

REPORT TO

CITY COUNCIL

ON THE

CITYWIDE FISCAL YEAR 2006 SECOND QUARTER BUDGET

06-103B



***City of Albuquerque
Office of Internal Audit and Investigations***

INTRODUCTION

City Ordinance 2-10-11 (B) ROA 1994 requires the Internal Audit Division to perform a quarterly review of City expenditures and encumbrances for each fiscal year. This report is presented to the City Council to satisfy the Fiscal Year (FY) 2006 second quarter requirement.

The projections for the second quarter of FY 06 are attached as Tables A and B. These projections were compiled by the Office of Management and Budget (OMB). City Ordinance allows the Mayor to adjust the City's budget as necessary for no greater than \$100,000 or 5% of a program's appropriation, whichever is less. For each anticipated overexpenditure in excess of \$100,000 *or* 5% of appropriations, we requested an explanation as to what is generating the projected overexpenditure. We then assessed management's plans, if any, to resolve the anticipated overexpenditure. We also requested an explanation from programs whose projected expenditures were under the appropriated amount by \$100,000 *and* 5%.

RESOURCES AND FUND BALANCE

The following is an analysis of changes in General Fund revenues, appropriations and fund balance.

	FY 06 APPROVED BUDGET	FY 06 2nd QUARTER PROJECTIONS
	(000's)	(000's)
Resources:		
Revenue*	\$ 422,425	\$ 433,858
Additional revenue by resolution	N/A	148
Beginning fund balance	<u>67,423</u>	<u>85,424</u>
Total resources	489,848	519,430
Appropriations/Expenditures:	<u>446,507</u>	<u>453,142</u>
Fund Balance	43,341	66,288
Fund balance adjustments	(162)	29
Fund balance reserves	(43,177)	(51,706)
2 nd quarter estimated new reversion (not available for appropriation)	N/A	(3,234)
Available fund balance	\$ <u>2</u>	\$ <u>11,377</u>

* Revenues are projected, actual revenues may vary.

PROJECTED OVER-EXPENDITURES

The following are explanations provided by the responsible departments for programs anticipated to overspend \$100,000 or 5% of appropriations, whichever is lower.

GENERAL FUND PROGRAMS

There are 106 appropriated General Fund operating programs. The General Fund is used to account for resources and expenditures traditionally associated with governments that are not required to be accounted for in another fund. Appropriations are at the program level, the level at which expenditures may not legally exceed appropriations. The following General Fund programs are in jeopardy of exceeding budget appropriations:

Program 56505 – Environmental Health Department (EHD) Program Support is projected to overspend its \$538,000 budget by \$84,000 or 16%. The projected overexpenditure is primarily due to personnel, supplies and training expenditures. This program is budgeted for five full time employees. A Deputy Director was added to EHD in December 2005. This position was approved, but not budgeted. One of the five positions, a Forester, has been kept vacant in order to compensate for the un-budgeted position. The supplies and training line items are also significantly overspent. These are discretionary line items that should be reviewed to determine if expenditures have been appropriately charged to this program.

Programs 27504 – Albuquerque Fire Department (AFD) Emergency Response program is projected to overspend its \$45,512,000 budget by \$143,000 or <1%. The projected overage is due to repairs and maintenance of vehicles and increased fuel costs. AFD Management is closely monitoring overtime, repairs and maintenance and supply expenses in an attempt to control the projected overexpenditure.

Program 45502 – Parks and Recreation Department (PRD) Parks Management program is projected to overspend its \$12,606,000 budget by \$182,000 or 1%. Management reports that the projected overexpenditure is primarily due to increased fuel and repair and maintenance costs. Repairs and maintenance costs have increased because PRD is maintaining the former New Mexico Golf Academy located at the Balloon Fiesta Park. PRD anticipates the projected overexpenditure in this program will be made up with salary savings.

Programs 51503 – Albuquerque Police Department (APD) Central Support Services program is projected to overspend its \$30,593,000 budget by \$1,518,000 or 5%. Approximately \$900,000 of the projected overexpenditure is due to increased fuel costs. Another \$600,000 is attributed to overtime costs.

The projected overexpenditure in Central Support Services is related to the projected underexpenditure in the Investigative Services program. APD has focused the priorities on Central Support and Neighborhood Policing, reallocating personnel from Investigative Services to these programs to increase the presence of officers on the street.

NON-GENERAL FUND PROGRAMS

There are 22 Non-General Operating Funds with 71 appropriated programs. The Non-General Fund programs at risk of overspending are as follows:

Program 21502 - Metropolitan Detention Center (MDC) Administrative Support program in the Corrections/Detention Fund 260 is projected to overspend its \$4,054,000 budget by \$239,000 or 6%. The primary cause of the projected overexpenditure in this program is the anticipated cost of housing inmates outside of MDC. This is due to a continually increasing population that occasionally exceeds the maximum capacity of the current facility.

The City and Bernalillo County share in the costs to run MDC. Accordingly, if MDC overspends it will be necessary for the City and Bernalillo County to appropriate additional funds.

Programs 54501 and 54502 – The Solid Waste Management Department (SWMD) Collections and Disposal programs in the Refuse Disposal Fund 651 are projected to overspend their budgets by \$1,142,000 (8%) and \$590,000 (12%), respectively. SWMD management reports that the increase in fuel costs is primarily responsible for the projected overexpenditures in both of these programs. Diesel was budgeted at an average cost of \$0.89 per gallon for FY06; however, the actual cost during the second quarter was as follows:

<u>Month</u>	<u>Price per gallon</u>
October	\$1.95
November	\$2.30
December	\$2.66

SWMD has included a fuel surcharge on customer bills to recover some of the increase in fuel costs; however, the surcharge only applies to diesel and doesn't become effective until costs exceed \$1.11/gallon.

Repairs and maintenance expenditures have also increased in both programs due to an aging fleet and necessary repairs. The projected overexpenditure in the Disposal program also anticipates overspending in the contractual services line item. This is due to a potential change in the disposal and handling of refrigerators and the freon they contain.

Program 57501 and 57502 – The Transit Department (Transit) SunVan and Operations programs in Transit Fund 661 are projected to overspend by \$115,000 and \$1,042,000, respectively. The primary cause of the projected overexpenditure in the SunVan program is overtime and repairs and maintenance costs. Transit anticipated 30 new vans would be received in January 2006. To date, the new buses have not been received. This has resulted in increased repairs and maintenance expenditures on the old buses. Increased fuel costs have also contributed to the projected overexpenditure.

Transit Management reports fuel costs account for approximately \$500,000 of the projected \$1,042,000 overexpenditure in the Operations program. The remaining \$500,000 is attributed to increased repair and maintenance costs due to an aging fleet. Transit reports an increase in revenue due to increased ridership that may reduce the projected overexpenditure in the program.

Program 28503 – The Fleet Management program in Fund 725 is projected to overspend its \$10,299,000 budget by \$1,466,000 or 14%. Fleet Management reports the projected overexpenditure is caused by the continual increase in fuel costs. Fuel was budgeted at \$1.68/gallon. Actual costs during the second quarter ranged from \$2.09 to \$2.45. This fund is an internal service fund that recovers its costs from the user departments. The increase in fuel costs is offset by the increase in revenue from user departments. Therefore, an appropriation may be necessary to recognize the additional revenue.

Program 47550 – The Insurance and Administration program in the Employee Insurance Fund 735 is projected to overspend its \$42,789,000 budget by \$1,613,000. Human Resources attributes the projected overexpenditure to the growth in membership. Also, numerous employees transferred from Lovelace to Presbyterian, a higher priced plan. This fund is also an internal service fund that recovers its costs from other City departments. As the revenue from the employee and employer portions increase, an appropriation may be necessary to recognize the additional revenue.

PROJECTED UNDER-EXPENDITURES

The following are explanations provided by the responsible departments for programs anticipated to underspend their budget by \$100,000 and 5% of appropriations.

GENERAL FUND PROGRAMS

Program 39507 – Office of City Clerk program is projected to underspend its budget of \$1,949,000 by \$180,000 or 9%. This is primarily due to an additional appropriation of \$394,000 that was approved in December 2005 for election expenses.

Program 31516 – Family and Community Services' (FCS) Partner with Public Education program is projected to underspend its \$5,263,000 budget by \$339,000 or 6%. The primary causes of the underexpenditure in this program are personnel and contractual services line items. The contract with Albuquerque Public Schools (APS) accounts for the majority of the appropriation in the contractual services line item. APS provides programming and submits a reimbursement for their costs. In recent years, APS has not spent the full contract amount.

Program 25503 – Department of Finance and Administrative Services, Accounting program is projected to underspend its budget of \$2,928,000 by \$138,000 or 5%. Salary savings is the primary cause of the projected underexpenditure in this program. This

program has 38 budgeted full-time positions. At January 6, 2006, there were 5 vacant positions.

Program 25550 – *Department of Finance and Administrative Services Citizen Services* program is projected to underspend its \$3,626,000 budget by \$335,000 or 9%. This projected underexpenditure is due to salary savings. The call center has 72 budgeted positions. As of February 6, 2006 there were 18 vacant positions. The program has been very selective in hiring due to the nature of the positions and extensive citizen contact. This has resulted in high vacancy rates until the appropriate personnel are hired.

Program 41502 – *Office of Internal Audit and Investigations Inspector General* program is projected to underspend its \$250,000 budget by \$135,000 or 54%. The Director of the Office of Internal Audit and Investigations was selected in February 2006. The Director is responsible for hiring the Inspector General. The Inspector General position is currently being advertised. As this position has not yet been filled, the actual underexpenditure in this program is expected to be higher than the \$135,000 projected at the second quarter.

Program 24511 – *Department of Municipal Development (DMD) Design* program is projected to underspend its \$611,000 budget by \$159,000 or 26%. This projected underexpenditure is due to salary savings. There are seven full-time positions budgeted in this program. At February 6, 2006, there were 4 vacancies. These vacancies were a result of the reorganization of the Water Utility Department under DMD. Several positions were reclassified to better meet the needs of DMD. These vacancies are in various stages of the hiring process.

Program 45503 - *Parks and Recreation Department (PRD) Provide Quality Recreation* program is projected to underspend its budget of \$4,507,000 by \$298,000 or 7%. The projected underexpenditure in this program is due to salary savings. There are 33 full-time positions budgeted in this program. At February 6, 2006, there were three vacant positions.

Program 49504 – *Planning Department Code Enforcement* program is projected to underspend its \$2,724,000 budget by \$230,000 or 8% due to salary savings. There are 41 full-time positions budgeted in this program. At February 6, 2006, there were three vacant positions.

Program 51502 – *Albuquerque Police Department (APD) Investigative Services* program is projected to underspend its \$23,155,000 budget by \$1,701,000 or 7%. As discussed earlier, APD has changed the priorities of the Department and has reallocated personnel from Investigative Services to Central Support Services to increase the presence of officers on the street. As a result, the Investigative Services program is projected to underspend; however, Central Support Services is projected to overspend its budget.

NON-GENERAL FUND PROGRAMS

Programs 56507 and 56509 – Operating Permits and Vehicle Pollution Management programs in the Air Quality Fund 242 are projected to underspend by \$238,000 (17%) and \$284,000 (20%), respectively.

The projected underexpenditure in both of these programs is primarily due to salary savings. Both the Operating Permits and Vehicle Pollution Management program are budgeted for 16 full time positions. At January 26, 2006 each had one vacant position. The Operating Permits and Vehicle Pollution Management programs were appropriated \$35,400 and \$63,410, respectively, for capital outlay. Management reports purchase orders are in place for these vehicles and equipment.

Program 54503 – Administrative Services program in the Refuse Disposal Operating Fund 651 is projected to underspend its \$8,542,000 budget by \$524,000 or 6%. Management is making cut-backs in this program, wherever possible, in an attempt to minimize the total fund overexpenditure given the Collections and Disposal programs, as discussed earlier, are projected to overspend.

Program 84501 – Open Space Management program in the Open Space Expendable Trust Fund 851 is projected to underspend its \$2,610,000 budget by \$154,000 or 6% due to salary savings. There are 41 full-time positions budgeted in this program. At February 6, 2006, the program had 5 vacancies. The FY06 appropriation includes \$103,000 for capital outlay purchases. Management report the purchase of these vehicles and equipment are in process.

CONCLUSION

Based on the information provided by the departments it appears that several programs may require additional appropriations. These projected overexpenditures are at the program level and do not reflect any projected underexpenditures of programs in the same department or fund that may exist. It should be noted that these are second quarter projections and will be adjusted as further information becomes available throughout the year.

<u>Department - Program</u>	<u>Projected Over Expenditure</u>
Environmental Health Department – Program Support	\$ 84,000
AFD – Emergency Response	143,000
Parks & Recreation Department – Parks Management	182,000
APD – Central Support	1,518,000
Corrections Department – Administrative Support	239,000
Solid Waste Department – Collections	1,142,000
Solid Waste Department – Disposal	590,000

Transit Department – SunVan	115,000
Transit Department – Operations	1,042,000
Fleet Management	1,466,000
Employee Insurance	<u>1,613,000</u>
 TOTAL	 <u>\$ 8,134,000</u>

RESPONSE FROM THE CAO

“The Executive appreciates your review of the Second Quarter Fiscal Year 2006 expenditure projections and agrees that some programs may require additional appropriations. In the majority of cases cited, higher than budgeted fuel prices is a significant factor in the projected over expenditures. Fortunately, there is a \$4.075 million General Fund energy reserve for exactly this potential. The administration plans to appropriate the energy reserve to programs that are overspent as a result of higher than budgeted energy prices in FY/06 in the year end clean-up resolution. As has been discussed with your staff, that timing will provide certainty and control and assure that the funds will be used in accordance with the stated purpose of the reserve.”

“Additionally and importantly, it should be noted that the \$11.377 million shown as the FY/06 2nd Quarter Projections available fund balance was appropriated to programs on a nonrecurring basis in the approved FY/07 budget and is not actually available fund balance nor is it expected to be actually available fund balance at the end of FY/06.”