

CITY OF DANA POINT

AGENDA REPORT

Reviewed By:	
DH	<u> X </u>
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DATE: **OCTOBER 2, 2007**

TO: **CITY MANAGER/HONORABLE MAYOR AND CITY COUNCIL**

FROM **MIKE KILLEBREW, DIRECTOR OF ADMINISTRATIVE SERVICES**
ANDREW GLASS, ACCOUNTING MANAGER
JENNIFER ANDERSON, MANAGEMENT ANALYST

SUBJECT: **FISCAL YEAR 2007-08 PROPOSED BUDGET ADJUSTMENTS**

RECOMMENDED ACTION:

That the City Council amend the FY2007-08 ("FY08") General Fund operating budget and Facilities Fund operating budget by authorizing the carryover and re-appropriation of certain unencumbered funds as identified in this report, and authorize increases to certain FY08 General Fund revenues based on updated information received since adoption of the original budget.

DISCUSSION:

The Administrative Services department is currently finalizing reports on the fiscal operating results for fiscal year 2006-07 ("FY07"). The preliminary estimate is that General Fund expenditures for the year were approximately \$2.2 million below the budgeted level. Of this amount, \$218,000 will be carried over (i.e. re-budgeted) into FY08 for encumbered items (those items for which there is an outstanding purchase order at year end under which the City has an ongoing financial obligation). This leaves a remaining favorable expenditure variance of about \$2 million.

A portion of the \$2 million favorable expenditure variance is attributable to various tasks and projects that were budgeted in FY07 but were either not undertaken or not fully completed by the end of the fiscal year. Each year a report of such items is brought before the City Council in order to have the funding for these tasks and projects carried over into the succeeding fiscal year so that they may be completed.

Additionally, during the development of the FY08 revenue budget certain assumptions were made with respect to growth in assessed property values, which directly impacts property tax revenues and in-lieu property tax revenues. Subsequent to adoption of the budget the City received updated information from the Orange County Assessor's office that have resulted in revised (increased) revenue estimates for these sources. It would be appropriate to amend the revenue budget to reflect these revised estimates.

FY08 PROPOSED REVENUE ADJUSTMENTS

Proposed Revenue Budget Carryovers From FY07 to FY08

On December 13, 2006 the Council approved participation in the “Go Local” program to explore the feasibility of a local trolley system. This study is being funded by the Orange County Transportation Authority. Funding for the project was delayed until FY08, therefore the associate revenue line item needs to be re-budgeted. Note that there is a corresponding expenditure item listed below (item #7) that re-budgets the associated expenditure for this item.

- 1. Intergovernmental Revenues: Carryover revenue from OCTA for funding of feasibility study for trolley system linking San Juan Capistrano and San Clemente train stations to Dana Point.

Intergovernmental Revenues (Acct#01-50-6521)	\$100,000
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Proposed Revenue Budget Revisions Due to Assessed Valuation Increase

On August 15, 2007 the Orange County Assessor’s office released the 2007-08 assessed valuation report. In that report Dana Point experienced robust growth of 10.9%, which far exceeded the 6% that was incorporated into the adopted budget. This larger-than-expected increase favorably impacts not only property tax revenues, but also property tax in-lieu revenues (created as a result of the “triple flip” in which motor vehicle in-lieu revenues were replaced by property taxes). In order to accurately reflect this in the adopted FY08 revenue budget, the following revenue increases are recommended:

- 1. Property tax revenues: Increase based upon Orange County Assessor’s report on assessed property tax values in Dana Point.

Property Tax Revenues (Acct #01-10-6101)	\$150,000
In-lieu Property Taxes (Acct #01-10-6113)	\$126,000

FY08 PROPOSED EXPENDITURE ADJUSTMENTS

Proposed Expenditure Line Item Carryovers From FY07 to FY08

At the close of FY07 all encumbered funds (i.e. outstanding purchase orders), which represent a legal or contractual fiscal obligation of the City, are automatically carried over to FY08. However, in order to re-appropriate any unencumbered FY07 funds into FY08, they must be identified and carried over to the new fiscal year. Council approval is required to re-appropriate such funds.

A year-end review of the FY07 budget identified a number of projects related to facility improvements, public outreach efforts, police services, professional services and City Attorney funds that were not expended in FY07 due to certain projects either not being initiated or not being completed by June 30. Staff is recommending that funding for the following items be re-appropriated into the FY08 budget:

General Fund Carryovers

- 1. AB 2838 (LAFCO): Carryover funds for fees associated with Local Agency Formation Commission (LAFCO) for the state mandated agency which was not included in the FY08 budget.

Non-Departmental: Professional Services (Acct #99-223)\$4,600

- 2. Worker's Compensation: On February 6, 2007, City Council approved the transfer of the City's worker's compensation coverage with State Compensation Insurance Fund (State Fund) to a self-insured worker's compensation pool with the California Joint Powers Insurance Authority ("CJPIA") effective April 1, 2007. The transfer of coverage from State Fund to CJPIA resulted in a Short Rate penalty imposed by State Fund for early termination of the policy period from July 1, 2006 to July 1, 2007. This penalty is estimated to be \$ 3,300. Additionally, the City is anticipating a final invoice from State Fund for premiums due State Fund for payroll costs associated with a worker's compensation claim made in FY07 and fees anticipated with pending State Fund's annual payroll audit and deposit premium review.

Worker's Compensation (Acct #97-411)\$20,000

- 3. Attorney Funds: Staff is requesting City Council authorization to carryover unexpended budgeted funds from the FY07 City Attorney/Litigation Budget to the FY08 budget for a combination of normal legal expenses and unanticipated, non-reimbursable legal expenses.

Risk Management/Litigation (Defense) (Acct #97-409)\$106,000
City Attorney (Acct #71-231)\$41,000

- 4. Facilities Improvement/Maintenance: Staff recommends the surplus funds be carried over into FY08 for ongoing facilities improvement projects as well as for unanticipated repair projects at City Plaza and the Community Center for preventative and restorative improvements.

Admin. Services/Facilities Improvements (Acct #95-303).....\$9,783

- 5. Police Services: Carryover funds from FY07 to FY08 for anticipation any budget increases due to contract negotiations with the Association of Orange County Deputy Sheriffs (AOCDS). The County of Orange estimates any approved contract increases will cost the City of Dana Point \$46,207 per each 1% increase. The most

recent general salary increases per the Memorandum of Understanding between the County of Orange and the AOCDS was 2.5% on 10/14/2005 and 2.5% on 03/24/2006. The current City budget has allocated enough funds to cover an increase of up to 3.9%.

Additionally, staff would request City Council approval for salaries and overtime pertaining to special events within the City of Dana Point and the related operating supplies associated with the special events.

Police Services (Acct #61-233)	\$105,000
Police Services (Acct #61-233) to (Acct #61-211)	\$5,000

Staff is also recommending the carryover of additional funds for the purchase of a "jeep-type" vehicle for access to the beaches, particularly Salt Creek State Beach, for the enhancement of police enforcement.

Police Services (Acct#61-233) to (Acct#61-303)	\$40,000
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- 6. Public Works – Parks Maintenance: On September 13, 2006, City Council approved the fiscal year end financial report for FY06, which also included new proposed expenditures for FY07. One of the new proposed expenditures was the completion of a pathway lighting project at Creekside Park. Staff requested authorization to transfer \$90,000 from the Undesignated General Fund to the park maintenance account 55-255 to complete a pathway lighting project at Creekside Park. In response to a history of concerns regarding security, safety, and vandalism in Creekside Park, the Parks Division requested funding to install 16 downward facing pedestrian lights along the 250 yard concrete park path. The Parks Division worked with the Engineering Division to design a plan that would minimize light pollution and spillage from the new project into the adjacent residential neighborhood by purchasing low-glare pedestrian lights similar to those installed at Sycamore Creek Trail on the opposite side of Stonehill Drive.

The design portion of this project lasted longer than expected, which caused the approval of the final plan to be delayed until the end of FY07. The informal bids for the project were submitted by qualified contractors in July 2007, and the City selected a contractor in mid-August 2007. Construction of the project could commence as soon as November 2007, pending approval of the proposed carryover and availability of the required hardware components.

Given the construction project was planned for, but could not be completed in FY07, the Parks and Engineering Divisions are recommending that \$90,000 be carried over from FY07 to FY08, in order to pay for the delayed construction project. Staff recommends \$90,000 from 52-235 (FY07) be transferred over to 55-255 (FY08).

Street Maint. (Acct #52-235) to Parks Maint. (Acct #55-255)	\$90,000
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- 7. Tri-City Trolley System: In December 2006, Council approved the Orange County Transportation Authority’s (OCTA) Cooperative agreement in the amount of a \$100,000 grant to promote the “Go Local” program which encourages cities to work together to achieve regional transportation goals. The City of Dana Point proposed to work with the cities San Clemente and San Juan Capistrano on a Tri-City Trolley System to coordinate riders from nearby train stations and neighboring cities to points of interest in Dana Point. The approved grant funds were not expended in FY07 and therefore must be carried over into FY08 in order to initiate the City of Dana Point’s share of the Tri-City Trolley Feasibility Study.

Professional Services (Acct #41-223).....\$100,000

Community Development-Planning: Carryover funds for additional and supplemental staff training and professional conferences to account for the new budgeted positions on FY08.

Planning –Travel, Conf. & Meetings (Acct # 41-227)\$7,696

Planning -Training (Acct #41-215)\$6,746

- 8. City Clerk’s Department: Carryover funds from Salaries to Hourly due to the department’s need to retain it’s temporary Records Clerk on staff for training purposes due to the longer than expected recruitment of the 2 newly adopted positions in FY07. In addition, staff requests that unspent funds from the FY07 Professional Services line item be carried over and transferred to FY08 Salaries to cover the Assistant City Clerk’s salary and Comprehensive Annual Leave cash out when she retires in October 2007.

Salaries (Acct #31-101) to Hourly (Acct #31-103)\$5,000

Professional Services (Acct #31-223) to Salaries (Acct #31-103).....\$19,500

Staff is also requesting City Council approval to carryover funds from FY07 Professional Services to Operating Supplies for a desktop computer and telephone equipment for a position that was filled in FY08.

Prof. Serv. (Acct #31-223) to Operating Supplies (Acct #31-211).....\$2,500

- 9. Administrative Services: Carryover of funds for the ongoing projects and related balances owed for professional consultant service contracts that are expected to be completed in FY08 which include the comprehensive user fee and cost study for all City departments performed by Maximus, Inc. as well as the executive recruitment for the Director of Administrative Services performed by Alliance Resource Consulting, LLC.

Additionally, staff is requesting City Council approval to carryover funds for supplemental staff payroll training services pertaining to legal and payroll

guidelines as well as for professional memberships in the American Payroll Association for the Accounting Technician and one Management Analyst.

Professional Services – Fee Study (Acct #21-223)	\$4,500
Professional Services – Executive Search (Acct #21-223).....	\$9,000
Training (Acct #21-215)	\$1,000
Training (Acct #21-215) to Memberships & Dues (Acct #21-209).....	\$400

- 10. City Manager's Office: Carryover funds for contractual support of various special projects.

Professional Services (Acct #11-223).....	\$35,000
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Total Proposed General Fund Expenditure Carryovers.....\$612,725

Facilities Improvement Fund Carryovers

- 1. Facilities Capital Improvement Fund: Carryover funds allocated for projects not completed in FY07 (finalizing the Council Chamber renovation project, Public Works and Community Development office renovation, and HVAC mechanical equipment replacement at City Hall). There is still a need to complete these tasks.

Facility Improvements (Acct # 12-99-30-0000-303).....	\$617,623
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Total Proposed Facilities Improvement Fund Carryovers.....\$617,623

FISCAL IMPACT

The following list summarizes the proposed adjustments outlined in this report:

Total Proposed General Fund Expenditure Carryovers:.....	\$612,725
Total Proposed Facilities Improvement Fund Carryovers:.....	\$617,623
Total Proposed Revenue Budget Increase	\$376,000

As noted earlier in this report, the City spent \$2 million less than anticipated in FY07. These savings were spread broadly throughout the budget, but were concentrated in the areas of personnel costs (due to vacancies during the year), police services (due to a smaller than expected fee increase during the year) and risk management (fewer cases of litigation to defend). If the \$612,725 of General Fund budget carryover items recommended in this report are approved there will be a net real expenditure savings in FY07 of \$1.4 million.

With respect to the final General Fund revenue figures for FY07, it is expected that the City will report that revenues exceeded budget by approximately \$760,000 (pending final review by our auditors). The main factors contributing to this were transient occupancy taxes, sales taxes and investment interest earnings, all of which significantly exceeded expectations.

As set forth in the City's Investment Policy, once the FY07 operating results are finalized and the audit completed, the net General Fund operating surplus from FY07 will be transferred into the CIP Fund. If the adjustments set forth in this report are approved by the City Council, Staff estimates that the operating surplus to be transferred to the CIP Fund will be approximately \$2.1 million.

ALTERNATIVE ACTIONS:

Other alternatives as identified by Council.