

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Public Hearing and Action: Resolution Adopting a Supplemental Budget; Making Appropriations for the City of Eugene for the Fiscal Year Beginning July 1, 2015 and Ending June 30, 2016

Meeting Date: December 14, 2015
Department: Central Services
www.eugene-or.gov

Agenda Item Number: 3
Staff Contact: Twylla Miller
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ISSUE STATEMENT

City Council approval of the first Supplemental Budget (SB1) for Fiscal Year 2016 (FY16) is requested. Oregon Local Budget Law (ORS 294.471) allows for supplemental budgets in the event of "An occurrence or condition that is not ascertained when preparing the original budget or a previous supplemental budget for the current year or current budget period and that requires a change in financial planning." ORS 294.471 also allows for a supplemental budget if there are "funds that are made available by another unit of federal, state or local government and the availability of which could not reasonably be foreseen when preparing the original budget or a previous supplemental budget for the current year or current budget period." This Supplemental Budget does not authorize any increase in the property tax levy and has been published in compliance with the Oregon Local Budget Law.

BACKGROUND

The Supplemental Budget that occurs in December of a fiscal year is usually the largest because of the audit adjustments to budgeted Beginning Working Capital and the reappropriation of funds from the prior fiscal year for contracts, program initiatives or projects that were started but not completed in that fiscal year. This Supplemental Budget also recognizes new revenue and authorizes other unanticipated changes in legal appropriations.

Transactions Related to Beginning Working Capital

Isler & Company, LLC, the City's external auditor, has completed its Fiscal Year 2015 (FY15) audit of Beginning Working Capital, and this Supplemental Budget includes Marginal Beginning Working Capital (MBWC) adjustments for all City funds. The MBWC is the difference between the estimate of ending working capital that was made in the adopted budget for FY16 and the audited actual FY15 ending working capital. This adjustment is recognized on SB1 and is the largest component of the transactions included in this budget request.

General Fund Transactions and Fund Balance Information

For the Main Subfund of the General Fund, the MBWC adjustment is -\$154,803. The negative Marginal Beginning Working Capital adjustment is primarily due to revenues that were slightly lower than the experience estimate that was used to prepare the FY16 budget. This included lower

tax revenue of \$0.6 million due to a combination of lower than anticipated Eugene Water & Electric Board (EWEB) CILT revenues (\$0.4 million) and delinquent tax collections (\$0.2 million). Overall revenue estimates were accurate within 0.3 percent for a revenue budget of \$131.5 million.

On the expenditure side, the experience estimate assumed that departments would underspend their budgets by just under \$2 million (about 1.5 percent). This is less than department underspending of, on average, \$2.9 million (2.4 percent) over the prior four years. Actual department underspending ended up at 1.5 percent, the same as the percentage included in the experience estimates.

Total funds available for appropriation on this supplemental budget in the Main Subfund of the General Fund is \$4,701,006, consisting of the following:

Source	Amount
MBWC adjustment	(\$154,803)
FY16 adopted reserve for encumbrances	\$2,723,809
Additional property tax revenue	\$1,200,000
Reserve for Revenue Shortfall	\$900,000
Council contingency	\$32,000
Total funds available for appropriation	\$4,701,006

The reserve for encumbrance represents a reserve for uncompleted contracts carried over to the next fiscal year. In addition, it is estimated that property taxes will exceed the amount built into the FY16 budget by \$1.2 million. Also shown in the chart is \$0.9 million that is proposed to be withdrawn from the Reserve for Revenue Shortfall to fund the General Capital Projects transfer.

The disposition of these funds is as follows:

Description	Amount
Actual prior fiscal year encumbrances	\$2,271,375
Re-appropriation of prior project funding	\$844,751
One-time funding requests	
Transfer to the General Capital Projects fund	\$900,000
PDD work on urban reserves	\$300,000
Library levy election costs	\$170,300
Car camping/Lindholm Center funding	\$125,000
Fire information technology services	\$59,580
Downtown portable restrooms	\$30,000
Total SB1 appropriation requests	\$4,701,006

\$2,271,375 is dedicated to prior fiscal year encumbrances and \$844,751 is dedicated to reappropriation of prior project funding such as the Community Justice Initiative, the Regional Prosperity Plan, and Neighborhood Matching Grants Program. After accounting for these expenditures, the remainder of funds available is \$1,584,880 and is allocated to the projects listed

in the one-time funding requests category. A summary of the General Fund reserve for encumbrance, reappropriations and other uses of MBWC is included in Attachment A.

The City Manager is recommending that \$900,000 be used from the Reserve for Revenue Shortfall for the transfer to the General Capital Projects Fund. After this Supplemental Budget, there will be a total of \$8,551,371 in the Reserve for Revenue Shortfall, which represents 6.2 percent of the FY16 General Fund (Main Subfund) operating expenditures if this supplemental budget is approved. This is a drop from the 6.8 percent Reserve for Revenue Shortfall that was built into the FY16 Adopted Budget.

This Supplemental Budget includes a total of \$1,355,787 in other General Fund (Main Subfund) revenue increases. These revenues include grants re-budgeted from the prior fiscal year, new FY16 grants, reimbursements from local/state/federal sources, business code development related to the peer-to-peer economy, and additional staff hours for business license and nuisance abatement programs. Operating budget appropriations for the departments receiving these revenues are being increased by the same amount.

After the audit, FY15 actual results show an ending working capital (EWC) in the General Fund, reporting fund (including the Main Subfund, Cultural Services Subfund and Equipment Replacement Subfund) of \$40,179,466 which is \$2,153,281 less than the FY14 EWC and \$965,104 more than anticipated for carryover resources in the FY16 Adopted Budget. These figures are reported on a Budget Basis of accounting.

On a Generally Accepted Accounting Principles (GAAP) basis, the FY14 Ending Fund Balance represented 33 percent of the General Fund revenues in FY14, which decreased to 31 percent based upon FY15 actual results. GAAP results differ from budget basis results because the budget is created on a modified accrual basis while GAAP rules are slightly different in terms of when revenues and expenditures are recognized. The chart below compares FY14 and FY15 Ending Fund Balance for the General Fund (GAAP Basis). For the Main Subfund, the decrease in Ending Working capital is a result of the FY15 strategy to use reserves to balance the budget.

General Fund Ending Fund Balance GAAP Basis	Main Subfund	Cultural Services Subfund	Equipment Replacement Subfund	Total Reporting Fund
FY14	\$39,117,324	\$2,488,436	\$1,362,302	\$42,968,062
FY15	37,411,228	2,380,537	1,241,849	41,033,614
Change	(1,706,096)	(107,899)	(120,453)	(1,934,448)

The Ending Working Capital is broken down into several components, as shown in the following chart. Nearly all of the items in the Ending Working Capital (or fund balance) have been appropriated or designated by the City Council either through policy or past budget actions. Note that the portion that is shown as “Unassigned” is being considered for appropriation by the City Council on this Supplemental Budget request.

Category	Item	Explanation	FY14	FY15	Change
Non-Spendable		Prepays and deposits have already been paid out and are not available for other spending	\$623,852	\$837,243	\$213,391
Restricted	Cultural Services	From Transient Room Tax; must be spent according to state law	1,088,331	1,107,064	18,733
Assigned	Unappropriated Ending Fund Balance	Pay bills and payroll until property taxes are received; set at 2 months of expenditures per Council policy	21,710,000	23,040,000	1,330,000
	Cultural Services	Prudent reserve for operation of Hult Center, etc	1,400,106	1,273,473	(126,633)
	Encumbrances	Contracts that were not complete as of June 30	2,439,332	2,543,769	104,437
	Reserve for Next Year's Spending	Used to balance the subsequent year's budget	1,724,995	810,398	(914,597)
	Reserve for Revenue Shortfall	Prudent reserve for the General Fund; target is 8% of expenditures	6,134,237	9,451,371	3,317,134
	Other Reserves	For property tax appeals and equipment replacement	1,224,706	1,069,153	(155,553)
Unassigned		Appropriated on Supplemental Budget #1 in December of the following fiscal year and no longer available for spending	6,622,503	901,143	(5,721,360)
Total Fund Balance			\$42,968,062	\$41,033,614	(\$1,934,448)

Capital Carryover

The Capital Project Carryover Reconciliation is also included in this Supplemental Budget. An estimate of the unspent balance in each capital project was established in the FY16 Adopted Budget. These estimates have been reconciled with the actual FY15 expenditures, and the Capital Budget is adjusted to reflect the remaining unspent balances in each project. The Capital Carryover on this Supplemental Budget reduces the Capital Budget by \$6,516,591, reduces reserves by \$540,000 and increases Balance Available by \$7,056,591.

Non-General Fund Transactions

This Supplemental Budget recognizes approximately \$18 million in non-general fund transactions, other than MBWC, encumbrances and capital carryover reconciliation. Much of this total is reflected in recognizing and re-budgeting approximately \$13 million in grants and other revenue. This budget also includes non-general fund reappropriations for projects not completed in the prior fiscal year. Other non-general fund transactions are described in Attachment A.

Interfund Loan

The Construction Permits subfund is providing an interfund loan in the amount of \$65,000 to the Low Income Housing subfund for the purchase of a landbank site. The expected purchase date is December 31, 2015. Repayment of the loan will be made on or before December 31, 2017, from CDBG funds. The repayment schedule and loan terms are as follows:

Expected Repayment Schedule				
Amount of Loan:	\$65,000.00			
Purpose of Loan:	Purchase the Land Bank Site			
Interest Rate To Be Paid on Loan:	City's actual portfolio earnings rate			
	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>Totals</u>
Loan Granted on 12/14/2015	65,000			65,000
<u>Repayment</u>				
Principal		0	65,000	65,000
Interest*		<u>0</u>	<u>3,959</u>	<u>3,959</u>
Total Repayment		0	68,959	68,959
<p>*Estimated interest rate in FY17 is 3% and FY18 is 3%, but the actual rate may vary and the receiving fund will pay the actual portfolio rate.</p> <p>*Interest calculated at 3% per annum for two fiscal years from date of loan.</p> <p>Assumptions:</p> <p>(1) Purchase of the site is expected to be completed by December 31, 2015.</p> <p>(2) Annexation of the site by the City of Eugene is expected by December 31, 2016.</p> <p>(3) Principal and interest repayment will be made from Community Development Block Grant.</p> <p>(4) Repayment in full including interest will be made on or before December 31, 2017.</p>				

Budget Committee Direction

As part of their recommendation to the City Council on the FY16 Recommended Budget, the Budget Committee included the following motion:

“Move that the Budget Committee recommend to the Eugene City Council the FY16 Budget for the City of Eugene that consists of the City Manager's Proposed FY16 Budget, including the property tax levies and/or rates contained therein, amended to reflect appropriations for prior year encumbrances and prior year capital projects, with the following amendments:

- transfer \$55K from the reserve account for large property tax appeals to Neighborhood Services for newsletter outreach and for matching grants, and
- direct the City Manager to restore said reserve account using the Marginal Beginning Working Capital (MBWC) in Supplemental Budget #1 after the capital transfer and any other prearranged expenditures are accounted for.”

The General Fund (Main Subfund) Marginal Beginning Working Capital adjustment is negative (\$154,803). Therefore, the City Manager recommends against enacting the second bullet of the Budget Committee’s motion.

Timing

In some cases, expenditure authority is needed immediately to carry out City Council direction or to meet legal or program requirements. Approval of SB1 in December allows the organization to prepare more accurate mid-year projections by having the general ledger reflect the audited balances in each fund. This, in turn, enables staff to more accurately project the Beginning Working Capital for the next fiscal year's Proposed Budget.

RELATED CITY POLICIES

These transactions conform to the City's Financial Management Goals and Policies.

COUNCIL OPTIONS

Particular requests requiring more information or discussion may be removed from the Supplemental Budget and delayed for action in a future Supplemental Budget. In certain cases there may be a financial or legal impact to delaying budget approval. The council may also adopt amended appropriation amounts or funding sources for specific requests in the Supplemental Budget.

CITY MANAGER'S RECOMMENDATION

Approve the attached resolution adopting the Supplemental Budget.

SUGGESTED MOTION

Move to adopt Resolution 5145, adopting a Supplemental Budget; making appropriations for the City of Eugene for the fiscal year beginning July 1, 2015 and ending June 30, 2016.

ATTACHMENTS

- A. Transaction Summary
- B. Resolution

FOR MORE INFORMATION

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