
Boise City Shop

Budget Office Report

This report summarizes a due diligence review with departments of line item compliance with budget guidelines. Budget amounts submitted by departments have been revised based upon negotiations between the department and the Budget Office.

Heather Mink, Budget Advisor

06/05/2003

The Airport manages City Shop.

Revenues

In general, City Shop's revenues cover costs incurred in providing vehicle maintenance and repair services for City departments. Since the City Shop fund is an internal service fund, its revenues are expected to cover all expenses. In the last few years, the General Fund has subsidized City Shop. Now that department use of Shop is mandatory, Shop's revenues should increase if departments complete regular maintenance and servicing.

Revenues (000's)	FY 2002a	FY2003r	FY 2004b	FY 2005b
Internal Fees	\$1,347	\$1,262	\$1,509	\$1,509
Other Revenues	\$5	\$110	\$5	\$5
TOTAL REVENUES	\$1,353	\$1,373	\$1,514	\$1,514
% Change	6%	1%	10%	0%

Key Revenue Accounts

1) Internal fees: In FY 2003, MBT and City Council approved changes in the Shop's rate schedule. The hourly rate for all work except oil changes increased from \$52.50 to \$60.00. Shop added a special oil change service rate of \$24.99 for most City fleet vehicles, excluding police patrol cars and heavy-duty trucks. The new rate schedule along with measures to improve efficiency was intended to make City Shop self-supporting.

Department Budgeted City Shop expenses:

Due to tight budget times, departments' budgeted expenses for City Shop services are projected to be \$147,000 in FY 2004 less than City Shop's projected revenues (as shown in the following table). In addition, Budget office estimates of City Shop's revenues, which are based on assumptions provided by City Shop, are lower than City Shop's projections.

Department	Est. Dept Expense	Est. Shop Revenue	FY 2004 Difference
Airport	\$143,611	\$148,393	(\$4,782)
CSS	\$14,657	\$20,096	(\$5,439)
Fire	\$326,954	\$377,313	(\$50,359)
Legal	\$0	\$114	(\$114)
Library	\$10,000	\$7,990	\$2,010
Mayor	\$0	\$5,176	(\$5,176)
PDS	\$47,446	\$53,254	(\$5,808)
Police	\$490,365	\$525,324	(\$34,959)
Parks	\$75,880	\$90,919	(\$15,039)
Public Works	\$138,544	\$166,067	(\$27,523)
Treasury	\$307	\$291	\$16
Outside Agency	\$114,075	\$114,075	\$0
Total *	\$1,361,839	\$1,509,012	(\$147,173)

* Please note Shop's revenue estimates include \$5,700 of interest and rental income.

Budget Office Revenue Estimates

When City Shop proposed the FY 2003 rate schedule, Shop provided the Budget Office with assumptions about revenues. Using those same assumptions, the Budget Office estimated Shop's revenues for FY 2004 to be \$1,435,000 compared to Shop's estimate of \$1,514,700.

Issue

- Shop revenues vs. Dept. expenses – there is a gap of approx \$147,000 between City Shop's budgeted revenues and departments' budgeted expenses for City Shop work.

Personnel Costs

In May 2003, City Shop has 11.0 approved FTE's. The total personnel budget for FY 2004 is \$614,311 and for FY 2005 is \$614,989.

Personnel (000's)	FY 2002a	FY2003r	FY 2004b	FY 2005b
Salaries	\$372	\$390	\$389	\$389
Overtime	\$6	\$5	\$5	\$5
Health	\$78	\$71	\$80	\$80
Other Personnel Costs	\$87	\$73	\$71	\$71
TOTAL PERSONNEL	\$543	\$540	\$546	\$546
% Change	7%	-0.5%	1%	0%

A vacant 1.0 FTE mechanic position and a vacant 0.48 custodian FTE were deleted from the Shop's budget in FY 2003. Both of these positions had remained vacant since they were approved.

Key Personnel Accounts

- 1) Health: Health as a percentage of total personnel cost increased from 13% in FY 2003 to 15% in FY 2004 and FY 2005.
- 2) Overtime: FY 2002 overtime decreased by 46% over FY 2001, and is projected to remain steady at \$5,280 through FY 2005.

Issues

- **Efficiency** – “established” staff receive higher levels of vacation time due to longevity. This translates into a lower efficiency rate because of fewer billable hours available.
- **Staffing level** –staffing compared to billable hours and efficiency benchmarks from similar shops nationwide. The Shop's productivity rate has been identified by the Airport as a concern that must be corrected.

M&O

Total M&O for FY 2004 and FY 2005 is \$890,520 and \$894,119, respectively. This represents an approximate .5% decrease from FY 2002 actual and 12% increase from the FY 2003 revised budget. The increase over the FY 2003 budget is due mainly to parts expenses, which are reimbursed through charges at a 30% markup rate.

Below are other key cost accounts.

M&O (000's)	FY 2002a	FY2003r	FY 2004b	FY 2005b
Parts	\$452	\$317	\$452	\$452
Outside Labor	\$128	\$129	\$126	\$126
Indirect Cost Reimb	\$35	\$37	\$38	\$39
Rent Bldg/Land	\$22	\$24	\$22	\$22
Special Dept Supplies	\$19	\$11	\$19	\$19
Worker's Comp Ins	\$18	\$19	\$15	\$17
Depreciation	\$80	\$85	\$80	\$80
Interest on Advance	\$43	\$45	\$43	\$43
Other M&O Accounts	\$98	\$127	\$95	\$96
TOTAL M&O	\$895	\$794	\$891	\$894
% Change	11%	-11%	12%	0%

City Shop is outside of the budget target due to Parts and Outside Labor, both of which are reimbursable expenses.

Key M&O Accounts

- 1) Parts:** Parts expenses are reimbursed through charges at a markup rate of 30% and are directly related to the work performed. It is expected that the level of parts expenses be at least the same as FY 2002, since the Mayor declared City departments' use of City Shop as mandatory starting in FY 2003. This mandate should increase the utilization of shop and, in turn, the parts expenses for work performed.
- 2) Outside Labor:** City Shop sends mainly paint and body work to outside contractors. This expense is reimbursed through charges at a markup rate of 5%.
- 3) Interest on Advance:** In FY 2001 the Solid Waste fund advanced the City Shop money to build the new shop building at the Airport. The term of this note is 20 years, and Solid Waste can call the note at the end of five years. The interest expense is included in the budget; but the principal payment is not since the building is listed as a liability on the balance sheet. However, the principal payment must still be paid out of operating cash flow.

Issue

- Solid Waste Fund Advance— note is callable in FY 2005

Equipment

For FY 2004, Shop is outside its equipment target of \$15,780 by \$26,220 due to the request of a heavy-duty truck lift.

For FY 2005, Shop is under target by \$1,080.

Conclusions and Recommendations

City Shop has had difficulty in the last few years covering expenses with revenues from operations. The following tables indicate that FY 2004 and FY 2005 may follow the same pattern unless some intervention is made.

a) City Shop Revenue Est.		
	FY 2004	FY 2005
<i>Revenues</i>	1,514,723	1,514,723
<i>Expenses</i>		
Personnel	545,779	546,389
M&O	890,520	894,119
Principal Payment	37,000	37,000
Equipment	15,780	11,000
<i>Total Expenses</i>	1,489,079	1,489,508
Net Operations	\$25,644	\$26,215

b) Budget Office Revenue Est.		
	FY 2004	FY 2005
<i>Revenues</i>	1,434,987	1,434,987
<i>Expenses</i>		
Personnel	545,779	546,389
M&O	890,520	894,119
Principal Payment	37,000	37,000
Equipment	15,780	11,000
<i>Total Expenses</i>	1,489,079	1,489,508
Net Operations	(\$54,092)	(\$53,521)

- Based on City Shop's revenue estimates, Shop should have a net gain of approximately \$26,000 in both FY 2004 and FY 2005 (assuming that depreciation is funded).
- Using the Budget Office's more conservative revenue estimates, the Shop would have a net shortfall of \$54,000.
- Departments are responsible for managing within their budgets. Therefore, if departments spend only their budgeted amount in FY 2004 and FY 2005 the shortfall will be \$121,000.

Key issues

- Utilization of staff, billable hours, efficiency level.** To cover costs in FY 2004 and FY 2005 the Shop's productivity rate must improve either through increased numbers of billable hours or cost reductions.
- Solid Waste Fund building advance** – The internal loan from the Solid Waste Fund to allow construction of the shop building has a balance owing of approximately \$932,500 in May 2003. Solid Waste may call the note in FY 2005.

- **Expected revenue** – Shop revenues from departments should equal the departments' budgeted Shop expenses. However, departments have budgeted \$147,000 less than Shop expects to receive in revenue.

Recommendations

- **Performance Audit/Study** – With this outlook, the Budget office recommends a performance audit/study to assist City Shop in making changes to improve efficiency and productivity. Rate increases in the last two budget cycles have not addressed the problem, nor has increasing the number of mechanics on staff. Human Resources, Airport, and DFM staff could do the audit in house, or it could be contracted externally.
- **Assignment to balance the FY 2004 and FY 2005 budget** – The Budget Office recommends that City Council assign a team from the Airport, the Mayor's office, and DFM to report back by October 1, 2003 with a balanced operating budget plan for City Shop. The report should include proposals to increase revenues and efficiency and/or decrease costs. Input and participation from the Police, Fire, and Parks and Recreation departments should also be incorporated in the study.