

<p>2008-2009 MID-YEAR BUDGET REVIEW Section I</p>
--

STATUS OF GENERAL FUND EXPENDITURES

Overview

Overall, General Fund expenditures are tracking as anticipated and are expected to end the year within budget.

Several expenditure reduction actions are recommended in this document to address projected revenue shortfalls in 2008-2009 and to begin setting aside 2008-2009 Ending Fund Balance that was assumed in the development of the 2009-2010 Preliminary General Fund Forecast. These include the implementation of the Cost/Position Management Plans that will reduce expenditure budgets by \$9.4 million, the elimination of the \$5.8 million Street Maintenance and Repair Reserve, a reduction of \$3.5 million to Traffic Capital Program projects to offset the loss of General Fund revenue from

the Construction Excise Tax Fund, a reduction of \$1.0 million to the Fire Development Fee Program Reserve and Fee Program expenditures to offset lower revenue collections, and a reduction of \$1.4 million to City-Wide and Capital projects that have been determined to be no longer necessary. These downward adjustments are partially offset by the establishment of a 2008-2009 Ending Fund Balance of \$6.3 million, additional funding for Fire Department training (\$0.8 million), and other required adjustments (\$0.5 million).

The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

2008-2009 General Fund Expenditures through December
(\$ in Thousands)

Category	Current Budget	Y.T.D. Actual	% of Budget	Prior Year % of Budget
Personal Services	622,304	280,739	45.1%	45.0%
Non-Personal/Equipment	104,839	36,289	34.6%	30.8%
Other Departmental	14,267	5,647	39.6%	39.1%
City-Wide Expenses	141,127	48,257	34.2%	24.0%
Capital Contributions	49,378	6,457	13.1%	15.7%
Transfers	38,763	35,550	91.7%	99.3%
Reserves	119,442	-	0.0%	0.0%
Total	1,090,120	412,939	37.9%	35.4%

General Fund expenditures through December totaled \$412.9 million. This represents an increase of \$19.0 million, or 4.8%, from the December 2007 level of \$393.9 million. Encumbrances totaling \$54.1 million were also

\$6.0 million (12.5%) above the December 2007 level of \$48.1 million. Expenditures and encumbrances through December of \$467.0 million constituted 48.1% of the total 2008-

**2008-2009
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

2009 modified budgeted use of funds amount (excluding reserves) of \$970.7 million. This was generally consistent with the 46.1% experienced in last year's budget at this time.

Departmental Expenditures

Personal Services costs represent the largest single expense category for the City. These costs accounted for 68% of the expenditures to date. Through December, Personal Services expenditures for all City departments totaled 45.1% of the current modified budget, a slight increase from last year's level of 45.0% and slightly below budgeted expectations of 45.6%.

Non-Personal/Equipment expenditures of \$36.3 million are also tracking within anticipated levels with 34.6% expended through December. In addition to the funds actually expended, \$24.9 million was encumbered, bringing the total amount of funding committed to \$61.2 million, or 58.4% of the budget. These expenditures are expected to remain within budget for all departments.

The Other Departmental category includes the budget for the Mayor and City Council, Library Grants, and Parks, Recreation and Neighborhood Services Fee Activities. Other Departmental Expenditures totaled \$5.6 million or 39.6% of the budget. With encumbrances, the total amount committed increases slightly to \$6.0 million, or 42.3% of the budget.

As a cost savings measure, Cost/Position Management Plans are recommended as part of

Mid-Year Budget actions. Taking into account the \$8.7 million to be removed from General Fund appropriations as part of the Cost/Position Management Plan implementation (discussed elsewhere in this report), it is anticipated that departments will expend nearly all of their Personal Services and Non-Personal/Equipment allocations by the end of the year, but on an overall basis remain within budget.

Non-Departmental Expenditures

Through December, 34.2% of the City-Wide Expenses budget of \$141.1 million has been expended. With encumbrances, the total amount of funding committed equals 44.6% of the budget.

Within City-Wide Expenses, the Community and Economic Development and Strategic Support City Service Area categories represent the largest portion of funding. For the first six months of the year, these two categories are 62.3% and 36.4% committed, respectively. The expenditure tracking for these City-Wide allocations can vary significantly depending on payment schedules and the timing of projects. In some instances, the appropriations will not be fully expended by year-end because of the multi-year nature of some of these larger projects. Most of those savings will need to be rebudgeted to 2009-2010.

The Workers' Compensation Claims appropriation of \$15.2 million is a major component of the City-Wide Expenses - Strategic Support category. For the first half of the year, expenditures of \$6.9 million tracked

**2008-2009
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

Non-Departmental Expenditures (Cont'd.)

exactly at the anticipated level, with 45.6% of the appropriation expended.

General Liability Claims, another component of City-Wide Expenses - Strategic Support, is tracking below budgeted levels during the first six months of the year. Only 6.1% of the appropriation has been expended or encumbered. Expenditures in this category are traditionally difficult to predict, though, given the nature of litigation. The Budget Office and the City Attorney's Office will continue to monitor this appropriation as the year progresses.

Through December, the Sick Leave Payouts Upon Retirement allocation of \$13.1 million was only 25.8% expended. Expenditures, however, are expected to increase significantly in the second half of the year based on increases to the retirement levels of sworn personnel. The status of this appropriation will need to be monitored carefully for the remainder of the year.

The remaining City-Wide Expenses categories, Environmental and Utility Services, Public Safety, Neighborhood Services, and Transportation and Aviation Services, tracked at 32.0%, 46.5%, 44.1%, and 33.8% committed, respectively, through December. It is anticipated that the expenditure items within each of these City Service Areas will end the year within budgeted levels.

In an effort to maximize City-Wide expenditure savings, budget actions are recommended to reduce the funding that was carried over from 2007-2008 to 2008-2009 for a number of City-Wide appropriations as described in Section III of this document. It has been determined that these rebudgets are no longer needed in 2008-2009 and the budget actions are not expected to result in service impacts. A total of 11 projects would be reduced for savings of \$1.3 million. A reduction of \$76,000 to the Sunshine Reforms allocation is also recommended as part of the Cost/Position Management Plan implementation.

Through December, General Fund Capital expenditures totaled \$6.5 million and encumbrances totaled \$14.0 million, bringing the amount committed to \$20.4 million, or 41.4% of the budget. It is anticipated that the majority of the budgeted amount will be expended or rebudgeted to 2009-2010 to complete various capital projects. However, there are several recommendations in this document that would reduce these allocations. A \$3.5 million reduction to various transportation-related capital projects is recommended as part of the actions necessary to rebalance the Construction Excise Tax Fund. A reduction of \$548,000 to four projects is recommended as part of the Cost/Position Management Plans and an additional reduction of \$93,000 for two projects is recommended as a General Fund budget balancing solution. These transactions are described in Section III of this document.

<p>2008-2009</p> <p>MID-YEAR BUDGET REVIEW</p> <p>Section I</p>
--

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

Non-Departmental Expenditures (Cont'd.)

The Transfers category is 91.7% expended through December as anticipated. Almost all of the transfers are processed at the beginning of the year. A reduction of \$76,000 to the Transfer to the Vehicle Maintenance and Operations Fund is recommended as part of the Cost/Position Management Plan implementation.

There are no expenditures in the Reserves category because expenditures can not be

charged directly to a reserve. As part of the General Fund budget balancing actions, the elimination of the \$5.8 million Street Maintenance and Repair Reserve is recommended in this document. To maintain as much flexibility as possible to address more severe downturns in the economy and to plan for 2009-2010, no budget actions are recommended to reduce the Economic Uncertainty Reserve (\$15.3 million), the 2009-2010 Future Deficit Reserve (\$4.2 million), or the Contingency Reserve (\$30.9 million).

Discussion of Selected General Fund Departments

Expenditure Status (\$ in thousands)		
<u>Department</u>	<u>2008-2009 Budget</u>	<u>Y.T.D. Actual</u>
Fire	\$158,472	\$72,807

Overall, expenditures for the Fire Department were tracking above estimated levels through December.

Personal services expenditures of \$69.8 million through December were 46.5% expended, which is above the par level of 45.6%. Salary (46.7%), overtime (45.9%), and retirement (46.6%) expenditures tracked above par level while and health (43.9%) expenditures tracked within estimated levels. At this time, the Fire Department projects that overtime savings will be needed at year-end to offset higher salaries,

as the Department is tracking to exceed appropriated levels by year-end at the current rate of expenditures. Expenditures for salaries and retirement were tracking higher than estimated levels due to lower than anticipated vacancies. Overtime expenditures through December tracked higher than estimated primarily due to three unbudgeted activities: a new special operations training program, strike team deployments, and a higher number of staff on light duty and disability that required backfill.

2008-2009 MID-YEAR BUDGET REVIEW Section I

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments (Cont'd.)

Actions are recommended in this report to bring the personal services expenditures closer in line with budgeted levels. These actions include a Cost/Position Management Plan reduction of \$1.2 million (\$1.1 million from personal services) for three budgeted academies that were cancelled due to administrative delays. The elimination of 3.0 development fee funded positions accounts for an additional reduction of \$235,000 to Fire's Personal Services appropriation. These reductions are more than offset by \$2.1 million in upward adjustments in the following three areas: an increase of \$976,000 to recognize and appropriate reimbursement for strike team deployments; an increase of \$785,000 to fund the special operations training that has already taken place; and an increase of \$242,000 to cover the higher level of vacation payouts that have occurred due to significant retirements. Even with these corrections, the Fire Department will actively be taking additional actions to manage the Personal Services allocation in order to end the year within appropriated levels.

Through December, the Fire Department had a total of 273 filled paramedics (166 front-line, 5 Supervisors, and 102 support), compared to the 157 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. The July Firefighter Paramedic Academy graduated 24 Recruits in November 2008. All of these positions are expected to receive paramedic accreditation by March 2009. The next Academy will be held in April 2009. The Department projects that it will be able to maintain the target staffing level of 157 front-line Firefighter Paramedics.

The Department's Non-Personal/Equipment budget of \$8.2 million was 54.6% expended or encumbered through December and is expected to end the year within the budgeted allocation.

As part of this document, development-related reductions are recommended to bring Fire's development fee program expenditures in line with anticipated revenues. These include a \$1 million downward adjustment to budgeted revenue, elimination of 3.0 vacant positions, and use of \$765,000 of the Fire Fee Reserve.

Expenditure Status (\$ in thousands)		
<u>Department</u>	<u>2008-2009 Budget</u>	<u>Y.T.D. Actual</u>
Police	\$285,772	\$125,008

On an overall basis, Police Department expenditures are tracking within anticipated

levels and are expected to end the year within budget.

**2008-2009
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments (Cont'd.)

Personal Services expenditures of \$117.2 million were close to projected levels (45.1% compared to the par of 45.6%). Overtime expenditures of \$4.9 million through December, however, tracked above anticipated levels with 54.3% expended. A portion of the higher overtime expenditures was for staffing the "high" security threat level, or "Orange Alert" advisory, issued by the federal Department of Homeland Security at the Airport. Overtime expenditures through December related to the increased security threat level totaled \$402,000, with additional overtime of approximately \$553,000 projected through year-end. Accordingly, an increase of \$955,000 to the Department's Personal Services appropriation is recommended in this report, funded by a corresponding increase to the reimbursement to the General Fund from the Airport Operating Fund. In addition, the automated payouts for compensatory time over Fair Labor Standards Act (FLSA) levels (240 hours for non-sworn and 480 for sworn personnel) that were implemented at the beginning of 2008-2009 accounted for approximately \$786,000 of overtime expenditures through December.

The Department's Sworn Recruitment and Training Program aims to fill vacant positions with street ready officers within an average of 90 days. A total of \$6.4 million was budgeted in the 2008-2009 Adopted Budget to fund the Sworn Recruitment and Training Program. The Department has 1,392 authorized sworn staff and graduated 22 Police recruits from the July 2008 Academy, with the officers anticipated to be street-ready in April 2009. In addition, the

Department hired 47 Police recruits for the January 2009 Recruit Academy.

The compensatory time balance at the end of December 2008 was 242,923 hours for sworn personnel. This represents a decrease of 20,520 hours (8.4%) from the November 2008 balance of 263,443, but a 150 hour increase (0.1%) compared to the December 2007 balance of 242,773. The increase in sworn compensatory time balances continues to reflect a number of factors including responses to specific types of crimes which require immediate and intensive investigations, and the need to backfill for street-ready vacancies. A \$1.0 million buy down of compensatory time was approved in the 2007-2008 Annual Report, through a rebudget of Personal Services savings, to further assist the Department in maintaining MOA compliance and reducing the compensatory time balance liability to the City. This funding was used for a one-time buy-down of 100% of sworn personnel in the Bureau of Investigations (BOI) and 30% of sworn personnel in BFO over 240 hours. The Police Department will continue to monitor the balance and, to the extent possible, implement measures to curb the level of compensatory time accrued.

A total of \$13.4 million (51.6%) of the Department's Non-Personal/Equipment budget was expended or encumbered through December and is expected to end the year within the budgeted allocation.

**2008-2009
MID-YEAR BUDGET REVIEW**

Section I

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Contingency Reserve

Through December, the General Fund Contingency Reserve was at \$30.9 million, up by \$646,711 from the 2008-2009 Adopted Budget level of \$30.3 million. The following revisions to the Contingency Reserve were approved through December:

- An increase of \$534,642 to bring the Contingency Reserve to 3% of the budget based on the Annual Report actions.
- An increase of \$112,069 to reimburse the General Fund for prior year expenditures associated with the Willows Senior Center Fire Damage Repair Project.