

CITY OF HERCULES FINANCE COMMISSION MEASURE B AND MEASURE C ANNUAL REPORT

Fiscal Year Ending June 30, 2017

Objectives

Provide annual report for:

Measure	Title	Adopted	Original Measure	Sunset Period
B	Transaction and Use Tax Revenues	Nov. 2015	Measure O (Adopted June 2012)	Indefinite
C	Utility Users Tax Rate Revenues	Nov. 2015	Measure A (Adopted June 2013)	Year 2025

Conclusions

- For Fiscal Year ending June 30, 2017, funds were spent in accordance with the **Measure B**.
- For Fiscal Year ending June 30, 2017, funds were spent in accordance with **Measure C**.

Recommendations

- Retain **Measure B** since the City of Hercules still requires these funds to achieve long term financial stability with adequate financial reserves.
- Retain **Measure C** since the City of Hercules still requires these funds to achieve long term financial stability with adequate financial reserves.
- Recommend that the **Fiscal Neutrality Fund** balance be increased by at least \$400,007 to achieve the goal of having a two month reserve as of June 30, 2017.
- Continue to update the Fiscal Neutrality Fund balance each year as the new Budget is approved in order to maintain the two month reserve going forward.

Termination Clauses

- Finance Commission could recommend or City Council may take own initiative to terminate Measure B or Measure C if they determine that the City has achieved long term financial stability with adequate financial reserves.
- City Council must approve with 2/3 vote

Long Term Financial Stability

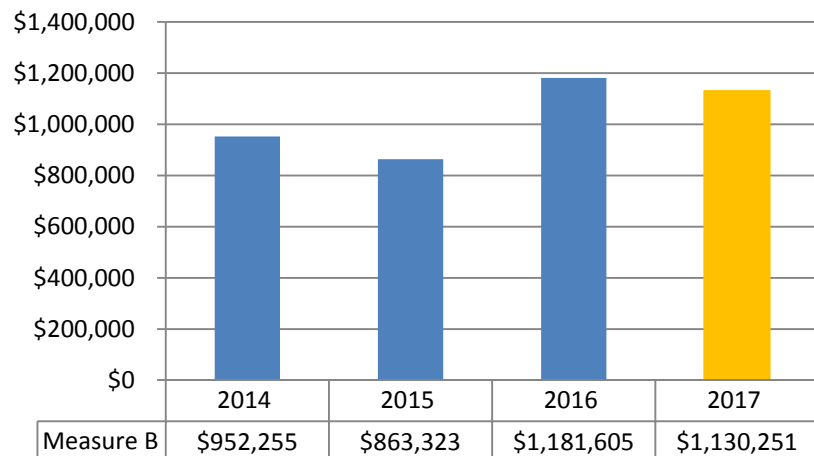
- The Finance Commission recommends determining Long Term Financial Stability by showing that the Fiscal Neutrality Fund has maintained a two month reserve balance in the past five years and is projected to maintain the same in the next five years.
- Based on these criteria, the City has not yet achieved long term financial stability.
 - In Fiscal Year 2017, the City was close but did not meet this goal since the Fiscal Neutrality Fund balance included slightly less than two months of reserves
 - For future years, the Long Term Plan as of August 2017 projected deficits in the General Fund for fiscal years 2018/19, 2019/20, 2021/22, and 2022/23 with Fiscal Neutrality Fund balances less than two months of reserves in each year.

Appendices and Supplemental Data

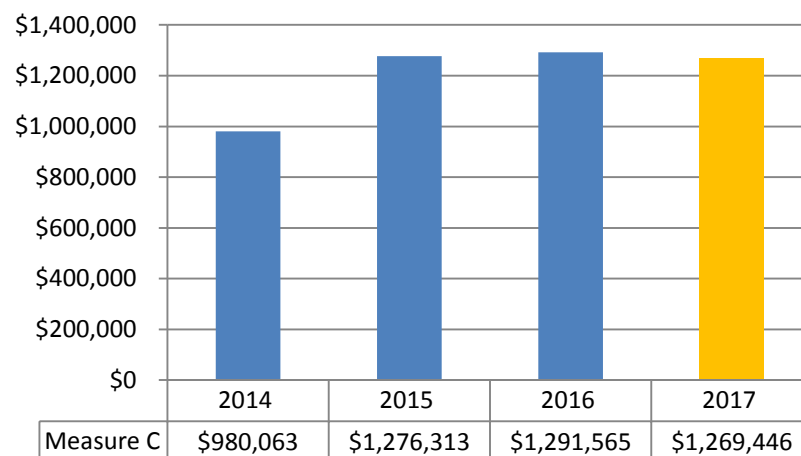
1. Revenue Trends (slide 8)
2. General Fund Revenue Composition (slide 9)
3. General Fund Net Surplus/Deficit (slide 10)
4. Financial Reserve Goals (slide 11)
5. Fiscal Neutrality Fund (slide 12)
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Revenue Trends

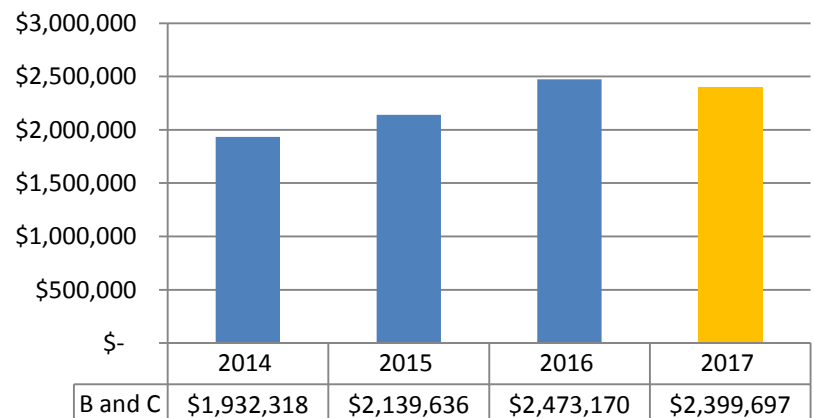
Measure B



Measure C



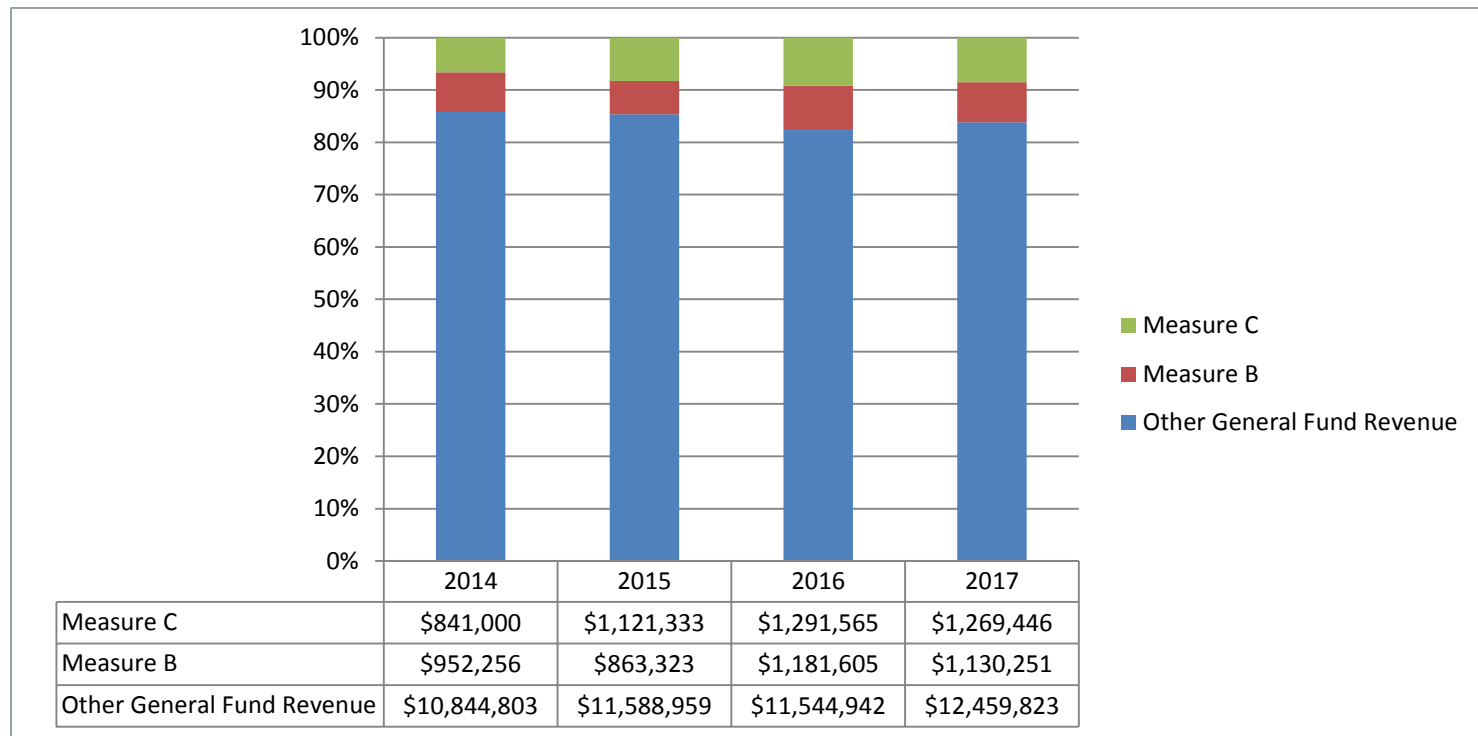
B and C



In Fiscal Year 2017, slight decrease in revenues from Fiscal Year 2016:

- Measure B (-\$43K), (-4.3%)
- Measure C (-\$22K), (-1.7%)
- Measures B & C (-73K), (-3.0%)

General Fund Revenue Composition



In Fiscal Year 2017:

- Measure B contributed \$1,269,446 (or 7.6%) to General Fund Revenue
- Measure C contributed \$1,130,251 (or 8.5%) to General Fund Revenue

General Fund Net Surplus/Deficit

Including Measure B and Measure C Revenue:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund Revenue	\$12,638,059	\$13,573,615	\$14,018,112	\$14,859,520
General Fund Expenses	\$11,200,782	\$10,213,252	\$11,046,540	\$11,784,637
Surplus	\$1,437,277	\$3,360,363	\$2,971,572	\$3,074,883

Excluding Measure B and Measure C Revenue:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund Revenue	\$ 12,638,059	\$ 13,573,615	\$ 14,018,112	\$ 14,859,520
Less: Measure B	\$ (841,000)	\$ (1,121,333)	\$ (1,291,565)	\$ (1,269,446)
Less: Measure C	\$ (952,256)	\$ (863,323)	\$ (1,181,605)	\$ (1,130,251)
Net of Measures B and C	\$ 10,844,803	\$ 11,588,959	\$ 11,544,942	\$ 12,459,823
Total General Fund Expenditures	\$ 11,200,782	\$ 10,213,252	\$ 11,046,540	\$ 11,784,637
Surplus/(Deficit)	\$ (355,979)	\$ 1,375,707	\$ 498,402	\$ 675,186

In FY2017, General Fund had surplus of \$3,074,883. Excluding Measure B and Measure C revenues, surplus was \$675,186.

Financial Reserve Goals

Per City of Hercules Statement of Financial Policies and Principles (adopted December 15, 2015):

“Establish, and then maintain, a “minimum reserve” for economic uncertainties equal to one month’s or 8.33% of expenditures of the current year General Fund budget exclusive of Non-spendable, Restricted, and Assigned fund balance with a goal of increasing that to two months or 16.66% of expenditures in the future.”

Fiscal Neutrality Fund

Calculation of Financial Goal Reserves:

Final Budgeted Total Expenditures for Fiscal Year Ending June 30, 2017	\$15,703,225 (per FY 2017 Annual Report, Page 76)
One month reserve	\$1,308,079 (8.33% of \$15,703,225)
Goal: two months reserves	\$2,616,157 (16.66% of \$15,703,225)
Less: Current Balance of Fiscal Neutrality Fund as of January 31, 2018	\$2,176,150
Increase Needed to Achieve Two Month Reserve	<u>\$440,007</u>

The City met the one month reserve, but not the two month reserve goal.

Recommend increasing the Fiscal Neutrality Fund balance by at least \$440,007 to achieve two month reserve goal as of June 30, 2017.

Long Term Forecast (August 2017)

Long Term Plan Forecast as of August 2017	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
General Fund Revenue Forecast	\$ 14,671,380	\$ 15,346,957	\$ 16,220,064	\$ 16,678,653	\$ 17,197,186
Operating Expense Forecast	\$ 15,031,591	\$ 15,566,740	\$ 16,120,473	\$ 16,732,299	\$ 17,326,282
Net Surplus (Deficit) Forecast	<u>\$ (360,211)</u>	<u>\$ (219,783)</u>	<u>\$ 99,591</u>	<u>\$ (53,646)</u>	<u>\$ (129,096)</u>
Forecasted Fiscal Neutrality Fund Balance	\$ 1,818,529	\$ 1,598,745	\$ 1,698,336	\$ 1,644,691	\$ 1,515,595
Two Month Reserve (16.66% of Operating Expense Forecast)	\$ 2,504,263	\$ 2,593,419	\$ 2,685,671	\$ 2,787,601	\$ 2,886,559

Based on the Long Term Forecast as of August 2017, the City would not be able to achieve a two month reserve in any year from FY 2018/19 through FY 2022/23.

Finance Commission

Members:

J. Yamamoto, MBA, Dr., Atty., Chair

Stanley Tom, MBA, CMA, CPA, PMP, Vice Chair

Zania Harris, MS-HR, MPA

Lori Risby, CFP, CPA

Aida Torres, EA

Measure B and Measure C Sub-Committee:

Lori Risby, CFP, CPA

Stanley Tom, MBA, CMA, CPA, PMP