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Audit and Finance Committee	5

Meeting Date: February 7, 2011

TOWN OF MORAGA STAFF REPORT

To: **Audit and Finance Committee**

From: **Emily Boyd, Interim Administrative Services Director**

Subject: **FY2010-11 Mid-Year Budget Review**

Request

Receive and discuss the midyear budget report for the FY2010-11. Provide recommendation to the Town Council regarding approval of the proposed amendments.

Background

The Town Council adopted the FY2010-11 Budget on June 23, 2010. This budget provided a working financial plan based on estimates of revenues and expenditures. At mid-year, actual financial transactions are compared to the adopted budget and estimates for the remaining six months are developed. Variances are evaluated and proposed budget amendments are presented to the Audit and Finance Committee (AFC). The AFC reviews the mid-year budget information and provides a recommendation to the Town Council.

Discussion

Attachment A contains a summary of Fund Balance Projections for all funds, along with individual fund budget detail. Included are actual amounts from FY2008-09 and FY2009-10, the original adopted budget for FY2010-11, the proposed amended budget for FY2010-11, and the amount of proposed changes. The following discussion highlights major changes. The General Fund is the only fund with proposed amendments.

General Fund

Staff is projecting net revenue from operations in this fund of $147,985, which is $101,429 less than the original budget amount of $249,414. The following table summarizes the proposed amendment of $101,429 decrease, the details of which can be found on page two of Attachment A.

	Proposed Amendment
Revenues	$ -
Transfers In	(142,285)
Total Revenue Change	$ (142,285)
Expenditures	
General Government	$ (50,159)
Police	32,435
Public Works/Eng	(28,416)
Parks & Recreation	5,354
Planning	(71)
Total Expenditure Change	$ (40,857)
Total Effect on Net Revenue	$ (101,428)

Revenues

While some of the General Fund revenue projections increased, others decreased, with a net effect of no change to the total revenue projection. When the original budget was prepared, a property tax estimate was developed. Contra Costa County provides the actual property tax revenue for the year in December, and this actual revenue is less than originally projected. Except for Parks & Recreation revenues (which were estimated to decrease), all other revenues are projected to increase from the original estimates.

Transfers In

Transfers-In has been reduced by $142,285. Since the Town shifted to a centralized budget in FY 2008-09, all of the Town's operating costs have been recorded in the General Fund even when revenues from other funds would be used to pay certain operating costs. The General Fund has been reimbursed from these Special Revenue Funds via transfers-in. The original budget estimates for transfers-in was overly optimistic and failed to factor in legal restrictions on the use of special revenue funds. The following table summarizes Transfers-In:

Transfers-In From	ADOPTED BUDGET FY 2010-11	PROPOSED BUDGET FY 2010-11	CHANGE
Fund 205 Gas Tax	$ 300,000	$ 237,150	$ (62,850)
Fund 210 Measure J	250,000	150,000	(100,000)
Fund 230 Traffic Safety	25,000	25,000	-
Fund 510 NPDES	200,000	220,565	20,565
Total	**$ 775,000**	**$ 632,715**	**$ (142,285)**

Gas tax is used for Street Maintenance operations, but must be matched with local General Fund dollars in order to comply with State regulations. Therefore, Moraga must expend approximately $150,000 of General Fund discretionary revenues. The total proposed budget for Public Works Street Maintenance is $387,150. Accordingly, the transfer-in from the Gas Tax fund has been adjusted to $237,150.

Measure J monies are restricted to Measure C and J implementation programs and street maintenance. No street maintenance projects have been assigned to Measure J funding. The General Fund expenditures for the implementation of Measure C and J were $144,640 in FY2009-10. Therefore, staff is recommending adjusting the Transfer-In from Measure J to $150,000.

National Pollution Discharge Elimination Systems (NPDES) funds are collected through an assessment collected from properties in Town. The funds are used to maintain compliance with the Town's NPDES permit and State Water Quality Resource Board requirements. In Moraga, these funds are used to improve water quality entering the creeks through creek maintenance, trash removal, construction site inspections, and public education. The accounting for this program is in the Public Works Storm Drain Maintenance program, which has a proposed budget of $220,565. Consequently, staff recommends transferring in $220,565 to the General Fund from the NPDES Fund.

Expenditures

Overall, expenditures are projected to be $40,857 less than originally budgeted. The following is a discussion of major proposed changes to the original budget, along with other pertinent financial information.

Town Council

In July 2010, the Moraga School District began charging the Town $53.50 per hour rent for use of the JM Auditorium where the Town Council holds its meetings. Unfortunately, this item was not included in the original FY2010-11 budget. Staff estimates the cost through June 30, 2011 to be $4,815. Contract services for the preparation of Council meeting minutes are expected to be $2,066 greater than the original budget, due to extraordinarily long meetings in October 2010. Minor changes in supplies and materials, memberships and dues, Mayor's Conferences, and community promotions increased the Town Council budget an additional $1,167. The amendment to the Town Council budget is an increase of $8,048.

Town Manager and Legal

The Town Manager budget projection is $231 less than the original estimate. Legal fees are expected to remain the same.

Town Clerk

November 2, 2010 election costs are projected to be $2,000 less than originally budgeted. Personnel costs are estimated to be approximately $3,915 less than the original budget. Supplies and materials, advertising, and copier costs have a combined increase of $127. The amendment to the Town Clerk budget is a decrease of $5,788.

Administrative Services

Administrative services costs declined by $53,373 due to a decrease in personnel costs of $38,193 and a decrease in contract services of $15,180.

Insurance and risk management are elements of the Administrative Services budget. The Town is a member of the Municipal Pooling Authority (MPA), a joint powers authority formed for the purpose of pooling resources to manage the insurance needs of the member organizations. As a consequence of this pooling arrangement, the Town's insurance costs have been manageable. The following table contains insurance costs for the last four years.

Type of Coverage	ACTUAL FY2007-08	ACTUAL FY2008-09	ACTUAL FY2009-10	BUDGET FY2010-11
Liability	$ 83,395	$ 43,692	$ 11,645	$ 16,699
Vehicles	1,857	1,790	1,254	513
Property	3,280	4,089	5,121	5,333
Claims Paid (under deductible)	1,590	3,806	5,100	7,500
Worker's Compensation	90,105	124,819	85,016	90,160
Employee Assistance Program	1,694	1,662	1,572	1,537
Wellness Program	1,326	1,476	1,296	1,855
Total	$ 183,247	$ 181,334	$ 111,004	$ 123,597

Premiums have been generally falling in the last few years, a benefit of belonging to a risk management pool. Liability, vehicle, property, and worker's compensation insurance rates are based upon the pooled insurance rate and the Town's experience modification factor. The Town has 11 police vehicles and 10 other vehicles, all insured for a total annual premium of $513. Vehicle physical damage deductibles are $3,000 for police vehicles and $2,000 for other vehicles.

All of the Town's facilities are insured for all fire and property damage, but not for earthquake. Earthquake coverage would cost approximately $36,000 per year, a cost that has been considered prohibitive.

Police

The Police Department, which includes the programs of Police Administration, Police Patrol, and Police Support Services, is projected to increase by $32,435 over the original budget, due primarily to an increase in police patrol overtime. The Moraga Police Department (MPD) operates 24/7 with only 11 sworn officers. The result of this thin staffing level is that when officers cover shifts for others who are out, either due to illness, vacation, or training, the shift coverage will be on overtime. Beginning this fiscal year, MPD changed from an 80 hour per pay period schedule to an 84 hour per pay period schedule, which eliminated the constant need for one day of overtime per week. This schedule change allowed staff to reduce the police patrol overtime budget projection for FY2010-11. However, it is impossible to accurately predict the number of overtime hours that will be required in advance. Staff vacancies, illness and the need for family leave cannot always be anticipated.

Public Works / Engineering

Public Works/Engineering is projected to have a decrease of $28,416 from the originally adopted budget. The majority of the savings are due to a reduction in contingency funds for annual operations. For example, money was budgeted to cover removal/replacement of amenities damaged by accidents or acts of God. At mid-year, staff evaluates the need for this contingency and this year the need has been reduced. Additionally, the energy efficiency projects are currently being implemented, which should lead to some energy savings for the second half of the year.

Parks and Recreation

The Recreation program is projected to have an increase of $9,255 over the original budget. Personnel costs are projected to decline $2,590, while merchant credit card processing fees are projected to increase $9,300. Supplies and materials, activity guide costs, and Town Crier costs increased a combined total of $2,545.

The Hacienda program is projected to have a decrease of $3,900 from the originally adopted budget. Personnel costs account for $3,235 of the decrease. Supplies and materials, and maintenance costs account for the remaining $665 decrease.

The total amendment to Parks and Recreation is an increase of $5,354.

Moraga's Parks and Recreation Department has been steadily growing over the last few years, making the department more cost effective and reducing the Town's subsidy. The following table summarizes the trend in recent years (numbers are a total of Hacienda and all other recreation programs):

	Actual FY2007-08	Actual FY2008-09	Actual FY2009-10	Budget FY2010-11
Revenues	$ 273,786	$ 379,113	$ 404,548	$ 465,998
Expenditures	$ 432,796	$ 523,095	$ 563,771	$ 540,428
Cost recovery	63.3%	72.5%	71.8%	86.2%
Cost recovery is the percentage of expenditures covered by revenues.				

Hacienda

The Hacienda is the location for many of the Town's recreational activities and community events. The following table summarizes the operating and maintenance budgets for the Hacienda. Hacienda recreation programs are paying for themselves and contributing a small amount to the maintenance costs. The net cost for the Hacienda is projected to be $163,409.

HACIENDA OPERATIONS		ADOPTED BUDGET FY2010-11		PROPOSED BUDGET FY2010-11
Recreation Programs				
Revenues	$	317,148	$	313,000
Expenditures		(310,023)		(306,123)
Sub-Total Recreation	$	7,125	$	6,877
Facility Maintenance		(168,544)		(170,286)
Net Income(Loss)	**$**	**(161,419)**	**$**	**(163,409)**

Planning

The Planning Department budget is projected to decrease $71 from the originally adopted budget. This decrease is a combination of decreases in personnel costs, communications, supplies and materials, copier costs, and advertising, offset by an increase in rents (primarily for JM Auditorium) and contract services.

CalPERS

The Town's employees are covered for retirement under the California Public Employees Retirement System (CalPERS) which is a defined benefit plan. The benefit to Public Safety (police) sworn officers is 2% @ 50. The benefit to Misc employees (all other employees) is 2% @ 55. These are the lowest benefit rates in Contra Costa County, although many cities in the State are currently negotiating reductions in their CalPERS rates with their employees (or future employees under a Two Tier System) to be more in line with Moraga's rates.

The Town is part of a cost-sharing multiple-employer defined benefit plan. CalPERS prepares an annual Actuarial Valuation report which determines the

next year's employer contribution rate. The Town received the Annual Valuation Report as of June 30, 2009 in October 2010. Assumptions used included:

- Investment Rate of Return 7.75%
- Inflation Rate 3.0%
- Payroll Growth 3.25%
- Age, service and type of employment of individual members

To the extent that CalPERS does not earn 7.75% on investments, the projected rates will fluctuate. However, the employer contribution rate only changes with a new fiscal year; it is not adjusted mid-year. Additionally, people, and men in particular, are living longer. Plans that have mostly male participants can expect as much as 2% addition to their rates due to this fact alone.

The actuarially determined employer contribution rate becomes the percentage of each employee's compensation the Town must contribute to CalPERS. Employee compensation includes regular salary, uniform allowance, on call, holiday fixed, shift differential, pager, education incentive, officer in charge, and field training officer.

The following table shows employer contribution rates for the past few years:

	Actual FY2008-09	Actual FY2009-10	Actual FY2010-11	Projected FY2011-12	Projected FY2012-13
Safety Plan	12.882%	12.781%	13.436%	19.169%	20.000%
Misc Plan	8.018%	8.134%	8.475%	9.539%	10.000%

The following table shows participant data for the past few years. Data for 2010 will not be available until the next actuarial report is issued in the fall of 2011.

	As of June 30		
	2007	**2008**	**2009**
Safety Plan			
Active	11	11	10
Transferred	0	1	2
Separated	0	0	0
Retired	1	1	4
Misc Plan			
Active	22	22	22
Transferred	15	14	16
Separated	11	16	16
Retired	15	18	20

Asset Replacement Fund

The Asset Replacement Fund was established in FY1990-91 to set aside monies for the purpose of replacing assets of the Town. Assets included in this plan are buildings, vehicles, technology equipment, furniture and fixtures. A schedule of assets, their original cost, estimated life, and estimated replacement cost was prepared and updated as assets were replaced. From this information, a calculation was developed to estimate how much money would need to be set aside in order to replace assets when they wore out over time. Each year, funds were transferred from the General Fund to the Asset Replacement Fund to make these replacements possible.

In FY2008-09, the Town decided to stop making transfers into the Asset Replacement Fund. However, the need to replace worn out or obsolete assets did not stop. Accordingly, the Asset Replacement Fund balance has been slowly declining as illustrated is the following table:

Fiscal Year	Actual/ Budget	Fund Balance at June 30
2007-08	Actual	$ 1,254,949
2008-09	Actual	923,448
2009-10	Actual	803,836
2010-11	Budget	722,118

Special Revenue Funds

Special revenue funds include the Gas Tax Fund, the Measure C/J Fund, the Traffic Congestion Relief Fund, the Lighting Assessment District Fund, and the National Pollution Discharge Elimination System District (NPDES) Fund. Revenues for the Lighting Assessment District and NPDES are based on assessments on properties. The other funds revenues are based upon a combination of population and sales tax.

Since FY2008-09, the Town has been operating under a centralized budget, wherein all costs are accounted for in the General Fund. Expenditures eligible for special revenue funding are reimbursed via transfers-in to the General Fund from applicable special revenue funds.

Capital Funds

Capital funds include Impact Fee funds, Park Dedication Fees, Grant funds, Prop 1B, Community Facilities/Open Space, and the Asset Replacement Fund. The FY2010-11 Budget included the Capital Projects budget of 9 projects with a total estimated cost of $3,053,450. All but $660,000 had identified revenue sources. Projects with unidentified revenue sources will not be undertaken. At this time, there are no proposed amendments to this capital improvement plan.

Fiscal Impact

Amendments to the adopted FY2010-11 General Fund Budget are a decrease to transfers-in of $142,285 and a decrease to expenditures of $40,857 (as outlined in the table on page 2 of this report) which is a combined decrease to the originally budgeted net revenues of $101,429.

Alternatives

1) Review report and provide recommendation to Town Council approving mid-year amendments to the FY2010-11 General Fund Budget.
2) Decline to provide recommendation to Town Council and provide direction to staff.

Recommendation

Review report and provide recommendation to Town Council approving mid-year amendments to the FY2010-11 General Fund Budget.

Report reviewed by: Jill Keimach, Town Manager

Attachments:

A. Fund Summary Mid-Year FY2010-11
B. Resolution Adopting Amended Budget