



CITY COUNCIL AGENDA REPORT

MEETING DATE: June 21, 2004

ITEM NUMBER:

SUBJECT: POLICIES AND PRACTICES RELATED TO "WALLING OFF" REVENUES FOR SPECIFIC USES

DATE: June 16, 2004

FROM: MARC R. PUCKETT, DIRECTOR OF FINANCE

PRESENTATION BY: MARC R. PUCKETT, DIRECTOR OF FINANCE

FOR FURTHER INFORMATION CONTACT: MARC R. PUCKETT at (714) 754-5243

RECOMMENDED ACTION

Staff is recommending that the policies and practices related to "walling off" revenues for specific uses be eliminated or suspended.

BACKGROUND

Over the past several years, a number of practices have come into existence that specifically restrict budgetary flexibility with respect to how certain revenues are budgeted. These practices, in essence, "wall off" certain revenue sources to be used exclusively for specific programs or services.

Currently, the City has several policies and practices in place to wall off revenues for a variety of uses. For example, "Net Revenues" are walled off for capital projects and special projects, Golf Course revenues are walled off for recreation programs, Red Light Camera revenues are walled off for driver's education, Signs of Support revenues are walled off for the Cultural Arts Committee's use, Tennis Center revenues are walled off to offset capital improvement costs at the tennis center, Cable Franchise Fee revenues are walled off for use for municipal access channel costs, and Pay Telephone Concession revenues in the city jail are walled off for inmate welfare purposes.

Some of these revenue sources that were walled-off were restricted on a limited bases or are restricted based upon contractual agreement or by law. These restrictions are noted below:

1. Golf Course Revenues – the golf course greens fees were walled-off based on the incremental growth in greens fees for the 1999-2000 fiscal year. Therefore, the allocation to the special recreation events funded from these revenues is limited to the \$119,000 walled-off during that fiscal year and annually walled-off each subsequent year. There is no clear nexus between the golf course revenues being set-a-side and the programs that the funding is being used for. The same practice could be accomplished, and is, through the normal budget process. When the need for new recreational programming occurs, the Recreation Manager could bring forward the priority need for further discussion and funding consideration in the following year's budget. Programs funded from these sources could compete with other recreation program priorities

funded through the budget process with the same result without walling-off revenues specifically for “special recreation events.” Additional golf course revenues received over and above this annual allocation go into the General Fund as a general revenue source.

2. Red Light Camera Revenues - Revenues from traffic enforcement efforts associated with the red-light camera program were initially partially walled-off for use for the driver’s education program conducted by the school district. To date, no agreement has been reached with the school district with respect to the partial use of these funds for driver’s education purposes.
3. Signs of Support Revenues – \$62,000 of revenue collections from the Signs of Support program were walled off for future use by the Cultural Arts Committee for the furtherance of fulfilling the committee’s stated purpose. To date, almost the entire \$62,000 remains available and has not been expended by the committee. Additional funds received over and above this initial allocation go into the General Fund as a general revenue source.
4. Public Education – Government (PEG) cable franchise fees are restricted pursuant to the franchise agreement and applicable law to be used specifically for enhancements to the City’s cable municipal access channel programming including hardware upgrades.
5. Pay Telephone Commissions (Inmate Welfare Fund) - Applicable law prohibits use of these revenues to enhancement of the Inmate’s quality of life. Therefore, these funds may not be used for other purposes.

The most significant of these policies of walling-off revenues relates to the Net Revenue Policy discussed in more detail below.

ANALYSIS

"Walling off" of revenue sources for specific purposes limits the City's budgetary flexibility and its ability to respond to fiscal and economic changes as the emergent needs occur.

The key policy matter where walling-off of revenues has significantly restricted budgetary flexibility is the Net Revenue policy. This policy when initiated approximately ten years ago did not provide for the replenishment of any reserves during “good-times” so as to better prepare the City to manage easily through “bad-times.” The policy provided that all Net Revenue (defined for discussion purposes as actual revenues less actual expenditures and encumbrances) be brought back for appropriation at mid-year each year. This process ensured that all Net Revenue would be expended each year leaving no available funding to be used for development of the ensuing year’s budget. Council revised this policy in February, 2002, to put some parameters in place addressing how much of the revenue generated from Net Revenue could be used for special projects, new CIP projects and development of the ensuing year’s budget.

The current policy provides that Net Revenue will be allocated among the identified objectives as follows:

- ☞ Thirty-five percent (35%) is to fund the ensuing year’s Operating Budget.
- ☞ Fifty percent (50%) is to fund Capital Improvement projects to be identified.

☞ Fifteen percent (15%) is to fund one-time expenditures or special projects.

This change, although helpful, still has the affect of significantly limiting budgetary flexibility and does not provide any mechanism to ensure that the City maintains the proper level of reserves. Further, the practice ensures that all Net Revenue will be allocated and spent each year. If any funds are remaining within the three areas, it is walled off separately within reserve accounts in the General Fund specified for the identified purposes.

This restriction puts staff in the position of having fewer revenue sources available when preparing the budget and potentially in the position where cuts in services may have to be proposed that could have been funded from walled-off portions of Net Revenue setting in reserve accounts.

This policy significantly limits options available to balance the ensuing year's budget since all carryover funding is committed or spent. Elimination or suspension of this policy would significantly increase budgetary flexibility to address market cycle fluctuations with less of a disruption to the budget development process during "down" cycles. The opportunity is always available during budget deliberations to accelerate capital improvement projects within the adopted seven-year capital improvement program or to initiate funding of a special project based upon an identified need.

These practices curtail budgetary flexibility by limiting the total available resources for use in meeting the service demands identified through the budget process.

FISCAL REVIEW

No fiscal review is required for this item.

LEGAL REVIEW

No legal review is required for this item at this time.

CONCLUSION

It is recommended that the City Council consider significantly curtailing the practice of "walling off" revenue sources or wholly eliminating or suspending these practices altogether.

MARC R. PUCKETT
Director of Finance/Treasurer