
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 150

Review of Fiscal Year 2008 Year-End Appropriation Adjustments

OVERVIEW

Item 150 requests City Council authorization for the City Comptroller to complete financial transactions, as necessary, in order to balance City departments and funds at fiscal year-end, and requests City Council authorization to carryover certain funds for specific projects that could not be completed during the fiscal year.

The Financial Management Department issued the Fiscal Year 2008 Year-End Budget Monitoring Report on May 18, 2008, which described the status of revenues and expenditures and year-end projections, based on actual (unaudited) data for nine accounting periods, from July 1, 2007 through March 7, 2008. The Year-End Report was presented to the Budget and Finance Committee on May 21, 2008, and the Committee voted 4 to 0 to forward the report to the full City Council without recommendation, and requested the Independent Budget Analyst to provide the Council with its analysis.

Since the Year-End Report was originally issued, the Financial Management Director has issued two separate memos describing changes that affect the year-end status and requested adjustments. A revised staff report was issued June 5, 2008 to reflect these changes, which include the reduced transfer to the Appropriated Reserve of \$2.5 million as approved by Council on May 19, 2008 (instead of the original \$5.0 million request), and the request to carryover \$600,000 in projected savings from the budgets of the Council District Offices to the respective Infrastructure Improvement Funds. This latter

change increases the request from the Unallocated Reserve from \$2.5 million to \$3.1 million, in order to achieve a balanced budget at year-end.

The IBA reviewed the Year-End Report, comparing information to the Auditor’s recent Monthly Financial Report, focusing on the General Fund, and also reviewed issues that were identified during the development of the budget, and at the time of the First Quarter and Mid-Year Monitoring Reports.

FISCAL/POLICY DISCUSSION

General Fund Status

The following table reflects the year-end projections for the General Fund as reported throughout the fiscal year. While the net deficit of \$21 million is relatively unchanged from the Mid-Year to the Year-End reports, the revenue and expenditure projections have both decreased by approximately \$17 million.

General Fund Status FY 2008 Year-End Projections			
	First Quarter	Mid-Year	Year-End
Revenues	\$1,100,949,582	\$1,107,591,168	\$1,090,222,920
Expenditures	1,097,904,014	1,129,225,250	1,112,189,975
Net Balance	\$3,045,568	(\$21,634,082)	(\$21,967,055)

General Fund Expenditures

The following chart combines the actual expenditure activity for FY 2007, along with the FY 2008 Year-End Projections as reported throughout the fiscal year. FY 2008 Year-End Projections reflect an increase of \$100 million (or 10%) over the actual expenditures for FY 2007.

General Fund Expenditures				
	FY 2007	FY 2008 Year-End Projections		
	Year-End	First Quarter	Mid-Year	Year-End
Salaries	\$461,211,470	\$486,123,972	\$495,430,521	\$486,581,829
Fringe and NPE	549,685,214	611,780,042	633,794,732	625,608,146
Total	\$1,010,896,684	\$1,097,904,014	\$1,129,225,253	\$1,112,189,975

The Year-End Projection for the salaries category has decreased \$9 million since the Mid-Year Report, and reflects savings of \$12.7 million when compared to the FY 2008 adopted budget. The fringe benefits and non-personnel expenditure categories in total have also dropped \$8.6 million, since the Mid-Year Report, and exceed the FY 2008

adopted budget by \$18 million. The FY 2008 budget has been amended by various Council actions since its adoption, increasing it \$26 million, for:

- Settlement with San Diego Chargers - \$2 million
- Establishment of the Appropriated Reserve - \$7 million
- Wildfire Debris Removal - \$3 million
- Mid-Year Budget Adjustments - \$6.3 million
- Additional needs of the Public Liability Fund - \$4.5 million
- Replenishment of the Appropriated Reserve - \$2.5 million

The requested actions in the Year-End Report will reduce the total General Fund budget by \$2.9 million, and substitute a portion of budgeted revenues, which are now not expected to be received, with funding from the Unallocated Reserve in the amount of \$3.1 million.

The Mid-Year Report projected salary savings of \$3.8 million, which has now grown to over \$12 million in the Year-End Report. This revised projection more closely aligns to the First Quarter Report's projected salary savings of \$13.1 million. This is in addition to the budgeted vacancy savings of \$30.5 million, and as pointed out in the Year-End Report, these additional savings suggest actual vacancy rates occurring during the year are higher than budgeted levels. Departments with the greatest salary savings include:

- Police - \$4.1 million
- General Services - \$2.7 million
- City Treasurer - \$1.3 million
- Park and Recreation - \$889,000
- City Comptroller - \$651,000
- Financial Management - \$519,000

The requested appropriation adjustments include the reallocation of salary savings from these departments to those with expected deficits in the salary category. This requested reallocation makes the best use of budgeted resources, and reduces the need to draw unnecessarily from the City's reserves. **The IBA strongly supports the approach to reallocate excess appropriations, which helps to minimize further increases to the budget and reduces the need to use reserve funds.**

DISASTER ESTIMATES

The Mid-Year Report described estimated expenditures totaling \$50.5 million for both the wildfire and landslide disasters, with \$7.6 million incurred through November 16, 2007. The Year-End Report reflects updated estimates totaling \$51.9 million in total, with \$44.4 million estimated for the General Fund. Of the General Fund amount, \$34.7 million is projected to be reimbursed from state and federal funds, with the City required to fund the balance of \$9.7 million.

Based on the information in the Year-End Report, General Fund costs for both incidents are projected to reach \$20.3 million for FY 2008, with \$7.2 million in reimbursements to be received this year. An additional \$3.1 million in disaster-related costs is expected to be incurred by non-General Fund departments by fiscal year-end. As shown in the chart below, remaining costs of over \$28 million will be incurred during FY 2009, with approximately \$23 million of this required for the Engineering and Capital Projects Department's work for the Soledad Mountain Road Landslide. The Water and Development Services Departments will continue to be financially impacted next year, with a total estimated cost of \$4.4 million. The IBA discovered discrepancies when comparing the Disaster Estimate information reflected in Table 8 and Attachment IV, resulting in a negative net General Fund cost to the City in FY 2009, which will not occur. Further review of this will be needed.

DISASTER ESTIMATES Impact to City of San Diego (in millions)					
	General Fund		Non General Fund		
Disaster	FY 2008	FY 2009	FY 2008	FY 2009	TOTAL
Wildfires	\$17.6	\$0.8	\$3.0	\$4.3	\$25.7
Landslide	\$2.7	\$23.3	\$0.1	\$0.1	\$26.2
Total	\$20.3	\$24.1	\$3.1	\$4.4	\$51.9
Reimburse	(7.2)	(27.5)	--	(3.6)	(38.3)
Net to City	\$13.1	(\$3.4)	\$3.1	\$0.8	\$13.6

The Disaster Estimates included in the Year-End Report are more detailed and comprehensive than previous reports, and the information is very helpful to determine the budgetary impacts and the timing of the costs and related reimbursements. **The IBA encourages Financial Management and the Office of Homeland Security to continue to work together and report regularly to the Council on the status of these issues.**

BOOKING FEES

Regarding FY 2008 booking fees, the IBA has learned that the City paid the County the full \$5.2 million in booking fees on June 15, 2007 from funding included in the FY 2007 budget. In addition, pursuant to state law and appropriations, the County has billed the State for \$3.1 million of actual expenses due to City bookings in the current year and has received \$2.9 million in reimbursements. The City should be reimbursed for any amount the County receives from the State, such that the County is not paid twice for one expense. Therefore, at a minimum, the City should expect to be reimbursed \$2.9 million. **Given the ongoing nature of this item, the IBA does not recommend appropriating any of the anticipated FY 2007 booking fee reimbursement funds at this time. When it is resolved and the City is reimbursed, the IBA recommends that the**

funding be directed to the reserves and that an update be provided to the Budget and Finance Committee.

The Year-End Report includes an expenditure projection totaling \$2.3 million for booking fees, which had not been estimated in previous reports. It should be noted that this expense is for the June 2008 payment for FY 2009. This expense is consistent with the County’s experience this year as it received \$2.9 million from the State, and the County would require an additional \$2.3 million from the City in order to satisfy the MOU obligation totaling \$5.2 million. This payment, however, is also dependent on the result of ongoing negotiations with the County on the terms of the MOU, as well as the result of pending state budget decisions on the level of booking fees reimbursement provided to counties. **The IBA understands the justification for the amount of the revised booking fee expenditure projections included in the FY 2008 Year-End Report.**

General Fund Revenue

The following chart combines the actual revenue activity for FY 2007, along with the FY 2008 Year-End Projections, as reported during the year.

GENERAL FUND REVENUE STATUS				
FY 2008 Year-End Report (Period 9; 68% of year)				
Revenue Category	FY 2007 Actual Receipts	FY 2008 Year-End Projection (First Quarter)	FY 2008 Year-End Projection (Mid-Year)	FY 2008 Year-End Projection (Year-End)
Property Tax	\$ 360,400,407	\$ 387,115,105	\$ 391,805,306	\$ 389,761,519
Sales Tax	225,841,450	236,029,635	229,130,717	226,623,939
Transient Occupancy Tax	80,702,830	85,390,733	85,390,733	83,420,799
Franchises	64,633,832	68,644,666	68,544,095	64,659,081
Safety Sales Tax	7,940,313	8,054,401	8,014,079	7,787,297
Motor Vehicle License Fees	8,101,184	7,448,461	7,513,575	6,647,171
Property Transfer Tax	9,307,713	9,576,145	9,554,858	8,415,776
Other Revenue	<i>incl. below</i>	68,706,741	68,747,723	71,587,415
Departmental Revenues	296,306,098	229,983,695	238,890,082	231,319,923
TOTAL	\$ 1,053,233,827	\$ 1,100,949,582	\$ 1,107,591,168	\$ 1,090,222,920

As can be seen from the chart, year-end projections for all revenue categories, except Other Revenue, have declined since the Mid-Year Report, while most categories continue to show increases over prior year receipts. The category of Other Revenue includes interest earnings, which is estimated to exceed budget estimates by \$4.6 million.

Requests for Appropriation Adjustments

Appropriation adjustments are requested to ensure a balanced budget at fiscal year-end. In order to achieve this, it is estimated that funds in the amount of \$3.1 million are needed from the Unallocated Reserve, based on the revised request. This amount is based on projections for both revenues and expenditures, and is a “not-to-exceed” amount that will only be utilized if necessary. Based on the financial performance of past years,

the IBA expects that some portion (if not all) of the requested reserve amount will not be needed as part of the year-end closing process. However, it is prudent that authorization be sought and given to ensure that the Comptroller may make adjustments, if it is determined that they are needed.

As previously noted, salary and other savings are being requested to be reallocated to departments expected to exceed budgeted levels. In addition, some departments require increased appropriations due to higher than budgeted levels of fringe benefits or other expenditure needs that cannot be offset by savings in other departments. Departments requiring increases to the expenditure budget include:

- Fire-Rescue - \$4.4 million
- City Attorney - \$498,000
- Library - \$405,000
- Neighborhood Code Compliance - \$371,000
- Citywide Program - \$233,000
- Family Justice Center - \$37,000
- Special Events - \$17,000

Requests to Carryover Budgeted Funds

In addition to appropriation adjustments, City Council authorization is sought to carryover certain funds for specific projects that could not be completed during the fiscal year, as follows:

City Planning and Community Investment - \$1.2 million

Funding for Community Plan Updates had been authorized for the Uptown and Otay Mesa Community Planning Areas, however, additional work is needed to finalize contractual agreements and encumber funds for this purpose. To ensure these funds continue to be available, a request is made to carryover these funds to next year.

Council District Infrastructure Improvement Funds -\$600,000

As described in the Financial Management Director's memorandum of May 30, 2008 and the revised staff report, actions related to the Year-End Report have been amended to include the authorization to carryover the available budget balances for Council Districts 1 through 8 into their respective Infrastructure Improvement Fund. As in past years, the purpose of this carryover is to finance capital improvements and major maintenance of streetlights, sidewalks, traffic signals, libraries, park and recreation facilities, roadways or other purposes as identified by individual Council Districts. It is estimated that these funds total \$600,000.

Establishment of the General Fund Emergency Reserve

Authority is requested to establish and fund the General Fund Emergency Reserve, as required by the City Reserve Policy, which was adopted by the Council in November 2007. According to the policy, the Emergency Reserve should be 5% of the General

Fund budget, which for Fiscal Year 2008 amounts to \$55 million. Based on the FY 2009 Proposed Budget, the Emergency Reserve will need to be increased to \$59.4 million. In order to provide funding for this purpose, authorization is requested to increase the General Fund Budget by up to \$55 million to allow for the transfer of funds to a newly created Emergency Reserve Fund. Any funds remaining in the Appropriated Reserve will be transferred first to the Emergency Reserve, possibly reducing the amount to come from the Unallocated Reserve. **The IBA supports the establishment of the Emergency Reserve Fund, and recommended its creation at the time the Reserve Policy was adopted, and on several occasions since.**

General Fund Reserves

The Year-End Report estimates total General Fund Reserves (including the Emergency Reserve) to reach \$73.7 million at year-end, or 6.7% of General Fund revenues, exceeding the policy goal of 6.5%. The report clearly states that these are estimates that will need to be finalized following the year-end closing. However, the IBA notes that as part of the year-end closing process, the release of prior year encumbrances are likely to positively impact the year-end balance for the General Fund. For Fiscal Year 2008, this factor resulted in a \$7 million increase to the reserve balance, and estimates to-date show that over \$5 million in prior year encumbrances have been released for FY 2008. No estimate for this has been included in the reported reserves status. Reserve levels in excess of the policy goal may be desired, given the uncertain economic climate and possible continued negative impacts on the City's major General Fund revenues. The reserve may need to be accessed to supplement budgetary allocations, and serve as a contingent resource, should revenues not materialize as estimated next year. A final reserves status will be provided as part of the Comptroller's report on Year-End Results, following the conclusion of the current fiscal year.

CONCLUSION

The IBA reviewed the Year-End Report, comparing information to the Auditor's recent Monthly Financial Report, and also reviewed issues that were identified during the development of the budget, and at the time of the First Quarter and Mid-Year Monitoring Reports. This report provides comparisons with projections that have been made throughout the year, focusing primarily on the General Fund, and highlights significant actions requested of the Council. The amount requested from the Unallocated Reserve is based on projections for both revenues and expenditures, and is a "not-to-exceed" amount that will only be utilized, if necessary. Based on the financial performance of past years, the IBA expects that some portion (if not all) of the requested reserve amount will not be needed as part of the year-end closing process. However, it is prudent that authorization be sought and given to ensure that adjustments can be made, if needed.

The IBA recommends that the City Council authorize the requested appropriation adjustments and related actions, in order to ensure a balanced budget at fiscal year-end, and supports the creation of the Emergency Reserve Fund as required by the City's

Reserve Policy. The IBA expects that actual General Fund Reserves following the year-end closing will be greater than the estimates provided in the Year-End Report, provided revenue and expenditure projections are met. However, reserve levels in excess of policy targets are desirable given the current uncertain economic climate, and possible continued negative impacts to City revenues.

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