

To: James L. App, City Manager  
From: Mike Compton, Director of Administrative Services  
Subject: Mid Year Budget Report - Fiscal Year 2006  
DATE: February 21, 2006

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Needs:

Presentation of the Mid-Year Budget Report for Fiscal Year 2006

Facts:

1. The City's Fiscal Policy provides that there will be a semi-annual review of the budget with projections of revenues and expenditures through the end of the fiscal year.
2. The Fiscal Policy calls for the semi-annual review report to be delivered to Council by the first meeting in March.
3. The City's major operational funds, General Fund and Enterprise Funds, are included in the Mid Year Budget Report.

Analysis &  
Conclusion:

The City Council receives various revenue and expenditure reports each month, as well as quarterly revenue trend reports to gauge the progress of major City revenue sources (copy attached for the quarter ended 12/31/05).

In addition, the Comprehensive Annual Financial Report (CAFR) provides an independently audited historical summary of actual financial activity for the preceding fiscal year. The presentation of the CAFR for fiscal year 2004-2005 has been made to the City Council.

**This report assumes the worst case scenario wherein all budgeted appropriations will be expended by June 30, 2006.** However, from a practical perspective this is generally not the case as a number of staff vacancies occur during the year requiring time to re-fill. Additionally, there were twenty new positions authorized in the current budget; not all the newly budgeted positions were filled at the beginning of the Fiscal Year.

**ENTERPRISE FUNDS**

Enterprise operations include those funds that are generally supported through user fees not from general tax revenues and are generally accounted for much like a

privately operated business. Like the private sector, enterprise funds have retained earnings rather than fund balance.

Due to Governmental Accounting Standards Board Statement No. 34, retained earnings are now stated as “net assets”.

#### Net Assets vs. Fund Balance

The basic distinction between net assets and fund balance is that net assets includes the enterprise’s investment in fixed assets, plant, property and equipment (including developer contributed system improvements) less accumulated depreciation and long-term debt. Fund balance does not contain these two components. The City reports net assets for all enterprise operations and fund balance for all other funds. This distinction is very important.

For example, the Sewer Operations Fund had a net asset balance at 7/1/05 in the amount of \$38,283,663. This does not mean that the fund has this amount in cash resources. This amount includes various balance sheet asset accounts such as accounts receivable, interest receivable and unamortized bond discount in addition to its \$22.97 million net investment in fixed assets including developer contributed system improvements. On the liability side of the balance sheet, in addition to accounts payable, accrued payroll, accrued leave payable, accrued interest payable items, there are bonds payable of about \$9.51 million.

#### **TRANSIT OPERATIONS FUND**

Transit operations are not fully supported by user fees.

Eighty percent (80%) of Paso transit operational cost support comes from state and federal sources. Transportation Development Act funds come from the State (1/4 of 1% of Sales tax rate) and Section 5307 is the federal source due to our urban area designation.

Due to prior year operating surpluses, Transportation Development Act funding for transit operations has been reduced. These revenue resources have been redirected towards street and road improvements. While the illustration below indicates operating deficits, in fact transit operations are using the prior year surpluses to balance operations. Once reserves are reduced to a reasonable amount, Transportation Development Act funding will be increased to balance operations on an annual basis.

	Original Budget FY 2005-06	Revised Budget FY 2005-06	Projected 6/30/2006
<b>TRANSIT OPERATIONS FUND</b>			
Operating Revenues	\$ 1,120,100	\$ 1,120,100	\$ 911,500
Expenditures:			
Salaries & Benefits	(38,800)	(38,800)	(38,800)
Maintenance & Operations	(1,135,500)	(1,135,500)	(1,135,500)
Transfers OUT	(400,000)	-	-
Total Expenses	<u>(1,574,300)</u>	<u>(1,174,300)</u>	<u>(1,174,300)</u>
OPERATING SURPLUS (DEFICIT)	\$ <u>(454,200)</u>	\$ <u>(54,200)</u>	\$ <u>(262,800)</u>

### **AIRPORT OPERATIONS FUND**

Based upon mid-year revenue and expense projections, it is estimated that the Airport Operations Fund will finish the year with an operating deficit in the amount of \$172,300. Ongoing deficits, if not addressed, will result in the depletion of cash reserves and would require General Fund support.

The results of operations are illustrated as follows:

	Original Budget FY 2005-06	Revised Budget FY 2005-06	Projected 6/30/2006
<b>AIRPORT OPERATIONS FUND</b>			
Operating Revenues	\$ 453,500	\$ 453,500	\$ 459,000
Expenditures:			
Salaries & Benefits	(165,500)	(165,500)	(165,500)
Maintenance & Operations	(465,800)	(465,800)	(465,800)
Total Expenses	<u>(631,300)</u>	<u>(631,300)</u>	<u>(631,300)</u>
OPERATING SURPLUS (DEFICIT)	\$ <u>(177,800)</u>	\$ <u>(177,800)</u>	\$ <u>(172,300)</u>

### **SEWER OPERATIONS FUND**

After many years of running operating deficits, the Sewer Operations Fund appears to have made the transition to sound financial form. Revenues are projected to exceed original expenditure estimates by about \$794,900.

Included in the maintenance & operations category are bond interest and paying agent expenses (non-operating expenses). It does not include bond principle

payments of \$655,000 which directly impact cash resources. Other than annual inflationary adjustment, no user fee increase is contemplated.

	Original Budget FY 2005-06	Revised Budget FY 2005-06	Projected 6/30/2006
<b>SEWER OPERATIONS FUND</b>			
Operating Revenues	\$ 4,130,600	\$ 4,130,600	\$ 4,383,600
Expenditures:			
Salaries & Benefits	(753,300)	(753,300)	(753,300)
Maintenance & Operations	(2,565,700)	(2,807,400)	(2,807,400)
Total Expenses	<u>(3,319,000)</u>	<u>(3,560,700)</u>	<u>(3,560,700)</u>
<b>OPERATING SURPLUS (DEFICIT)</b>	<b>\$ 811,600</b>	<b>\$ 569,900</b>	<b>\$ 822,900</b>

**WATER OPERATIONS FUND**

Due to various special studies, the Water Operations Fund is projected to end the year with an operating deficit. If not for the special studies totaling \$281,800, Water Operations would be finishing the year with a positive result.

The projected results of operations are illustrated as follows:

	Original Budget FY 2005-06	Revised Budget 6/30/2006	Projected 6/30/2006
<b>WATER OPERATIONS FUND</b>			
Operating Revenues	\$ 3,587,900	\$ 3,587,900	\$ 4,029,900
Operating Expenses:			
Salaries & Benefits	(899,300)	(899,300)	(899,300)
Maintenance & Operations	(2,731,700)	(3,143,700)	(3,143,700)
Total Expenses	<u>(3,631,000)</u>	<u>(4,043,000)</u>	<u>(4,043,000)</u>
<b>OPERATING SURPLUS (DEFICIT)</b>	<b>\$ (43,100)</b>	<b>\$ (455,100)</b>	<b>\$ (13,100)</b>

The impact of the conversion from monthly flat rate billing plus variable rate to a fully variable rate is difficult given the total lack of history/experience. Assuming that the consumption from 2/1/06 through 6/30/06 is the same as last, user fee collections will be about \$230,000 higher than budget.

**GENERAL FUND**

The General Fund provides for police, fire, recreation, library, parks, streets and a variety of other general public services.

Total General Fund revenues are budgeted at \$ \$21,913,100. Subsequent budget adjustments approved by Council increased revenue projections to \$22,530,000 for the year. Based upon year-to-date collections through 12/31/05, it is estimated that total revenue collections including transfers “IN” will be \$24,883,300 representing a \$1,347,200 positive variance over budget projections. Most of the positive variance results from assessed valuation growth generating a 17% increase property tax income, a 15% increase in sales tax revenues and larger than expected income generated from development processing and permit fees. Revenue estimates are summarized as follows:

	Budgeted FY 2005-06	Projected 6/30/2006	+ or (-) Variance
Property Taxes	\$ 6,240,500	\$ 6,236,700	\$ (3,800)
Other Taxes	11,766,500	12,398,900	632,400
Licenses and Permits	1,080,800	1,140,000	59,200
Fines and Forfeitures	223,500	256,500	33,000
Use of Money and Property	762,000	687,000	(75,000)
Revenue from Other Agencies	797,800	1,376,300	578,500
Charges for Current Services	1,403,900	1,828,200	424,300
Miscellaneous	255,000	40,400	(214,600)
Revenues	22,530,000	23,964,000	1,434,000
Transfers IN	1,006,100	919,300	(86,800)
<b>Total Resources</b>	<b>\$ 23,536,100</b>	<b>\$ 24,883,300</b>	<b>\$ 1,347,200</b>

The City’s top ten revenues are highlighted as follows:

	Actual FY 2003-04	Actual FY 2004-05	Budgeted FY 2005-06	Projected 6/30/2006
Sales Taxes	\$ 6,229,299	\$ 6,883,776	\$ 7,113,000	\$ 7,767,500
Property Taxes - All Sources	3,513,445	5,525,393	6,240,500	6,236,700
Planning & Building Processir	1,361,328	2,294,102	1,458,300	1,893,100
Franchise Taxes & Fees	2,106,292	2,190,988	2,336,100	2,417,800
Motor Vehicle In Lieu	1,225,007	631,751	136,200	136,000
Transient Lodging Taxes	1,296,972	1,446,059	1,833,800	1,630,000
Recreation-Participant Fees	626,691	534,668	501,800	525,000
Business Licenses	306,688	330,120	325,000	340,000
Sales Taxes - SB 172	247,561	271,594	283,600	283,600
Interest Income	211,309	171,246	200,000	150,000
	\$ 17,124,592	\$ 20,279,697	\$ 20,428,300	\$ 21,379,700
All Other Revenues	2,240,542	1,878,607	2,101,700	2,584,300
<b>Total All Revenues</b>	<b>\$ 19,365,134</b>	<b>\$ 22,158,304</b>	<b>\$ 22,530,000</b>	<b>\$ 23,964,000</b>
<b>Top Ten as a Percent of Total</b>	<b>88.4%</b>	<b>91.5%</b>	<b>90.7%</b>	<b>89.2%</b>

**Expenditures have been projected assuming that all appropriations will be spent by year end.** Projections include scheduled salary and/or fringe benefit adjustments. However, as noted above, given existing vacancies, there should be some savings in the personnel services category.

The original operating expenditure budget was adopted at \$22,369,300. However, since July 1, 2005, the Council has approved additional appropriations totaling \$1,141,800 including \$753,800 in prior year carry-over. The current revised expenditure budget now totals \$24,193,800 including transfers "OUT".

Year-end results are summarized as follows:

<b>GENERAL FUND</b>	<b>Original Budget FY 2005-06</b>	<b>Revised Budget FY 2005-06</b>	<b>Projected 6/30/2006</b>
<b>Total Resources:</b>	<b>22,919,200</b>	<b>23,536,100</b>	<b>24,883,300</b>
Expenditures:			
Salaries & Benefits	(16,464,600)	(16,576,200)	(16,576,200)
Maintenance & Operations	(5,579,300)	(6,290,100)	(6,640,100)
Debt Service	(266,300)	(335,700)	(335,700)
Operating Capital	(59,100)	(309,100)	(309,100)
CIP Budget		(8,600)	(8,600)
Transfers Out	(550,100)	(674,100)	(674,100)
<b>TOTAL USES</b>	<b>(22,919,400)</b>	<b>(24,193,800)</b>	<b>(24,543,800)</b>
<b>OPERATING BUDGET RESOURCES</b>	<b>\$ (200)</b>	<b>\$ (657,700)</b>	<b>\$ 339,500</b>

Included above are quake related expenses estimated to total \$350,000 by year end. These expenditures are offset by projected disaster reimbursements totaling \$520,000.

As illustrated, projected revenue growth will completely eliminate the budgeted operating deficit and result in a positive result for the General Fund of \$339,500.

**LONG-TERM EXPECTATIONS**

With regard to General Fund operations, the Paso Robles economy continues to outperform surrounding cities and most regions of the State. Increases in revenue growth are expected to continue but probably at a more moderate rate.

However, projections relating to City service demand (assuming a correlation between staffing required to provide services and population growth) indicate that either the public's demand for services must be "tempered" or a new major revenue source must be identified. The Council should continue to investigate long-term funding challenges if they wish to accomplish priority goals including public safety, deferred maintenance, providing resources for future facility needs including parks, and reducing reliance upon private development activity.

Fiscal  
Impact:

None. Presentation only.

Options:

- a. That the Council receive and file the mid-year budget report; or
- b. Amend, modify, or reject the above option.

Attachments: 12/31/05 Quarterly Revenue Trending Report