



CITY OF HUNTINGTON PARK

Finance Department
City Council Agenda Report

April 12, 2019

Honorable Mayor and Members of the City Council
City of Huntington Park
6550 Miles Avenue
Huntington Park, CA 90255

Dear Mayor and Members of the City Council:

FISCAL YEAR 2018-19 MID-YEAR BUDGET REVIEW OF THE CITY'S OPERATING AND CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET, INCLUDING APPROVING CERTAIN BUDGET AMENDMENTS TO ESTIMATED REVENUES AND APPROPRIATIONS

IT IS RECOMMENDED THAT THE CITY COUNCIL:

1. Authorize the City Manager to implement the approved budget amendments summarized in this report.

BACKGROUND

The Mayor and City Council adopted the Fiscal Year 2018-19 Annual Operating and Capital Improvement Program (CIP) Budget for the City of Huntington Park on July 3, 2018. The budget represents the spending plans for the following fund types: General Fund, Special Revenue Funds, Internal Service Funds, Enterprise Funds, and Fiduciary Funds. The Adopted Fiscal Year 2018-19 Budget included estimated revenues (with transfers in) on an *all funds* basis of \$83,386,105, while appropriations (including transfers out) for all budgeted funds totaled \$78,335,387. Certain Special Revenue Funds show a utilization of a portion of prior years' accumulated fund balance to pay for one-time expenditures or multi-year capital improvement projects. These other funds will display expenditures exceeding revenues for this purpose. Different than the prior year's adopted budget, the General Fund does not project the utilization of fund balance during the current fiscal year. It is recognized that long-term financial sustainability is reliant upon the General Fund's ability to operate within the current year's sources of revenues. Management is committed to producing a balanced General Fund budget and will continue to work toward this goal in preparation of the upcoming fiscal year's budget. The budget remains on track with estimated revenues and maintaining fiscal accountability in relationship to departmental expenditures. Requests for additional appropriations are recommended where circumstances have arisen after the adoption of the budget. City

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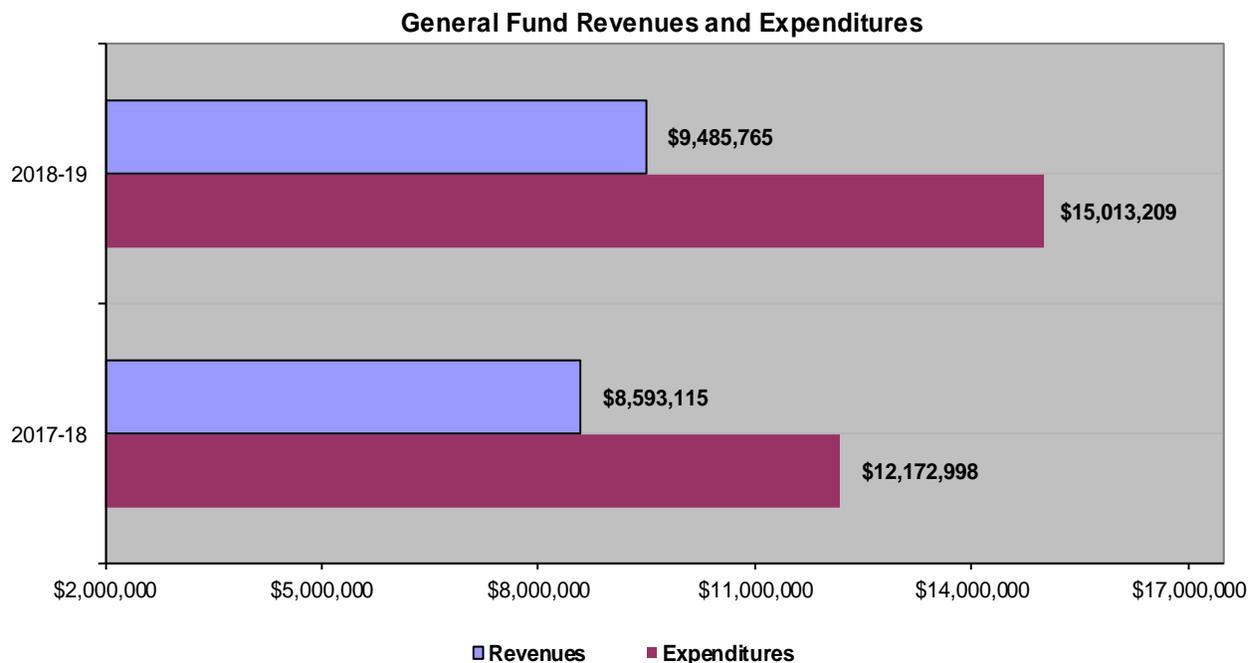
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management maintains a commitment to work toward financial sustainability of the City's General Fund.

The current budget continues implementation of organizational efficiencies and cost saving measures, including contract revisions, line item reviews, and only required Memorandums of Understanding (MOU) employee wage increases.

The General Fund, which is the general operating fund of the City, comprised 41.9% of the total appropriations on an *all funds* basis. As with budget adoption, although the *all funds* budget is reviewed at mid-year, the main focus of this report will be the General Fund, with overviews provided for certain other funds.



Fiscal Year	General Fund Revenues			General Fund Expenditures		
	Amended Budget	Actual	% Received	Amended Budget	Actual	% Expended
2017-18	\$ 28,785,287	\$ 8,593,115	29.9%	\$ 30,823,902	\$ 12,172,998	39.5%
2018-19	\$ 34,458,077	\$ 9,485,765	27.5%	\$ 33,064,705	\$ 15,013,209	45.4%

General Fund Overview

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The City's general financial goal is to provide an appropriate level of municipal services with the ability to adapt to local and regional economic changes while maintaining and enhancing the sound fiscal condition of the City.

With the first six months of the fiscal year complete, General Fund revenues total \$9.5 million, or 27.5% of estimated revenues. General Fund revenues are on track for the end of the first six months, up 10.4% or \$892,650 from the same time period one year ago when revenues totaled \$8.6 million. General Fund expenditures are \$15.0 million or 45.4% expended compared to the previous fiscal year when year-to-date expenditures totaled \$12.2 million.

General Fund Revenues

General Fund revenues total \$9,485,765 at December 31, 2018, compared to \$8,593,115 for the same time period one year earlier. This is an increase of \$892,650 or 10.4%. Each major revenue source is compared to budget and the same time period for the prior fiscal year in the chart below.

Revenue Comparison

Description	2018-19 Estimated Revenues	Current Year Actuals for Six Months	Prior Year Actuals for Six Months
Sales Taxes	\$ 7,096,493	\$ 2,739,237	\$ 2,348,670
Motor Vehicle License Fees	6,058,372	-	-
Utility Users' Taxes	6,049,222	2,272,243	2,116,273
Measure S Sales Taxes	4,589,860	332,773	-
Transfers In	2,232,400	1,116,200	630,000
Fines	1,749,281	960,976	662,712
Business Licenses	1,431,081	623,955	579,338
Franchise Fees	1,305,471	35,031	261,210
Property Taxes	1,069,127	371,413	373,935
Licenses & Permits	812,053	397,552	650,197
Community Development Fees	583,801	129,644	289,993
Charges for Services	517,812	160,390	276,437
Parks & Recreation Fees	486,704	197,701	184,931
Miscellaneous Revenues	238,657	206	97,969
Investment & Rental Income	86,268	74,988	81,890
Transient Occupancy Taxes	84,843	39,030	38,393
Other Governmental Revenues	66,632	34,426	1,167
Total Revenues before Mid-Year Adjustments	34,458,077	9,485,765	8,593,115
Recommended Mid-Year Adjustments	(603,300)	-	-
Total Revenues	\$33,854,777	\$9,485,765	\$8,593,115

Sales Tax Revenues represent the City's highest revenue source, comprising 20.6% of estimated General Fund revenues and transfers in. The continued moderate growth and

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the addition of new commercial and retail outlets have been factored into the budget estimate for Fiscal Year 2018-19. Because of these factors, the City's sales tax consultants, HdL Companies, have estimated that the City's sales tax collections will be slightly higher than originally estimated. This revenue source is expected to complete the fiscal year \$164,500 higher than the current budgeted amount. This is detailed in the adjustment section below.

Motor Vehicle License Fees are expected to complete the current fiscal year as the General Fund's second largest revenue source. The City continues to receive the majority of this revenue source in two equal installments in late January and late May of each year. At the time this report is being written, the City has received its January payment of \$3,059,147. It is recommended that estimated revenues be adjusted \$87,760 to account for the anticipated increase for Fiscal Year 2018-19.

Utility Users' Tax Revenues, making up 17.6% of General Fund estimated revenues, have increased 7.4% when compared to the first six months of the prior fiscal year. The City's utility users' tax rates are currently 9.0% for prepaid wireless, 9.25% for communication services, and 9.75% for electricity, gas, and water services. It is anticipated that this revenue source will complete Fiscal Year 2018-19 as originally estimated.

Measure S Sales Tax Revenues are the City's newest revenue source. The local sales tax measure was overwhelmingly approved by the voters in July 2018. This revenue source is expected to supplement the General Fund's current sales tax revenues by adding \$4.6 million annually. Because of the detailed implementation and collection at the State level, the California Department of Tax and Fee Administration did not begin collecting the City's local sales tax until October 1, 2018. This reduces the estimated revenues for the fiscal year to \$3,479,000. It is recommended that the estimated revenues be adjusted accordingly for fiscal year ending June 30, 2019.

Transfers In from other funds include \$1,600,000 from the City's Employees' Retirement Fund to contribute to the General Fund's employee retirement benefits, \$360,000 from the Water Enterprise Fund and \$200,000 from the Street Lighting and Landscape Fund to reimburse the General Fund for administrative services provided to these funds, and \$72,400 from the Parking System Fund for revenues collected from the City's parking meters. The General Fund will receive the full \$2,232,400 from the other funds for Fiscal Year 2018-19.

Fines and Forfeitures include vehicle code fines, parking citations, and code enforcement citations, making the total estimated revenue for the current fiscal year \$1,749,281. Revenue collections for parking citations and vehicle code fines are significantly higher than the previous fiscal year. Adjustments are recommended to both of these revenue sources at mid-year to account for the increase and are detailed in the adjustment section below.

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Business License Revenue continues to be one of the top revenue sources for the City's General Fund with projected revenue at \$1,431,081 for the fiscal year. The City currently has 5,172 business licenses with renewals generated by the Finance Department annually from the business start date. The largest renewal period for the City's business licenses is December of each year when renewal notices for commercial rental licenses are issued. The majority of the revenues in this category are collected in the second half of the fiscal year. This revenue source is expected to meet the revenue projection for Fiscal Year 2018-19.

Franchise Fees completed the first six months significantly lower than the same six months of the prior fiscal year. The City receives franchise fees from electricity providers, telephone service providers, gas providers, cable television providers, water providers, and refuse providers. Franchise fees, depending on the contract negotiated with the service providers, range from 2% of gross receipts to 15% of gross receipts. Franchise fees are received on a monthly, quarterly and annual basis, once again dependent upon the agreement with the City. Although this revenue source is low for the first six months because of certain late payments, franchise fees are expected to be brought current and meet the revenue estimate at June 30, 2019.

Property Tax Revenue estimates represent 3.1% of General Fund revenues for Fiscal Year 2018-19. At the end of the first six months, property tax revenues remain static for the period July 2018 through December 2018 when compared to the same time period one year earlier. The majority of the City's property tax revenue is collected in December and April/May after property taxes are due to the County of Los Angeles. It is expected that property tax revenues will meet the estimated budget of \$1,069,127 for the fiscal year ending June 30, 2019.

Licenses and Permits, including revenues received from building permits, engineering permits, occupancy permits and dispensary fees, are expected to complete the current fiscal year \$75,600 higher than originally estimated in the category of engineering permits.

Community Development Fees consist of plan check fees, zoning & subdivision fees, and a variety of other fees charged by the Community Development Department. Revenues in this category are significantly lower than the prior fiscal year for the same time period. In addition to regular fees to be received prior to June 30, 2019, the City is anticipating certain plan check revenues from a new self-storage facility.

Expenditures

General Fund operating expenditures totaled \$15,013,209 at December 31, 2018, compared to \$12,172,998 at the end of the first six months of the prior fiscal year. This is an increase of \$2,840,211 or 23.3%. The increase in expenditures is due in part to the increase in personnel costs related to the 4% and 2.25%/2.0% cost of living adjustments afforded the General Employees' Association and the Police Officers' Association/Police Management Association, respectively. Additionally, the City's share of pension costs

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increased for the majority of public safety employees from 21.4% to 22.3% of total payroll and an increase in the annual unfunded liability payment from \$1.6 million to \$1.9 million. Pension costs for the majority of the miscellaneous employees has increased from 7.9% to 8.9% of total payroll and an increase in the annual unfunded liability from \$0.8 million to \$1.0 million. It should be noted that the City has implemented cost-sharing measures whereby the majority of employees pay the employee share of the pension costs. As summarized in the chart below, most General Fund departments are below 50% expended at the completion of the first six months of the fiscal year.

Expenditure Comparison

Description	FY 2018-19 Amended Budget	FY 2018-19 Actuals for Six Months	Current Year % Expended	FY 2017-18 Actuals for Six Months
City Council	\$ 374,269	\$ 175,990	47.0%	\$ 188,937
City Manager	1,468,913	652,638	44.4%	615,314
City Clerk	341,403	156,952	46.0%	212,992
Community Development	1,666,740	743,784	44.6%	615,651
Finance	1,146,724	602,677	52.6%	606,155
Human Resources	369,310	162,919	44.1%	199,218
Parks and Recreation	1,807,740	829,243	45.9%	758,574
Police	15,629,602	8,196,278	52.4%	7,272,929
Public Works	3,883,586	1,787,283	46.0%	1,302,259
Non Departmental	3,456,558	1,400,710	40.5%	400,969
Capital Projects	2,919,860	304,735	10.4%	-
Total Expenditures before Mid-Year Adjustments	33,064,705	15,013,209		12,172,998
Recommended Mid-Year Adjustments	554,650	-		-
Total Expenditures	\$33,619,355	\$15,013,209		\$12,172,998

Expenditures for two departments completed the first six months of the fiscal year at 52.6% and 52.4% when compared to budget. These departments are the Finance Department and the Police Department, respectively. As summarized below, one mechanism utilized to balance the Fiscal Year 2018-19 budget was to pay the CalPERS unfunded liability in July 2018, rather than making monthly payments at a higher cost to the City. In doing so, the City saved \$124,885 in costs. Paying the CalPERS unfunded liability at the beginning of the fiscal year amounted to \$90,000 more in expenditures for the Finance Department during the first six months of the year and \$1,300,000 more in expenditures for the Police Department for the first six months. This represents why each of these departments exceeded 50% of budgeted expenditures at December 31, 2018. Both departments are expected to complete the fiscal year within the originally adopted budget.

The following cost-saving measures were included in the Fiscal Year 2018-19 Adopted Operating Budget to offset the increased personnel costs referred to above and the amount utilized from fund balance in the previous fiscal year. This produced a truly

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balanced General Fund budget for Fiscal Year 2018-19, without utilizing any fund balance. All of the cost-saving measures have been implemented during the fiscal year.

- *Elimination of positions and budgeted vacancy savings* – An analysis was performed on the amount of time that was required when a vacancy occurs to fill the position with a qualified candidate. The budgeted vacancy savings was applied to each of the departments with vacancies at the beginning of the fiscal year. In the case of the Police Department, an analysis was performed on past years' budget versus actual salary and benefits and a vacancy savings was calculated. Additionally, several positions were unfunded to balance the General Fund Operating Budget for the fiscal year. These included the Director of Human Resources, combining this position with the Director of Finance; one Management Analyst position; one Jailer position; one Animal Enforcement Officer position; two Graduate Management Intern positions; the Economic Development Manager position and the Project Manager position. These changes to departmental personnel resulted in cost savings to the General Fund of \$1,300,000.
- *Utilization of additional pension tax revenues* – A one-time transfer of excess pension tax revenues, after the payment of pension obligation bond debt service, was utilized to pay for a portion of the General Fund's increasing employee pension costs. The transfer from the Employees' Retirement Fund paid for an additional \$1,000,000 in pension costs for the fiscal year.
- *Reductions in other operating expenditures* – All departmental operating expenditures were closely examined and further reductions were made in an effort to provide a balanced General Fund budget. These reductions included contractual services, professional development, departmental supplies, legal services, advertising and publications in all General Fund departments. These reductions resulted in General Fund savings of \$787,000 for the fiscal year.

Since the operating budget was originally adopted in July 2018, the Council has approved additional appropriations in the amount of \$354,000. These items were unknown at the time of budget adoption. These have included contractual increases for janitorial services, financial services for debt service, catch basin cleaning and Information Technology services. Other necessary items appropriated included community center furniture, holiday decorations and a pavement repair project for which revenue was received in the prior fiscal year.

It is important to note that with these additional appropriations and the recommended budgetary adjustments on the following pages, the General Fund Operating Budget remains balanced with expenditures remaining within the sources of revenue for the fiscal year.

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During the fiscal year, certain departmental unfunded needs have arisen that were unknown at the time the Operating Budget was adopted for the current fiscal year. The items are listed below and will be discussed in further detail at the City Council Meeting.

Recommended Mid-Year Budget Adjustments

After an in-depth review of the line item budget for both revenues and expenditures, the following adjustments are recommended for City Council approval.

General Fund Estimated Revenues

Sales Taxes	\$164,500
Motor Vehicle License Fees	87,760
Parking Citations	107,700
Municipal Court - Vehicle Code Fines	72,000
Engineering Permits	75,600

Total Increase in General Fund Estimated Revenues **\$507,560**

One-Time Decrease in General Fund Estimated Revenues

Measure S Sales Taxes (First Quarter of Fiscal Year) (State did not collect this revenue until October 1, 2018 because of time needed at State level for set-up.) (No reductions in appropriations necessary, as \$1,572,702 was earmarked to be committed to fund balance for Financial Sustainability Reserve.)	\$(1,110,860)
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General Fund Appropriations (Expenditures)

City Manager's Office – Assistant City Manager Position (This appropriation is for the remainder of the fiscal year. The annual cost for salary & benefits is \$201,200.)	\$40,700
City Manager's Office – Legal Contractual Services	70,000
City Clerk's Office – Special Election – March 5, 2019	250,000
City Clerk's Office – Senior Deputy City Clerk position to replace Junior Deputy City Clerk position (No appropriation necessary – Sufficient funding for remainder of Fiscal Year through vacancy savings on Junior Deputy City Clerk position. The annual additional cost for salary & benefits is \$19,030.)	-

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Human Resources – Civil Service Commission Hearings	65,000
Finance & Human Resources – Administrative Assistant Position (No appropriation necessary – Sufficient funding for remainder of Fiscal Year through vacancy savings from one part-time Office Assistant in each department. The annual additional cost for salary & benefits is \$44,600.)	-
Non-Departmental – HdL Business License Software	50,500
Non-Departmental – Sales Tax Sharing Agreement	38,000
Non-Departmental – Contractual Services – Banking Fees and Internet Services	40,450
Total Increase in General Fund Appropriations (Expenditures)	\$554,650

Other Funds Appropriations (Expenditures)

Gasoline Tax Fund

Public Works – Contractual Services – Bus Stop/Parklet/ Catch Basin Cleaning/Street Sweeping Services	\$ 80,200
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Supplemental Law Enforcement Fund

Police – GIS Mapping Software License for Patrol and Dispatch & Tasers for New Officers	\$ 15,000
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Police Asset Forfeiture Fund

Police – Jail Operations Overtime to Cover Vacancies	\$ 75,000
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Water Enterprise Fund

Public Works – Electricity for Water Wells	\$122,000
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Fleet Maintenance Fund

Public Works – Fuel for City Vehicles and Transit Program Buses	\$ 76,000
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Other Funds

The following tables summarize the revenues and expenditures/expenses of some of the City's *other funds* at December 31, 2018.

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Gasoline Tax Fund				Measure R Fund			
	<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>		<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 1,854,992	\$ 858,520	46%	Revenues	\$ 736,686	\$ 325,863	44%
Expenditures	\$ 1,946,977	\$ 815,324	42%	Expenditures	\$ 1,624,773	\$ 216,512	13%

The **Gasoline Tax Fund** accounts for the City's proportionate share of gasoline tax monies collected by the State of California to be utilized specifically for the City's street-related construction projects and street maintenance. Gasoline tax revenues are on track at 46% received at December 31, 2018.

Gasoline Tax Fund expenditures are 42% expended at the end of the first six months of the fiscal year and are projected to complete the year within budget. This fund is comprised of expenditures for the City's street maintenance program, including infrastructure maintenance and repair, concrete repair, street lights, traffic signal maintenance, as well as equipment replacement. Additionally, \$348,000 has been appropriated from gas tax funds for the City-wide street improvement project, which was awarded in November 2018, but no expenditures had been recorded as of December 31, 2018. A mid-year budget amendment is recommended in this fund for contractual services for the City's bus stop/parklet/catch basin cleaning/street sweeping services in the amount of \$80,200. There is sufficient fund balance to cover this amended budget.

The City's **Measure R Fund** accounts for the voter-approved sales tax revenues collected in Los Angeles County to provide transportation related projects and programs. Revenues are 44% received at December 31, 2018. Expenditures are only 13% expended for the same time period, as \$723,000 of these funds has been appropriated for the City-wide street improvement project, but no monies have been expended at the completion of the first six months of the fiscal year. Additionally, \$36,000 has been appropriated for the crosswalk pedestrian safety enhancement project, with nothing expended at December 31, 2018. The majority of the remaining appropriations are related to the City's fixed route transit system. This portion is on track to complete the fiscal year within budget.

Proposition A Fund				Proposition C Fund			
	<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>		<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 1,455,107	\$ 602,201	41%	Revenues	\$ 964,088	\$ 418,556	43%
Expenditures	\$ 1,350,808	\$ 484,085	36%	Expenditures	\$ 1,037,708	\$ 386,110	37%

The **Proposition A Fund** is utilized to record the 0.5% sales tax collected in Los Angeles County which is restricted for use in transportation programs and projects. Revenues are on track at the end of the first six months of the fiscal year with 41% received. Expenditures in this fund are utilized for the City's Dial-A-Ride services and fixed route transit system and are 36% expended at the end of the first six months of the fiscal year, which includes five months of charges for transit expenditures.

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Proposition C Fund revenues received from the State of California are also restricted for transportation-related programs and projects. Revenues for the first six months are 43% received and expenditures are 37% expended for the same time period. Expenditures in this fund include City transit administration, street maintenance, and bus shelter maintenance and are expected to stay within budget for the fiscal year.

Police Asset Forfeiture Fund				Street Lighting/Landscape Fund			
	<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>		<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 249,600	\$ 126,822	51%	Revenues	\$ 1,719,672	\$ 722,115	42%
Expenditures	\$ 603,667	\$ 359,335	60%	Expenditures	\$ 1,910,918	\$ 800,328	42%

The **Police Asset Forfeiture Fund** accounts for monies received from Federal and State agencies when the Huntington Park Police Department participates in the seizure of assets from criminal drug-related activities. These monies are to be utilized for overtime and equipment purchases for various new law enforcement programs. Expenditures totaling \$359,335 have been expended at December 31, 2018 for public safety overtime, police vehicles and related equipment, and the State Emergency Response Team (SERT). Additional appropriations were added during the fiscal year for two new police vehicles. A budget appropriation is recommended at this time in the amount of \$75,000 for overtime for jail operations. The need for this additional appropriation is due to staffing vacancies in the jail. All positions have now been filled and there is sufficient monies in fund balance to support this increase in overtime expenditures.

The City's **Street Lighting/Landscape Fund** accounts for the 2004 voter-passed Measure L, a parcel tax designed to upgrade the City's aging streetlights. The monies received from the Measure L parcel tax are utilized for debt service, electricity, repair, and maintenance of light fixtures and landscape maintenance throughout the City. Revenues are 42% collected at December 31, 2018 and expenditures are on track to complete the fiscal year within budget.

Water Enterprise Fund				Risk Management Fund			
	<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>		<i>Amended Budget</i>	<i>Actual to Date</i>	<i>Percent</i>
Revenues	\$ 5,719,848	\$ 2,129,830	37%	Revenues	\$ 2,670,791	\$ 1,634,767	61%
Expenditures	\$ 5,305,585	\$ 1,892,869	36%	Expenditures	\$ 2,670,791	\$ 1,605,982	60%

The **Water Enterprise Fund** accounts for the operations of the City-owned water utility system. This Enterprise Fund receives charges for services for providing water to the City's residents and businesses. Revenues completed the first six months of the fiscal year with 37% collected. Expenditures total \$1,892,869 at December 31, 2018. A mid-year budget amendment is recommended in the Water Enterprise Fund in the amount of \$122,000 for the electricity costs of the City's water wells. There is sufficient retained earnings in this fund to cover the additional expenses.

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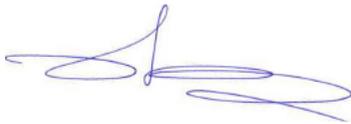
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The City's ***Risk Management Fund*** is an Internal Service Fund that provides Workers' Compensation and General Liability services to all other City Funds/Departments. All funds and the departments within those funds are charged for their fair share of the costs of providing these services. Revenues collected from the various funds/departments total 61% of estimated revenues with six months completed in the fiscal year, while expenditures are 60% expended at December 31, 2018. This fund is expected to complete the fiscal year within budget.

CONCLUSION

Upon approval of the recommendations, the City Manager will implement the budget amendments.

Respectfully submitted,



RICARDO REYES
City Manager



NITA MCKAY
Director of Finance