



CITY COUNCIL STUDY SESSION REPORT

MEETING DATE: January 11, 2011

ITEMNUMBER:

1

SUBJECT: FISCAL YEAR 2010-2011 MID-YEAR BUDGET REPORT

DATE: JANUARY 7, 2011

FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING

PRESENTATION BY: BOBBY YOUNG, BUDGET & RESEARCH OFFICER

FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, BUDGET & RESEARCH OFFICER
(714) 754-5241

RECOMMENDED ACTION:

1. Receive and file the Fiscal Year 2010-2011 (FY 10-11) Mid-Year Budget Report.
2. Provide information to staff regarding Council's expectations for the remaining year's budget.

BACKGROUND:

The focus of the mid-year budget review presentation is primarily the City's General Operating Fund revenues and expenditures. The vast majority (over 81%) of the City's activities are accounted for within this fund. Other special revenue fund budgets, such as the Gas Tax, Community Development Block Grant (CDBG) or HOME Funds, do not usually require adjustments at mid-year due to the specific nature of the resource allocations and program requirements. 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' budget process. Adjustments to other funds are submitted to Council on as needed basis periodically throughout the year.

The City Council adopted the FY 10-11 budget on June 22, 2010. The Council had already authorized the implementation of an early retirement incentive in an effort to help reduce the workforce. This incentive eliminated 34 positions. However, because the City still had a budget deficit more reductions were necessary. Therefore, at budget adoption, Council authorized the elimination of additional programs and 44 positions through layoffs. This authorization helped reduce the City's budget deficit to \$9.4 million. During the fiscal year, the City negotiated with each of the employee associations to contribute towards employee retirement commitments. The estimated amount of savings in FY 10-11 from labor negotiations is \$1,167,000. Also, based on recent cash receipts, it appears the economy is stabilizing. Therefore staff is projecting approximately \$6.6 million of higher revenue estimates than originally adopted. These actions combined with an increasing economy, have helped further reduce the City's budget deficit to an estimated \$1.4 million.

While the National Bureau of Economic Research announced the recession ended in June 2009, the City still has a budget deficit to address above and beyond the increased revenues and reduced expenditures.

The following table details revenues and expenditures for: the adopted budget, staff's recommended adjustments and the projected ending balances for fiscal year 2010-11. Both revenue and expenditure amounts include transfers in and out respectively.

MID-YEAR BUDGET REVIEW - GENERAL FUND			
Description	Adopted FY 10-11	Adjustments	Projected Ending Amount
Revenues	\$85,163,714	\$ 6,642,939	\$ 91,806,653
Expenditures	94,585,295	(1,391,450)	93,193,845
Use of Fund Balance	<u>(\$ 9,421,581)</u>	<u>\$ 8,034,389</u>	<u>(\$ 1,387,192)</u>

This same summary is shown on Attachment A with major adjustments detailed. Attachment B provides revenue detail by account and the recommended adjustments above. Also, attachment C provides expenditure detail at a division and account category level.

Based on staff's analysis of the current year's operating revenues and expenditures and, based on information and input provided by departments, staff recommends the following adjustments to the FY 10-11 budget:

Revenues

Sales Tax: The City consults with Hinderliter de Llamas (Hdl) for in depth sales tax analysis. Each quarter City staff meets with a representative from Hdl to discuss sales tax collection and comparability with: the previous year, and other local cities, the county and the state.

Analysis of the first six months of sales tax receipts shows an increase of 9.07% compared to first six months of the prior fiscal year (09-10). The City has now seen four consecutive quarters of positive revenue when compared to that previous year's quarterly amounts. This is a good sign that sales tax revenue is beginning to see a rebound from the recession. This analysis does not include the City's 3rd quarter revenue. Because of the time lag in which businesses remit sales tax payments, the City's 3rd quarter includes the holiday season.

Most notably, the largest increases have been in the general consumer goods and auto and transportation categories. These are the two categories that decreased the sharpest when the recession first began, therefore it is not a surprise they are the first to rebound. The City benefits from the sales tax revenue generated by stores at South Coast Plaza and those stores are a major sector of the general consumer good category. As for auto and transportation, the rebound has been led mostly by the used auto sector. This is consistent with statewide data provided by Hdl.

Staff has considered all information to recommend an adjustment of \$4,456,000 to estimated sales tax revenue through the end of the fiscal year. As part of this adjustment staff is estimating a continued increase of about 4.7% for the remaining two quarters of the fiscal year. The reason for the considerable increase (12.88%) compared to the adopted budget is because based on information at that time, staff was not comfortable projecting more than a 2.27% increase over the prior year revised amount. Also, in addition to the monthly sales tax revenue, the City also receives a semi annual receipt from the State Board of Equalization for the "Triple Flip" commitment. Staff and Hdl had originally expected this amount to be about \$1.5 million less than what the City will actually receive. This adjustment is included as part of the \$4,456,000 total adjustment.

Transient Occupancy Tax (TOT): Analysis of the first *five* months of transient occupancy tax collections shows an increase of 3.77% compared to first *five* months of the prior fiscal year (09-10). The City has now seen seven out of the last eight months with positive revenue when compared to that previous year's monthly amounts. This is also a good sign that transient occupancy revenue is beginning to see a rebound from the recession.

These positive monthly trends combined with the passage and implementation of Measure L (increase the Transient Occupancy Tax 2% effective January 6, 2011), staff recommends an adjustment of \$1,050,000. As part of this adjustment staff is estimating a continued increase of about 2% for the remaining seven months of the fiscal year. The amount of the adjustment directly attributed to the increase in the tax rate is about \$660,000.

Property Tax – All Accounts: Analysis of the first semi annual receipt from the County Treasurer's Office for secured property tax revenue (the City's largest Property Tax Revenue account) shows a 13.33% increase *above* last year. Staff had originally expected to see a decline compared to last year because of: the Prop 13 adjustment factor, reduced assessments by the County Assessor's Office, and the revaluation of property that had been recently sold for a lesser amount than the last assessment. This information caused staff to project a decline of (8.73%) compared to last year.

However, compared to actual receipts it appears total property tax revenue will be higher than originally estimated. Staff recommends a cumulative adjustment of \$550,000. This adjustment will be conservative if the second semi annual receipt for secured property tax is the same as the first. Unfortunately, because of the infrequent and inconsistent nature of property tax revenue, staff is not comfortable recommending a larger adjustment at this time.

Other Revenue Account Adjustments: Many other revenue accounts are recommended for increases and decreases alike. Staff will be able to address each on an individual account basis.

Expenditures

Due to the timing of this presentation, most departments were not given an opportunity to evaluate expenditures as of mid-year (December 31). Finance staff is still working with each department to determine if further adjustments are necessary. The following adjustments are known at this time.

Prior Year (FY 09-10) Labor Negotiations: During FY 09-10, it had been negotiated that the furlough program and suspension of the Retirement Health Savings (RHS) program would continue for 26 pay periods. Since the implementation of these savings plans was not implemented until August 30, 2009, this meant that the City would see some savings in the current fiscal year. The amount of savings in FY 10-11 from these two items was \$260,000.

Current Year (FY 10-11) Labor Negotiations: Recently the City negotiated with all employee associations to contribute towards employee retirement commitments and a further suspension of the RHS program. The amount of savings in FY 10-11 from these two items is projected to be \$1,167,000.

Attrition Savings: Throughout the year, the City has vacant positions where there is either a delay in filling the position or the position is planned to be held vacant through the fiscal year. Both of these situations create budget/salary savings by way of attrition. Staff projects the total salary savings to be approximately \$900,000. These savings may be diminished by the use of overtime to fill vacant positions or the need to hire outside contractors to complete work because of the lack of staffing. However, both costs would be recorded in separate accounts that may have an existing budget and further analysis would be completed at the end of the fiscal year.

Recreation Programs: At the December 7, 2010 City Council meeting, authorization was given to reduce the ROCKS and Aquatics programs. The total budget reduction for these two programs is \$190,413. Staff also reviewed the budgets for Youth Sports Basketball and Flag Football to determine an additional reduction of \$49,037 could be made. The total reduction for Recreation programs is \$239,450.

Adjustments for salary accounts: During the budget process it was estimated by staff that a total of \$938,041 could be charged to the Measure 'M' Fund for allowable salaries and benefit costs related to Engineering staff time spent on Measure 'M' projects. Given the status of current projects and the lack of upcoming projects, staff is estimating that it will not be able to allocate the budgeted amount to the Measure 'M' Fund. Therefore those salary costs will need to be budgeted in the General Fund. Staff is recommending an adjustment of \$800,000 to increase General Fund salaries and benefits. Also, since the implementation of the 3%@50 formula for sworn fire employees, there have been retirements within the Fire Department. These retirements were expected and budgeted, however the payoff of accrual banks for retirees was not included in the budget. Staff is recommending an adjustment of \$375,000 for these costs that have already been incurred. Total recommended adjustment for salary accounts is \$1,175,000.

Summary

The FY 10-11 budget was adopted with a calculated appropriation from General Fund balance of approximately \$9.4 million. At that time, City Council and staff stated that through further budget reducing efforts, the use of fund balance must be reduced. Recently, the City negotiated with each of its employee associations to reduce salary and benefits cost. However, those negotiations did not yield the estimated savings identified as needed as part of the budget adoption. Also, based on recent cash receipts, it appears revenue estimates may be higher the originally anticipated. The current projected use of fund balance for FY 10-11 is \$1,387,192. Staff requests direction from City Council to reduce the further use of fund balance.

ALTERNATIVES CONSIDERED:

No alternatives were considered.

FISCAL REVIEW:

The attached Exhibit A summarizes the proposed adjustments in revenues and expenditures to the current year's adopted operating and capital improvement budget. Including the recommended adjustments, the estimated use of General Fund balance has decreased from \$9.4 million to \$1.4 million. Attachment B provides revenue detail by account and the recommended adjustments above. Also, attachment C provides expenditure detail at a division and account category level.

LEGAL REVIEW:

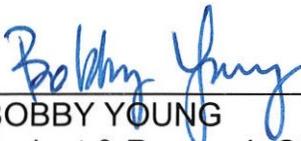
No legal review is required for this item.

CONCLUSION:

The budget is the City's spending plan. The City Council adopted the FY 10-11 budget on June 22, 2010. The Council had already authorized the implementation of an early retirement incentive in an effort to help reduce the workforce. This incentive eliminated 34 positions. However, because the City still had a budget deficit more reductions were necessary. Therefore, at budget adoption, Council authorized the elimination of additional programs and 44 positions through layoffs. This authorization helped reduce the City's budget deficit to \$9.4 million. During the fiscal year, the City negotiated with each of the employee associations to contribute towards employee retirement commitments. These actions combined with an increasing economy, have helped further reduce the City's budget deficit to an estimated \$1.4 million.

While the National Bureau of Economic Research announced the recession ended in June 2009, the City still has a budget deficit to address above and beyond the revenue to expenditure shortfall. Given the use of fund balance over the past few years, at this point it is not recommended to use any more fund balance. Based on the FY 09-10 Comprehensive Annual Financial Report (CAFR), the City's General Fund has a total fund balance of \$41.5 million. An additional reduction of approximately \$1.4 million would leave \$40.1 million after FY 10-11.

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. In addition, staff is now compiling departmental budget requests for the next fiscal year. As such, staff requests that Council provide feedback regarding the further use of fund balance in FY 10-11 and its priorities and expectations for FY 11-12 to help guide the development of the upcoming proposed budget.


BOBBY YOUNG
Budget & Research Officer

ATTACHMENTS: [Attachment A - Mid-Year Budget Report Summary](#)
[Attachment B - Revenue Detail Summary](#)
[Attachment C - Expenditure Category Summary](#)

Copy to: City Manager
All Department Directors

CITY OF COSTA MESA

Fiscal Year 2010 – 2011 Mid Year Budget Update

City Council Study Session
January 11, 2011

AGENDA

- Introduction
- FY 09-10 Rev, Exp, Fund Balance
- FY 10-11 Projected Rev, Exp, FB
- Revenue and Expenditure Analysis
- Going Forward
- Comments/Questions

Fiscal Year 2009-10

(in millions)

	<u>FY 09-10</u>
Total Revenues and Transfers In	\$ 92.4
Total Expenditures and Transfers Out	<u>99.7</u>
Net change in Fund Balance	<u>(\$ 7.3)</u>
Total Fund Balance	<u>\$ 41.5</u>

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Projected Fiscal Year 2010-11

(in millions)

	<u>FY 10-11</u>
Total Revenues and Transfers In	\$ 91.8
Total Expenditures and Transfers Out	<u>93.2</u>
Net change in Fund Balance	<u>(\$ 1.4)</u>
Total Fund Balance	<u>\$ 40.1</u>

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Historical Revenues

(in millions)

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>(Proj)</u> <u>FY 10-11</u>
Total Revs	\$ 103.3	\$ 93.4	\$ 89.5	89.8
Total Trans In	2.1	0.2	2.9	2.0
Total	<u>\$ 105.4</u>	<u>\$ 93.6</u>	<u>\$ 92.4</u>	<u>91.8</u>
Change P/Y	<u>\$ 1.5</u>	<u>(\$ 11.8)</u>	<u>(\$ 1.2)</u>	<u>(\$ 0.6)</u>

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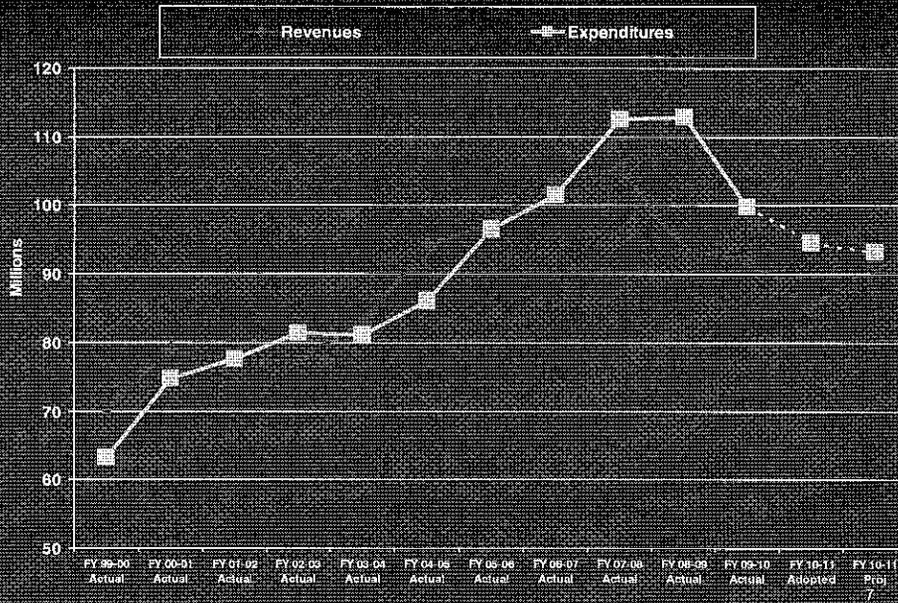
Historical Expenditures

(in millions)

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>(Proj)</u> <u>FY 10-11</u>
Total Exp	\$ 106.8	\$ 108.0	\$ 94.4	\$ 93.1
Total Trans Out	5.7	5.0	5.4	0.1
Total	<u>\$ 112.5</u>	<u>\$ 113.0</u>	<u>\$ 99.8</u>	<u>93.2</u>
Change P/Y	<u>\$ 11.1</u>	<u>(\$ 0.5)</u>	<u>(\$ 13.2)</u>	<u>(\$ 6.6)</u>

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12 Year Historical – Revenues vs. Expenditures

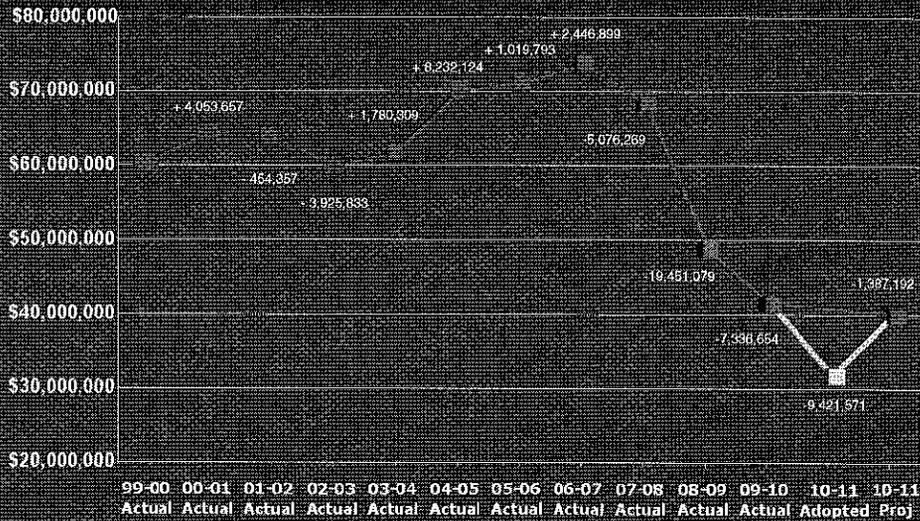


Historical Fund Balance

(In millions)

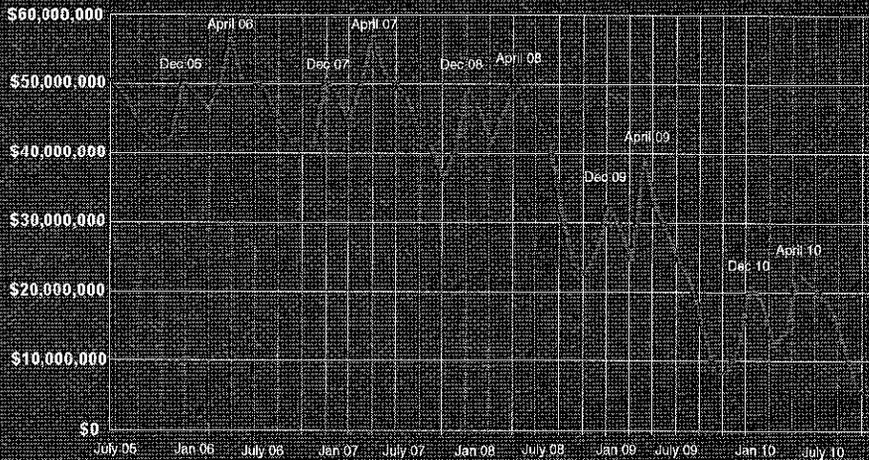
	FY 07-08	FY 08-09	FY 09-10	(Proj) FY 10-11
Total Rev & T.I.	\$ 107.4	\$ 93.6	\$ 92.4	\$ 91.8
Total Exp & T.O.	112.5	113.0	99.8	93.2
Net change in FB	(\$ 5.1)	(\$ 19.4)	(\$ 7.4)	(\$ 1.4)
Total F.B.	\$ 68.3	\$ 48.9	\$ 41.5	\$ 40.1

GENERAL FUND - FUND BALANCE TWELVE YEAR HISTORICAL



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GENERAL FUND - CASH BALANCE SIX YEAR HISTORICAL



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Historical Revenues – “Big 3”

(In millions)

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>(Proj)</u> <u>FY 10-11</u>
Sales Tax	\$ 46.0	\$ 38.7	\$ 34.5	\$ 39.0
Property Tax	20.7	21.2	21.3	20.7
TOT	5.8	4.7	4.3	5.0
Total	<u>\$ 72.5</u>	<u>\$ 64.6</u>	<u>\$ 60.1</u>	<u>\$ 64.7</u>
Change from P/Y	<u>\$ 1.5</u>	<u>(\$ 7.9)</u>	<u>(\$ 4.5)</u>	<u>\$ 4.6</u>
Percent of Total Rev	68.8%	69.0%	65.0%	70.5%

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Quarterly Sales Tax Analysis

(In millions)

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>FY 10-11</u>
1st Q - % Inc/(Dec)	5.0%	(12.6%)	(16.2%)	13.6%
2nd Q - % Inc/(Dec)	0.3%	(15.4%)	1.2%	5.4%
3rd Q - % Inc/(Dec)	(6.7%)	(18.7%)	6.2%	4.7%*
4th Q - % Inc/(Dec)	0.8%	(28.2%)	6.0%	4.7%*
Total	<u>(3.3%)</u>	<u>(18.6%)</u>	<u>(1.5%)</u>	<u>7.0%*</u>

* = Projected

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Quarterly TOT Analysis

(in millions)

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>FY 10-11</u>
1st Q - % Inc/(Dec)	4.5%	(9.9%)	(16.5%)	2.1%
2nd Q - % Inc/(Dec)	(2.0%)	(15.8%)	(15.1%)	5.5%
3rd Q - % Inc/(Dec)	(6.8%)	(27.2%)	(3.8%)	30.1%*
4th Q - % Inc/(Dec)	(6.0%)	(26.2%)	3.8%	36.0%*
Total	<u>(2.5%)</u>	<u>(18.6%)</u>	<u>(8.8%)</u>	<u>18.2%*</u>

* = Projected (with increase in rate)

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FY 10-11 Budgeted Expenditures by Department

City Council/Manager/Clerk	\$ 1,502,600
City Attorney	530,550
Finance	2,089,929
Administrative Services	14,007,829
Police	36,007,045
Fire	19,398,404
Development Services	2,934,891
Public Services	12,377,047
Non-Departmental	5,737,000
Total	<u>\$ 94,585,295</u>

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Recommended Adjustments to Expenditures

	<u>\$ 94,585,295</u>
Savings from prior year labor negotiations	(260,000)
Savings from current year labor negotiations	(1,167,000)
Attrition savings from vacant positions	(900,000)
Reduction in Recreation programs	(239,450)
Salary account adjustments	<u>1,175,000</u>
FY 10-11 Projected Ending Expenditures	<u>\$ 93,193,845</u>

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Going Forward

- Public Thank You
- Development of Preliminary Budget
- Resources do not Match Expectations
- Five Year Financial Forecast
- More Detail at February 8, 2011 City Council Study Session

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FY 10-11 Budget Update

- Input from City Council for remainder of FY 10-11
- Priorities from City Council for FY 11-12 budget development
- Comments & Questions

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CITY OF COSTA MESA

Fiscal Year 2010 – 2011 Budget Update

City Council Study Session
January 11, 2011

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