



Legislation Details (With Text)

File #: 05-3505 **Version:** 1 **Name:** FM - Refer FY 2005 Year-End Budget Perf. Report to Budget Oversight Committee

Type: Agenda Item **Status:** Approved

File created: 12/7/2005 **In control:** Budget Oversight Committee

On agenda: 12/20/2005 **Final action:** 12/20/2005

Title: Recommendation to refer the Fiscal Year 2005 Year-End Budget Performance Report to the Budget Oversight Committee. (Citywide)

Sponsors: Financial Management

Indexes: Report

Code sections:

Attachments: 1. R-47 sr, 2. R-47 att, 3. UB-21sr, 4. UB-21att

Date	Ver.	Action By	Action	Result
12/20/2005	1	City Council	approve recommendation and refer	Pass
12/13/2005	1	City Council	laid over	

Recommendation to refer the Fiscal Year 2005 Year-End Budget Performance Report to the Budget Oversight Committee. (Citywide)

This report provides a summary update on the City's Fiscal Year 2005 (FY 05) budget performance through September 2005, the FY 05 fiscal year-end. The information provided is unaudited since audited financial statements for FY 05 will not be available until March 2005, due to the City's complex accounting activities.

The report covers a broad spectrum of financial information for all funds and departments with multi-year comparisons, charts and graphs to provide a clearer picture of the City's financial situation. While the focus of this report is on the General Fund, significant issues in other funds are noted accordingly.

Summary

On September 7, 2004, the City Council adopted an annual expenditure budget for FY 05 that totaled \$2.17 billion for the City's 22 departments. Of the total amount, a \$375 million General Fund budget was adopted, and later amended to \$385.4 million throughout the fiscal year, to provide core municipal services such as public safety, public works, recreation and library services.

As of fiscal year-end, actual expenditures for all departments and all funds are \$1.86 billion. Revenues for all departments and all funds are \$2.15 billion. For the General Fund, actual expenditures for all departments are \$381.3 million, or \$4.1 million less than the Adjusted Budget of \$385.4 million and \$750,000 less than the estimates-to-close of \$382 million. Actual General Fund revenues for all Departments are \$373.1 million, or \$2.8 million more than the estimate-to-close of \$370.3 million. The difference between budgeted revenue and expense reflects the use of fund balance, transfers and bond proceeds.

FY 05 is the second year of the Financial Strategic Plan (Plan). As such, over \$72 million in structural budget solutions have been included in the General Fund and related fund budgets over the past two fiscal years. This includes \$41 million in structural deficit reductions in FY 04 and \$31 million in FY 05. These solutions, which have included the reduction of programs, services and positions, as well as increased revenue and cost recovery, have placed a significant strain on the organization as it downsizes and becomes more efficient.

While these solutions were reflected in the budget, several key measures were not realized

in FY 05, including \$3 million in compensation solutions, which were dependent on labor negotiations. Furthermore, while resources required to provide public safety, maintenance, library, recreation and other general government services have been reduced significantly, demand for services continues to grow.

As of fiscal year-end, \$373.1 million of General Fund revenue was received. This is \$6.2 million (or 1.7 percent) more than last year's total, due to performance noted below as well as the inclusion of FY 05 Plan revenue solutions. Revenues finished the year \$2.8 million (or 0.8 percent) over estimates to close, which contributed to the efforts to balance the FY 06 budget. Year-end revenues are also \$9.2 million (or 2.5 percent) higher than the adjusted budget, due mainly to increases in Sales and Use Tax, Business License Tax and Pipeline Franchise revenue. Decreases in Secured Property Tax and Utility Users Tax revenue are offset by increases in the Property In-Lieu of Vehicle License Fees received from the State.

The table below highlights FY 05 year-end performance for selected General Fund revenues:

TABLE

Revenue Source	FY 05 Revenue	% of Adjusted Budget	Notes
Secured Property Tax	\$54,306,274	95.6%	Secured Property Tax finished the year \$2.3 million under budget, as anticipated in earlier financial reports. Aggressive projections coupled with exemptions and delinquencies are the major factors causing performance to be lower than expected.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$23,804,290	100.2%	VLF (regular & In-Lieu) came in \$2 million higher than budget. Motor Vehicle In-Lieu tax is collected and distributed by the State on a per capita basis based on total vehicle registration receipts. Low interest financing programs are likely responsible for increased vehicle sales/registrations.
Sales and Use Tax (net of sharing agreements and adjusted for the Triple Flip)	\$45,734,064	113.2%	The Sales and Use Tax payments were reduced by 25 percent for the State Triple Flip. This is offset by the bi-annual Property Tax In-Lieu of Sales Tax payment from the State. Sales Tax was up \$3.5 million from budget on the strength of Edison Material Supply, Pike restaurants, building and lumber sales, and overall sales in the City. Triple Flip In-Lieu Sales Tax was up \$1.8 million. About \$1 million is due to overpayment by the State in the Triple Flip. This will be taken back by the State in FY 06.
Utility Users Tax	\$39,295,788	97.0%	Collections finished below budgeted levels due largely to mild weather conditions, in addition to the first full year of cell phone companies correction to their collection methodologies which were challenging to predict given limited information.
Business License Tax	\$9,640,603	103.1%	Collections are above budget due to an increased number of licenses, enhanced collection procedures and a CPI increase in the rate.
Transient Occupancy Tax	\$7,793,905	107.8%	Revenue from estimated Transient Occupancy Tax came in \$564,000 over budget in FY 05 due to higher average room prices and occupancy rates.
Pipeline Franchise	\$7,770,758	105.1%	Year end actuals are \$445,000 above budget.

Attachment A includes details on the Top 40 General Fund revenues, which combined represent about 90 percent of total revenue. Attachment B provides year-to-year analysis on the Top 15 revenue sources, which represent over 62 percent of General Fund revenue.

General Fund revenue at the department level is up 1.7 percent compared to prior year's actual revenues through fiscal year-end. Attachment C provides a summary of General Fund revenue performance by department. General Fund revenue by department is impacted by the variances mentioned in the previous section. Many of the departmental variances are captured in the footnotes

of this attachment to reflect the continuing impact of prior periods on year-end performance.

Expenditures in all funds are at 78.9 percent of budget, due to All Years Funds Carry-over and Capital Improvement Funds that often require several years to spend. Expenditures for funds without All Years Carry-over finished at 94.3 percent. Attachment D illustrates current expenditure levels for all funds. As of the fiscal year-end, General Fund expenditures are at \$381.3 million (or 98.9 percent of budget).

Given remaining deficit reduction targets in the Plan for FY 05 and FY 06, it was imperative that maximum savings be generated during the current fiscal year to address current year targets, and to generate resources to balance the FY 06 budget. Given the extent of reductions made to department budgets during FY 04 and FY 05, generating substantial savings was extremely difficult, especially with the continued expectations for full service delivery to the community. In February, the City Manager reinstated a strict hiring freeze and purchasing curtailment policies with the intent to generate savings to help address the City's ongoing budget challenges. As a result, General Fund Personal Services expenditures as of the end of the year are \$282.7 million (or 98.2 percent of the budget).

While the hiring freeze has created vacancies and related savings, Personal Services expenditures reflect increased overtime expenses in most departments utilized to maintain service levels to the greatest extent possible with decreased staff.

Total General Fund spending closed the year on budget, with most departments spending between 82 to 99 percent of their budget. Please see Attachment E for a listing of all departments' expenditure performance through fiscal year-end 2005, with any prior-period significant exceptions noted in the footnotes.

General Fund spending at the department level is, as anticipated, up 3.0 percent compared to prior year's actual expenditures through fiscal year-end. Attachment F includes an FY 04 to FY 05 comparison of expenditure performance by department. On a comparative level, FY 05 expenditures have increased over FY 04 due to:

Reinstated pension (PERS) contributions that range from 15 to 25 percent of personnel costs for miscellaneous and sworn employees respectively, plus increased health insurance costs.

The record-setting storm season resulted in a significant increase in tree removals, traffic support, beach maintenance, street repairs and public safety services, thereby causing unanticipated overtime and other expenses. The City has submitted reimbursement requests to the Federal Emergency Management Agency (FEMA) for those expenses.

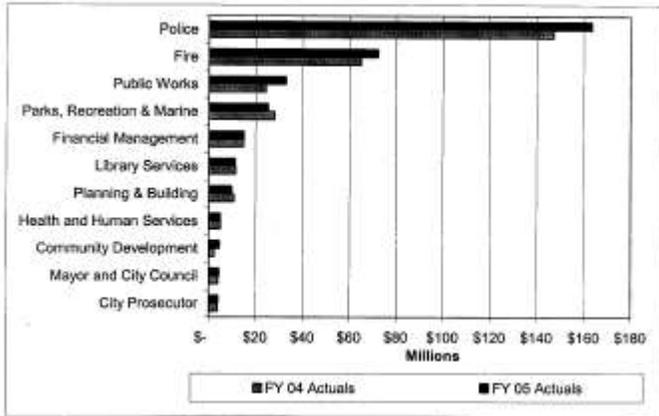
For more information, please refer to Federal Storm Damage Reimbursement section on page 6 of this report.

Increased Police overtime due to increased use of task forces to respond to crime, including Operation Safe Passage, which ran from February to the end of the school year in mid-June. Task Force usage increased markedly starting in July 2004 with a focus on the Blue Line (meet & greets), Hellman Avenue, prostitution, burglary, auto theft, narcotics and other quality of life issues.

The following chart compares FY 05 to FY 04 Actuals for the Largest 10 General Fund Departments.

TABLE

Expenditure Comparison FY 04 Actuals - FY 05 Actuals (Top 10 Departments by Total Expenditures)



As stated earlier, the City Manager reinstated a strict hiring freeze to ensure that critical salary savings would be carried over into FY 06. The hiring freeze does not apply to sworn or dispatch personnel, and critical service delivery and revenue generating positions also continue to be filled. As of September 2005, the following vacancies exist:

For City Manager-directed departments, General Fund vacancies total 164, with another 20 vacancies in Non-City Manager departments.

Of the 184 Citywide vacancies in the General Fund, there are 21 sworn and dispatcher vacancies (resulting from attrition), and 163 civilian vacancies.

General and Related fund vacancies total 262 citywide, and vacancies in all funds total 517 citywide.

With the adoption of the FY 06 budget, a total of 401 positions have been eliminated in the General and related funds over the past three fiscal years.

Tidelands Fund

The adopted budget for FY 05 reflected a draw down on fund balance by approximately \$5.9 million. Roughly \$1 million of this draw down was budgeted for capital projects, primarily in the City's marinas, and the remaining \$4.9 million reflected the estimated structural operating deficit in the Tidelands funds. The projected budgeted ending fund balance at the beginning of the year in the Tidelands funds was approximately \$2 million. Fortunately, oil revenues significantly exceeded budget in FY 05, which enabled the Tidelands funds to close the fiscal year with a fund balance of \$4.6 million. In addition, it is anticipated that oil revenues will remain strong in FY 06, which will offset increased costs of fuel and other operating expenses, cover the structural operating deficit and provide funds for much needed, long deferred capital projects.

It should be noted that staff is not counting on inflated oil revenues for the long-term, and is developing operating strategies to deal with the structural operating deficit.

SERRF Fund

In FY 06 the Southeast Resource Recovery Facility will transfer \$1.2 million to the General Fund. This represents net facility revenues from FY 05. In accordance with the 20-year financial projections, there will be no anticipated transfers to the General Fund beyond FY 06. This loss of revenue will add to the remaining structural deficit, and will be addressed through the FY 07 budget.

Fire Department's Basic Life Support

In September 2005, the City assumed a larger role in the provision of Emergency Medical Services (EMS) by implementing a pilot Basic Life Support (BLS) ambulance transportation program in accordance with the Fire Services Optimization study. The integration of BLS and Advanced Life Support (ALS) transport is expected to improve customer service by speed of response, level of care and reliability, as well as increase collections for these services. The Fire Department will report on the program status in mid-FY 06.

Oil Revenue

Oil prices held their ground during the last quarter, despite devastating hurricanes that struck the US Gulf Coast, with Wilmington Crude averaging \$42.39/bbl for the fiscal year through September. Higher expenses associated with increased drilling activity partially offset the short-term profitability of the oil operation. The Department of Oil Properties transferred an additional \$1.9 million to the Tidelands Fund and \$2 million to the General Fund than budgeted during FY 05. This additional revenue was used in large part to offset the price of fuel and other related operating expenses. A third drilling rig and the construction of an amine plant, to handle high CO₂ concentrations in natural gas produced as a byproduct of drilling, are anticipated in FY 06 and will further increase field expenses. Despite these excess revenues from the oil price spike, it is important to note that these are one-time resources, which should not be used to support long-term, recurring expenses.

Federal Storm Damage Reimbursement

A report of \$842,000 in damage reimbursement requests was submitted to the Federal Emergency Management Agency (FEMA) for the City's response to the January 2005 storms. Of this amount, approximately \$446,000 is for the General Fund. FEMA has approved \$426,000 of this amount and the City has received \$56,000 to date. A second report of \$712,000 in damage reimbursement requests was submitted to FEMA for the February 2005 storms. Of this amount, approximately \$391,000 is for the General Fund.

FEMA has approved \$374,000 of this amount, but the City has not received any payments to date. These anticipated reimbursements were incorporated into the FY 06 Adopted Budget.

Optimization Studies

The City continues to review operational opportunities to become more efficient and effective as an organization, generating key savings to achieve the savings goals of the Financial Strategic Plan and, where possible, make improvements to the services we provide to our customers. Key optimization studies completed with recommendations being implemented include: Fire Services, Workers Compensation and Code Enforcement. The following is a summary of some of the current optimization efforts underway throughout the organization:

.Information TechnoloQV - City staff is determining whether opportunities exist to reduce costs and improve effectiveness in the management and delivery of information technology services for the

City. An outside industry expert is working with City staff to evaluate and make best practices recommendations in a number of areas including: Organization and Management, Service Delivery Approaches, IT Governance, and the management of the Integrated Information System. Study is expected to be completed by February.

. Towing and Lien Sales - City staff is evaluating the City's Towing and Lien Sales operations to identify efficiencies to decrease costs and/or enhance revenue collection. Employee workgroups have worked to identify cost saving, revenue enhancement and service improvement approaches. These employee workgroup meetings began in early 2005 and have resulted in a comprehensive report of recommendations that will soon be presented to the City Manager.

. Reprographics - City staff worked to identify opportunities to improve the efficiency, effectiveness and quality of service. Two workgroups comprising Reprographic employees and City customers met to analyze and validate recommendations and develop final recommendations, which are now under review. The study has identified significant opportunities for cost-savings through the consolidation and standardization of document output machines such as copy machines, printers and fax machines. Services will be improved through a greater focus on customer service, automation, and the strategic use of outsourcing.

. Ambulance Billing - With employee workgroup participation, an outside industry expert was hired to examine the City's billing operations, system effectiveness, staffing, and employee recommendations. The study is under final review.

. Health Insurance - The purpose of the study is to facilitate an independent comprehensive and objective review of the City's Health Insurance program with the goal of generating savings, while still providing quality health insurance options to City employees and retirees. The project will address organizational issues, program benefits and innovative approaches to providing health insurance. The goal of this study will be to identify opportunities for cost savings, while providing employees with the quality benefits they are accustomed to. Innovative approaches such as Health and Wellness Plans and Dietitian and Nutritionist programs will also be evaluated.

In addition to these efforts, Mail/Messenger, Fleet Parts Room, Parking Management, Custodial Services and Communications Operations are or will soon be under review.

City Council action on this matter is not time critical.

There is no fiscal impact associated with the recommended action.

Approve recommendation.

MICHAEL KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT