

CITY OF PACIFICA  
COUNCIL AGENDA SUMMARY REPORT

January 28, 2008

Agenda Item No. 11

**SUBJECT:**

Mid-Year Budget Review Report

**ORIGINATED BY:**

City Manager and Administrative Services

**DISCUSSION:**

The primary purpose of the Mid-Year Budget is to review assumptions used in developing the fiscal year budget, particularly revenue assumptions and expenditures to date. The Mid-Year Budget is not a new fiscal year budget as the fiscal year budget is developed over a period of six months to address the Council goals and directions and requires significant planning, analysis and program development efforts on the part of staff. In essence, the Mid-Year Budget Review should be viewed as a "mid-point correction" to estimated revenues and expenditures due to updates and unanticipated events. Approval of the budget actions included in the Mid-Year Budget Review will address current year funding needs and process technical adjustments and corrections.

After a \$1.3 million deficit in 2006-2007, the Pacifica City Council adopted the 2007-2008 FY Budget on June 25, 2007. The budgeting process eliminated several positions, reorganized two departments and reduced services and supplies. The General Fund budget expenditures were \$23,929,290 and the revenues \$23,929,290.

Economic Environment:

Through December, the City's overall finances remained consistent with the budgeted assumptions, revenues tracked at estimated levels and expenditures remained within budgeted levels.

Each year the City receives property tax based revenue in mid-December. This year the City exhausted all available funds just prior to the receipt of the annual property tax. The City had anticipated this cash flow issue and in early August took pro-active steps to reduce expenditures, collect revenue and carefully review the filling of any vacant position. As a back up, the City also arranged for a \$2,000,000 line of credit in the event that the City was not successful in maintaining a sufficient cash flow. The City, utilizing vacancies and thoughtful expenditures, was successful in bridging a cash flow problem in November and December. Because of the monitoring and limited authorization to fill positions, the City did not have to utilize the "emergency" line of credit and did not incur any of the associated fees of the line of credit (\$3,750 processing fee and interest).

Emergencies:

The City in the past six months has provided personnel for several emergencies. The Fire Department's OES engine, Pacifica personnel to staff the engine, and two of Pacifica's Battalion Chiefs were dispatched to several fires in Southern California for a reimbursement of \$77,630. The City must provide personnel as well as the State's OES engine that is housed in Pacifica when requested. Our staff also responded to the Cosco Busan Oil Spill (\$32,000), ensuring that beach areas were closed and personnel were available if needed by the Office of Emergency Operations. Most recently, the City responded to the January storms with public works, police and fire personnel. The January storm event is estimated at \$100,000 (personnel and equipment costs

combined). All the costs for the three emergency events have been moved to the City's Disaster Accounting Fund (38) and it is anticipated that City will be reimbursed for most of the costs incurred in these declared disasters. Given the State of California's fiscal crisis and the Southern California fires, reimbursements may be delayed or reduced despite the City's request. Should reimbursement be declined, the General Fund will need to cover these expenditures.

#### Revenues:

The City received three significant revenues: \$3.35 million settlement with ABAG (Association of Bay Area Governments), \$800,000 for the sale of property (San Bruno/PGE) and \$52,115 for settlement in a pump repair project.

#### Economic Future:

The State of California declared a fiscal crisis and will be, over the coming months, determining how to deal with significant financial shortfalls. The City of Pacifica will inevitably be impacted by the State's crisis. There are several discussions regarding possible impacts that include the temporary reduction of each City's property taxes (Proposition 1A), loss of grant funding for social services, education and or public safety programming and reductions to County funding which may result in lost funding for cities. The most recent analysis from the California State Department of Finance and the League of California Cities on the Governor's Budget proposal suggests that the State may delay payments of the gas tax for the months of April through September to all cities. The result is the State will gain the interest on the gas tax and the cities will have to wait for their revenue. The City of Pacifica would "wait" for \$320,000 over the five month period.

The City can also anticipate a reduction in revenue from interest earned in the Local Agency Investment Fund (LAIF). The City of Pacifica, as well as many of other cities, deposits funds with LAIF. Not only does the City anticipate reduced interest from investments but also the probable reduction in property tax revenue as recently acquired properties begin to request reassessment through the County. The "trickle down effect" of the economic slow down will continue to influence the City's revenue from property taxes to permitting for remodeling.

The City began budget reductions in March of 2007 to address the FY 2006/07 deficit. Even after the cuts, the City continued a conservative approach to managing revenues and expenditures. The City's "soft hiring freeze" has forced vacant positions to remain open for several months to capture savings in salaries and benefits. Additionally, each department has been meeting quarterly with the City Manager and Administrative Services Director to insure that expenditures do not exceed the budget.

For future budget years, the City of Pacifica is preparing to address several new mandated and necessary expenditures. Pacifica, along with all cities, is obligated to address its liability in regards to Other Post-Employment Benefits (OPEB), which include pension and retiree medical. The City is currently working with an actuary to determine the liability and explore the pre-funding options prior to the 2009 deadline. On the horizon is the need to address a major capital project at the Waste Water Treatment Plant for the replacement of the UV disinfection system. The City is working with PGE and the California Energy Commission to determine possible funding strategies for this project. The City must also continue to address long-term debt obligations it has for the construction of the sewage treatment plant, police station and other capital projects.

#### Mid-Year Revisions

In reviewing the budget, there are two funds with revisions – the General Fund (GF) and the Sewer Facility Construction Fund (34). The other funds remain unchanged for the budget year. The following revenues and expenditures represent the mid-year corrections to the 2007-2008 FY Budget:

**Revenue Revisions:**

Parks, Beaches and Recreation:

Smart Kids Childcare grants –  
\$102,000 Fairmont Preschool and \$90,000 Smart Kids Start Up  
Approved at the 11-13-07 City Council meeting \$192,000 (GF)

Subsidized Childcare program with San Mateo Community College  
Approved at 11-13-07 City Council Meeting \$ 89,843 (GF)

Fire

Change in North County Fire Authority JPA Allocation formula  
(\$41,436 annually) Approved NCFCA JPA December 2007 \$ 20,718 (GF)

AMR Rental of Portable Housing Unit for Ambulance service \$ 22,500 (GF)

Police

Grant – Alcoholic Beverage Control (ABC) program \$125,000 (GF)  
Approved at June 25, 2007 City Council

Wastewater

CARB Grant = July 23, 2007 \$ 75,000 (34)

Other revenue:

ABAG Settlement \$ 3,350,000 (GF)  
PGE – San Bruno Property Sale \$800,000 (GF)  
Pump Repair Service - Settlement \$ 52,115 (34)

**Expenditure Revisions:**

Parks, Beaches and Recreation:

Addition: New preschool program, grant awarded \$192,000 (GF)  
Correction: Contractual services for DJ Teen dances \$ 1,000 (GF)

Correction: Insurance for private rentals \$ 3,000 (GF)

City Manager:

Addition: "Special Studies" line item for studies that will help will provide information  
in decision making that works towards financial stability.  
Approved at the November 13, 2007 City Council meeting. \$ 800,000 (GF)

City Attorney:

Addition: Unanticipated legal fees for current or pending litigation \$ 107,000 (GF)

Planning:

Correction:  
Part-time stenographer for minutes at the Planning Commission \$ 6,000 (GF)

Fire:

Addition: American Medical Response – Trailer \$ 12,000 (GF)  
Addition: Overtime for minimum staffing \$ 150,000(GF)

Wastewater:

Addition: Olympian to Sussex Drainage Project for preliminary engineering.  
Approved at City Council meeting of September 24, 2007 from GF reserves. \$ 20,000 (34)

Addition: Replacement of Linda Mar Electric Engine Driven Pump \$ 60,000 (34)

Addition: Repair to SBR - 2 (Sequence Batch Reactor) \$ 173,000 (34)  
Approved at City Council meeting of November 28, 2007

Addition: Bio-diesel \$ 75,000 (34)  
Approved at City Council meeting of July 23, 2007

Addition: Supplemental Environmental Project \$ 190,000 (34)  
Approved at City Council meeting of July 9, 2007

Public Works:

Addition: Replacement of generator at corporation yard \$ 40,000 (GF)  
(Provides power to both PW – 40% and Fire station 60%)

Addition: Radios for emergency communications \$ 25,000 (GF)  
25 vehicles based, 4 portable and 4 base units

Addition: Replacement of small tools damaged in January storm \$ 5,000 (GF)

Police:

Addition: Alcoholic Beverage Control \$125,000 (GF)

Addition: Overtime to cover for unexpected turnover \$ 50,000 (GF)

Non-departmental:

Addition: HEART membership \$ 14,728 (GF)  
Approved City Council meeting September 10, 2007

Addition: FEMA Consulting Services \$ 25,000 (GF)  
Approved City Council meeting November 11, 2007

Addition: Trail Maps \$ 6,500 (GF)

**FISCAL IMPACT:**

A comparison of the City's General Fund at the time the budget was adopted and at the mid-year budget review, including mid-year budget revisions of \$4,757,170 in revenue and \$1,799,172 in expenditures (includes Disaster Accounting Fund 38) is detailed on the City of Pacifica Resources and Requirements Fiscal Year 07/08 spreadsheet. With the approval of the mid-year budget revisions (both revenue and expenditures), the General Fund will have a balance of \$4,522,422 which is reserved for future years. The General Fund reserve, given the State's economic crisis and the predictions of a slowing economy, will be essential in the next two years to help the City of Pacifica meet any budgetary shortfalls, address the annual cash flow issue and fund mandated liabilities. It should also be noted that there is a possibility that the \$236,944 of Disaster Fund (January storms, oil spill and Southern California firestorms) may not be totally reimbursed or that reimbursement funds will be delayed and the General Fund will need fund these expenditures.

The Sewer Funds (18 and 34) were loaned \$700,000 from the General Fund to balance both funds for the 2007/08 FY. With the mid-year budget revisions, the Sewer Facility Construction Fund (34) will have a contingency of \$196,060 (15% of total project costs) and the Sewer Charge Fund (18) will have \$6,749 in contingency. Funding, with the contingency, should be adequate for the projected projects and expenditures.

**ATTACHMENTS:**

City of Pacifica Resources and Requirements Fiscal Year 07/08 (Mid-Year Budget)  
Resolution

**COUNCIL ACTION REQUESTED:**

1. Approval of the 2007-2008 Mid-Year Budget Review
2. Adoption of Resolution Adopting Mid Year Budget Adjustments for the fiscal year 2007-2008 FY

**CITY OF PACIFICA  
RESOURCES & REQUIREMENTS  
Fiscal Year 07/08**

**GENERAL FUND - 01**

	Budgeted 07/08	Projected 07/08	Difference
Beginning Cash Balance *	1,564,424	1,564,424	0
Revenues	23,929,290	28,686,460	4,757,170
<b>Total Resources</b>	<b>25,493,714</b>	<b>30,250,884</b>	<b>4,757,170</b>
Expenditures	23,929,290	25,728,462	1,799,172
Reserve for Future Years	1,564,424	4,522,422	2,957,998
<b>Total Requirements</b>	<b>25,493,714</b>	<b>30,250,884</b>	<b>4,757,170</b>

\*Beginning Cash Balance is Beginning of Fiscal Year

**SEWER CHARGE FUND - 18**

	Budgeted 07/08	Projected 07/08	Difference
Beginning Cash Balance *	-282,371	-282,371	0
Revenues	9,728,000	9,728,000	0
<b>Total Resources</b>	<b>9,445,629</b>	<b>9,445,629</b>	<b>0</b>
Expenditures	9,688,880	9,438,880	-250,000
Contingency	0	6,749	6,749
<b>Total Requirements</b>	<b>9,688,880</b>	<b>9,445,629</b>	<b>-243,251</b>

\*Beginning Cash is Fiscal Year Beginning Balance

**SEWER FACILITY CONSTRUCTION FUND - 34**

	Budgeted 07/08	Projected 07/08	Difference
Beginning Cash Balance *	319,720	319,720	0
Revenues	1,314,362	1,191,477	-122,885
<b>Total Resources</b>	<b>1,634,082</b>	<b>1,511,197</b>	<b>-122,885</b>
Expenditures	1,100,062	1,315,137	215,075
Contingency	534,020	196,060	-337,960
<b>Total Requirements</b>	<b>1,634,082</b>	<b>1,511,197</b>	<b>-122,885</b>

\*Beginning Cash is Fiscal Year Beginning Balance

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Resolution No. 08-2008

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PACIFICA  
ADOPTING THE MID-YEAR BUDGET ADJUSTMENTS FOR THE 2007/2008 FY

The City Council of the City of Pacifica hereby resolves to incorporate the following changes into the City's 2007/2008 FY as follows:

**Revenue Revisions:**

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SECTION 2. Transfers of Funds Between Departments

The City Council of the City of Pacifica may, by simple motion and second, passed by affirmative vote of three (3) members, transfer funds between departments as set forth in the departmental budget summaries.

SECTION 3. Transfer of Funds Within Departments

The City Manager may, by his written instructions, transfer funds between object classifications within a department as set forth in the budget details. A copy of such instruction shall be provided to each Councilmember.

SECTION 4. Transfers of Funds between Funds

Transfers of funds between funds as shown in the budget summary shall be made as expenditures warrant such transfers. Other transfers may be made by City Council Resolution adopted by affirmative vote of three (3) members.

Passed and adopted at a meeting of the City Council of the City of Pacifica held on the January 28, 2008, by the following vote:

AYES, Councilmembers: DeJarnatt, Digre, Hinton, Lancelle & Vreeland

NOES, Councilmembers: None

ABSENT, Councilmembers: None

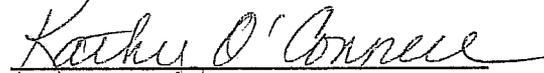
ABSTAIN, Councilmembers: None

  
James Vreeland, Mayor

APPROVED AS TO FORM:

  
Cecilia M. Quick, City Attorney

ATTEST:

  
Kathy O'Connell, City Clerk