



CITY COUNCIL AGENDA REPORT

MEETING DATE: April 4, 2006

ITEM NUMBER:

SUBJECT: FISCAL YEAR 2005-2006 MID-YEAR BUDGET REPORT

DATE: MARCH 17, 2006

FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING

PRESENTATION BY: MARC R. PUCKETT, DIRECTOR OF FINANCE

FOR FURTHER INFORMATION CONTACT: AGNES T. WALKER (714) 754-5241

RECOMMENDED ACTION:

1. Receive and file the Fiscal Year 2005-2006 (FY 05-06) Mid-Year Budget Report.
2. Approve the attached Budget Adjustment number BA 06-040 for \$2.6 million to adjust various revenue sources as listed on Exhibit B.
3. Approve the attached Budget Adjustment number BA 06-041 for \$28,100 to appropriate funds from the undesignated, available General Fund balance to the Development Services Department's operating account related to the preparation of environmental documents for projects in North Costa Mesa; and, to the Fire Department's operating account for unbudgeted expenditures for Fire Station 2.

BACKGROUND:

Staff presented the FY 05-06 mid-year budget report to the City Council at a study session on March 14, 2006. During the meeting, Councilmember Foley requested additional information regarding budget carryovers and the estimated attrition savings. Staff responded to the request by a separate report on March 17, 2006.

The City Council adopted the FY 05-06 budget on June 21, 2005. Typically, after adoption, certain events occur that impact the budget. These events, such as the State's action on local revenues, may necessitate adjusting the budget projections during the year. Attached is Exhibit B, which details staff's recommended revisions to the General Fund operating revenues by account.

Further, Council may also approve additional appropriations throughout the year. Examples of the additional appropriations include the salary adjustments provided to all employee groups in 2005 and those programs that received grant funding after the budget was adopted. The budget impact of all these adjustments is summarized in the mid-year report under Exhibit A.

The focus of the mid-year review is the City's General Operating Fund revenues and expenditures since the majority of the City's activities are accounted for within this fund. Other special revenues funds, such as the Community Development Block Grant (CDBG) or HOME Funds, are usually set for the year and therefore do not require adjustments at mid-year. When revenues for these special revenue funds are not fully expended during the year, balances are carried forward for re-appropriation in the subsequent years. Adjustments to other funds are submitted to Council on as needed basis.

All City departments provided feedback to the Finance Department regarding the status of their current year's expenditures, projected through the end of the fiscal year. Attached is Exhibit C, which shows the departmental budget performance for the first half of the fiscal year.

ANALYSIS:

Based on staff's analysis and information provided by all departments, staff recommends the following adjustments:

Revenues

Property Tax – VLF Swap: Staff projects revenues from taxes to increase by \$2.5 million compared to the original projections when the budget was adopted in June 2005. Based on information provided by the County, the Property Tax resulting from the Vehicle License Fee (VLF) Swap, is expected to account for an additional \$1.2 million. Included in the additional revenue is the "clean-up" payment of almost \$400,000 from FY 04-05 based on actual receipts at the State level. This clean-up payment is remitted to local government in January of the year following the fiscal year-end.

Sales & Use Tax: The \$1.4 million adjustment to the Sales Tax revenue reflects the continued solid growth in the local economy these past two years. This growth in sales tax revenues is offset by a negative adjustment of \$1.4 million relating to FY 04-05 as a result of the "clean-up" payment pursuant to the "Triple-flip" sales tax redistribution formula implemented by the State.

Under this plan, beginning in FY 04-05, the State took away one-fourth of the City's Sales Tax revenues (\$0.25 cents for every one dollar of the local sales tax) to pledge as a source of re-payment of the State's fiscal recovery bonds. The State then replaced or "back-filled," the lost sales tax revenues with a Property Tax in Lieu of Sales Tax payment through the County property tax "pool" to make local governments whole. This sales tax redistribution formula, known as the "triple flip", is authorized under Proposition 57. In the initial year of implementation of this plan, the State failed to account for the timing differences that occur within the normal collection cycle for each revenue stream. As a result, during FY 04-05, the State overestimated the backfill payment amount for many local agencies resulting in a need to reduce future payments to local agencies to make up for this oversight. The City of Costa Mesa was one of the cities that received overpayments. This overpayment was deducted in full from the City's "clean-up" payment in January 2006.

Property Tax – Secured: While property values continue to rise, no adjustment is recommended to the revenue under Property Tax – Secured. The mid-year revised

reflects the \$928,183 taken by the State in the form of ERAF III (Educational Revenue Augmentation Fund). Another \$928,183 will be taken in May. FY 05-06 is the final year that the City “contributes” to ERAF III, a revenue take-away by the State based on the Governor’s agreement with local agencies under Proposition 1A, passed by the voters in 2004.

Sanitary District reimbursements: Exhibit B shows a \$250,000 reduction in reimbursements from the Sanitary District. The revised amount reflects the estimated amount to be paid by the District to the City based on the termination of the agreement with the District. This revenue adjustment is offset by a reduction in the related appropriations.

Overall General Fund revenues: After netting those revenue accounts that are projected to slightly decrease as illustrated in Exhibit B, overall General Fund revenues may show an estimated increase of \$2.7 million at year-end.

Expenditures:

Departments have provided feedback on their budget performance, projected through year-end. In total, expenditures are projected to come within the current amended appropriations for this fiscal year. Approximately \$2.25 million *may* be realized as attrition savings and other operating line-item budgetary savings. At this time, staff does not recommend reducing the budget to account for these potential savings in operating line accounts. Any savings achieved would revert to fund balance at year-end and will be available for re-appropriation in next year’s operating budget.

However, the Development Services Department has requested a \$20,000 increase in their appropriations to cover the additional expenses related to the preparation of environmental documents for projects in North Costa Mesa. This appropriation is directly offset by the 10% fees that the City receives from developers for preparation of the Environmental Impact Reports (EIR). In addition, \$8,100 needs to be appropriated to the Fire Department’s operating account to cover unbudgeted expenditures for repair work performed at Fire Station 2.

Summary: The FY 05-06 budget was adopted with a planned appropriation from General Fund available fund balance of approximately \$2.9 million. Following adoption of the budget, Council approved (as of January 31, 2006), approximately \$5.6 million in additional appropriations for salary adjustments to all employee groups, grant-funded programs, and matching funds for capital improvement projects. In addition, budget carryovers from FY 04-05 were brought forward to FY 05-06, funded from the prior year’s fund balance. Exhibit A summarizes the revenue and appropriation adjustments. The net result of these changes in estimated revenues and appropriations will slightly increase the amount of the planned appropriation from General Fund available fund balance from \$2.9 million to \$3.3 million.

ALTERNATIVES CONSIDERED:

No alternatives were considered.

FISCAL REVIEW:

The attached Exhibit A summarizes the proposed adjustments in revenues and expenditures. Budget adjustment number BA 06-040, along with Exhibit B, reflects the proposed revisions to the General Fund revenue estimates. Budget adjustment number BA 06-041 appropriates funds to the Development Services and Fire Departments' operating accounts.

Exhibit C summarizes the departmental budget performance, reflective of all budget amendments through January 31, 2006. The net result of these changes in estimated revenues and appropriations will slightly increase the amount of the planned appropriation from General Fund available fund balance from \$2.9 million to \$3.3 million.

LEGAL REVIEW:

No legal review is required for this item.

CONCLUSION:

The City has the capacity to absorb the revised appropriations excess over the revised revenue estimates by utilization of available fund balance in the General Fund. Staff is committed to ensuring the City continues its conservative fiscal practices; adopts sound, responsible, financial plans; and maintains its high-level of service delivery to the community in the most cost-effective and efficient manner possible.

AGNES T. WALKER
Budget & Research Officer

MARC R. PUCKETT
Director of Finance

ATTACHMENTS: [Budget Adjustment 06-040](#)
[Budget Adjustment 06- 041](#)
[Exhibit A – Mid-Year Budget Report Summary](#)
[Exhibit B – Revised Estimated Revenue Summary](#)
[Exhibit C – Budget to Actual Analysis-by Department/Division](#)

Copy to: City Manager
All Department Directors