



**FINANCE & AUDIT COMMITTEE
AGENDA**
Regular Meeting
Thursday, October 23, 2014 at 2:00 PM
2nd Floor Administration Conference Room
701 Laurel Ave, Menlo Park, CA 94025

CALL TO ORDER

ROLL CALL – Catherine Carlton, Anne Craib, Les Denend, Ray Mueller, and Laura J Phelps

A. PUBLIC COMMENT (Limited to 30 minutes)

Under “Public Comment,” the public may address the advisory body on any subject not listed on the agenda within the jurisdiction of the Commission. Each speaker may address the Commission once under Public Comment for a limit of three minutes. Please clearly state your name and address or political jurisdiction in which you live. The Commission cannot act on items not listed on the agenda and, therefore, the Commission cannot respond to non-agenda issues brought up under Public Comment other than to provide general information. The public may address the Commission regarding items listed on the agenda during the consideration of each item.

B. REGULAR BUSINESS

- B1.** Present and discuss 2013-14 General Fund unaudited year end results ([Attachment](#))
- B2.** Update from subcommittee on the financial dashboard
- B3.** Update from subcommittee on the 2-year workplan
- B4.** Accept Finance/Audit Committee minutes for the meeting of July 17, 2014 ([Attachment](#))
- B5.** Select meetings for 2015 calendar year

E. ADJOURNMENT

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At every Regular Meeting of the Commission, in addition to the Public Comment period where the public shall have the right to address the Commission on any matters of public interest not listed on the agenda, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during the Commission’s consideration of the item.

At every Special Meeting of the Commission, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during consideration of the item.

Any writing that is distributed to a majority of the Commission by any person in connection with an agenda item is a public record (subject to any exemption under the Public Records Act) and is available for inspection at the Menlo Park Library, 800 Alma Street, Menlo Park, CA 94025 during regular business hours.
Persons with disabilities, who require auxiliary aids or services in attending or participating in Commission meetings, may call the City Clerk's Office at (650) 330-6620.



FINANCE DEPARTMENT

Council Meeting Date: October 21, 2014
Staff Report #: 14-183

Agenda Item #: I-1

INFORMATIONAL ITEM: **Financial Review of Unaudited General Fund Operations as of June 30, 2014**

RECOMMENDATION

This is an informational item and does not require Council action.

BACKGROUND

The purpose of this report is to provide a review of *unaudited financial results* of General Fund operations for fiscal year 2013-14. Because of the complexities of compiling comprehensive annual financial statements in compliance with applicable governmental accounting standards, the annual financial audit, which is currently underway, will not be completed until November, and the City's Comprehensive Annual Financial Report (CAFR) will not be delivered to Council until December. However, in an effort to provide more timely financial information, this report, which has been prepared annually for the past seven years, offers an overview of General Fund performance in comparison to the adjusted budget. While it is possible that the audit may result in some additional changes to the information presented in this report, it is not expected that these changes would cause a material change in the City's financial position.

ANALYSIS

Overview

The table on the following page shows the City's unaudited General Fund revenue and expenditure budget-to-actual performance in fiscal year 2013-14, as well as a comparison to the audited figures from fiscal year 2012-13. The fiscal year 2013-14 Adjusted Budget column displays the budget inclusive of all of the modifications to budgetary appropriations made throughout the fiscal year, including encumbrances from the prior fiscal year.

The General Fund finished fiscal year 2013-14 with a gross operating surplus of \$5.6 million. It is important to note, however, that nearly \$770,000 of that amount will be assigned for development purposes and utilized in fiscal year 2014-15, and another \$1.1 million will be assigned for encumbrances from fiscal year 2013-14 that will also be added to the fiscal year 2014-15 adjusted budget. Factoring in those two items, the

General Fund's net operating surplus in fiscal year 2013-14 is expected to be approximately \$3.7 million. The fiscal year 2014-15 budget included an updated estimate of how fiscal year 2013-14 was expected to finish. That estimate anticipated a \$1.8 million net operating surplus. The difference in net operating surplus between the final estimate for 2013-14 and the unaudited final results is almost entirely the result of expenditure savings being greater than anticipated, which is discussed in more detail later in this report.

City of Menlo Park General Fund Summary							
	2012-13 Actual	2013-14 Adjusted Budget	2013-14 Preliminary Actual	2013-14 Preliminary Variance	% Budget Variance	Increase/ (Decrease) from Prior Year	% Change from Prior Year
Property Taxes	15,731,889	14,715,000	15,156,065	441,065	3.00%	(575,824)	-3.66%
Sales Tax	6,043,870	6,136,400	6,444,292	307,892	5.02%	400,422	6.63%
Transient Occupancy Tax	3,468,256	4,100,000	4,158,809	58,809	1.43%	690,553	19.91%
Utility Users Tax	1,095,256	1,135,000	1,157,653	22,653	2.00%	62,397	5.70%
Franchise Fees	1,765,216	1,812,300	1,841,851	29,551	1.63%	76,635	4.34%
Licenses & Permits	4,447,630	6,559,465	5,782,225	(777,240)	-11.85%	1,334,595	30.01%
Intergovernmental	866,287	841,717	888,131	46,414	5.51%	21,844	2.52%
Fines	998,259	1,149,980	1,253,261	103,281	8.98%	255,002	25.54%
Interest and Rent Income	568,051	627,712	684,561	56,849	9.06%	116,510	20.51%
Charges for Services	7,088,160	7,595,222	7,681,433	86,211	1.14%	593,273	8.37%
Transfers & Other	1,178,628	1,201,266	1,237,839	36,573	3.04%	59,211	5.02%
Total Revenue	43,251,502	45,874,062	46,286,120	412,058	0.90%	3,034,618	7.02%
Public Safety	13,809,282	15,065,189	14,284,054	781,135	5.19%	474,772	3.44%
Public Works	5,100,811	5,642,673	5,183,204	459,469	8.14%	82,393	1.62%
Community Services	7,104,442	7,720,025	7,480,381	239,644	3.10%	375,939	5.29%
Library Department	2,011,144	2,114,569	2,046,772	67,797	3.21%	35,628	1.77%
Community Development	2,774,032	4,614,041	3,765,303	848,738	18.39%	991,271	35.73%
Administrative Services	5,020,956	6,591,332	5,358,211	1,233,121	18.71%	337,255	6.72%
Operating Transfers Out	5,164,328	2,554,600	2,554,600	0	0.00%	(2,609,728)	-50.53%
Total Expenditures	40,984,995	44,302,429	40,672,525	3,629,904	8.19%	(312,470)	-0.76%
Gross Operating Surplus/(Deficit)	2,266,507	1,571,633	5,613,595				
Assigned for Development			766,510				
Assigned for Encumbrances			1,099,203				
Net (decrease)/increase of General Fund Balance	2,266,507	1,571,633	3,747,882				

Revenues

Revenues continued to climb in fiscal year 2013-14, finishing 7%, or \$3 million, above audited fiscal year 2012-13 revenues. The largest year-over-year gains were for transient occupancy tax, licenses and permits, and charges for services. Each of these gains, as well as updates on all major General Fund revenue sources, is discussed below.

Property Tax:

Total property tax revenues were down nearly 4%, or \$576,000, from fiscal year 2012-13; however, that is entirely the result of one-time revenue related to the dissolution of the former Community Development Agency (RDA) that was received in fiscal year 2012-13. Final revenues for fiscal year 2013-14 were above the adjusted budget by

3%, or \$441,000, which was predominantly attributable to better than expected results for the property transfer tax and the supplemental tax.

Sales Tax:

Total sales tax revenues were up 6.6%, or \$400,000, over fiscal year 2012-13, and exceeded the adjusted budget amount by 5%, or \$308,000. Much of this increase was related to non-recurring transactions, including the construction activity at the Facebook West campus. While results in fiscal year 2013-14 were positive and reflect the continued strength in the economy, projections for this revenue source going forward will have to be adjusted to reflect the loss of a significant sales tax provider. Staff is currently evaluating the timing of this revenue loss and its impact on the General Fund, and an updated sales tax projection will be included in the mid-year report.

Transient Occupancy Tax (TOT):

TOT revenues were up 20%, or nearly \$700,000, over the prior fiscal year. This significant increase was due to two primary factors, a full fiscal year of the 12% tax rate and increasing occupancy and room rates. The revenue total of nearly \$4.2 million exceeded adjusted budget estimates by nearly 1.5%.

Utility Users' Tax (UUT) and Franchise Fees:

Total revenues from these sources were up 5%, or approximately \$139,000, over the previous fiscal year and exceeded the adjusted budget by nearly 2%, or \$52,000. Increases were predominantly related to electricity usage.

Licenses and Permits:

Licensing and permitting revenues were up 30%, or \$1.3 million, over the previous year, but they fell short of the adjusted budget amount by nearly \$780,000. This is not an indication of a slow-down in activity but is instead the result of the timing of when certain large projects are paying permitting fees. Some projects that were estimated to pay fees in fiscal year 2013-14 will instead pay those fees in fiscal year 2014-15. Overall, permitting activity remains at a very high level.

Intergovernmental:

Intergovernmental revenue remained relatively flat to fiscal year 2012-13 but was 5.5%, or approximately \$46,000, above the adjusted budget amount. This increase was predominantly the result of additional grant reimbursements for the food programs at the Belle Haven Child Development Center.

Fines:

This category of revenues covers traffic and parking fines. Fiscal year 2013-14 revenues were up over 25% from the previous fiscal year and exceed adjusted budget amounts by 9%. This increase is the result of the increased utilization of the Redflex program and a greater overall emphasis on traffic violations.

Interest and Rent Income:

Overall, this revenue category was up approximately 21% from the previous year and 9% from the adjusted budget estimate. These increases do not represent a material increase in the yield on the City's investment portfolio, which is roughly flat to the yield earned in fiscal year 2012-13. Instead, there are a couple of reasons as to why interest earnings will fluctuate year-over-year. One of the primary reasons for this fluctuation is that governmental accounting standards (GASB No. 31) require us to revalue our investment portfolio annually and either book an unrealized gain or loss to reflect the difference between the portfolio's value on June 30th and the value at which the individual investments were purchased. The unrealized loss recorded in fiscal year 2013-14 was significantly less than the unrealized loss recorded in fiscal year 2012-13, which makes the fiscal year 2013-14 interest earnings appear higher in comparison. As noted, actual yield on the City's investment portfolio over the past two fiscal years has been roughly flat, at approximately 0.5%.

Charges for Services:

This revenue category was up over 8%, or nearly \$600,000, over fiscal year 2012-13 and exceeded adjusted budget estimates by \$86,000. This increase was predominantly due to higher utilization of City facilities, such as rentals at the various recreation buildings, as well as reimbursement revenues generated for police services, including a partial year's payment from Facebook for the Community Safety Police Officer position. Planning fee revenues were down over \$200,000 from adjusted budget estimates; however, similar to license and permit revenue, this is a timing issue and not an indication of a slow-down in activity.

Transfers and Other:

Revenues in this category have been unsustainably high in both fiscal year 2012-13 and 2013-14 due to property sales (Terminal Avenue and Hamilton Avenue). Going forward, this revenue source is expected to return to its baseline level of approximately \$450,000 annually.

Expenditures

Excluding the \$2.7 million one-time transfer to the Capital Improvement Projects Fund that occurred in fiscal year 2012-13, total General Fund expenditures were 6%, or nearly \$2.4 million, up in fiscal year 2013-14. This increase was expected, as the final fiscal year 2013-14 adjusted budget was 9% higher than the final adjusted budget from fiscal year 2012-13. In comparison to the fiscal year 2013-14 adjusted budget, General Fund expenditures finished over \$3.6 million lower than budgeted. This was the result of expenditure savings in each of the departments, 59% of which was in the form of compensation (salary and benefit) savings. Compensation savings can be the result of a number of factors, but they are primarily related to vacancies in budgeted positions. These vacancies drove the savings in 2013-14; however, additional savings were realized due to salary and benefit increases that were assumed in the budget but did not come to fruition until after the close of the fiscal year.

It is important to note, however, that approximately \$1.1 million of the \$3.6 million represents funds that were unspent in fiscal year 2013-14 that are expected to be spent in the current fiscal year. As such, these funds remain encumbered, and the current year budget will be adjusted to reflect these encumbrances. Excluding these encumbrances, unaudited General Fund expenditures for fiscal year 2013-14 were nearly 6% below the adjusted budget. This variance, especially the \$2.1 million in personnel cost savings, highlights the challenge the City currently faces with respect to providing services. Budgetary resources are available to provide most services at the desired level; however, the City has not been able to staff itself appropriately to actually meet the budget service level. For the most part, this inability to meet budgeted service levels has been subtle, but it has stretched the departments and remains a concern going forward, as there are a number of examples where operational savings due to vacancies have had a detrimental impact on City services. A few of these examples include:

- Delays in building inspections, with 45% taking more than three days between inspection request and completion in March 2014, as compared to only 7% in May 2014 when contract personnel was available.
- Non-compliance with certain State mandates, such as having a certified access specialist on staff in the Building Services Division, due to insufficient time to complete the certification process. A certified access specialist is a person who has been tested and certified by the State to assess State disability access compliance issues, as well as Federal Americans with Disabilities Act (ADA) access compliance issues.
- Patrol teams working at minimum and below minimum staffing in certain circumstances, which disrupts other special assignments such as the Narcotics Enforcement Team and the traffic unit. Neither of these units was able to operate at peak capacity over the course of the entire fiscal year.
- Delays in implementing the Climate Action Plan.
- Challenges related to effectively and efficiently managing certain outside contracts in Public Works to ensure contracted service levels are met.
- Inability to focus efforts on process improvements and enhanced efficiencies.

These are just a few examples of the impacts of the City's inability to staff itself at budgeted levels is having on services. And while these impacts appear modest, they do expose the City to some risk, particularly as it relates to public safety. Additionally, with existing staff often needing to work additional hours to not fall further behind, we have created an unsustainable situation, meaning service levels could further deteriorate should the City not be able to fill vacant positions. Filling these positions is a priority, and to the extent that is able to occur during the current fiscal year, budgeted service levels should come closer to being achieved and the budget-to-actual variance should be less pronounced than it was for fiscal year 2013-14.

Operating Surplus

With revenues slightly exceeding adjusted budget amounts and expenditures falling well below adjusted budget amounts, the preliminary gross operating surplus for the General Fund is estimated to be \$5.6 million. Of this amount, nearly \$1.9 million will be classified as assigned fund balance to cover the fiscal year 2013-14 encumbrances discussed in the preceding paragraph (\$1.1 million), as well as the development-related revenue received in fiscal year 2013-14 that is related to work that will be performed in fiscal year 2014-15 (\$767,000). This assigned fund balance will be utilized in fiscal year 2014-15 to meet these expenditure commitments. Of the remaining \$3.7 million, 25%, or approximately \$930,000, will be added to the new Strategic Pension Funding Reserve, per the recently amended and approved General Fund Reserve Policy. The remaining \$2.8 million will fall into the General Fund's unassigned fund balance unless Council provides other direction.

Given that this surplus is primarily the result of operating savings that are not expected to be ongoing, and as such should be considered one-time in nature, any allocation of these funds outside of unassigned fund balance should be for non-recurring expenditures. One such area of potential need is for the General Plan Update (M-2) project, which is underway with an initial budget of \$2 million. Staff believes additional funds may be needed to complete this project and the post-project implementation activities, and should Council be interested in utilizing a portion of the net surplus to provide additional funding for this project, an additional appropriation can be made when the CAFR is presented in December.

Otherwise, and as noted, the remaining net operating surplus, which is expected to be approximately \$2.8 million, will fall into the unassigned fund balance category. Funds in this category can be utilized for any purpose, as the funds are neither restricted nor committed in any way. As such, the accumulation of unassigned fund balance can be beneficial for future utilization to help smooth out the fluctuations in the City's revenues and expenditures, such as absorbing the loss of a sales tax provider, with which we are currently contending, or mitigating the impact of increasing compensation costs.

Next Steps

The fiscal year 2013-14 audit is currently underway. The audit entails a detailed transactional review and a confirmation of financial processes and internal controls. At the end of the auditor's review, any necessary audit adjustments will be made. The financial statements and all disclosures will be compiled for a CAFR that is compliant with all applicable governmental accounting and reporting standards. Additionally, a comprehensive analysis of all the City's funds will be concurrently performed by staff. This analysis will be incorporated into the CAFR's Management Discussion and Analysis (MD&A) section. The CAFR is scheduled to be presented to Council in December.

IMPACT ON CITY RESOURCES

There is no impact on City resources.

POLICY ISSUES

This is the seventh year that the City has released preliminary and unaudited financial information to the public, and it is important to note that audit adjustments could modify the annual results of fiscal operations. However, because timely unaudited financial information can be beneficial for certain types of decision-making purposes, an examination of unaudited results has merit. A complete analysis of all the City's funds will incorporate any needed audit adjustments and be presented with the Comprehensive Annual Financial Report in December.

ENVIRONMENTAL REVIEW

Environmental review is not required.

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS

None

Report prepared by:
Drew Corbett
Finance Director

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FINANCE & AUDIT COMMITTEE MINUTES

Regular Meeting
Thursday, July 17, 2014 at 2:00 PM
1st Floor Human Resources Conference Room #8
701 Laurel Ave, Menlo Park, CA 94025

Les Denend participated via teleconference from the following
location:
Broadmoor Hotel, 1 Lake Avenue, Colorado Springs, CO 80906

CALL TO ORDER- Chair A. Craib called meeting to order at 2:05 p.m.

ROLL CALL - Anne Craib, Les Denend, Laura J Phelps

ABSENT- Catherine Carlton, Ray Mueller

A. PUBLIC COMMENT - None

B. REGULAR BUSINESS

B1. Present and discuss Investment Policy

NOTE: By consensus, committee agreed to changes in the investment policy.

B2. Present and discuss Reserve Policy

NOTE: By consensus, committee agreed to changes in the reserve policy.

B3. Present and discuss draft General Fund Financial Dashboard

ACTION: Motion and second (Craib/Phelps) to create a sub-committee for developing a financial dashboard for public use. A. Craib nominated C. Carlton and L. Denend. By acclamation, C. Carlton and L. Denend are appointed to the sub-committee. L. Phelps made known that for any reason C. Carlton cannot participate that she would be happy to participate on the sub-committee.

B4. Present and discuss committee's 2-year workplan guidelines, City Council Goals and the 2010-11 Finance & Audit Committee's workplan

ACTION: Motion and second (Craib/Denend) to create a sub-committee for developing the committee's 2-year workplan. A. Craib nominated L. Denend and L. Phelps. By acclamation, L. Denend and L. Phelps are appointed to the sub-committee with the caveat that if C. Carlton or R. Mueller would like to participate then L. Phelps will turn over her sub-committee seat.

B5. Accept Finance/Audit Committee minutes for the meeting of May 29, 2014

ACTION: Motion and second (Denend/Phelps) to approve minutes as stated passed 3-0-2 (Carlton and Mueller absent)

E. ADJOURNMENT – 3:10 p.m.

Prepared by: Stephen Green, Financial Analyst