

CITY OF MADISON
INTER-DEPARTMENTAL
CORRESPONDENCE

DATE: August 21, 2009

TO: Mayor Dave Cieslewicz
Board of Estimates
Common Council Members

FROM: Dean Brassler, City Comptroller

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

Based on a review of information available through the second 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. Although still fairly early in the year, we can make meaningful comparisons between current revenue collections and prior year trends to predict categories where City revenues can be expected to deviate significantly from the adopted annual budget. We are also at a point in time when department managers have identified events or trends within their operations that could eventually result in year-end expense budget variances.

This report is a compilation of the notable general fund variances and builds upon the similar report I provided after the first quarter of the year. Following is a brief description of each identified item, 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

Payments In Lieu Of Tax – Updated calculations of payments in lieu of taxes from the Water Utility and from various outside entities using adopted tax rates and other factors indicate that total payments in lieu of taxes due to the general fund in 2009 will be roughly \$368,000 greater than the amount originally budgeted.

Room Taxes – Room Tax collections for the first half of 2009 totaled \$3,393,000 or about \$609,000 (15.2%) below the first half of last year. Using our standard projection methodology, we predict that year-end Room Tax revenue will fall within a range of \$7,200,000 to \$7,700,000, substantially below the \$9,092,000 budgeted Room Tax revenue for this year. This projected revenue shortfall, in combination with predicted current year expenditures, would consume the Room Tax Fund's entire balance of unreserved funds, leaving the amount of Room Tax funding available for distribution to the general fund short by about \$1,100,000 for 2009.

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. (No change from first quarter projection.)

Fines and Forfeitures – Revenue collections from fines and forfeitures related to moving violations and ordinance violations through the second quarter appear strong when compared to the same half of last year. Currently we project that 2009 revenues from these categories could exceed the budgeted level by about \$200,000 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 1.693% for the first half of this year. Even though the year's investment income budget was reduced significantly to \$4,750,000, a projection of first half interest rates would result in a year-end income figure of about \$2,200,000, or \$2,550,000 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 could change substantially as the year progresses.

Ambulance Fees – A combination of factors affecting ambulance fees have caused us to reduce the estimated revenue for this year to \$4,400,000, or \$620,000 below the budgeted level. The first factor is that billable call volumes are down approximately 400 calls, or 8%, when compared to the first half of last year. In addition, a revision of Medicare reimbursement policies has resulted in a reduction in the average amount the City receives as reimbursement for services from Medicare and private insurers. Finally, the increase in revenue that was anticipated in this year's budget as a result of the rate increase that took effect at the beginning of 2009 will not be fully realized this year due to the long lead time associated with the billing and receipt of many ambulance fee related payments.

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 has 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. (No change from first quarter projection.)

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. (No change from first quarter projection.)

General Fund Expenditures

Unemployment Compensation – The City budgeted \$496,000 to pay the cost of unemployment compensation for both permanent and seasonal hourly City employees that are laid off and become eligible for this benefit program. In the wake of state and federal legislative changes that have extended the benefit eligibility periods, current year costs are currently tracking well ahead of the budgeted allocation, and it is anticipated that this budget will be exceeded by approximately \$100,000 by year end.

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 half of 2009, costs could end the year close to the amount currently budgeted if current trends continue. (No change from first quarter projection.)

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. (No change from first quarter projection.)

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 overrun. 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. (No change from first quarter projection.)

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.

The adopted State budget included increases in various refuse tipping fees of \$4.10 per ton effective July 1, 2009 and a second increase of \$3.00 per ton effective on October 1st. These additional fees will increase solid waste disposal costs in the Streets Division by about \$160,000 this calendar year.

Community Services - Staff of the City's Community Services Division had reported that based on day care tuition assistance grants awarded early in the year along with historical turnover rates, the Department has made commitments of roughly \$200,000 more than the budget authorization. The Community Services Director and staff have taken a number of steps to rectify this situation and the negative budget variance is expected to be eliminated by year end.

Contingent Reserve - In addition to the projected budget variances noted above, the Common Council has already appropriated funds totaling \$292,313 from the Contingent Reserve budgeted for 2009. When deducted from the originally budgeted \$1,200,000, these actions leave \$907,687 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 \$4,542,000. 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 \$537,000 of 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 \$4,005,000 projected revenue shortfall identified above if first half revenue trends continue through the remainder of the year, and it is very likely that the general fund will end 2009 with a deficit when compared to the adopted budget. Any such deficit will necessarily be funded using a portion of the current general fund balance. This means, however, that there will be no excess fund balance available to apply to the 2010 operating budget as has been the practice in past years.

I hope this summary budget status 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', with a long, wavy horizontal line extending to the right.

Dean Brassler, City Comptroller

2009
Summary of Projected General Fund Budget Variances
Identified as of August 20, 2009

	Variance From Budget <u>positive (negative)</u>
General Fund Revenues	
Payments in Lieu of Taxes	\$ 368,000
Room Taxes	(1,100,000)
Building Permits	(700,000)
Fines and Foreitures	200,000
Investment Income	(2,550,000)
Ambulance Fees	(620,000)
State Recycling Aid	(111,000)
TIF District Reimbursements	<u>508,000</u>
Total General Fund Revenue Variance	\$ (4,005,000)
General Fund Expenditures	
Unemployment Compensation	\$ (100,000)
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	(160,000)
Community Services Day Care Tuition Assistance	-
Uncommitted Contingent Reserve Balance	<u>908,000</u>
Total General Fund Expenditure Variance	\$ (537,000)
Net of Projected General Fund Budget Variances	\$ <u>(4,542,000)</u>