

DATE ISSUED: June 2, 2005

REPORT NO. 05-134

ATTENTION: Honorable Mayor and City Council
Docket of June 7, 2005 and June 13, 2005

SUBJECT: Fiscal Year 2005 Year-End Budget Adjustments

SUMMARY

Issues:

1. Should the City Council accept the Fiscal Year 2005 Year-End Budget Adjustments Report?
2. Should the City Council authorize the City Auditor and Comptroller to:
 - a. Amend the Fiscal Year 2005 Appropriation Ordinance to increase General Fund appropriations up to the amount of \$1,229,877 from revenues received in excess of estimates, and increase Non-General Fund appropriations up to the amount of \$672,638 from fund balance or reserves for the Risk Management Administration Fund deficit. The net amount necessary to cover the Risk Management Administration Fund costs are \$1,902,515.
 - b. Amend the Fiscal Year 2005 Appropriation Ordinance to increase General Fund appropriations up to the amount of \$16,572,000 as identified on pages 4 and 5 of this report, from revenues received in excess of estimates and fund transfers;
 - c. Transfer General Fund monies between departments to offset projected department deficits and to the Allocated Reserve to fund projects that will not be completed in the current fiscal year;
 - d. Authorize the carryover of contractual service appropriations in Street Division to facilitate street and sidewalk repair;
 - e. Waive fees from the Buick Invitational 2002;
 - f. Carryover Council Districts 1 through 8 available budget balances in the amount of \$696,556 to the Infrastructure Improvement Fund (10529);

- g. Authorize adjustment of the Fiscal Year 2006 allocation to Community Parking Districts within the Citywide Program Expenditures budget;
- h. Cover grant-ineligible overhead costs for grant-funded capital improvement projects utilizing capital outlay;
- i. Appropriate, transfer and carryover within the General Fund, certain sums between departments and programs, and between various other funds, as specified and set forth in this report; and
- j. Amend the Annual Fiscal Year 2005 Budget to increase appropriation of contributing funds from appropriate available sources, and make any additional appropriation adjustments and fund transfers that may be necessary to reconcile revenues to expenditures not to exceed \$100,000 above and beyond the aforementioned increases.

Manager's Recommendations:

- 1. Accept the Fiscal Year 2005 Year-End Budget Adjustments Report.
- 2. Authorize the City Auditor and Comptroller to complete the financial transactions listed in this report.

Other Recommendations: None

Fiscal Impact: General Fund appropriations will be increased by \$17,801,877 within specific departments, utilizing revenues received in excess of estimates and fund transfers. Transfers from current year General Fund appropriations of approximately \$225,000 will be carried forward to Fiscal Year 2006.

BACKGROUND

General Fund major and departmental revenues have, as an aggregate, outperformed projections, enabling coverage of unanticipated costs with revenues received in excess of budgeted amounts. While the General Fund is in balance overall, there are some financial transactions that need to occur for the General Fund and other City funds to be wholly reconciled. Many of these necessary reconciliation transactions are of a nature or dollar amount that they could be achieved administratively; others require Mayor and City Council approval.

The General Fund budget for Fiscal Year 2005 is \$817,432,989. This budget, which was based on projected General Fund revenue, included reductions totaling \$23.3 million across many operating departments, the combinative result of State actions that withheld \$19.8 million in revenues, and required expenditure increases for obligations such as energy, negotiated salary adjustments, retirement and retiree health care contributions, and other non-discretionary expenditures.

Fortunately, in Fiscal Year 2005, the City experienced revenues in excess of estimates in

several categories, as well as current and prior year savings, to assist in increasing the appropriation for the General Fund departments that have gone overbudget, listed in section B. of this report. The following chart shows the breakdown of these mitigation sources.

Fiscal Year 2005 Mitigations	
Amount	Source
\$ 3.0 million	Property Tax
\$ 3.0 million	Franchise Fees
\$ 4.0 million	Services, Transfers
\$ 4.0 million	Revenue from other agencies (FEMA \$ 2 million)
\$ 1.0 million	Prior Year Savings
\$ 5.0 million	Current Year department savings
\$ 8.0 million	Tobacco (MSA Payment)
\$ (9.9) million	Carryover
\$ 18.1 million	Total Revenue in Excess of Estimates

Increasing the General Fund appropriation by \$17.8 million, with available mitigations of \$18.1 million, leaves approximately \$300,000 in projected excess revenue, which may or may not be needed for additional unforeseen department expenditures by the end of Fiscal Year 2005.

Throughout the fiscal year, numerous unanticipated expenditure requirements have emerged, including but not limited to retiree health care expenses and audit, legal counsel and consultant costs associated with the ongoing audit of the Fiscal Year 2003 CAFR and the financial investigations being conducted by the SEC and US Attorney’s Office, the funding for which was approved by previous City Council actions. Additional overbudget expenses, such as Police and Fire-Rescue operating expenses, and other items contained herein, need to be addressed and reconciled.

The primary purpose of this report, commonly referred to as the “Fourth Quarter Adjustment,” is to request the Mayor and City Council provide authorization to the City Auditor and Comptroller to balance each department and fund as necessary. In addition, this report seeks the authorization to continue certain Fiscal Year 2005 budget appropriations into Fiscal Year 2006 for specific projects that could not be completed during Fiscal Year 2005.

Finally, this report is requesting authorization to reconcile outstanding fiscal issues from previous fiscal years. As described below, the practices that created these fiscal issues have been discontinued.

DISCUSSION

Fourth Quarter Adjustments

A. Risk Management Administration Fund

- The Risk Management Department is funded by customer departments through a bi-weekly, per-employee charge. Due to recent work force reductions and an ongoing hiring freeze, the reduced staffing levels have resulted in under-collection of revenue required to fund Risk Management Administration, which is operating within its budgeted appropriation. The estimated revenue shortfall is approximately \$1.9 million.

The rate charged per employee will be adjusted for Fiscal Year 2006 to mitigate this revenue shortfall; this does not, however, preclude the possibility of an adjustment in Fiscal Year 2006 due to the unpredictability of City staffing levels, although it should reduce the magnitude of any such shortfall.

The following table shows the impacts by fund.

Risk Management Administration Fund Impacts		
Fiscal Year 2005		
Fund		Amount
General Fund		\$1,229,877
Airport		\$2,937
City Employees Retirement System		\$9,390
Development Services		\$91,515
E&CP Field Engineering Wastewater Facilities Fund		\$35,193
E&CP Underground Utilities District		\$1,606
Emergency Medical Services/MTS Fund		\$15,030
Environmental Services - Energy Conservation Program		\$1,138
Environmental Services - Recycling		\$21,742
Environmental Services - Refuse Disposal		\$32,975
Equipment Division		\$29,081
Facilities Financing		\$2,495
General Services - Central Stores		\$5,283
General Services - Publishing Services		\$5,250
General Services - Street Division Operating		\$52,778
Golf Course		\$13,401
Info Tech & Communications		\$14,543
Junior Lifeguard Program		\$1,383
Qualcomm Stadium		\$10,881
Risk Management		\$13,987
Sewer		\$159,793
Special Districts		\$5,523
Special Training Fund		\$1,349
Transient Occupancy Tax		\$1,377
Water Utility Operating		\$143,988
Total		\$1,902,515

B. Increase of Departmental Allotments (General Fund)

- *Council District 1 – approximately \$2,000*

Increase the General Fund appropriation by \$2,000 for stipend given to Councilmember Peters from SANDAG to then be transferred into the Council District 1 Infrastructure Improvement Fund (10529).

- *Environmental Services/Refuse Collection – approximately \$1,200,000*
Increase the General Fund appropriation by approximately \$1,200,000 or as necessary for Environmental Services/Refuse Collection. Despite a savings of \$671,268 as a result of the citywide Rerouting Project, the department continues to experience overexpenditures related to underfunded disposal tipping fees, vehicle usage and assignment fees, and overtime. General Fund revenues in excess of estimates will be used to mitigate this requirement.
- *General Services and Facilities Division - \$27,000*
Increase the General Fund appropriation by \$27,000 for the North Clairemont Library HVAC system. The North Clairemont Library main heating and air conditioning units have been turned off. The underground duct work for the main system was condemned due to water in the underground ducting. There have been valid concerns with indoor air quality issues due to the condition of the ducting. This facility currently has no heating or cooling systems.
- *Governmental Relations – approximately \$48,000*
Increase the General Fund appropriation by approximately \$48,000 or as necessary for the overexpenditure of salaries and fringe benefits in the Governmental Relations Department due to the placement of the Binational Affairs Program within this department in Fiscal Year 2005. The Binational Affairs Program is unfunded and all expenses are overbudget. General Fund revenues in excess of estimates will be used to mitigate this requirement.
- *Office of Homeland Security – approximately \$255,000*
Increase the General Fund appropriation by approximately \$255,000 or as necessary for work performed by the Department on the 2005 Winter Storms that was not eligible for grant funding. General Fund revenues in excess of estimates will be used to mitigate this requirement.
- *Police – approximately \$10,300,000*
Increase the General Fund appropriation by approximately \$10,300,000 or as necessary for overbudget operation services and expenses including overtime, data processing, and other supplies and services. The \$10,300,000 will be mitigated by General Fund revenues in excess of estimates and other departmental savings.
- *San Diego Fire - Rescue Department (SDFD) – approximately \$4,500,000*
Increase the General Fund appropriation by \$4,500,000 for operation services including personnel-related costs due to terminal annual leave payouts, special

pay and overtime in addition to training costs. Of this amount, \$2,000,000 will be mitigated by Federal Emergency Management Agency reimbursement, and the remaining \$2,500,000 will be mitigated by General Fund revenues in excess of estimates.

- *Small Business Enhancement Program - \$240,000*
A transfer of \$240,000 from the Insurance Program to the Small Business Enhancement Program within Citywide Program Expenditures is required to reconcile the projected Fiscal Year 2005 business tax certificate receipts with the Fiscal Year 2005 appropriation for the Small Business Enhancement Program (SBEP). The SBEP's appropriation should comprise 58.8% of actual business tax certificate receipts as required by Council Policy 900-15.

C. Transfer to the Allocated Reserve (General Fund)

There are several General Fund projects in progress that cannot be completed during the current fiscal year. Therefore, funds budgeted in the current fiscal year need to be carried over to complete the projects in Fiscal Year 2006. It is requested that the City Council authorize the City Auditor and Comptroller to transfer these budgeted departmental funds to the Allocated Reserve contingent upon sufficient appropriation savings being available at the conclusion of the fiscal year. The specific projects are as follows:

- *Auditor- \$150,000*
Authorize the carryover of \$150,000 for creation of a real-time financial reporting system for all City departments and programs to improve the preparation of the Comprehensive Annual Financial Report and provide information to management on a real-time basis.
- *City Clerk - \$75,000*
Authorize the carryover of \$75,000 to be used for outfitting a document storage facility for storage of inactive City records. These records are usually files and documents stored in boxes. The City Clerk's Office will purchase storage racks to store inactive records. Any remaining funding would go toward remodeling the area so it is only accessible by authorized personnel; building cubicles for records center staff; building other records center rooms such as a conference room; installing computers and connecting them to the network; and building a counter and reception area.

D. Carryover of Non-General Funds Projects Budgeted in Fiscal Year 2005

- *Street Division - \$590,000*

Authorize the carryover of \$590,000 in contractual service appropriations to facilitate street and sidewalk repairs. Bad weather conditions have delayed the repairs of projects. This amount of funding will pay for approximately 1.8 miles of asphalt overlay (resurfacing), or approximately 6.8 miles of slurry sealing or approx. 280 sidewalk locations, or any combination thereof.

E. Waived Fees from Buick Invitational 2002

- Authorize the waiver of fees in the amount of \$44,459.50 for Police Department services from February 5, 2002 through February 10, 2002 for the Buick Invitational 2002 golf tournament.

Charges for Police services are typically invoiced in arrears by the Police Department for major events when appropriate. Subsequent to the 2002 Buick Invitational golf tournament, charges for Police services were not invoiced in a timely manner due to oversight and misinterpretation of Administrative Regulation 63.30 which provides for certain waivers of City provided services. An audit by the City Auditor and Comptroller’s office identified that AR 63.30 was not applicable for the waiver of these fees and that Mayor and City Council approval is necessary to waive the payment of these fees.

The annual Torrey Pines PGA Golf event contributes significant economic benefits to the region; it also meets criteria stipulated in Municipal Code 22.4006 for serving public purpose and that the provision of City services will result in improved crowd or event control and general public safety. This waiver is a one-time action and does not establish precedent for future and similar events. Based on this experience, the Police Department has since invoiced the Century Club in a timely manner for Police services for the 2003, 2004 and 2005 Torrey Pines Golf Course PGA events and has received payment for said services.

F. Carryover of Council Districts’ General Fund Savings into the Infrastructure Improvement Fund (10529)

- Authorize carryover of available budget balances for Council Districts 1 through 8 in the amount of \$696,556 to the Infrastructure Improvement Fund for the purposes of financing capital improvements and major maintenance of streetlights, sidewalks, traffic signals, libraries, park and recreation facilities, and roadways or other purposes as identified by the individual Council Districts.

Council Districts’ Carryover Amount to the Infrastructure Improvement Fund

Council District 1	\$26,633
Council District 2	\$87,736
Council District 3	\$39,536
Council District 4	\$161,478

Council District 5	\$152,451
Council District 6	\$66,268
Council District 7	\$101,216
Council District 8	\$61,238
Total Carryover	\$696,556

G. Community Parking Districts (CPDs)

- Consistent with Mayor and City Council direction, this action is required as the result of mid-year changes to Council Policy 100-18 "Community Parking District Policy," which entitles each CPD to 45% of actual parking meter revenues collected within the district; future fiscal year adjustments will be addressed by including appropriate language in the Appropriation Ordinance.

This action will authorize adjustment of the Fiscal Year 2006 allocation to CPDs within the Citywide Program Expenditures budget. This is necessary to mitigate any difference between the Fiscal Year 2005 allocation and 45% of Fiscal Year 2005 year-end projections for parking meter revenues collected in each of the three CPDs.

In the event that 45% of actual revenues collected in any District is more than the Fiscal Year 2005 appropriation. This reconciliation action will appropriate any parking meter revenues in excess of the Fiscal Year 2005 budget, and carry them over to the Fiscal Year 2006 budget for applicable Community Parking Districts.

H. Coverage of Grant-Ineligible Overhead for Capital Improvement Projects

- When capital improvement projects are grant-funded, the grantor usually stipulates an established overhead percentage that is eligible for grant reimbursement. Between Fiscal Year 1990 and Fiscal Year 2001, many such projects used different City department overhead rates, which in many cases exceeded the overhead rate that the grantor would reimburse.

While this practice has been rectified by utilizing the grantor's stipulated overhead rate for grant-funded capital improvement projects since Fiscal Year 2001, many grant-funded projects continue to carry a deficit that is comprised of the difference between the City overhead rate and that which was reimbursable by the grant. These combined project deficits total \$992,440. This action will rectify past negative balances and allow close-out of grant-funded projects for purposes of capitalization.

This action will authorize the transfer of \$142,000 from CIP 58-007.0, \$800,000 from Capital Outlay – Sales Tax (fund 30245, account 9544), and \$50,400 from Capital Outlay – Miscellaneous (fund 302453, account 9544) to various grant-funded capital improvement projects to cover overhead costs not eligible for grant reimbursement.

CONCLUSION

Each year the Year-End Budget Adjustments Report is submitted to identify the financial transactions needed to balance all funds prior to the conclusion of the fiscal year and to authorize the continuation of the fiscal year budget appropriations into the next fiscal year for certain projects, which were not able to be completed. It should be noted that the \$300,000 in projected excess revenue could be needed for additional unanticipated expenditures by the end of Fiscal Year 2005. It is recommended that the City Council accept this report and authorize the City Auditor and Comptroller to complete the financial transactions listed in this report.

Respectfully submitted,

Ronald H. Villa
Financial Management Director (Acting)

Approved: P. Lamont Ewell
City Manager

VILLA/LH