



# *CITY COUNCIL AGENDA REPORT*

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MEETING DATE: April 3, 2012

ITEM NUMBER: **OB-1**

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

**DATE: MARCH 28, 2012**

**FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING**

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

**FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, FINANCE & I.T. DIRECTOR  
(714) 754-5243**

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## **RECOMMENDED ACTION:**

Approve budget adjustment #12-014 for Fiscal Year 2011-2012 (FY 11-12) Mid-Year Budget adjustments.

## **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. Attachment 1 is a summary of the original adopted budget, budget adjustments approved to date, and recommended mid-year budget adjustments. At the February 28<sup>th</sup> City Council Study Session, staff presented some analysis regarding the current year trends of both revenues and expenditures. The following is some of analysis of the recommended mid-year budget adjustments.

## **ANALYSIS:**

As requested by City Council, staff has included as Attachment #9 possible revenue options common to local government with analysis related to current taxes and fees for the City of Costa Mesa.

## **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 slowly 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, although more slowly than prior recessions. 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. Attachment 2 provides a line item detail of all budgeted revenue accounts and recommended adjustments. Most revenue accounts are analyzed based on historical trends as of December 31 and relative to year end actual amount.

### **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. At mid-year, these accounts are where staff expects them to be and therefore no adjustments are recommended.

Attachment 3 provides expenditures by department and division through December 31, 2011. Each division is separated into 3 categories: Salaries & Benefits, Maintenance & Operations, and Fixed Assets. Through December 31, 2011, the City had incurred 12 of 26 total payroll periods, and therefore should have expended 46% of the salaries and benefits budget. As seen on attachment 3, total salaries and benefits have 54% remaining and therefore are consistent with budget. Also attached is detailed analysis of overtime by department (Attachment 4). Staff has also reviewed all maintenance & operations accounts and with the allocations from the budget contingency account, as seen on attachment 5, no further adjustments will be necessary.

Attachment 6 is a listing of current vacant positions. When the City Council last reviewed the Five-Year Forecast (Attachment 7), the City Council made changes to include accelerated funding to various capital projects. Staff is not planning to bring the City Council changes to the budget that reflect full funding (\$12,222,321) for all of the identified capital needs. If the City Council is expecting staff to develop a plan to allocate some additional funding to capital projects, then staff recommends that City Council direct staff to carefully review the list of vacant positions and recommend the elimination of many positions as part of the FY 2012-13 budget development process.

### **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 is requesting an additional appropriation of \$900,000 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 (charges to the General Fund) that maintains adequate funding for potential future losses or payments.

## **FISCAL REVIEW:**

The recommended budget adjustment would have the net effect of increasing the General Fund surplus to \$183,000. However the recommended adjustment for the Self Insurance Fund would increase appropriations \$900,000 from unallocated fund balance reserve.

## **CONCLUSION:**

The FY 11-12 General Fund budget was adopted with \$77,000 surplus. Based on analysis, staff is recommending increases in revenues estimates in the General Fund. However, staff does not believe it is necessary to increase General Fund appropriations at this time. Staff is also 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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BOBBY YOUNG  
Finance and I.T. Director

- Attachments:
- 1 – [Mid Year Budget Report Summary](#)
  - 2 – [Budget to Actual Analysis – General Fund Revenues](#)
  - 3 – [Budget to Actual Analysis – General Fund Expenditures](#)
  - 4 – [Summary of Budget Contingency Activity](#)
  - 5 – [Budget to Actual Analysis – General Fund Overtime  
by Department](#)
  - 6 – [Listing of Current Vacant Positions](#)
  - 7 – [Five Year Forecast Current and Future Year Initiatives Updated](#)
  - 8 – [Budget Adjustment #12-014](#)
  - 9 – [Summary of Revenue Options](#)