

To: James L. App, City Manager

From: Mike Compton, Director of Administrative Services

Subject: Preliminary Fiscal Year 2005 General Fund Results and Fiscal Year 2006 Budget Adjustments

DATE: September 20, 2005

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Needs:

Presentation of preliminary General Fund results for the fiscal year ended June 30, 2005 and budget adjustments for fiscal year 2006.

Facts:

1. The 2005 General Fund budget, adopted by the Council on May 4, 2004, called for the City to use \$976,000 savings (reserves) to balance the operating budget due to anticipated State revenue takeaways.
2. Additionally, on October 5, 2004, the Council approved General Fund carry-over requests in the amount of \$747,700.
3. And, the Council approved new General Fund appropriations during fiscal year 2005 totaling \$650,400.
4. Consequently, the City's budgeted/planned/approved use of savings was \$2,741,000 (Facts 1, 2 & 3).
5. In addition to planned expenditures, the City incurred \$1.6 million for quake related repairs for which there were no budget appropriations. Of this amount, the City was reimbursed \$657,300 in FY 2005 from FEMA and State Disaster reimbursements.
6. Due to continued growth in City revenues, prudent management, elimination of State takeaways and partial receipt of disaster reimbursements, actual revenue exceeded projections resulting in positive year end results estimated between \$500,000 and \$800,000.

Analysis  
and  
Conclusion:

While the results reported herein are preliminary, it is not expected that significant changes will occur with completion of the Comprehensive Annual Financial Report.

➤ General Fund Revenues

The adopted budget estimated revenues at \$17,442,700. Total General Fund revenue collections were \$22,324,800 exceeding estimates by \$4,882,100.

Revenue results are summarized as follows:

	Original Budget <u>Estimate</u>	<u>ACTUAL</u>	<u>Variance</u>	Last Year <u>Actual</u>
Property Taxes	\$ 3,655,500	\$ 4,076,025	\$ 420,525	\$ 2,520,254
Other Taxes	9,964,500	11,133,047	1,168,547	6,863,592
Licenses & Permits	860,000	1,505,948	645,948	1,022,627
Fines & Forfeitures	293,500	271,611	(21,889)	170,857
Use of Money & Proper	418,500	440,649	22,149	1,836,708
From Other Agencies	803,200	2,746,043	1,942,843	1,895,427
Current Services	1,347,500	2,092,111	744,611	1,107,498
Miscellaneous	<u>100,000</u>	<u>59,385</u>	<u>(40,615)</u>	<u>596,561</u>
 TOTAL	 <u>\$17,442,700</u>	 <u>\$22,324,819</u>	 <u>\$ 4,882,119</u>	 <u>\$16,013,524</u>

The category “other taxes” above reflects the ERAF backfill for the sales tax reduction. The amount of the ERAF backfill was \$1,469,300.

In the case of “licenses & permits”, the large positive variance is due to building permit fee collections.

In the case of “revenue from other agencies”, the variance is mostly due to the receipt of \$657,300 in unbudgeted revenue reimbursements from FEMA and State OES and the restoration of over \$1 million in motor vehicle license fee revenues. The motor vehicle license fee backfill was reported as “revenue from other agencies” but in future years it will be reported as in lieu property taxes.

Lastly, for the category “current services” the positive variance is directly related to development processing revenues.

Revenue transfers “IN” were budgeted at \$572,200 and are projected to be \$553,700 which is generally made up of gas tax operating funds for street purposes and a one time transfer of surplus funds from the City’s liability deposit with the Central Coast Cities Self Insurance Fund when it was dissolved.

➤ Expenditures

The adopted General Fund budget totaled \$18,842,300. With carry-over and other appropriations approved during the year, final year end budget was \$20,675,000. Actual expenditures were \$1,292,300 more than revised budget due mainly to San Simeon Quake related expenditures

Budgeted expenditures for debt service were \$213,700 but were augmented by an additional appropriation for the acquisition of a heavy rescue vehicle for a total revised budget of \$268,000. Actual expenditures were \$310,665. The overage is due to the unanticipated purchase of the two street sweepers that were financed.

Budgeted expenditures for capital outlay were \$0 but were augmented by \$387,900 in additional "carry-over" appropriations. Actual expended was \$1,635,006 which included \$1,570,781 in San Simeon Quake expenditures that were not budgeted.

Maintenance & operational expenditures totaled \$6,889,005 at year-end as compared to the revised budget amount of \$6,397,000 representing an over expenditure of \$492,000. Wage & benefit savings offset this overage. This is becoming a reoccurring result and is indicative of the ongoing cost pressures of inflation and service demands on City operations.

With regard to wages & benefits, the budget allocated \$13,622,100. Actual expenditures were \$13,132,621 representing a savings of \$489,500.

Expenditure results are summarized as follows:

	<u>Original Budget</u>	<u>Year End Budget</u>	<u>ACTUAL</u>	<u>Savings (Overspent)</u>
Wages & Benefits	\$13,539,600	\$13,622,100	\$13,132,621	\$ 489,479
Maint. & Operations	5,089,000	6,397,000	6,889,005	(492,005)
Debt Service	213,700	268,000	310,665	(42,665)
Capital Outlay	<u>-</u>	<u>387,900</u>	<u>1,635,006</u>	<u>(1,247,106)</u>
 TOTAL	 <u>\$18,842,300</u>	 <u>\$20,675,000</u>	 <u>\$21,967,297</u>	 <u>\$ (1,292,297)</u>

Lastly, net operating transfers "In/(Out)" were budgeted at \$163,700. The estimated net is \$259,000.

When you put it all together, the result was that the budgeted deficit of \$2,741,000, turned around to a positive year end surplus of \$596,500. This increase to general fund reserves is summarized as follows:

Salaries & Benefits	\$ ( 13 , 132 , 621 )
Operations & Maintenance	( 6 , 889 , 005 )
Capital Outlay	( 1 , 635 , 006 )

Debt Service	( 310 , 665 )
Transfers OUT	<u>315 , 031 )</u>
Total Fund Balance Reductions	<u>( 22 , 282 , 328 )</u>
Revenues	22 , 324 , 819
Transfers IN	<u>553 , 985</u>
Total Fund Balance Increases	<u>22 , 878 , 804</u>
Increase(decrease) Fund Balance	<u>\$ 596 , 476</u>

➤ Fiscal Year 2006 Budget Adjustment

While preparing the newly adopted budget for publication, staff discovered an error in the cost allocation formula. Unfortunately, the error was unfavorable and results in General Fund being misstated by \$357,000 to \$678,000.

Given current economics, fiscal environment and the limited scope of this discrepancy, it would likely be a “non-event” as the normal course of management actions and operations would compensate (as has been the case since 1998). However, absent a calculation adjustment, the City would publish a budget projecting deficits over the four year financial plan. Therefore, a few minor budget adjustments are suggested to rebalance the projections:

1. Allocate \$500,000 of the fiscal year 2005 surplus to the City’s General Reserve & Contingency Fund; and
2. Adjust the property tax revenue estimate for fiscal year 2006 *only* by 7%, increase from 8% to 15% (to reflect actual reported increase in assessed values\*); and
3. Reduce the current budget allocation from General Fund to the General Reserve & Contingency Fund from \$250,000 to \$150,000 in fiscal year 2009; and
4. Draw a portion of the funds for the City Facility Repair Fund from the General Reserve & Contingency Fund.

\* The City has been notified by the San Luis Obispo Auditor-Controller’s Office that the City’s assessed valuation for fiscal year 2006 has increased by 17% over last year. Given this fact, increasing the City’s property tax revenue estimate by an additional 7% would be appropriate.

The current budget provides for a \$300,000 General Fund contribution to the City’s Facility Repair Fund annually over the next four years. By allocating a portion of fiscal year 2005 positive results to the City’s General Reserve & Contingency Fund, a portion of the General Fund contribution can be replaced with funds from the General Reserve & Contingency Fund. It is proposed that the amount of the substitution be \$100,000 in the current year and \$200,000 in year of the next three years.

Lastly, it is recommended that the Council authorize the purchase of cost allocation software to replace the manual method utilized at this time. A formal request will be presented to Council as a subsequent meeting.

Fiscal  
Impact:

The proposed allocation of the General Fund year end results has already been approved by Council going forward starting with fiscal year 2006. This request simply accelerates the practice by one year.

Using the General Emergency & Contingency Fund to partially fund the annual contribution to the City Repair Fund is a good financial reporting practice as it relieves the General Fund from reporting these contributions as reductions to "operating results". While the transaction may appear confusing, simply stated, rather than making a contribution from the General Fund directly to the City Repair Fund, the General Fund is making the contribution to the General Emergency & Contingency Fund (out of positive year end results) which in turn makes the same contribution to the City Repair Fund. The net result is unchanged but it changes the reporting treatment in both the published budget and subsequent comprehensive annual financial report.

Options:

- a. Adopt Resolution No. 05-xx authorizing the transfer of General Fund fiscal year 2005 results and adjusting the fiscal year 2006 budget; or
- b. Amend, modify, or reject the above option.

RESOLUTION NO. 05-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES  
AUTHORIZING THE TRANSFER OF GENERAL FUND FISCAL YEAR 2005  
RESULTS AND ADJUSTING THE FISCAL YEAR 2006 BUDGET

WHEREAS, it is projected that the City's General Fund operating results will be in the range of \$500,000 to \$800,000; and

WHEREAS, the Council recently authorized the practice of allocating a portion of surplus General Fund year end results to the City's General Emergency & Contingency Fund; and

WHEREAS, applying this practice to fiscal year 2005 results would be consistent with this newly adopted policy; and

WHEREAS, according to the San Luis Obispo County Auditor-Controller's Office, property tax revenues will exceed original budget projections by nine percent (9%); and

WHEREAS, corrective action must be taken to correct a budget reporting error due to a cost allocation plan miscalculation.

NOW, THEREFORE, BE IT HEREBY RESOLVED by the City Council of the City of Paso Robles that:

1. The Five Hundred Thousand Dollars (\$500,000) of the projected General Fund results is to be transferred, retroactively back to June 30, 2005, to the City's General Emergency & Contingency Fund; and
2. General Fund property tax revenue estimates for fiscal year 2006 shall be adjusted by 15% rather than the 8% originally approved; and
3. A portion of the General Fund contribution to the City Repair Fund shall be substituted with allocations from the General Emergency & Contingency Fund as follows:

FY 2006	\$100,000
FY 2007	\$200,000
FY 2008	\$200,000
FY 2009	\$200,000

4. The General Fund contribution to the General Emergency & Contingency Fund shall be reduced in fiscal year 2009 from \$250,000 to \$150,000.

ADOPTED by the City Council of the City of El Paso de Robles at a regular meeting of said Council held on the 20<sup>th</sup> day of September 2005 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

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Frank R. Mecham, Mayor

ATTEST:

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Sharilyn M. Ryan, Deputy City Clerk