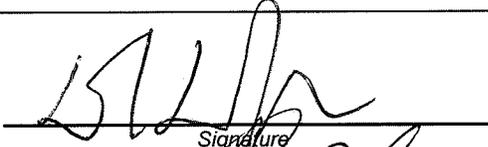


STAFF REPORT
COUNCIL MEETING DATE:
October 22, 2012

ITEM FOR COUNCIL CONSIDERATION:

Review of First Quarter Financial Results

City Manager


Signature

Administrative Services


Signature

ACTION ITEM ___; NON-ACTION ITEM

STAFF RECOMMENDATION: Receive the report and direct staff as determined appropriate.

MOTION: None Required

I. BACKGROUND/DISCUSSION:

Each fiscal year the City conducts quarterly and mid-year reviews of the adopted City Budget in order to check-in on revenue and expenditure estimates and, if necessary, make adjustments. First quarter budget results are, inherently, of only limited value in estimating whether or not budget projections will be met at the end of the fiscal year. However, first quarter results compared to prior year first quarter results can provide important trend information and for this reason this has been the focus of first quarter budget reviews.

Of primary interest in reviewing early financial results is the General Fund, which is the funding source for a majority of the City's basic services including law enforcement. The adopted 2012-13 budget projected an increase in both General Fund revenues and expenses (which includes transfers necessary to balance other Funds), and projected that at the end of the fiscal year expenses will exceed revenues by approximately (\$253K).

The first quarter results are generally consistent with revenue and expenditure estimates made in the budget. In particular, as projected in the budget, hotel bed tax, i.e., Transient Occupancy Tax revenues, and Sales Tax revenues, are showing continuing

improvement from recession related lows in 2009 and 2010 fiscal years (see attached charts).

The modest improvement in local revenues is also consistent with a slow and uneven national economic recovery that has been underway over the last two years. Property tax in Carpinteria, the City's largest single revenue source at approximately 2.6 million, will remain nearly flat this year after a slight decline in the prior year. Further, as has been discussed at length by the City Council during deliberations related to Measure E 2012, (the City's proposed increase in the hotel bed tax rate from 10 to 12%, which will be decided by Carpinteria voters on November 6), certain revenue sources are not keeping pace with inflation. For example, several revenue sources that are dedicated to transportation and street maintenance have, for some time, not been growing sufficient to keep pace with costs. Measure A (formerly Measure D), Gas Tax and the Right-of-Way Assessment District, have not increased in over the past six years (see attached chart). Meanwhile, as reported to the City Council earlier this year, pavement maintenance costs are in the midst of a steep upward curve.¹

The purpose of this discussion concerning transportation and street maintenance revenues and costs is to illustrate that, despite an improved economic outlook incorporated into budget projections and reflected in this first quarter report, financial challenges remain for the City. It will be critical for revenues to continue to improve and for the City to be creative in leveraging the revenues that it has, in order to continue to deliver the services and programs expected by the community.

II. FINANCIAL CONSIDERATIONS:

Attachment I shows Prior Year first quarter financial results for each fund, Current Year financial results and the resulting (unfavorable) or favorable variances. Attachment II similarly shows first quarter financial results compared to budget.

Property Tax

There are no property tax receipts in any year until December. The remainder of receipts are received in January, April and May of each year.

Sales Tax

Total projected annual sales tax is \$1.8 million, a projected 15% increase over prior year. As the quarterly trend chart attached to this report illustrates, last year's first quarter results were skewed by a one-time back payment. When that payment is taken

¹ In 2010, City street pavement was valued at approximately \$68,000,000 for replacement cost. Roadway pavement is the City largest asset by far. As roadway pavement ages, surface treatments are applied to extend its life. A series of progressive treatments are applied such as fog seals, slurry seals and overlays. Without these treatments, roadways eventually need extremely costly reconstructions. Pavements are designed to last approximately 20 years but can last much longer with proper maintenance. As discussed at a City Council meeting in July of 2010, many streets in Carpinteria are going to require overlays to extend the life of the roadway. The City's 2010 Pavement Management Study suggested that the City should invest \$6,000,000 in the first year of a 10-year plan. The initial investment would repair roadways that are approaching the need for more costly reconstructions. The Plan also suggested that an average of \$750,000 should be spent in subsequent years to extend the life of the newly repaired roadways. This level of investment in maintaining this important City asset of a 10-year plan is equal to about 2% of the asset's estimated value.

out, the trend line is positive, reflecting real growth of approximately 2% for the first quarter; approximately \$321K in sales tax revenue. Historically first quarter sales tax revenue makes up 15-20% of total annual sales tax.

Transient Occupancy Tax

With total first quarter revenue of approximately \$454K, the Transient Occupancy Tax (commonly referred to as the hotel bed tax or TOT) is running 0.7% ahead of prior year and 4.5% ahead of budget. The budget projection included a 4% increase over the prior year estimated final revenue. Comparison to prior year is probably a better comparison than to budget because of the seasonality of this revenue source. The first quarter hotel bed tax typically represents 30-35% of total annual revenue.

Franchise Fees

First quarter franchise fee revenues of \$123K, are in line with historical first quarter income. The amount only includes Cox Cable and Harrison franchise payments as Gas and Electric Company payments are made annually in April and make up 27% of budgeted franchise taxes.

Investment Income

Annual interest income is projected at \$187,509, reflecting an expected decline from the prior year due to very low interest rates. As City investments mature, they are reinvested in lower interest rate investments. For the first quarter investment income is running approximately 7% behind budget. The budget for 2012-13 was reduced nearly 15% from 2011-12 levels and average yields are now 10% lower than a year ago.

Charges for Services

Fees and charges revenues are running 15% behind last year. A part of this is explained by less planning construction activity and fewer building plan check charges occurring in the first quarter of the fiscal year than occurred for the same period last year. Because the timing of development/construction activity is unpredictable, it cannot be known how activity will fare for the remainder of the year.

GENERAL FUND OPERATING EXPENSES

Personnel Costs

Wanting to hold the line on these costs most management level employees received no salary increase again this year. First quarter total personnel costs are running 2.5% ahead of last year. First quarter costs included the peak season in pool and beach activities.

Other Costs

Contract costs for all funds are down 10% or approximately \$150K less than a year ago at this same juncture and 5% less than budget.

Overall staff believes the revenue enhancement and cost containment efforts that have been implemented over the last two years have contributed to encouraging first quarter financial results.

III. ATTACHMENTS:

Attachment I, Comparison of First Quarter Financial Results to Prior Year First Quarter Results and Variances

Attachment II, Comparison of First Quarter Financial Results Compared to Budget.

Attachment III, First Quarter Sales and Transient Occupancy Tax Revenues

Attachment IV, Annual Property Tax projection and Gas Tax, Measure A/D, and Right-of-Way Assessment District revenue trends.

First Quarter Prior Year

Fund	Revenue		Transfers In		Expenditures		Transfers Out		Excess / (Deficit)	Reserve Changes
TOTAL	\$1,961,843	100.0%	\$0	\$2,808,043	100.0%	\$0	(\$846,200)	(\$0)		
10 GENERAL FUND	1,201,657	61.3%	0	2,155,141	76.7%	0	(953,484)	(125,583)		
13 GENERAL RESERVE FUND	4,660	0.2%	0	0	0.0%	0	4,660	0		
11 TRAFFIC SAFETY FUND	5,187	0.3%	0	651	0.0%	0	4,537	0		
20 REVOLVING FUND	0	0.0%	0	0	0.0%	0	0	0		
21 REPLACEMENT FUND	139	0.0%	0	2,320	0.1%	0	(2,181)	0		
22 PARK DEVELOPMENT FUND	0	0.0%	0	5,903	0.2%	0	(5,903)	5,903		
23 PARK MAINTENANCE FUND	42,226	2.2%	0	88,548	3.2%	0	(46,323)	46,323		
25 GAS TAX FUND	103,055	5.3%	0	107,695	3.8%	0	(4,640)	0		
26 LOCAL TRANSPORTATION FUND	1,930	0.1%	0	0	0.0%	0	1,930	0		
27 MEASURE A FUND	104,807	5.3%	0	50,596	1.8%	0	54,211	0		
28 TIDELANDS TRUST FUND	272,659	13.9%	0	109,722	3.9%	0	162,937	0		
29 STREET LIGHTING FUND	3,598	0.2%	0	36,050	1.3%	0	(32,452)	0		
31 TRUST & AGENCY FUND	0	0.0%	0	0	0.0%	0	0	0		
33 R-O-W ASSESSMENT DISTRICT FUNG	70	0.0%	0	73,427	2.6%	0	(73,357)	73,357		
38 PBIA FUND	25,178	1.3%	0	5,208	0.2%	0	19,971	0		
39 AB 939 FUND	28,632	1.5%	0	17,973	0.6%	0	10,659	0		
41 MEASURE-D FUND	6,503	0.3%	0	0	0.0%	0	6,503	0		
42 CAPITAL IMPROVEMENT FUND	2,833	0.1%	0	2,833	0.1%	0	0	0		
48 RECREATION SERVICES FUND	158,709	8.1%	0	151,977	5.4%	0	6,732	0		

First Quarter Current Year

Fund	Revenue		Transfers In		Expenditures		Transfers Out		Excess / (Deficit)	Reserve Changes
TOTAL	\$1,830,049	100.0%	\$0	\$2,763,452	100%	\$0	(\$933,403)	\$0		
10 GENERAL FUND	1,060,587	54.1%	0	1,966,875	71.2%	0	(906,288)	(202,312)		
13 GENERAL RESERVE FUND	1,090	0.1%	0	0	0.0%	0	1,090	0		
11 TRAFFIC SAFETY FUND	4,756	0.3%	0	653	0.0%	0	4,103	0		
20 REVOLVING FUND	52,031	2.8%	0	68,920	2.5%	0	(16,890)	0		
21 REPLACEMENT FUND	1,719	0.1%	0	8,081	0.3%	0	(6,362)	0		
22 PARK DEVELOPMENT FUND	23	0.0%	0	29,246	1.1%	0	(29,223)	29,223		
23 PARK MAINTENANCE FUND	22,903	1.3%	0	62,120	2.2%	0	(39,216)	39,216		
25 GAS TAX FUND	113,356	6.2%	0	151,659	5.5%	0	(38,302)	0		
26 LOCAL TRANSPORTATION FUND	1,564	0.1%	0	0	0.0%	0	1,564	0		
27 MEASURE A FUND	106,666	5.8%	0	37,372	1.4%	0	69,295	0		
28 TIDELANDS TRUST FUND	247,138	13.5%	0	94,088	3.4%	0	153,050	0		
29 STREET LIGHTING FUND	3,264	0.2%	0	27,709	1.0%	0	(24,445)	0		
31 TRUST & AGENCY FUND	6,741	0.4%	0	6,795	0.2%	0	(54)	54		
33 R-O-W ASSESSMENT DISTRICT FUNG	3,145	0.2%	0	82,830	3.0%	0	(79,686)	79,686		
38 PBIA FUND	21,788	1.2%	0	15,139	0.5%	0	6,649	0		
39 AB 939 FUND	52,714	2.9%	0	7,806	0.3%	0	44,908	0		
41 MEASURE-D FUND	1,291	0.1%	0	20,753	0.8%	0	(19,462)	0		
42 CAPITAL IMPROVEMENT FUND	0	0.0%	0	0	0.0%	0	0	0		
48 RECREATION SERVICES FUND	129,274	7.1%	0	183,406	6.6%	0	(54,133)	54,133		

Variance to Prior

Fund	Revenue		Transfers In		Expenditures		Transfers Out		Excess / (Deficit)	Reserve Changes
TOTAL	(\$131,794)	100.0%	\$0	\$44,591	100%	\$0	(\$87,203)	\$8,707		
10 GENERAL FUND	(141,070)	-11.7%	0	188,266	8.7%	0	47,196	(83,407)		
13 GENERAL RESERVE FUND	(3,570)	-0.2%	0	0	0.0%	0	(3,570)	0		
11 TRAFFIC SAFETY FUND	(431)	-0.02%	0	(2)	-0.001%	0	(433)	0		
20 REVOLVING FUND	52,031	2.8%	0	(68,920)	-2.5%	0	(16,890)	0		
21 REPLACEMENT FUND	1,580	0.08%	0	(6,761)	-0.24%	0	(4,181)	0		
22 PARK DEVELOPMENT FUND	23	0.001%	0	(23,343)	-0.84%	0	(23,320)	23,320		
23 PARK MAINTENANCE FUND	(19,322)	-1.0%	0	26,429	0.95%	0	7,106	0		
25 GAS TAX FUND	10,301	0.56%	0	(43,964)	-1.59%	0	(33,663)	0		
26 LOCAL TRANSPORTATION FUND	(366)	-0.02%	0	0	0.00%	0	(366)	0		
27 MEASURE A FUND	1,860	0.1%	0	13,224	0.48%	0	15,084	0		
28 TIDELANDS TRUST FUND	(25,521)	-1.4%	0	15,634	0.56%	0	(9,887)	0		
29 STREET LIGHTING FUND	(334)	-0.02%	0	8,341	0.3%	0	8,007	0		
31 TRUST & AGENCY FUND	6,741	0.37%	0	(6,795)	-0.24%	0	(54)	54		
33 R-O-W ASSESSMENT DISTRICT FUNG	3,075	0.17%	0	(9,403)	-0.34%	0	(6,329)	6,329		
38 PBIA FUND	(3,391)	-0.18%	0	(9,931)	-0.36%	0	(13,322)	1,547		
39 AB 939 FUND	24,082	1.31%	0	10,167	0.37%	0	34,248	0		
41 MEASURE-D FUND	(6,212)	-0.34%	0	(20,753)	-0.75%	0	(25,965)	0		
42 CAPITAL IMPROVEMENT FUND	(2,833)	-0.15%	0	2,833	0.10%	0	0	0		
48 RECREATION SERVICES FUND	(29,435)	-1.61%	0	(31,430)	-1.14%	0	(60,865)	60,865		

Budget to Date

Fund	Revenue		Transfers In		Expenditures		Transfers Out		Excess / (Deficit)	Reserve Changes
TOTAL	\$490,461	100.0%	\$0	\$702,011	100.0%	\$0	(\$211,550)			
10 GENERAL FUND	300,414	61.3%	0	538,785	76.7%	0	(238,371)	(31,396)		
13 GENERAL RESERVE FUND	1,165	0.2%	0	0	0.0%	0	1,165	0		
11 TRAFFIC SAFETY FUND	1,297	0.3%	0	163	0.0%	0	1,134	0		
20 REVOLVING FUND	0	0.0%	0	0	0.0%	0	0	0		
21 REPLACEMENT FUND	35	0.0%	0	580	0.1%	0	(545)	0		
22 PARK DEVELOPMENT FUND	0	0.0%	0	1,476	0.2%	0	(1,476)	1,476		
23 PARK MAINTENANCE FUND	10,556	2.2%	0	22,137	3.2%	0	(11,581)	11,581		
25 GAS TAX FUND	25,764	5.3%	0	26,924	3.8%	0	(1,160)	0		
26 LOCAL TRANSPORTATION FUND	482	0.1%	0	0	0.0%	0	482	0		
27 MEASURE A FUND	26,202	5.3%	0	12,649	1.8%	0	13,553	0		
28 TIDELANDS TRUST FUND	68,165	13.9%	0	27,431	3.9%	0	40,734	0		
29 STREET LIGHTING FUND	900	0.2%	0	9,013	1.3%	0	(8,113)	0		
31 TRUST & AGENCY FUND	0	0.0%	0	0	0.0%	0	0	0		
33 R-O-W ASSESSMENT DISTRICT FUND	18	0.0%	0	18,357	2.6%	0	(18,339)	18,339		
38 PBIA FUND	6,295	1.3%	0	1,302	0.2%	0	4,993	0		
39 AB 939 FUND	7,158	1.5%	0	4,493	0.6%	0	2,665	0		
41 MEASURE-D FUND	1,626	0.3%	0	0	0.0%	0	1,626	0		
42 CAPITAL IMPROVEMENT FUND	708	0.1%	0	708	0.1%	0	0	0		
48 RECREATION SERVICES FUND	39,677	8.1%	0	37,994	5.4%	0	1,683	0		

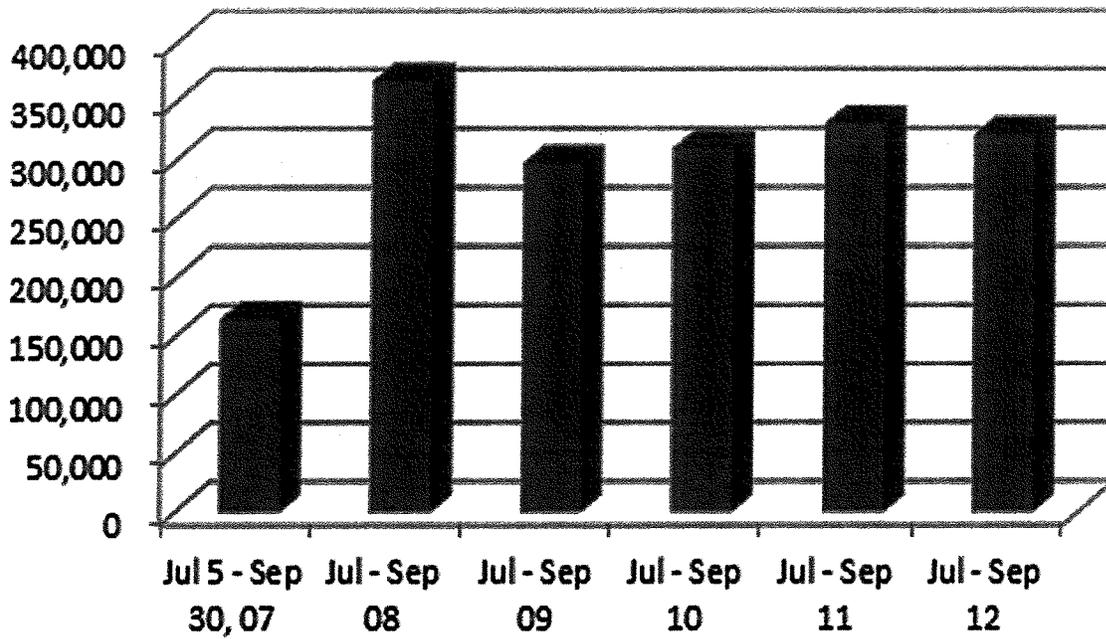
Actual To Date

Fund	Revenue		Transfers In		Expenditures		Transfers Out		Excess / (Deficit)	Reserve Changes
TOTAL	\$1,830,049	100.0%	\$0	\$2,763,452	100%	\$0	(\$933,403)	\$0		
10 GENERAL FUND	1,060,587	216.2%	0	1,966,875	71.2%	0	(906,288)	(202,312)		
13 GENERAL RESERVE FUND	1,090	0.1%	0	0	0.0%	0	1,090	0		
11 TRAFFIC SAFETY FUND	4,756	0.3%	0	653	0.0%	0	4,103	0		
20 REVOLVING FUND	52,031	2.8%	0	68,920	2.5%	0	(16,890)	0		
21 REPLACEMENT FUND	1,719	0.1%	0	8,081	0.3%	0	(6,362)	0		
22 PARK DEVELOPMENT FUND	23	0.0%	0	29,246	1.1%	0	(29,223)	29,223		
23 PARK MAINTENANCE FUND	22,903	1.3%	0	62,120	2.2%	0	(39,216)	39,216		
25 GAS TAX FUND	113,356	6.2%	0	151,659	5.5%	0	(38,302)	0		
26 LOCAL TRANSPORTATION FUND	1,564	0.1%	0	0	0.0%	0	1,564	0		
27 MEASURE A FUND	106,666	5.8%	0	37,372	1.4%	0	69,295	0		
28 TIDELANDS TRUST FUND	247,138	13.5%	0	94,088	3.4%	0	153,050	0		
29 STREET LIGHTING FUND	3,264	0.2%	0	27,709	1.0%	0	(24,445)	0		
31 TRUST & AGENCY FUND	6,741	0.4%	0	6,795	0.2%	0	(54)	54		
33 R-O-W ASSESSMENT DISTRICT FUND	3,145	0.2%	0	82,830	3.0%	0	(79,686)	79,686		
38 PBIA FUND	21,788	1.2%	0	15,139	0.5%	0	6,649	0		
39 AB 939 FUND	52,714	2.9%	0	7,806	0.3%	0	44,908	0		
41 MEASURE-D FUND	1,291	0.1%	0	20,753	0.8%	0	(19,462)	0		
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48 RECREATION SERVICES FUND	129,274	7.1%	0	183,406	6.6%	0	(54,133)	54,133		

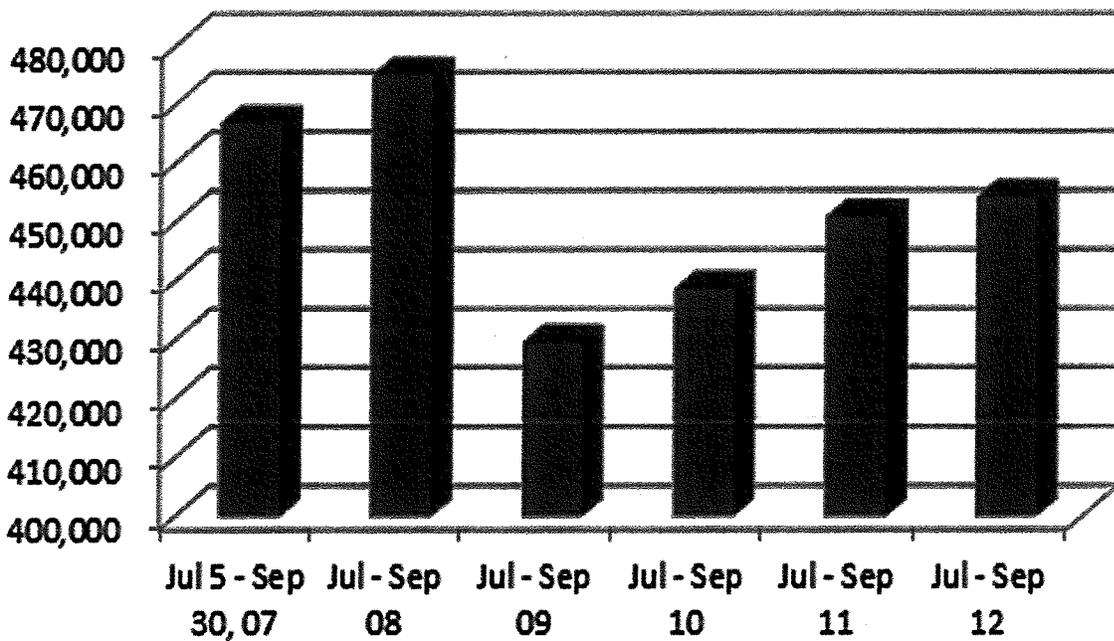
Variance to Budget

Fund	Revenue		Transfers In		Expenditures		Transfers Out		Excess / (Deficit)	Reserve Changes
TOTAL	\$1,339,588	100.0%	\$0	(\$2,061,441)	100%	\$0	(\$721,853)	(\$0)		
10 GENERAL FUND	760,173	253.0%	0	(1,428,090)	-265.1%	0	(667,917)	(172,599)		
13 GENERAL RESERVE FUND	(75)	-6.5%	0	0	0.0%	0	(75)	0		
11 TRAFFIC SAFETY FUND	3,459	266.8%	0	(490)	-301.5%	0	2,969	0		
20 REVOLVING FUND	52,031	2.8%	0	(68,920)	-132.5%	0	(16,890)	0		
21 REPLACEMENT FUND	1,684	485.7%	0	(7,501)	-445.3%	0	(5,817)	0		
22 PARK DEVELOPMENT FUND	23	0.0%	0	(27,770)	-1207.4%	0	(27,748)	27,748		
23 PARK MAINTENANCE FUND	12,347	117.0%	0	(39,982)	-323.6%	0	(27,636)	27,636		
25 GAS TAX FUND	87,593	340.0%	0	(124,735)	-463.3%	0	(37,142)	0		
26 LOCAL TRANSPORTATION FUND	1,081	224.1%	0	0	0.0%	0	1,081	0		
27 MEASURE A FUND	80,465	307.1%	0	(24,723)	-195.5%	0	55,742	0		
28 TIDELANDS TRUST FUND	178,973	282.6%	0	(66,657)	-243.0%	0	112,316	0		
29 STREET LIGHTING FUND	2,364	282.8%	0	(18,697)	-207.5%	0	(16,332)	0		
31 TRUST & AGENCY FUND	6,741	200.0%	0	(6,795)	-100.8%	0	(54)	54		
33 R-O-W ASSESSMENT DISTRICT FUND	3,127	173.7%	0	(64,474)	-2093.1%	0	(61,346)	61,346		
38 PBIA FUND	15,493	246.1%	0	(13,837)	-89.3%	0	1,657	0		
39 AB 939 FUND	45,556	636.4%	0	(3,313)	-73.7%	0	42,243	0		
41 MEASURE-D FUND	(335)	-20.6%	0	(20,753)	-6153.1%	0	(21,088)	0		
42 CAPITAL IMPROVEMENT FUND	(708)	-100.0%	0	708	100.0%	0	0	0		
48 RECREATION SERVICES FUND	89,596	225.8%	0	(145,412)	-382.7%	0	(55,816)	55,816		

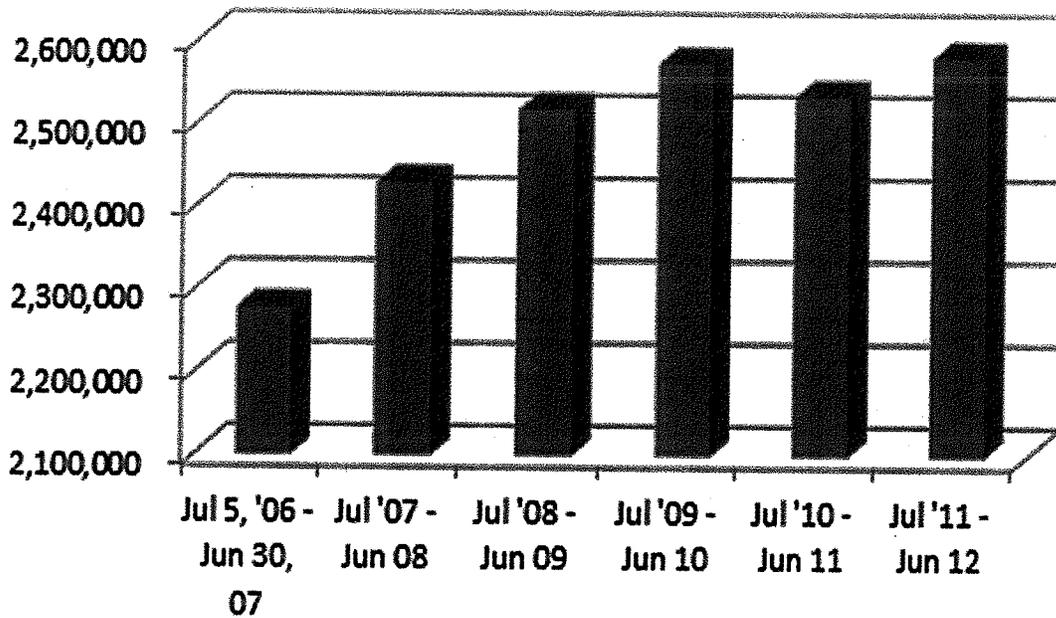
SALES TAX



TRANSIENT OCCUPANCY TAX



Property Tax



Gas Tax / Measure A/D / Right of Way

