
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of FY 2009 Mid-Year Budget Monitoring Report

OVERVIEW

The Chief Financial Officer issued the Fiscal Year 2009 Mid-Year Budget Monitoring Report on February 27, 2009, which describes the current status of revenues and expenditures, and their year-end projections, based on actual (unaudited) data from July 1, 2008 through December 12, 2008. The report notes that the budget amendments approved by the Council on December 9, 2008 and February 3, 2009, which were necessary to ensure a balanced General Fund budget by year-end, have been taken into consideration. In a departure from prior years, no budget adjustments are recommended as part of the Mid-Year Report, primarily because of the significant budgetary reductions already approved and enacted earlier this fiscal year. However, continual monitoring of revenues and expenditures will be ongoing, and additional adjustments may be required as part of the Year-End Report, which is expected in mid-May.

The IBA reviewed the Mid-Year Report, comparing information to the Auditor's recent Financial Performance Report for Period 7 (distributed to the Council on February 18, 2009), the CFO's General Fund Major Revenue Update, dated January 5, 2009, and the First Quarter Monitoring Report (presented to the Budget and Finance Committee on November 12, 2008).

In summary, this report highlights significant changes to projections and assumptions since the First Quarter Report in November 2008, and offers suggestions regarding next steps for the remainder of the fiscal year.

FISCAL/POLICY DISCUSSION

The following chart summarizes the FY 2009 Adopted Budget, First Quarter Projection, Revised Budget, and the Mid-Year Projection. The summary reflects the dramatic change in budgeted revenues and expenditures, and allows comparison of revised projections, since the beginning of the fiscal year. Based on the Mid-Year Projection, General Fund revenues are now projected to be \$45.3 million less than the Adopted Budget, which is a 3.8 percent decrease. General Fund expenditures are projected to be slightly less than revenues and \$47.0 million less (or 3.9 percent lower) than the Adopted Budget.

General Fund Status Fiscal Year 2009				
	FY 2009 Adopted Budget	FY 2009 Year-End Projection (First Quarter)	FY 2009 Revised Budget (after adjustments)	FY 2009 Year-End Projection (Mid-Year)
Revenues	\$1,192,608,391	\$1,144,518,906	\$1,156,037,357	\$1,147,299,716
Expenditures	1,192,608,391	1,175,589,409	1,156,037,357	1,145,567,794
Net Balance	--	(\$31,070,503)	--	\$1,731,922

The FY 2009 Revised Budget reflects budget reductions and other actions enacted to date to address revenue shortfalls due to the economic decline, for a net reduction of \$36.6 million to the General Fund Budget. The Mid-Year Projection expects further shortfalls in revenues of \$8.7 million, and additional expenditure savings of \$10.4 million from the Revised Budget. As the Mid-Year Projection reflects a positive net balance of \$1.7 million at year-end, no additional budget adjustments are recommended at this time.

General Fund Revenue

The January 2009 General Fund Major Revenue Update to the Budget and Finance Committee reported a further reduction of \$3.4 million to major revenue sources since the First Quarter Report, most significantly due to revised projections to property taxes and motor vehicle license fees. At that time, no new budget adjustments were recommended, instead opting for a complete revenue and expenditure update to be done as part of the Mid-Year Report.

The Mid-Year Report reflects revisions to these projections for the major revenue sources, for a total reduction of \$6.6 million from the Revised Budget, or a decrease of \$3.2 million from the January Update.

The Comptroller's Financial Performance Report for Period 7 (as of January 9, 2009) shows that General Fund revenue receipts to-date comprise 33.4 percent of the Revised Budget. During Fiscal Year 2008, 33.4 percent of total actual revenues were received

during this same period. While that may be reassuring and support predictions that the City may be on track to receive all of the amounts shown in the Revised Budget, this also means that the City awaits receipt of two-thirds of its General Fund revenues, during a time where the economy continues to decline. Some revenue sources are susceptible to current economic conditions and factors, while others may not be immediately affected.

Sales Tax

Sales tax revenue is projected to end the fiscal year approximately \$5.9 million less than the Adopted Budget, and consistent with the Revised Budget, currently \$216.2 million. In the January General Fund Major Revenue Update, a slight increase of \$1 million from the Revised Budget was projected, which has now been reduced in the Mid-Year Report.

Sales tax projections assume a 5.2 percent decrease from prior year receipts, however, it is unclear at this point if these assumptions will hold up once actual sales tax receipts reflective of the October through December 2008 (Fourth Quarter) period, including holiday sales activity, are received, which is expected in late March. Many reports indicate holiday sales were weaker than in previous years, and worse than predicted. A negative result could contribute to a General Fund deficit, and options to address this would need to be quickly considered and enacted, prior to June 30.

Because of this risk to the General Fund, the IBA recommends that the Chief Financial Officer present a General Fund Major Revenue Update, including status of sales tax receipts, to the Budget and Finance Committee at its meeting of April 1.

General Fund Expenditures

The Mid-Year Report describes that General Fund savings of \$10.4 million is caused almost entirely by savings in the expenditure category of Salaries and Wages, totaling \$9.8 million. These savings offset the further reductions in major revenue sources, and eliminate the need for additional budget adjustments at this time.

SALARIES AND WAGES

As shown in the Mid-Year Report, significant salary savings are being generated by ten City departments, including:

- Engineering and Capital Projects
- Storm Water
- Police
- General Services
- City Comptroller
- Personnel
- Public Safety
- Park and Recreation
- City Treasurer
- Library

These savings are in addition to significant budget reductions enacted to balance the General Fund budget. However, several departments indicate vacancies will be filled by

year end. We believe this raises several questions that may warrant further discussion, including:

- What is the current process and criteria for filling vacant positions?
- Is the City in a position to fill vacant positions at this time?
- Should departments wait until sales tax projections are revisited before filling additional positions?
- Will vacant positions be eliminated in the upcoming budget?
- Will a hiring freeze remain in effect through the end of the year and continue into 2010?

The IBA recommends that the Council be advised of the current process and criteria being used for the filling of vacant positions. In addition, the Council may wish to request information that describes the further impacts to service levels that can be expected, given the number of current vacancies, which are in addition to impacts identified at the time of and because of the First Quarter budget reductions.

FRINGE BENEFITS

At the time of the First Quarter Report, the fringe benefits category was estimated to exceed budgeted levels by \$4 million. Budget adjustments at that time included the need to fund an increase of \$4 million for the General Fund for this purpose. However, after additional review, the Mid-Year Report indicates that several fringe benefit items are collecting funds in excess of needs and Reserve Policy guidelines. Rate adjustments are now to be implemented to reduce collections, which in turn reduce the projected expenditures of all City departments. These efforts will create savings to the General Fund totaling \$6.2 million, without service level implications.

OTHER SIGNIFICANT CHANGES

Citywide Department - Property Tax Administration Fee

The Mid-Year Report includes an increase of \$1.0 million related to the Property Tax Administration Fee paid to the County. State law authorizes counties to charge a property tax administration fee to jurisdictions that receive a property tax apportionment from the county, to recover the cost of providing certain property tax administration services. These fees shall not exceed the actual cost of providing such services, and are calculated in proportion to the relative share of total property tax received by each jurisdiction. In 2003 the State enacted the “Triple Flip,” and in 2004 enacted the Vehicle License Fee (VLF) “swap.” Under these respective actions, cities and counties lost sales tax and VLF revenue, which was replaced by property tax revenue from the Education Revenue Augmentation Fund (ERAF). As a result, cities and counties now receive a proportionally larger share of countywide property tax revenue, and as such, are charged a proportionally larger fee for property tax administration services.

Citywide Department – General Fund Reserve Contribution

The First Quarter Report eliminated the \$3.7 million contribution to the General Fund Reserve, which was needed at the time of budget development to ensure the Reserve Policy goal of 6.5 percent was to be achieved for Fiscal Year 2009. In November, the Reserve balance was reported as higher than previously estimated, eliminating the need for the budgeted contribution. However, the Mid-Year Report now describes that the Reserve balance has been reduced, due to activities by the Comptroller to close the prior year, which again triggers the need for a \$3.0 million contribution.

CONCLUSION

In summary, this report highlights significant changes to projections and assumptions since the First Quarter Report in November 2008, and offers suggestions regarding next steps for the remainder of the fiscal year. In a departure from prior years, no budget adjustments are recommended as part of the Mid –Year Report, primarily because of the significant budgetary reductions already approved and enacted earlier this fiscal year. However, continual monitoring of revenues and expenditures will be ongoing, and additional adjustments may be required as part of the Year-End Report, which is expected in mid-May. The City will receive significant sales tax data, reflective of holiday sales, by the end of March.

The IBA recommends that:

1. The Chief Financial Officer present a General Fund Major Revenue Update, including status of sales tax receipts, to the Budget and Finance Committee at its meeting of April 1;
2. The City Council request the process and criteria being used for the filling of vacant positions, and status of plans for a hiring freeze to continue beyond this fiscal year; and
3. That the City Council request information that describes further impacts to service levels that can be expected, given the number of current vacancies, which are in addition to impacts identified at the time of and because of the First Quarter budget reductions.

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