




Office of the City Manager

ACTION CALENDAR

February 7, 2006

To: Honorable Mayor and
Members of the City Council

From:  Phil Kamlarz, City Manager

Submitted by: Phil Kamlarz, City Manager

Subject: FY 2006 Second Quarter Budget Update

RECOMMENDATION

Adopt a Resolution allocating anticipated, one-time General Fund revenue of \$98,302 for specific one-time expenditures and set-aside \$1,135,643 for one-time improvements as itemized in Exhibit A for consideration during the FY 2007 Mid-Biennial budget review in May 2006.

SUMMARY

Council adopted a two-year budget on June 28, 2005 for Fiscal Years 2006 and 2007, deferring the possible funding of some programs contingent upon the availability of new revenue. Staff returned on December 13, 2005, with recommendations for continued funding of these programs based on new revenue projections. Council took action to allocate \$898,564 this fiscal year (\$234,664 for homeless & social programs and \$663,350 for other one-time expenses). Of the total new revenue identified in December, \$431,697 remained unallocated, pending a more thorough second quarter review.

This second quarter report provides a detailed analysis of expenditures and revenues for the first six months of the fiscal year (July 1, 2005 – December 31, 2005), and identifies additional new one-time revenue of \$580,000 and anticipated expenditure savings of \$222,248, which added to the \$431,697, totals \$1.23 million. I am recommending the immediate expenditure of \$98,302, and a set-aside \$1.135 million in new funding for one-time capital expenditures in FY 2007. Since these funds will not be spent this fiscal year, waiting until the FY 2007 Mid-Biennial review in May 2006 would allow for needed program analysis – including a review of funding to maintain fire operations with no more than one station out of service during flexible staffing, review of a capital spending plan to address storm water and streets infrastructure improvements, review of a comprehensive emergency community preparation program, and providing for an inflationary increase for social programs.

With a hope for fiscal stability, we have an opportunity in the FY 2007 budget to avoid the annual anxiety associated with program cuts and staffing reductions, and instead provide for program and service stability in Council priority areas:

- Customer service
- Employee development
- Infrastructure improvements
- Social programs and affordable housing
- Public safety and emergency preparation

INTRODUCTION

After several years of financial crisis, the City's immediate fiscal outlook is improved. Council took actions to address the City's General Fund deficit by adopting recurring General Fund reductions totaling almost \$21 million from FY 2003 – FY 2007, including reducing the City's workforce by approximately 10%, as well as significant reductions in other key operating funds. These difficult decisions helped place the City in a much healthier fiscal position. Council policies continue to guide the development of the revised FY 2007 budget and 5-year forecast.

1. We continue to manage the budget to eliminate the structural deficit. Savings from lower than projected PERS and medical cost increases may allow us to balance the FY 2007 General Fund budget without the planned reductions.
2. It is critical that we manage escalating employee salaries and benefits. Even with lower than expected retirement and medical rate increases, salaries and benefits continue to rise and are the main contributors to our structural deficit. High PERS and medical costs comprise the majority of the citywide average fringe benefit rate of 53%.
3. We continue to successfully manage our unfunded liabilities.
 - For example, the Voluntary Time Off (VTO) program reduced the City's sick & vacation liability by \$1,464,628, as of June 30, 2005. Coupled with the annual funding of a Sick & Vacation Fund to pay for this liability, the City is taking significant proactive steps to reduce this liability.
 - Additionally, the City continues to fund its retiree medical benefit at 70%, which is a very high funding rate and avoids the "OPEB" (other post retirement benefits – other than pensions) GASB 45 issues other cities are facing due to under-funding of this retirement benefit.
4. We maintain a General Fund reserve of 8 percent.
5. We continue the policy of one-time revenue for one-time expenses.

The long-term solution to the City's economic health is through retention and growth in the City's economic base. Property-based revenues have bolstered City revenues for the past several of years, but are now slowing. It is critical that we focus on retaining our current tax base and implement plans for growth that are in line with Council priorities.

The downturn in the economy over the past four years has placed added burden on the City's General Fund as economically sensitive revenues have been hit hard. For example, if sales and hotel tax revenues continued to grow at a modest 5% since 2001, the General Fund would have an additional \$5 million to \$6 million more in annual revenue, essentially eliminating our structural deficit and the need for major program reductions. The work plan adopted by Council acknowledges the need to focus on economic development as a means to retain vital City programs.

FISCAL IMPACTS

Second Quarter Available New Revenue

| | | |
|---|-----------|--------------------|
| FY 2006 Second Quarter New Revenue | \$ | 580,000 |
| FY 2006 Projected Savings | \$ | 222,248 |
| FY 2006 First Quarter Unallocated New Revenue | \$ | 431,697 |
| Total: | \$ | (1,233,945) |

Second Quarter Expenditures Recommendations

| | | |
|---|-----------|------------------|
| Immediate Expenditure | \$ | 98,302 |
| Set-Aside for FY 2007 Mid-Biennial Review | \$ | 1,135,643 |
| Total: | \$ | 1,233,945 |

CURRENT SITUATION AND ITS EFFECTS

FY 2006 Second Quarter Expenditures

While there are not significant differences from the information presented in the first quarter, this report does discuss some variance trends. Most expenditures are tracking well, with a small projected net year-end savings of \$222,248. Attachment 2 provides a detailed summary of department year-to-date expenditures and year-end projections. Variance projections of note include the Auditor's Office, Fire Department, Parks Recreations & Waterfront Department and Police Department.

FY 2006 Second Quarter General Fund Revenue

While we are seeing growth in property-based revenues slowing, these revenues continue to perform above projections contained in the Adopted Budget. The well-performing revenues are primarily property-based, and given the current market, this can result in considerable volatility. Sales Tax revenues remain relatively flat over prior year returns. After careful analysis, staff is projecting FY 2006 General Fund revenues to be \$1.66 million above the FY 2006 Adopted Budget (primarily due to volatile Property Transfer Tax revenue). Attachment 3 contains a chart and summary that provides year-to-date information on revenues received compared to the Adopted Budget, as well as a year-end projection of actual revenue based on year-to-date trends. It should be noted that although we are seeing FY 2006 revenues performing higher than projected, major General Fund revenues are beginning to trend down.

FY 2006 Recommended Expenditures and FY 2007 Set-asides

This report recommends the immediate allocation of \$98,302 in FY 2006 for social programs and recommends a set-aside of \$1,135,643 on 1-time capital expenses be considered in May 2006 as part of the FY 2007 Mid-Biennial review. While I have provided specific expenditure recommendations for these new revenues, it would be prudent to postpone these allocations until staff has completed more analysis.

A number of issues will impact decisions as we approach FY 2007, including cuts to CDBG, the Housing Authority and possible overruns in affordable housing projects, downtown parking, Refuse Fund rate increases, the Sanitary Sewer Private Lateral Program, clean storm water infrastructure improvements (including the support of ACA 13), and community disaster preparation. Furthermore, there are a number of uncertainties with may require a modification of these recommendations.

General Fund 5-Year Forecast & Deficit Projection

The FY 2006 Adopted Budget closed an \$8.9 million projected deficit and the FY 2007 Adopted Budget balanced a \$1.6 million projected deficit mostly through expenditure cuts. As we have revised revenue and expenditure projections for FY 2006, the FY 2007 projected deficit is essentially eliminated. Revised benefit rate increases contribute to reducing the projected deficit in FY 2007 and beyond – assuming we can control labor costs. Although these projections are fairly dynamic, we will present an updated five-year General Fund 5-year forecast to Council during tonight’s budget workshop.

FY 2007 Adopted Budget & Revised Expenditure Projections

The FY 2007 Adopted Budget balanced a projected deficit of \$1.6 million through cuts, which included program reductions of \$600,000 and zero cost of living adjustments (COLAs) for two years at the conclusion of labor contracts. Recurring expenses added on December 13, 2005 of \$551,564 increased the original projected deficit to \$2.1 million.

Fortunately, benefit rate changes (lower than originally budgeted) will result in significant cost savings in FY 2007 of up to \$1.9 million to the General Fund. Other funds will also see some savings associated with these rate changes. In addition, new recurring General Fund revenue of about \$300,000 and the recurring influx of \$600,000 from the settlement agreement with UC have all contributed to erasing the FY 2007 deficit.

Possible programming of the UC funding – effective FY 2007

| | |
|------------------------------|-----------|
| Fire Department | \$300,000 |
| Planning Department | \$150,000 |
| Anti-Poverty Social Programs | \$150,000 |
| | \$600,000 |

Retirement Costs

CalPERS has provided revised retirement rates that indicate significant decreases in rates for FY 2007, for a savings of about \$1.7 million for the General Fund. While this is significant, the average citywide fringe benefit rate is still 53%. The largest rate decreases are in public safety. This is tempered, however, with a possible increase in the unfunded liability of our retirement plan. The City’s third-party actuary provided an analysis of the rates and the impact on our unfunded liability.

Essentially, CalPERS has implemented a rate smoothing strategy that decreases rates by assuming a 30-year rolling amortization – resulting in the continued growth of the unfunded liability. Staff has reviewed our options as to how to manage this rate change to best mitigate the negative impact to our unfunded liability. Of the three options listed below, staff recommends that Council adopt Option #1 to provide the City with the greatest savings, while limiting the growth of the unfunded liability.

Options

1. Take the revised PERS rates for FY 2007, realizing savings in FY 2007, but assuming a shorter amortization period that results in no further rate decreases (and limited increases) in subsequent years. This reduces the growth on our unfunded liability.

2. Take the PERS rates as provided, realizing a significant rate decrease in FY 2007, with continued minor rate decreases in the future – while growing the unfunded liability each year.
3. Continue with the PERS rates as included in the Adopted Budget, paying higher rates today, while decreasing the future unfunded liability. This results in no immediate savings.

Other Benefit Rates

Medical costs continue to grow significantly at a rate of around 15% per year. However, as reported in January, we anticipate a savings of around \$200,000 to the General Fund in FY 2007 due to the rate increase of 15% being less than the budgeted increase of 20%. As with the retirement rates, we recently received new rates for Workers' Compensation and from our health care provider. Worker's Compensations rates, while including a component for the unfunded liability, show a minor decrease in some classification categories. However, staff has not yet completed an analysis of actual budget impacts and will return to Council in May with a more complete picture.

Labor Negotiations

It should be noted, that the 5-year projections include assumptions of zero Cost of Living Adjustments (COLAs) for two years following the conclusion of each of the labor contracts. The current contracts expire as follows: Fire expires 6/30/2006, Police expires 12/30/2007, and Miscellaneous expires 6/30/2008. Labor negotiations with the Berkeley Fire Fighters Association will commence in February 2006. The FY 2007 budget includes zero COLAs for sworn firefighter personnel. Any changes to this assumption will result in a change to the deficit projections for FY 2007 and beyond.

Other Revenue Funds

Expenditure and revenue performance in the City's non-General Fund operating funds appears to be tracking well for the first six months of the fiscal year. Attachment 4 provides a detailed summary of year-to-date expenditures by department on an all funds basis. An analysis of certain key operating funds is included that highlights certain issues. Staff continues to analyze the performance of these funds through 5-year forecasts and will provide updated forecasts to Council in May 2006. Attachment 4 does include some narrative on several funds that have notable issues: Refuse, Parks Tax, Marina Enterprise, Library Tax, and the Equipment Maintenance internal service fund.

Conclusion

As Council considers adding \$103,802 to the FY 2006 Budget, thought should be given to the impact of recurring costs to the FY 2007 budget and beyond. Anticipated new revenue provides Council with an opportunity to provide continued funding for some programs and cover non-discretionary costs. However, these expenditures are based on estimated revenues that are not yet fully realized. I recommend that Council withhold allocation of the remaining new revenue of \$1,130,143 until the FY 2007 Mid-Biennial Update in May 2006 to be considered within the context of the FY 2007 Adopted Budget.

CONTACT PERSON

Tracy Vesely, Budget Manager, 510-981-7000

Attachments:

1: Resolution

Exhibit A: FY 2006 & FY 2007 Recommended Budget Amendments

2: FY 2006 General Fund Expenditure Analysis

3: FY 2006 General Fund Revenue Analysis

4: FY 2006 Other Funds Expenditure Analysis

RESOLUTION NO. -N.S.

FY 2006 SECOND QUARTER BUDGET ALLOCATION OF FUNDS FOR PROGRAMS
AND INFRASTRUCTURE IMPROVEMENTS

WHEREAS, the City Council adopted the FY 2006 & FY 2007 Biennial Budget on June 28, 2005; and

WHEREAS, Council referred a number of programs (Exhibit A) to the FY 2006 budget process for continued funding; and

WHEREAS, General Fund revenues for FY 2006 are projected to be \$1.66 million more than the FY 2006 Adopted Budget projections; and

WHEREAS, on December 13, 2005 Council allocated \$651,564 in new revenue and \$247,000 from the General Fund reserve to fund some programs and non-discretionary costs; and

WHEREAS, General Fund expenses for FY 2006 are projected to realize a savings of approximately \$222,248.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley allocates anticipated, one-time General Fund revenue in the amount of \$98,302 to provide continued funding for specific programs (Exhibit A) and to set aside \$1,135,643 for one-time infrastructure improvements for consideration for the FY 2007 Mid-Biennial budget review in May 2006.

FY 2006 & FY 2007 Recommended General Fund Expenditures

| | 1-Time | Recurring | Total |
|--|---------------------|-------------|---------------------|
| REVENUES | | | |
| First Quarter - Unallocated Revenue | \$ 431,697 | | |
| Second Quarter - Additional New Revenue Projection | \$ 580,000 | | |
| Second Quarter - Anticipated Savings | \$ 222,248 | | |
| Total Available Revenues: | \$ 1,233,945 | \$ - | \$ 1,233,945 |
| Second Quarter Expenditure Allocations (2/7/06): | | | |
| Winter Shelter Program | \$ 15,000 | | |
| Disaster Preparedness (total program cost of \$134,500) ¹ | \$ 44,500 | | |
| CEID Hearing Aids | \$ 38,802 | | |
| Total Second Quarter Recommended Expenditures: | \$ 98,302 | \$ - | \$ 98,302 |
| Set-asides for FY 2007 Mid-Biennial Budget | | | |
| Bike/Ped Gate to BART | \$ 50,000 | | |
| Community Special Events Funding | \$ 25,000 | | |
| Street Repair Funds Shifted to Fire OT2 | \$ 300,000 | | |
| Traffic Calming | \$ 200,000 | | |
| Parks Capital Improvement Project Shortfalls | | | |
| San Pablo Park Backstop | \$ 48,000 | | |
| San Pablo Park Pathway & Picnic Area | \$ 78,000 | | |
| Dorothy Bolte Park Improvements | \$ 18,000 | | |
| Street Cleaning Machines: "Green Machines" (2 @ \$21k) | \$ 42,000 | | |
| Community Choice Aggregation (CCA) - Phase II | \$ 82,000 | | |
| Clean Storm Water CIP | \$ 292,643 | | |
| Total FY 2007 Mid-Biennial Considerations | \$ 1,135,643 | \$ - | \$ 1,135,643 |
| Total Amendment to FY06/FY07 Adopted Budget: | \$ 1,233,945 | \$ - | \$ 1,233,945 |
| Remaining Available Revenue | | | \$ - |

¹On December 13, 2005 Council adopted an allocation \$100,000 - of which \$90,000 can be used for this program

²Staff is completing a comprehensive analysis to determine actual funds needed to maintain Fire service levels

³\$65,000 has been allocated from the FY 2006 budget to fund building improvements at Francis Albrier Center

FY 2005 funds will be carried into FY 2006 for:

| | |
|----------------|------------------|
| Fix Our Ferals | \$ 10,000 |
| Home At Last | \$ 25,000 |
| | \$ 35,000 |

General Fund Expenditures

The FY 2006 Second Quarter ended on December 31, 2005. Appendix 1 shows General Fund expenditures by department at the end of the second quarter and the percentage of budget spent against the Adjusted Budget. The Adjusted Budget represents the inclusion of carryover of funds from FY 2005 into FY 2006 and other budget modifications, and is the budget to which actual expenditures are measured.

The chart below shows that expenditures are tracking at an average of 48 percent of the Adjusted Budget at 50% of the fiscal year.

| Department | FY 2006 Adopted | FY 2006 Adjusted | YTD Actuals | % of Budget Spent | Year-End Projected | Surplus/ (Deficit) | Percent Over/Under |
|----------------------------|--------------------|---------------------|-------------------|-------------------------|-----------------------|-----------------------|-----------------------|
| Mayor & Council | 1,311,261 | 1,340,506 | 722,910 | 54% | 1,340,506 | - | 0.0% |
| Animal Care Services | 1,246,058 | 1,274,549 | 538,378 | 42% | 1,274,549 | (0) | 0.0% |
| Auditor | 1,612,530 | 1,617,278 | 674,209 | 42% | 1,475,689 | 141,589 | 8.8% |
| City Attorney | 1,554,484 | 2,056,491 | 877,476 | 43% | 1,994,557 | 61,934 | 3.0% |
| City Clerk | 1,739,204 | 2,066,309 | 640,719 | 31% | 2,073,255 | (6,946) | -0.3% |
| City Manager | 3,063,762 | 3,025,877 | 1,515,722 | 50% | 3,025,877 | 0 | 0.0% |
| Economic Development | 1,496,076 | 1,540,990 | 908,370 | 59% | 1,498,002 | 42,988 | 2.8% |
| Finance | 6,617,399 | 6,839,585 | 2,633,803 | 39% | 6,790,308 | 49,277 | 0.7% |
| Fire* | 20,695,922 | 21,168,167 | 10,498,263 | 50% | 21,324,033 | (155,866) | -0.7% |
| Health and Human Services | 8,988,384 | 9,200,707 | 4,372,934 | 48% | 9,200,707 | - | 0.0% |
| Housing | 1,748,342 | 2,039,720 | 791,932 | 39% | 2,039,720 | - | 0.0% |
| Human Resources | 1,635,257 | 1,647,422 | 823,911 | 50% | 1,656,565 | (9,143) | -0.6% |
| Information Technology | 5,397,157 | 5,428,314 | 1,421,918 | 26% | 5,443,568 | (15,254) | -0.3% |
| Parks and Waterfront | 3,979,082 | 4,133,446 | 2,346,849 | 57% | 4,233,446 | (100,000) | -2.4% |
| Planning | 741,361 | 838,257 | 313,444 | 37% | 785,974 | 52,283 | 6.2% |
| Police | 42,625,267 | 42,795,982 | 20,978,863 | 49% | 42,544,428 | 251,554 | 0.6% |
| Police Review Commission | 543,482 | 566,448 | 214,198 | 38% | 479,776 | 86,672 | 15.3% |
| Public Works | 1,332,286 | 1,524,530 | 502,391 | 33% | 1,437,160 | 87,370 | 5.7% |
| Non-Departmental | 22,953,882 | 23,022,639 | 12,637,562 | 55% | 23,022,639 | - | 0.0% |
| Totals | 129,281,196 | 132,127,217 | 63,413,852 | 48% | 131,640,759 | 486,458 | 0.4% |
| Less Paramedic Tax Overage | | | | | | (264,210) | |
| Adjusted Total | | | | | | \$222,248 | |

Assumptions:

- ⇒ Specific Target Savings is built into department FY 2006 Adopted and Adjusted Budgets
- ⇒ Year-to-date payroll through 1/06/06; equals 50% of the payroll budget expended
- ⇒ Payroll projections include other salary adjustments effective 1/1/05 (equities)
- ⇒ Non-Personnel YTD expenditures through 1/20/06

General Fund Expenditures Variance Analysis

Auditor's Office

Projections indicate a significant salary savings of \$141,589 due entirely to vacancies caused by employee attrition.

Fire Department

Since the start of fiscal year 2006, the City has been implementing a flexible deployment-staffing plan in the Fire Department. Staff presented Council with a detailed update on the Fire Department staffing on October 25, 2005. The plan has not significantly impacted the department's operations or response time to this point. Currently, the department is close to fully staffed and we continue to anticipate having days when flexible deployment will have no impact.

The December First Quarter Budget Update presented preliminary projections for Fire overtime for FY 2006. Since this report, we have revised these projections based on better trend data. Net salary projections for General Fund Fire Suppression and for the Paramedic Tax regular are projected to be over budget by \$155,866 and by 254,210, respectively. These projections include overtime (projected to be \$396,000 over budget), and other salary and benefit costs – offset by some salary savings. These figures take into account overtime costs for the Hurricane Katrina and Rita disasters, and the reimbursement of these costs by FEMA. The need for overtime is due to an extended fire season and all types of personnel leaves – especially during the summer months. Staff continues to monitor these expenses and the impacts on staffing – and will closely analyze the last half of the fiscal year as this period should be representative of a more fully staffed department with less need for overtime expense.

Parks Recreation & Waterfront

A salary and benefits over expenditure of \$100,000 is projected in the Recreation Division due, in part, to delayed implementation of a division restructuring as included in the adopted budget. The remainder of the overage is due to unfunded costs Worker's Compensation costs for hourly employees in the Recreation Division. Worker's Compensation is only budgeted on salaried employees; however, the Recreation Division employs a large number of hourly employees during the summer season. While there is a charge for worker's compensation for hourly employees, there is no budget, which creates an unbudgeted expense and adds to the projected deficit between actual expenditures and budgeted expenditures. This budgeting issue will be corrected in FY 2007.

Police Department

Projections indicate a significant salary savings of \$251,554 due entirely to vacancies, including delay in hiring new Parking Enforcement Officer positions.

General Fund Revenue Projections

| FY 2006 Four-Month General Fund Revenues 7/1/05 - 12/31/05) | | | | | | |
|--|----------------------|------------------------|-------------------|----------------------|----------------------------|--------------------|
| Revenue Categories | Adopted | Actual | % Received | Projected | Change over Adopted | |
| | FY 2006 | 7/1/05-10/31/05 | To Date | FY 2006 | % | \$ |
| Secured Property | \$29,545,140 | \$225,730 | 0.76% | \$29,688,694 | 0.49% | \$143,554 |
| Unsecured Property taxes | 1,989,055 | 1,691,927 | 85.06% | 1,939,055 | -2.51% | (\$50,000) |
| Transfer tax | 12,500,000 | 6,033,087 | 48.26% | 13,300,000 | 6.40% | \$800,000 |
| Sales taxes | 14,103,880 | 4,135,943 | 29.32% | 13,903,880 | -1.42% | (\$200,000) |
| Utility users taxes | 14,276,294 | 4,455,736 | 31.21% | 14,442,142 | 1.16% | \$165,848 |
| Transient occupancy taxes | 2,728,000 | 1,055,887 | 38.71% | 2,900,000 | 6.30% | \$172,000 |
| Business license | 11,254,035 | 261,982 | 2.33% | 11,150,719 | -0.92% | (\$103,316) |
| Vehicle in lieu taxes | 4,516,642 | 285,469 | 6.32% | 5,069,291 | 12.24% | \$552,649 |
| Parking Fines | 9,202,981 | 2,459,435 | 26.72% | 8,365,000 | -9.11% | (\$837,981) |
| Moving Violations | 500,000 | 206,030 | 41.21% | 600,000 | 20.00% | \$100,000 |
| Interest income | 3,300,000 | 876,938 | 26.57% | 3,600,000 | 9.09% | \$300,000 |
| Ambulance fees | 2,371,080 | 805,757 | 33.98% | 2,371,080 | 0.00% | \$0 |
| Supplemental taxes | 1,291,620 | 150,143 | 11.62% | 1,500,000 | 16.13% | \$208,380 |
| Franchise fees | 1,464,015 | 353,195 | 24.13% | 1,464,015 | 0.00% | \$0 |
| Other revenue | 8,275,336 | 1,640,413 | 19.82% | 8,680,583 | 4.90% | \$405,247 |
| Transfers | 8,755,238 | 2,635,452 | 30.10% | 8,755,238 | 0.00% | \$0 |
| Total revenue: | \$126,073,316 | \$27,273,124 | 21.63% | \$127,729,697 | 1.31% | \$1,656,381 |

Highlighted Projected FY 2006 revenues indicate changes from the 12/13/05 First Quarter Update

General Fund Revenue Variance Analysis

Property Transfer Tax at +\$800,000

Property Transfer Tax FY 2006 Adopted Budget = \$12,500,000.

YTD Revenue (12/31/05) = \$8,212,360, or 4.3% more than the same period last year.

Revised projections for FY 2006 = \$13,300,000.

When staff presented the First Quarter Update to Council on 12/13/05, Property Transfer Tax revenues had experienced a downward trend over last year from September through November. It now appears that the situation has stabilized somewhat with a 6.5% increase in December over December 2004; and a YTD total for January comparable to January 2005. If this trend continues, these revenues are projected to show an overall decrease of 2.3% from FY 2005 total revenue, which is still a 6.4% increase over the amount adopted in the FY 2006 budget.

Interest Income at +\$300,000

Interest Income FY 2006 Adopted Budget = \$3,300,000.

YTD Revenue (12/31/05) = \$1,469,916, or 9.0% more than the same period last year.

Revised projections for FY 2006 = \$3,600,000.

This increase results from the Federal Reserve Board (the Fed) raising the Federal Funds rate higher than expected. The Federal Funds futures quotes are indicating that the Fed will increase the current rate of 4.25% to 4.75% by May 2006. The Fed's rate increases this year should result in a 20.8% increase over FY 2005 actual received revenue, and 9.1% over the amount adopted in the FY 2006 budget.

Real Property Taxes +143,554

Real Property Tax Revenue FY 2006 Adopted Budget = \$29,545,140

YTD Revenue (12/31/05) = \$15,325,456, or 6.8% more than the same period last year.

Revised projections for FY 2006 = \$29,688,694.

The increase results from the growth of assessed value in the County's Certification of Assessed Values for Property Taxes: now 8% vs. 7.5% upon which the adopted budget projection was based. This should result in an 8.1% increase over FY 2005 actual received revenue, and 0.5% over the amount projected and adopted in the FY 2006 budget.

Sales Taxes -\$200,000

Sales Tax Revenue FY 2006 Adopted Budget = \$14,103,880

YTD Revenue (12/31/05) = \$6,871,318, or 0.15% more than the same period last year.

Revised projections for FY 2006 = \$13,903,880.

While this is still a drop of 1.4% from the Adopted Budget amount, it is a significant improvement over the \$500,000 projected drop reported to Council in December. This improvement is primarily a result of a larger number (\$322,672) of late payments processed in the 3rd Quarter than were processed in the same Quarter last year.

Vehicle-in-Lieu Tax / License Fees¹ (VLF) +\$552,649

VLF Revenue FY 2006 Adopted Budget = \$4,516,642.

YTD Revenue (12/31/05) = \$360,148, or 87% less than the same period last year.

Revised projections for FY 2006 = \$5,069,291.

There is a huge gap between actual revenue received and projected revenue because the County did not receive the FY 2006 VLF Swap payment of \$2,502,064 until January 2006, while the FY 2005 payment was received in December 2004. After adjusting for timing issues, the VLF is projected to increase 3.7% over FY 2005, and 12.2% over the FY 2006 Adopted Budget amount.

Utility Users Tax (UUT) +\$165,848

UUT Revenue FY 2006 Adopted Budget = \$14,276,294.

YTD Revenue (12/31/05) = \$6,813,300, or 4.5% more than the same period last year.

Revised projections for FY 2006 = \$14,442,142.

UUT revenue from standard telephone is continually decreasing and revenue from wireless telephone is beginning to level off due to slower growth and lower fees. Both are in danger as Voice over Internet Protocol (VoIP) takes a larger share of the voice communication market, since VoIP is protected against local taxes by Federal rule.

UUT (and franchise fees) from cable are also under threat due to the rapid convergence of technology, the intense market competition between cable and telephone companies, and the legislative desire to classify any service (voice, video, or data) received via broadband as an “internet service” thereby removing it from local taxing authority. We can expect intense legislative and regulatory activity in these areas over the next 12 months, which will require diligent monitoring by staff and rapid response by policy makers.

Transient Occupancy Tax) TOT +\$172,000

TOT Revenue FY 2006 Adopted Budget = \$2,728,000

YTD Revenue (12/31/05) = \$1,579,930, or 22.9% more than the same period last year.

Revised projections for FY 2006 = \$2,900,000

This increase results from all but one of the nine largest hotels having close to or above double-digit growth. Based on current trends, FY 2006 TOT receipts are currently projected to increase 10.7% from the amount received in FY 2005, and 6.3% more than the adopted budget amount.

¹ In 2004, the Governor lowered the annual VLF to 0.65% from 2.0%. In the budget agreement between the Governor and cities and counties, the Governor agreed to backfill the 1.35% difference in VLF with property taxes from the Education Revenue Augmentation Fund (ERAF), in exchange for cities and counties taking cuts of \$350 million in FY 2005 and FY 2006. Berkeley’s share of the cuts is \$1.83 million each in FY 2005 and FY 2006. Beginning in FY 2006, the property tax in lieu of VLF will grow with the change in gross assessed valuation of taxable property in the City from the prior year.

Parking Fines -\$837,981

Parking Fines Revenue FY 2006 Adopted Budget = \$9,202,981

YTD Revenue (12/31/05) = \$3,905,795, or 4.5% less than the same period last year.

Revised projections for FY 2006 = \$8,365,000

Overall citations issued continue to be down. The adopted budget for Parking Fines revenue for FY 2006 assumed (1) productivity and efficiency increases due to the addition of one Parking Enforcement Supervisor position in FY 2006 to improve enforcement operations and productivity; and (2) increased ticket writing as a result of the addition of three parking enforcement officer positions in FY 2006. Since those employees will be hired later than expected, Parking Fines revenue for FY 2006 is expected to total \$8,365,000, which is \$105,142 more than the FY 2005 total, but \$837,981 less than the FY 2006 adopted budget amount. An update to the Parking Improvement Plan is also on tonight's agenda.

FY 2006 Other Fund Expenditures & Projections

The All Funds expenditures by department include both General Fund and all other operating funds (e.g., Refuse, Sewer, Parks, Library, etc.,).

| Department | FY 2006 Adopted | FY 2006 Adjusted | YTD Actuals | % of Budget Spent | All Expenditures Year-end Projected | Surplus/ (Deficit) | % Over/ Under |
|----------------------------|--------------------|---------------------|--------------------|-------------------------|--|-----------------------|------------------|
| Mayor & Council | 1,311,261 | 1,340,506 | 722,910 | 54% | 1,340,506 | - | 0.0% |
| Auditor | 1,733,325 | 1,738,073 | 734,238 | 42% | 1,594,831 | 143,242 | 8.2% |
| City Manager | 3,430,630 | 3,382,121 | 1,642,832 | 49% | 3,379,088 | 3,033 | 0.1% |
| Animal Care Services | 1,257,058 | 1,295,260 | 591,494 | 46% | 1,295,260 | (0) | 0.0% |
| Police Review Commission | 543,482 | 566,448 | 214,198 | 38% | 479,776 | 86,672 | 15.3% |
| City Attorney | 3,403,275 | 4,734,681 | 1,394,355 | 29% | 4,689,946 | 44,735 | 0.9% |
| City Clerk | 1,739,204 | 2,066,309 | 640,719 | 31% | 2,073,255 | (6,946) | -0.3% |
| Economic Development | 2,632,229 | 2,915,825 | 1,251,416 | 43% | 2,887,740 | 28,085 | 1.0% |
| Information Technology | 5,684,657 | 5,969,509 | 1,566,596 | 26% | 5,957,482 | 12,027 | 0.2% |
| Finance | 8,600,792 | 8,879,066 | 3,501,135 | 39% | 8,704,331 | 174,735 | 2.0% |
| Human Resources | 2,508,198 | 2,611,508 | 1,224,401 | 47% | 2,610,600 | 908 | 0.0% |
| Health and Human Services | 25,866,358 | 27,596,206 | 11,970,546 | 43% | 26,074,737 | 1,521,469 | 5.5% |
| Public Works | 73,962,357 | 97,574,167 | 35,917,447 | 37% | 95,722,776 | 1,851,391 | 1.9% |
| Parks and Waterfront | 23,222,990 | 26,692,458 | 9,419,957 | 35% | 26,812,673 | (120,215) | -0.5% |
| Fire | 24,233,314 | 30,707,640 | 12,481,106 | 41% | 31,120,896 | (413,256) | -1.3% |
| Police | 46,438,174 | 46,975,919 | 22,616,708 | 48% | 46,346,425 | 629,494 | 1.3% |
| Housing | 11,936,945 | 19,136,262 | 9,429,720 | 49% | 19,057,871 | 78,391 | 0.4% |
| Planning | 10,302,981 | 11,114,823 | 4,958,321 | 45% | 10,210,550 | 904,273 | 8.1% |
| Rent Stabilization Board | 3,105,390 | 3,129,877 | 1,408,081 | 45% | 3,067,128 | 62,749 | 2.0% |
| Library | 13,529,844 | 14,257,312 | 6,215,068 | 44% | 13,362,315 | 894,997 | 6.3% |
| Non-Departmental | 49,068,561 | 49,365,017 | 19,428,417 | 39% | 49,326,317 | 38,700 | 0.1% |
| Dual Appropriations Offset | -54,571,419 | -57,165,070 | | | -57,165,070 | - | 0.0% |
| Totals | 259,939,606 | 304,883,917 | 147,329,665 | 48% | 298,949,434 | 5,934,483 | 1.9% |

Assumptions:

- ⇒ Year-to-date payroll through 1/06/06; equals 50% of the payroll budget expended
- ⇒ Payroll projections include other salary adjustments effective 1/1/05 (equities)
- ⇒ Non-Personnel YTD expenditures through 1/20/06

FY 2006 Other Funds Forecast Analysis

Parks Tax Fund

The overall health of the Parks Tax Fund has improved since the projections included in the FY 2006 & FY 2007 Adopted Budget, and is attributed to the collection of additional revenue and non-personnel expenditures being less than originally projected. The Parks Tax revenue is tied to the CPI, which has experienced slow growth over the last 2 years. As the Parks Tax has no ability to generate additional revenue, other than what the CPI yields, it must rely strictly on expenditure reductions to balance the fund. The FY 2006 & FY 2007 Budget projected a \$1.6 million annual shortfall and included significant reductions to balance this shortfall. While there is still an annual shortfall between expenditures and revenues, given the improvement in the fund, the fund is relatively healthy through FY 2009. This may mitigate the need to take all of the planned reductions in FY 2007, and instead spread out reductions, as needed, over the next few years.

Refuse Fund

The Refuse Fund has depleted its fund balance and faces a deficit – especially in light of planned increased expenses in FY 2007 to bring the City toward the 75 percent recycling goal.

Recognizing this trend, significant expenditure reductions were implemented, as well as an 8 percent fee increase for refuse collection and a 20 percent increase in Transfer Station fees for the FY 2006 budget, and 8 percent overall fee increases in FY 2007. Even with the reductions and increased fees, the Refuse Fund is barely able to generate sufficient revenue to cover the costs associated with the collection of refuse in Berkeley with a 75 percent recycling goal and is projected to continue to experience an annual shortfall. The fund balance will be in deficit by the end of FY 2006, and although the fund will see some relief from savings due to reduced PERS rates and lower than expected medical cost increases, staff continues to closely monitor this fund.

Marina Fund

The docks rehabilitation project is scheduled to begin this fiscal year. The majority of the project is being funded through a loan from Boating and Waterways; however, the Marina fund is contributing \$1million to the project in addition to making the annual interest payments. A 12% berthing fee increase was implemented in FY 2006, but the revenue increase is not sufficient to cover budgeted expenditures and the fund is projected to run an annual shortfall through FY 2010. The fund balance will be exhausted by FY 2007, and while there are planned fee increases in subsequent years, this alone will not resolve the shortfall. Expenditure reductions were taken in FY 2005, FY 2006 and more are planned for FY 2007, but it is likely that additional reductions will be needed to bring the fund into balance.

Library Fund

The Library Fund is expected to experience annual shortfalls, as expenditures are not expected to keep pace with annual revenue increases in the Library Tax. As a result of the hiring freeze, not filling vacant positions, and limited non-personnel spending in FY 2005, the overall fund balance at the end of FY 2005 grew from approximately \$655,000 to \$1.7 million.

Starting in FY 2006, vacant positions are being filled and there will be significant increases in non-personnel spending to make up for the limited spending that occurred in prior years. These two factors, along with reopening the Central Library on Sundays, which began in September, are expected to result in the fund balance being spent down by almost \$1 million by the end of

the year. By the end of FY 2007, the fund balance is projected to be almost fully spent down and becomes negative in FY 2008.

Equipment Maintenance Fund

The Equipment Maintenance fund is projected to run a deficit of up to \$2.8 million by the end of FY 2006. Several factors contribute to this ongoing deficit, including an inherited historical deficit (from a time when equipment maintenance and replacement activities were charged to one fund), an unpredictable stream of revenue, and an inequitable burden of labor costs. Several years ago, the equipment maintenance and replacement activities were co-mingled and revenue and expenditures for both activities were accounted for in the same fund. This caused the large balance in the replacement fund (due to the nature of saving for large future purchases) to offset the annual costs of maintenance activities.

Once separated, it became clear that equipment maintenance did not generate sufficient revenue to support its operations. While the expenditures on the maintenance fund are relatively fixed (largely comprised of personnel costs), revenue is unpredictable as it is generated from departments purchasing equipment maintenance services on an as needed basis. If services are not required, revenue is not generated; however, staff and other non-personnel costs remain constant. In the next few months, staff will be reviewing the current maintenance rate structure, as well as the costs associated with performing the maintenance services – with a plan to balance the fund through sufficient revenues to support appropriate costs, and to eliminate the current fund balance deficit over the course of a few years.