



## **Staff Report**

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### REPORT ON MID YEAR FINANCIAL RESULTS – DECEMBER 31, 2008

Honorable Mayor and Council Members:

#### **Summary**

The City of Belmont performs a Mid-Year Review of its financial results. The attached reports and analysis summarize the financial results for the six months ended December 31, 2008 and identifies mid term corrective action required to the Budget.

#### **Background**

Annually, the City prepares an analysis of the current year budget at the six month mid point. This analysis is called the “Mid Year Review”. The purpose of the Mid Year Review is to discuss the financial results of the organization and suggest corrective action in the event expectations differ from results.

#### **Discussion**

##### **Executive Summary-**

Staff has prepared an Executive Summary. The Executive Summary includes a recap of the FY 09 fiscal status, recommends budget corrections, and addresses other Mid-Year Budget clean-up items.

This summary is shown as Attachment 1.

##### **Mid Year Financial Results-**

To further assist in the analysis of the Mid-Year Review, six month financial results provide a summary-to-detail perspective.

The highest level report is titled Performance at a Glance. This report measures performance in two important areas: General Fund balance trends and year to date revenues and expenditures on a budget to actual basis. These measurements are indicative of the City's general financial health and the ability to meet expected results.

The mid-level report is titled Fund Recap at a Glance. On a single page, this report lists all year to date revenue and expenditure activity by fund. Furthermore, a comparison to budget is provided. This report is intended to highlight economic activity at the fund level and focus attention on budgetary compliance.

The detail report is titled Statement of Revenues and Expenditures – Budget Variance Report and is intended as a companion to the Fund Recap at a Glance report. This report can be used to "drill down" to the detail information for purposes of comparing the year to date budget (i.e., what we thought we were going to receive or spend for the period) against actuals (i.e., what we really received or spent during the period) for each major revenue source and expenditure division/service center. To facilitate the Council and Commission's review and reconciliation to other reports, the expenditure detail has been sorted in both functional and fund orders.

These reports are shown as Attachment 2.

#### Budget Augmentation Requests and Implementing Resolution-

Staff has prepared a draft budget resolution for Council's consideration. The budget resolution incorporates requests that fall into the following categories: 1) new appropriations required to complete the fiscal year or 2) items reflecting actions previously approved by City Council. In the former case, departments have prepared explanations for divisions/service centers with unfavorable expenditure budget variances at mid-year or projected year end, and any corrective action planned to mitigate the variance. It is important to note most department budgets are well within the approved budget authority.

The implementing resolution and explanations are presented as Attachment 3.

#### Snapshot of Current Economic Condition-

For the past several weeks the local newspapers have been reporting red ink for local governments up and down the Peninsula. The economic condition of local governments, including cities, is not good.

By contrast, as a result of implementing significant corrections in FY 2005 and continuing those corrections into the current budget, the City is in better financial shape as compared to many of our neighbors.

Last October, staff announced to Council a 5 Point Plan for responding to the economic downturn. The 5 Point Plan included the following elements:

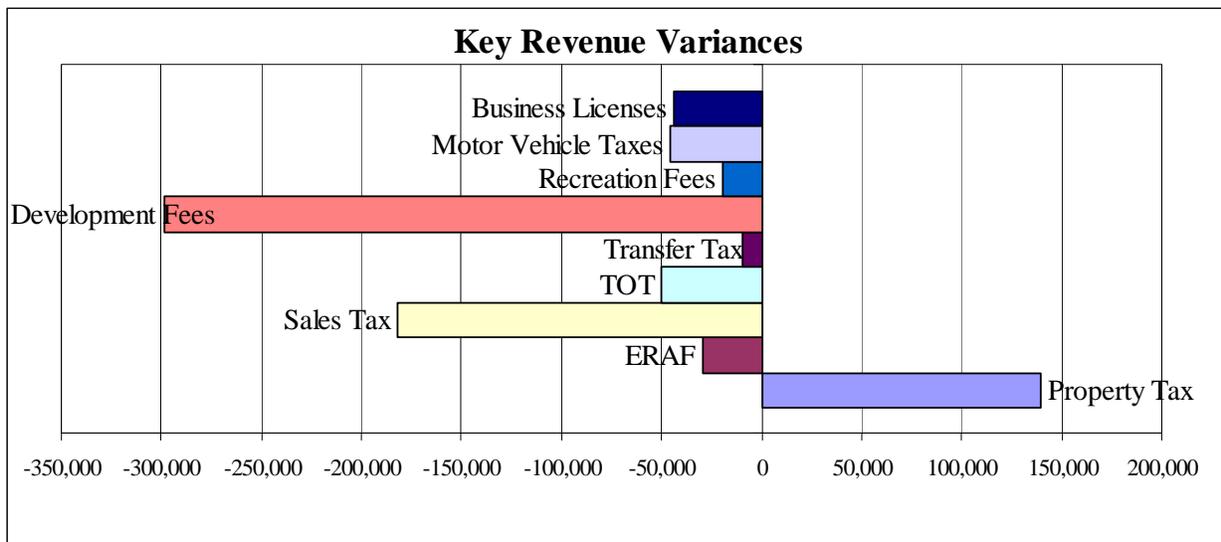
1. Departments have been asked to identify potential department specific revenue shortfalls
2. Departments have been asked to look for opportunities to avoid spending budget funds
3. Departments have been asked to develop departmental expenditure reduction plans in the 5% range for consideration if needed
4. City Manager is considering budget reduction proposals for presentation at Mid Year
5. Finance Department is accelerating it's in-depth Controllershship reviews at monthly intervals

Since that time, the Department Heads have controlled costs dramatically. For instance, the General Fund is at 94% of budget as of December 31st. In terms of dollars, the City is \$538,000 under budget. Unfortunately, these savings won't be retained by year end as many of the City's

contracted cost provisions have not been fully reflected in the numbers. Nonetheless, this emphasizes the point that expenditures are under control and this element of the 5 Point Plan is working.

The real challenge emerging for the City is not expenditure overruns but revenue losses. As of December 31st, revenues were off \$362,000 in the General Fund. Most of this amount is in taxes, particularly, sales taxes. However, a deeper problem has emerged in the Development Services Fund which is dependent upon financial support from the General Fund. The Development Services Fund revenue is off \$299,000 or nearly a third at the mid-point in the year. Based on what is known of development submittals, this revenue trend will continue for the foreseeable future as major development projects, such as 1000 South and 1300 El Camino Real are stalled due to the economy.

As the chart below indicates, the revenue picture reflects across the board weakness in most key revenue categories. No one item is dramatically down, with the exception of the Development Services permits and fees, but culmination of many revenues down is cause for concern and action.



Mid-Term Correction-

As part of this mid-year report, staff recommends restructuring staffing at the Permit Center. That plan is outlined in the variance explanations and will include reducing costs in Development Services by approximately 2 full-time equivalents. This restructuring will get at the heart of the problem with the Development Service Fund. As for the balance of activities, including the General Fund, staff has outlined a modest amount of actions suggested to be taken now.

5% Correction Plan To Come-

The more substantive changes will be rolled out in the 5% Correction Plan that will follow and be part of the FY 2010 Budget. Another reason for rolling out a more comprehensive correction effort as part of the FY 2010 Budget is that the revenue picture is still evolving. For instance, staff reported to you that home value declines in Daly City, East Palo Alto and South City will

result in the assessor lowering the tax bills for about 50,000 houses in these three cities, thereby lowering the Countywide total tax roll growth of \$4 billion by \$3 billion. As a consequence, next fiscal year the City will likely have minimal property tax growth as the Legislature created Assembly Bill 8 many years ago to spread the pain of tax adjustments, and most notably declines in values, to all taxing entities in the County, including Belmont. Of concern to staff and as shown in the chart above this was the only major revenue source in the General Fund that exceeded expectations. The Assessor is scheduled to discuss the implications of the reassessment program with the Finance Directors in the County in more detail later this month.

### **General Plan/Vision Statement**

No impact.

### **Fiscal Impact**

The following table summarizes the potential impact to the General Fund based on what is known at Mid Year. It is important to point out these amounts are estimates only, the economic picture is changing rapidly and the exposure is to the downside.

<b>Impacts to General Fund</b>	
<b>General Fund Impacts</b>	
Year to Date Revenue Shortfall	\$ (362,000)
Year to Date Expenditure Savings	\$ 538,000
Net General Fund Operating Impact	\$ 176,000
<b>Other Impacts</b>	
Non-General Fund Revenue Shortfalls	
Development Services	\$ (298,472)
Recreation Services	\$ (19,575)
Expenditure Savings Unrealized	\$ (338,000)
Net Other Impacts	\$ (656,047)
<b>Net Impacts</b>	<b>\$ (480,047)</b>

Please reference the budget resolution for impacts once resolution is adopted.

### **Public Contact**

Posting of City Council agenda. The Finance Commission has been informed of this meeting.

### **Recommendation**

Direct staff to prepare a resolution amending the FY 09 Budget. Record amendments to the budget per approved resolution.

### **Alternatives**

1. Take no action.
2. Direct staff to take other corrective measures.

**Attachments**

- A. Executive Summary (City Council Meeting Presentation)
- B. Financial Results Reports
- C. Budget Resolutions and Variance Explanations

Respectfully submitted,

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Thomas Fil  
Finance Director

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Jack R. Crist  
City Manager

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**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT AMENDING  
THE FISCAL YEAR 2009 BUDGET AND APPROVING A REVISION TO REVENUE  
AND SUPPLEMENTAL APPROPRIATION**

**WHEREAS**, City of Belmont requires additional funding for expenditures identified hereto;  
and,

**WHEREAS**, the City of Belmont City Council finds that it is necessary to augment the budget  
for those expenditures; and,

**WHEREAS**, there is additional revenue and undesignated fund balances available to cover the  
augmentation; and,

**WHEREAS**, the following accounts require adjustment to address the variances as a result of  
not being included in the regular budget process; and,

EXPENDITURES				
Fund	Account #	Description	Ref.	Amount Increase (Decrease)
205	5303-8102	Permanent Part-Time	1	\$30,000
620	4142-9040	Technology Plan	2	639,536
210	6301-8351	Permit Center Other Professional Services	3	(40,000)
210	6302-8366	Development Review Environmental Impact	4	(40,000)
822	4633-9519-9020	Emmett House	5	579,470
		<b>TOTAL</b>		<b>\$1,169,006</b>

REVENUES				
Fund	Account #	Description	Ref.	Amount Increase (Decrease)
210	6500	Development Planning Services	6	(\$224,190)
210	6700	Development Public Services	7	(50,520)
		<b>TOTAL</b>		<b>(\$274,710)</b>

SUMMARY EFFECT ON FUNDS				
Ref.	Fund	Revenues Increase (Decrease)	Expenditures Increase (Decrease)	Net Change on Fund Balance Increase (Decrease)
1	205		\$30,000	(\$30,000)
2	620		639,536	(639,536)
3, 4, 6 & 7	210	(\$274,710)	(80,000)	(194,710)
5	822		579,470	(579,470)

	<b>TOTAL</b>	<b>(\$274,710)</b>	<b>\$1,169,006</b>	<b>(\$1,443,716)</b>
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REFERENCES	
No.	Explanation
1	Increase budget \$30,000 for Parks and Recreation Day Care permanent part time personnel.
2	Increase budget \$639,536 for Technology Master Plan which was authorized at time of contract award.
3	Reduce budget \$40,000 for Permit Center Other Professional.
4	Reduce budget \$40,000 for Environmental Impact Review.
5	Increase budget \$579,470 for Emmett House Reconstruction project.
6	Reduce budget \$224,190 for Development Planning Services.
7	Reduce budget \$50,520 for Development Public Services.

**WHEREAS**, the above explanations are provided in support of the budget adjustments, and

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Belmont hereby amends the Fiscal Year 2009 Budget per fund as reflected above,

\* \* \* \* \*

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on March 10, 2009 by the following vote:

AYES, COUNCILMEMBERS: \_\_\_\_\_

NOES, COUNCILMEMBERS: \_\_\_\_\_

ABSTAIN, COUNCILMEMBERS: \_\_\_\_\_

ABSENT, COUNCILMEMBERS: \_\_\_\_\_

\_\_\_\_\_  
CLERK of the City of Belmont

APPROVED:

\_\_\_\_\_  
MAYOR of the City of Belmont



# City of Belmont

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Executive Summary  
FY 2009 Budget  
Mid Year Financial Review

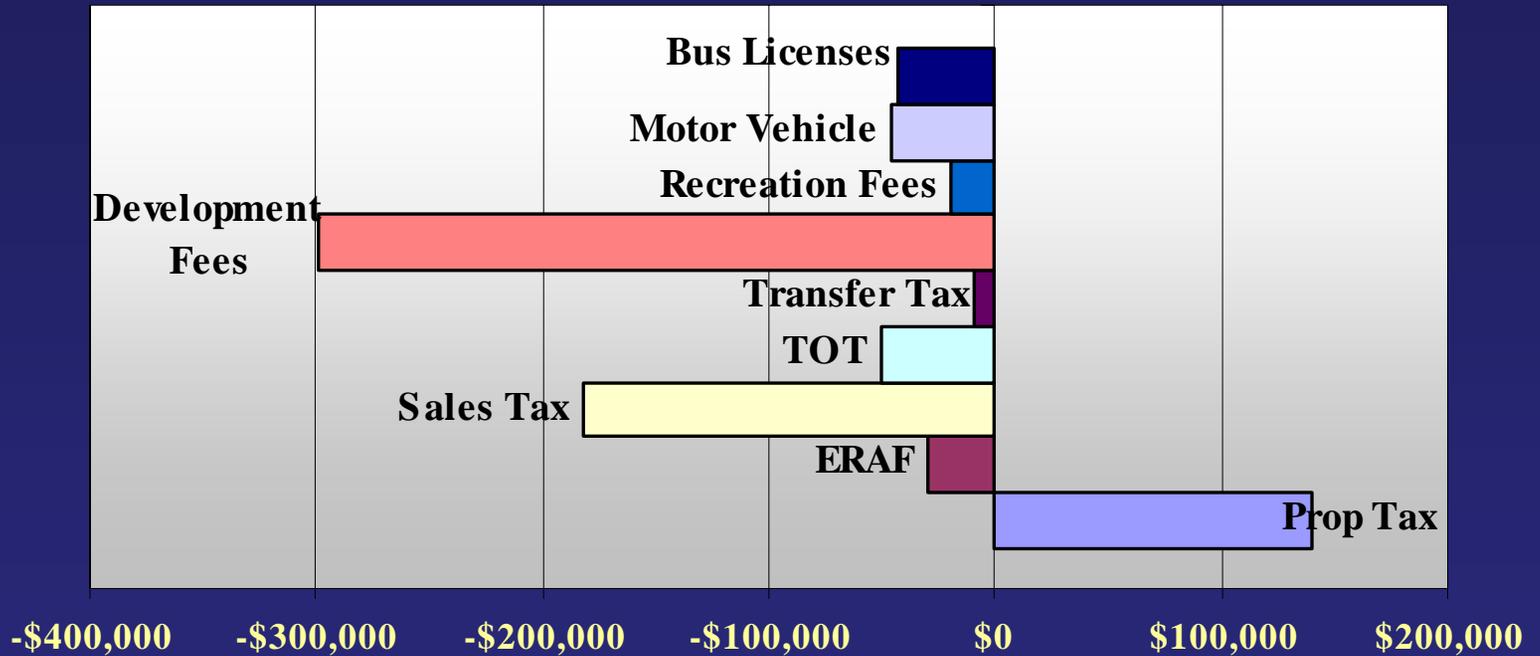
# Fiscal GF Status Mid Year

- 12/31 Fund Balance
  - General Fund \$4.2 million
  - Other Funds on track with few exceptions
- Local Economy
  - Revenue shortfalls occurring across the board
- On the Horizon
  - County is proposing \$3 billion assessment reduction could wipeout most of next year's property tax growth
- Revenue
  - \$362,000 YTD GF below 50% of budget
- Expenditures
  - Well managed/under control; + \$538,000 in YTD GF under budget
- Overall YTD Status
  - \$176,000 surplus YTD

# All Other Funds

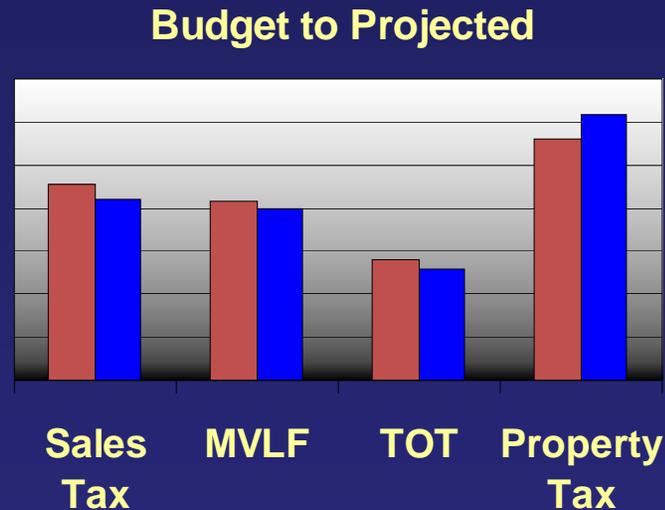
- **Revenue**
  - YTD \$24,477,666
- **Expenditures**
  - YTD \$24,228,894
- **YTD Surplus \$248,772 @ mid year**

# Key Revenue Variances



# MAJOR GF REVENUES

- **Sales Tax**
  - 8% below budget
- **MVLF**
  - 5% below budget
- **TOT**
  - 7% below budget
- **Property Tax**
  - 10% above budget

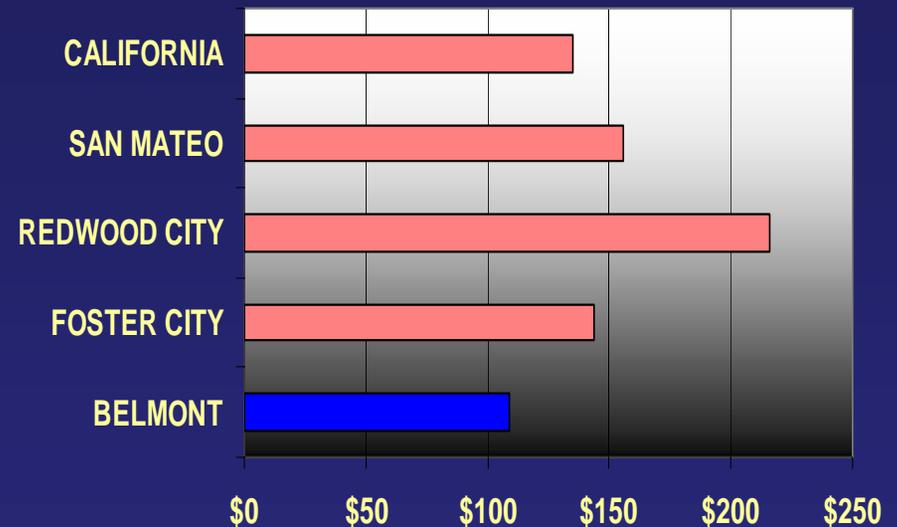


# Sales Tax Annual Comparisons

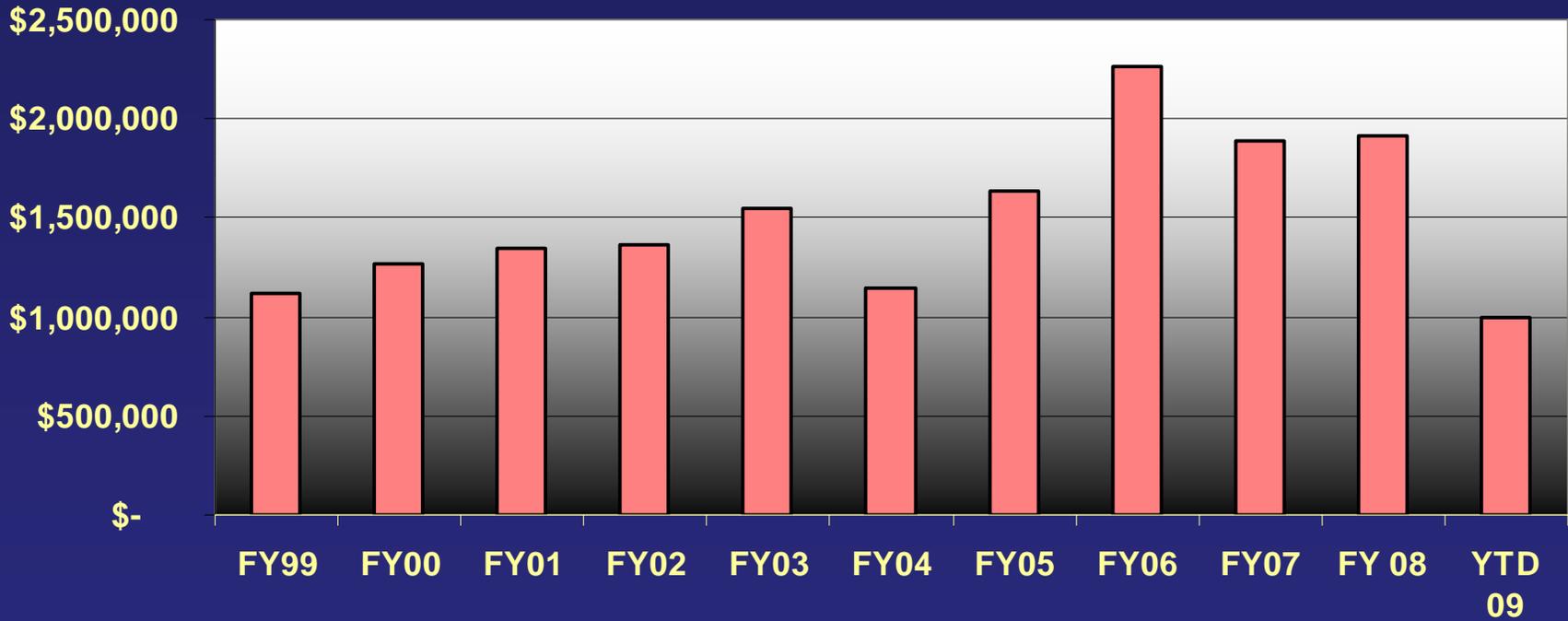


# Revenues – Sales Tax per Capita

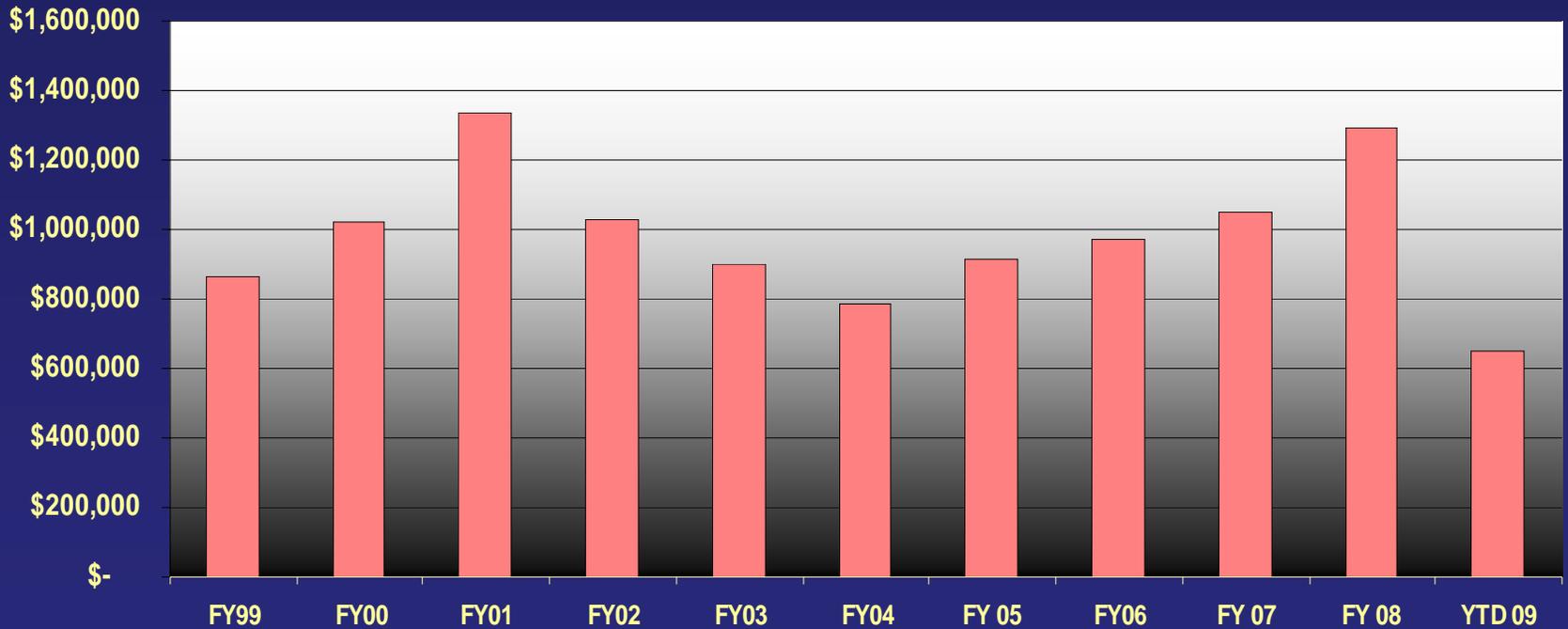
- Key sales categories
  - Transportation
  - Business to Business
  - Food Products
- Top taxpayers are volatile
- One taxpayer accounts for 27% of revenue



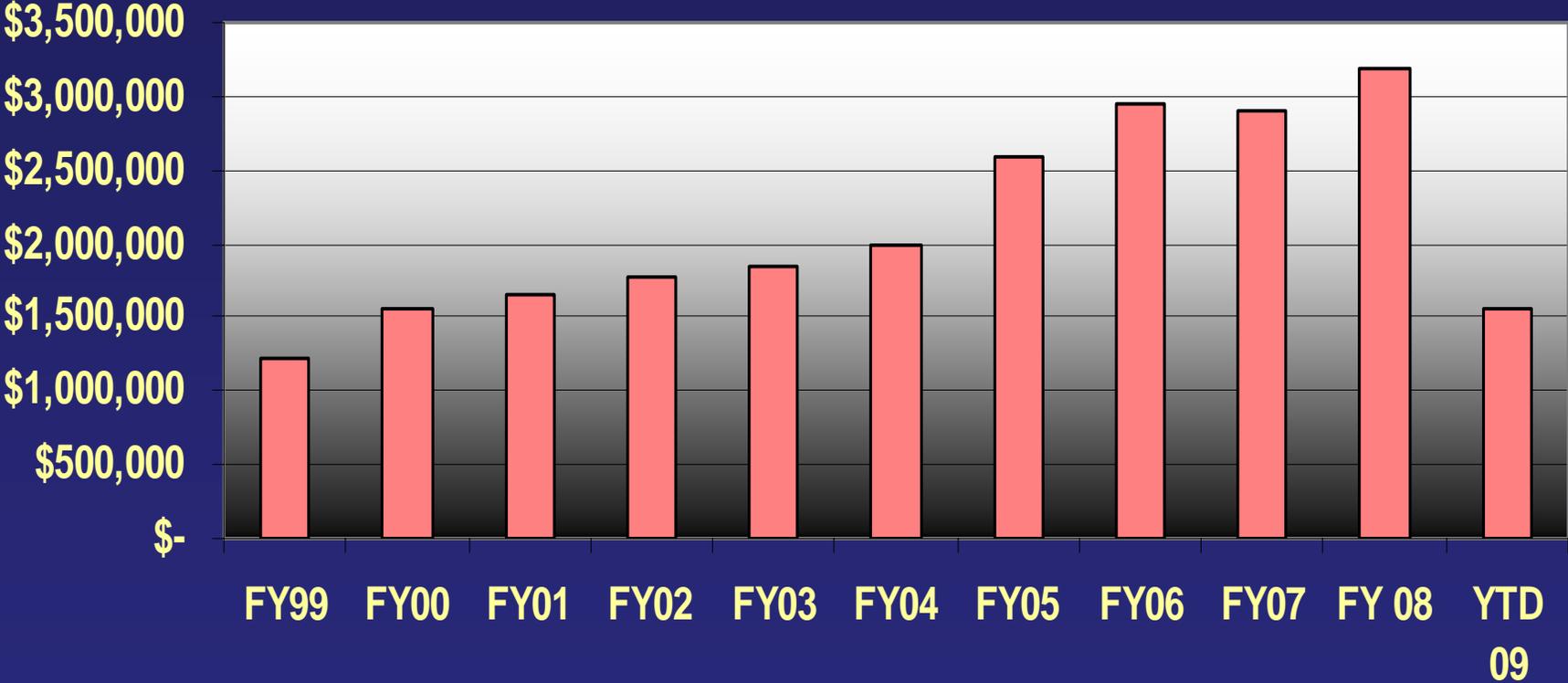
# Motor Vehicle License Fee Annual Comparisons



# Transient Occupancy Tax Annual Comparisons



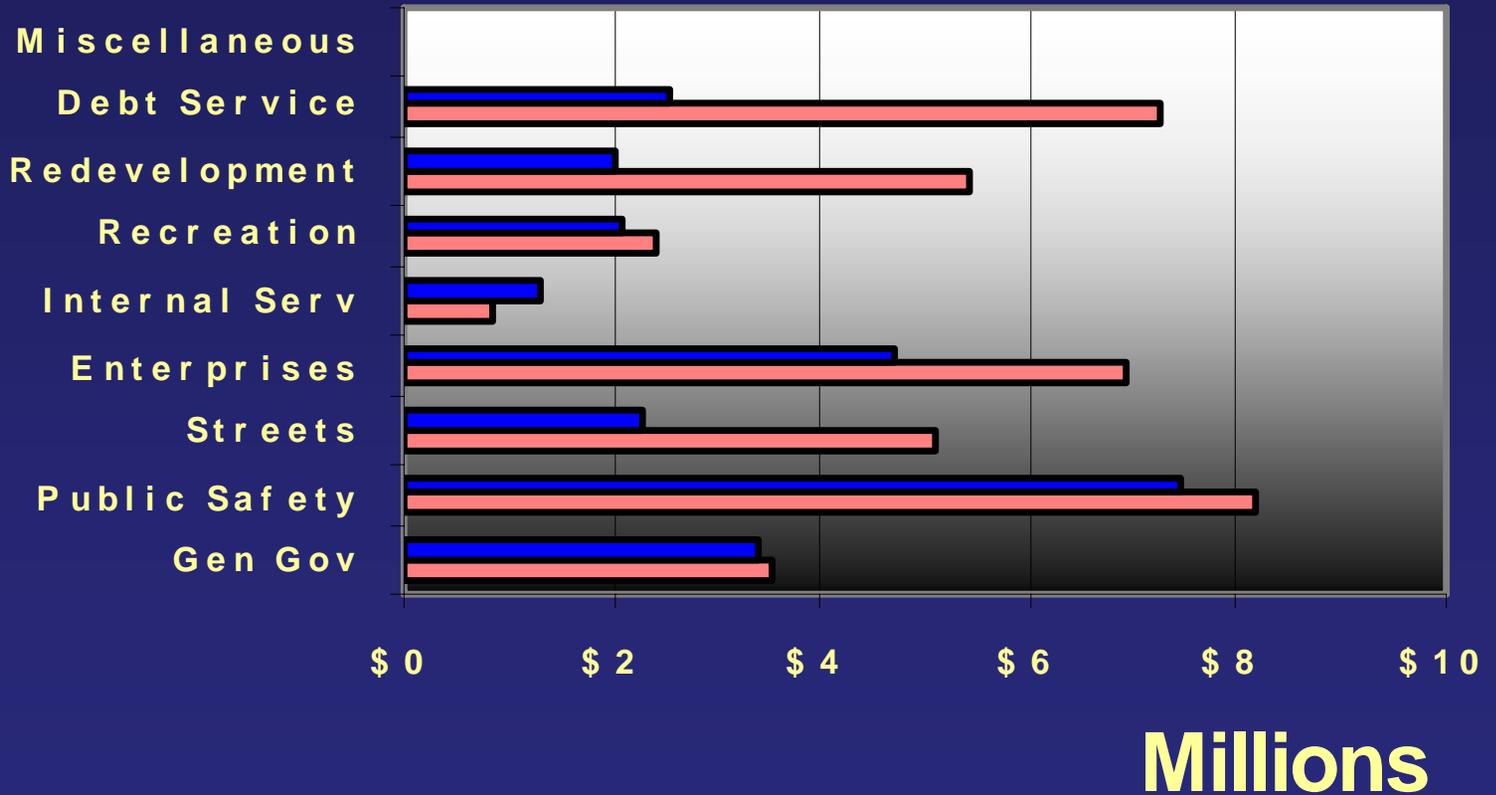
# Property Tax Revenue Annual Comparisons



# General Fund Expenditures

- Good management practices
- Expenditures are controlled and within budget
- 5 Point Plan working
- Vacant positions have not been filled (i.e. Asst. City Manager)
- Must sustain budget correction strategies

# Expenditures by Function- Budget vs. Actual



# Fiscal Impact-+\$.5 Million

## Impacts to General Fund

### General Fund Impacts

Year to Date Revenue Shortfall \$ (362,000)

Year to Date Expenditure Savings 538,000

Net General Fund Operating Impact 176,000

### Other Impacts

#### Non-General Fund Revenue Shortfalls

Development Services \$ (298,472)

Recreation Services ( 19,575)

Expenditure Savings Unrealized (338,000)

Net Other Impacts (656,047)

Net Impacts \$ (480,047)

# Re-Cap of Mid Year Results

- **Financial Results**
  - General Fund revenues off \$362,000
  - Development Services revenue off \$299,000
  - Expenditures controlled, savings possible
  - Net impacts \$0.5 million
- **Budget Augmentation Requests**
  - 4 funds require adjustments
- **Snapshot of Current Economic Condition**
  - Across the board weakness in key revenue categories
- **Mid-Term Correction**
  - Restructuring plan for Permit Center
- **5% Correction Plan**
  - Revenue picture evolving
  - 5% Plan to be presented with FY 2010 budget
- **Next Steps**
  - Q & A
  - Give direction
  - Adopt Resolution