

**REVIEW OF REVENUES, EXPENDITURES
AND TRANSFERS
FOR THE YEAR ENDED JUNE 30, 2005**

Overview

The City of Albany's financial results for the fiscal year ended June 30, 2005 were favorable. The bottom line in measuring the financial results of the General Fund for a city is the net increase or decrease to the fund balance from revenues, expenditures and transfers. The City's originally adopted budget projected a net increase to the fund balance of \$24,403, the revised budget, adopted in January 2005, provided for a net increase of \$48,945. The unaudited results for the year are an increase of \$107,092.

Although there were several unanticipated events that were unfavorable, these were offset by unexpected favorable events, and ultimately the City was able to fund all of its budget commitments, raise worker's compensation self-insurance funding to a comfortable level, make a \$500,000 reduction in a newly assessed \$4.3 million unfunded pension liability, and increase operating reserves by \$100,000.

Major events occurring during the year included the triple flip from the State Legislature, in which the City received property tax payments in lieu of vehicle license fees and sales taxes. The VLF in-lieu payments of \$900,000 exceeded the budget by over \$100,000, and the sales tax in-lieu payments of \$300,000 were in line with the budget. While the State retained nearly \$200,000 of City of Albany property tax revenue to balance the State budget, this was in line with the amount budgeted and was not an added hardship for the City.

During the year there were significant declines in property transfer tax receipts and racetrack tax revenue, and projection of these trends resulted in projected revenues being reduced in the revised budget by \$160,000. However, these revenue sources finished the year strong, with property transfer taxes exceeding the budget by \$60,000 and racetrack taxes finishing just \$25,000 below budget. Earnings on cash assets benefited from the rise in interest rates during the year and exceeded the budget, which reflected the low rates existing when the budget was adopted, by \$122,000.

Unfilled vacancies in sworn police position placed an operational strain on the Police Department in maintaining service levels, and these vacancies accounted for the majority of the \$245,000 in budget savings for salaries. Staffing shortages adversely impacted the revenue produced by the Police Department, as seen in parking and traffic fines dropping \$100,000 below the originally adopted budget.

Revenues

Total revenues of \$11,676,076 were \$466,560 greater than the revised budget and \$106,290 greater than total revenues for prior fiscal year. All categories of revenues exceeded the revised budget amounts except sales taxes. Significant events related to revenues are discussed below:

- Property taxes – Fiscal year 2004-05 revenue of \$3,491,779 exceeded the revised budget by \$61,145 and were \$971,568 greater than fiscal year 2003-04 revenue. Because of the “triple flip,” property tax revenue included \$898,304 in-lieu of the vehicle license fee backfill to have been received from the State. Reassessments of transferred property and additions to the tax roles were other factors that resulted in the actual revenue exceeding budget.
- Sales taxes – Fiscal year 2004-05 revenue exceeded prior year revenue by approximately \$200,000 but was \$100,000 below the revised budget. A portion of the budget shortfall is due to the State withholding of 25% of the City’s sales tax revenue, with in-lieu payments made with property tax payments. There is a lag in receipt of the in-lieu property tax payments, and as a result, it is estimated that the City will receive a final “true-up” payment of approximately \$30,000, sometime in fiscal year 2005-06.
- Other taxes – The three major components of this category are property transfer taxes, utility user taxes and racetrack wager tax. Property transfer taxes exceeded budget by \$60,000 due to higher values of property transferred. The number of transfers in the year was down approximately 10% from the prior year. Utility users taxes for gas and electricity exceeded budget by \$56,000, due to increased utility billings. The utility users tax rate remained at 7 %. Revenue from racetrack wagers was \$24,000 below budget, reflecting a continuing trend of declining attendance at Golden Gate Fields.
- Earnings on investments – Earnings for the fiscal year exceeded budget by \$112,000, but were approximately equal to the earnings for fiscal year 2003-04. The budget reflected the under 1% rate of return being experienced by LAIF at the time the budget was adopted, and this estimate was not revised when the LAIF rate of return rose above 2%.
- Service charges – Revenue exceeded budget by \$132,797 as the result of charges on major developments including Target, PetSmart, and the mixed-use development at 727 San Pablo Avenue. Service charges are set at a level to recover costs and increases in revenues are generally matched by increases in cost incurred.
- Other revenue – Revenue exceeded budget by \$66,582. The major items included in the budget estimate are passport fees and fire inspections. In fiscal year 2004-05 the number of passport fees increased and the rate for fire inspections was increased. Also, there were major project fire fees for Target and Aldar totaling

nearly \$8,000. This revenue also includes reimbursements from Target of \$33,000, and insurance recovery of \$7,700 for an auto accident.

Expenditures

Total expenditures exceeded budget by \$216,669. The excess expenditures were largely due to a larger than budgeted level of reimbursable services, and management's decision to increase the funded reserves for workers compensation, and for compensated leave payments to terminating employees. Significant events affecting expenditures are discussed below:

- **Salaries** – Salaries were \$244,633 under budget as a result of vacancies in budgeted positions, principally in the Police Department, which had as many as six vacant positions during the year.
- **Fringe Benefits** – Fringe benefits exceeded budget by \$406,288, due to a charge of \$500,000 to reduce the PERS side funds for the JPA and City Miscellaneous pension plans. In fiscal year 2004-05, PERS instituted risk pooling for plans with less than 100 members. As a result of this pooling, the City was assigned negative side funds totaling \$4.3 million. Interest accrues on the side fund balances at the rate of 7.75% per year, which is the earnings rate used in the actuarial valuation of the plans. These side funds must either be paid off in lump sum payments or amortized over a period of 10 to 18 years, through the annual pension contribution. Another major factor in the budget excess was the accrual of an expense of \$100,000 to fund the payoff of accrued leave time of employees that may retire or otherwise terminate employment before they have utilized their accrued leave time.
- **Professional Services** – The excess expenditures over budget of \$156,841 resulted from the greater than budgeted level of permit approval and issuance activity. As noted in the discussion of service charges, the costs incurred in permit approval and issuance are recovered through fees charged to the applicants.
- **Insurance and Claims** – Expenditures of \$1,155,848 exceeded the budget by \$110,348 due to the increase in workers compensation self-insurance reserves of \$331,000. This increase in the reserves was necessary to bring the reserves up to the 85% confidence level as determined by the actuarial study of the City's worker's compensation self-insurance reserves as of June 30, 2004. The 85% confidence level of adequacy is the top of the "Recommended" range suggested by the actuary.

Transfers

Transfers in to the General Fund were made in accordance with the revised budget, with a net difference of \$101, as a result of Gas Tax revenues available for transfer exceeding the budget by \$3,063 and Emergency Medical Services (EMS) revenues falling below the budget by \$3,164.

Transfers out of the General Fund to reserve accounts were made in accordance with the revised budget. Additional transfers of \$300,000 to the Equipment Replacement Reserve Fund and \$200,000 to the Capital Projects Fund were made so as to accumulate funds for replacement of financial software and other general office equipment within the next two years. The transfer to the Capital Projects Fund is to replenish for miscellaneous project additions charged to the fund during the year, and to provide necessary General Funds to supplement project funding of various CIP projects.

Other Sources

Other increases to the fund balance of the General Fund were: net proceeds of \$258,459 from the sale of the City 2004 Vehicle License Fee (VLF) “Gap Loan” from the State, a prior year general liability insurance premium rebate of \$41,857 from the Bay Cities Joint Powers Insurance Agency, and proceeds of \$8,042 from the sale of residual securities from a prior year’s insurance transaction.