



CITY COUNCIL STUDY SESSION REPORT

MEETING DATE: February 28, 2012

ITEM NUMBER: **2**

SUBJECT: FISCAL YEAR 2011-2012 MID-YEAR BUDGET REPORT

DATE: FEBRUARY 24, 2012

FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING

PRESENTATION BY: BOBBY YOUNG, FINANCE & I.T. DIRECTOR

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RECOMMENDED ACTION:

1. Receive and file the Fiscal Year 2011-2012 (FY 11-12) 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 budget is the City's spending plan. The City Council adopted the FY 11-12 budget on June 21, 2011. At that time, the City Council adopted a balanced General Fund budget with a \$77,000 surplus.

ANALYSIS:

General Fund Revenues

Sales Tax: The City also 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 5.04% compared to first six months of the prior fiscal year (10-11). The City has now seen two years of positive revenue when compared to that previous year's quarterly amounts. It is a continued good sign that sales tax revenue is continuing to increase and rebound from the recession.

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 and will not be recommending an adjustment to the Sales Tax revenue account. Current revenue amounts are consistent with the originally projected budget amount. Should the current positive economic trends increase, then the City may see a year end amount in excess of the budget amount. However, staff believes taking a more conservative stance with a revenue source as volatile as Sales Taxes have been recently, is a prudent approach.

Transient Occupancy Tax (TOT): Analysis of the first six months of transient occupancy tax collections shows an adjusted increase of 4.1% compared to first six months of the prior fiscal year (10-11). The adjustment is due to timing of the increase in the TOT rate. Effective in January 2011, the first six months of FY 10-11 were at the lower rate while the first six months of the current fiscal year are at the higher rate.

Similar to Sales Tax, TOT revenue has seen almost 2 years of positive activity compared to the previous year's amounts. Staff originally estimated an increase of 1.5% compared to FY 10-11. Given the revenues to date and projecting the remaining year activity equal to the original budget, the year end amount should exceed the original adopted budget. Therefore, staff will be recommending an increase in the TOT estimated budgeted revenues.

Property Tax – All Accounts: Analysis of the first semi annual receipt from the County Treasurer's Office for property tax revenue shows only a slight increase of 0.13% above last year. Staff had originally estimated a conservative 1.33% increase for all property tax revenue accounts, so the current year activity appears consistent with the adopted budget amount and staff will not be recommended any adjustments 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 during the presentation.

General Fund Expenditures

During the current fiscal year, the City has had many changes since adopting the budget, the reorganization of the Administrative Services Department being one. Upon approval of these changes, staff provided City Council with fiscal analysis detailing the fiscal impact of each. The City Council also adopted the budget with an estimated attrition savings amount and a budget contingency account. Staff especially considered these items to determine the need to increase General Fund appropriations.

At this time, staff does not believe it will be necessary to recommend an increase of appropriations for the remainder of the fiscal year. However, should the City Council desire a greater budget amount for particular unbudgeted items or budget contingencies, staff should be requested to take those into consideration when approving the mid-year budget adjustments at a future City Council meeting.

Staff is planning to include a reconciliation of the budget contingency amount as part of the presentation at the Study Session meeting.

Self Insurance Fund Expenditures

During the current fiscal year, the City has had more expenditures than originally anticipated in the Self Insurance Fund relating to legal costs for general liability lawsuits. At this time, it does not appear as though the original budget amount will be enough. Therefore, staff will be requesting an additional appropriation from available fund balance for the remainder of the fiscal year.

There will be no increase in revenues requested to offset the expenditure at this time. Staff uses historical averages to calculate an annual charge, mostly to the General Fund, for estimated General Liability and Worker's Compensation payments. While preparing the FY 12-13 budget, staff will consider the current funds available in the Self Insurance and develop a rate that maintains adequate funding for potential future losses or payments.

CONCLUSION:

The FY 11-12 General Fund budget was adopted with \$77,000 surplus. Based on analysis, staff will be recommending some increases in revenues estimates during the presentation. However, staff does not believe it is necessary to increase General Fund appropriations at this time. Staff will also be recommending increases in the Self Insurance Fund appropriations to be made from available fund balance, mostly for unanticipated legal expenses for general liability lawsuits.


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