

**JOINT MEETING  
REPORT OF OFFICERS**

**DATE:** March 26

**TO:** Mayor and Members of the City Council

**FROM:** June Overholt, Administrative Services Director / Deputy City Manager

**SUBJECT:** FY 2012/13 Mid-Year Budget Review

**RECOMMENDATION:** That the City Council approve City Resolution No. 2012-38, the Banning Utility Authority Resolution No. 2013-06UA and the Successor Agency Resolution No. 2013-06SA authorizing the Administrative Services Director to make necessary budget adjustments to implement the mid-year analysis.

**BACKGROUND:** The budgets for the City, Banning Utility Authority and Successor Agency for FY 2012/13 were adopted on June 26<sup>th</sup>, 2012. Adjustments to the adopted budgets typically occur during the fiscal year as a result of unforeseen changes in revenue or expenditure requirements often due to an award of a grant or initiating a capital project. These changes require City Council or Agency Board action for approval. The purpose for the mid-year review is to determine if any budget adjustments are necessary to the operating budgets.

The Fund Summary Status is the primary budget document that is adopted, managed and evaluated throughout the year. Below are some observations about the report:

- The “Available Balance @ July 1, 2012” is updated during midyear to reflect the actual available balances from June 30, 2012.
- The Adjusted Revenue and Adjusted Expenditures include all authorized appropriations approved by Council from July 1, 2012 through December 31, 2012, plus any continuing appropriations/encumbrances that were carried forward. Finally, it includes the midyear budget adjustments.
- The “Projected (Proj) Balance @ June 30, 2013” shows the projected, estimated ending balances (reserves/fund balance). These will also be used as the starting point for the next budget cycle.

A complete list showing the adjustment requested for each affected account is contained in the detailed attachments for each resolution. Adjustments to the salary accounts have been summarized on one line for each affected fund. Adjustments to payroll basically reflect savings as a result of the negotiations with the various employee groups. The remainder of this report will highlight other significant changes to the budget of the major funds.

**General Fund**

The original General Fund budget was adopted as balanced. However, the budget message included several observations on how the budget was balanced including a component related to reductions in compensation by the employee groups. Negotiations with the bargaining groups are basically completed. Council has adopted several side letter agreements and resolutions related to those negotiations. Final Memorandums of Understanding (MOUs) are still being worked on for future adoption by Council.

The following table provides a summary of the net changes to the estimated General Fund budget. Adjustments made during the first six months of the year include continuing appropriations (police grants awarded in prior years where the reimbursement revenue had not been received or fully spent) and encumbrances (open purchase orders at year end where the work was still in progress at year end).

<b>General Fund</b>	
Beginning budget net gain (loss) to reserves	0
<u>Adjustments during first 6 months:</u>	
Encumbrances	(199,750)
Net continuing appropriations - grants	655,661
Net continuing appropriations - other	(61,615)
<u>Favorable budget adjustments (before midyear)</u>	<u>394,296</u>
<u>Midyear adjustments</u>	
ADD - net increases in revenue	458,403
ADD - net reductions in expenditures	45,100
<u>Favorable midyear adjustments</u>	<u>503,503</u>
<u>Revised net gain (loss) to General Fund</u>	<u>897,799</u>

REVENUES: Regarding the midyear revenue review, the net impact is an increase in estimates by \$458,403. The primary areas of improvement are:

**Midyear Adjustments to Revenues**

Sales tax	169,000	
RDA asset distribution	291,541	<i>(one time source)</i>
Transfer from water & refuse	73,000	<i>(offset by expenditure)</i>
Electric Administration Fee	91,000	
miscellaneous reductions - net	(166,138)	<i>(i.e. towing, interest)</i>
	<u>\$ 458,403</u>	

An improvement in sales tax is a good sign that the economy may be turning around. \$80,000 of this increase is expected from the Cabazon Outlets. -- The RDA asset distribution is a one-time source of revenue as a result of the Dissolution of the Redevelopment Agency. Part of the

process required the preparation of the Due Diligence Review (DDR) of the Low & Moderate Income funds. Once approved by the Oversight Board and the State Department of Finance, the assets identified in the DDR were distributed to the affected taxing entities. The City General Fund received its distribution. -- The increase in transfers from the Water and Refuse Fund is required to offset the related transfer out to the Gas Tax Fund. The City is required to comply with the Memorandum of Effort to participate in receiving Measure A funds. After going through the audit and discussing the requirements with RCTC, they required that the City change the budget presentation. The Midyear changes reflect those requirements. The expenditures show a similar increase. -- Electric Administrative fee revenues increased in relation to the increases in operating revenues. -- Net miscellaneous reductions include several increases and decreases in estimated revenues. The major changes were reductions in estimated interest income and CVC fines.

EXPENDITURES: The expenditure budget has been reduced by \$45,100, which results in a favorable increase in projected reserves. This is primarily budget savings expected due to vacancies throughout the first six months. Additional savings are likely to occur before year end. The adjustments to expenditures include net personnel savings of \$225,766, animal control savings of \$25,650 and other savings of \$21,459. These are offset by an increase in Recreation & Aquatics part time budget (\$34,666) and Police overtime budget (\$120,109). There is an increase in the Transfer to the Gas Tax Fund of (\$73,000), which has an equal offset on the revenue side.

ENDING BALANCE/ "RESERVES": The Balance @ June 30, 2013 is projected at \$2,954,678. This balance assumes that all revenues will be received as estimated and all expenditures will be expended as budgeted. This balance also includes the emergency contingency commitment of \$2.3M.

The Emergency Contingency Commitment of \$2.3M represents approximately 17% of the operating budget of \$13.6M. Each year the Council adopts the Budget and Fiscal Policies as part of the Budget document. The policy established a Contingency Commitment of a minimum of \$1.5M or up to 25% if funds are available. The policy was reduced from the prior year Commitment of \$3M in order to address the reduction in reserves during Fiscal Year 2011-12. Any increase in Reserves provides critical resources to the City for unexpected emergencies and resources to navigate projected budget deficits in the future.

#### Banning Utility Authority

The Utility Authority includes the Water, Waste Water and Reclaimed Water funds. The Water Operations fund has an improved financial outlook. This is important to meet the bond covenant debt coverage requirements. However, the Waste Water Operations fund has a projected deficit due to reducing the revenue estimates by \$300,000 based on trends. Similar to the Water Fund, there are bond covenants that require a 115% debt coverage ratio. The Authority has implemented the rates that were approved in 2010. Year three of the four year rate increase was implemented in September 2012 and is factored into the revenue estimates. Staff is in the process of initiating a new rate study to determine if additional rate increases are needed in upcoming years. Reserve balances for both utilities are still within the 10% reserve policy requirement. Both utilities still have a lean budget with virtually no operational capital projects that were contemplated when the rates were originally considered.

The operational funds for the utilities should be structurally balanced. Costs and operations should be funded through rates and fees collected from customers. The other utility related funds may function with a deficit since these typically are funded through revenue sources collected in prior years (i.e. development fees, bond funds) and are intended for major projects.

### Electric

The Electric Fund began the year balanced. However, the midyear review shows an operational deficit of \$1.2M. Although revenue estimates were increased by \$700,000, the expenditure budget has increased by \$2M, which led to the projected deficit. When the budget was approved, the budget message described a risk regarding operating costs with the San Juan facility. The actions to eliminate or significantly reduce the burden of operating the San Juan facility did not occur as anticipated. Staff will be providing an update on the San Juan facility at an upcoming Council meeting.

The Electric Fund also has bond covenants that require a debt coverage ratio of 115%. The Electric Operations have not met the requirement for the last couple of years. Staff has worked with Standard and Poor's to provide them with updates on the steps the City is taking to mitigate this problem. These actions include eliminating or reducing the operating costs with San Juan, which did not occur. The next step, currently in progress, is to evaluate rate increases. Staff will be presenting a rate increase proposal to Council at an upcoming Council meeting.

The projected ending fund balance meets the City reserve goal of 10% of operating expenditures.

### Other Funds

The other funds have been reviewed and adjusted as needed to reflect actual trends or to resolve deficit fund balances. The Fund Summary Schedule has been updated to reflect the midyear recommendations. Column 4 of the Fund Summary Schedule (Attachment A) indicates the expected annual effect of FY 2012/2013 activity. Most of the deficits (losses) are in capital funds that utilize existing fund balance to complete budgeted projects.

### Successor Agency (previously the CRA)


The midyear review for the Successor Agency attempts to align the budget with the items approved on the ROPS that cover this budget year, while trying to reflect the timing of receiving the RPTTF versus when it is spent.


### December Interim Financial Report

The December report provides a snapshot status of the budget and actual activity for the first six months of the fiscal year. The report focuses on the General Fund and provides information to assist readers in understanding the General Fund revenues and expenditures.

**FISCAL DATA:** The proposed resolutions will enable the Administrative Services Director to post budget adjustments to the accounts for the City of Banning, Banning Utility Authority and the Banning Successor Agency. The effects of these adjustments will be to change estimated revenues, expenditures and ending fund balances as shown on the Fund Summary Schedule (Attachment A).

**RECOMMENDED BY:**

  
\_\_\_\_\_  
June Overholt  
Administrative Services Director/  
Deputy City Manager

**APPROVED BY:**   
\_\_\_\_\_  
Andy Takata  
City Manager

CITY OF BANNING  
Fund Summary Status  
MidYear FY13 Projections  
FY 2012-13

#	FUND NAME	(1) Available Resources @ July 1, 2012	(2) FY 2012-13 Adjusted Revenue	(3) FY 2012-13 Adjusted Expenditures	(4) Proj. YTD Gain/(Loss) (Col. 2-3)	(5) Proj. Balance @ June 30, 2013 (Col. 1+4)
<b>Governmental Funds</b>						
001	General	2,056,879	14,498,682	13,600,883	897,799	2,954,678
	<b>Sub-Total</b>	<b>2,056,879</b>	<b>14,498,682</b>	<b>13,600,883</b>	<b>897,799</b>	<b>2,954,678</b>
<b>Special Revenue Funds</b>						
002	Developer Deposit Fund	-	222,904	222,904	-	-
003	Riverside County MOU	239,202	451,000	555,868	(104,868)	134,334
100	Gas Tax Street	685,141	921,300	1,433,747	(512,447)	172,694
101	Measure A Street	892,852	878,171	1,111,870	(233,699)	659,153
103	SB300 Street Improvement	147,857	725	51,870	(51,145)	96,712
104	Article 3 - Sidewalk Construction	13,319	300	-	300	13,619
110	C.D.B.G.	(5,274)	399,549	394,275	5,274	-
111	Landscape Maintenance Assmt. Dist.#1	216,964	133,474	138,246	(4,772)	212,192
132	Air Quality Improvement	172,746	20,250	43,000	(22,750)	149,996
140	Asset Forfeiture	2,496	-	-	-	2,496
148	Supplemental Law Enforcement	253,150	100,365	353,515	(253,150)	-
149	Public Safety - Sales Tax	24,629	4	24,633	(24,629)	-
150	State Park Bond Act	932	-	-	-	932
190	Housing Authority Fund	(45)	150,000	149,955	45	-
200	Special Donations	24,821	20,140	24,201	(4,061)	20,760
201	Senior Center Activities	67,602	3,800	15,935	(12,135)	55,467
202	Animal Control Reserve	4,891	-	-	-	4,891
203	Police Volunteer	3,693	-	1,080	(1,080)	2,613
300	City Hall COP Debt Service*	1,395	437,001	437,001	-	1,395
360	Sun Lakes CFD #86-1	34,923	50	-	50	34,973
365	Wilson Street #91-1 Assessment Debt	43,106	75	-	75	43,181
370	Area Police Computer	25,895	41,487	55,279	(13,792)	12,103
375	Fair Oaks #2004-1 Debt Service	183,260	201,753	202,103	(350)	182,910
376	Cameo Homes	45,653	100	-	100	45,753
	<b>Sub-Total</b>	<b>3,079,208</b>	<b>3,982,448</b>	<b>5,215,482</b>	<b>(1,233,034)</b>	<b>1,846,174</b>

CITY OF BANNING  
Fund Summary Status  
MidYear FY13 Projections  
FY 2012-13

#	FUND NAME	(1) Available Resources @ July 1, 2012	(2) FY 2012-13 Adjusted Revenue	(3) FY 2012-13 Adjusted Expenditures	(4) Proj. YTD Gain/(Loss) (Col. 2-3)	(5) Proj. Balance @ June 30, 2013 (Col. 1+4)
<b>Capital Improvement Funds</b>						
400	Police Facilities Development	33,888	100	-	100	33,988
410	Fire Facility Development	931,062	1,200	-	1,200	932,262
420	Traffic Control Facility	423,318	5,600	95,000	(89,400)	333,918
421	Ramsey/Highland Home Traffic Signal	80,465	150	-	150	80,615
430	General Facilities	475,268	1,200	-	1,200	476,468
441	Sunset Grade Separation Fund	(771,321)	2,858,728	2,085,866	772,862	1,541
444	Wilson Median	376,524	500	-	500	377,024
451	Park Development	155,860	250	132,046	(131,796)	24,064
470	Capital Improvement Fund	660,953	600	4,520	(3,920)	657,033
	<b>Sub-Total</b>	<b>2,366,017</b>	<b>2,868,328</b>	<b>2,317,432</b>	<b>550,896</b>	<b>2,916,913</b>
<b>Banning Utility Authority</b>						
660	Water Operations	4,096,397	9,640,000	8,719,084	920,916	5,017,313
661	Water Capital Facility Fee	4,756,585	322,500	887,182	(564,682)	4,191,903
663	BUA Water Capital Project Fund	2,474,553	2,750	770,000	(767,250)	1,707,303
669	BUA Water Debt Service Fund	86,391	2,289,405	2,288,905	500	86,891
	<b>Water Subtotal</b>	<b>11,413,926</b>	<b>12,254,655</b>	<b>12,665,171</b>	<b>(410,516)</b>	<b>11,003,410</b>
680	Wastewater Operations	1,206,444	2,917,159	3,047,615	(130,456)	1,075,988
681	Wastewater Capital Facility Fees	10,597,313	105,000	85,000	20,000	10,617,313
683	BUA WWtr Capital Project Fund	3,302,311	1,500	576,166	(574,666)	2,727,645
685	State Revolving Loan	768,565	302,000	300,103	1,897	770,462
689	BUA Wastewater Debt Service Fund	88,993	393,669	393,389	280	89,273
	<b>Wastewater Subtotal</b>	<b>15,963,626</b>	<b>3,719,328</b>	<b>4,402,273</b>	<b>(682,945)</b>	<b>15,280,681</b>
662	Irrigation Water	3,011,000	5,000	1,849,459	(1,844,459)	1,166,541
682	Wastewater Tertiary	3,398,365	344,000	-	344,000	3,742,365
	<b>Reclaimed Water Subtotal</b>	<b>6,409,365</b>	<b>349,000</b>	<b>1,849,459</b>	<b>(1,500,459)</b>	<b>4,908,906</b>
	<b>Sub-Total</b>	<b>33,786,917</b>	<b>16,322,983</b>	<b>18,916,903</b>	<b>(2,593,920)</b>	<b>31,192,997</b>
<b>Enterprise Funds</b>						
600	Airport	200,907	349,012	387,282	(38,270)	162,637
610	Transit Operations	-	1,987,482	1,987,482	-	-
690	Refuse	296,510	3,177,850	3,088,719	89,131	385,641
	<b>Subtotal</b>	<b>497,417</b>	<b>5,514,344</b>	<b>5,463,483</b>	<b>50,861</b>	<b>548,278</b>
670	Electric Operations	7,751,932	28,241,000	29,499,463	(1,258,463)	6,493,469
672	Rate Stability	5,935,907	60,000	-	60,000	5,995,907
673	Electric Improvement	8,643,598	1,504,195	3,238,212	(1,734,017)	6,909,581
674	2007 Elec Rev Bond Project Fund	15,116,679	-	6,968,384	(6,968,384)	8,148,295
675	Public Benefit Fund	200,817	669,750	691,345	(21,595)	179,222
678	2007 Elec Rev Bond Debt Service	389,611	2,672,330	2,674,330	(2,000)	387,611
	<b>Electric Subtotal</b>	<b>38,038,544</b>	<b>33,147,275</b>	<b>43,071,734</b>	<b>(9,924,459)</b>	<b>28,114,085</b>
	<b>Sub-Total</b>	<b>38,535,961</b>	<b>38,661,619</b>	<b>48,535,217</b>	<b>(9,873,598)</b>	<b>28,662,363</b>

CITY OF BANNING  
*Fund Summary Status*  
 MidYear FY13 Projections  
 FY 2012-13

#	FUND NAME	(1) Available Resources @ July 1, 2012	(2) FY 2012-13 Adjusted Revenue	(3) FY 2012-13 Adjusted Expenditures	(4) Proj. YTD Gain/(Loss) (Col. 2-3)	(5) Proj. Balance @ June 30, 2013 (Col. 1+4)
<b><i>Internal Service Funds</i></b>						
700	Risk Management Fund	527,416	2,384,584	2,444,943	(60,359)	467,057
702	Fleet Maintenance	601,923	1,097,404	1,103,886	(6,482)	595,441
703	Information Systems Services	127,573	389,073	425,478	(36,405)	91,168
761	Utility Billing Administration	173,510	1,529,799	1,523,062	6,737	180,247
	<b>Sub-Total</b>	<b>1,430,422</b>	<b>5,400,860</b>	<b>5,497,369</b>	<b>(96,509)</b>	<b>1,333,913</b>
<b><i>Successor Agency Funds</i></b>						
805	Redevelopment Obligation Retirement Fund	1,452,044	3,309,848	3,053,580	256,268	1,708,312
810	Successor Housing Agency	1,860,298	1,200	1,822,344	(1,821,144)	39,154
830	Debt Service Fund	40,804	3,502,504	2,921,380	581,124	621,928
850	Successor Agency	3,079,841	129,200	1,312,906	(1,183,706)	1,896,135
855	2007 TABS Bond Proceeds	9,163,090	4,770	603,165	(598,395)	8,564,695
856	2003 TABS Bond Proceeds	126,694	8,516	51,402	(42,886)	83,808
857	2003 TABS Bond Proceeds Low/Mod	586,254	1,200	150,000	(148,800)	437,454
	<b>Sub-Total</b>	<b>16,309,025</b>	<b>6,957,238</b>	<b>9,914,777</b>	<b>(2,957,539)</b>	<b>13,351,486</b>
	<b>GRAND TOTAL ALL FUNDS</b>	<b>97,564,429</b>	<b>88,692,158</b>	<b>103,998,063</b>	<b>(15,305,905)</b>	<b>82,258,524</b>