

**FY 2007-08 First Quarter
Analysis and Response to
Resolution #070798**

Finance and Audit Committee

October 17, 2007

Office of Management and Budget

Resolution #070798

- ✍ Section 1. That the City Council hereby directs the City Manager to immediately establish measures to address budget shortfalls that may develop in the current fiscal year in all programs receiving General Fund support and to restore the fund balance to adequate levels without reducing basic city services. These measures should consider immediate suspension of all new programs created or adopted with the FY 2007-08 budget and freezing the hiring of all personnel related to those new programs as well as all other support and administrative personnel not deemed essential to the provision of basic City services until such time as the City Managers plan is received and reviewed by the City Council.
- ✍
- ✍ Section 2. That the City Council hereby directs the City Manager to provide an interim plan within 60 days of the approval of this resolution and a final plan to address funding shortfalls within 90 days of the approval of this resolution.

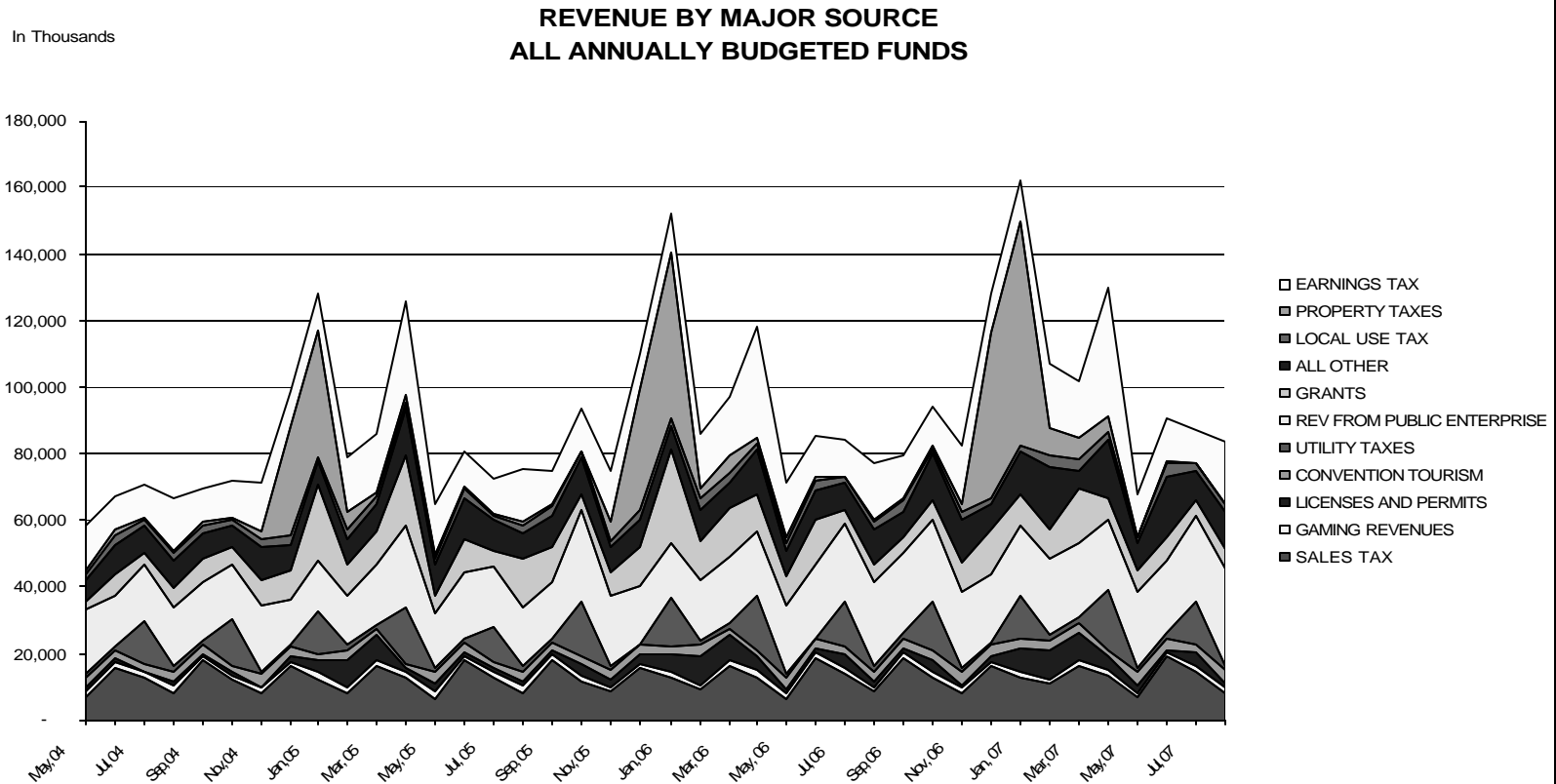
First Quarter Analysis

- ✍ A quarterly review of all revenues and expenditures in the City.
 - ✍ Performed annually by the Budget Office
 - ✍ Comparison of current revenue and expenditure projections to current budget
 - ✍ Develop plan to address any revenue shortfalls or expenditure overages that are occurring.
 - ✍ Sets the base for revenues for the upcoming budget.

First Quarter Analysis

- ✍ Presented as a worst case scenario.
 - ✍ All vacant positions filled for at least one-half the year. (Staff turnover is consistent, but variable)
 - ✍ All contractual services, commodities, capital outlay, and capital improvements funds spent by year end (Some funds will not be spent by April 30).
- ✍ Best estimate of revenues to be collected
 - ✍ Over 30% of general fund revenues collected in the last sixty days of the fiscal year.
 - ✍ For last several years, staff projected a revenue shortfall at first quarter, and realized a revenue surplus at year end.
- ✍ Focus on the General Fund Supported Funds
 - ✍ Supports the bulk of City operations

Revenue Collections by Month



First Quarter Revenues

✍ A “mixed bag” of news.

✍ Earnings tax collections (in millions)*

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u>
\$199.3	\$197.4	(\$1.9)	(1.0%)

✍ Property Tax collections (in millions)

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u>
\$104.7	\$108.5	\$3.8	3.6%

✍ Business Licenses (in millions)*

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u>
\$23.6	\$20.0	(\$3.6)	(15.1%)

* Denotes revenues received in last 60 days of fiscal year

First Quarter Revenues

✍ Utility Taxes (in millions)

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u>
\$69.9	\$72.1	\$2.2	3.2%

✍ Service Charges (in millions)

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u>
\$44.3	\$41.4	(\$2.9)	(6.5%)

✍ Gaming Revenues (in millions)

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u>
\$20.7	\$17.9	(\$2.8)	(13.5%)

✍ Court Fines (in millions)

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u>
\$20.8	\$17.4	(\$3.4)	(16.3%)

First Quarter Revenue Summary

General Fund Revenue Summary

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u> \$
\$467.6	\$459.4	(\$8.2)	(-1.8%)

Other General Fund Supported Funds

<u>Budget</u>	<u>Estimated</u>	<u>Difference</u>	<u>% Change</u> \$
\$145.3	\$143.2	(\$2.1)	(-1.5%)

Total Projected Revenue Shortfall for FY 2007-08

(\$10.4) million or 1.7% of budgeted revenues

First Quarter Revenue Summary

- ✍ Budget anticipated significant growth from revenue enforcement in earnings taxes and business licenses
- ✍ Base earnings tax growth has slowed to 2.5 to 3.5% reflecting slower growth in job creation.
- ✍ Housing slump is affecting service charge revenues
- ✍ Local gaming market continues to deteriorate.
- ✍ Court fines reflect slower implementation of downtown/neighborhood parking collaboration with KCPD / loss of red light camera revenue and continued uncertainty over vacant judges.

First Quarter Expenditure Analysis

- ✍ Projected \$7.7 million overage in General Fund expenditures.
 - ✍ \$4.4 million in overages in personal services.
 - ✍ Key Cost Drivers
 - ✍ Lack of departmental salary savings
 - ✍ Overtime costs in line departments
 - ✍ \$2.1 million in overages in contract costs
 - ✍ Key cost drivers
 - ✍ Workers compensation, outside legal assistance, leaf and brush drop-off costs, computer hardware maintenance
 - ✍ \$1.2 million in overages in commodities costs
 - ✍ Key cost driver
 - ✍ Gasoline

First Quarter Analysis

- ✍ Current projected shortfall of \$18.1 million in the funds supported by the General Fund.
 - ✍ \$10.4 million in projected revenue shortfalls
 - ✍ \$7.7 million in projected expenditure overages

Steps to Close the Gap

- ✍ **Slow down hiring of all positions**
 - ✍ Work to insure that departmental salary savings targets are achieved.
 - ✍ Hiring freezes in City Planning and Health and others as necessary
 - ✍ Create limited amount of new positions (new fee or expenditure offsets)

- ✍ **Eliminate all non-emergency overtime**

- ✍ **Eliminate some new programs**
 - ✍ Safe Cities (redundant with activities in Police)
 - ✍ Supplemental General Fund housing program (originally supported by red light camera and amnesty revenues).

- ✍ **Reduce all other non-essential spending (travel, training, equipment purchases, consultants)**

- ✍ **Don't panic: Review projections at mid-year to determine if situation is improving.**

Conclusions

- ✍ FY 2007-08 budget is “under some stress”
 - ✍ Certain revenue estimates appear to be optimistic given current state of local economy.
 - ✍ Significant impact as staff prepares the base FY 2008-09 budget.
 - ✍ Recent efforts at addressing market based employee salaries appear to be working which is lowering employee turnover.
 - ✍ FY 2007-08 budget shortfall can still be managed throughout the year.
 - ✍ Need to balance in context of citizen satisfaction efforts.
- ✍ Increases the difficulty associated with preparing a balanced FY 2008-09 budget.