

Agenda Report

SEPTEMBER 24, 2001

TO: City Council
THROUGH: Finance Committee

FROM: Cynthia J. Kurtz, City Manager

SUBJECT: Recommended Budget Enhancements to the Fiscal Year 2002 Adopted Operating and Capital Improvement Budgets

RECOMMENDATION

It is recommended that the City Council amend the City's fiscal year 2002 operating and capital improvement budgets and authorize the transfer of \$8,273,759 from the General Fund unappropriated fund balance to:

1. allocate \$5,000,000 to the City Hall capital improvement project;
2. establish a stabilization reserve account in the amount of \$1,890,000 in anticipation of future cuts in the State's backfill of Vehicle License Fee (VLF) revenues; and
3. to fund various accounts, programs and projects as discussed below and identified in Attachment E, in the amount of \$1,383,759.

BACKGROUND

On June 11, 2001, the City Council approved the fiscal year 2002 operating budget. At that time final revenue and expenditure figures were not available. Since then, the financial books of the City have been closed and the unaudited financial statements prepared. The overall results for the City were very good and the results for the General Fund were considerably better than earlier projections. Expenditures came in below budget, while revenues exceeded the budget. While the adopted budget anticipated higher revenues and lower expenditures, the degree to which the final numbers came in exceed these expectations. Specifically, revenues exceeded the original budget estimates by approximately \$13 million, lead by higher property, sales, utility users and construction tax revenues.

As a result of this, a review of numerous unfunded needs was undertaken and staff now recommends several amendments to the adopted budget in order to 1) protect existing services from potential future cuts in State funding, 2) improve services and 3) fund several unmet needs. Unfortunately, there is not enough money to fund all of the needs of the City. Attached to this report are several documents that itemize both high priority operating and capital needs that still remain unfunded.

Staff has prepared several documents for the City Council's review and consideration. Attachments A through D represent various versions of the City's Five Year Financial Plan. Each version modifies the previous version to reflect updated information or to reflect the impacts of the recommended amendments to the fiscal year 2002 budget. Attachment A reflects the version incorporated into the City's adopted fiscal year 2002 operating budget. Attachment B reflects the actual results of fiscal year 2001, modifications to revenue projections for fiscal year 2002 and beyond based upon these results and the inclusion of \$2.7 million in one-time General Fund capital expenditures approved by the City Council at the time the Capital Improvement budget was approved. Attachment C reflects the impact of three recommended amendments. The first is an increase to the Personnel Reserve to set funds aside to cover anticipated personnel increases due to current labor negotiations. The second reflects the General Fund earmarking a portion of its fund balance to fund City Hall seismic retrofit. The third is a reduction to the City's VLF revenue projection in recognition of the possibility of reduced State support. The Combined total of these amendments is \$7.7 million. These costs would be ongoing and are also reflected in the expenditure figures for the subsequent fiscal years. Attachment D reflects the additional recommended budget amendments for projects discussed below and itemized in Attachment E.

Attachment F and G reflect programs and projects that have been discussed in the past with the City Council, but still remain unfunded at this time.

DISCUSSION

Staff is recommending several amendments to the fiscal year 2002 operating budget. These include:

1. adding \$800,000 to the General Fund Personnel Reserve to accommodate potential higher payroll costs associated with the results of labor negotiations.
2. establishing a reserve for capital requirements for City Hall in the amount of \$5 million and earmarking an additional \$1 million per year for fiscal year 2003 and beyond to cover the anticipated City Hall seismic retrofit project. These funds would be used to either support a bond issue, offset the size of a potential bond issue, or to cover the costs of renting other facilities should the project not go forward and City staff had to vacate City Hall.
3. establishing a stabilization account in anticipation of future State reductions to its backfill of VLF due to a weak State economic outlook. Historically, the City receives approximately \$7.5 million annually in VLF revenues. Several years ago, the State began lowering the fee paid by vehicle owners, but agreed to backfill the lost local revenues with State surplus funds. Presently, approximately 50% of the City's VLF revenue is being backfilled by the State. Because of the

impacts on the State's budget caused by the recent energy crisis' consumption of most of the State's surplus, the State is asking all State Offices to submit budgets with 10% cuts and has announced to cities that the continued backfill is highly unlikely to continue. As such the five year financial plan (Attachment D) has been updated to reflect a partial loss of the State's backfill beginning in fiscal year 2003. This means a loss of nearly \$3.78 million annually.

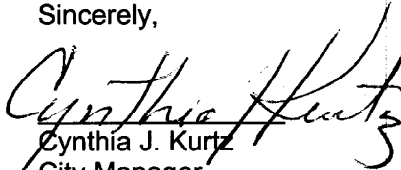
4. increasing the amount of funds expended on heavy item removal by \$100,000 in fiscal year 2002 and \$200,000 in subsequent fiscal years. This would provide funding for the removal of any items left at the curb within 48 hours and provide the services six days a week.
5. allocating an additional \$200,000 per year to improve building maintenance efforts, bringing the total to \$1 million per year. If this program were fully funded, it is estimated to cost \$1.5 million annually.
6. increasing the number of Park Safety Specialist by two and adding \$50,709 for the balance of the fiscal year.
7. adding \$230,000 to the budget to support expanded ARTS bus services. This, along with Prop A & C funds, will allow funding for the short term improvement to reduce crowding on the uptown route and adjust the San Pasqual service. Previously, it was proposed that this amount be funded through the implementation of a fare. This proposal is still under consideration by the Transportation Advisory Board.

Again, these items are listed on Attachment E, along with the projected five year cost implications for each.

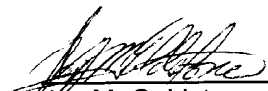
FISCAL IMPACT

The impact of the recommended enhancements/amendments is \$8,273,759 for fiscal year 2002, \$5,171,521 in fiscal year 2003 and about \$7.2 million per year in subsequent years. Even with these amendments, the City's 8% General Fund reserve policy will be maintained and available to address short term funding requirements should the local economy soften.

Sincerely,


Cynthia J. Kurtz
City Manager

Approved By:


Jay M. Goldstone
Director of Finance