



Fiscal Year  
2019-20

# First Quarter Report



Prepared by:

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# First Quarter Financial Report

## Fiscal Year 2019-20

### Introduction

This financial report provides an overview of the City's financial position through the first quarter of fiscal year 2019-20 (July 1, 2019-September 30, 2019) for the General Fund and major enterprise operating funds. It also provides an update on the status of the City's Capital Improvement Program projects (CIP) and Major City Goals. Notable milestones or trends within the first quarter are addressed. This report is broken down into the following sections:

- Section A:** General Fund Update
- Section B:** Enterprise Funds Update
- Section C:** Major City Goals Update
- Section D:** Capital Improvement Plan Update
- Section E:** CalPERS and Debt Schedule Update
- Section F:** Outlook and Conclusion

## SECTION A

### General Fund: Operating Revenues

The following table includes first quarter revenue comparisons for FY19 and FY20 and a revenue budget to actual comparison for FY19.

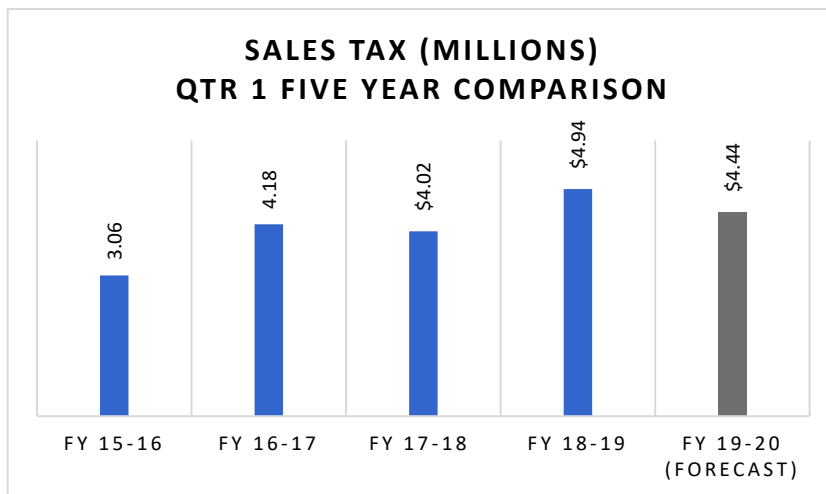
	First Quarter Actual Comparison				Budget to Actual Comparison	
	FY19	FY20	\$ Variance	% Variance	FY20	% of budget
<b>Tax &amp; Franchise Revenue</b>						
Sales & Use Tax	3,451,275	3,360,627	(90,648)	-3%	18,060,000	19% <span style="color: green;">●</span>
Local Revenue Measure G	1,725,638	1,671,117	(54,520)	-3%	7,840,000	21% <span style="color: green;">●</span>
Property Tax	123,611	132,909	9,298	8%	17,921,000	1% <span style="color: green;">●</span>
Transient Occupancy Tax	2,316,381	2,334,589	18,208	1%	8,033,000	29% <span style="color: green;">●</span>
Utility User Tax	1,189,307	1,187,531	(1,776)	0%	5,854,000	20% <span style="color: green;">●</span>
Franchise Fees	67,567	77,798	10,231	15%	1,558,000	5% <span style="color: green;">●</span>
Business Tax	2,550,720	2,862,835	312,115	12%	2,942,000	97% <span style="color: green;">●</span>
Gas Tax	267,746	393,091	125,345	47%	1,783,000	22% <span style="color: green;">●</span>
Cannabis Tax	-	-	-	0%	650,000	0% <span style="color: red;">●</span>
<b>Total Tax/Franchise</b>	<b>11,692,244</b>	<b>12,020,497</b>	<b>328,253</b>	<b>3%</b>	<b>64,641,000</b>	<b>19%</b> <span style="color: green;">●</span>
<b>Fees for Service</b>						
Police Services	108,290	108,157	(133)	0%	742,202	15% <span style="color: green;">●</span>
Fire Services	322,519	325,975	3,456	1%	1,399,793	23% <span style="color: green;">●</span>
Development Review	1,123,099	2,854,728	1,731,628	154%	5,333,000	54% <span style="color: orange;">●</span>
Parks and Recreation	413,291	392,278	(21,014)	-5%	1,914,645	20% <span style="color: green;">●</span>
Total General Government	282,794	425,035	142,240	50%	560,000	76% <span style="color: green;">●</span>
Cannabis	-	7,676	7,676	0%	400,000	2% <span style="color: red;">●</span>
Other Revenues	161,877	1,891,083	1,729,206	1068%	2,262,000	84% <span style="color: green;">●</span>
Subventions & Grants	21,430	18,897	(2,533)	-12%	900,000	2% <span style="color: green;">●</span>
<b>Total Fees &amp; Other</b>	<b>2,433,302</b>	<b>6,023,828</b>	<b>3,590,527</b>	<b>148%</b>	<b>24,830,973</b>	<b>24%</b> <span style="color: green;">●</span>
<b>Total Revenue</b>	<b>14,125,546</b>	<b>18,044,325</b>	<b>3,918,780</b>	<b>28%</b>	<b>89,471,973</b>	<b>20%</b> <span style="color: green;">●</span>

Key: ● No Variance ● Variance ● Significant Variance

The following factors should be taken into consideration when analyzing first quarter revenue data:

- Property tax revenue has not yet been received.
- Only two months of Sales Tax has been received.
- Most franchise fees are collected annually in April.
- Some departmental revenues are seasonal.
- Subventions and Grants are awarded in large amounts and at varying times of the year.
- The significant increase in “Other Revenues” is due to one-time funding from SB1090 (Diablo Canyon Power Plant closure).

Overall, General Fund operating revenues are ahead of FY19 revenues during the same time period. Although revenues are only at 20% percent of the budget through the first quarter, this is primarily due to the timing associated with the city’s largest revenue sources, sales tax and property tax. The majority of property tax funding is received in the third and fourth quarters of the fiscal year.



**Sales Tax:** Only two months of sales tax has been received during the first quarter due to the timing of disbursements from the California Department of Tax and Fee Administration (CDTFA). From the two months that have been collected, Sales Tax revenue is only slightly lower than FY19, but because of true-up that happens in later months, this amount is likely to increase. July 2019 marked ten years of

continuous economic growth which is the largest period of U.S economic expansion on record. Staff expects sales tax revenue growth to slow over the next year and will continue to closely monitor this revenue stream and provide an update at the FY20 mid-year review.

**Transient Occupancy Tax (TOT):** Year to date revenues are slightly higher than one year ago. Staff forecasted growth in TOT due to three new hotels opening in 2019 and the expansion of homestay rentals. TOT is discussed in detail in the new quarterly TOT report that will be published in late November.

**Business Tax:** The renewal cycle for business tax occurs during the first quarter of the fiscal year; therefore, most of the anticipated revenue for the year has been collected. The City had higher revenue during the first quarter of this year compared to FY19 for two reasons. The City opened the business license renewal period earlier and encouraged online submittals. Overall, more

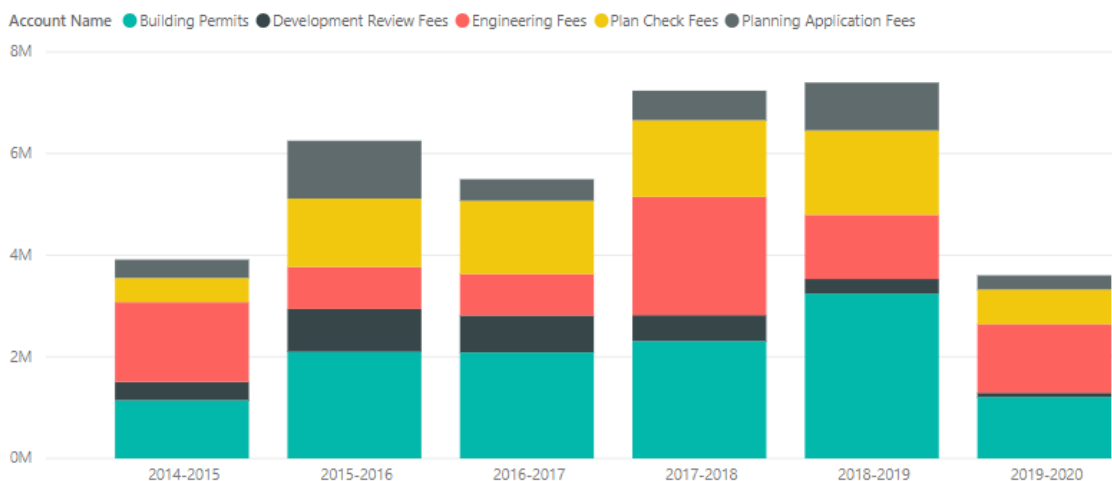
businesses complied early and fewer administrative citations were sent in October. The City has also increased business license enforcement as part of the Fiscal Health Response Plan.

**Cannabis Tax:** The City is currently doing background checks for the cannabis businesses that applied in January 2019. The process is taking longer due to unexpected hurdles during backgrounding of applicants. One non-retail business has been approved and is scheduled to open during the winter of FY20. Staff will adjust Cannabis revenue assumptions at mid-year when opening dates will be known for two of the three anticipated retailers.

**Development Review:** When taking a closer look at development review revenue, there are three main fee types that are contributing to the notably high revenues for the first quarter.











Development Review Fees	First Quarter Actual Comparison				Budget to Actual	
	FY19	FY20	\$ Variance	% Variance	FY20	% of budget
<b>Planning &amp; Zoning Fee</b>	<b>120,616</b>	<b>203,395</b>	<b>82,779</b>	<b>69%</b>	<b>480,000</b>	<b>42%</b>
<b>Development Review Fee</b>	<b>24,741</b>	<b>110,064</b>	<b>85,323</b>	<b>345%</b>	<b>166,000</b>	<b>66%</b>
Building Permits	428,940	884,060	455,120	106%	2,263,000	39%
Code Enforcement Fees	30,353	19,806	(10,547)	-35%	82,000	24%
Plan Check Fees	187,878	259,790	71,912	38%	994,000	26%
<b>Infrastructure Plan Check</b>	<b>228,645</b>	<b>1,210,853</b>	<b>982,208</b>	<b>430%</b>	<b>923,000</b>	<b>131%</b>
Encroachment Permits	66,032	69,719	3,687	6%	305,000	23%
Engineering Dev Rev Fees	22,900	40,462	17,561	77%	120,000	34%

Development review revenues are particularly difficult to forecast because there are so many external factors that could impact development activity. “Plan Check Fees” and “Building Permits” are fees that indicate the overall health of construction activity within the community. The high actuals associated with the three fee types highlighted above are directly related to several specific, yet large development projects moving through the planning process ahead of schedule. The Community Development Department conservatively projected revenues because of overall uncertainty in the economy. The department is critically evaluating these revenue streams and will adjust the budget accordingly at mid-year. The year over year revenue graph below helps illustrate the variance. Development Services revenue has already reached over 50% of the total revenue received in the entire year of FY19.














## General Fund: Department Operating Expenditures

The following table include first quarter *staffing* consumption for FY20 compared to the budget.

Staffing General Fund	Budget to Actual Comparison		
	Budget	Actual YTD	% of budget
Administration & IT	4,270,520	804,856	19% 
City Attorney	779,577	163,125	21% 
Community Development	4,625,003	902,672	20% 
Finance	1,684,061	351,355	21% 
Fire	12,298,808	2,649,803	22% 
Human Resources	1,074,645	212,094	20% 
Parks & Recreation	3,517,812	863,114	25% 
Police	16,882,738	3,566,837	21% 
Public Works	8,977,704	1,894,053	21% 
<b>Grand Total</b>	<b>54,110,869</b>	<b>11,407,908</b>	<b>21%</b> 

First quarter staffing expenditures are exactly on track. The City assumes a 2% salary savings at the end of the year to account for vacancies and fluctuations in employee pay grades.

The following table include first quarter *non-staffing* consumption for FY20 compared to the budget.

Non-Staffing General Fund	Budget to Actual Comparison		
	Budget (incl. FY19 encumbrances)	Actual YTD	% of budget
Administration & IT	4,634,253	631,148	14% 
City Attorney	270,148	63,706	24% 
Community Development	1,074,906	287,277	27% 
Finance	805,830	158,390	20% 
Fire	810,916	135,090	17% 
Human Resources	518,584	22,315	4% 
Parks & Recreation	1,080,337	176,229	16% 
Police	1,282,269	252,603	20% 
Public Works	5,237,803	985,075	19% 
Solid Waste	46,510	451	1% 
<b>Grand Total</b>	<b>15,761,557</b>	<b>2,712,285</b>	<b>17%</b> 

Department operating expenditures are generally on target. In a linear fashion, expenditures should track at 25% at quarter end, but this is often not the case for non-staffing expenses. One of the largest line item expenses in the operating budget is Contract Services and contracts are paid at varying times of the year. For example, a department budget could go from 5% expended to 60% expended after one large annual contractual obligation.

## SECTION B

### Enterprise Funds: Operating Revenue

The table below includes first quarter actual revenue comparisons for FY19 and FY20 and a revenue budget to actual comparison for FY20 for the Enterprise Funds.

Enterprise Funds	First Quarter Actual Comparison				Budget to Actual Comparison	
	FY19	FY20	\$ Variance	% Variance	FY20	% of budget
Water	5,941,218	6,282,288	341,070	5.74%	27,066,000	23% ●
Sewer	4,139,331	4,176,662	37,331	0.90%	17,432,427	24% ●
Parking	875,111	1,206,485	331,375	37.87%	5,343,000	23% ●
Transit	594,512	213,274	(381,238)	-64.13%	4,116,000	5% ●
<b>Total Revenue</b>	<b>11,550,172</b>	<b>11,878,709</b>	<b>328,537</b>	<b>2.84%</b>	<b>53,957,427</b>	<b>22%</b> ●

**Water & Sewer:** Revenues are on track and very comparable to where they were during the first quarter of last year.

**Parking:** Parking revenues were artificially low in FY19 due to change in the financial system and parking meter revenues being entered in the following quarter. This revenue stream typically adds about \$100K-\$150K per month. Considering the discrepancy, FY20 revenue are only slightly higher than the prior year.

**Transit:** Most of the Transit Fund revenue is from State and Federal grants that are received at the end of the fiscal year; therefore, having received only 5% of the forecasted revenue at this point is completely normal.

### Enterprise Funds: Operating Expenditures

The following tables include first quarter *staffing* followed by *non-staffing* consumption for FY20 compared to the budget.

Enterprise Funds	Budget to Actual Comparison		
	Budget	Actual YTD	% of budget
Parking	1,287,835	302,812	24% ●
Sewer	4,335,683	843,834	19% ●
Transit	342,360	74,495	22% ●
Water	4,137,825	821,332	20% ●
<b>Grand Total</b>	<b>10,103,703</b>	<b>2,042,474</b>	<b>20%</b> ●

Enterprise Fund	Budget to Actual Comparison		
	Budget (incl. FY19 encumbrances)	Actual YTD	% of budget
Parking	1,343,911	180,372	13% ●
Sewer	2,447,295	590,241	24% ●
Transit	3,774,565	298,856	8% ●
Water	12,675,448	7,858,195	62% ●
<b>Grand Total</b>	<b>20,241,220</b>	<b>3,090,565</b>	<b>15%</b> ●

Like the trend in the general fund, operating expenditures for the City's enterprise funds are tracking lower than 25% for the first quarter. Very similar trends were seen in FY19 but spending usually increases during later quarters in the year. The Water fund has spent 62% of the budget because it makes a large annual Nacimiento water payment in July.



## SECTION C

### Major City Goals Update

Of the twelve tasks that were scheduled to be completed during the first quarter of FY20, four were fully completed. The others are in progress and the updated completion dates are included in the table below:

PROGRAMS/PROJECTS				
Major Task	Completion Date	2019-20		
		Status Update (as of Sept 30, 2019)		
		Completed (Yes/No)	Task Update	Updated Completion Date (If applicable)
<b>Fiscal Health</b>				
Negotiate labor agreements consistent with Fiscal Health Response Plan objectives with the San Luis Obispo City Employees' Association and the San Luis Obispo Police Staff Officers' Association.	8/30/2019	No	The Human Resources Department has successfully negotiated a labor agreement with the San Luis Obispo Police Staff Officers Association consistent with Fiscal Health Response Plan objectives. Negotiations with the San Luis Obispo City Employees' Association is in progress and we are hopeful to come to agreement in early 2020.	Winter/Spring 2020
Fund new Cannabis Detective Position using Cannabis Fees	Jul-19	Yes	The Cannabis Detective is actively working on applications and background investigations to successfully integrate cannabis industry in San Luis Obispo.	
Purchase specific equipment related to Cannabis Detective	Jul-19	No	Some equipment has been purchased such as a ID card machine	Ongoing through FY20
<b>Climate Action</b>				
Support SLO Green Business Network and Certify City Hall as a Green Business	Jul-19	No	The \$10,000 in support was disbursed to the SLO Green Business Network, which has certified 20 local businesses. The City will engage with the SLO Green Business Network to certify City Hall as a Green Business by March 2020.	1st Quarter 2020
<b>Sustainable Transportation</b>				
Construct Anholm Greenway Phase 1 & 2 (Grants, SB1, & GF)	2019	No	Anholm Greenway Phase 1A (Foothill/Ferrini Crossing) is under construction and will be completed in November 2019. Phase 1B (Foothill to Broad) and Phase 2 (Broad to Downtown) are in design with plans to start construction by mid-year 2020.	Phase 1A - Nov 2019 Phase 1B - Nov 2020 Phase 2 - Nov 2020
Complete Prado Creek Bridge Environmental Review & Construction Documents (Traffic Impact Fees & Grants)	2019	No	Environmental review underway, with CEQA/NEPA documents submitted for internal review and planned for submittal to Caltrans by end of 2019. Anticipated completion of Environmental, Right-of-Way Acquisition, and Construction Documents by end of 2020.	4th Quarter 2020
<b>Housing</b>				
Complete an Affordable Housing Nexus Study in alignment with HE 2.15 and HE 4.6*	Fall 2019	No	Nexus study is underway and on schedule. Staff anticipates a final report with policy recommendations from the consultant in mid-December.	2nd Quarter FY20
Continue the Affordable Housing Monitoring Program*	Fall 2019	No	Monitoring program is underway and staff anticipates completion of this item in mid-December. Depending on findings, completion of all follow-up actions associated with this work effort may take additional time and coordination with the City Attorney's Office.	2nd Quarter FY20
<b>Downtown Vitality</b>				
Fund Police Field Service Technician and a Downtown Sergeant with land lease revenues	Jul-19	Yes	Both positions have been hired.	
Install security cameras in Mission Plaza	Sept-19	No	In progress. Staff working with contractor to start project.	Construction to begin January 2020
Work with Downtown SLO to update downtown tile maps	Aug-19	Yes	The design and installation of the new tile maps at Monterey/Chorro, Marsh/Chorro and Higuera/Broad was completed in July 2019.	
Support the implementation of a Property-Based Business Improvement District (also included in Fiscal Health and Sustainability Major City Goal)	Sep-19	Yes	With the withdrawal of the petition for the PBID by Downtown SLO, the City amended its existing agreement with DSLO to fund a one-year pilot program that will add an additional downtown ambassador to their Clean and Safe Program.	Downtown SLO hired a new ambassador and they began work on October 25, 2019.
<i>Tertiary MCG Priorities*</i>				

## SECTION D

### CIP Update

Public Works CIP Engineering and Management staff have delivered numerous projects within the first quarter of the fiscal year as listed in the below table. These projects include South Broad Street Pavement Improvements, which in addition to new asphalt pavement, included Americans with Disabilities Act (ADA) ramp upgrades and wider and safer bike lanes with striped buffers. Public Works staff also designed and implemented Utilities projects that maintained or replaced existing sanitary sewer and potable water systems, ensuring continued health and welfare of the public. Other notable projects include installation of the first permanent Pickleball Courts at French Park and maintenance of the Therapy Pool at the SLO Swim Center.

Project	Proponent Department	Status	LRM Funding	Approx. Construction Budget
South Broad Street Pavement Improvements	Public Works	Completed in October	Yes	\$2,270,500
Casa/Murray Waterline Replacements	Utilities	Awarded. Construction to start November	No	\$2,055,000
Stafford-Kentucky-Taft Sewer Replacement	Utilities	Ongoing. Completion targeted November	No	\$1,230,000
Osos-Leff-Santa Barbara Sewer Replacement	Utilities	Completed in September	No	\$1,103,000
Sewer Lining 2016	Utilities	Substantially Completed in August	No	\$524,000
Foothill Pipe Bursting	Utilities	Ongoing. Completion targeted November	No	\$304,000
Sewer Lining 2019	Utilities	Completed in October	No	\$228,000
Water Treatment Plant Wash Water Tank Recoat	Utilities	Ongoing. Completion targeted December	No	\$168,000
Pickleball Courts	Parks and Recreation	Completed in September	No	\$167,000
Dispatch HVAC Replacement	Police / Fire / PW	Completed in October	Yes	\$151,000
El Capitan Bridge Replacement	Public Works	Ongoing. Completion targeted November	No	\$108,000
Silt Removal 2019	Public Works / Administration	Completed in October	No	\$97,000
Swim Center Therapy Pool Re-Plaster	Public Works / Parks and Recreation	Completed in September	Yes	\$96,000
Fire Station 4 Emergency Backup Generator	Fire	Completed in September	Yes	\$94,000
City Hall Painting	Public Works	Completed in September	Yes	\$40,000
Fire Station 3 Painting	Public Works	Completed in August	Yes	\$10,000
<b>Total Budget for Active Projects in FY 2019 Q1</b>				<b>\$8,645,500</b>



## SECTION E

**Update on CalPERS Unfunded Liability Payment:** The CalPERS unfunded liability payment was made in July 2019 in the amount of \$10,218,495. When the city prepays the unfunded liability, it saves a significant amount in interest as opposed to paying the amount due monthly. For FY20, the City saved \$368,924 by prepaying the unfunded liability.

**Debt Schedule:** Below is a table of all debts that had maturity dates during the first quarter and the associated payments.

Fund	Item	Principal Payment	Premium/ Discount	Interest Payment	Total	Final Year
General	2018 Lease Fire Truck	31,934		4,599	36,533	2024
General	2015 Lease Mobil Data Equipment Lease	44,291		172	44,463	2020
General	2014 Lease Copiers	5,324		23	5,347	2020
General	2010 Lease Fire Truck (Apparatus)			1,869	1,869	2020
Water	2004 State Water Resource Control Board	453,100	72,357		525,457	2025
Parking	2001 State Infrastructure Bank (CIEDB) Loan Marsh St	275,580	12,968	66,354	354,902	2032
<b>TOTAL</b>		<b>810,229</b>	<b>85,325</b>	<b>73,017</b>	<b>968,571</b>	

## SECTION F

### Outlook for Next Quarter

The second quarter of FY20 will provide City staff with a clearer picture of revenue and expenditure trends. Transient Occupancy Tax revenue typically begins to slow down in the second quarter due to lower travel activity during the Winter months. Historically, Sales Tax revenues for San Luis Obispo remain strong through the holiday season and drop after the second quarter. Sales Tax revenues for the second quarter for FY20 are forecasted to be about \$4.7 million, or about \$300K higher than forecasted for the first quarter.

Including the first quarter Major City Goal tasks that were extended, there are eight MCG work tasks that are scheduled to be completed next quarter. The City will also be launching the Oracle budget module over the next three months. This system will help the departments improve forecasting and easily generate real time revenue and expenditure information.

By January, FY19 financials will be audited and finalized, giving staff a clear picture of fund balances and overall ending position of FY19. Depending on the amount of savings, departments may request to increase budgets for projects or programs based on City priorities.

### Conclusion

Except for identified variances, revenue and expenditures are tracking as expected. Staff will continue to monitor these variances and report to City Council in February with the mid-year review and proposed budget changes. Based on first quarter results, the major changes will be to lower Cannabis related revenue projections, possibly offset by an increase in development services.

City staff will be attending the annual Central Coast Economic Forecast on November 8, 2019 and will be providing a comprehensive economic update at mid-year review.