



## Legislation Text

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**File #:** 10-0615, **Version:** 1

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Recommendation to receive and file the Fiscal Year 2010 Second Quarter Budget Performance Report. (Citywide)

This report provides an update on the City's Fiscal Year 2010 (FY 10) budget and operational performance through March 31, 2010. The report covers a broad spectrum of financial information for all funds and departments with multi-year comparisons, charts and graphs to provide a clear picture of the City's financial situation. While the focus of the financial report is the General Fund, exceptional performance (both positive and negative) in other funds is highlighted where applicable.

### Summary

As of March 31, 2010, the City's adjusted expenditure budget for all funds was \$3.1 billion. Year-to-date revenue receipts for all funds were at \$1.2 billion, or 44.0 percent of the \$2.6 billion in projected revenue. While the fiscal year is only half way through its cycle, it is clear that revenue trends, especially in the General Fund, continue to lag significantly below the budgeted levels as well as previous fiscal years. It is also important to note that although the General Fund has collected \$191.1 million or 49.5 percent of its projected revenue, it faces a daunting task, as shrinking revenue streams and a fragile economic environment are expected to support the increased cost of providing services.

### FY 10 General Fund Revenue

Given the receipt of large upfront, one-time installment payments early in the fiscal year, year-to-date General Fund revenue is at \$191.1 million, or approximately 49.5 percent of total budget, with 50 percent of the fiscal year complete. However, as has been reported previously, it is estimated that Property Tax, Sales and Use Tax, Transient Occupancy Tax, Parking Citations, Interest-Pooled Cash and other economically sensitive revenues will come in below budget by approximately \$6 million due to the impact of the current recession. The increase to the Upland Oil transfer to reflect the year-to-date price of oil of \$70/bbl versus the budgeted price of \$40/bbl will offset this decline. However, declines in the price of natural gas have created projected shortfalls in the City's Gas UUT and Gas Pipeline Franchise Fee, which, when combined with the expected shortfalls from oil production and vehicle code fines amongst others, the projected current year shortfall could increase by as much as an additional \$6.0 million. However, revenue opportunities in other areas will help bridge all but \$2.0 million of this shortfall. The remaining \$2.0 million will be addressed through increased expenditure control efforts.

The Department of Financial Management is vigilantly monitoring revenue performance on a weekly basis and modifying forecasts based on evolving economic performance data.

Current and projected revenue performance is based upon a variety of factors, and includes both structural and one-time revenues. It is important to note the risks inherent in projecting revenue, as the City has limited, if any, authority to affect certain revenue streams. The table below highlights performance through March 31, 2010 Q for selected General Fund revenues.

A summary of the top 40 General Fund revenues is included in Attachment A. Exhibit 1 below shows the City's top 10 General Fund revenue sources in FY 10 as a percentage of total year-to-date General Fund revenue.

Exhibit 1 shows the City's top 10 General Fund revenue sources in FY 10 as a percentage of total year-to-date General Fund revenue.

### FY 10 Revenue by Department

As of March 31, 2010 General Fund departments generated \$191.1 million or 49.5 percent of budgeted revenues. Among the top revenue producers were the Financial Management Department with \$11.6 million, Public Works with \$10 million, Fire Department with \$6.7 million, Police Department with \$4.9 million and Parks, Recreation & Marine with \$4 million.

It is important to note that revenue trends and receipts to date are trailing well below their budgeted amounts. The Department of Financial Management is working closely with General Fund departments to try to maximize revenue as much as possible. Attachment B provides a more detailed breakdown of the General Fund revenue performance and variances by department.

### FY 10 General Fund Expenditures

The Adopted General Fund budget for FY 10 was \$384.3 million; however, due to the carryover of prior year encumbrances, the adjusted General Fund budget as of March 31, 2010 became \$387.0 million. The year-to-date General Fund spending reached \$172.8 million or 44.6 percent of the budget with 50 percent of the year completed. As revenue performance continues to lag behind projected levels, it is imperative that Departments attempt to reduce costs as much as possible. As such, City Manager departments have been asked to manage within 99.0 to 99.5 percent of their budgets.

### FY 10 General Fund Expenditures by Department

Although General Fund expenditures are generally on target, the following departments are worth noting:

- The Development SeNices Department is estimating to close \$667,783 over their General Fund adjusted budget allocation. This is largely due to delays with its parking automation program. The program is expected to be fully implemented by the end of the fiscal year. Please note that parking fees were recently increased and should serve to offset the increase in costs for a net neutral effect in the General Fund.
- The Health and Human Services Department is estimating to close at 106.1 percent of their General Fund adjusted budget. This is due to the one-time expense incurred for the purchase of a new pet licensing, dispatching and kennel management program for Animal Services. The increased expenditure is expected to be offset by donated grants and increased revenue from the proactive dog licensing canvassing program.
- The Police Department is at 46 percent of budget. The Department has made a concerted effort to

limit overtime expenses and has currently spent 50 percent or \$4.2 million of its overtime budget. The Department is currently estimating to end the year with \$8.3 million in actual overtime spending, which reflects a 1 percent savings from their budgeted amount.

Exhibit 2 above shows the City's top 10 General Fund year-to-date expenditures by department. When combined, the Top 10 represent \$164.3 million or 95 percent of the General Fund year-to-date expenditures. Both the Police and Fire Departments comprise 49 and 19 percent of the budget respectively, (68 percent combined). Attachment C provides a listing of all departments' year-to-date General Fund expenditure performance.

### FY 10 Expenditure Performance - All Funds

While it is not expected that department or fund expenditures will occur equally throughout the fiscal year, measuring fund performance in quarterly intervals allows for review of the revenue and expenditure trends thus giving policymakers and administrators the ability to make the necessary changes to ensure a balanced budget.

The City's \$2.96 billion all funds adopted budget for FY 10 included \$414.4 million in carryover (multi-year grants and capital projects funds) and prior year encumbrances (goods and services ordered in FY 09 but received in FY 10). Throughout FY 10, the City Council has also approved budget amendments, which combined as of March 31, 2010, bring the Adjusted Budget to \$3.1 billion. Please see Attachment D for a breakdown of Citywide expenditures by fund.

With 50 percent of the year complete, expenditure performance in all funds is at approximately 35.5 percent year-to-date. This includes the General Fund performing at 44.6 percent, Development SeNices Fund at 42.4 percent and the Special Advertising & Promotion Fund at 47.5 percent. It is important to note that although the Tidelands Oil Revenue Fund is performing at 151.6 percent, a second quarter budget adjustment has been processed to reflect actual fund expenditures.

### Other Fund Highlights

#### Development SeNices Fund

The Development SeNices Fund continues to face challenges in generating sufficient revenue to match expenditures. However, due to midyear budget reductions, the Fund is now projected to conclude FY 10 within balance.

The Development SeNices Department plans to take a series of structural changes that will allow the Fund to eliminate the estimated \$2 million structural deficit that has challenged the Fund for the last couple of years due to the real estate development crisis.

### Proposition H

Proposition H funding is currently yielding about 27 cents per barrel of oil produced. Although the tax per barrel has slightly increased since the approval of Proposition H in 2007 due to an annual CPI adjustment, actual oil production has declined. During the first quarter of FY 10 alone,

oil production dropped to 3,258,260 barrels, the lowest in the last five years. In the second quarter of FY 10, oil production was at 3,215,619 barrels, a 1.48 percent decline from the previous quarter.

The City Manager and the Financial Management Department are currently working with both the Police and Fire Departments to address the projected revenue shortfall to end the current fiscal year with a balanced fund.

#### Conclusion

Federal, State and local governments are still suffering from the lasting impacts of the recession. As the current fiscal year progresses, we must not lose sight of the fact that this is a fragile and long economic recovery. The uncertainty and volatility of the national and international markets, coupled with continuing declines in the City's economically sensitive revenue streams, can easily undermine the City's balanced budget.

As the year progresses and we enter FY 11, it is important to note that current and future financial resources are limited. As such, we must continue to exercise considerable fiscal restraint. To assist in these efforts, and to help ensure a balanced budget in the current fiscal year, the City Manager and Department of Financial Management will be working closely with departments to try to reduce spending whenever possible.

#### [Timing Considerations]

There is no fiscal impact associated with the recommended action.

Approve recommendation.

LORI ANN FARRELL  
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:

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PATRICK H. WEST  
CITY MANAGER