



# MIAMI BEACH

OFFICE OF THE CITY MANAGER

NO. LTC # 129-2010

## LETTER TO COMMISSION

TO: Mayor Matti Herrera Bower and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager

DATE: April 28, 2010

SUBJECT: ANALYSIS OF BUDGET TO ACTUAL REVENUES AND EXPENSES FOR THE THREE MONTHS ENDED DECEMBER 31, 2009, WITH OPERATING BUDGET PROJECTIONS THROUGH SEPTEMBER 30, 2010 FOR THE GENERAL FUND

The purpose of this LTC is to provide the Mayor and Commission with the status of the FY 2009/10 budget to actual revenue and expenses at the end of the first quarter with projections through September 30, 2010. Based on the review, it is projected that, overall, there will be an operating budget shortfall of \$2.8 million (approximately 1%) in the General Fund, despite a projected revenue shortfall of \$1 million and despite the fact that only \$720,000 of the \$3.5 million in budgeted employee "give-backs" have been achieved at this time. This \$720,000 in employee giveback savings achieved to date is due to the merit increases frozen effective October 1, 2009 for GSA, unclassified and "other" employees only. The 2% pension contribution for GSA, unclassified and "other" employees will accrue to FY 2010/11 as explained further in this memo.

At this stage of projecting the fiscal year end, there are many issues still to be determined. The first 3 months of any fiscal year are not necessarily the most reliable indication of the remainder of the year, but do give us a first glance of potential issues. As you know, balancing the budget for FY 2010 was an extremely challenging exercise over a series of committee meetings. Certain assumptions on both revenue and expenditures were made that are still developing and will be adjusted in later projections. Those assumptions, as well as our continued effort at managing the City's resources and continued adjustments to revenues and expenditures line items throughout the year will affect our projections going forward.

To the extent the City is successful in negotiating similar employee "givebacks" with the other bargaining groups in the near future, this shortfall will be reduced. Further, the City will continue to work to address the shortfall, including pursuing further contracts savings by rebidding expiring contracts, holding off on hiring for non-essential positions, etc., in order to close-out the fiscal year in a position better than what is projected from the first quarter information.

### Overview

An analysis of the actual three month operating revenues and expenditures for the period October 1, 2009 through December 31, 2009, reveals an operating surplus of \$43,657,448. While the surplus as of December 31<sup>st</sup> seems unusual as compared to the shortfall projected for the year ending on September 30<sup>th</sup>, it should be noted that the City receives a greater percentage, historically approximately 60% of its ad valorem taxes in the first quarter.

LTC ANALYSIS OF BUDGET TO ACTUAL REVENUES AND EXPENSES FOR THE THREE MONTHS ENDED DECEMBER 31, 2009, WITH OPERATING BUDGET PROJECTIONS THROUGH SEPTEMBER 30, 2010 FOR THE GENERAL FUND

Page 2

Ad valorem tax revenues representing approximately 51% of total revenues have been almost 63% received, a similar level as of the first quarter of last fiscal year. The remaining 49% of revenues are approximately at the 22% level as of December 31<sup>st</sup> as compared to 27% as of the first quarter of last fiscal year.

The projected year-end operating revenues and expenditures through September 30, 2010, is, therefore, a more realistic snapshot of anticipated shortfall at this point in time. Further, while the actual revenues and expenditures presented are as of December 31, 2009, the projections have incorporated more recent information, as available.

A summary of preliminary projected General Fund Revenues and Expenditures as of September 30, 2010 is as follows:

<u>General Fund</u>	<u>Budget FY 2009/10</u>	<u>Projected Sept. 30, 2010</u>	<u>Budget/Projected Over/(Under)</u>
Revenues	\$ 226,336,026	\$ 225,329,577	\$ (1,006,449)
Expenditures	<u>226,336,026</u>	<u>228,143,168</u>	<u>1,807,142</u>
Surplus/(Deficit)	\$ -	\$ (2,813,591)	\$ (2,813,591)

While property tax revenues were significantly reduced in FY 2008/09 (2.3% of budget at year-end), we are projecting full collections this year. Although the exact amounts are unknown, the FY 2008/09 property tax revenues were impacted by appeals that continued into the current fiscal year. These outcomes from these appeals are therefore accruing to the FY 2009/10 fiscal year and may increase current property year tax revenues. On the other hand, there may be an impact from FY 2009/10 appeals that will result in revenues that will not be collected until FY 2010/11, however, at this point the extent and amount of the impact is unknown.

It is important to note that a component of the projected year-end revenues is, once again, due to Building permit revenues in excess of budget (Licenses and Permits). This is due in part to the ongoing review of permits at closeout, as well as the increased revenues from elevator inspection due to a catch up from prior year collections and increased elevator inspection fees adopted February 1, 2010. It is anticipated that these additional revenues will be at least partially offset by additional expenses in the Building Department as a result of increased elevator inspections to eliminate past due inspections, as well as the continuation of process improvement initiatives being implemented.

However, the General Fund budget had also assumed an increase of \$1.5 million in revenues outside of the Building Department due to the implementation of the new fee structure for Building Development Process Fees. The fee restructure was approved in January 2010 and became effective on February 1, 2010, thereby reflecting 7 months under the new fee structure instead of the 12 months budgeted, and projects that were initiated under the old process will continue to be in effect for some time. Further, building permit demand has decreased from prior years. While too early to project with any level of accuracy, the projections reflect a decrease from budget in the revenues from General Fund fees related to the Building Development Process.

In addition, the projections assume increased telephone and electricity franchise taxes (Other Taxes), slightly increased sales tax revenues (Intergovernmental Revenues), and increased Fire-Rescue Transport revenues, at least in part due to increased Fire-Rescue Transport fees approved by the Commission in February, 2010. These increases are anticipated to be partially offset by decreases in golf course revenues, fines and forfeit revenues, interest earnings, and miscellaneous revenue, in total resulting in an anticipated shortfall of \$1 million in General Fund revenues for FY 2009/10.

The expenditure projection continues to reflect the impact of pro-active initiatives by the City to reduce expenses below the adopted budget given the continued deterioration of economic conditions and the resulting impacts on the City's FY 2009/10 budget and for several years to come. These initiatives included the continuation of a modified hiring freeze, delayed hiring of other positions, re-bidding of contracts where appropriate to take advantage of the more competitive economic environment, close scrutiny of major purchases, and continuous evaluation of opportunities to reduce costs in all departments.

However, these savings are offset by approximately \$2.8 million from the impacts of merit and step increases as well as pension costs not included in the FY 2009/10 budget. Specifically, the operating budget assumed approximately \$3.5 million in employee givebacks including an increased employee pension contribution of 2 percent (\$2.055 million impact to the FY 2009/10 General Fund Operating Budget) and elimination of merits and steps across all salary groups (approximately \$1.4 million). Half of the budgeted salary savings from merits and steps has been achieved through implementation for the GSA bargaining unit as well as Unclassified and "Others" effective October 1, 2009 (approximately \$720,000). However, the remaining half anticipated from savings in the other bargaining units (IAFF, FOP, AFSCME and CWA) has not been achieved. The departmental projections reflect salary increases that have occurred through the end of March, 2010, while the amounts that are anticipated to occur over the balance of the year are reflected separately.

Similarly, the additional deduction of 2% from salaries for the employee pension contribution for all active GSA members who participate in the Miami Beach Employees' Retirement Plan (MBERP), as well as the Unclassified and "Others" employee groups simultaneously with the GSA salary group became effective with the pay period that began on January 18, 2010 (anticipated to generate approximately \$500,000 during FY 2009/10). However, as part of the terms and conditions of the Agreement with the GSA, the additional 2% pension contribution was to be placed in an Agency Account (where the City acts on behalf of the employee in collecting the funds and transmitting those funds to the appropriate agency) until such time as the employee contribution for all members of the Miami Beach Employees' Retirement Plan is finalized. Given that the City makes its employer annual required contribution (ARC) to the pension fund on October 1<sup>st</sup> of each year, the timing of negotiations has resulted in the City already making its required contributions for FY 2009/10 in full on October 1<sup>st</sup>, 2009. Should the additional 2% contribution also be collected from the employees in the CWA and AFSCME bargaining units, then the entire amount that is held in the Agency Account through September 30, 2010 shall be contributed to the MBERP effective October 1, 2010, thus reducing the use of other City funding sources to fund the City's ARC for FY 2010/11. As a result, while the City may realize pension savings from the 2% contributions already implemented for the GSA, Unclassifieds and "Others" salary groups should the remaining bargaining units agree to do the same, the savings to the City

realized from these contributions would then occur in FY 2010/11 rather than FY 2009/10. In addition, no agreement has been reached with the FOP and IAFF salary group regarding pension contributions to the Fire and Police Pension Fund. Thus the \$2.055 million in savings from the additional 2% contribution across all departments has been removed from the department projections resulting in each department showing greater expenditures than would otherwise have been.

Despite this impact, the excess expenditures across all departments is projected at only \$1.8 million (approximately 0.8% of budget). In essence reflecting savings initiatives of approximately \$1.0 million across all departments, net of the previously assumed personnel cost reductions of \$2.8 million which are no longer assumed to accrue to FY 2009/10.

It is important to note that this projection assumes that the Citywide operating contingency of approximately \$1 million will be fully spent. To the extent that it is not, the shortfall will be reduced. In addition, the City will continue to work to address the shortfall, including negotiations with the remaining unions (IAFF, FOP, CWA, and AFSCME) to freeze merits and steps as soon as possible to help address the shortfall and to implement the 2% pension contribution in a timely manner so as to be able to affect the City's contribution requirement for FY 2010/11.

For a detail of General Fund Revenues by category and Expenditures by Department, see attached schedule. Detailed comments on those revenue and expenditure categories with significant variances over \$300,000 are shown below.

### **General Fund Operating Revenues**

As of December 31, 2009, revenues collected were 43% of budget or \$97,555,416. Historically, the City receives approximately 60% of its ad valorem taxes in the first quarter, which must be considered when analyzing actual revenues and formulating year-end revenue projections. Year-end projections through September 30, 2010 which total \$225,329,577 indicate that revenues will be below budget by \$1 million or approximately 0.4%.

1. **Other Taxes** - This category includes franchise and utility taxes on services. Projections indicate that year-end collections will exceed budget by 5% or \$1.2 million. This is primarily due to an increase in revenues from phone services and electricity.
2. **Licenses and Permits** - This category includes licenses and building and special use permits. In part due to the delayed implementation of the City's new fee structure for Building Development Process fees as well as the downturn in the building industry, projections indicate that year-end collections will be below budget by 5% or \$727,000.
3. **Charges for Services – Golf Course Revenues** Projections indicate that year-end collections will be below budget by 6% or \$365,000. This is mainly due to lower than expected revenues which reflect the decline in visitor and group business for the Miami Beach and the Normandy Shores Golf Clubs as well as an unusually cold and rainy winter. However, this amount is projected to be offset by similar savings in golf course expenditures.

4. **Interest** - Projections indicate that year-end collections will be below budget by 11% or \$585,000. This is mainly due to reduced investment returns from long term investment vehicles that are maturing in the current fiscal year and will be reinvested at lower interest rates.
5. **Miscellaneous** – This category includes concessions, planning fees, and other reimbursements. Projections indicate that year-end revenues will be 4.6% below budget or \$392,000. This is due primarily to lower than anticipated revenues as a result of savings in the CIP Department and therefore lower cost allocations to capital improvement projects.

**General Fund Operating Expenditures**

As of December 31, 2009, actual expenditures were 24% of budget or \$53,897,968. Year-end projections through September 30, 2010 indicate that expenditures will be \$228.1 million, approximately 0.8% over budget.

Significant variances to budget in excess of \$300,000 by General Fund department are explained below:

**1. Building**

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
\$8,601,507	\$9,396,535	\$795,027

In addition to the impacts from unbudgeted FY 2009/10 merits and steps incurred through March 2010, and approximately \$115,000 from the pension contribution impact, the Building Department is projected to exceed its budget due professional services fees for increased elevator inspections (offset by increased revenues), the impact of not outsourcing permits clerks as of this time, as well as the ongoing space reconfiguration initiative as recommendations by Watson Rice as part of their performance and organizational review of the Building Department between 2008 and 2009. The space configuration project includes reconfiguration for electronic plan review on the second floor, records management, and reconfiguration of the lobby to be more customer friendly. Building Permit revenues in excess of budget (\$0.9 million) are more than sufficient to offset these additional expenditures.

**2. Parks & Recreation – Golf Courses**

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
\$6,295,105	\$5,924,328	(\$ 370, 777)

Approximately \$370,000 (6% of budget) is also anticipated from savings in expenditures at the City golf courses as a result of several cost savings measures introduced in response to reduced demand and corresponding reduced revenues at the golf courses.

**3. Parks & Recreation - Other**

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
\$22,764,119	\$22,274,507	(\$ 489,612)

Despite the impacts from unbudgeted FY 2009/10 merits and steps incurred through March 2010, and approximately \$205,000 from the pension contribution impact, approximately \$500,000 in savings (2% of budget) is anticipated in the Parks and Recreation Department from the rebidding and continued management of contracted landscaping cycles, as well as salary savings and savings across multiple operating accounts in the Recreation division.

**4. Police**

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
\$81,127,849	\$82,144,010	\$1,016,161

The Police Department is expected to overspend its budget by approximately \$1 million (1% of budget), of which \$740,000 is from the 2% pension contribution impact and the balance is primarily due to step increases that have occurred through March 2010.

**5. Fire**

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
\$50,900,788	\$52,041,978	\$1,141,190

The Fire Department is expected to overspend its budget by approximately \$1.1 million (2% of budget), of which \$530,000 is from the 2% pension contribution impact and the balance is primarily due to overtime above budgeted levels.

**6. Citywide Accounts**

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
\$10,601,432	\$9,843,432	(\$758,000)

Approximately \$750,000 in Citywide accounts, of which approximately \$350,000 is due to lower than anticipated overtime usage during the Super Bowl and Pro Bowl.

**CONCLUSION**

This analysis of budget to actual operating revenues and expenses for the General Fund with projections through September 30, 2010, provides the status of the FY 2009/10 General Fund Budget as of the first three months of the Fiscal Year. The Administration will continue to monitor revenues and expenses to ensure that we close the fiscal year in a positive position with overall revenues exceeding overall expenses.

JMG/KGB/JC

**FY 2009/10 General Fund Operating Summary Projection**

	<b>Adopted FY 2009/10</b>	<b>Actual Dec. 31, 2009</b>	<b>Projected FY 2009/10</b>	<b>Proj-Adptd Over/(Under)</b>
<b>REVENUES</b>				
Ad Valorem Taxes	\$ 103,809,283	\$ 70,389,192	\$ 103,809,283	0
Ad Valorem Taxes-S Pte Costs	9,896,609	2,474,152	9,896,609	0
Ad Valorem Cap.Renewal & Replace.	2,026,707	506,677	2,026,707	0
Ad Valorem Taxes-Norm Shores	95,795	23,949	95,795	0
Other Taxes	24,040,704	3,968,362	25,247,836	1,207,132
Licenses and Permits	14,526,875	5,495,227	13,800,137	(726,738)
Intergovernmental	9,172,470	1,620,544	9,299,562	127,092
Charges for Services	3,961,750	1,022,484	4,125,137	163,387
Golf Courses	5,731,538	1,250,486	5,366,538	(365,000)
Fines and Forfeits	3,182,000	493,499	3,037,200	(144,800)
Interest	5,336,000	704,789	4,751,000	(585,000)
Rents and Leases	4,578,161	530,733	4,288,091	(290,070)
Miscellaneous	8,590,050	1,614,979	8,197,598	(392,452)
Other - Resort Tax contribution	22,465,440	5,616,360	22,465,440	0
Other - Non Operating revenues	7,375,935	1,843,983	7,375,935	0
Reserve-Building Department Ops.	1,546,709	0	1,546,709	0
Fund Balance	0	0	0	0
<b>TOTAL REVENUES</b>	<b>\$ 226,336,026</b>	<b>\$ 97,555,416</b>	<b>\$ 225,329,577</b>	<b>\$ (1,006,449)</b>
<b>EXPENDITURES</b>				
Mayor and Commission	\$ 1,478,523	\$ 345,665	\$ 1,487,555	\$ 9,032
City Manager	2,293,523	591,021	2,322,154	28,631
Communications	914,249	213,994	914,249	0
City Clerk	1,567,479	358,458	1,555,204	(12,275)
Finance	4,416,396	1,121,991	4,428,104	11,708
Office of Budget & Perf Improve.	1,993,560	508,542	2,040,234	46,674
Human Resources/Labor Relations	1,764,137	422,936	1,784,877	20,740
Procurement	901,633	229,261	915,349	13,716
City Attorney	4,227,546	1,000,226	4,319,536	91,990
Real Estate, Housing & Comm Dev	860,446	205,645	871,302	10,856
Community Services	410,332	106,649	416,403	6,071
Homeless Services	673,763	113,426	686,296	12,533
Building	8,601,507	2,176,126	9,396,534	795,027
Planning	2,983,728	711,114	3,004,443	20,715
Tourism & Cultural Development	2,644,076	664,650	2,628,322	(15,754)
Code Compliance	4,094,956	972,741	4,201,572	106,616
Parks and Recreation	22,764,119	4,747,654	22,274,507	(489,612)
Golf Courses	6,295,105	2,074,654	5,924,328	(370,777)
Public Works	6,545,304	1,510,550	6,565,592	20,288
Capital Improvement Program	3,843,831	832,955	3,565,443	(278,388)
Fire	50,900,788	13,138,540	52,041,978	1,141,190
Police	81,127,849	20,273,911	82,144,010	1,016,161
Citywide Accounts	10,601,432	1,577,259	9,843,432	(758,000)
Citywide Acc-Operating Contingency	1,075,660	0	1,075,660	0
Citywide Accounts-Normandy Shore	147,377	0	147,377	0
Citywide Accounts-Transfers	1,182,000	0	1,182,000	0
Capital Renewal & Replacement	2,026,707	0	2,026,707	0
CWA/FOP/IAFF/AFSCME Steps/Merits	0	0	380,000	380,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 226,336,026</b>	<b>\$ 53,897,968</b>	<b>\$ 228,143,168</b>	<b>\$ 1,807,142</b>
<b>EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES</b>	<b>\$ 0</b>	<b>\$ 43,657,448</b>	<b>\$ (2,813,591)</b>	<b>\$ (2,813,591)</b>