

To: James L. App, City Manager
From: Mike Compton, Director of Administrative Services
Subject: **Mid Year Budget Report - Fiscal Year 2007**
DATE: March 6, 2007

Needs:

Presentation of the Mid-Year Budget Report for Fiscal Year 2007

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 12/31/06).

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 2005-2006 has been made to the City Council.

This report assumes the worst case scenario wherein all budgeted appropriations will be expended by June 30, 2007. 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.

ENTERPRISE FUNDS

Enterprise operations include those funds that are generally supported through user fees, not general tax revenues, and are generally accounted for like a privately operated business. 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 include 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 others. 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 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 only partially funded 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.

	Original Budget FY 2006-07	Revised Budget FY 2006-07	Projected 6/30/2007
TRANSIT OPERATIONS FUND			
Operating Revenues	\$ 1,161,700	\$ 1,161,700	\$ 1,176,500
Expenditures:			
Salaries & Benefits	(50,000)	(50,000)	(50,000)
Maintenance & Operations	(1,053,700)	(1,164,700)	(1,164,700)
Transfers OUT	-	-	-
Total Expenses	<u>(1,103,700)</u>	<u>(1,214,700)</u>	<u>(1,214,700)</u>
OPERATING SURPLUS (DEFICIT)	\$ 58,000	\$ (53,000)	\$ (38,200)

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 \$(172,700). Generally Accepted Accounting Principals (GAAP) requires the City to record and depreciate all fixed assets regardless of the fact that most of the fixed assets; i.e. runways and taxiways, are fully funded from federal and state aviation grants. Thus, this enterprise will always show an operating deficit.

The results of operations are illustrated as follows:

	Original Budget FY 2006-07	Revised Budget FY 2006-07	Projected 6/30/2007
AIRPORT OPERATIONS FUND			
Operating Revenues	\$ 456,000	\$ 456,000	\$ 456,000
Expenditures:			
Salaries & Benefits	(175,900)	(175,900)	(175,900)
Maintenance & Operations	(452,800)	(452,800)	(452,800)
Total Expenses	<u>(628,700)</u>	<u>(628,700)</u>	<u>(628,700)</u>
OPERATING SURPLUS (DEFICIT)	\$ (172,700)	\$ (172,700)	\$ (172,700)

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 2006-07	Revised Budget FY 2006-07	Projected 6/30/2007
SEWER OPERATIONS FUND			
Operating Revenues	\$ 4,146,200	\$ 4,146,200	\$ 4,055,000
Expenditures:			
Salaries & Benefits	(806,900)	(806,900)	(806,900)
Maintenance & Operations	(2,425,200)	(2,523,100)	(2,523,100)
Total Expenses	<u>(3,232,100)</u>	<u>(3,330,000)</u>	<u>(3,330,000)</u>
OPERATING SURPLUS (DEFICIT)	\$ 914,100	\$ 816,200	\$ 725,000

WATER OPERATIONS FUND

The Water Operations Fund is projected to end the year with an operating surplus of \$138,500. The surplus is a result of implementing the “cost of services” fees for water operations.

The projected results of operations are illustrated as follows:

	Original Budget FY 2006-07	Revised Budget FY 2006-07	Projected 6/30/2007
WATER OPERATIONS FUND			
Operating Revenues	\$ 3,567,600	\$ 3,567,600	\$ 3,833,600
Operating Expenses:			
Salaries & Benefits	(975,900)	(1,095,900)	(1,095,900)
Maintenance & Operations	(2,556,100)	(2,599,200)	(2,599,200)
Total Expenses	<u>(3,532,000)</u>	<u>(3,695,100)</u>	<u>(3,695,100)</u>
OPERATING SURPLUS (DEFICIT)	<u>\$ 35,600</u>	<u>\$ (127,500)</u>	<u>\$ 138,500</u>

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 were originally budgeted at \$ 23,381,900. Subsequent budget adjustments approved by Council increased revenue projections to \$23,875,400 for the year. Based upon year-to-date collections through 12/31/06, it is estimated that total revenue collections will be \$24,882,400 representing a \$1,007,000 positive variance over budget projections. Most of the positive variance results from continued growth in assessed valuation generating increase property tax income. Sales tax revenues including the “backfill” contribute significantly as well. Revenue estimates are summarized as follows:

	Budgeted FY 2006-07	Projected 6/30/2007	+ or (-) Variance
Property Taxes	\$ 6,739,300	\$ 7,654,800	\$ 915,500
Other Taxes	12,689,000	13,097,800	408,800
Licenses and Permits	1,085,800	960,200	(125,600)
Fines and Forfeitures	238,500	216,000	(22,500)
Use of Money and Property	527,000	771,000	244,000
Revenue from Other Agencies	800,100	813,600	13,500
Charges for Current Services	1,532,500	1,219,000	(313,500)
Miscellaneous	263,200	150,000	(113,200)
Total Resources	<u>\$ 23,875,400</u>	<u>\$ 24,882,400</u>	<u>\$ 1,007,000</u>

The City's top ten General Fund revenues are:

	Actual FY 2004-05	Actual FY 2005-06	Budgeted FY 2006-07	Projected 6/30/2007
Sales Taxes	\$ 6,883,776	\$ 7,886,824	\$ 7,504,300	\$ 8,328,800
Property Taxes - All Sources	5,525,393	6,851,726	6,739,300	7,654,800
Planning & Building Processir	2,294,102	2,126,998	1,448,300	1,050,000
Franchise Taxes & Fees	2,190,988	2,402,852	2,405,000	2,462,100
Motor Vehicle In Lieu	631,751			200,000
Transient Lodging Taxes	1,446,059	1,614,347	2,280,500	1,855,800
Recreation-Participant Fees	534,668	525,211	501,800	525,000
Business Licenses	330,120	341,034	330,000	375,000
Real Property Transfer		332,074	200,000	
Public Safety Fines		237,826		
Sales Taxes - SB 172	271,594	290,782	299,200	313,000
Interest Income	171,246	-	250,000	500,000
	<u>\$ 20,279,697</u>	<u>\$ 22,609,674</u>	<u>\$ 21,958,400</u>	<u>\$ 23,264,500</u>
All Other Revenues	1,878,607	3,702,299	1,917,000	610,900
Total All Revenues	<u>\$ 22,158,304</u>	<u>\$ 26,311,973</u>	<u>\$ 23,875,400</u>	<u>\$ 24,882,400</u>
Top Ten as a Percent of Total	91.5%	85.9%	92.0%	93.5%

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 \$23,473,500. However, since July 1, 2006, the Council has approved additional appropriations totaling \$959,900 including \$249,800 for prior year carry-over appropriations. The current revised expenditure budget now totals \$24,478,400.

Year-end results are summarized as follows:

GENERAL FUND	Original Budget FY 2006-07	Revised Budget FY 2006-07	Projected 6/30/2007
Total Resources:	<u>23,381,900</u>	<u>23,875,400</u>	<u>24,882,400</u>
Expenditures:			
Salaries & Benefits	(17,853,400)	(17,951,300)	(17,951,300)
Maintenance & Operations	(5,431,300)	(5,842,000)	(5,842,000)
Debt Service	(201,800)	(340,400)	(340,400)
Operating Capital	(32,000)	(218,500)	(218,500)
CIP Budget & Special Studies		(144,700)	(302,000)
	<u>(23,518,500)</u>	<u>(24,496,900)</u>	<u>(24,654,200)</u>
Net Transfers In/(Out)	<u>139,800</u>	<u>139,800</u>	<u>139,800</u>
OPERATING BUDGET RESOURCES	<u>\$ 3,200</u>	<u>\$ (481,700)</u>	<u>\$ 368,000</u>

LONG-TERM EXPECTATIONS

The slowdown in residential development has had a significant impact upon planning and building processing revenues, both are General Fund revenues sources. Revenue collections from this source are projected to be 50% less than the amounts collected in each of the two prior years as noted in the chart above. In round numbers, the reduction is \$1 million as compared to \$2 million. Should the slowdown continue, an eventual “flattening” in the growth of property tax revenues may be expected. Property taxes generated from the secured tax rolls have increased by 16% in each of the last two years and is projected to increase by 18% in the current year. There is also an indirect impact upon sales tax revenues. With fewer new homes being built and fewer existing homes being “turned-over”, there may be a negative impact upon sales tax revenues generated from sale of construction materials, home furnishings and landscaping materials.

Demand for City services, measured by the correlation between staffing and population, continues to increase. General revenue growth and new/increased fees-for-service will not provide sufficient new reoccurring revenues to meet the increasing demands. While current levels of service may be adequately funded, new and/or expanded services may be difficult to accommodate. In the coming years, the demand for service must either be tempered or a major new revenue source identified.

The City is currently preparing the next two year budget/four year financial plan which will address City needs and Council goals going forward.

Policy

Reference: Fiscal Policy

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: 12/31/06 Quarterly Revenue Trending Report

**CITY OF EL PASO DE ROBLES
TEN YEAR MAJOR REVENUE SUMMARY**

Per General Ledger Posting-General Fund Only

	FISCAL YEAR	CUMULATIVE TOTALS THROUGH:				FISCAL YEAR	CUMULATIVE TOTALS THROUGH:				
		1st QUARTER (7/1-9/30)	2nd QUARTER (7/1-12/31)	3rd QUARTER (7/1-3/31)	4th QUARTER (7/1-6/30)		1st QUARTER (7/1-9/30)	2nd QUARTER (7/1-12/31)	3rd QUARTER (7/1-3/31)	4th QUARTER (7/1-6/30)	
PROPERTY TAX	1997/98	32,678	966,244	1,177,283	1,741,663	BUILDING PERMITS	1997/98	96,312	193,505	309,470	440,068
	1998/99	0	1,107,734	1,128,830	2,134,996		1998/99	82,387	210,882	306,879	380,330
	1999/00	6,914	1,144,854	1,403,328	2,287,644		1999/00	102,594	271,296	490,378	739,669
	2000/01	8,927	1,394,798	1,756,673	2,520,254		2000/01	198,338	339,382	454,863	752,305
	2001/02	139,501	1,545,602	1,836,913	2,843,714		2001/02	298,666	477,404	855,741	1,013,951
	2002/03	104,805	1,801,357	2,285,306	3,267,031		2002/03	100,620	231,865	587,052	1,108,420
	2003/04	126,034	2,087,109	2,506,731	3,513,446		2003/04	63,736	172,156	424,853	773,936
	2004/05	87,560	1,920,377	2,465,286	4,076,025		2004/05	404,285	647,770	846,026	1,175,378
	2005/06	146,002	2,349,787	4,170,872	6,859,734		2005/06	199,750	458,285	755,084	1,189,144
	2006/07	161,852	3,019,229				2006/07	187,418	346,368		
Percent +/- prior year	10.86 %	28.49 %	(100.00)%	(100.00)%	Percent +/- prior year	(6.17)%	(24.42)%	(100.00)%	(100.00)%		
SALES TAX	1997/98	877,123	1,810,201	2,773,038	3,574,395	ENGINEERING INSPECTION FEES	1997/98	36,469	36,299	64,494	98,914
	1998/99	980,787	1,950,106	2,905,554	3,920,607		1998/99	28,966	65,819	69,925	113,563
	1999/00	1,061,275	2,115,413	3,306,778	4,536,210		1999/00	89,916	97,048	134,049	174,975
	2000/01	1,239,456	2,578,027	3,826,429	5,141,821		2000/01	26,936	88,317	31,876	72,338
	2001/02	1,334,376	2,772,920	4,143,337	5,755,697		2001/02	10,434	89,527	128,773	155,668
	2002/03	1,366,957	2,880,261	4,262,537	5,723,556		2002/03	33,043	79,689	104,081	221,076
	2003/04	1,525,388	3,120,378	4,612,413	6,229,299		2003/04	45,698	71,411	131,879	219,563
	2004/05	1,639,121	2,931,906	4,258,539	6,883,775		2004/05	62,493	140,020	436,179	512,765
	2005/06	1,426,457	2,257,759	4,629,223	7,886,824		2005/06	64,302	99,985	134,348	249,997
	2006/07	1,489,632	2,052,137				2006/07	59,250	100,208		
Percent +/- prior year	4.43 %	(9.11)%	(100.00)%	(100.00)%	Percent +/- prior year	(7.86)%	0.22 %	(100.00)%	(100.00)%		
TRANSIENT OCCUPANCY TAX	1997/98	71,264	213,858	318,523	570,593	PLAN CHECK FEES	1997/98	36,779	92,230	117,216	164,475
	1998/99	74,164	263,630	387,238	629,273		1998/99	37,224	104,858	127,440	145,754
	1999/00	103,550	309,152	444,809	759,264		1999/00	53,761	161,386	206,240	308,809
	2000/01	132,674	419,305	572,521	976,618		2000/01	74,488	150,434	197,134	354,139
	2001/02	193,883	466,256	653,592	1,040,692		2001/02	106,336	250,727	312,495	367,176
	2002/03	184,571	480,593	646,231	1,123,814		2002/03	72,197	105,261	272,491	432,615
	2003/04	268,559	579,892	816,430	1,284,671		2003/04	34,268	69,070	182,758	292,491
	2004/05	287,543	655,442	890,209	1,446,059		2004/05	177,479	314,929	425,486	633,257
	2005/06	313,023	696,686	976,236	1,614,269		2005/06	246,903	423,698	481,651	547,059
	2006/07	347,710	827,931				2006/07	67,675	109,374		
Percent +/- prior year	11.08 %	18.84 %	(100.00)%	(100.00)%	Percent +/- prior year	(72.59)%	(74.19)%	(100.00)%	(100.00)%		
REAL PROPERTY TRANSFER	1997/98	9,792	23,596	38,279	59,779	MISCELLANEOUS DEVELOPMENT FEES	1997/98	3,181	6,149	9,476	58,777
	1998/99	14,407	33,468	50,773	88,133		1998/99	2,240	5,288	8,421	11,474
	1999/00	17,018	36,032	56,484	93,468		1999/00	3,388	7,423	14,434	125,315
	2000/01	21,590	56,105	84,682	141,379		2000/01	16,381	28,196	41,436	97,866
	2001/02	23,074	50,887	81,760	159,474		2001/02	5,678	9,459	80,053	102,284
	2002/03	36,437	78,774	111,263	168,598		2002/03	6,775	33,051	76,151	174,183
	2003/04	26,556	82,619	131,081	239,085		2003/04	5,174	30,143	40,347	55,635
	2004/05	47,102	122,813	203,015	340,630		2004/05	15,715	28,065	97,537	125,701
	2005/06	70,771	164,263	235,970	332,074		2005/06	27,669	44,212	73,914	129,053
	2006/07	37,403	94,680				2006/07	27,874	40,108		
Percent +/- prior year	(47.15)%	(42.36)%	(100.00)%	(100.00)%	Percent +/- prior year	0.74 %	(9.28)%	(100.00)%	(100.00)%		

* Feb. 2003 TOT receipt timing variances cause a negative comparison to prior year.
 Effective 2005/06 Property Tax in lieu Sales Tax received semi-annually is reported as General Sales Tax Revenue.
 Effective 2005/06 Property Tax in lieu Vehicle License Fees received semi-annually is reported as Property Tax Revenue.
 Comparisons with years prior to FY 2006 are problematic due reporting changes.