



Office of the City Manager

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**Worksession Item**

WORK SESSION  
February 19, 2013

To: Honorable Mayor and Members of the City Council  
From:  Christine Daniel, City Manager  
Submitted by: Teresa Berkeley-Simmons, Budget Manager  
Subject: FY 2013 Mid-Year Budget Update

INTRODUCTION

This report presents to the Council the FY 2013 Mid-Year Budget Update and focuses on projected General Fund revenues and expenditures. This report also provides information on expenditure projections in the special funds.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley is currently in FY 2013, the second of two years in the FY 2012 & FY 2013 Biennial Budget cycle. When the Council adopted the FY 2013 budget this past June, the General Fund was balanced as is shown in the chart below.

<b>General Fund Summary</b>			
<i>(dollars in millions)</i>	<b>FY 2013 Adopted</b>	<b>FY 2013 Adjusted</b>	<b>FY 2013 Revised</b>
<b>Projected Revenue</b>	149.2	148.6	148.6
<b>Projected Expenses</b>	149.4	152.6	150.5
<i>Appropriated Carryover</i>		3.4*	1.9
<b>Use of Reserves</b>	.2	0	0
<b>Balance</b>	0	-0.6	0

\*Adjusted includes carryover for projects and programs that were not completed in FY 2013 and were approved by Council as part of the Appropriation Amendment Ordinance in October 2012.

On December 11, 2012, the Council was provided with the FY 2013 First Quarter General Fund revenue review. At the time, we were projecting to end FY 2013 with approximately \$1.0 million less in revenue than projected when the budget was adopted.

At the FY 2013 Mid-Year point, General Fund revenues are now projected to be down by -\$0.6 million. General Fund expenditures are projected to be under the adjusted budget by \$2.1 million. This means that our projected use of the appropriated carryover will go from \$3.4 million down to \$1.9 million.

**FY 2013 General Fund Second Quarter – Projected Revenue (down \$0.6 million)**

FY 2013 Mid-Year revenues reflect declines in secured property taxes, supplemental taxes, business license taxes, parking fines, moving violations, and interest income. These declines in revenue are slightly offset by increases in unsecured property taxes, property transfer taxes, sales taxes, transient occupancy taxes, vehicle-in-lieu taxes, and other revenues.

Attachment 1 provides a summary of the General Fund revenue projections and detailed information on the revenue declines and increases projected for FY 2013.

**FY 2013 General Fund Second Quarter – Projected Expenditures (under adjusted budget amount by \$2.1 million)**

General Fund expenditures are trending under the adjusted budget with projected expenditure reductions of about \$2.1 million by year-end. The reductions are primarily the result of salary savings from vacant positions.

Attachment 2 provides a summary of the second quarter expenses and year-end projections.

**FY 2013 Special Funds Second Quarter – Projected Expenditures (under adjusted budget amount by \$34 million)**

Special Funds exclude the General Fund and are made up of a number of dedicated revenue funds, enterprise funds, and state and federal grant funds. Expenditures in these Special Funds are projected to be under budget by almost \$34 million. The expenditure reductions are due to salary savings and not fully spending funds for non-personnel and major capital improvement projects by the end of FY 2013. Expenditures have been reduced to match projected revenue declines in certain program areas like the Department of Health, Housing & Community Services. Committed unspent project funds will be carried over from FY 2013 to FY 2014.

Attachment 2 provides a summary of the second quarter expenses and year-end projections.

**CONTACT PERSON**

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**Attachments:**

- 1: FY 2013 Second Quarter General Fund Revenue Summary
- 2: FY 2013 Second Quarter General Fund and All Funds Expenditure Summaries

## FY 2013 Mid-Year General Fund Revenues

(7/1/12 - 12/31/12)					
Revenue Categories	Adopted FY 2013	Actual 7/1/12- 12/31/12	% Received To Date	Projected FY 2013	Variance
Secured Property	\$40,552,591	\$20,885,804	51.50%	\$39,596,698	(\$955,893)
Unsecured Property Taxes	2,441,601	1,986,596	81.36%	2,447,266	\$5,665
Supplemental Taxes	630,000	220,543	35.01%	570,000	(\$60,000)
Property Transfer Tax	9,000,000	6,213,537	69.04%	10,500,000	\$1,500,000
Sales Taxes	15,485,857	8,099,545	52.30%	15,658,898	\$173,041
Utility Users Taxes	14,716,885	6,997,366	47.55%	14,716,885	\$0
Transient Occupancy Taxes	4,931,811	2,997,049	60.77%	5,131,811	\$200,000
Business License Tax	15,145,993	231,962	1.53%	15,067,399	(\$78,594)
Vehicle In-Lieu Taxes	8,908,853	4,339,608	48.71%	8,954,550	\$45,697
Parking Fines-Regular Collections	9,185,000	4,067,260	44.28%	8,285,000	(\$900,000)
Parking Fines-Booting Collections	350,000	251,218	71.78%	350,000	\$0
Moving Violations	300,000	106,923	35.64%	230,000	(\$70,000)
Interest Income	4,000,000	1,458,018	36.45%	3,500,000	(\$500,000)
Ambulance Fees	3,872,337	1,736,135	44.83%	3,872,337	\$0
Franchise fees	1,805,297	227,590	12.61%	1,805,297	\$0
Other Revenue	9,453,713	4,360,884	46.13%	9,490,688	\$36,975
Transfers	8,428,628	3,957,464	46.95%	8,428,628	\$0
<b>Total Revenue:</b>	<b>\$149,208,566</b>	<b>\$68,137,502</b>	<b>45.67%</b>	<b>\$148,605,458</b>	<b>(\$603,108)</b>

**This mid-year review focuses on the major revenue fluctuations and key projection adjustments.**

**Secured Property Tax -\$955,893**

During the first half of FY 2013, Secured Property Tax revenues totaled \$20,885,804, which was \$1,292,737 or 6.6% more than the \$19,593,067 received for the same period in FY 2012 but \$955,893 below the FY 2013 Adopted Budget. As indicated before, the reason for the large shortfall this year is the County Assessor's AB8 reassessments that reduced the City's assessed value growth rate down from 4% to 2%.

**Property Transfer Tax +\$1,500,000**

During the first half of FY 2013 (June through November reports), Property Transfer Tax revenue increased sharply by \$1,816,947 or 41.3% to \$6,213,537, from the \$4,396,590 received for the same period in FY 2012. This increase is due primarily to a \$152.2 million or 52.4% increase in the dollar value of property sales in the first half of FY 2013 to \$442.6 million, from \$290.4 million for the same period in FY 2012. During this period, the number of property sales increased by 108 or 24.4%, from 443 in FY 2012 to 551 in FY 2013. As reported in October, staff has been monitoring this revenue source closely for another possible increase in the revenue projections. Staff has raised the projection for this revenue source by an additional \$1 million, to a current projection of \$10.5

million; and will continue to monitor it closely for a possible further increase in the projection, depending on performance in the next quarter.

Sales Tax +\$173,041

For the first half of FY 2013, Sales Tax revenue totaled \$8,099,545, which is \$872,276 or 12.1% more than the \$7,227,269 received for the same period in FY 2012 and \$173,041 more than the FY 2013 Adopted Budget. Sales Tax revenue was projected to increase about 4%. We are seeing strong sales in Furniture/Appliances; Food products; Restaurants; New Auto Sales; and, Service Stations. As a result, we increased the FY 2013 projection by \$200,000.

Transient Occupancy Tax +\$200,000

Transient Occupancy Tax (TOT) revenue increased by \$366,474 or 13.9% in the first half of FY 2013 to \$2,997,049, from \$2,630,575 for the same period in FY 2012. This increase was due to double digit growth at 10 of the 12 major hotels tracked by City staff, as hotel operators indicate they have achieved significant increases in both occupancy rates and average room rates. As a result, the FY 2013 projection was increased by \$200,000.

Parking Fines -\$900,000

For the first half of FY 2013, Parking Fines revenue (excluding booting collections) showed a decrease of \$484,898 or 10.7% to \$4,067,260 in FY 2013, from \$4,552,158 for the same period in FY 2012. This is a decrease of \$900,000 for the year from the Adopted Budget. This decrease in Parking Fines revenue resulted from a 19,315 or 17.4% decline in ticket writing, from 111,229 in this period in FY 2012 to 91,914 in this period in FY 2013.

The vehicle booting program, which started in October 2011, declined less than expected during the first half of FY 2013. During that period, booting collections totaled \$251,218, down 23.5% or \$76,970 from the total of \$328,188 received for the same period in FY 2012.

Interest Income -\$500,000

For the first half of FY 2013, Interest Income totaled \$1,458,018, which is \$945,518 or 39.3% less than the total of \$2,403,536 received for the same period in FY 2012. This revenue source is trending lower than the adopted budget total by \$500,000 because the Federal Reserve Board (the Fed) has once again extended its aggressive program to keep short-term rates close to zero and medium-term interest rates at about 1%. As a result, as the high yielding securities held by the City mature, the City will achieve a return on investments close to zero percent on the replacement securities that need to be held in short-term investment vehicles (for liquidity purposes) and 1% or less for replacement securities with longer maturity dates.

## FY 2013 General Fund Expenditures (7/1/12 – 12/31/12)

Department	FY 2013 Adopted	FY 2013 Adjusted	YTD Actuals + Encumbrances	% Budget Spent	Year-End Projected	Surplus/ Deficit	% Over/ Under
Mayor & Council	1,722,661	1,786,077	822,133	46%	1,786,077	0	0.0%
Auditor	2,055,271	2,178,274	893,285	41%	2,062,796	115,478	5.3%
City Manager	4,633,120	4,648,766	2,243,219	48%	4,487,171	161,595	3.5%
Police Review Commission	492,368	535,863	222,133	41%	535,863	0	0.0%
City Attorney	2,163,147	2,220,803	1,109,736	50%	2,151,550	69,253	3.1%
City Clerk	1,867,826	2,174,307	953,648	44%	2,174,307	0	0.0%
Information Technology	5,432,619	7,019,332	3,641,442	52%	7,019,332	0	0.0%
Finance	5,487,254	5,553,654	2,480,405	45%	5,280,869	272,785	4.9%
Human Resources	1,860,986	1,863,277	865,801	46%	1,776,384	86,893	4.7%
Health, Housing & Community Svcs.	11,925,909	12,308,125	5,611,946	46%	12,177,323	130,802	1.1%
Public Works	2,497,165	2,585,809	1,356,020	52%	2,585,809	0	0.0%
Parks, Recreation and Waterfront	5,297,331	5,352,242	2,857,186	53%	5,212,148	140,094	2.6%
Fire	26,939,227	27,068,298	13,067,028	48%	26,045,930	1,022,368	3.8%
Police	54,308,975	54,522,328	26,749,818	49%	54,522,328	0	0.0%
Planning	1,602,336	1,656,499	741,613	45%	1,549,540	106,959	6.5%
Economic Development	1,920,912	2,039,354	1,284,760	63%	2,039,354	0	0.0%
Non-Departmental	19,170,160	19,076,811	11,607,751	61%	19,076,811	0	0.0%
<b>Total</b>	<b>149,377,267</b>	<b>152,589,819</b>	<b>76,507,924</b>	<b>50%</b>	<b>150,483,592</b>	<b>2,106,227</b>	<b>1.4%</b>

## FY 2013 Special Funds Expenditures (7/1/13 – 12/31/13)

Department	FY 2013 Adopted	FY 2013 Adjusted	YTD Actual + Encumbrances	% Budget Spent	Year -End Projected	Surplus/ Deficit	% Over/ Under
Mayor & Council					-	-	
Auditor	98,955	98,955	56,185	57%	98,955	-	0.0%
City Manager	247,359	275,501	131,687	48%	248,676	26,825	9.7%
Police Review Commission						-	
City Attorney	1,755,358	1,894,265	514,815	27%	1,850,723	43,542	2.3%
City Clerk		600			600	-	
Information Technology	3,745,788	6,442,471	2,872,587	45%	6,214,669	227,802	3.5%
Finance	1,805,433	1,808,354	897,071	50%	1,654,216	154,138	8.5%
Human Resources	1,226,722	1,239,697	619,203	50%	1,186,999	52,698	4.3%
Health, Housing & Community Svcs.	26,485,777	31,559,693	13,013,372	41%	24,560,876	6,998,817	22.2%
Public Works	84,774,412	114,251,394	61,989,612	54%	96,430,365	17,821,029	15.6%
Parks and Waterfront	17,946,987	23,032,669	12,068,611	52%	19,895,529	3,137,140	13.6%
Fire	6,796,260	6,390,137	2,861,144	45%	6,278,332	111,805	1.7%
Police	4,199,234	4,111,661	1,205,454	29%	3,217,849	893,812	21.7%
Planning	9,124,632	9,842,651	5,154,675	52%	9,380,086	462,565	4.7%
Economic Development	1,887,371	3,013,766	914,618	30%	3,013,766	-	0.0%
Rent Board	3,990,203	3,997,609	2,178,344	54%	3,997,609	-	0.0%
Library	19,181,975	31,077,658	19,563,760	63%	26,963,763	4,113,895	13.2%
Non-Departmental	29,064,252	30,798,034	13,304,543	43%	30,798,034	-	0.0%
<b>Total All Other Funds</b>	<b>212,330,718</b>	<b>269,835,115</b>	<b>137,345,681</b>	<b>51%</b>	<b>235,791,047</b>	<b>34,044,068</b>	<b>12.6%</b>
<b>Total General Fund</b>	<b>149,377,267</b>	<b>152,589,819</b>	<b>76,507,924</b>	<b>50%</b>	<b>150,483,592</b>	<b>2,106,227</b>	<b>1.4%</b>
<b>Total Citywide Budget</b>	<b>361,707,985</b>	<b>422,424,934</b>	<b>213,853,605</b>	<b>51%</b>	<b>386,274,639</b>	<b>36,150,295</b>	<b>8.6%</b>

Note: Special Funds are non-discretionary funds allocated for specific purposes (e.g. Community Development Block Grant, Sewer Fund, and Parks Taxes).

### **Budget Assumptions**

- ⇒ Budgeted target savings for some departments are built into FY 2013 Adopted and Adjusted General Fund budgets.
- ⇒ Year-to-date payroll through 12/31/12 equals 50% of the payroll budget expended.
- ⇒ Non-personnel YTD expenditures through 12/31/12 are generally assumed to be fully expended, except for capital improvement project funding.
- ⇒ Expenses are measured against the Adjusted Budget, which includes carryover of funds from FY 2012 into FY 2013 as approved by Council on October 30, 2012.

### **Second Quarter Variance Analysis**

The following variance analysis is an expenditure snapshot by City departments and is intended to present possible expenditure trends for this fiscal year. These expenditure trends do not indicate the status of a particular revenue fund.

#### ***General Fund spending by department***

The General Fund is projected to end FY 2013 under the adjusted budget by almost \$2.1 million. Salary savings generated by vacancies is the main reason most of the departments are under budget.

The expenditure reduction of approximately \$1.0 million in the Fire Department is due to 7 vacant sworn positions. The department will begin recruitments for these positions this spring and expects to have the positions filled by January 2014.

#### ***Special Funds spending by department***

Special Funds excludes the City's General Fund and are made up of numerous dedicated revenue funds, enterprise funds, and state and federal grant funds. Revenues generated by these activities are restricted. Staff is projecting unspent funds totaling \$34 million in FY 2013. This is due almost exclusively to several large capital improvement projects that are in progress and will not be completed in this fiscal year, as well as salary savings from vacancies.

#### **Public Works (General Fund +\$0; Special Funds +\$17,821,029)**

The vast majority of the unspent funds in the Public Works are attributed to pending capital projects.

- *Sanitary Sewer (\$7.1 million)*: Projected expenditures in this fund are expected to be under budget by \$7.1 million due to salary savings from vacant positions and under spending of non-personnel budget.
- *Capital Improvement Fund (\$1.9 million)*: Expenditures are projected to be under budget by \$1.9 million in the Capital Improvement Fund. The savings are due to a number of streets, sidewalks, and storm water projects not being completed yet. Only projects that are under way and expected to be completed in FY 2014 will have funding carried over from FY 2013.
- *Building Purchases & Management Fund (\$1.7 million)*: Funds appropriated for the cooling tower and boiler replacement at 1947 Center Street and for the Civic Center

and Public Safety Building Data Centers projects will not be fully spent in FY 2013 and will be carried over to FY 2014.

- *CALTRANS Grant (\$1.1 million)*: Expenditure reduction is due to a vacant 1.0 FTE Associate Planner position and not fully spending funds for the Berkeley Transportation Action Plan – Parking Management project and Ashby Corridor Improvement project by the end of FY 2013.

Health, Housing & Community Services (General Fund +\$130,802; Special Funds +\$6,998,817)

Health, Housing & Community Services expenditures are projected to be under the adjusted budget by almost \$7.0 million at the end of FY 2013. This under spending is due in part to vacancies. In addition, federal funds allocated for Housing Trust Fund projects have been or will be awarded to projects in FY 2013, but not expended until after July 1, 2013. These federal funds will be carried over in FY 2014 and are not available for other non-HTF projects. In some cases, budgeted expenditures exceed actual revenues available to the department. In order to avoid overspending the grants, the department is aggressively containing costs and staff is working to ensure that the actual grant expenditures in FY 2013 do not exceed the revenue amounts. As part of the FY 2014 & FY 2015 Biennial Budget process, the department is revising all grant expenditure budgets to match the anticipated revenue amounts. \$4.5 million of the projected savings is attributable to carryover for funds committed to Housing projects that have not yet been expended. Part of the adjusted budget contains funds that were carried over from prior years.

Library (General Fund \$0; Special Funds +\$4,113,895)

Library is projected to finish under budget by almost \$4.1 million. Most of these savings are related to the Measure FF funds being used for the South and West Branch Library projects. These projects are not expected to be completed by the end of the fiscal year and these funds will be carried over to FY 2014.

Parks Recreation & Waterfront (General Fund +\$140,094; Special Funds +\$3,137,140)

In two of the department's three key funds, the Parks Tax Fund and the Marina Fund, expenditures are projected to be under the adjusted budget by \$766,358 and \$606,917, respectively. These two funds currently have recurring structural deficits due to revenues in each fund not keeping up with expenditures. The department is dealing with the structural deficits in FY 2013 by holding some positions vacant to control costs and deferring some capital work and maintenance work as well. These actions are why there are large amounts of savings projected in each fund. Balancing strategies to correct the structural deficits in these funds are being developed for the FY 2014 & FY 2015 budget. The department's third key fund is the Camps Fund which is carrying a strong reserve and projecting expenditures to be under the adjusted budget by \$545,517 due to position vacancies and projected under-spending in non-personnel costs. The balance of the department's funds are primarily grant funds that support both capital construction as well as special recreation programs. Expenditures have been reduced in the Inclusion Program grant by \$68,467 due to the program having been defunded by the State.

Police (General Fund +\$0; Special Funds +893,812)

The Police Department is projected to finish FY 2013 under the adjusted budget by \$893,812 due to the salary savings from vacancies and controlled spending of non-personnel funds in the Proposition 172 Fund and vacancies in the Parking Meter Fund. Proposition 172 is the one percent sales tax funding for public safety approved by voters in 1993. In addition to salaried positions, this fund covers expenditures for operating costs such as testing and examination of evidence in criminal cases, computer software for investigative purposes and equipment that is not covered in general funds. The recent economic downturn affected the Proposition 172 fund balance so it was decided to allow the fund to rebuild for the first six months of the fiscal year. In January, new officer hires were allocated to this fund. Therefore, the expenditures will increase as the revenues continue to support the fund. The Parking Meter fund will continue to be under spent as not all vacancies will be filled during this fiscal year.

