
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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FY 2011 Year-End Budget Adjustments and Year-End Budget Monitoring

OVERVIEW

The Chief Financial Officer issued the Fiscal Year 2011 Year-End Budget Monitoring Report on May 18, 2011. The Year-End Report describes the current status of revenues and expenditures, and their year-end projections, based on actual (unaudited) data from July 2010 through March 2011.

Due to technical issues related to the transition to the City's new SAP computer system, no First Quarter Budget Monitoring Report was issued for Fiscal Year 2011. The Mid-Year Budget Monitoring Report was issued on February 23, 2011.

The IBA reviewed the Year-End Report and the requested budget adjustments. The projections were compared to the City Comptroller's Financial Performance Reports.

The May 23, 2011 Budget and Finance Committee meeting served as the first of two required public hearings to begin the process to amend the budget, as recommended in the Year-End Report. The City Council will be asked to hold a second public hearing, after which the Council will consider the adoption of a resolution to authorize the requested budget amendments. Assuming no changes are made to the requested budget amendments, the Council will be asked to introduce and adopt an ordinance to amend the Annual Appropriations Ordinance, consistent with the adopted resolution. According to the docket, adoption of the amendment to the Appropriations Ordinance will be trailed to Tuesday, June 7, 2011.

FISCAL/POLICY DISCUSSION

This IBA report provides additional information in specific areas the IBA researched and obtained more in-depth explanations. The Year-End Report indicates that General Fund revenues are projected to be \$7.3 million less than budget estimates, and General Fund expenditures are projected to be \$15.9 million less than the adopted budget. The net year-end projection for the General Fund is a surplus of \$8.6 million. This is a \$3.5 million increase to the projected surplus of \$5.1 million reported at the time of the Mid-Year Report. Within specific General Fund departments, however, some expenditure categories will exceed the adopted budget, and require Council authorization for changes to the budget to be enacted.

General Fund Reserves

The Year-End Report provided an estimate of the FY 2011 General Fund Reserve of \$83.4 million. On May 31, 2011, the Financial Management Director issued an update to the Year-End Report to reflect changes to the General Fund Reserve estimate. Due to new information received as a result of additional FY 2010 transactions that had been recently executed, the General Fund Reserve estimate has been revised from \$83.4 million to \$94.1 million. The update indicates that the reserve level is projected to reach 8.8% of the FY 2011 General Fund revenues, however, the IBA's calculations show that the estimated reserve balance equates to 8.65% of the FY 2011 General Fund revenues.

The status of the General Fund reserve is discussed in more detail in the IBA's Recommended Revisions to the Mayor's Proposed FY 2012 Budget and May Revise (Report No. 11-31), which was issued June 2, 2011. This report will also be discussed at the Council meeting of June 6, 2011.

General Fund Revenues

The FY 2011 year-end projections for General Fund revenues total \$1.088 billion, reflecting a \$7.3 million shortfall from the FY 2011 Budget, and a \$9.8 million reduction from the mid-year projections. Major General Fund revenues are projected to be \$828.5 million, reflecting a positive variance of \$16.1 million over the FY 2011 Budget, and a \$3.4 million increase over the mid-year projections. However, the surplus is offset by a shortfall in departmental revenues, which are projected to end the year at \$259.4 million, \$23.4 million under the FY 2011 Budget and \$13.2 million less than the mid-year projections. Much of the negative variance from the mid-year projection is due to an \$11.8 million reduction in Gas Tax reimbursements related to the shifting of street work from the General Fund to the Proposition 42 Fund.

Property tax revenue continues to underperform, and is projected to end the year \$10.2 million under the estimates reflected in the adopted budget. This negative variance is due largely to increased refunds as a result of property assessment appeals. However, the decline in property tax revenues is offset by positive variances in both sales tax and transient occupancy tax (TOT), which are projected to be overbudget by \$19.0 million and \$5.8 million, respectively. In the IBA's review of the FY 2011 Midyear Budget Monitoring Report (Report No. 11-11), the IBA noted that the year-end projections for sales tax and TOT were conservative given the growth in receipts that had occurred year-to-date. However, it was also noted that the economic recovery remained fragile, and that positive growth had not been sustained for a long enough period of time to warrant a more aggressive outlook.

Since the Mid-Year Report, both sales tax and TOT have continued to show positive gains in actual receipts, and as a result, the year-end projections for these revenues have been adjusted to incorporate higher growth assumptions. It should be noted that the revised FY 2011 projections for these revenues have been incorporated into the FY 2012 Budget estimates. However, the FY 2011 year-end projections for both sales tax and TOT remain somewhat conservative. Based on receipts through the first three quarters, sales tax revenue has grown 6.4% over FY 2010, while a 3% growth rate is projected for the final quarter. Similarly, TOT revenues reflect a 9.8% growth based on year-to-date receipts, while a 4% growth rate is assumed for the remainder of the fiscal year. If these revenues end the year higher than projected, it could result in a positive variance for sales tax and TOT revenues in FY 2012.

If fourth quarter revenue receipts for sales tax and TOT exceed these revised projections, additional funds received in excess of expenditures will further contribute to the General Fund reserve.

Police Department Revenue and Expenditure Projections

Revenue and expenditure projections for the Police Department reflect the greatest variances from the adopted budget for all General Fund departments, following General Services, which is to receive an \$11.8 million revenue and expenditure adjustment due to the shift of street-related work to the Proposition 42 fund. The IBA concentrated its effort on working with the Police Department to better understand the projected variances, and to determine its causes and any potential impacts on the FY 2012 Budget.

The Police Department is expecting to conclude Fiscal Year 2011 with a \$3.3 million deficit in revenue and projects to exceed its expenditure budget by an estimated \$8.9 million, negatively impacting the General Fund budget for a total of \$12.2 million.

Police Department Revenue

For Fiscal Year 2011, the majority of the \$3.3 million deficit in revenue is attributable to three revenue accounts - Parking Citations, Alarm Permit Fees, and Negligent Impound Fees.

Parking Citations (\$1.6 million): Budgeted Parking Citation revenue for Fiscal Year 2011 totals \$15.8 million, and is reflected in both the Police (76%) and Storm Water (24%) Departments. For Fiscal Year 2011, the Police Department projects a \$1.6 million shortfall in Parking Citation revenues, while the Storm Water Department estimates a year-end surplus of \$793,000, for a net deficit of \$824,000, or 5%.

The Police Department has stated that a primary reason for this shortfall is the number of Parking Enforcement Officers on leave, including industrial leave, non-industrial leave, unpaid leave or light duty. For Fiscal Year 2011, the Department has a total of 64.50 budgeted Parking Enforcement positions with no current vacancies. However, 13.00 positions, or 20%, are on some type of leave or light duty which negatively impacts the total number of citations issued. The Department indicates they are committed to returning to full staff as conditions permit and notes that historically they have achieved budget estimates in this account.

Alarm Permit Fees (\$600,000): The Fiscal Year 2011 Budget includes \$3.1 million for Alarm Permit Fees. The Department expects a \$600,000 shortfall, or 20%, related to Alarm Permit Fee revenues. It should be noted that the processing of Alarm Permit Fees is one function in which sworn personnel have replaced civilian employees. Per the Department, the primary reason for the decline is related to the state of the economy and not due to the change in personnel, as procedures remain unchanged. For Fiscal Year 2011, the Department indicates it has experienced a 10% decline in the number of businesses applying for alarm permits, and representatives of the alarm industry state that they are experiencing a 13%-25% decline in business.

For Fiscal Year 2012, Alarm Permit Fee revenue projections have not been changed. If the current trend continues into Fiscal Year 2012, the City's General Fund could again be negatively impacted.

The City Auditor is in the process of completing a review of License and Permit Fees to determine if the Police Department is efficiently and effectively collecting license and permit fees owed to the City. The audit could result in recommended changes to the Police Department's processes for fee collection and/or fee calculation. The Department is continuing to monitor and will have more data to accurately budget in FY2013.

Negligent Impound Fees (\$800,000)

Negligent Impound fees are charged when a vehicle is found to be in violation of state law or municipal codes and is towed. Examples include blocking of a driveway or parking in a red zone. The fee was established to recover the expense of officer time for dealing with a negligent driver or registered owner. The Fiscal Year 2011 Annual Budget includes \$2.9 million related to Negligent Impound fees with the Department expecting to end the fiscal year with an \$800,000, or 28%, deficit in the account.

The Department states that a significant reason for the deficit in Negligent Impound fees is due to less vehicles being towed than in previous years.

The Department notes that the total number of tows has declined due to officers having increased discretion to not automatically seize vehicles with a DMV hold. Previously, when officers encountered these situations they seized the vehicle which resulted in a tow. Subsequently, the option to not tow the vehicle has allowed citizens to retrieve their vehicle in a lawful manner and not be subject to increased lien fees. As a result, the Department has experienced a decline in vehicle tows and corresponding revenue.

Fiscal Year	Number of Tows
2009	46,857
2010	40,091
2011	33,311 <i>(estimated)</i>

The Department did not adjust the estimated revenues because it was expected that a new towing contract would become effective for Fiscal Year 2012 which would have changed the fee/revenue model from current terms.

The delay of the new towing contract is due to the City's current litigation with tow contractors is another factor in the decline of revenue. The tow contractors have alleged that the City has illegally collected fees. As a result they are depositing tow referral fees into a court impound account until the litigation is determined. The City Attorney's Office has advised the Department to not pursue collection of outstanding referral fees or make any changes to the contract until the litigation is settled.

Police Department Expenditures

For FY 2011, the Police Department is estimated to exceed its expenditure budget in total by \$8.9 million, or 2%. Fringe benefits and overtime comprise the two largest components of the over expenditures.

Fringe Benefits (\$5.3 million)

As noted in the May 18, 2011 Year-End Budget Monitoring Report, when the Fiscal Year 2011 Adopted Budget was developed, fringe expenses were distributed among City departments based on budgeted positions. However, actual expenditures combined with year-end projections reflect shifts in personnel activity from budgeted amounts. Because of this, funds will need to be reallocated prior to the end of the fiscal year by the Financial Management Department. It should be noted that expenditure levels and budget adjustments in these areas are outside the control of individual departments.

Overtime (\$4.3 million)

The Fiscal Year 2011 Annual Budget includes \$17.1 million for overtime expenses. The Department expects to conclude the fiscal year with an estimated \$21.4 million in overtime expenses resulting in over expenditures of \$4.3 million, or 25%. The following table provides a breakdown of the projected overtime expenses for FY 2011:

Type of Overtime	Expenditure (in millions)
Discretionary (Call Back, Extension of Shift, Communications Staffing)	\$5.9
Court – Traffic, State, Federal	\$3.0
Holidays	\$6.4
Special Events	\$2.4
Grants/Task Force (Reimbursable)	\$3.7
Total:	\$21.4
Less: Budgeted Overtime	\$17.1
Projected Deficit	\$4.3

As noted in the table above, overtime related to grant-funded or federal task force activities is typically reimbursable. This would include operations such as Operation Stonegarden (cross border violence); Internet Crimes against Children; State DUI enforcement; or the Narcotics Task Force. The Department expects to receive approximately \$3.7 million in eligible reimbursements, although the revenue may not be received until after June 30, 2011 because the federal fiscal year extends until September 30, 2011. If the Department receives the projected \$3.7 million in reimbursements from the numerous grants and task forces for related overtime, then the total projected overtime expenditures for Fiscal Year 2011 would be \$17.7 million, exceeding the budget by \$600,000, or 4%. The Department has stated that they closely monitor overtime expenditures but sworn understaffing has led to a need for increased discretionary overtime. Civilian overtime has remained constant at approximately \$3.0 million annually for the last three years.

In addition to the two areas described above, the Department projects to exceed budget levels in the Contracts, and Energy and Utilities expenditure categories. The Department will continue to closely monitor these areas.

CONCLUSION

The Chief Financial Officer issued the Fiscal Year 2011 Year-End Budget Monitoring Report on May 18, 2011. An update was issued on May 31, 2011 which provided additional information related to the estimate of the General Fund Reserve.

The IBA has reviewed the revenue projections and met with Financial Management, and believe that the year-end General Fund revenue projections are sound and appropriately conservative.

At the time of the Mid-Year Report, the IBA expressed concerns about the delay in the issuance of the FY 2010 Year-End Report from the City Comptroller, because of the lack of information that has been provided about the status of the General Fund Reserve.

Since that time, the Comptroller has issued its Year-End Financial Performance Report as of June 30, 2010 on May 18, 2011, and also provided an update on May 25, 2011 which revised the General Fund revenues and impacted the General Fund Reserve estimates. Because transactions continue to be executed related to FY 2010, the IBA recommends that the Comptroller provide a final Year-End Financial Report as of June 30, 2010 to the Budget and Finance Committee, once all transactions are completed and FY 2010 is considered closed.

The IBA also recommends that the City Council accept the FY 2011 Year-End Budget Monitoring Report from the Mayor and authorize the requested appropriation adjustments.

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