IBA Review of FY 2012 Mid-Year Budget Monitoring Report

City Council Meeting
March 12, 2012

FY 2012 General Fund Revenues

Major General Fund Revenues

Property Tax: Projection remains conservative and appropriate

Sales Tax: Consistent quarterly growth has led to revised growth rate of 4.5 percent over FY 2011 revenue for final two quarters. Based on actual performance and consumer spending forecasts, revenue could exceed projections.

Transient Occupancy Tax: Growth in business and leisure travel and continued increase in discretionary spending have led to a revised growth rate of 5.0 percent. Based on actual performance, consumer spending forecasts, and CONVIS projections, revenues could exceed projections.

FY 2012 General Fund Revenues

Departmental Revenues

E&CP: Projected revenue shortfall of $1.3 million due to lower than forecasted reimbursements. Methodology change in FY 2013 Adopted Budget, basing revenue off of percentage of personnel expense.

Fire-Rescue Alarm Fees: Revenues are not meeting projections due to fewer actual permits issued than incorporated into the budget. $910,000 of revenue included the Mid-Year Report is not forecasted to be achieved based on this information.

Air Medical Transport Fee: Due to prohibitive costs required by FAA to charge air transport fee, the City will forgo the $54,000 in revenue included in the budget. The Mid-Year reflects the revenue removal.

Police : Distribution of $4.3 million tow referral fee after litigation.

FY 2012 General Fund Revenues

Departmental Revenues (cont.)

Parking Citation Revenue: Shortfall of aggregate revenue highlighted in First Quarter IBA Report for Staff to further research cause. Staff has highlighted in the Mid-Year Report the cause for the revenue shortfall is due to a reduction in citations issued, lower collection rate than previous years, and an original budget that was originally too high.

The IBA received information that citations issued by the Police and TSW departments have increased. The collection rate on citations appears to have declined; however, no department was able to provide information to corroborate this. Delinquent citation revenue included in the budget has also been removed in the Mid-Year Report.

$2.8 million reduction in projection accurately reflects changes.

FY 2012 General Fund Expenses

City-Wide Issues

NPE Reductions: Implemented approximately $9.5 million in non personnel expenditures reductions in Adopted Budget (including five percent reduction in supplies / services, reduced IT discretionary funding, travel and training expenses). Supplies & services included in Mid-Year Report are approximately $3.8 million above reduced budget level, which is offset by a $5.4 million savings in contracts from budget level. Total aggregate NPE is projected to meet budgeted savings.

ERRP Change: $55.8 million OPEB contribution in budget due to $2.0 million subsidy from Early Retiree Reinsurance Program. Program has no remaining funds and City is committed to a $57.8 million contribution. This difference will need to be made up by year-end, with a General Fund contribution of $1.4 million.

FY 2012 General Fund Expenses

City-Wide Issues (cont.)

Termination Pay Forecast: First Quarter Report noted a potential $3.3 million in termination pay expenditure above budget due to retiree healthcare change. Mid-Year Report includes $1.6 million above budget amount based on staff review of employees who communicated their intention to retire. Figure may increase based on employees who have not notified SDCERS or their department.

Gas Prices: First Quarter Report noted a potential increase in gasoline costs of $1.7 million, which was not incorporated into the Mid-Year Report.

FY 2012 General Fund Expenses

Department Issues

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Storm Water Vacancies: Forecasted to end the fiscal year under adopted expenditure budget by $745,000 due primarily to 67 vacancies, or 15 percent of workforce.

Library Vacancies: Forecasted to end the fiscal year under adopted expenditure budget by $1.3 million due primarily to 43 vacancies reported in First Quarter Report. The department is actively filling positions and expect to have all filled by end of fiscal year.

Fire-Rescue: $4.8 million over budget in personnel expenditures largely due to overtime costs. Financial Management and Fire are undergoing further work together to analyze the issue.

FY 2012 General Fund Expenses

Department Issues (cont.)

Police: $900,000 in new costs for helicopter maintenance included in First Quarter Report has been eliminated in the Mid-Year Report due to additional $800,000 COPS grant revenue above budgeted amounts offsetting these expenses.

Park & Recreation: $30,000 in funding included in Mid-Year Report to obtain permit to close the Children's Pool during pupping season.

Other Issues

Council District Nine: $500,000 included in Mid-Year Report for full build-out of CD9 office space. Funds will be transferred to a separate CIP account.

Redevelopment Dissolution Potential Impacts

IBA Review of Mid-Year Report

Status of General Fund Reserves:

Total reserves currently estimated at $130.4 million or 11.4 percent of total forecasted General Fund revenues included in the Mid-Year report. This is prior to the Mayor's recommendations for use of the identified surplus.

IBA Review of Mid-Year Report

Mid-Year Adjustment Ordinance and GF Surplus :

Ordinance 20084 requires the Mayor to identify a Mid-Year surplus or deficit, and how a deficit would be mitigated; or in the current circumstance, how the identified surplus would be utilized.

The Mayor has proposed to utilized the $16.5 million surplus identified in the report in the following manner:

1. $3.2 million

   Items to be re-budgeted in FY 2013 ($1.3 Council CPPS, $1.2 million for Kinder Morgan Litigation, $0.7 million in DSD community plan updates).

2. $5.0 million

   Fiscal Year 2012 spending of identified surplus ($2.7 million full funding of fire alert system, $1.0 million for CIP emergency fund, $1.0 million 15 additional police recruits in April academy, $0.3 million in increased P&R and library hours).

3. $8.3 unbudgeted for available support at year-end

IBA Review of Mid-Year Report

Council Option for Surplus:

Based on the Ordinance 20084 and the Mayor's recommendation to utilize $5.0 million of the forecasted surplus for FY 2012 spending, City Council has the following three options:

1.) Accept the Mayor's $5.0 million of budget recommendations in full;

2.) Modify the Mayor's recommendations as desired for any amount less than or up to $5.0 million;

3.) Decide to not budget any of the forecasted General Fund surplus.

IBA Review of Mid-Year Report

Status of FY 2013 Forecasted Deficit:

The deficit for FY 2013 is currently estimated to be $12.2 million, after adjusting for a reduction to the FY 2013 retirement ARC estimate utilized in the Outlook, released by Cheiron in January. This $12.2 million deficit is expected to be offset by a $2.0 million reduction in FY 2013 debt service costs based on a pending proposal to issue $75 million in 2012 deferred capital bonds this spring rather than $100 million as originally reflected in the Outlook. This will reduce the FY 2013 projected deficit to $10.2 million.

The Mayor's recommendations affect this deficit as follows:

- $2.6 million one-time savings off the FY 2013 forecast, attributable to the fire alert system. This will be funded through the FY 2012 surplus.
- Restoration of Library and P&R hours will require full year funding in FY 2013 of $1.0 million and $381,000, respectively.
- 15 additional recruits in April police academy could result in additional costs in FY 2013.

IBA Review of Mid-Year Report

IBA Recommendations:

1.) Support the Mayor's proposed re-budgeting of $3.2 million from FY 2012 to FY 2013 for Council Community Project, Programs, and Services, Kinder Morgan litigation, and community plan updates;

2.) Approve the Mayor's recommendations for utilizing $5.0 million of the $13.3 million surplus for recreation center and library hours, 15 police recruits, CIP emergency fund creation, and completion of the fire alert system;

3.) Request the Mayor to commit the remaining $8.3 million surplus to increasing cash funding of deferred capital projects in the Mayor's FY 2013 Preliminary Budget. Based on the deferred capital funding options proposed by the Mayor and currently under consideration by the Budget and Finance Committee, this action would increase deferred capital cash funding in FY 2013 from $45.8 million to $54.1 million, and would achieve the "status quo" funding level for O&M deferred capital projects in FY 2013 (sixteen additional miles of streets could be resurfaced with this additional allocation).

QUESTIONS ?

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