



DATE: April 18, 2007
TO: Honorable Mayor and City Council Members
FROM: Financial Services Department
SUBJECT: **OVERVIEW OF THE THIRD QUARTER FINANCIAL REPORT AND
OVERVIEW OF THE FISCAL YEAR 2006-07 BUDGET**

SYNOPSIS

This is an information-only item. No action is requested or necessary.

BACKGROUND

The City Council adopted the fiscal year 2006-07 operating and capital improvement program budgets on June 21, 2006. The City's General Fund budget included operating appropriations of \$108,893,298 and capital improvement program appropriations (fund balance reserves) of \$14,775,000. General Fund revenues were projected at \$109,018,647.

ANALYSIS

Attached for the City Council's review are the City of Oceanside's third quarter financial report and a schedule summarizing revised projections of the City's General Fund operating position for fiscal year 2006-07. The third quarter report provides an analysis of General Fund revenues and expenditures. Since budget adoption, estimated revenues have been increased \$908,348. The majority of the increase in General Fund revenues is monies received from the State for reimbursement of jail booking fees (\$707,322). Given the projected economic outlook and current revenue collections, General Fund revenues are projected to complete fiscal year 2006-07 \$2,653,000 (includes \$1.7 million land sale) higher than adjusted budget, bringing total estimated revenues to \$112,579,995.

General Fund operating appropriations have been adjusted \$4,844,998 during the first three quarters of the fiscal year. Of this \$4.8 million, \$2.4 million is appropriated from new revenue and \$2.4 million is appropriated from unallocated fund balance. Unallocated fund balance appropriations include \$2.1 million in carry forwards from the prior fiscal year. After a thorough review of all General Fund departmental expenditures

for the current fiscal year, operating expenditures are projected to complete the fiscal year under budget by \$2,638,623. The majority of the savings is salary savings (\$2.1 million), which takes into account that the General Fund currently has 48 vacant positions, or 7% of total General Fund positions. It should be noted that the General Fund budget is calculated as if all positions are filled 100% of the fiscal year. If a salary savings results because of position vacancies, this is a one-time savings and should be appropriated for one-time expenditures, i.e., capital outlay.

FISCAL IMPACT

As shown on the attached fiscal year 2006-07 General Fund operating position detail, the General Fund is projected to complete fiscal year 2006-07 with an operating surplus of \$3,857,058. It should be noted that much of this surplus is one-time monies, i.e., sale of land (\$1.7 million) and salary savings (\$2.1 million).

COMMISSION OR COMMITTEE REPORT

Does not apply.

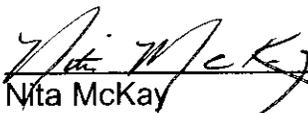
CITY ATTORNEY'S ANALYSIS

Does not apply.

RECOMMENDATION

This is an information-only item. No action is requested or necessary.

PREPARED BY:



Nita McKay
Director of Financial Services

SUBMITTED BY:



Peter A. Weiss
Interim City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager _____

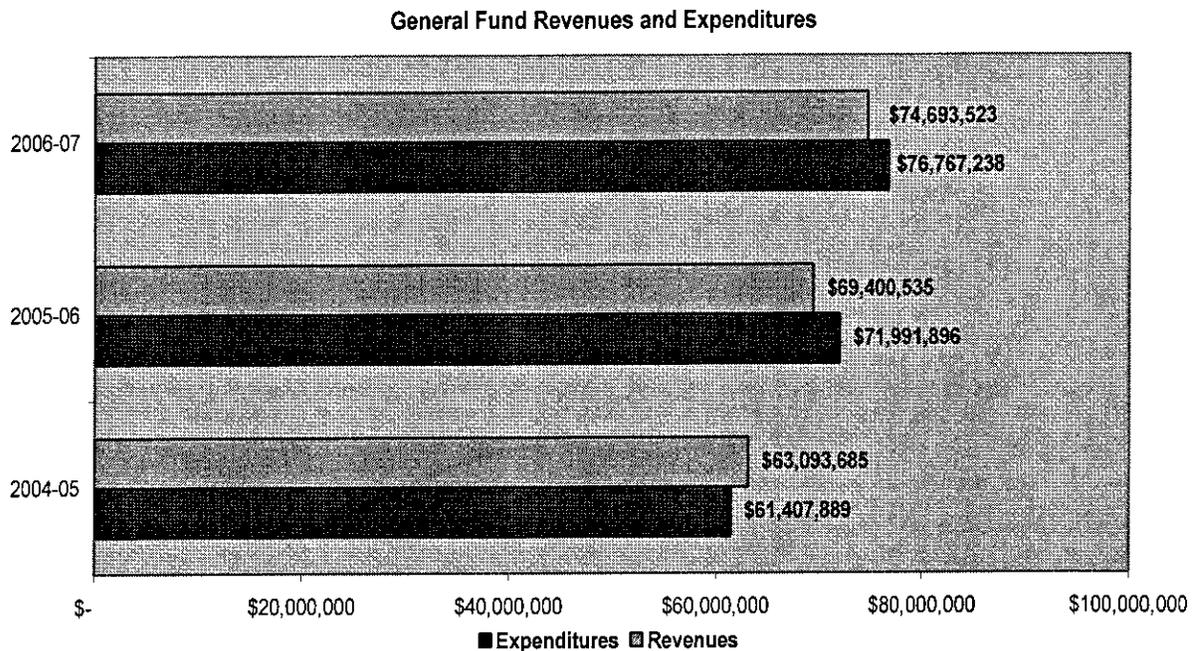
City of Oceanside – 3rd Quarter Financial Report FY 2006-07

This quarterly report reflects the City of Oceanside’s financial position for fiscal year 2006-07 through March 31, 2007. The third quarter report concentrates on the General Fund, the major enterprise funds, and the internal service funds of the City.

General Fund Overview:

With 75% of the fiscal year complete, General Fund revenues total \$74.7 million, or 67.9% of projected revenues. Revenues are up 7.6% from the same time period one year ago when revenues totaled \$69.4 million. Revenues are lower than expenditures because many revenues are not received in equal monthly installments, i.e., property taxes, and many revenues are accrued one to two months into the new fiscal year, i.e., sales taxes and transient occupancy taxes. General Fund expenditures are \$76.8 million or 67.5% expended compared to the previous fiscal year where year-to-date expenditures totaled \$72.0 million, or 68.6% of budget. It is important to keep in mind that the quarterly report includes “adjusted” budget numbers which include any budget adjustments made during the first three quarters of the fiscal year, including carry forward amounts for encumbrances not expended during fiscal year 2005-06.

The chart below summarizes the third quarter revenues and expenditures of the City’s General Fund for the past three fiscal years.



Fiscal Year	General Fund Revenues			General Fund Expenditures		
	Adjusted Budget	Actual	% Received	Adjusted Budget	Actual	% Expended
2006-07	\$ 109,926,995	\$ 74,693,523	67.9%	\$ 113,738,296	\$ 76,767,238	67.5%
2005-06	\$ 97,147,088	\$ 69,400,535	71.4%	\$ 104,988,369	\$ 71,991,896	68.6%
2004-05	\$ 89,789,918	\$ 63,093,685	70.3%	\$ 92,087,388	\$ 61,407,889	66.7%

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General Fund Operating Position:

With revenues on track for this time period during the fiscal year and operating expenditures (\$76.8 million expended of \$113.7 million *operating* budget) at 67.5%, the General Fund is projected to complete the fiscal year with an operating surplus. With General Fund position vacancies at 7% and projected increases in certain revenues, the General Fund is projected to complete the current fiscal year with an operating surplus of \$1,480,322.

General Fund Revenues:

General Fund revenues total \$74,693,523 for the third quarter of fiscal year 2006-07, compared to \$69,400,535 for the same time period the prior fiscal year. This is an increase of \$5,292,988 or 7.6%. The positive trend has continued through the third quarter of the fiscal year and is projected to complete the fiscal year 4% higher than fiscal year 2005-06.

THIRD QUARTER FY 2006-07 General Fund Revenues							
	1st Quarter	2nd Quarter	3rd Quarter	YTD Revenues	Adjusted Budget	% Received	Prior Year Same Period
Property Taxes	\$931,995	\$12,464,332	\$13,245,716	\$26,642,043	\$42,560,330	62.60%	\$22,599,637
Sales and Use Taxes	3,704,691	4,012,101	5,887,838	13,604,630	19,476,090	69.85%	13,153,084
Transient Occupancy Taxes	637,860	632,398	384,890	1,655,148	2,363,320	70.03%	1,830,376
Franchise Fees	-	540,037	544,684	1,084,721	3,960,979	27.39%	1,029,074
Card Room Taxes and Fees	173,109	250,424	268,008	691,541	985,000	70.21%	728,343
Business Licenses	553,618	511,058	737,585	1,802,261	2,623,390	68.70%	1,939,613
Property Transfer Tax	74,408	239,157	355,863	669,428	1,530,450	43.74%	1,080,475
Permit Revenue	334,562	338,057	254,387	927,006	1,343,990	68.97%	1,148,657
Parking Meters, Lots, Permits	391,779	115,360	131,107	638,246	815,000	78.31%	533,798
Fines, Forfeitures and Penalties	829,013	852,263	854,218	2,535,494	3,444,110	73.62%	2,686,547
Investment Earnings	607,102	646,690	803,512	2,057,304	1,800,000	114.29%	1,226,917
Rents and Leases	515,018	524,142	513,110	1,552,270	2,288,181	67.84%	1,352,880
Motor Vehicle In Lieu	482,238	195,738	226,436	904,412	1,031,820	87.65%	3,589,360
Other Agencies	208,713	790,667	280,313	1,279,693	1,190,122	107.53%	335,169
Federal, State and Local Grants	72,207	-	56,724	128,931	100,000	128.93%	98,083
Plan Ck, Inspec Srv & Fees	963,234	703,495	771,999	2,438,728	4,339,190	56.20%	2,957,857
Public Safety Services	670,642	511,566	737,114	1,919,322	3,038,370	63.17%	2,100,518
Library Services and Fees	5,794	6,495	8,588	20,877	25,000	83.51%	19,763
Reimbursement for Services	729,365	725,454	646,666	2,101,485	2,682,449	78.34%	1,868,523
Recreation Services	16,033	5,081	5,296	26,410	14,000	188.64%	13,925
General Administration	2,980,894	2,980,897	3,296,114	9,257,905	13,051,677	70.93%	8,847,824
Misc Revenue and Contributions	163,971	108,821	133,318	406,110	348,117	116.66%	260,112
Land Sale	-	1,663,000	-	1,663,000	-	100.00%	-
Operating Transfers	203,750	203,751	279,057	686,558	915,410	75.00%	-
Total Revenues	\$15,249,996	\$29,020,984	\$30,422,543	\$74,693,523	\$109,926,995	67.95%	\$69,400,535

Property tax revenues are 62.6% collected at March 31, 2007. Although this appears low, it is on track for the same time period in prior fiscal years. Because of the collection dates, property taxes were at 61.6% one year ago. Property tax collections have increased 18% over the prior year, with an increase of \$4.0 million. Additionally, the City receives its "Property Tax In Lieu" payments from the state in two equal installments in late January and late May. The amount received in January 2007 was an increase of 20% over the prior January payment. The City's property tax projections continue a steady increase with a note of caution as the housing market in Southern California continues to slow. Though making up a small percentage of General Fund revenues, property transfer taxes are a good example of the sluggish home sales with a decrease of 38.0% from the prior fiscal year and registering at only 43.7% of projections for the current fiscal year. This trend in lower property transfer tax revenues is projected to continue in future years.

Sales and use taxes show a 3.4% increase over the same time period one year ago. Registering at 69.9% of projections is behind the 77.4% of projections the prior fiscal year. As part of the State's "Triple Flip", the

City of Oceanside – 3rd Quarter Financial Report FY 2006-07

City receives sales tax compensation fund payments in late January and late May. The payment received in January 2007 was 40% higher than the previous January payment. The City's sales tax consultants, HdL Companies, agree that this revenue source will continue the need for close monitoring to reach the projected 12% increase in fiscal year 2006-07.

Transient Occupancy Taxes finished the third quarter at 70.0% of projected revenue. A portion of the 9.6% decrease from the prior fiscal year is due to an accounting correction in accruing the June 2006 payments. This revenue source is lagging projections with 75% of the fiscal year complete, but is still expected to complete the fiscal year as projected.

Franchise Fees appear low at 27.4% of projections. However, the payment from San Diego Gas & Electric is received once per year in April. In April 2006, this payment totaled \$1,680,713. Additionally, revenues from Cox Communications are collected quarterly with a one-month delay in receipt (third quarter will be received in April). This revenue source is on track when compared to the third quarter of the prior fiscal year at 28.3% collected.

Business Licenses finished the third quarter at 68.7% of projected revenue. Business license revenue is down when compared to the same period one year ago, with revenues projected to complete the fiscal year slightly under budget.

Fines and Forfeitures are 73.6% of projections with a decrease from the prior fiscal year of 5.6%, or \$151,053. Revenue sources that show a decrease from the prior fiscal year are street sweeping fines and red light photo fines. On the other side, parking citations show an increase from the prior fiscal year. This revenue source is expected to reach its year-end projection of \$3.4 million.

Investment Earnings finished the third quarter at 114.3% of projected revenue. This is an increase over the prior fiscal year of 67.7% for the same time period. Interest rates continue to climb, with the City's investment portfolio earning an average of 4.70% for March 2007, compared to March 2006 at 3.18% and March 2005 at 2.69%.

Plan Check, Inspection Services and Fees completed the third quarter at 56.2% of projections. The majority of the decrease in revenues is in plan check and inspections service fees. This revenue source with a decrease from the same time period one year ago of 17.6% is expected to complete the fiscal year under budget by \$1.1 million.

Charges for Current Services are at 71% of projected revenue for fiscal year 2006-07. This is a 2% increase over the same time period one year ago. These revenue categories are expected to meet budget for fiscal year 2006-07.

General Fund Expenditures:

General Fund expenditures total \$76,767,238, compared to \$71,991,896 for the same time period the prior fiscal year. This is an increase of \$4,775,342 or 6.6%. As summarized in the chart below, all General Fund departments are at or under approximately 75% expended for the third quarter of fiscal year 2006-07. General Fund expenditure projections are detailed in the fiscal year 2006-07 year end calculation attached to the City Council agenda report.

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THIRD QUARTER FY 2006-07 General Fund Expenditures						
Department	1st Quarter	2nd Quarter	3rd Quarter	YTD Expenditures	Adjusted Budget	% Expended
City Council	\$208,880	\$239,779	\$212,245	\$660,904	\$941,560	70%
City Clerk	187,138	262,718	199,317	649,173	1,150,303	56%
City Treasurer	67,307	79,859	73,323	220,489	310,783	71%
City Manager	239,570	261,272	239,242	740,084	1,201,516	62%
City Attorney	315,410	415,388	407,093	1,137,891	1,645,970	69%
Financial Services	919,648	1,150,329	869,600	2,939,577	4,831,682	61%
Human Resources	212,442	213,096	189,613	615,151	895,767	69%
Economic Development	115,405	148,867	115,763	380,035	497,782	76%
Community Development	762,301	970,711	900,585	2,633,597	4,505,563	58%
Neighborhood Services	867,739	1,059,128	955,851	2,882,718	4,350,296	66%
Police	9,897,155	10,774,228	10,469,757	31,141,140	44,271,458	70%
Fire	4,907,231	5,816,351	5,791,873	16,515,455	23,308,505	71%
Public Works	2,073,535	2,427,632	2,543,735	7,044,902	10,416,086	68%
Library Services	1,238,068	1,336,247	1,273,783	3,848,098	5,582,898	69%
Harbor and Beaches	716,716	520,077	451,864	1,688,657	2,461,916	69%
Non-Departmental	1,223,122	1,223,122	1,223,123	3,669,367	7,366,211	50%
Total Expenditures	\$23,951,667	\$26,898,804	\$25,916,767	\$76,767,238	\$113,738,296	67%

Enterprise Funds:

The following tables summarize the operating revenues and expenses of the major enterprise funds of the City of Oceanside. These include the Water Fund, Sewer Fund, Solid Waste Fund and Harbor and Beaches Fund. Overall, operating revenues and expenses are on target for the first three quarters of fiscal year 2006-07. Any differences are summarized in the narrative below each table.

Water			
	Adjusted Budget	Actual to Date	Percent
Revenues	\$ 46,575,581	\$ 31,292,969	67%
Expenses	\$ 43,533,317	\$ 28,351,843	65%

Sewer			
	Adjusted Budget	Actual to Date	Percent
Revenues	\$ 25,336,491	\$ 19,611,448	77%
Expenses	\$ 23,694,043	\$ 14,022,646	59%

The Water Fund year-to-date revenues, at 67% of budget, are normal for the end of the third quarter. The main reason revenues are lower than 75% is that anticipated grant revenues (\$2.4 million) for the Loma Alta Lagoon Enhancement & Treatment Facility have not been received, as construction has not begun. Expense levels at 65% expended are in line for the third quarter of the fiscal year, as one of the largest fund expenses, purchased water, is paid one month in arrears.

The Sewer Fund revenues are in line with the fiscal year budget at 77% received at March 31, 2007. Expenses are 59% of budget at the end of the third quarter 2006-07. Expenses for chemicals, minor supplies, and services are low for this time period, because of the cyclical nature of these purchases. Traditionally, most of these expenses are incurred in the final quarter of the fiscal year. Additionally, another large fund expense, electricity, is paid one month in arrears. All remaining expenses are on track at the end of the third quarter of the fiscal year.

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Solid Waste			
	<i>Adjusted Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 21,082,900	\$ 15,887,794	75%
Expenses	\$ 20,353,885	\$ 13,705,816	67%

Harbor and Beaches			
	<i>Adjusted Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 5,364,590	\$ 4,261,394	79%
Expenses	\$ 5,408,260	\$ 4,011,317	74%

The Solid Waste Fund revenues are expected to meet projected year-end revenues with 75% collected at March 31, 2007. Expenses total 67% of projected expenses at March 31, 2007. The City's contract for solid waste pickup comprises 76% of this fund's budgeted expenses. The City pays one month in arrears, making this fund's expenses on track at the end of the third quarter.

The Harbor and Beaches Fund revenues collected at March 31, 2007 total 79% of projections. Increased revenues include investment earnings at 113% of projected revenue and harbor lease revenue and parking lot fees at 81% of projections.

Internal Service Funds:

The following tables summarize the revenues and expenses of the internal service funds of the City of Oceanside. These include the Employee Services Fund, Workers' Compensation Fund, Risk Management Fund, Information Technology Fund, City Buildings Fund, and the Fleet Management Fund. The majority of revenues and expenses are in line with projections for fiscal year 2006-07. Any discrepancies are noted in the narrative following each table.

Employee Services			
	<i>Adjusted Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 21,885,623	\$ 15,226,434	70%
Expenses	\$ 20,566,009	\$ 15,098,247	73%

Workers' Compensation			
	<i>Adjusted Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 3,398,634	\$ 2,686,878	79%
Expenses	\$ 2,955,746	\$ 1,679,162	57%

Employee Services Fund revenues are 70% of projection at March 31, 2007. Revenues in this fund are based on a percentage of actual payroll (salaries and benefits). Revenues are projected at full staffing Citywide. Because vacancies exist within the various City departments, this revenue source is less than 75% for the third quarter end. Expenses are on track at 73% of budget at March 31, 2007.

Workers' Compensation Fund revenues finished the third quarter on track at 79% of projected revenues. Expenses are lower than anticipated, finishing the third quarter at 57% of budget. The reduced expenses in the Workers' Compensation Fund are the direct result of improved management of claims with an improved pharmacy program, improved medical provider network, and enhanced safety initiatives, thereby reducing the severity of workers' compensation claims.

Risk Management			
	<i>Adjusted Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 3,224,477	\$ 2,394,494	74%
Expenses	\$ 4,755,522	\$ 2,533,429	53%

Information Technology			
	<i>Adjusted Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 5,356,600	\$ 3,946,100	74%
Expenses	\$ 5,301,601	\$ 4,270,381	81%

Risk Management Fund revenues are on track at 74% of projections at March 31, 2007. Revenues in this fund are made up of general liability charges to all City departments based upon a formula utilizing budgeted expenditures and past claims history. Expenses for the Risk Management Fund are 53% of budgeted

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expenses at March 31, 2007. This fund's budget includes monies set aside for anticipated litigation for which very little expenses have been incurred during the first three quarters of the fiscal year.

Information Technology Fund revenues are on track at 74% through the end of the third quarter of fiscal year 2006-07. Revenues in this fund are collected from all City departments based upon maintenance and support services provided from the information technology staff. Expenses are slightly elevated, closing the third quarter at 81% expended. Most of the maintenance agreements for the City's many software programs are due in advance with the majority of expenses being incurred during the first quarter of the fiscal year.

City Buildings			
	<i>Adjusted</i>	<i>Actual to</i>	
	<i>Budget</i>	<i>Date</i>	<i>Percent</i>
Revenues	\$ 5,929,394	\$ 4,451,235	75%
Expenses	\$ 5,930,082	\$ 4,795,761	81%

Fleet Management			
	<i>Adjusted</i>	<i>Actual to</i>	
	<i>Budget</i>	<i>Date</i>	<i>Percent</i>
Revenues	\$ 7,855,595	\$ 5,118,192	65%
Expenses	\$ 8,848,761	\$ 3,908,495	44%

City Buildings Fund revenues are collected from each of the City departments based upon square footage of the space maintained by this internal service department. Expenses are at 81% due to the timing of debt service payments on City facilities. Both debt service payments for the fiscal year have already been made (August and February).

Fleet Management Fund revenues finished the third quarter slightly under the projected mark at 65% collected at March 31, 2007. These revenues are collected from the various departments for two purposes. The first charge is for maintenance and operations of vehicles and equipment and the second charge is for future replacement of vehicles and equipment. Expenses are low at March 31, 2007, because budgeted capital expenses are at only 27% of budget. Most of the City's vehicle and large equipment purchases will take place in the final quarter of the fiscal year. This is because the Fleet Services Division completes a formal bid process for all vehicles and equipment. The City must take receipt of the new vehicles and equipment and once an invoice is received, the vendors are paid. This creates a lag in departmental expenses for the Fleet Management Fund.

**GENERAL FUND OPERATING POSITION
FISCAL YEAR 2006-07**

Description	FY 2006-07 Adjusted Budget	FY 2006-07 Projected
REVENUES		
Property Taxes	\$ 42,560,330	\$ 44,260,330
Sales and Use Taxes	19,476,090	19,476,090
Transient Occupancy Taxes	2,363,320	2,363,320
Franchise Fees	3,960,979	3,960,979
Card Room Taxes and Fees	985,000	1,020,000
Business Licenses	2,623,390	2,523,390
Property Transfer Tax	1,530,450	750,450
Permit Revenue	1,343,990	1,343,990
Parking Meters, Lots, Permits	815,000	815,000
Fines, Forfeitures & Penalties	3,444,110	3,444,110
Investment Earnings	1,800,000	2,670,000
Rents and Leases	2,288,181	2,288,181
Motor Vehicle In Lieu	1,031,820	1,206,820
Other Agencies	1,190,122	1,315,122
Federal , State and Local Grants	100,000	150,000
Plan Ck, Inspection Services & Fees	4,339,190	3,239,190
Public Safety Services	3,038,370	2,838,370
Library Services & Fees	25,000	29,000
Reimbursement for Services	2,682,449	2,772,449
Recreation Services	14,000	35,000
General Administration	13,051,677	13,051,677
Misc Revenue and Contributions	348,117	448,117
Land Sale	-	1,663,000 *
Operating Transfers	915,410	915,410
<i>Total Operating Revenues</i>	\$ 109,926,995	\$ 112,579,995
EXPENDITURES		
Personnel Services	\$ 70,954,087	\$ 68,825,464
Maintenance & Operations	14,915,917	14,605,917
Interfund Service Charges	23,720,174	23,720,174
Debt Service	537,466	537,466
Cost Sharing Reimbursements	(3,917,079)	(3,917,079)
Capital Outlay	2,755,247	2,755,247
Operating Transfers	2,395,748	2,195,748
<i>Total Operating Expenditures</i>	\$ 111,361,560 **	\$ 108,722,937
OPERATING SURPLUS/(DEFICIT)	(1,434,565)	3,857,058
<i>Budget adjustments utilizing fund balance</i>	2,376,736	2,376,736
SURPLUS/(DEFICIT)	(3,811,301)	1,480,322
<i>Capital Improvement Program (CIP)</i>	16,013,450 ***	16,013,450
SURPLUS/(DEFICIT) including CIP expenditures	\$ (19,824,751)	\$ (14,533,128)

* One-time revenue

** Includes additional appropriations utilizing new revenues above

***Funded from General Fund reserves