

***REPORT TO***

***CITY COUNCIL***

***ON THE***

***CITYWIDE FISCAL YEAR 2006 THIRD 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 third quarter requirement.

The projections for the third 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.

|                                                                                      | <b>FY 06<br/>APPROVED<br/>BUDGET</b> | <b>FY 06<br/>3<sup>rd</sup> QUARTER<br/>PROJECTIONS</b> |
|--------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------------------|
|                                                                                      | <b>(000's)</b>                       | <b>(000's)</b>                                          |
| Resources:                                                                           |                                      |                                                         |
| Revenue <sup>1</sup>                                                                 | \$ 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>451,865</u>                                          |
| Fund Balance                                                                         | 43,341                               | 67,565                                                  |
| Fund balance adjustments                                                             | (162)                                | 29                                                      |
| Fund balance reserves                                                                | (43,177)                             | (51,706)                                                |
| 3 <sup>rd</sup> quarter estimated new reversion<br>(not available for appropriation) | N/A                                  | (4,536)                                                 |
| Additional FY06 appropriations made<br>During the 4 <sup>th</sup> quarter            | N/A                                  | (148)                                                   |
| <b>Available fund balance</b>                                                        | <b>\$ <u>2</u></b>                   | <b>\$ <u>11,204</u><sup>2</sup></b>                     |

<sup>1</sup> Revenues are projected, actual revenues may vary.

<sup>2</sup> Approximately \$11,146 was appropriated on a nonrecurring basis in the FY07 budget which was approved in May and is not actually 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:

Program 77501 – *City Support Function – Transfer to Capital Acquisition Fund 305* program is projected to overspend its budget of \$1,569,000 by \$135,000 or 9%. This overage is related to additional funds received from the State of New Mexico for a Petroglyph National Monument project. The funds were incorrectly appropriated in the general fund. The FY07 budget (FY06 clean-up section) includes a transfer of \$135,000 to this program, so it will not be overspent at year-end.

Program 23509 *Cultural Services Department (Cultural Services) Biological Park* program is projected to overspend its \$11,321,000 budget by \$220,000 or 2%. Approximately \$160,000 of the projected overexpenditure relates to fuel and natural gas costs. The remainder of the overage is attributed to repairs and maintenance, supplies and water. Cultural Services management is closely monitoring all purchases made during the 4<sup>th</sup> quarter, requiring pre-approval of all purchases by the Bio Park Director or Assistant Director.

Program 56505 – *Environmental Health Department (EHD) Program Support* is projected to overspend its \$538,000 budget by \$48,000 or 9%. The projected overexpenditure is primarily due to personnel costs. 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.

Program 27504 and 27521 – *Albuquerque Fire Department (AFD) Emergency Response and Logistics* programs are projected to overspend their budgets by \$258,000 (1%) and \$144,000 (3%), respectively. The projected overage in Emergency response is primarily due to increased fuel costs and expenditures related to the deployment in response to hurricanes Rita and Katrina. The FY07 budget (FY06 clean-up section) includes \$163,000 to appropriate the reimbursement received from FEMA for the assistance offered during hurricanes. Management reports the Logistics program's projected overexpenditure is entirely due to increased fuel costs.

Program 45502 – *Parks and Recreation Department (PRD) Parks Management* program is projected to overspend its \$12,606,000 budget by \$132,000, 1%. Management reports that the projected overexpenditure is primarily due to increased fuel costs, which accounts for \$84,000 of the overage. Repair and maintenance expenditures related to maintaining the former New Mexico Golf Academy located at the Balloon Fiesta Park and increased water usage due to the dry spring also have contributed to the projected overexpenditure.

Programs 51503 – *Albuquerque Police Department (APD) Central Support Services* program is projected to overspend its \$30,593,000 budget by \$1,014,000 or 3%. Approximately \$975,000 of the projected overexpenditure is due to increased fuel and natural gas costs. The remainder of the overexpenditure is primarily related to the supplies line item, specifically the purchase of body armor for the officers.

#### ***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 13560 – *Transfer to Sales Tax Refunding Debt Service Fund 405* program in the Lodgers Tax Fund (#220), is projected to overspend its \$4,460,000 budget by \$130,000 or 3%. Lodger's Tax revenues have come in higher than anticipated during the FY and a general fund subsidy was not necessary. The FY07 budget (FY06 clean-up section) includes a transfer of \$130,000 to this program so it will not be overspent at year-end.

Program 51538 – *Transfer to Capital Acquisition Fund 305* program in the False Alarm Enforcement Fund (#221), is projected to overspend its budget of \$250,000 by \$100,000 or 40%. In FY05, \$350,000 was budgeted to be transferred to Fund 305; however, only \$250,000 was transferred. This additional \$100,000 was transferred in FY06. The FY07 budget (FY06 clean-up section) includes a transfer of \$100,000 to this program so it will not be overspent at year-end.

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 \$1,168,000 (8%) and \$419,000 (9%), 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, actual costs during the previous five months were as follows:

|          |        |
|----------|--------|
| January  | \$2.17 |
| February | \$1.92 |
| March    | \$1.74 |

| <u>Month</u> | <u>Price per gallon</u> |
|--------------|-------------------------|
| April        | \$1.93                  |
| May          | \$2.24                  |

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.

Contractual services is another line item contributing to the overexpenditure of the program. SWMD increased its green waste pick up service to four weeks. In prior years, the pick up was only offered for a two week period. This service is performed by contract laborers.

Program 57501 and 57502 – *The Transit Department (Transit) SunVan and Operations* programs in Transit Fund 661 are projected to overspend by \$369,000 (8%) and \$2,790,000 (11%) respectively. The primary cause of the projected overexpenditure in the SunVan program is fuel and repairs and maintenance costs. The 30 new vans ordered in 2005 did begin to arrive this month; however, a reduction in repairs & maintenance costs for FY06 is not anticipated because of the late date of the new vans being received.

Fuel and natural gas costs account for approximately \$2,300,000 of the projected \$2,790,000 overexpenditure in the Operations program. The remaining amount is attributed to increased repair and maintenance and contractual service 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 \$937,000 or 9%. 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 months of January – May ranged from \$2.06/gallon to \$2.50/gallon. This 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 will 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 \$1,354,000 or 3%. 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 will 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 77380 – City Support Function – Transfer to Lodger’s Tax Fund 220* program is projected to underspend its \$150,000 budget by \$150,000 or 100%. The FY06 budget included this general fund subsidy transfer to the Lodger’s Tax Fund in order to meet the debt service payment. Lodger’s Tax revenues have come in higher than anticipated during the year and a general fund subsidy was not necessary. The FY07 budget (FY06 clean-up section) includes an adjustment of \$(150,000) to this program so it will not be underspent at year-end.

#### *Program 31502, 31504, 31506 and 31516 – Family and Community Services Department*

*Offer Health and Social Services (31502)* program is projected to underspend its budget of \$3,640,000 by \$598,000 or 16%. A significant portion of the underexpenditure is due to the contractual services line item. The Quarter Cent Committee (Youth Summit) appropriated \$500,000 for FCS unspecified youth services. Progress has been slow in developing a plan of how the funds will be spent. To date, approximately \$100,000 has been committed. This amount includes a contract with a consultant to assist with developing the youth program.

*Provide Early Childhood Education (31504)* program is projected to underspend its \$5,018,000 budget by \$251,000 or 5%. Salary savings is the primary cause of the projected underexpenditure in this program, as personnel costs account for over 80% of the program’s budget. There are 104 full-time positions budgeted in this program. At May 1, 2006, there were 8 vacant positions. These positions are traditionally difficult to fill and have high turnover.

*Provide Mental Health Services (31506)* program is projected to underspend its budget of \$4,208,000 by \$370,000 or 9%. The contractual services line item comprises 96% of the total program budget. The Mental Health Services program includes several contracts including Assertive Community Treatment (ACT), Crisis Outreach and Support Team (COAST) and the Mental Health Housing Coalition. Management reports several of the initiatives were new in FY06 and were slow in getting started, contributing to the projected underexpenditure in this program.

*Partner with Public Education (31516)* program is projected to underspend its \$5,263,000 budget by \$425,000 or 8%. The primary causes of the underexpenditure in this program are the contractual services and personnel 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. The Playground program, which offers before & after school child care, is primarily budgeted in the personnel line items. Salary savings result in the Playground program due to the high number of vacancies. Most of these positions are temporary, so they are limited to a two-year time period. Also, the low pay rate of these positions make them difficult to fill.

*Programs 27504 and 25590* – *Department of Finance and Administrative Services, Information Services – CIP* program and *Tourism/Convention Center* program are projected to underspend their budgets by \$149,000 (47%) and \$101,000 (5%). The Information Services – CIP program budget contains 4 positions. Several of these positions have been vacant at different times throughout the year. The primary cause of the projected underexpenditure in the Tourism/Convention Center program is salary savings. There are two full-time positions budgeted in this program. One of the positions has been vacant the entire fiscal year.

*Programs 41501 and 41502* – *Office of Internal Audit and Investigations, Internal Audit and Inspector General* programs are projected to underspend their budgets by \$133,000 (14%) and \$189,000 (76%). The projected underexpenditure in the Internal Audit program is due to salary savings. The Internal Audit program is budgeted for 12 full time positions. Four of these positions were vacant for all, or a portion of the fiscal year including the Director, Internal Audit Division Manager, Audit Manager and a Principal Auditor. The Inspector General position was advertised in May; however due to the low number of qualified applicants, the position will be re-advertised. As this position has not yet been filled, the actual underexpenditure in this program will be higher than the \$189,000 projected at the third quarter.

*Programs 24511, 24512 and 24513* – *Department of Municipal Development (DMD) Design, Design Recovered Storm Drainage Transport and Design Recovered Parks and CIP* programs are projected to underspend their budget by \$100,000 (16%), \$102,000 (6%) and \$180,000 (5%), respectively. This projected underexpenditure in each of these programs is due to salary savings. The following table gives the number of full-time positions budgeted for each program and the number of vacancies as of early June.

| <b>Program</b>                            | <b># Positions Budgeted</b> | <b># Vacant Positions</b> |
|-------------------------------------------|-----------------------------|---------------------------|
| Design                                    | 7                           | 2                         |
| Design-Recovered Storm Drainage Transport | 22                          | 2                         |
| Design-Recovered Parks and CIP            | 55                          | 10                        |

Programs 49504 and 49507 – Planning Department, Code Enforcement and Planning / Development programs are projected to underspend their budgets by \$183,000 (7%) and \$114,000 (8%) due to salary savings. During the third quarter the Code Enforcement had 8 of its 41 positions vacant and Planning/Development had 5 of its 18 positions vacant. Several of these positions are currently in various phases of the hiring process.

Program 51502 – Albuquerque Police Department (APD) Investigative Services program is projected to underspend its \$23,155,000 budget by \$1,424,000 or 6%. APD has changed the priorities of the Department and has reallocated personnel from Investigative Services to Central Support Services and Neighborhood Policing to increase the presence of officers on the street. As a result, the Investigative Services program is projected to underspend due to salary savings.

#### **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 \$218,000 (15%) and \$221,000 (16%), 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. In early June, each had two vacant positions. Also, the Vehicle Pollution Management program was appropriated \$39,000 in a professional services line item for a vehicle information database. This contract has not been awarded and the funds will not be spent during FY06.

Programs 21502 and 21508 – Metropolitan Detention Center (MDC) Administrative Support and Community Custody programs are projected to underspend by \$422,000 (10%) and \$205,000 (11%), respectively. The Administrative Support program is now projected to underspend due to a decreased jail population during the third quarter that resulted in not having to house prisoners “out of county” on as many occasions as originally anticipated. The Community Custody program re-bid their drug lab contract which resulted in approximately \$100,000 of savings to this program. Both programs have salary savings as a result of the transition of MDC moving from City to County management.

Program 11501 – Aviation Operations program in the Aviation Operating Fund, #611, is projected to underspend its budget of \$25,644,000 by \$1,301,000 or 5%. The primary causes of the projected underexpenditure are salary savings, repairs and maintenance and contractual services expenditures. There are 262 full-time positions budgeted in this program. Twenty-two of these positions were vacant in early June. Vacancies were caused by frozen positions, turnover and National Guard Members serving in the military. Lower repairs and maintenance and contractual services expenditures have also contributed to the projected underexpenditure.



Program 33595 – *Safety Office* program in the Risk Management Fund, #705 is projected to underspend its \$1,416,000 budget by \$115,000 or 8%. There are 12 full-time positions budgeted in this program. One of the positions has been vacant the entire year. Also, \$100,000 is budgeted for a purpose to be determined by the Executive Safety Committee. Risk Management anticipates spending these funds prior to year-end.

## **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. The following table reflects those programs that are projected to overspend their appropriations and the amount attributed to fuel and natural gas. The City has established an energy reserve of \$4,075,000 to appropriate to the programs for overexpenditures attributed to those line items.

| <b>Department – Program</b> | <b>Projected Overexpenditure</b> | <b>Amount Attributed to Fuel/Natural Gas</b> | <b>Remaining Balance of Overexpenditure</b> |
|-----------------------------|----------------------------------|----------------------------------------------|---------------------------------------------|
| CSD-Bio Park                | \$ 220,000                       | \$ 152,000                                   | \$ 68,000                                   |
| EHD-Program Support         | 48,000                           | 0                                            | 48,000                                      |
| AFD-Emergency Response      | 258,000                          | 101,000                                      | * 157,000                                   |
| AFD-Logistics               | 144,000                          | 144,000                                      | 0                                           |
| PRD-Parks Mgmt              | 132,000                          | 84,000                                       | 48,000                                      |
| APD-Central Support         | 1,014,000                        | 975,000                                      | 39,000                                      |
| SWMD-Collections            | 1,168,000                        | 680,000                                      | 488,000                                     |
| SWMD-Disposal               | 419,000                          | 392,000                                      | 27,000                                      |
| Transit-Sun Van             | 369,000                          | 201,000                                      | 168,000                                     |
| Transit-Operations          | 2,790,000                        | 2,300,000                                    | 490,000                                     |
| DFAS-Fleet Management**     | 937,000                          | 937,000                                      | 0                                           |
| HR-Employee Insurance**     | 1,354,000                        | 0                                            | 1,354,000                                   |
| <b>TOTAL</b>                | <b>\$ 8,853,000</b>              | <b>\$ 5,966,000</b>                          | <b>\$ 2,887,000</b>                         |

\* \$163,000 reimbursement received from FEMA

\*\* Internal Service Fund

## **RESPONSE FROM THE CAO**

*“The Executive appreciates your review of the Third Quarter Fiscal Year 2006 expenditure projections and agrees that some programs may require additional appropriations. As you clearly point out, the increased cost of fuel and natural gas contributes significantly to the projected over-expenditures and, fortunately, there is \$4.075 million reserved in the General Fund energy reserve. 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.*

*“Thank you for clearly noting that \$11.146 million of the \$11.204 shown as available fund balance was appropriated to programs on a nonrecurring basis in the approved FY/07 budget.”*