

CITY OF MADISON
INTER-DEPARTMENTAL
CORRESPONDENCE

DATE: May 18, 2009

TO: Mayor Dave Cieslewicz
Board of Estimates
Common Council Members

FROM: Dean Brasser, City Comptroller

SUBJECT: **First Quarter 2009 Budget Status Report**

Although still early in the year, we can begin to make some meaningful comparisons between current revenue collections and prior year trends in an attempt to predict categories where City revenues may deviate significantly from the adopted annual budget. We are also at a point in time when department managers have begun to identify events or trends within their operations that could eventually result in year-end expense budget variances.

Based on a review of information available through the first quarter of 2009, we have identified a number of areas where City revenues or expenditures differ from the year-to-date levels we would expect at this point in time. This report is a compilation of the notable general fund variances. Following is a brief description of each, along with a prediction of the year-end budget variance that could be expected to result. These projected variances are summarized on the attached spreadsheet.

General Fund Revenues

Building Permits – While the 2009 budget anticipated a drop in building permit revenues based on the level of construction activity occurring at the time of budget adoption, year-to-date collections continue to come in below the budgeted level. Our projections suggest that, extending this early trend through the rest of the year, permit revenues could be expected to total somewhere around \$2,900,000 by year's end, compared to a budget of \$3,600,000. The resulting shortfall would be \$700,000.

Fines and Forfeitures – First quarter revenue collections from fines and forfeitures related to moving violations and ordinance violations appear strong when compared to the same quarter of last year. Currently we project that 2009 revenues from these categories could exceed the budgeted level by about \$300,000 if this collection trend continues. Parking ticket revenue also appears positive but reasonably close to budget expectations.

Investment Income – The general fund's share of investment income during 2008 was just over \$4,070,000, well below the \$6,000,000 budgeted for that year, due primarily to the sharp drop in market interest rates during the last quarter of that year and the year-end "mark to market" adjustment required by current investment accounting rules. The average yield of the City's investment portfolio was 3.646% for 2008. Unfortunately, the rates available in the market have continued to decline dramatically into 2009, leaving the average yield on the City's portfolio at just 1.699% for the first quarter. Even though

the year's investment income budget was reduced significantly to \$4,750,000, a simple projection of first quarter interest rates would result in a year-end income figure of about \$2,000,000, or \$2,750,000 below the budgeted amount. It should be noted that changes in the portfolio balance, future interest rate fluctuation and the "mark to market" adjustment that will be required at the end of this year make this important revenue source extremely difficult to project with any degree of certainty. This projection can be expected to change substantially as the year progresses.

State Recycling Aid – The amounts included in the City's annual budget for each State aid program is based on the best available estimates and preliminary notifications received from the State at the time of budget adoption. While these estimates are generally reliable, the final aid awards may change once the final formula allocations are calculated. So far this year, the only significant deviation from budgeted State aid amounts is for the Recycling Aid program administered by the Department of Natural Resources. The City recently received notification from DNR that our 2009 grant amount will be \$1,089,203, or about \$111,000 less than the \$1,200,000 budgeted from this revenue source.

TIF Reimbursements – The closure of TIF District Nos. 24, 26, 28, 30 and 31 in 2008 resulted in a substantial distribution of excess increment to the various underlying taxing jurisdictions including the City of Madison. The vast majority of that excess (\$13,000,000) was distributed as planned in 2008, with some funds withheld pending the recording and audit of final TIF costs following the end of the year. Based on the latest un-audited figures, it appears that an additional \$1,500,000 will be left for distribution in 2009. The City's share, which was not anticipated in the 2009 operating budget, is expected to be about \$508,000.

General Fund Expenditures

Police Overtime – Because of its significant cost and variability, Police overtime has been an expenditure category that has received particular attention in the past, including regular quarterly reporting to the Board of Estimates and Common Council. Based on the Police Department's report of overtime during the first quarter of 2009, costs could end the year close to the amount currently budgeted if current trends continue.

Clerk's Office Election Costs - With all of the scheduled 2009 elections completed, the City Clerk reports that election related costs have come in at about \$95,000 below the budgeted level.

City Channel Operations – Early projections suggest that the share of PEG Fee revenues available to City Channel will come in at less than the budgeted amount by around \$10,000. In addition, miscellaneous revenues from other sources are estimated to fall short of budget by another \$10,000, while it is not likely that City Channel will achieve its budgeted 2% Salary Savings. In total, therefore, the City Channel operation is projected to end the year at \$30,000 over budget. In the past, accumulated reserves in the separate MVS Trust Fund have been available to cover any City Channel operating budget over-run. It appears, however, that the MVS trust fund will be depleted by the end of this year and will not be available to mitigate a 2009 City Channel operating budget shortfall.

Streets Division – The current recession has had a significant impact on the prices the City receives for the sale of recyclable materials collected by the Streets Division. This factor, along with a modest drop in the projected volume of recycled newsprint means Streets Division staff now project that 2009 recycling revenue will total less than \$750,000, compared to a budget of about \$2,002,000. Because this income is budgeted as an offset to recycling program costs, the budgetary impact of this change is to increase projected Streets Division expenditures by \$1,252,000. The Streets Division is currently delaying the filling of several vacant positions in an effort to begin mitigating this likely budget shortfall.

Current reports regarding the proposed State budget indicate the possibility of an increase in refuse tipping fees of \$3.40 per ton effective July 1, 2009 and a second increase of \$1.00 per ton effective on October 1st. If put in place, these additional fees would increase solid waste disposal costs in the Streets Division by about \$115,000 this calendar year.

Community Services - Staff of the City's Community Services Division report that, based on current day care tuition assistance grants awarded and historical turnover rates, the Department has made commitments of roughly \$200,000 more than the budget authorization. The Director of Community Services is currently reviewing alternative ways to rectify this situation.

Contingent Reserve - In addition to the projected budget variances noted above, the Common Council has already appropriated, or will soon be considering the appropriation of funds totaling \$257,490 from the Contingent Reserve budgeted for 2009. When deducted from the originally budgeted \$1,200,000, these actions will leave \$942,510 to cover other unanticipated expenditure over-runs during the remainder of the year, including those listed above. Appropriations for any remaining general fund expenditure over-runs would need to come from the City's unreserved, undesignated general fund balance.

Summary of Projected General Fund Variances

Taken together, these projected revenue and expenditure variances in the City's general fund would result in a net 2009 general fund budget deficiency of \$3,311,000. Historically, the City's internal budget monitoring and control systems have proven effective and have resulted in savings in most departmental budgets at the end of each fiscal year. In total, this positive year-end expenditure variance has averaged about 1.5% of the originally adopted budgets since 1995. These normally occurring savings could be expected to more than offset the specific expenditure over-runs that have been predicted so far in 2009. It will be very difficult, however, to generate sufficient additional revenues to fully offset the projected revenue shortfalls identified above if these first quarter revenue trends continue through the remainder of the year.

Other Funds

In addition to the general fund information noted above, a few significant budget variances affecting other City funds have also been identified:

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Room Tax Fund – First quarter 2009 Room Tax collections of \$1,468,000 were about \$210,000, or 12.7%, below the same quarter of last year. Using our standard projection methodology, we predict that year-end Room Tax revenue will fall within a range of \$7,100,000 to \$7,700,000, substantially below the \$9,092,000 budgeted Room Tax revenue for this year. While not directly affecting the general fund, this projected revenue shortfall would consume the Room Tax Fund's balance of unreserved funds, originally budgeted to stand at about \$791,000 at the end of 2009.

Golf Enterprise Fund – The City's Golf Enterprise lost a net \$157,824 on a budgetary basis in 2008 and has not achieved break-even status for several years. Accumulated Golf Fund reserves, which had been used to finance annual operating losses for the last several years, have been exhausted. The enterprise is now in debt to the General Fund. In order to bring the enterprise back to financial stability, the Parks Superintendent has transferred three Public Works Maintenance Workers from Golf to existing vacancies within the Parks Division in 2009. This transfer will also be reflected in the 2010 Requested Operating Budgets of both Parks and Golf operations.

I hope this early budget status summary information is helpful. We will continue to monitor the City's funds and update our report on these and any other significant budget variances that we identify in the future. I would also be happy to discuss these issues in greater detail at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'DB', followed by a long, horizontal, wavy flourish.

Dean Brassler, City Comptroller

2009
Summary of Projected General Fund Budget Variances
Identified as of May 18, 2009

	Variance From Budget <u>positive (negative)</u>
General Fund Revenues	
Building Permits	\$ (700,000)
Fines and Foreitures	\$ 300,000
Investment Income	(2,750,000)
State Recycling Aid	(111,000)
TIF District Reimbursements	<u>508,000</u>
Total General Fund Revenue Variance	\$ <u>(2,753,000)</u>
General Fund Expenditures	
Police Overtime	\$ -
Clerk's Office Election Costs	95,000
City Channel Operations	(30,000)
Streets Recycled Material Sales	(1,250,000)
Streets Tipping Fees in State Budget	(115,000)
Community Services Day Care Tuition Assistance	(200,000)
Uncommitted Contingent Reserve Balance	<u>942,000</u>
Total General Fund Expenditure Variance	\$ <u>(558,000)</u>
Net of Projected General Fund Budget Variances	\$ <u>(3,311,000)</u>