902	117,590	114,590	225,962	197.19%
Finance	133	625,200	200	314	156.81%
Fire	3,602,373	3,618,080	3,618,080	3,982,060	110.06%
Library	2,523,642	2,785,260	2,835,280	2,797,337	98.66%
Parks & Recreation	1,930,571	1,730,190	1,730,190	1,776,529	102.68%
Police	378,095	378,730	378,730	386,493	102.05%
Public Works	145,282	0	3,730	5,938	159.19%
TOTAL DEDICATED RECURRING REVENUE	\$10,752,934	\$11,869,820	\$11,534,520	\$11,929,838	103.43%
TOTAL RECURRING REVENUE	39,946,848	\$43,301,260	\$44,288,570	\$44,751,634	101.05%
EXPENDITURES					
City Manager's Office	\$320,760	\$293,300	\$293,300	\$293,156	99.95%
Community Development	1,304,740	1,498,870	1,436,870	1,405,383	97.81%
Finance	629,758	647,260	647,260	568,759	87.87%
Fire	10,896,499	10,697,090	10,567,090	10,445,803	98.85%
Library	5,990,215	6,068,140	6,051,140	5,794,957	95.77%
Parks & Recreation	6,202,251	5,817,320	5,798,120	5,894,610	101.66%
Police	10,638,622	11,123,210	11,123,210	11,042,032	99.27%
Public Works	860,955	703,940	703,940	651,438	92.54%
Non-Departmental	1,296,680	822,420	710,440	772,855	108.79%
Debt Service	243,174	837,160	279,060	279,053	100.00%
Pension Obligation Bond Debt - Transfers	1,870,950	1,931,790	1,931,790	1,931,790	100.00%
Pass-Throughs	597,869	1,215,130	1,215,130	1,135,702	93.46%
Contribution to Fund Balance Reserve/Contingencies	945,000	1,645,630	1,969,720	1,969,720	100.00%
Contributions/Adjustments to Other Reserves	128,856	0	256,380	256,380	100.00%
TOTAL RECURRING EXPENDITURES	\$41,926,330	\$43,301,260	\$42,983,450	\$42,441,638	98.74%
RECURRING REVENUE EXCESS (SHORTFALL) OVER EXPENDITURES	(\$1,979,482)	\$0	\$1,305,120	\$2,309,996	
POTENTIAL BEGINNING BUDGETARY FUND BALANCE					
<i>Net Recurring Revenue/Expenditure</i>	915,434	269,750	269,750	269,750	
<i>Net Non-Recurring Revenue/Expenditure</i>	(1,979,482)	-	1,305,120	2,309,996	
<i>Net Non-Recurring Revenue/Expenditure</i>	1,333,799	(269,750)	(553,130)	(404,813)	
ENDING BUDGETARY FUND BALANCE	\$269,750	\$0	\$1,021,740	2,174,933	
Ending Reserve Balance by Type					
RESTRICTED	\$761,935	\$377,160	\$896,455	\$934,228	
COMMITTED	\$1,172,107	\$1,018,258	\$1,124,507	\$1,137,331	
ASSIGNED	\$1,474,498	\$448,875	\$696,518	\$803,812	
FUND BALANCE	\$2,850,489	\$4,190,204	\$4,820,209	\$4,820,209	
	\$6,259,030	\$6,034,498	\$7,537,690	\$7,695,579	

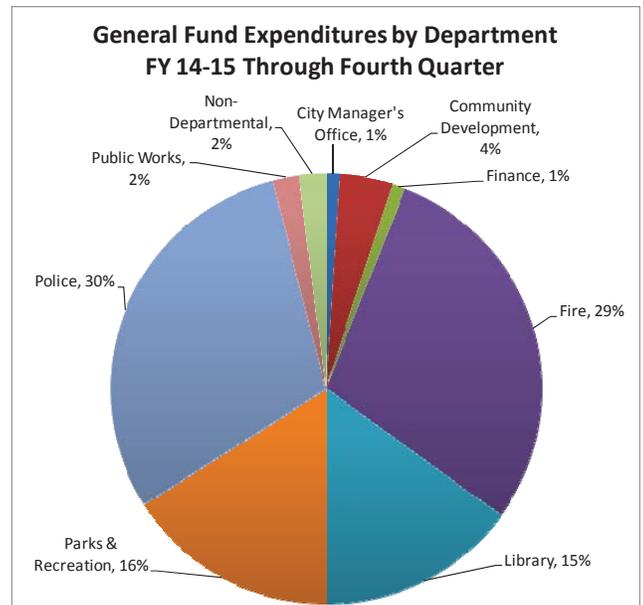
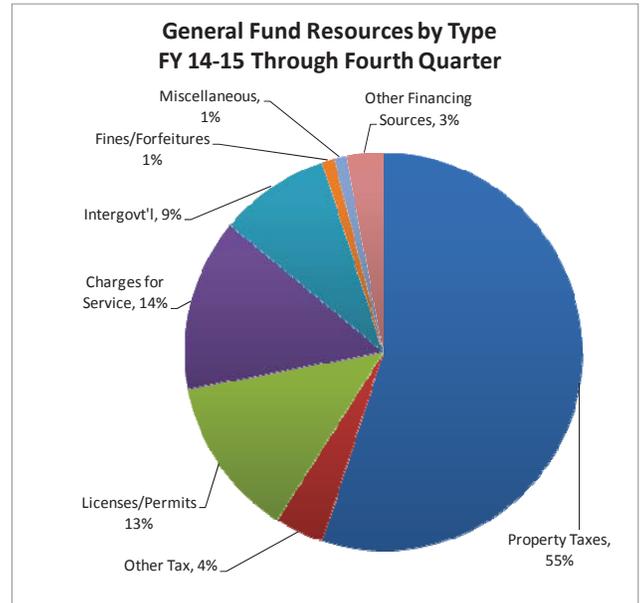
The General Fund Financial Plan update provided on the previous page shows the unaudited, estimated status of the “green and yellow lines” at the end of the fourth quarter, prior to transfers to move unused department appropriations to vehicle and equipment reserves. The sustainable green line, the ending budgetary fund balance (yellow line), and the ending reserve balances may continue to change as other year-end audit-related entries are made through October, although most revenue accruals and final expenditure amounts have been built in as of the date of this report. Once the reserve transfers are made, the General Fund is expected to end FY 14-15 with a balance of approximately \$1.6 million which is still greater than the yellow line value in the Adopted FY 15-16 Budget document of \$1,021,740, due to even better revenue results than Revised estimates anticipated. It should be noted that the yellow line balance above also includes the one-time monies which the Budget Commission and Council approved to appropriate in FY 15-16 for various one-time projects.

The **resources** pie chart, to the right, graphically illustrates the YTD proportions of all resources supporting General Fund services. Property taxes are on target at approximately 55% of the total resources received YTD, though this may change slightly as year-end accounting entries continue to take place as part of the FY 14-15 audit process.

The **expenditures** pie chart shows the distribution of General Fund expenditures by department through the fourth quarter. The public safety departments (Fire and Police) account for nearly 59% of fund operating expenditures; while other operations such as library, parks, recreation, economic development, planning, code enforcement, and municipal court make up the remaining 41% of expenditures.

Comparing year-to-year expenditures in this Fund (table on page 2) demonstrates that FY14-15 operational spending is lower than in FY13-14, and lower as a percentage of budget in FY14-15. Some notable highlights by department include:

- The Economic Development division in the City Manager's Office spent all but \$144 of its budget. The division's spending for its 2.0 FTE makes up almost 80% of its total FY 14-15 budget, and internal service charges another 6%, so other non-personnel service costs were extremely closely monitored throughout the year;
- Community Development's personnel services were higher than last year due to vacancies now filled, as well as hiring positions funded by the 2013 LOL;
- Fire purchased a new aerial-equipped engine, and experienced increased personnel service costs due to retirement cashouts and use of over-time for conflagrations;
- Library's personnel services are trending higher due to restoration of Sunday hours, funded by the 2013 LOL; however, spending is lower overall and as a percent of budget compared to FY 13-14 because of staff turnover hired at lower pay steps, and because of the Fenner property purchase in FY 13-14;
- Police's total expenditures are up nearly 5% from last year due to implementation of a contractual 2% COLA, hiring new levy supported positions, and overtime running higher than it has in recent years to back-fill for vacancies; and
- Contributions to reserves will be recorded in September as part of year-end audit processes.



TO: Administrative Services Committee for Sept. 9, 2015 meeting
FROM: Nancy Brewer, Finance Director NB
DATE: August 19, 2015
THROUGH: Mark W. Shepard, P.E., City Manager MWS
SUBJECT: Annual City Investment Portfolio Compliance Memo



Action Requested:

For information only, no action required.

Discussion:

Investment Administrative Procedures 5.03 requires the submission of an Annual Statement indicating if the City has been in compliance with Council approved investment policies during the previous fiscal year. The policy requires that such a statement be filed as soon as practical after each year end, but no later than August 31st per Council Policy 10.08 Investments.

Pursuant to that requirement, this memo, which is also attached to the July Treasury report to meet the August 31st deadline, is to advise the ASC that the City complied with all provisions of the Investment Policies during the fiscal year 2014-2015, with the exception of:

- There was a temporary overage in the State-regulated maximum (\$46,801,588) for the City's Local Government Investment Pool (LGIP) balance as of November month end, and in the first week of December. This event was reported to ASC in both the November and December monthly treasury reports, and was not subject to any sanction or penalties from the State, nor was it considered to have incurred any risk/security of funds issues due to the temporary nature of the overage, and the small dollar amount relative to the State's total LGIP holdings.