MIAMIBEACH

OFFICE OF THE CITY MANAGER

NO. LTC # 264-2010

LETTER TO COMMISSION

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

FROM: Jorge M. Gonzalez, City Manager

DATE: October 5, 2010

SUBJECT: **ANALYSIS OF BUDGET TO ACTUAL REVENUES AND EXPENSES FOR THE NINE MONTHS ENDED JUNE 30, 2010, 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 third quarter with projections through September 30, 2010.

As we are now at the end of the fiscal year, the year-end estimate is more firm. However, there are still areas which we are continuing to refine particularly through the year-end close-out process, including the potential for appeals and refunds related to red-light camera revenues, the unusual impact on taxes from the delays in completing appeals for the prior fiscal year and the current fiscal year property tax revenues, and General Fund fee revenues related to the Building Development Process.

Summary

Based on the review, it is projected that, overall, there will be an operating budget shortfall of just under $750,000 (approximately 0.33%) in the General Fund, a considerable improvement from the second quarter projection of a $2.3 million shortfall and significantly less than the $3.5 million from the General Fund component of the FY 2009/10 budgeted employee givebacks which were uncertain at the beginning of the fiscal year. Revenues are projected to surpass the budget by 0.04%.

It is important to note that the City has successfully completed negotiations with all five unions and savings have been achieved for FY 2009/10 due to merit freezes effective October 1, 2009 for GSA, unclassified and "other" employees, and freezes in merits for AFSCME employees effective May 1, 2010. The 2% pension contribution for AFSCME and GSA (effective July 1, 2010) and for , unclassified and "other" employees (effective January 18, 2010) will accrue to FY 2010/11 as explained further in this memo.

Further, the City has worked 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 was projected from the second quarter information.

Overview

An analysis of the actual nine month operating revenues and expenditures for the period October 1, 2009 through June 30, 2010, reveals an operating surplus of $16,473,282. While the surplus as of June 30th seems unusual as compared to the shortfall projected for the year ending on September 30th, it should be noted that the City receives a greater percentage of its revenues in the first half of the year, Ad valorem tax revenues representing approximately 51% of total revenues have been just over 91% received, a similar level as of the third quarter of last fiscal year. The remaining 49% of revenues are approximately at the 66% level as of June 30th as compared to 67% as of the same period 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 June 30, 2010, 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:

General Fund	Budget FY 2009/10	Projected Sept.30,2010	Budget/ Projected Over/ (Under)
Revenues	$ 226,336,026	$ 226,429,150	$ 93,124
Expenditures	226,336,026	227,178,076	842,050
Surplus/ (Deficit)	**$ 0**	**$ (748,926)**	**$ (748,926)**

While property tax revenues were significantly reduced in FY 2008/09 (2.3% of budget at year-end), we are projecting collections to be 99% of budget for FY 2009/10, based on the latest information received and property tax collection levels in the last few months of the prior year.

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. As stated in prior quarterly reports, 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 8 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 improved from the second quarter estimate, the projections reflect a slight decrease from budget in the revenues from General Fund fees related to the Building Development Process.

In addition, the projections continue to 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. We are continuing to assume that these increases will be partially offset by decreases in golf course revenues, fines and forfeit revenues, interest earnings, and miscellaneous revenue. Consistent with the second quarter projection, we are now projecting red light camera collections for the current fiscal year will be significantly less than budgeted. This is primarily due to new legislation which provides that the state receive $83 of each fine from red light camera infractions leaving the City $75 rather than $125 in revenue. The legislation also includes restrictions of fines related to turning right on a red light that will likely reduce the overall number of citations issued. In addition, the full deployment of all 15 cameras did not occur mid-fiscal year as budgeted.

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 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 and the freezes in merits for AFSCME employees effective May 1, 2010 (approximately $800,000 across all funds).

Similarly, the additional deduction of 2% from salaries for the employee pension contribution for all active AFSCME and GSA members who participate in the Miami Beach Employees' Retirement Plan – MBERP -- (effective July, 2010), as well as the Unclassified and "Others" employee groups simultaneously with the GSA salary group (effective January, 2010) is anticipated to generate approximately $670,000 in FY 2009/10 across all funds. However, as part of the terms and conditions of the Agreements with AFSCME and GSA, the additional 2% pension contribution was 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. In September, 2010, the CWA agreed to the increased 2% pension contribution. Given that the City normally makes its employer annual required contribution (ARC) to the pension fund on October 1st 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 1st, 2009. As a result, while the City will realize pension savings from the 2% contributions already implemented for the AFSCME, GSA, Unclassifieds and "Others" salary groups, the savings to the City realized from these contributions will occur in FY 2010/11 rather than FY 2009/10. In addition, the FOP and IAFF salary groups agreed to a 5% health contribution effective July 1, 2010, thereby generating approximately $700,000 in health care savings.

It is important to note that this projection continues to assume 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.

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 June 30, 2010 revenues collected were 79% of budget or $178,621,692. Historically, the City receives a greater percentage of its revenues in the first half of the year, which must be considered when analyzing actual revenues and formulating year-end revenue projections. Year-end projections through September 30, 2010 which total $226.4 million indicate that revenues will be above budget by $0.09 million or approximately 0.04%.

1. **Other Taxes** - This category includes franchise and utility taxes on services. Projections indicate that year-end collections will exceed budget by 4% or $0.89 million. This is primarily due to an increase in revenues from phone services and electricity.

2. **Licenses and Permits-** This category is comprised of licenses and building and special use permits. Collections are projected to surpass the budget by 12%, mainly due to increase in revenues from the City Business Tax receipts, Certificate of Use and Building permits.

3. **Charges for Services – Non Golf Course Revenues** Projections indicate that year-end collections will be above budget by 17% or $0.66 million. This is due to recently implemented increases in transport fees.

4. **Charges for Services – Golf Course Revenues** Projections indicate that year-end collections will be below budget by 9% or $530,000. 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.

5. **Fines and Forfeits** - Projections indicate that year-end collections will be below budget by 21% or $671,000. This is mainly due to lower than budgeted fines from red light cameras.

6. **Interest** - Projections indicate that year-end collections will be below budget by 15% or $782,000. 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.

7. **Miscellaneous** – This category includes concessions, planning fees, and other reimbursements. Projections indicate that year-end revenues will be 4% below budget or by $308,000. 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 June 30, 2010, actual expenditures were 72% of budget or $162,148,410. Year-end projections through September 30, 2010 indicate that expenditures will be $227.1 million, approximately 0.4% over budget for the reasons noted above.

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	$9,453,586	$852,079

As outlined in the second quarter projection, in addition to the impacts from unbudgeted FY 2009/10 merits and steps projected through year-end, and approximately $115,000 from the 2% pension contribution impact, the Building Department is projected to exceed its budget due to 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 ($1.6 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	$5,723,731	($ 571,374)

Approximately $571,000 (9% 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	$21,775,232	($988,887)

Despite the impacts from unbudgeted FY 2009/10 merits and steps projected through year-end, and approximately $205,000 from the 2% pension contribution impact, approximately $988,000 in savings (4% 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	$82,424,797	$1,296,948

The Police Department is expected to overspend its budget by approximately $1.2 million (1.6% of budget), of which $740,000 is from the 2% pension contribution impact and the balance is primarily due to step increases that are projected through year-end.

5. Fire

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
$50,900,788	$52,441,908	$1,541,120

The Fire Department is expected to overspend its budget by approximately $1.5 million (3% of budget), of which $530,000 is from the 2% pension contribution impact, overtime above budgeted levels, and step increases that are projected through year-end.

6. Citywide Accounts

Budget FY 2009/10	Projected Sept. 30, 2010	Budget/Projected Over/(Under)
$10,601,432	$9,923,750	($677,682)

Approximately $677,000 in savings is projected in Citywide accounts, of which approximately $350,000 is due to lower than anticipated overtime usage during the Super Bowl and Pro Bowl. Accumulated leave payouts are also projected to be lower than budget by $200,000.

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 nine months of the Fiscal Year. The Administration continues to monitor revenues and expenses and make every effort to 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

	Adopted FY 2009/10	Actual June 30, 2010	1Q Projected FY 2009/10	2Q Projected FY 2009/10	3Q Projected FY 2009/10	Proj-Adptd Over/(Under)
REVENUES						
Ad Valorem Taxes	$ 103,809,283	$ 94,840,983	$ 103,809,283	$ 103,809,283	$ 102,298,560	$ (1,510,723)
Ad Valorem Taxes-S Pte Costs	9,896,609	9,041,616	9,896,609	9,896,609	9,896,609	0
Ad Valorem Cap.Renewal & Replace.	2,026,707	1,851,562	2,026,707	2,026,707	2,026,707	0
Ad Valorem Taxes-Norm Shores	95,795	87,515	95,795	95,795	95,795	0
Other Taxes	24,040,704	16,116,584	25,247,836	25,239,541	24,936,810	896,106
Licenses and Permits	14,526,875	12,789,921	13,800,137	14,837,428	16,315,806	1,788,931
Intergovernmental	9,172,470	6,285,022	9,299,562	9,374,282	9,428,100	255,630
Charges for Services	3,961,750	3,482,090	4,125,137	4,352,161	4,624,513	662,763
Golf Courses	5,731,538	4,148,687	5,366,538	5,321,538	5,201,538	(530,000)
Fines and Forfeits	3,182,000	1,698,903	3,037,200	2,321,274	2,511,209	(670,791)
Interest	5,336,000	(1,705,488)	4,751,000	4,519,000	4,554,000	(782,000)
Rents and Leases	4,578,161	3,859,959	4,288,091	4,631,479	4,869,915	291,754
Miscellaneous	8,590,050	3,743,308	8,197,598	8,233,351	8,281,504	(308,546)
Other - Resort Tax contribution	22,465,440	16,849,080	22,465,440	22,465,440	22,465,440	0
Other - Non Operating revenues	7,375,935	5,531,950	7,375,935	7,375,935	7,375,935	0
Reserve-Building Department Ops.	1,546,709	0	1,546,709	1,546,709	1,546,709	0
Fund Balance	0	0	0	0	0	0
TOTAL REVENUES	$ 226,336,026	$ 178,621,692	$ 225,329,577	$ 226,046,532	$ 226,429,150	$ 93,124
EXPENDITURES						
Mayor and Commission	$ 1,478,523	$ 1,056,718	$ 1,487,555	$ 1,473,155	$ 1,452,615	$ (25,908)
City Manager	2,293,523	1,651,747	2,322,154	2,322,154	2,288,383	(5,140)
Communications	914,249	628,448	914,249	919,972	880,954	(33,295)
City Clerk	1,567,479	1,069,577	1,555,204	1,555,204	1,531,045	(36,434)
Finance	4,416,396	3,274,537	4,428,104	4,448,129	4,440,929	24,533
Office of Budget & Perf Improve.	1,993,560	1,485,897	2,040,234	2,033,207	1,973,703	(19,857)
Human Resources/Labor Relations	1,764,137	1,242,819	1,784,877	1,755,101	1,732,414	(31,723)
Procurement	901,633	662,955	915,349	916,349	917,349	15,716
City Attorney	4,227,546	3,029,053	4,319,536	4,177,536	4,123,789	(103,757)
Real Estate, Housing & Comm Dev	860,446	622,943	871,302	876,302	824,226	(36,220)
Community Services	410,332	313,891	416,403	421,403	417,971	7,639
Homeless Services	673,763	457,702	686,296	688,296	692,748	18,985
Building	8,601,507	6,584,032	9,396,534	9,396,534	9,453,586	852,079
Planning	2,983,728	2,088,324	3,004,443	2,921,394	2,939,765	(43,963)
Tourism & Cultural Development	2,644,076	2,071,097	2,628,322	2,644,076	2,602,392	(41,684)
Code Compliance	4,094,956	3,008,885	4,201,572	4,166,462	4,157,106	62,150
Parks and Recreation	22,764,119	14,971,128	22,274,507	22,187,507	21,775,232	(988,887)
Golf Courses	6,295,105	4,511,423	5,924,328	5,859,324	5,723,731	(571,374)
Public Works	6,545,304	4,478,371	6,565,592	6,501,213	6,443,313	(101,991)
Capital Improvement Program	3,843,831	2,554,619	3,565,443	3,565,443	3,584,626	(259,205)
Fire	50,900,788	38,932,465	52,041,978	52,315,978	52,441,908	1,541,120
Police	81,127,849	60,598,248	82,144,010	82,262,351	82,424,797	1,296,948
Citywide Accounts	10,601,432	6,848,734	9,843,432	10,230,432	9,923,750	(677,682)
Citywide Acc-Operating Contingency	1,075,660	0	1,075,660	1,075,660	1,075,660	0
Citywide Accounts-Normandy Shore	147,377	0	147,377	147,377	147,377	0
Citywide Accounts-Transfers	1,182,000	4,797	1,182,000	1,182,000	1,182,000	0
Capital Renewal & Replacement	2,026,707	0	2,026,707	2,026,707	2,026,707	0
CWA/FOP/IAFF/AFSCME Steps/Merits	0	0	380,000	300,000	0	0
TOTAL EXPENDITURES	$ 226,336,026	$ 162,148,410	$ 228,143,168	$ 228,369,266	$ 227,178,076	$ 842,050
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	$ 0	$ 16,473,282	$ (2,813,591)	$ (2,322,734)	$ (748,926)	$ (748,926)