

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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City Council Agenda Date: June 19, 2006

Item Number: 200

Item: Fiscal Year 2006 Year-End Budget Adjustments.

OVERVIEW

The purpose of the Fiscal Year 2006 Year-End Budget Adjustment is to request City Council authorization to allow the City Auditor & Comptroller to balance each department and fund as necessary at year-end, and carryover certain appropriations into Fiscal Year 2007 for specific projects that could not be completed during Fiscal Year 2006. The IBA has included additional data in this report to be utilized by the City Council as supplemental information.

FISCAL/POLICY DISCUSSION

General Fund major revenues have exceeded their FY 2006 budget projections allowing the coverage of unanticipated costs due to external audit, legal counsel and consultant costs, and others. The proposed adjustments will increase the Fiscal Year 2006 General Fund Budget to \$918.5 million from \$895.1 million which is the revised budget based on administrative and Council actions to date. The following chart shows the revenues that were received in excess of estimates along with the appropriation savings and the uses for those funds.

Source	FY 2006 Budget*	FY 06 Estimate	Difference
Property Tax	\$290.4	\$321.6	\$31.2
Sales Tax	144.3	145.7	1.4
Franchise Fees	63.5	60.0	(3.5)
Transient Occupancy Tax	67.3	71.5	4.2
Other Revenues	305.2	318.4	13.2
Projected Appropriation Savings Net of Carryover			8.2
Projected Sources			54.7

Uses		
Public Liability Fund		(12.0)
Public Liability Transfer		(0.4)
Department Revenue Appropriated Administratively		(12.1)
Return of Revenues to Water Fund from General Fund		(2.6)
4th Quarter Adjustments		(11.3)
FY 2006 Budgeted increase to Reserves		(3.0)
Unappropriated Reserves		(13.3)
Total		0.00

** All figures reflect revised budget except for property tax, which reflects adopted budget.*

The following major General Fund revenue sources along with the appropriation savings have yielded the City additional funds to cover the unanticipated expenditures.

Property Tax

Property tax revenues are projected to end the fiscal year approximately \$31.2 million over-budget. While a certain amount of this variance was due to under-estimation of FY 2006 growth rates, a substantial portion is related to one-time actions by the state regarding the VLF-Property Tax swap, and was outside the City's control. More information on the VLF-Property Tax swap can be found in the Financial Summary section in Volume I of the Annual Fiscal Year 2006 Budget document. The issues related to the FY 2006 property tax projection are discussed in greater detail in a January 31, 2006 memo from the Chief Financial Officer (Attachment #3).

Sales Tax

Sales tax revenue continues to do very well in FY 2006. As explained in the Fiscal Year 2006 General Fund Financial Status and Budgetary Update Report, presented to the City Council on October 10, 2005, a one-time adjustment related to the triple-flip resulted in the loss of approximately \$8.3 million, which is reflected in the sales tax projection. Currently, total city sales tax is projected to end the fiscal year under-budget by approximately \$3.8 million, indicating that pure sales tax revenue has come in nearly \$4.5 million over-budget. Despite the remaining shortfall in *total* sales tax, General Fund sales tax is projected to be over-budget by approximately \$1.4 million due to several adjustments in the sales tax allocations to other funds. For example, TOT receipts are coming in stronger than anticipated, meaning that less sales tax is needed for Special Promotional Programs. As a result, a portion of the sales tax that was budgeted to go to Special Promotional Programs has been redirected to the General Fund.

Transient Occupancy Tax

TOT revenue is projected to finish the year approximately \$4.2 million over-budget, reflecting continued strength in the tourism and lodging sectors. According to data from the San Diego Convention and Visitor's Bureau, average daily room rates in San Diego County are up 8% through April over the same period in FY 2005, while the occupancy rate has increased by 1.7 percentage points and 13 more conventions have been hosted.

This projected surplus reflects only the portion of TOT allocated directly to the General Fund, equivalent to 5.5-cents. The surplus attributable to the remaining 5.0-cents is being realized in the TOT Fund for Special Promotional Programs, and is resulting in the reduced sales tax allocation as described above.

Franchise Fees

Revenue from the City’s various franchises is projected to end the fiscal year under-budget by approximately \$3.5 million. This shortfall is primarily due to a one-time adjustment in SDG&E franchise fees related to the municipal surcharge payment. As a result of the energy market deregulation, various third-party energy producers currently use SDG&E’s transmission system to provide gas and electric power to residential and non-residential customers. Under State law, a municipal surcharge may be levied on the natural gas and electricity that is transported by these providers. However, State law (PUC Section 6351) also provides exemptions for certain energy producers, including the State of California or any political subdivision. According to SDG&E, over the past several years a large group of third-party energy producers that should have been exempted were charged the municipal surcharge. This error was corrected in FY 2006, resulting in a one-time decrease in municipal surcharge revenue.

Other Revenues

This “catch-all” category consists of minor revenue sources such as safety sales tax and property transfer tax, as well as broad revenue categories such as transfers and charges for current services. The projected surplus in this category primarily reflects supplemental revenue from various departments. Please see Attachment #2 for the General Fund Departmental Revenue projections.

Projected Appropriation Savings Net of Carryover

The projected appropriation savings net of carryover to Fiscal Year 2007 is estimated at \$8.2 million. This includes prior year (Fiscal Year 2005) savings of \$2.42 million and an overall Fiscal Year 2006 expenditure savings of \$5.73 million. The majority of the Fiscal Year 2006 savings resulted from the following departments:

- Citywide Operations Support \$2.8 million
- City Treasurer \$1.2 million
- City Clerk \$318,000
- Environmental Services \$160,000
- Library \$168,000
- Park and Recreation \$300,000
- Real Estate Assets \$280,000

Please see Attachment #1 for all General Fund departments.

The following unanticipated expenditures have occurred throughout the fiscal year that requires the use of the revenue estimates in excess of Fiscal Year 2006 budget and/or citywide expenditure savings as discussed above :

Public Liability Fund

Throughout Fiscal Year 2006, there has been unanticipated legal cost that was covered by the Public Liability Fund. \$10 million was approved for Kroll, Willkie Far & Gallagher, and KPMG related to Securities and Exchange Commission (SEC) investigatory costs. The other \$2 million referenced in the Fiscal Year 2006 Year-End Budget Adjustments report was for various claims to the Public Liability Fund.

Public Liability Transfer

A Request for Council Action is scheduled for Tuesday, June 20, 2006, in the amount of \$408,000 to transfer the General Fund's portion of expenses for legal counsel for elected officials and legislative staff, past and present. The \$408,000 represents 71% of \$575,000, the estimate for these expenses.

Department Revenue Appropriated Administratively

Please see Attachment #1 for details regarding the excess revenue appropriated administratively per the Fiscal Year 2006 Appropriation Ordinance, which gives the Auditor and Comptroller the authority to appropriate departmental revenues received in excess of budget.

Return of Revenues to Water Fund from General Fund

In Fiscal Year 2006 the General Fund will make a repayment to the Water Fund of approximately \$2.64 million based on the Mayor's commitment in his response to the Grand Jury investigation and Service Level Agreements (SLAs) that were eliminated as part of the FY 2007 Budget. It should be noted, however, that consistent with IBA Memo 06-9 regarding the Final Recommended Modifications to the Fiscal Year 2007 Budget, The IBA continues to recommend that a report be made to the City Council regarding Grand Jury findings, current proposed actions, and strategies for future actions.

Increase General Fund Appropriations per 4th Quarter Adjustment

The following chart shows the Departments that are projected to be at least \$100,000 in deficit by the end of Fiscal Year 2006.

Department deficits by end of FY 06	
San Diego Fire & Rescue	\$5,900,000
General Services - Facilities	2,300,000
Office of Homeland Security	500,000
Family Justice Center	100,000
Community & Economic Development – 6 to 6	300,000
Community & Economic Development – Wheelchair Program	100,000
Council District 7	176,000

City Manager/COO	900,000
Parking Management	1,000,000
TOTAL	\$11,276,000

Unappropriated Reserves

The Fiscal Year 2006 Year-End Budget Adjustments report states that after making the recommended budget adjustments, approximately \$16.4 million in surplus funding will remain. On May 30, 2006, during City Council discussion on the final FY 2007 Budget modifications, the CFO indicated that the surplus would likely be \$8 million. This estimate has now been modified to include the following:

- Sales Tax Reallocation to the General Fund from TOT \$2.8 million
- Cancellation of Carryover from Citywide Department \$2.9 million
- Cancellation of Departmental Requested Carryover \$2.5 million
- Other Misc. Changes \$0.2 million
- Subtotal* *\$8.4 million*
- May 30, 2006 surplus estimate \$8.0 million
- TOTAL SURPLUS** **\$16.4 million**

It should be noted that this total surplus includes approximately \$3.0 million that was originally approved in the FY 2006 Budget to be allocated to the Unappropriated Reserve. While the total surplus listed above reflects the figure presented in the Fiscal Year 2006 Year-End Budget Adjustments report, the figures reported in the table on page 1 and 2 are based on data that was requested by the IBA. Despite any slight variations that may exist, the CFO recommends, and the IBA concurs, that any remaining surplus be allocated to the Unappropriated Reserve.

CONCLUSION

The recommendations in the Fiscal Year 2006 Year-End Budget Adjustments report are necessary to balance all funds prior to the conclusion of Fiscal Year 2006, and to authorize continuation of the FY 2006 appropriations into FY 2007 for certain projects which were not completed. The IBA concurs with the CFO's recommendation to deposit any portion of the projected surplus that is not used by June 30, 2006 into the Unappropriated Reserve. The IBA further recommend that future budget adjustment reports to Council provide detailed information and schedules/data similar to the information provided in this report.

[SIGNED]

 Angela Means
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[SIGNED]

 APPROVED: Andrea Tevlin
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Attachments:

1. General Fund Departments-Projected Appropriations
2. General Fund Departmental Revenue-Projected Revenues
3. Revised Property Tax Projection