





Staff Report

City of Manhattan Beach

TO: Honorable Mayor Montgomery and Members of the City Council

THROUGH:  David N. Carmany, City Manager

FROM: Bruce Moe, Finance Director 

DATE: May 17, 2011

SUBJECT: Introduction of Fiscal Year 2011-2012 Proposed Operating Budget and 2012-2016 Capital Improvement Plan; Consideration of Budget Adjustment in Fiscal Year 2010-2011 to Recoup Fleet Fund Rental Charge-outs Previously Suspended in Order to Balance the General Fund Budget in Fiscal Years 2010 and 2011

RECOMMENDATION:

Staff recommends that the City Council: a) accept the presentation of the Fiscal Year 2011-2012 Proposed Operating Budget (the 2012-2016 Capital Improvement Plan will be presented and discussed at a Budget Study Session during the Public Works budget presentation); b) approve an adjustment to the fiscal year 2010-2011 operating budget reinstating fleet rental charge-outs which had been suspended in fiscal years 2010 and 2011; and c) appropriate a total of \$1,448,250 from the following funds: General Fund: \$1,255,630; Water Fund: \$67,960; Waste Water Fund: \$62,260; Parking Fund: \$4,600; Building Maintenance Fund: \$33,660.

FISCAL IMPLICATION:

The City's fiscal year 2011-2012 budget totals \$95 million across all funds. The General Fund budget totals \$50.7 million, and reflects a budgeted surplus of \$509,118.

The fiscal year 2010-2011 General Fund budget is expected to realize a surplus (revenues in excess of expenditures) of \$2 million. Given these better than expected results, staff recommends the immediate reinstatement in the current year of the Fleet Maintenance Fund charge-outs that were suspended over the past two years. This, in combination with the proposed 2011-2012 budget fleet charge-outs, will put the City back on track to properly funding the fleet replacement program. This issue will be further described during the budget discussions. If approved, the General Fund year end surplus is estimated to be \$748,567.

DISCUSSION:

Staff is pleased to present the proposed operating budget for Fiscal Year 2011-2012. The budget is the culmination of several months of work on the part of all departments as well as Finance staff.

As in past years, the budget document presents detailed information about each department's operations, service indicators, goals and accomplishments, staffing levels, funding sources and proposed expenditures. This document also includes capital improvement projects proposed for approval and appropriation within the FY 2011-2012 budget year. Finally, a new addition to the document is current year estimated expenditures for each line in the departmental budgets as requested by the City Council during last year's budget discussions.

Tonight we will be presenting an overview of the major components of the budget. This will be followed by several Council study sessions and opportunities for public input. The calendar of events is as follows:

- May 17 Budget Introduction
6:30 PM– Council Chambers

- May 24 Council Budget Study Session #1
6:00 PM - Police/Fire Community Room

- May 25 Council Budget Study Session #2
6:00 PM - Police/Fire Community Room

- May 26 Council Budget Study Session #3 (if necessary)
6:00 PM – Police/Fire Community Room

- June 7 Budget & Capital Improvement Plan Public Hearing & Adoption
6:30 PM – Council Chambers

The meeting schedule has been posted on the City's website and advertised in The Beach Reporter. Copies of the proposed budget and CIP documents are available for public review in the City Clerk's office, the Manhattan Beach Library or on the Internet at www.citymb.info. The final adopted version of the budget will be available to our residents free of charge and may be obtained from the Finance department in City Hall.

Fleet Fund Budget Adjustment – FY 2010-2011

The Fleet Management Fund is used to account for the operation, maintenance and replacement of City vehicles. Revenues are generated from vehicle rental charges to departments based on the number, type and age of the vehicles operated. For example, when a new police patrol car is purchased, the expected useful life is assigned (five years), and an inflationary factor is built-in to reflect the expected future replacement cost five years from now. Using that method, the departments are then charged rent for that future replacement over the five year period:

Purchase Price, Including all Equipment	\$50,000
Inflationary Factor	2%
Future Expected Replacement Cost	\$55,200
Service Life	5 Years
 Annual Rent	 \$11,040

The rent is then collected by the fleet fund to pay for future replacement of that vehicle.

In fiscal years 2010 and 2011, the City balanced its budget using a number of tools, including suspension of fleet fund charge-outs. These charges, which are allocated to various funds based on possession of vehicles, are required to fund the future replacement of those vehicles. While the suspension of the charges reduced costs, most notably in the General Fund, it also resulted in an underfunding of the fleet operation. This one-time budget adjustment will result in a cash infusion to the fleet fund of \$1,448,250. The sources of those funds are as follows:

General Fund	\$1,279,770
Water Fund	\$ 67,960
Waste Water Fund	\$ 62,260
Parking Fund	\$ 4,600
Building Maintenance Fund	<u>\$ 33,660</u>
 Total	 \$1,448,250

Each fund has sufficient working capital to accommodate these adjustments to the expenditure/expense line items.

Recently, Public Works (who maintains the vehicle fleet) and Finance (who handles the accounting and charge-outs) completed an analysis of the Fleet Management Fund to determine the state of the fleet and appropriate charge-outs to support the orderly replacement of the vehicles. The analysis revealed that out of a fleet of over 180 vehicles, approximately one-third will need to be replaced in the coming year, with an estimated value of \$3.8 million (these recommended replacements are included in the fiscal year 2011-2012 budget presented this evening). This includes a number of high cost vehicles including a fire engine (\$600,000), and a sewer vacuum jet truck (\$418,000).

In order to properly fund these purchases, staff is recommending a number of steps to support the Fleet Management Fund. These include:

- a) Adjust the current year budget to reinstate the suspended fleet rental charges for the past two years. This results in a total of \$1,448,250 in revenue to the Fleet Management Fund from the various sources. Please note that due to an expected surplus in the General Fund for fiscal year 2011, we are able to accommodate this increase in expenditures.
- b) Budget a total of \$1,117,840 from all funds in fiscal year 2012 to properly charge-out the required fleet rental amounts
- c) In order to accommodate cash flow, lease/purchase the two most expensive vehicles (fire engine and sewer truck) over a five year period, at which time the City will own the trucks.

The combination of these steps will result in an estimated fund balance by the end of fiscal year of \$535,836 after effecting purchases, which will total \$3.8 million. The future charge-outs, as long as they are consistently enforced, are designed to ensure orderly replacement of vehicles.

Staff is requesting that the City Council authorize staff to adjust the fiscal year 2010-2011 budget as follows:

- a) appropriate \$1,279,770 from the General Fund, increase the fleet rental allocations in the General Fund by the same amount;
- b) appropriate \$33,660 from the Building Maintenance Fund, increase the fleet rental allocations in the Building Maintenance Fund by the same amount;
- c) appropriate \$67,960 from the Water Fund, increase the fleet rental allocations in the Water Fund by the same amount;
- d) appropriate \$62,260 from the Waste Water Fund, increase the fleet rental allocations in the Waste Water Fund by the same amount;
- e) appropriate \$4,600 from the Parking Fund, increase the fleet rental allocations in the Parking Fund by the same amount;

Staff looks forward to presenting the FY 2011-2012 budget and finalizing the spending plan for next year.

Attachments: A. Proposed 2011-2012 Operating Budget and 2011-2016 Capital Improvement Plan