

REPORT TO

CITY COUNCIL

ON THE

CITYWIDE FISCAL YEAR 2006 FIRST 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 first quarter requirement.

The projections for the first quarter of FY 06 are attached as Tables A and B. These projections were compiled by the Office of Management and Budget (OMB). These projections do not include the clean up bill that was passed by Council on December 5, 2005. 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 1st QUARTER PROJECTIONS
	(000's)	(000's)
Resources:		
Revenue*	\$ 422,425	\$ 422,425
Additional revenue by resolution	N/A	148
Beginning fund balance	<u>67,423</u>	<u>85,424**</u>
Total resources	489,848	507,997
Appropriations/Expenditures:	<u>(446,507)</u>	<u>(450,581)</u>
Fund balance	43,341	57,416
Fund balance adjustments	(162)	29
Fund balance reserves	(43,177)	(42,831)
Additional FY06 appropriations through the 2 nd qtr.	N/A	(4,442)
1 st qtr. estimated net reversion (not available for appropriation)	<u>N/A</u>	<u>(1,354)</u>
Available fund balance	<u>\$ 2</u>	<u>\$ 8,818</u>

* Revenues are projected, actual revenues may vary.

** Final audited numbers not yet available.

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:

Programs 27504 and 27521 – *Albuquerque Fire Department (AFD) Emergency Response and Logistics* programs are projected to overspend by \$1,249,000 and \$229,000, respectively. Approximately \$324,000 of the Emergency Response projected overexpenditure is due to overtime. The projected overage is also due to vehicle maintenance and increased fuel costs. AFD Management is closely monitoring travel, vehicle maintenance costs and supply and cell phone usage in an attempt to control the projected overexpenditure. Management is also using on-duty personnel whenever possible instead of calling personnel in and incurring overtime.

Approximately \$194,000 of the projected \$229,000 overexpenditure in the Logistics program is related to increased fuel costs. The remainder is due to overtime. One of the mechanics has been out on FMLA leave which has left one maintenance mechanic to work on emergency vehicles.

Program 45502 – *Parks and Recreation Department (PRD) Parks Management* program is projected to overspend its \$12,606,000 budget by \$223,000. 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.

Programs 51501 and 51503 – *Albuquerque Police Department (APD) Neighborhood Policing and Central Support Services* programs are projected to overspend by \$545,000 and \$1,205,000, respectively. APD management attributes approximately \$900,000 of the projected \$1,205,000 Central Support Services overexpenditure to increased fuel costs. The remainder is due to overtime costs.

The projected overexpenditure in Neighborhood Policing is related to the projected underexpenditure in the Investigative Services program. The APD FY 06 budget was compiled with the former APD Chief. The current Chief has changed the priorities of the Department and has reallocated personnel from Investigative Services to Neighborhood Policing 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:

Programs 21502 and 21503 - Metropolitan Detention Center (MDC) Administrative Support and Corrections/Detention programs in the Corrections/Detention Fund 260 are projected to overspend by \$239,000 and \$1,136,000, respectively. Management reports there have been errors in the posting of electric charges to this program. The FY 06 projected electricity charges have been based on FY 05 actual electric costs. The increased cost of natural gas is also a contributing factor. The remainder of the projected overexpenditure for this program anticipates housing inmates outside of the MDC facility due to a continually increasing population that occasionally exceeds the maximum capacity of the current facility. The projection includes a projected expenditure of \$152,000 for the cost associated with housing inmates at an alternate facility.

The projected overexpenditure in the Corrections/Detention program is primarily caused by increased supply usage and increased overtime costs. A direct correlation exists between supply costs (food, medicine, clothing, intake kits, etc.) and an increased inmate population. The above expenditure projections do not assume a high vacancy rate due to the anticipated filling of these positions. If turnover and the vacancy rate increases, there will be a corresponding increase in overtime costs as each pod is required to have a minimum number of Correctional Officers on duty. These posts then have to be filled resulting in overtime costs.

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.

Program 54501 - The Solid Waste Management Department (SWMD) Collections program in the Refuse Disposal Fund 651 is projected to overspend its appropriated budget of \$14,711,000 by \$2,151,000. SWMD management reports that the increase in fuel costs is primarily responsible for the projected overexpenditure. Diesel was budgeted at an average cost of \$0.89 per gallon for FY06; however, the actual cost for the first quarter ranged from \$1.80 in July to \$2.30 in September. 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. Overtime costs due to vacancies are also contributing to the projected overexpenditure. Management expects overtime costs to decrease as these positions are filled.

Program 57501 and 57502 – *The Transit Department SunVan and Operations* programs in Transit Fund 661 are projected to overspend by \$366,000 and \$1,562,000, respectively. Approximately \$200,000 of the projected overexpenditure in SunVan is attributed to the increase in fuel costs. Another \$100,000 is due to increased repair and maintenance costs due to an aging fleet. Transit has ordered 30 vans that are scheduled to be delivered in January 2006. If these vans arrive on time, this may alleviate much of the repair and maintenance costs.

Fuel costs account for \$500,000 of the projected \$1,562,000 overexpenditure in the Operations program. The remaining \$1,000,000 is attributed to increased repair and maintenance costs due to an aging fleet. Transit management reports that the FY 06 budget was based on operating costs of \$55 per hour. Actual operating costs are at \$63.03 per hour.

Program 28503 – *The Fleet Management* program in Fund 725 is projected to overspend its \$10,299,000 budget by \$1,603,000. Fleet Management reports the projected overexpenditure is caused by the continual increase in fuel costs. 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 \$1,473,000. 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 23510 – *Cultural Services Department CIP Biopark* program is projected to underspend its budget of \$1,993,000 by \$289,000. Biopark management reports that many of these positions are temporary resulting in high turnover rates and difficulty in filling the positions; however, management does not anticipate the actual year-end reversion to be this large.

Program 31502 – *Family and Community Services' (FCS) Offer Health and Social Services program* is projected to underspend their \$3,640,000 budget by \$441,000. FCS management reports \$500,000 was appropriated by the Quarter Cent Committee (Youth Summit) to FCS for unspecified youth services. At the end of the first quarter, approximately \$95,000 of the \$500,000 has been committed in contractual services. FCS is developing a plan to spend the remainder of these funds on youth-related contractual services contracts.

Program 25550 – *Department of Finance and Administrative Services Citizen Services program* is projected to underspend its \$3,626,000 budget by \$219,000. This projected underexpenditure is due to salary savings. The call center has 72 budgeted positions. As of October 3, 2005, there were 24 vacant positions. Eight of these positions are currently in the hiring process. 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 \$124,000. The process of selecting a Department Director is still in progress. The first quarter projection assumes the position of Inspector General and Internal Auditor will be filled in January 2006; however, as these positions are filled at the discretion of the Director, they remain vacant. The Accountability in Government Oversight Committee's recommendation for Director was received by the Council on December 5, 2005. It is anticipated there will be a resolution at a February 2006 meeting to select the Director.

Program 24511 – *Department of Municipal Development (DMD) Design program* is projected to underspend its \$611,000 budget by \$307,000. This projected underexpenditure is due to salary savings. Several positions have been vacated and reclassified due to the reorganization of the Water Utility Department under DMD. Several of these positions are in various stages of the hiring process.

Program 49504 – *Planning Department Code Enforcement program* is projected to underspend its \$2,724,000 budget by \$170,000 due to salary savings. Management reports this program has difficulty filling and retaining qualified individuals in these positions due to the higher salaries that are available to engineers in the private sector.

Program 51502 – *Albuquerque Police Department Investigate Services program* is projected to underspend its \$23,155,000 budget by \$1,992,000. As discussed earlier, the current APD chief has changed the priorities of the Department and has reallocated personnel from Investigative Services to Neighborhood Policing to increase the presence of officers on the street. As a result, the Investigative Services program is projected to underspend; however, Neighborhood Policing 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 \$120,000 and \$135,000, respectively.

The projected underexpenditure in both of these programs is primarily due to salary savings. The Operating Permits program has an Environmental Health Specialist position that has been vacant since last fiscal year. Management reports difficulty in filling this position due to the experience requirements and salary being offered. Another vacancy has resulted from a recent retirement. The Vehicle Pollution program is budgeted for 16 positions. Two positions were vacant for all of the first quarter and a third for part of the quarter. Currently, all three of these positions are in various stages of the hiring process.

Program 54503 – *Administrative Services* program in the Refuse Disposal Operating Fund 651 is projected to underspend its \$8,542,000 budget by \$622,000. Management is making cut-backs in this program, wherever possible, in an attempt to minimize the total fund over expenditure given the Collections program, as discussed earlier, is projected to overspend by \$2,151,000.

Program 84501 – *Open Space Management* program in the Open Space Expendable Trust Fund 851 is projected to underspend its \$2,610,000 budget by \$175,000 due to salary savings. Several of the program's recent vacancies were filled with current Open Space employees, creating other vacancies within the Department. A Specialist position was also vacant for most of the first quarter. In addition, management reports a situation where a vacant position was offered to two candidates. Both candidates turned down the offer because of the low salary. This resulted in further delays because the position then had to be re-advertised and the hiring process started over.

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 first quarter projections and will be adjusted as further information becomes available throughout the year.

<u>Department</u>	<u>Projected Over Expenditure</u>
AFD – Emergency Response	\$ 1,249,000
AFD – Logistics	229,000
Parks & Recreation Department – Parks Management	223,000
APD – Neighborhood Policing	545,000
APD – Central Support	1,205,000
Corrections Department – Administrative Support	239,000
Corrections Department – Corrections/Detention	1,136,000
Solid Waste Department – Collections	2,151,000
Transit Department – Sun Van	366,000
Transit Department – Operations	1,562,000
Fleet Management	1,603,000
Employee Insurance	<u>1,473,000</u>
 TOTAL	 \$ <u>11,981,000</u>

RESPONSE FROM THE CAO

“The Executive appreciates your review of quarterly projected expenditures. As you know, first quarter projections, based upon only three months of data, are not necessarily reliable and spending patterns can be altered to reduce the severity of, if not eliminate, overexpenditures. That said, the First Quarter Fiscal Year 2006 projection incorporates the impact of higher than anticipated energy costs. For the 12 programs listed in your projected overexpenditure list, energy costs account for \$3.8 million of that forecasted overexpenditure. High energy costs affect other programs not on the overexpenditure list who have managed by controlling other costs. The Executive has introduced a resolution to establish a \$4,075,000 energy reserve to provide necessary funds to cover unavoidable energy expenses if necessary.”