

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 150

Subject: Fiscal Year 2007 Year-End Budget Adjustments

OVERVIEW

The Fiscal Year 2007 Year-End Budget Adjustments requests City Council authorization for the City Auditor & Comptroller to complete financial transactions, as necessary, in order to balance City departments and funds at fiscal year-end, and to carryover into Fiscal Year 2008 certain funds for specific projects that could not be completed during Fiscal Year 2007.

FISCAL/POLICY DISCUSSION

The Year-End Budget Adjustments include several changes which will increase the Fiscal Year 2007 General Fund Budget by \$4.9 million to \$1.055 billion. The following chart shows departments slated for increases due to expenditures occurring in excess of budgeted levels, with some caused by restructuring or BPR changes. Included in these requested increases is \$280,000 for additional actuarial services, over and above the current contract level of \$620,000. The IBA recently recommended the removal of additional funding for actuarial services in the FY 2008 Budget, suggesting that the City Council should choose to appropriate funds for additional actuarial services at the time and in the context of the discussion of a specific contract amendment. It should be noted that these funds cannot

| General Fund Requested Budget Increases | |
|--|--------------------|
| San Diego Fire-Rescue | \$2,300,000 |
| Citywide Programs - Mission Bay | 1,700,000 |
| Citywide Programs - Actuarial Services | 280,000 |
| Citywide Programs - Property Tax Admin | 200,000 |
| Customer Services | 165,000 |
| Land Use and Economic Development | 117,000 |
| Customer and Neighborhood Services | 117,000 |
| Special Projects | 11,000 |
| Public Works | 11,000 |
| TOTAL | \$4,901,000 |

be expended without first returning to the Council for an amendment to the existing contract.

General Fund Revenue

General Fund revenues are expected to reach \$1.048 billion, exceeding FY 2007 original budget projections by \$25.2 million. Property tax revenues are projected to exceed budget estimates by approximately \$19.5 million. During the Mid-Year Budget Adjustments, \$10.5 million in property tax revenues were appropriated based on estimates of receipts at that time. General Fund TOT revenue is projected to end the year approximately \$6.0 million over budget estimates. As discussed recently during budget deliberations, the IBA recommended an increase to the TOT revenue estimate for Fiscal Year 2008 because of this continuing trend, which permitted an additional \$3.4 million to be added to TOT revenues for next year¹. Comparing the revised FY 2008 General Fund budget figure of \$85.2 million to the actual revenues to be received in FY 2007 of \$78.9 million reflects a growth rate of 8.0%, as shown in the chart below.

| Major General Fund Revenues (in millions) | Budget FY 2007 | Actual FY 2007 | Over/ (Under) Budget | Budget FY 2008 | FY08 % chg from budget | FY08 % chg from actual |
|---|----------------|----------------|----------------------|----------------|------------------------|------------------------|
| Property Tax | \$344.2 | \$363.6 | \$19.5 | \$385.7 | 12.1% | 6.1% |
| Sales Tax | 234.9 | 228.0 | (6.9) | 239.5 | 2.0% | 5.0% |
| TOT | 72.9 | 78.9 | 6.0 | 83.4 | 14.4% | 5.7% |
| TOT (revised 08) | 72.9 | 78.9 | 6.0 | 85.2 | 16.9% | 8.0% |
| Property Transfer Tax | 14.9 | 8.4 | (6.4) | 7.6 | -49.0% | -9.5% |
| Mission Bay Rents | 24.4 | 27.7 | 3.3 | 25.0 | 2.5% | -9.7% |

As shown in the staff report, General Fund revenues of \$8.95 million in excess of the revised budget amount are expected to be received by fiscal year-end. A portion of these revenues attributable to Mission Bay rents and concessions will be appropriated with these requested adjustments, to allow the transfer of \$1.7 million to the Mission Bay and Regional Parks Improvements Funds, as required by the Mission Bay Ordinance. The Council could choose to appropriate a portion of the remainder of these additional General Fund revenues (which total \$7.25 million) to fund needed budget adjustments of \$3.2 million, as opposed to withdrawing funds from the General Fund reserve, as proposed with these actions.

Services and Transfers Revenue

The Services and Transfers revenue category includes \$2.1 million due to transfers of balances from inactive funds. It should be noted that this had previously been discussed

¹ Of this amount, approximately \$1.8 million will be allocated directly to the General Fund. The remaining \$1.6 million will be allocated to the TOT Fund, and then transferred back to the General Fund. However, this \$1.6 million will be reflected in the Transfers from Other Funds category.

in the context of “Budget Clean-Up” as one of the corrective actions contained in the Mayor’s Five Year Financial Outlook, and included in the Fiscal Year 2008 Proposed Budget as a planned contribution to the General Fund reserve. Completing these transactions now allows this amount to be included as General Fund revenue in Fiscal Year 2007, increases the amount to fall to reserves at fiscal year-end, and ensures those funds are part of the reserve in Fiscal Year 2008, as planned.

Expenditure Savings

The Mid-Year Adjustments and other Council actions throughout the fiscal year have increased the General Fund budget by \$27.4 million to \$1.051 billion. The adjustments requested with this action will further increase the budget by \$4.9 million, bringing the total General Fund budget to \$1.055 billion. General Fund expenditures are expected to total \$1.017 billion, which is \$5.8 million less than the original adopted budget, after accounting for the budgeted contribution to the reserve of \$7.2 million.

| General Fund Expenditure Savings By Business Center (revised) | |
|---|---------------------|
| Business and Support Services | \$6,874,588 |
| Community and Legislative Services | 66,398 |
| Department of Finance | 3,343,943 |
| Land Use and Economic Development | 2,987,594 |
| Neighborhood and Customer Services | 4,723,388 |
| Office of Ethics and Integrity | 71,198 |
| Public Safety and Homeland Security | 10,917,954 |
| Public Works | 7,842,751 |
| Non-Mayoral and Independent Departments | 1,099,690 |
| TOTAL | \$37,927,504 |

Assuming the requested budget adjustments are made, projected expenditures will result in total General Fund expenditure savings of almost \$38 million. This represents 3.7% of the original adopted budget not utilized to provide City services during the course of the fiscal year. It is important to note that these savings are in addition to the vacancy savings of \$38.8 million assumed in the FY 2007 General Fund budget.

Park and Recreation Requests

Included in the Fiscal Year 2007 Year-End Budget Adjustments are requests for the allocation of \$1,035,000 to the Allocated Reserve for various projects and needs for the Park and Recreation Department. Of this amount, \$250,000 is requested for the relocation of staff and equipment from the World Trade Center building and refurbishment of replacement office space, due to the possible sale of the building recently approved, in concept, by the City Council.

According to the Real Estate Assets Department, Park and Recreation is one of eight City departments occupying space in the building, which currently has a total of 28 tenants. None of the building occupants have been asked to vacate or make arrangements to leave

the building at this time. The timeline for a potential sale has not been determined, and it seems premature to allocate funds now for this purpose.

The IBA recommends the development of a comprehensive plan to identify replacement office space, including funding requirements, to address all impacted City departments, if and when the sale of the building moves forward. This plan could be included as part of the quarterly reports to Council (either at Rules or Land Use and Housing Committee) on the status of property sales as identified as a key policy recommendation by the IBA in Report 07-60. Further, the IBA does not support the allocation of \$250,000 from the General Fund for Park and Recreation as part of the Year-End Budget Adjustments; these funds should be directed to the reserve.

General Fund Reserve

As of June 1, 2007, the Chief Financial Officer reported a reserve balance of \$40.4 million. Based on a review of the items included in the reserve, it appears that the Mid Year Salary Reserve contribution of \$3.7 million has not yet been included in the reserve calculation. \$3.2 million is requested from the reserve for appropriation for General Fund expenditures for the San Diego Fire-Rescue Department, Citywide Program

| Estimated General Fund Reserve | |
|--|---------------------|
| FY 2007 Adopted Budget | \$1,023,333,098 |
| Working Capital per CFO (as of 6/01/07) | \$40,418,998 |
| Plus: Mid Year Salary Reserve | 3,719,000 |
| Less: Funds for Increased Appropriations | (3,200,000) |
| Plus: Excess Revenues/Expenditure Savings | 16,700,000 |
| TOTAL RESERVE | \$57,637,998 |
| Reserve as % of FY 2007 Adopted Budget | 5.63% |
| IBA Recommended Reserve Add | \$250,000 |
| REVISED TOTAL RESERVE (IBA) | \$57,887,998 |
| Revised Reserve as % of FY 2007 Adopted Budget | 5.65% |

Expenditures and other departmental needs. It should be noted that, alternatively, the Council could choose to appropriate a portion of the additional General Fund revenues to fund the needed budget adjustments of \$3.2 million, as opposed to

withdrawing funds from the General Fund reserve, as proposed with these actions. As currently estimated, excess revenues and expenditure savings will total \$16.7 million, bringing the General Fund reserve to an estimated \$57.6 million. Adjusting this amount for the item not recommended by the IBA for expenditure at this time will bring the reserve to a total of \$57.8 million. When expressed as a percentage of the original Fiscal Year 2007 General Fund budget, the reserve will reach 5.65% of the General Fund budget. Appropriating excess General Fund revenues instead of utilizing reserve funds for the requested budget adjustments will have the same impact on the final reserve balance.

CONCLUSION

The Fiscal Year 2007 Year-End Budget Adjustments are necessary to balance departments and funds prior to the conclusion of Fiscal Year 2007, and to authorize continuation of FY 2007 funding into FY 2008 for certain projects which have not yet been completed.

The IBA does not support the allocation of \$250,000 from the General Fund for Park and Recreation’s potential relocation costs related to the possible sale of the World Trade Center building. The IBA recommends these funds be placed in the General Fund Reserve.

The IBA concurs with the balance of the Fiscal Year 2007 Year-End Budget Adjustments and the recommendations to deposit projected surplus revenues and expenditure savings not used by June 30, 2007 into the General Fund Reserve.

[SIGNED]

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