TO: HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: MAY 22, 2007 CMR: 241:07

SUBJECT: THIRD QUARTER FISCAL YEAR 2006-07 GENERAL FUND FINANCIAL RESULTS

This is an informational report and no Council action is required. The purpose of this report is to provide the Council with insight into the financial condition of the City’s General Fund as of the third quarter of fiscal year 2006-07.

DISCUSSION
At third quarter, General Fund operating revenues and expenditures are at 70 and 76 percent of the adjusted budget respectively. Timing issues related to the collection of tax revenues and recognition of contract encumbrances result in expenditures exceeding revenues. By year-end, General Fund revenues are expected to exceed projected expenses.

The City continues to experience steady growth in most of its economically sensitive revenue sources. Sales taxes, interest income, and documentary transfer taxes realized steady increases. The weak housing market and slower U.S. economic growth, however, are of concern because of the potential to slow growth in property and transient occupancy tax revenues, and in consumer spending.

Revenue Highlights for Third Quarter Fiscal Year 2006-07 Financial Results
Attachment A shows third quarter year-to-date actual revenues as a percentage of the Adjusted Budget.

Sales Tax: Receipts for the third quarter of fiscal year 2006-07 are at 70 percent of the adjusted budget. This is a consequence of the timing of the State’s “triple flip” biannual payments which are made in January and June. Sales tax receipts are expected to exceed budget at the end of the fiscal year. On a quarter-to-quarter basis, the economic segments showing particular strength were auto, department store, electronic equipment, drug stores, and business services sales. Those showing decreases were furniture, appliances, food markets, office equipment, and light industry.
**Property Taxes:** Payments from the County for the second half of the fiscal year essentially begin in March and are fully paid by June. As a result of the timing of payments, receipts show at 61 percent of the adjusted budget at the end of the third quarter. This is not indicative of expected year-end receipts and staff projects that property tax receipts will be consistent with the adjusted budget.

**Transient Occupancy Taxes (TOT):** Again, due to the timing of remittances, revenues are at 62 percent of the adjusted budget. At this time, TOT revenues are anticipated to be slightly under the adjusted budget at year-end. Rising occupancy rates since the beginning of the fiscal year have leveled off during the past two months. Performance during the next three months, which include the heaviest activity of the year, will be important.

**Expense Highlights for Third Quarter Fiscal Year 2006-07**

Expenditures are often cyclical in nature and a department’s commitments to-date could include items for the entire fiscal year. Departments are expected, however, to conclude the year within their adjusted budgets.

**Excess Overtime Expenditures:** Attachment B shows total overtime expenditures reaching 112 percent of the adjusted budget. Although most of the General Fund departments are below their overtime budget, the Fire and Police Departments are projected to exceed their budgets for the following reasons:

- The Fire Department is at 130 percent of adjusted budget for overtime. The main factors contributing to overtime usage are disability leave, vacancies, staffing of Medic-1 (12 hour paramedic unit) and mandated training. Currently, there are 7 firefighters on medical leave and 7 vacant positions, so overtime will be partially offset with salary savings. In addition, a portion of overtime was spent for continuous education certification training for paramedics.

- The Police Department is at 121 percent of the adjusted budget for overtime. The main factors contributing to overtime usage are staffing shortages due to vacancies, disability leave, and academy and training programs. Also, overtime was incurred for the Palo Alto Safe Neighborhoods program, a SWAT response and related investigation, and traffic control services at Stanford football games (which is partially reimbursed by the university). Overtime usage will be partially offset with salary savings.

With the Police and Fire Departments removed from the overtime analysis, General Fund overtime expense is at 56 percent of adjusted budget as of the third quarter.

**POLICY IMPLICATIONS**

These recommendations are consistent with existing City policies.

**ENVIRONMENTAL REVIEW**

The action recommended is not a project for the purposes of the California Environmental Quality Act.
ATTACHMENT
Attachment B: 2006-07, Third Quarter General Fund Overtime