

To: Ed Meece, City Manager
From: Miral Gamradt, Finance Director
Jessie Hogg, Assistant Finance Director
Date: January 14, 2010
Re: Mid-Year Budget Review FY 2010

The purpose of this memo is to update the Commission on the status of the current year budget through the first six months and recommend amendments to the budget. For the next quarterly report, we will included an additional section which presents a trend analysis of selected funds, which will present the current year budget and its status in the context of the city's overall financial health.

Personnel – All Funds

A large component of governmental budgets is personnel. In municipalities, the significant nature of construction and infrastructure projects cause personnel to be a smaller percentage of the city's budget than in many other governmental entities (such as schools). Nevertheless, personnel costs remain a significant element of the city's budget.

Personnel costs, unlike infrastructure and construction projects, are highly predictable. We do have cyclical personnel costs in many areas such as part-time parks works, seasonal cemetery workers, etc., yet we are able to project personnel costs with a high degree of accuracy.

Shown on the following page is a table which shows total budgeted salaries, overtime and benefits for all funds of the city. Also shown are actual expenditures through the first six months of the year and the percent of the budget expended. As shown by the table, we have expended a total of 49% of the personnel budget, with 50% of the year elapsed. Personnel costs, which represent \$6.05 million of the city's total budget are precisely on target for the year. It would be nice if other areas of the city's budget were this predictable.

	Budgeted	Expended 12-31-09	Percent Expended
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Salaries & Wages	\$ 3,917,136	\$ 1,949,890	50%
Overtime	322,506	145,901	45%
Benefits	1,811,880	881,632	49%
	<u>\$ 6,051,522</u>	<u>\$ 2,977,423</u>	<u>49%</u>

Note: The State of Montana contributes toward the city's three retirement systems. The city does not actually receive or expend these funds, however, accounting rules require us to record the state's contribution as both a revenue and an expenditure. Actual expenditures shown above have been adjusted based on the state's budgeted contribution.

Review of Current Year Revenues & Expenditures

The city has many individual funds. However, the vast majority of the city's basic functions are encompassed in the primary operating funds listed below:

General Fund

Special Revenue Funds:

- Library
- Communications & Dispatch
- Street Maintenance District Fund

Enterprise Funds:

- Water Fund
- Wastewater Fund
- Solid Waste Fund
- Ambulance Fund

Most of the comments in this report will focus on these operating funds.

General Fund Revenues

We estimated we would collect \$3,090,621 of general fund revenues for the year. Through the first six months we have collected \$1,365,330, or 44% of the total budgeted general fund revenues. By comparison, the average general fund revenue collections during the first half of the year for the past three years, was 43%. Thus, the current year's general fund revenue collections are precisely on target based on our projections.

Prudent budgeting dictates that we are somewhat conservative in our estimates, yet remain realistic. Through the first six months, it appears our initial revenue estimates met these basic budgeting criteria. Listed below are some of the significant general fund revenue sources which warrant discussion.

Property Taxes. The city's initial budget was based on a mill value of \$10.270, which represented a projected increase in the mill value of 1.4 percent. The city's mill value actually amounted to \$10,514, or an increase of 3.8 percent, which was a pleasant surprise. The higher than expected increase in the city's mill value is reflective of the historical growth we experienced in our community. The additional tax revenue will help contribute to rebuilding the city's reserves.

At the time we prepare our budget recommendation, we have no information from the Department of Revenue concerning the changes to expect in the city's mill value. Fortunately, we were conservative in our estimate in addition to being relatively close to the final value.

We estimated we would collect \$1,435,246 of general fund property taxes for the year. Through the first six months we have collected \$580,662, or 40% of the total budgeted general fund revenues. By comparison, the average general fund revenue collections during the first half of the year for the past three years, was 35%. Thus, the current year's general fund revenue collections are 5% ahead of our target based on our projections.

Building Permits. We budgeted a total of \$57,000 of building permit revenue for the year. Through December we have collected \$26,598, or 47% which shows we are very close to our projections. Last fiscal year, we received \$56,952. It appears our decline in building permit revenue has stabilized to some extent from our prior years' growth period.

Pre-paid Building Permits: While this issue is not a current year revenue, it is a significant item that warrants discussion.

In prior year's financial statements of the city, we reported a liability in the general fund of \$183,732. This liability related to prepaid building permits that were purchased by developers in two subdivisions. The building permits were paid for in advance in an effort to avoid paying impact fees, since impact fees were not in place at the time the building permits were purchased. Our building department performed the plan reviews associated with the pre-paid building permits and other on-site building inspection services.

The city has adopted the IBC (International Building Codes). The IBC states in part:

“Every permit issued shall become invalid unless the work on the site authorized by such permit is commenced within 180 days after its issuance, or if the work authorized on the site by such permit is suspended or abandoned for a period of 180 days after the time the work is commenced.”

As a result of this section of the code, the building permits that were paid for in advance expired, since the 180 day time limit expired.

When the building permits were purchased, something of value was purchased. That value being:

- 1) The right to build prior to the permit expiring;
- 2) The ability to avoid impact fees;
- 3) The plan reviews done by our building department.

As the result of the preceding facts, we made an argument to our auditors that the prepaid building permit fees have been forfeited. The auditors agreed with our position and the liability on the city's financial statements has been removed. The effect of this change is that the city's general fund balance at June 30, 2009 was increased by \$183,732.

State Entitlement/Reimbursement. This revenue source is in essence state revenue sharing. Several years ago, cities and counties received several individual revenue sources including: beer tax, wine tax, and a portion of video poker machine tax revenue. The state began receiving these tax revenues and in return distributed state entitlement revenues to cities and counties. This revenue source is highly predictable. We budgeted \$885,462. Through the first six months, we have received \$442,701, which is 49.99% of what we budgeted. Significant revenue

sources like this, certainly contributes to our ability to make accurate general fund revenue estimates.

Police Department TASER Grant \$13,206. After our budget was approved, we received notice of a TASER Grant from the Montana Board of Crime Control. This grant was for 12 Tasers and associated training. This will be presented as a budget amendment for both the revenues and expenditures at the end of this report.

In total, our general fund revenues are right on target, with the possibility of collecting slightly more than we anticipated. In addition, due to the pre-paid building fees, our general fund balance will start out significantly higher than we expected.

Special Revenue Funds

Street Maintenance District. We ended last fiscal year with a deficit of \$158,867 in the Street Maintenance District Fund. The deficit was caused from taking advantage of an exceptional bid – by adding streets we hadn't planned to do. We have not scheduled any major capital projects in the current year, which will allow this fund to end the year with a positive balance. We are projecting a positive balance in the SMD fund of approximately \$80,000 at June 30, 2010.

Gas Tax. We have collected exactly ½ of our \$154,472 gas tax revenue estimate as of the end of December.

Stimulus. Through the end of December, we have received 90% of our Stimulus allocation of \$134,301. This is the standard distribution to local governments, once they submit their plan as to how their funds will be used.

Enterprise Funds

Water Fund - Water operating revenues (metered water sales) represent the vast majority of our water fund revenues. Total estimated metered water sales for the year were \$1,200,000. Our metered water sales are slightly behind collections through the first six months of the year, as compared to previous years. As of the end of December of the previous three years, we collected an average of 61% of the yearly revenues. In the current year, we have collected 57%, or 4% less than the average of the three prior years.

Wastewater Fund – Wastewater operating revenues (metered wastewater sales) represent the vast majority of our wastewater fund revenues. Total estimated wastewater revenues for the year were \$1,435,000. Our sales are slightly behind collections through the first six months of the year, as compared to previous years. As of the end of December of the previous three years, we collected an average of 52% of the yearly revenues. In the current year, we have collected 51%, or 1% less than the average of the three prior years.

Solid Waste Fund – Garbage collection charges represent the vast majority of our Solid Waste Fund revenues. Total estimated garbage collection charges for the year were \$1,055,750. Our collections are slightly behind collections through the first six months of the year, as compared to previous years. As of the end of December of the previous three years, we collected an average of 51% of the yearly revenues. In the current year, we have collected 46%, or 5% less than the average of the three prior years.

General Fund Expenditures

Through the first six months of the fiscal year, we have expended exactly 50% of our general fund appropriation. In the prior three years, at the end of December, we had expended 48% of our final general fund expenditure total. We are two percent ahead of the average of the prior three years. In the current year, we have fully expended the amount for three capital items, including the TASER grant, the JAG grant, and two police cars. Another factor accounting for being slightly ahead of prior years is due to the fact that we have had few vacant positions. Our personnel budget, which consists of 69% of our general fund expenditures, is precisely 50% expended. In total, our General Fund expenditures are progressing as expected.

Special Revenue Fund Expenditures

Stimulus Projects: Listed below is a table which shows each of our Stimulus Projects, the approved amount, the amount expended through the first six months of the year, and the remaining balance. Recently, the state has cut back on its reporting requirements. We now only have to report on a quarterly basis, where as in the past, we had to report on a monthly basis.

City of Livingston Stimulus Project Status

As of December 31, 2009

	Project 1 Underground Sprinkler System in Sacajawea Park	Project 2 Rehabilitaton of Tennis Courts	Project 3 Rehabilitation of Civic Center *	Project 4 Montana/Gallatin Street Connector Path	Project 5 Underground Sprinkler System in Mike Webb Park	Project 6 Mobile Speed Alert Sign	Total
Approved Budget	\$ 32,000	\$ 21,600	\$ 55,008	\$ 5,000	\$ 14,000	\$ 6,693	\$ 134,301
Total Expenditures	-	21,600	37,027	-	-	6,693	65,320
Remaining Balance	\$ 32,000	\$ -	\$ 17,981	\$ 5,000	\$ 14,000	\$ 0	\$ 68,982

Street Maintenance District: We have expended 35% of the Street Maintenance District budget after the first six months. Personnel are at exactly 50% expended. We have some debt service costs yet to pay and we have a capital budget of \$180,000 (used dump truck & a sweeper) for which we have only expended \$25,000. This caused our expenditures to be under 50% at mid-year.

Enterprise Fund Expenditures

Water Fund

Personnel costs in the water fund are at 48% expended at mid-year—just slightly under 50%. In total, the water fund has expended 59% of its budget at mid-year. Because capital costs are sporadic, a comparison to prior year's expenditure is not valid. We must look at capital costs on a year by year basis. In the current year, we have expended the entire budget for the water line replacements that occurred this fall, which amounted to \$326,337. This item by itself accounts for the fact that we have spent over 50% of our expenditure budget at the half way point. If it were not for this capital item, we would be at 45% expended at mid-year.

Wastewater Fund

Personnel costs in the wastewater fund are at 50% expended at mid-year. In total, the wastewater fund has expended 30% of its budget at mid-year. Because capital costs are sporadic, a comparison to prior years is not valid. We must look at capital costs on a year by year basis. In the current year, we have only expended 15% of the amount budgeted for the Digester Project. If it were not for this capital item, we would be at 47% expended at mid-year.

The Digester project was originally estimated at \$1,450,000 during our FY 2010 budget work sessions with City Commission last May 2009. The final budget approved by the City Commission was based on this amount. In a letter dated August 28, 2009 from the State Department of Natural Resources & Conservation (DNRC), we received an updated budget for the project. This updated budgeted totaled \$1,663,000, resulting in an additional \$213,000. Thus, the budget approved by the Commission was not adequate based on the revised cost of the project. This will be presented as a recommended budget amendment at the end of this report.

On November 6, 2009, we received a letter from DNRC indicating that the terms of our loan would be modified. Specifically, \$390,700 of the loan would be forgiven. The interest rate on \$359,300 would be reduced from 3.75% to 1.75%. The modifications to the loans were possible due to some cities and towns not taking advantage of the available Stimulus Funds. This was obviously good news for the City of Livingston. In recent conversations with DNRC, we were informed that additional Stimulus funds could come available for the same reason. Shown on the following page is a summary of the funding for this project.

Digester Project Funding Summary

<u>Description:</u>	<u>Amount</u>
Treasure State Endowment Program (Grant)	\$ 500,000
DNRC (Grant)	100,000
America Recovery and Reinvestment Act (AARA)	
Loan to be Forgiven	390,700
America Recovery and Reinvestment Act (AARA) Loan	
Loan Rate Reduced from 3.75% to 1.75%	359,300
State Revolving Loan Fund Loan 3.75%	
Balance of Original \$1,063,000 left after AARA Funding	313,000
Total	\$ 1,663,000

Solid Waste Fund

Personnel costs in the solid waste fund are at 50% expended at mid-year. In total, the solid waste fund has expended 44% of its budget as of the end of December. Because capital costs are sporadic, a comparison to prior years is not valid. We must look at capital costs on a year by year basis. In the current year, we have only expended 25% of our \$90,000 capital budget. This contributes to the fact that we are less than 50% expended for the year. Because we expect actual revenue collections to be down in the solid waste fund, we do not plan to purchase the scale and scale shack budgeted at \$70,000.

Summary of Budget Amendments

Wastewater Digester Project. See explanation under Wastewater Fund above. Total expenditure amendment: \$213,000.

Police Department TASER Grant. See explanation under General Fund revenues & expenditures above. Total revenue & expenditure adjustment: \$13,206.

Summary of Adopted Budget & Recommended Budget Amendments

	Adopted Budget	Recommended Mid-Year Amendments	Recommended 3rd Quarter Amendments	Recommended 4th Quarter Amendments	Revised Budget
Projected Beginning Fund/Working Capital Balance	\$ 2,925,431	-			\$ 2,925,431
Total Estimated Revenues	13,958,523	13,206			13,971,729
Budgeted Expenditures	(13,948,394)	(226,206)			(14,174,600)
Projected Ending Fund/Working Capital Balance	<u>\$ 2,935,560</u>	<u>\$ (213,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,722,560</u>
