
OFFICE OF THE ALBANY CITY COMPTROLLER

DATE: OCTOBER 14, 2008

TO: HON. GERALD D. JENNINGS
MEMBERS OF THE COMMON COUNCIL

FROM: TOM NITIDO

CC: PHIL CALDERONE, CHRIS HEARLEY

RE: 3RD QUARTER 2008 PERFORMANCE

The following is a summary of results for the 3rd quarter 2008.

Disbursements totaled \$119.6 million, which is \$4.7 more than the third quarter 2007. Increased spending on personal services (\$2.7 million) and fringe benefits (\$1.4 million) are responsible for most of the increase. Spending on non-personal services is up \$0.6 million.

Revenues of \$116 million are \$13.5 million more than in the third quarter 2007, which reflects early payment of PILOT (19-a) money by the State of New York. Revenue from *property taxes* increased by \$2.1 million, due to an increase in the 2008 property tax levy.

Table 1. Disbursement Summary

<i>Expense Category</i>	<i>2008 Budget</i>	<i>3rd Q 2008</i>	<i>3rd Q 2007</i>	<i>Difference</i>	<i>% Budget</i>	<i>% Change</i>
Personal Service	\$ 71,508,873	\$ 54,461,661	\$ 51,761,201	\$ 2,700,460	76%	5.0%
Fringe Benefits*	\$ 43,300,954	\$ 32,913,392	\$ 31,460,299	\$ 1,453,093	76%	4.4%
Non-Personal Service	\$ 47,017,500	\$ 32,218,567	\$ 31,608,199	\$ 610,368	69%	1.9%
Interfund Transfers		\$ -	\$ 106	\$ (106)		
TOTAL	\$161,827,327	\$119,593,620	\$ 114,829,805	\$ 4,763,815	74%	4.0%
Weeks	52	39	39			

* Fringe Benefits figure includes 3/4 of the annual retirement expense, which is paid in December.

DISBURSEMENTS

Disbursements increased from this time last year by \$4.7 million.

- 1. Personal Services spending increased by \$2.7 million.** However this excludes any 2008 COLA for police officers, whose contract expired 12/31/2007 and also excludes the expense of salary increases for police communications workers, who have been without a contract since the end of 2005. (These funds are budgeted through the contingency account, which is in the *Non-Personal Services* category).

Non-reimbursable overtime spending (\$5 million) is at 99 percent of budget and almost \$0.9 million more than at the end of third quarter 2007. Police overtime is at 75 percent of budget and almost \$0.5 million more than in 2007. Fire Department overtime is at 189 percent of budget and more than \$0.7 million more than 2007. However, the fire department year-to-date is at 76 percent of budget for personal services.

Table 2. Overtime Summary

Overtime 3rd Q	Budget	3rd Q	%	3rd Q 2007	Above (below) 2007
Fire	550,000	1,041,865	189%	335,753	706,112
Police	3,835,000	2,806,084	73%	2,335,651	470,433
Landfill	125,000	145,435	116%	83,390	62,045
Communication Central	150,000	116,088	77%	83,587	32,501
Maintenance	100,000	139,963	140%	115,724	24,239
Waste Collection	150,000	224,660	150%	203,729	20,931
Buildings	10,000	20,937	209%	8,588	12,349
Capital Hills	20,000	34,163	171%	28,939	5,224
Special	25,000	17,581	70%	16,018	1,563
Central Garage	15,000	28,215	188%	30,024	(1,809)
Parks Maintenance	140,000	110,676	79%	113,622	(2,946)
Recreation	32,000	13,488	42%	23,287	(9,799)
Streets	175,000	93,812	54%	112,309	(18,497)
Street Cleaning	115,000	121,451	106%	145,110	(23,659)
Water	655,000	410,505	63%	677,238	(266,733)

- 2. Fringe Benefits expenses increased by \$1.5 million from the third quarter 2007.** Retirement expense remains stable, but does not yet reflect the cost of the recent police arbitration. (The City pays the NYS Retirement system based on a percentage of salaries, including overtime.)

Retiree health expense and employee health expense increased by almost \$1 million from the third quarter 2007. In 2008 the City began self-insuring for most health care expenses. (Instead of paying premiums for health coverage, the City pays the actual medical and pharmaceutical bills.) This has initially mitigated expected sharp increases in health premiums. However, by self-insuring, the City is taking on additional risk.

The City's retirement contribution, which is paid in December, is relatively stable. However, retirement expenses are lagged by a year. Turmoil in the equity and bond markets foreshadows impending increases in future retirement contributions.¹

3. Non-Personal Services spending increased by \$0.6 million from the 3rd quarter 2007, but is at 69 percent of budget. *Judgment and claims* are down almost \$0.6 million from this time 2007, which reflects fewer lawsuit settlements and assessment refunds from prior year challenges.² A temporary slowdown in processing purchasing requests may be mitigating more significant increases, which would be recognized later in the year.

- ❑ *Central garage* (\$2.5 million) is at 86 percent of budget.
- ❑ *Gasoline expense* (\$1.0 million) is up by \$0.3 million)
- ❑ *Snow removal* expenditures decreased by more than \$0.5 million and are at 54 percent. Late year storms could undermine this progress.
- ❑ Police department expenses for *equipment* and *contracted services* are up \$0.8 million reflecting expenses of fit up for the communications center on Henry Johnson Blvd.
- ❑ *Street Lighting* is up more than \$0.2 million.
- ❑ Fire Department expenses are down \$0.3 million, largely because in 2007 they paid demolition expenses, which this year they do not.
- ❑ *Special Items* is only at 31 percent of budget. Unresolved collective bargaining agreements are budgeted though this category, but expensed though personal services.

¹ The City's retirement expenses are based on two factors: the performance of the investment portfolio of the State Retirement System and the size of the City's overall payroll (including overtime). The retirement system's performance has improved, thereby lowering the City's overall contribution. However, City spending on salaries and overtime has increased, thereby offsetting the gains.

² *Non Personal Services* tends understate expenses early in the year. Emergency purchases are not reflected in a timely way. Additionally, other significant expenses, such as heating costs are incurred mostly in the fourth quarter.

- *Debt Service* expense (\$13.8 million) is up \$0.3 million in part because of timing of debt payments.
4. **Encumbrances** (funds reserved for purchases) at the end of the 3rd quarter total more than \$2.8 million, which is \$0.4 million more than at the end of the 3rd quarter 2007.

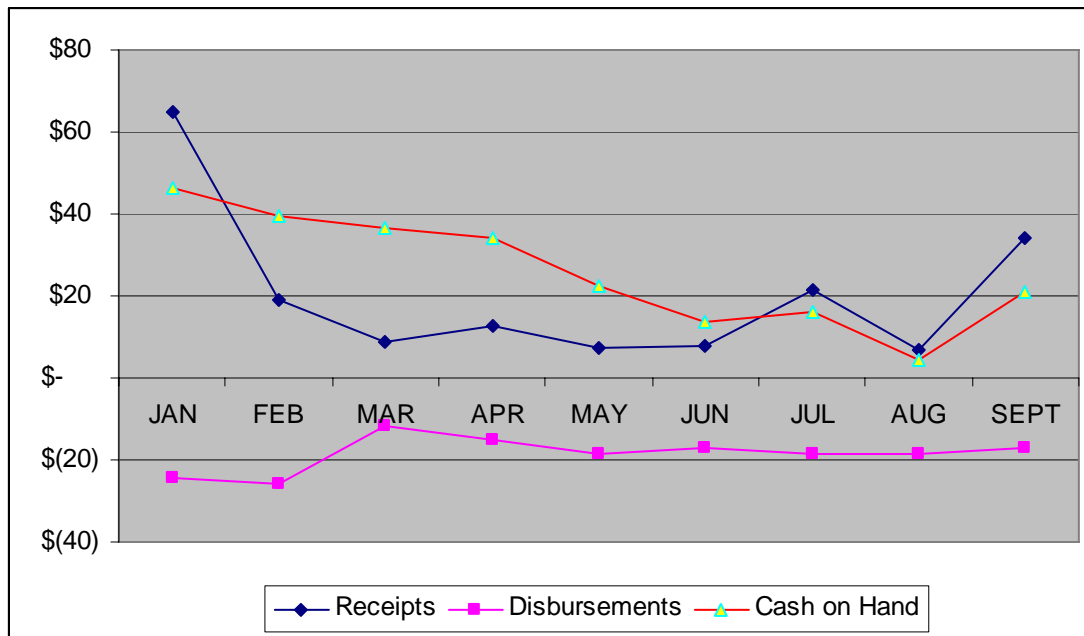
REVENUES

Revenues total \$116 million, which is almost \$13.5 million more than at the end of the 3rd quarter 2007. Most of the increase is the result of the State of New York remitting all of 19-a funds in September. In the previous two years the State sent half these funds in September and half in December.

1. **Local Sources of Revenue** (\$92.4. million) increased by \$ 13.2 million from 2007.
 - a. *PILOT* and *19-A* payments increased by \$11 million (see above).
 - b. *Property tax* revenue increased by \$2.1 million. The increase in property taxes in 2008 caused this increase.
 - c. *Sales Tax revenue*, totaled \$23.1 million, which is 77 percent of budgeted amounts. Strong third quarter sales tax revenue (received in the fourth quarter) reflect higher gasoline prices and rebate checks. Sharply lower gasoline prices and the slowed economy will likely undermine 4th quarter results.
2. **Departmental Income (\$9.2 million)** decreased by \$0.4 million from 2007, which is caused largely by decreased disposal of *petroleum-contaminated soil at the landfill*. Other landfill revenue has increased slightly. Golf course revenue increased by almost \$0.1 million from 2007.
3. **Intergovernmental Services** revenue (\$1.8 million) is down \$0.3 million from the third quarter 2007. Reduced *interest earnings* consistent with lower interest rates and earlier use of cash to cover the budgeted deficit describes nearly all of the variance. This item is likely to improve somewhat in the fourth quarter as the banking liquidity crisis has forced banks to pay more for deposits. However, the City's cash available for investing is diminished as the end of the year nears.
4. **Licenses and Permit fees** (\$1.3 million) are down slightly from 2007 but are at 76% of budget. *Safety inspection permits* are down more than \$250K from 2007. Permit fees from safety Inspections, plumbing, and electrical permits are down from last year; fees for street openings are up.

5. **Fines and Forfeitures** revenue is virtually the same as in 2007, but is only at 68 percent of budget. *Parking violation fines* are down more than \$0.3 million (17 percent) while *parking ticket surcharge* revenue is up by more than \$0.2 million.
6. **Sale of Property and Compensation for Losses** are down \$0.2 million from 2007 largely as the result of lower *self-insurance recoveries*.
7. **Miscellaneous** revenue (\$3.4 million) increased by almost \$0.1 million. Increased revenue from *Tulip Festival* and *refund of prior year expenses* are responsible for the increase.
8. **State Aid** (\$4.1 million) is at 22 percent of budget (most state aid revenue is received in the fourth quarter). This is an increase of \$0.7 million from 2007. Decrease in the *mortgage recording tax* (\$0.3 million) was offset by an increased *homeland security grant* (\$0.9 million).

Table 3. Cash Flow (in millions).



CASH

The Cash position is \$7.3 million better than at the close of the third quarter 2007. Receipts year-to-date total \$182.8 million compared with \$172.7 million in 2007. Disbursements totaled \$168.8 million compared with \$163.8 million in 2007. Early receipt of state *19-a payments* account for most of the improvement in the cash position. Lower revenue from the *mortgage recording tax* was more than offset by increased reimbursement from the Water Board. Increased *payroll*

costs (\$3.9 million) and increased payments to *vendors* (\$0.5 million) were partially offset by decreased disbursement for the *Water Board* (\$2.1 million).

Water Board reimbursement (\$17.9 million) is up from 2007 by \$2.8 million. Disbursements by the City on behalf of the Water Board (11.7 million) are \$2.1 million less than 2007. Consequently, year-to-date the City has received \$6.3 million more than it has paid out on behalf of the Water Board.

CONCLUSION:

Spending on *salaries* (especially overtime) and *benefits* have increased more than spending on *snow removal* and *judgments and claims* have decreased. It is important that the City reduce spending in the fourth quarter to prevent greater than budgeted losses.

Increase in *property taxes* and solid *sales tax* figures have more than offset reductions in revenue from *interest earnings* and *mortgage recording tax*. *Sales tax* revenues have defied national and regional trends. However, there is little reason to believe that this trend will continue into the 4th quarter.

The City needs to conserve cash in order to fund the \$8 million budgeted deficit and any significant end-of year health expenses.