

Town of Yucca Valley
TOWN COUNCIL STAFF REPORT

To: Honorable Mayor & Town Council
From: Sharon Cisneros, Finance Manager

Date: September 7, 2018
Meeting Date: September 18, 2018

Subject: Year End Budget Report and Allocation of Excess Fund Balance for the Year Ending June 30, 2018

Recommendation:

It is recommended that the Town Council:

-Receive and file the Budget Report for the fiscal year ended June 30, 2018

-Amend the 2018-19 General Fund Budget by transferring \$1,095,000 from the General Fund unassigned fund balance to adhere to the Reserve Policy. The allocation of the transfer is allocated as follows:

Pension Stabilization Reserve	\$547,500
Vehicle & Equipment Reserve	84,200
Capital Projects Reserve	463,300

Order of Procedure

- Request Staff Report
- Request Public Comment
- Council Discussion / Questions of Staff
- Motion/Second
- Discussion on Motion
- Call the Question

Discussion

The attached report summarizes the Town's General Fund fiscal performance for the fiscal year ended June 30, 2018. Actual Revenue exceeded the Final Budgeted Revenue by \$1,310,000 and operating expenditures were \$780,800 less than the final budget.

These cost savings in relation to budget resulted in the actual excess revenue over operating expenditures is an excess of \$2,091,000. After one time uses from reserves, the capital project reserve transfer and the Measure Y Sales Tax transfer, the net change in fund balance is a positive \$895,236.

Property Tax revenues were higher than budget as well as the prior year due to an increase in property values. Sales and Use Tax revenues were higher than budget in both the Bradley

Burns and the new Essential Services half percent (.05%) sales taxes. Contributing to the increase in sales tax revenues was the increase in taxes from Fuel and Service Stations with an average increase of 14% over the first three quarters of the fiscal year. Transient Occupancy Tax increased due to increasing hotel room occupancy and new short term vacation rentals.

Expenditures were less than final budget largely as a result of savings realized in personnel costs, vehicle fuel, professional services, and operating supplies throughout various departments within the Town. Personnel expenditures were under budget due to vacancies and overtime savings during the year. A portion of the remaining Professional Services and Partnership expenditure budgets were carried forward to FY2018-19.

The net change in general fund balance was an increase in fund balance of \$895,236. Of the excess revenue over operating expenditures realized of \$2,091,026 in FY2017-18, \$1,095,000 is available for allocation based the on council reserve policy regarding excess fund balance allocations.

The total year-end fund balance is \$8.9 million in the general fund both reserved and unreserved. Within the balance at the end of the fiscal year, reserves increased with the addition of a designated reserve for sales tax due to the essential services fund in the amount of \$308,885. Other fund balance restrictions and non-cash reserves include the remaining balance of the donation to the animal shelter and retirement obligation reserves.

After project carry forwards to FY2018-19 of \$291,500, and the transfer of Essential Services Sales Tax Revenue of \$308,885, the remaining balance of operating excess available for allocation is \$294,851. In addition to the current year operating excess, and additional \$800,149 is available in excess reserves which totals the \$1,095,000 recommended for allocation. The reserve policy indicates that unassigned fund balance in excess of 45% shall be appropriated for Pension Stabilization, Vehicle Replacement and Capital Projects Reserves.

Staff recommends allocating \$547,500 of the excess reserves to the Pension Stabilization Reserve, \$84,200 to the Vehicle and Equipment Replacement reserve in the Capital Projects Reserve Fund and \$463,300 to the Capital Projects Reserve Fund as unassigned for future appropriation by Council. The reserve policy indicates that unassigned fund balance in excess of 45% shall be appropriated first to the Pension Stabilization Reserve at a minimum of 50% of the excess and then the balance to the Capital Projects Reserve Fund, with the vehicle and equipment replacement reserve also funded. By allocating \$1,095,000 of the total available excess, the Town both adheres to reserve policy guidance providing for sufficient reserves for operations and ensures that FY2018-19 reserve balances remain within the reserve policy guidelines. For your reference, the current reserve policy is attached.

While this action will amend the FY2018-19 General Fund and Capital Reserve Fund Budgets to reflect Council direction, Town staff will return to Council for specific project and/or policy discussion and authorization when the above mentioned projects or other projects identified are ready to move forward.

Alternatives:

1. Allocate the excess in a different manner.
2. Allocate no funds and keep all in unrestricted fund balance.

Fiscal Impact

The 2017-18 Fiscal Year End positive increases to the general fund balance provides a positive impact on the 2018-19 fiscal year.

Attachments:

2017-18 Fiscal Year End Budget Report
Reserve Policy Adopted 2.20.18



Town of Yucca Valley
Fiscal Year End Budget Report
for Year Ending June 30, 2018

Town of Yucca Valley
General Fund Revenues and Expenditures
Fiscal Year End Budget Report
June 30, 2018

Revenues	Actual	Final Amended Budget	Variance with final budget	% of Budget
Property Tax	\$ 3,078,162	\$ 2,909,563	\$ 168,599	105.79%
Property Taxes in lieu	1,833,836	1,850,000	(16,164)	99.13%
Sales and Use Tax - Bradley Burns	3,537,284	3,425,000	112,284	103.28%
Sales and Use Tax - Essential Serv	1,969,874	1,500,000	469,874	131.32%
Franchise fees	993,123	860,000	133,123	115.48%
Transient occupancy tax	578,997	325,000	253,997	178.15%
Other Revenues	1,353,974	1,165,535	188,439	116.17%
Total Revenues	13,345,250	12,035,098	1,310,152	110.89%
Expenditures				
Personnel Services	\$ 3,541,741	\$ 3,737,090	\$ 195,349	94.77%
Contract Safety	4,319,329	4,328,500	9,171	99.79%
Operating Supplies and Services	2,241,948	2,802,636	560,688	79.99%
Partnerships	110,479	130,200	19,721	84.85%
Capital Projects	71,018	66,963	(4,055)	106.06%
Total Expenditures	\$ 10,284,515	\$ 11,065,389	\$ 780,874	92.94%
Excess Revenue over Expenditures (Prior to transfer to Reserve and one time uses)	3,060,735	969,709	2,091,026	
Transfers				
One time transfer from reserves	(18,000)	(42,169)	(24,169)	42.69%
Transfer from DIF - Animal Shelter	53,963	53,963	-	100.00%
Transfer for Capital Projects	(500,000)	(500,000)	-	100.00%
Transfer to Essential Services	(1,701,462)	(1,500,000)	201,462	113.43%
Total Transfers	(2,165,499)	(1,988,206)	177,293	108.92%
Net Change in Fund Balance	895,236	(1,018,497)	1,913,733	
Fund Balance, Beginning of Year	8,084,811	8,084,811	-	
Fund Balance, End of Year	8,980,047	7,066,314	1,913,733	
Fund Balance as % of Expenditures	87%	64%		
Unrestricted as % of Expenditures	64%	44%		

Notes

1. Sales Tax receipts from new Essential Services Sales Tax higher than anticipated
2. Partnership and Capital Project expenditures not spent in FY2017-18 were carried forward to FY2018-19

Town of Yucca Valley
General Fund Revenues and Expenditures
Fiscal Year End Report
June 30, 2018

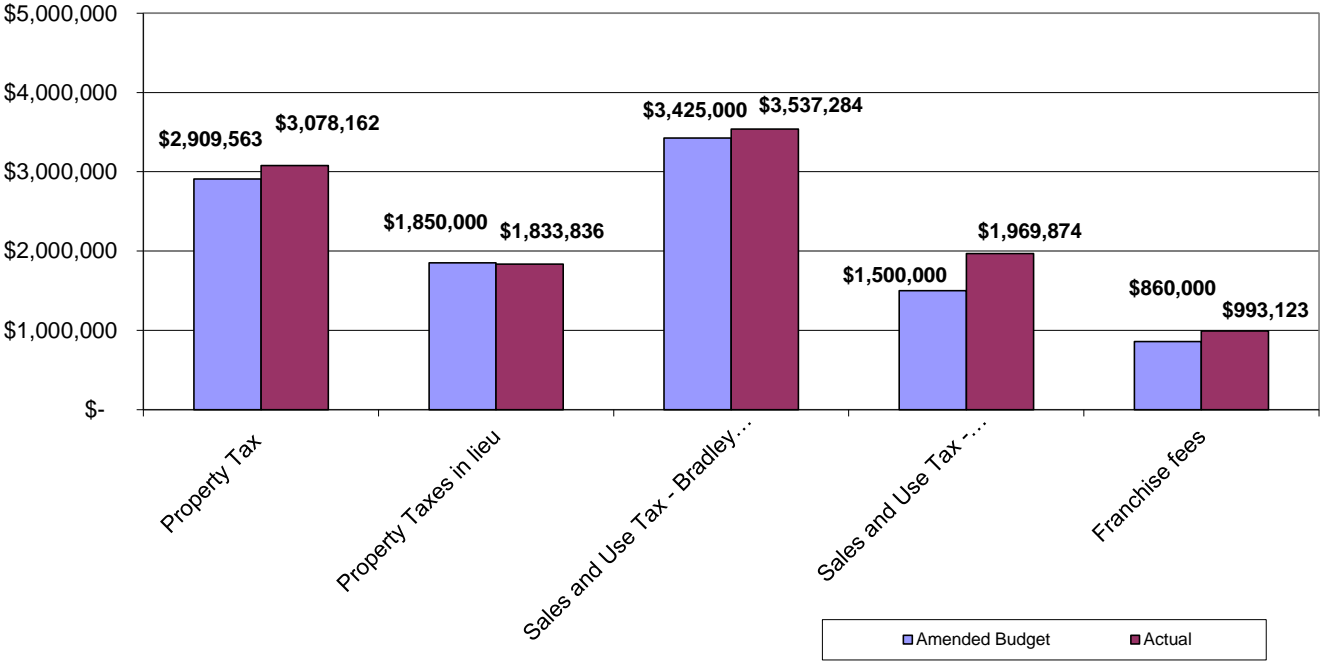
Actual Comparisons to Prior Year

Revenues			Variance	Variance
	FY2017-18	FY2016-17	PY \$	PY %
Property Tax	\$ 3,078,162	\$ 2,876,592	\$ 201,570	7.01%
Property Taxes in lieu	1,833,836	1,763,091	70,745	4.01%
Sales and Use Tax	3,537,284	3,357,802	179,482	5.35%
Sales and Use Tax - Essential Serv	1,969,874	268,723	1,701,151	633.05%
Franchise fees	993,123	806,946	186,177	23.07%
Transient occupancy tax	578,997	316,912	262,085	82.70%
Other Revenues	1,353,974	1,176,381	177,593	15.10%
Total Revenues	13,345,250	10,566,447	2,778,803	26.30%
Expenditures				
Personnel Services	\$ 3,541,741	\$ 3,215,421	\$ (326,320)	-10.15%
Contract Safety	4,319,329	4,333,205	13,876	0.32%
Operating Supplies and Services	2,241,948	1,964,950	(276,998)	-14.10%
Partnerships	110,479	84,785	(25,694)	-30.30%
Capital Projects	71,018	466	(70,552)	-15139.91%
Total Expenditures	\$ 10,284,515	\$ 9,598,827	\$ (685,688)	107.14%
Excess Revenue over Expenditures (Prior to transfer to Reserve and one time uses)	3,060,735	967,620	2,093,115	
Transfers				
One time transfer from reserves	(18,000)	(31,629)	(13,629)	56.91%
Transfer to Vehicle Reserve- AS	53,963	(7,931)	(61,894)	-680.41%
Transfer for Capital Projects	(500,000)	(307,000)	193,000	162.87%
Transfer to Essential Services	(1,701,462)	(268,723)	1,432,739	633.17%
Transfer to Infrastructure Reserve	-	(600,000)	(600,000)	0.00%
	(2,165,499)	(1,215,283)	950,216	178.19%
Net Change in Fund Balance	895,236	(247,663)	1,142,899	
Fund Balance, Beginning of Year	8,084,811	8,332,474	(247,663)	
Fund Balance, End of Year	8,980,047	8,084,811	895,236	
Fund Balance as % of Expenditures	87%	84%		
Unrestricted as % of Expenditures	64%	63%		

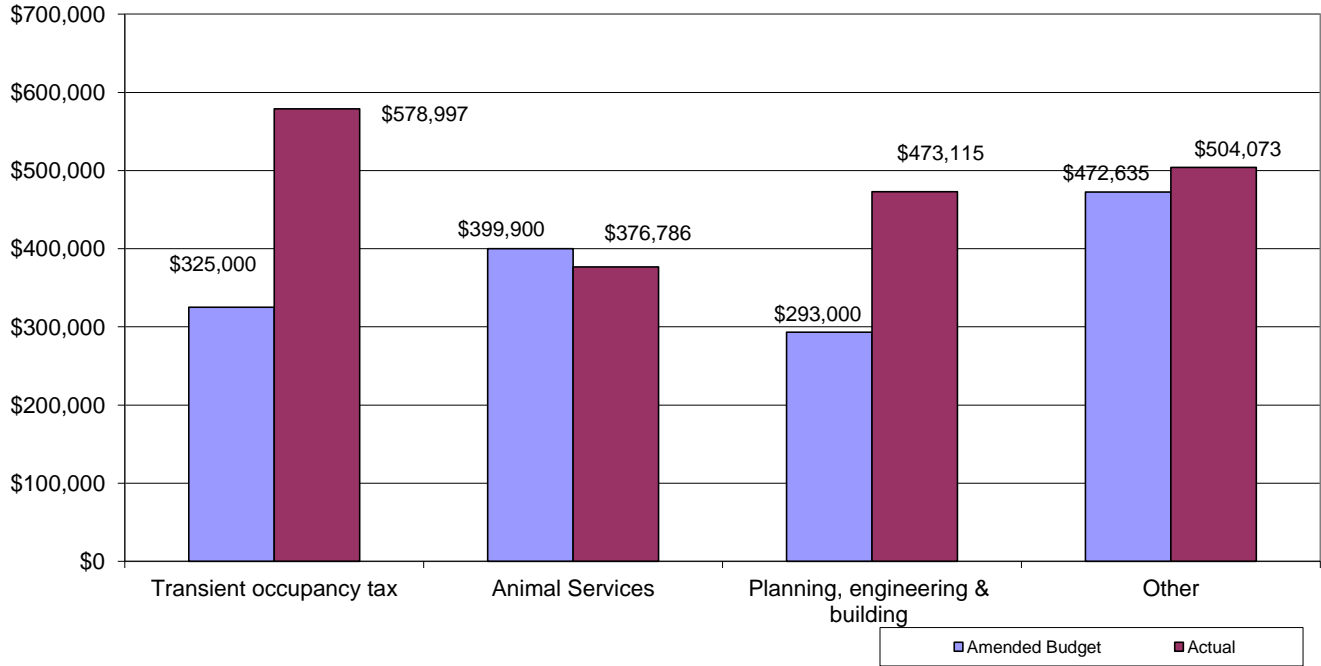
Notes

1. FY2016-17 Essential Services sales tax is only one quarter of revenue
2. FY2017-18 Increase from FY16-17 due to increase in STVR and hotel room bookings
3. Contract Safety and Operating Supplies and Services increases were anticipated and budgeted in FY2017-18

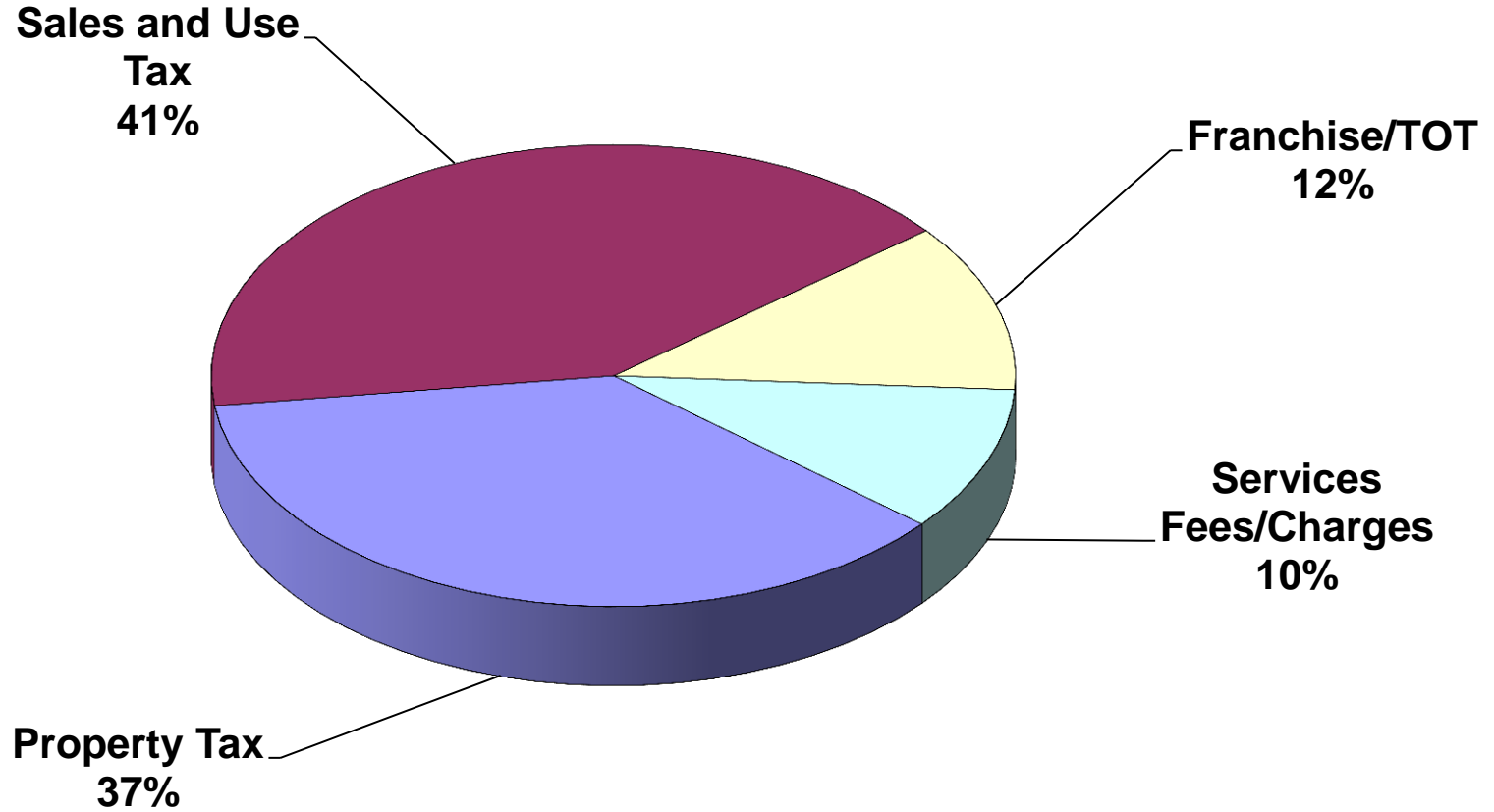
**Town of Yucca Valley
Major Revenue Sources
FYE June 30, 2018**



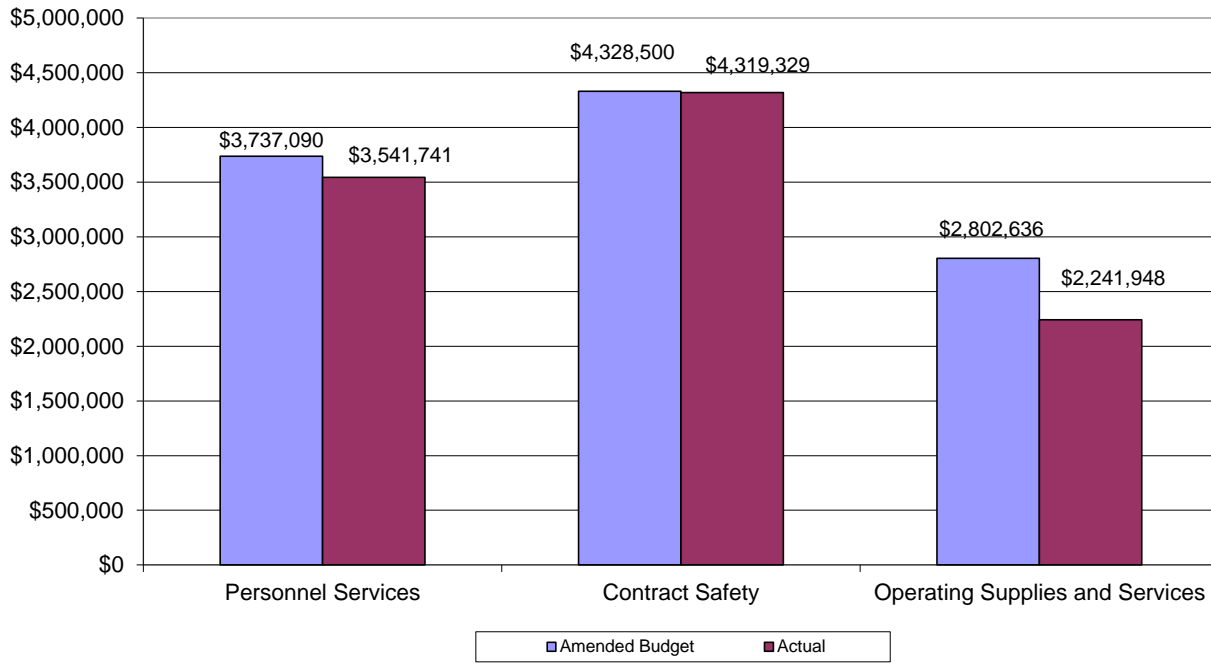
**Town of Yucca Valley
Other Revenue Sources
FYE June 30, 2018**



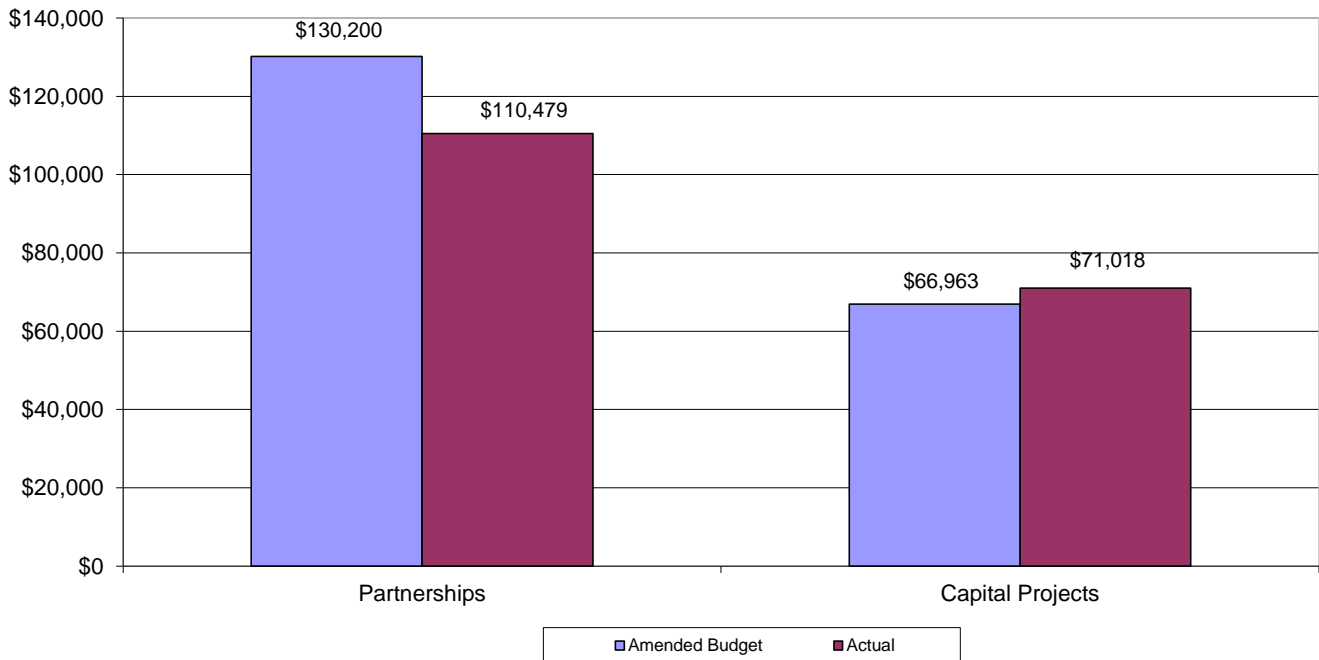
**Town of Yucca Valley
Operating Revenue
FYE June 30, 2018
\$13,345,250**



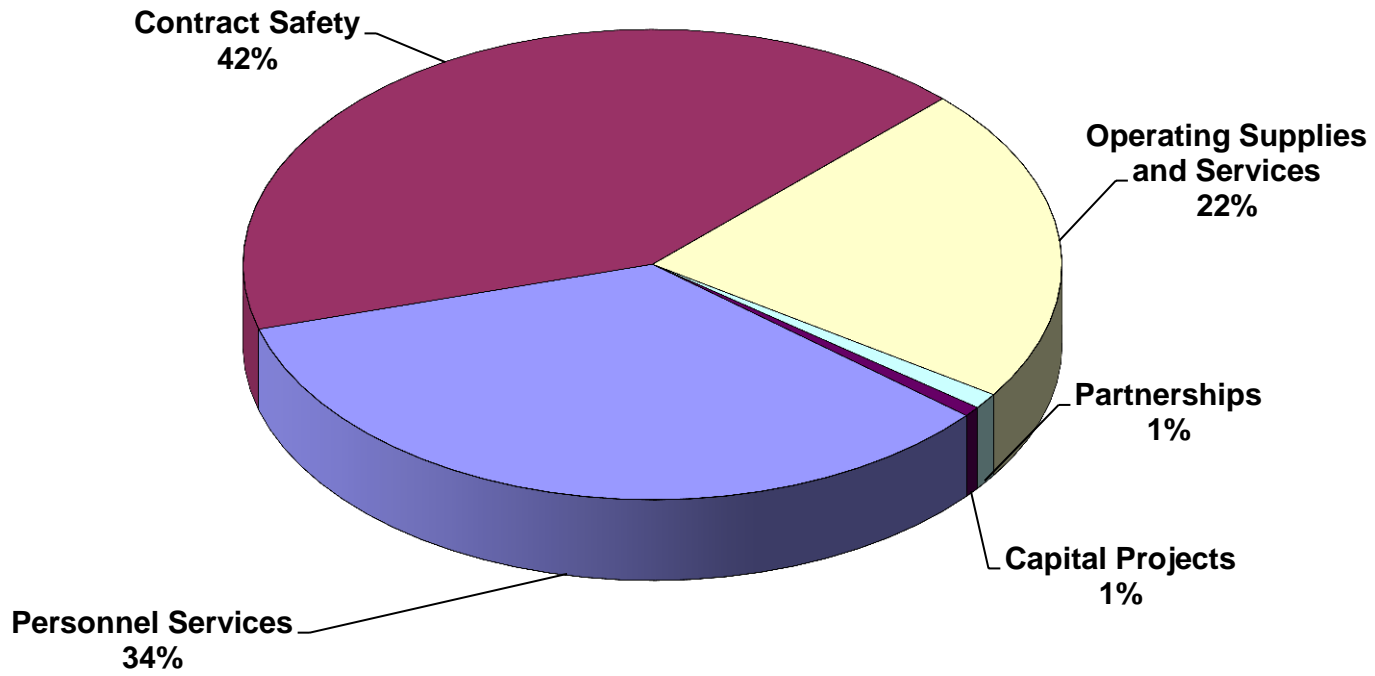
**Town of Yucca Valley
Major Expenditure Categories
FYE June 30, 2018**



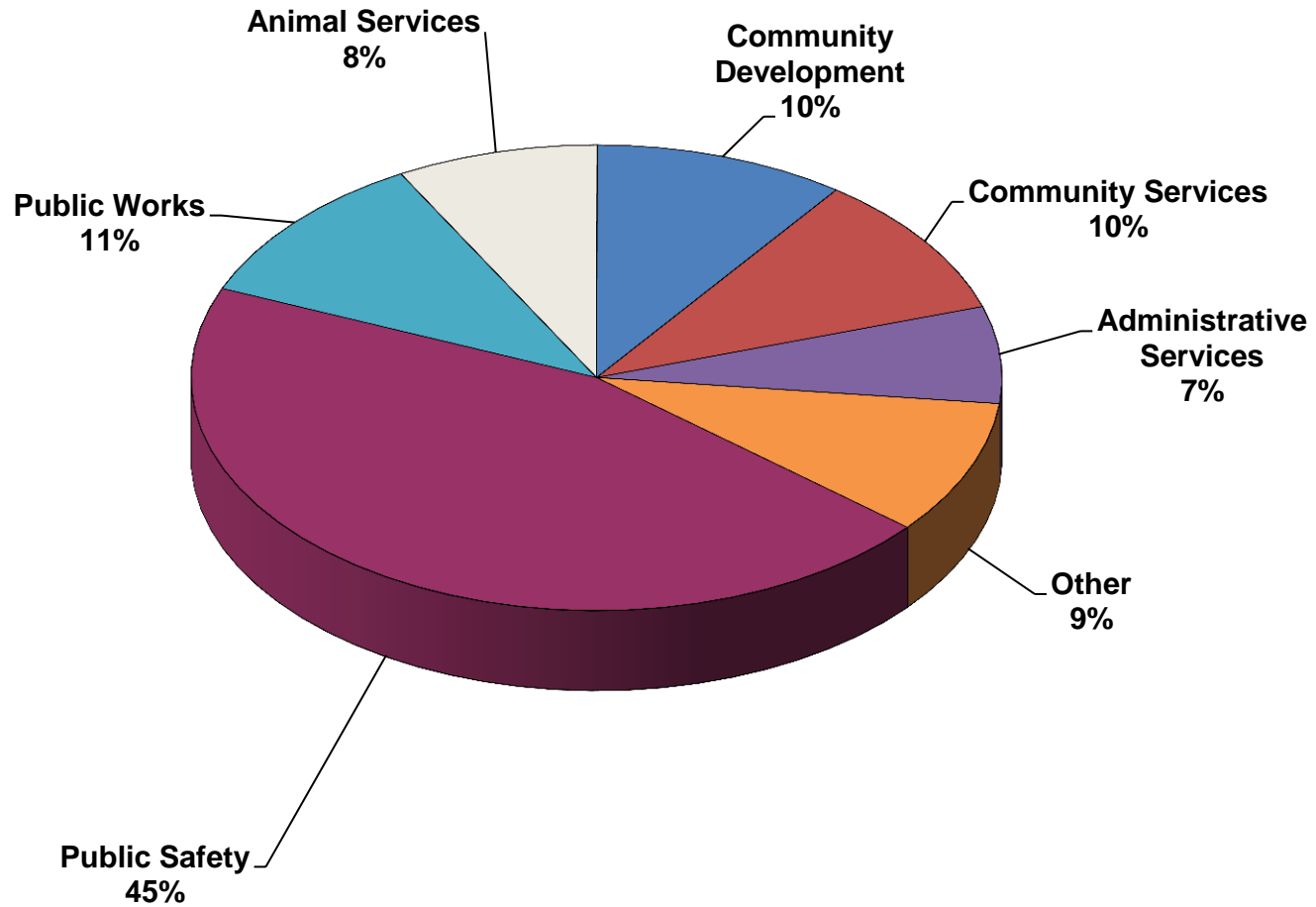
**Town of Yucca Valley
Other Expenditure Categories
FYE June 30, 2018**



**Town of Yucca Valley
Operating Expenditures
FYE June 30, 2018
\$10,284,515**

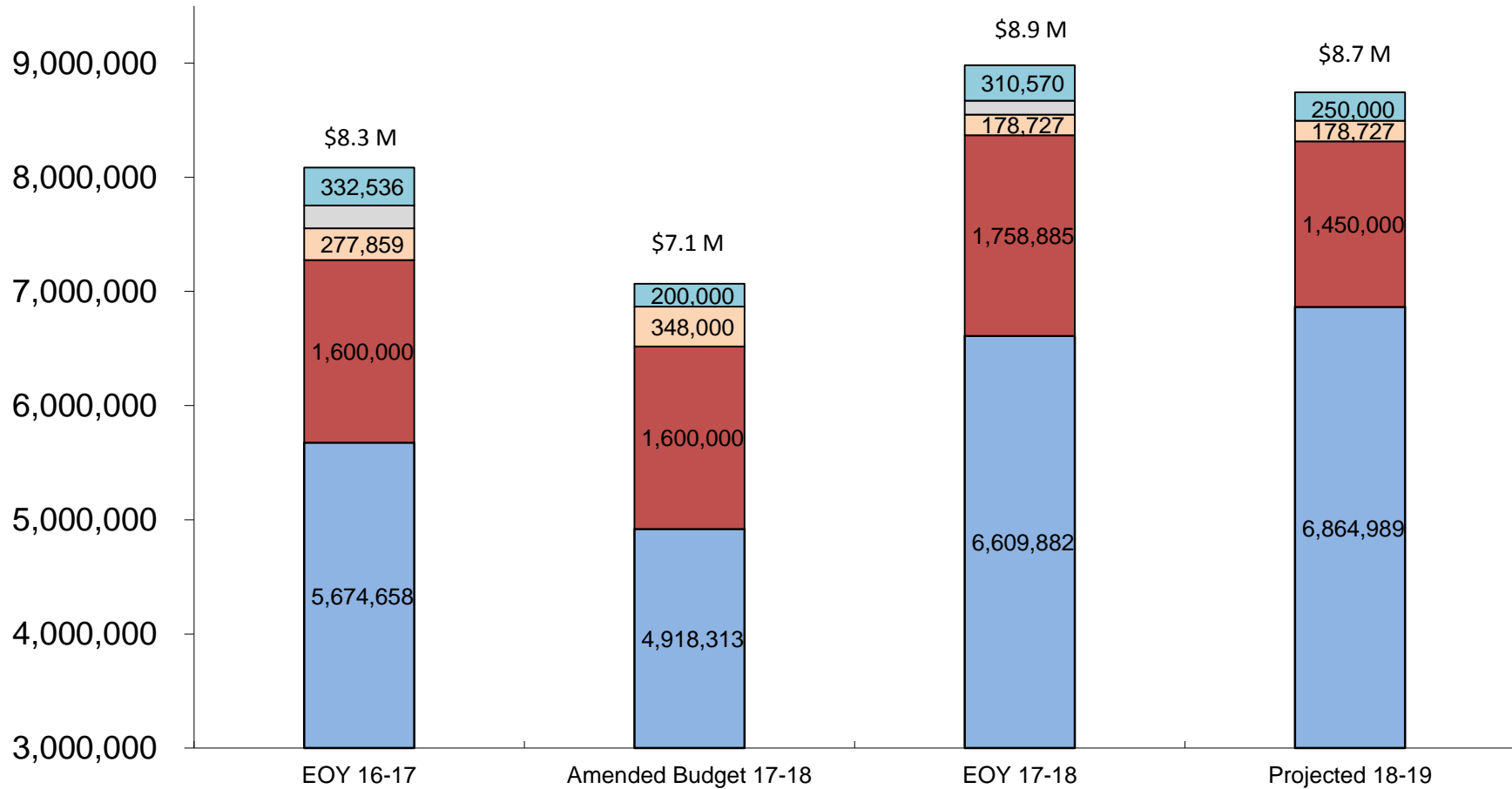


**Town of Yucca Valley
Operating Expenditures
FYE June 30, 2018
\$10,284,515**

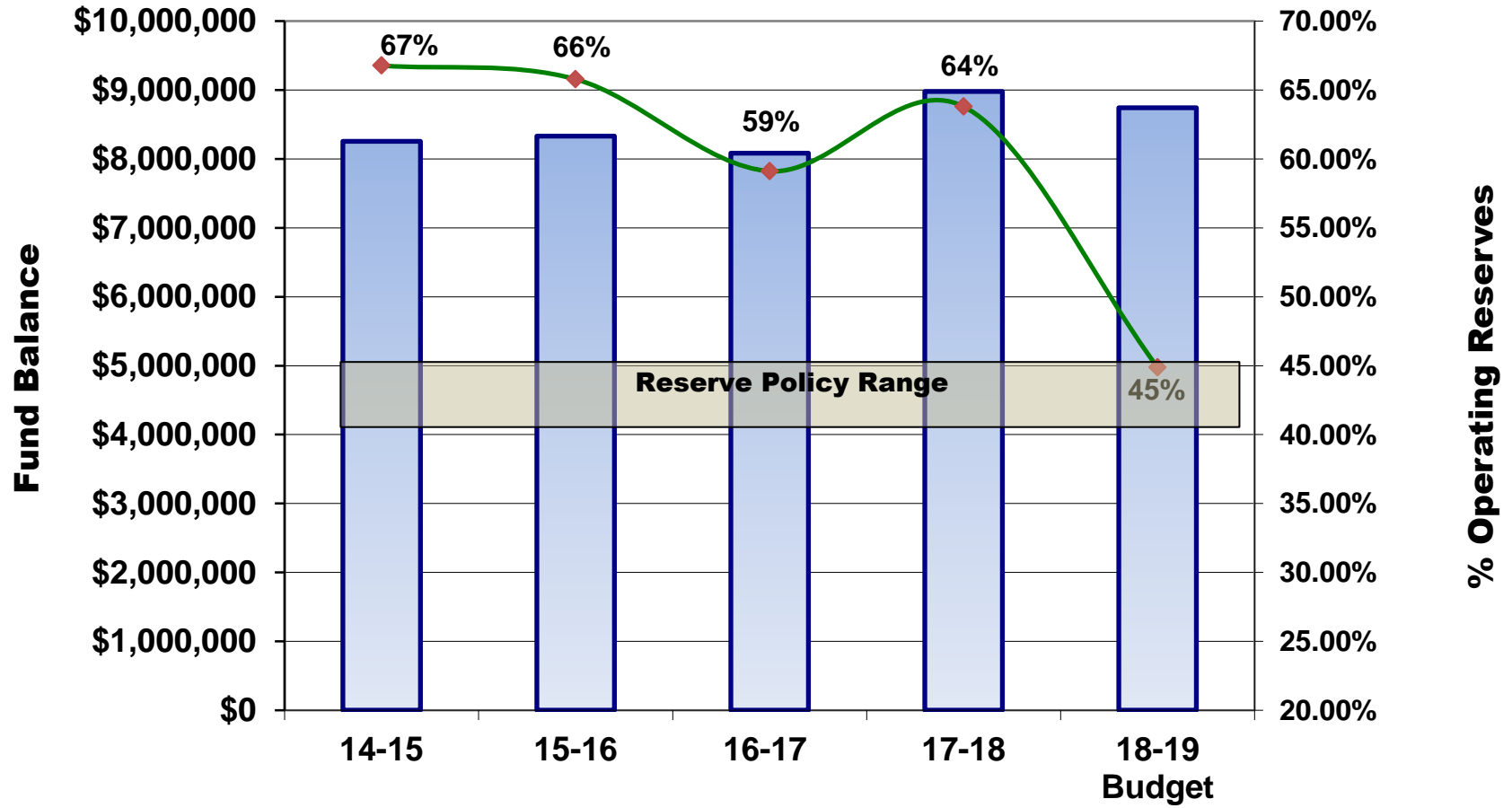


**Town of Yucca Valley
General Fund Reserve and Restrictions
FYE June 30, 2018**

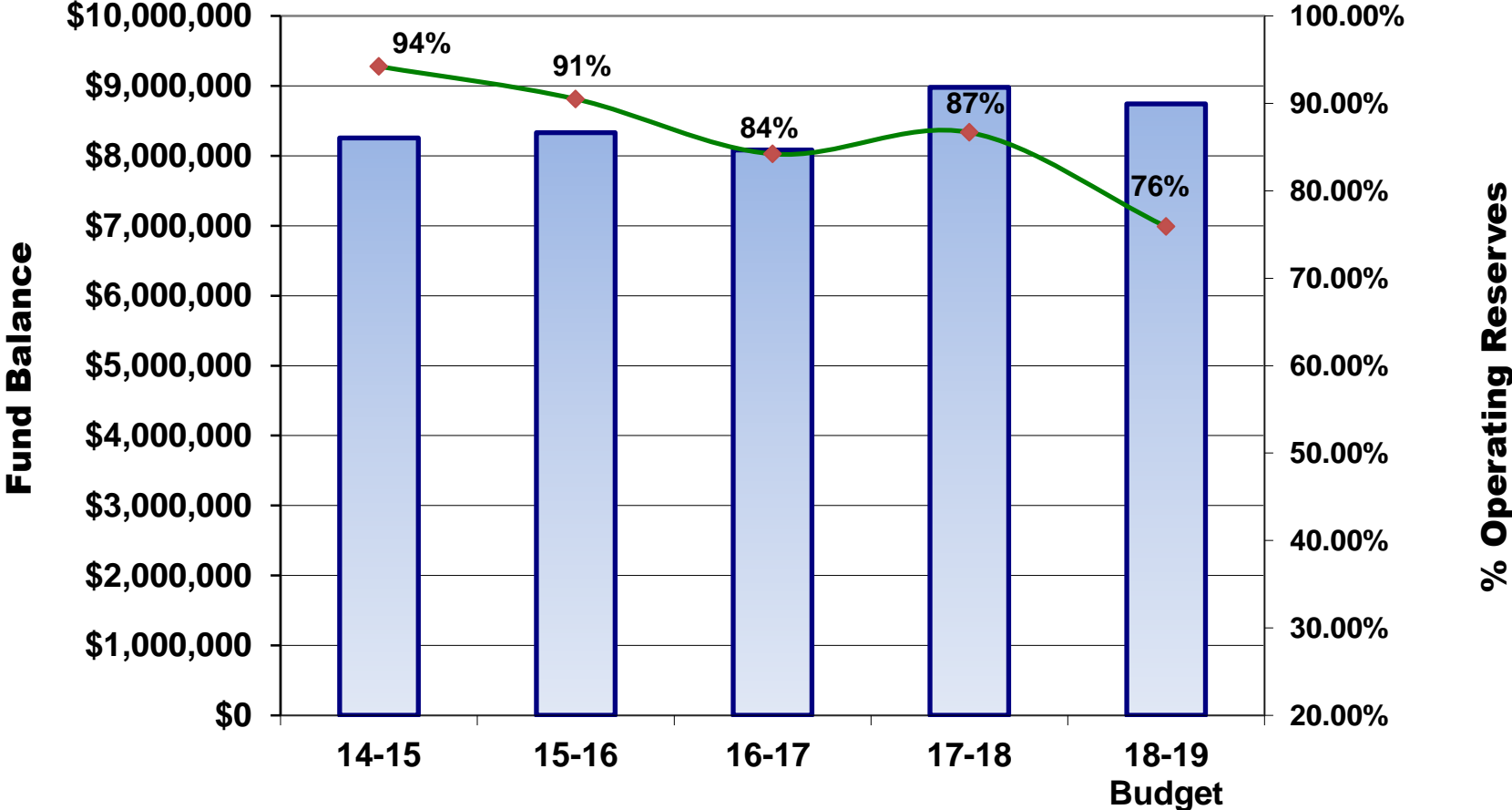
■ Unassigned
 ■ Reserves
 ■ Receivables
 ■ Prepaids
 ■ Restricted



Town of Yucca Valley
General Fund Operating Budget
Unrestricted Reserves Trend After \$1.9m Allocation



Town of Yucca Valley
General Fund Operating Budget
Total Reserves Trend



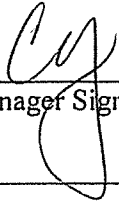
TOWN OF YUCCA VALLEY

Policy Number: 4-3

General Subject:

Date Issued: 02/20/2018

Reserve and Fund Balance Policy



Town Manager Signature

PURPOSE:

The purpose of the Reserve and Fund Balance Policy is to establish a policy which will provide adequate reserves within the Town's general fund to maintain the Town's credit worthiness and to reasonably provide for:

- Economic uncertainties, financial hardships or downturns in the local or state economy.
- Local disasters or catastrophic events.
- Cash flow requirements.
- Legal requirements

AUTHORITY:

This policy is enacted through adoption by the Town Council.

DEFINITIONS:

Fund Balance—The difference between the Town's assets and liabilities. In other words, the difference between the Town's economic resources and its debt. Fund balance is further into the following categories.

Unassigned Fund Balance—The portion of the Town's fund balance that represents spendable resources.

Nonspendable Fund Balance-The portion of the Town's fund balance that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance-The portion of the Town's fund balance that has constraints placed on the use of resources (a) externally by creditors, grantors, contributors, or laws

or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Assigned Fund Balance—The portion of the Town’s fund balance that are constrained by the Council’s intent to be used for specific purposes, but are neither restricted nor committed.

POLICY:

General Fund

The Town’s unassigned general fund balance shall be maintained between 40% and 45% of annual general fund expenditures, excluding specific designations.

The Town shall maintain specific designations of assigned general fund balance for the following priorities:

Local Disaster and Catastrophic Events	\$1,000,000
Risk Management Reserve	200,000

Designation for the Risk Management reserve may be modified in accordance with the terms established by the Town’s risk management authority.

A Pension Stabilization Reserve shall also be created in the General Fund to hold the excess fund balance and other pension designated funds prior to transfer into the Section 115 Trust Account.

Capital Projects Reserve Fund

The Town shall establish and maintain a Capital Projects Reserve Fund for the purpose of providing funding for the planning, construction, repair, rehabilitation, or replacement of the Town’s capital assets.

Within the Town’s Capital Projects Reserve Fund, the Town shall establish and maintain a Vehicle & Equipment Replacement reserve at an amount equal to 125% of annual depreciation, not to exceed \$500,000. The reserve shall be funded as necessary through annual expenditures against the appropriate departments.

Appropriations from the Capital Projects Reserve Fund shall be authorized through the Town’s standard budget process, or by specific council action.

Reporting

The Town's annual budget shall be adopted in accordance with the unassigned general fund balance level set in this policy.

Within sixty days following publication of the Town's audited financial statements, the Town Manager or his/her designee shall report to the Town Council the unassigned general fund balance as a percentage of actual expenditures in the General Fund.

If the report indicates that the unassigned general fund balance is below 40%, the report shall contain a corrective action plan to increase the unassigned fund balance back to 40%.

If the report indicates that the unassigned general fund balance is in excess of 45%, the report shall propose the appropriation of the excess unassigned fund balance to the Capital Projects Reserve Fund and the Pension Stabilization Reserve in the General Fund. The excess will be allocated at a minimum of 50% to the Pension Stabilization Reserve until such a time as the Town's Pension Funding and Stabilization Policy objectives are met.

APPROVAL, REVISION & CANCELLATION:

Approval, revision, and/or cancellation must be done with Council approval.

RESOLUTION NO. 18-05

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF YUCCA VALLEY,
CALIFORNIA, ADJUSTING AND IMPLEMENTING THE TOWN'S RESERVE AND
FUND BALANCE POLICY**

WHEREAS, the Town has adopted a reserve and fund balance policy establishing guidelines for appropriate levels of fund balances for the Town's general fund; and

WHEREAS, the Town may need to modify such policy in light of past actual financial results for the prior year ended June 30; and

WHEREAS, the Town may need to modify such policy in light of expected financial results for the current year ending June 30; and

WHEREAS, Town may need to modify such policy in light of information received or projected which will materially affect the current or future economic forecasts, and

WHEREAS, Town may need to modify such policy to accommodate projects or programs that are reasonably foreseen in the near future affecting such Funds.

NOW THEREFORE THE TOWN COUNCIL OF THE TOWN OF YUCCA VALLEY RESOLVES AS FOLLOWS.

Section 1. The Reserve and Fund Balance Policy is revised as stated in Exhibit 1 attached to this resolution.

APPROVED AND ADOPTED THIS 6th day of February, 2018



MAYOR

ATTEST:



TOWN CLERK


STATE OF CALIFORNIA

COUNTY OF SAN BERNARDINO

TOWN OF YUCCA VALLEY

I, Lesley R. Copeland, Town Clerk of the Town of Yucca Valley, California hereby certify that the foregoing Resolution No. 18-05 as duly and regularly adopted at a meeting of the Town Council of the Town of Yucca Valley, California at a meeting thereof held on the 20th day of February 2018, by the following vote:

Ayes:	Council Members Abel, Drozd, Leone, Lombardo and Mayor Denison
Noes:	None
Abstain:	None
Absent:	None



Lesley R. Copeland, CMC
TOWN CLERK