City of Culver City, California

Agenda Item Report

Meeting Date: _02/14/2011_	Item Number: J-1
JOINT CITY COUNCIL/REDEVELOPMENT AGENCY BOARD AGENDA ITEM: FOUR-FIFTHS VOTE REQUIREMENT – Receipt and Filing of the Fiscal Year 2010/2011 Mid Year Financial Monitoring Report and Approval of Related Budget Amendments	
Contact Person/Dept.: Jeff Muir/Finance	Phone Number: 310-253-6006
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: [X]	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (Email) Meetings and Agendas – City Council (02/09/11); Meetings and Agendas – Redevelopment Agency (02/09/11); (Email) Ongoing Topics – Fiscal and Budget Issues (02/09/11)	
Department Approval: Jeff Muir (02/09/11)	Agency General Counsel Approval: City Attorney Approval: Carol Schwab (by H. Baker) (02/08/11)
Chief Financial Officer Approval: Jeff Muir (02/09/11)	City Manager/Executive Director Approval: John M. Nachbar (02/09/11)

RECOMMENDATION:

Staff recommends the City Council and Redevelopment Agency Board (Agency Board) receive and file a presentation on the Fiscal Year 2010/2011 Mid-Year Budget and approve related budget amendments.

City budget amendments require a 4/5^{ths} vote.

BACKGROUND / DISCUSSION:

The Finance Department typically prepares quarterly, mid-year, and year-end Financial Monitoring Reports once the accounting periods have been closed for the respective reporting cycle. This Mid-Year Report presents the City Council and Agency Board with a snapshot of expenditures and revenues through the first half of Fiscal Year 2010/2011.

General Fund

Through the midpoint of Fiscal Year 2010/2011, total General Fund revenues are $27.297 million, or 33.8% of the adjusted budget, and expenditures are $37.645 million, or 44.0% of the adjusted budget.

Sales Tax is performing better than the previous fiscal year which is mostly attributable to Westfield Culver City being open for the entire reporting period.

Transient Occupancy Tax and Real Property Transfer Tax are also performing better than anticipated.

Although some of the City's major sources of revenues are performing well and have increased from the prior fiscal year, there are a few categories which are still underperforming. Development related fees and charges are down due to lower building activity and development. Staff recommends the following budget amendments be made to adjust revenues accordingly and to better reflect projected receipts. (Individual line item amounts can be found in Attachment 1.)

FISCAL YEAR 2010-11
PRELIMINARY MID-YEAR GENERAL FUND REVENUES
WITH RECOMMENDED ADJUSTMENTS

	ADJUSTED BUDGET FISCAL 2010-11	RECOMMENDED ADJUSTMENTS FOR FISCAL 2010-11	DIFFERENCE
Property Tax	3,970,000	3,970,000	0
Sales Tax	15,521,340	15,621,340	100,000
Public Safety Sales Tax (PSAF)	310,000	310,000	0
Business Tax	9,827,000	9,827,000	0
Franchise Tax	1,400,000	1,400,000	0
Real Property Transfer Tax	750,000	1,000,000	250,000
Utility Taxes	14,775,000	14,875,000	100,000
Transient Occupancy Tax (TOT)	2,850,000	3,050,000	200,000
Commercial/Industrial Dev. Tax	400,000	100,000	(300,000)
Licenses and Permits	2,223,516	2,014,016	(210,000)
Intergovernmental	3,789,171	3,789,171	0
Charges for Svcs. (Includes RDA billings)	11,765,093	11,565,593	(200,000)
Fines and Forfeitures	4,034,000	4,134,000	100,000
Use of Money & Property	999,000	999,000	0
Interfund/Departmental (Admin. Allocation)	4,803,290	4,803,290	0
Other Revenues	257,660	257,660	0
Other (Interfund Transfers)	3,036,290	2,656,290	(380,000)
TOTAL GENERAL FUND	**$80,711,360**	**$80,372,360**	**($340,000)**

All Departments are holding under the 50% spending assumption so far through December 2010. At mid-year it is estimated that expenditures will come in at approximately 97% of adjusted projections by the conclusion of Fiscal Year 2010/2011 on June 30, 2011.

A detailed discussion of the performance of mid-year revenues and expenditures can be found in Attachment 1 – *Mid-Year Financial Monitoring Report* and Attachment 2 - *Culver City Mid-Year Summary Report*.

Enterprise and Internal Service Funds

There are no significant budgetary issues requiring a budget amendment in the *Enterprise Funds* (i.e. Refuse, Transportation, and Sewer Funds) or *Internal Service Funds* (i.e. Equipment Replacement, Fleet Maintenance, Self Insurance, and Central Stores Funds). A discussion of these funds' revenues can be found in the attached Mid-Year Financial Monitoring Report on pages 11 through 13 and expenditures on page 18.

Culver City Redevelopment Agency

Unrestricted Funds

Unrestricted funds are funds that are available to provide financial assistance for projects and/or programs that meet the goals of the Redevelopment Plan. These funds consist primarily of tax increment revenues but also include other revenues generated from the Agency's business operations (e.g. revenues from RDA owned parking lots).

Revenues

The RDA continues to feel the effects of the bad economy as tax increments continue to fall and are expected to decrease for the second straight fiscal year. Half way through the fiscal year, tax increment revenues are down by 8% from last fiscal year. Overall, revenues are 11% behind where they were last fiscal year at this time.

Tax Increment projections utilized while preparing the Executive Director's Proposed Budget for Fiscal Year 2010/2011 were based on the 2009-10 County Assessor's Assessed Value Report, which is the most up to date information that the Agency has during budget preparation. Staff was conservative and assumed only a 2% increase in Assessed Values in the Redevelopment Project area. Since adoption of the Budget by the Agency Board in June, 2010, , the Agency received the 2010-11 Assessed Value Report from the County Assessor's Office, which indicated a 2.8% decrease in Assessed Values. Consequently, staff is recommending that the original tax increment revenue estimate of $38,619,000 be decreased to $35,010,000. Consequently, a number of budget amendments are being recommended to lower budget projections.

Additionally, revenues at the Ince Parking Structure are lagging significantly due primarily to the impact of the recession. Monthly parking revenues have decreased over the last few years as employees from surrounding businesses have utilized the structure less (or there are simply fewer employees remaining who need to park in the structure). Ince also collects significantly less in transient parking revenues than the other two downtown parking structures as a majority of users stay less than two hours. To more accurately reflect revenue projections at Ince, staff recommends the Agency Board approve a budget amendment decreasing revenues from $525,000 to $450,000.

There are no significant issues with any of the other RDA revenues. A more detailed discussion of the Agency's revenues can be found on pages 7 through 11 of the Culver City Redevelopment Agency Mid Year Financial Monitoring Report (Attachment 4).

Expenditures:

There are a number of payments that the Redevelopment Agency is required to make per State statute, including the required set-aside of 20% of the tax increment into the Low-Moderate Housing Fund. These payments are all calculated as a set percentage of the total tax increment that the Agency receives. Consequently, as the tax increment revenue decreases, there is a corresponding decrease in those payments. Therefore, staff is recommending that the Housing set-aside payment be decreased by $721,800 from $7,723,800 to $7,002,000.

All other Agency expenditures are expected to be within budget. A more detailed discussion of the Agency's expenditures can be found on pages 4 through 6 of the Culver City Redevelopment Agency Mid Year Financial Monitoring Report (Attachment 4).

Approving the recommended decrease in revenue will leave the Agency with a budget deficit (i.e. budgeted expenditures exceeding budgeted revenues) of approximately $10.4 million for Fiscal Year 2010/2011. However, on average, the Agency only spends approximately 90% of the adjusted budgeted expenditures. Should this remain true in Fiscal Year 2010/2011 (which is staff's expectation), then an actual deficit of approximately $5.5 million is expected. There are sufficient unrestricted reserves to cover any potential year end deficit caused by the reduction in revenues. A table of the Agency's projected fund balances can be found on page 3 of the Culver City Redevelopment Agency Mid Year Financial Monitoring Report (Attachment 4).

Supplemental Education Revenue Augmentation Fund (SERAF)

As part of last year's state budget deal, redevelopment agencies were required to shift $2 billion to local school districts. This shift was spread over two fiscal years, with $1.7 billion shifted in Fiscal Year 2009/2010 and $300 million shifted in Fiscal Year 2010/2011. Last year, pursuant to the Agency Board's approval and the provisions of State law, the Agency's ERAF obligation of almost $11 million was borrowed from the Low-Moderate Income Housing fund and is being repaid over the next five years. The second SERAF payment of $2.3 million is due in May of this year. This amount has already been budgeted and, at this point, there are no plans to borrow that payment from the Low-Moderate Income Housing Fund.

The California Redevelopment Association (CRA) did file a lawsuit contending that the SERAF shift of redevelopment funds is unconstitutional. In May 2010, the Sacramento Superior Court issued an adverse ruling and determined that shifting redevelopment funds does not violate the State Constitution. CRA subsequently filed an appeal of the Superior Court decision, which is still pending. Proposition 22, a Constitutional Amendment passed by California voters in November 2010, provides additional protection of local funds from state raids. However, Proposition 22 only protects against future payments and is not applicable to the current payment as the SERAF transfer was signed into law prior to the passage of Proposition 22.

Low/Moderate Income Housing Fund

Other than a decrease of $721,800 in Housing set-aside revenues discussed earlier in this report, there are no significant budgetary issues in the Low/Moderate income housing fund. Total Housing appropriations are approximately $7.5 million, and there are sufficient Low/Moderate Income Housing Fund reserves to cover any potential year end deficit caused by the reduction in revenues.

Refer to page 12 of the Culver City Redevelopment Agency Mid Year Financial Monitoring Report (Attachment 4) for more discussion on the Low/Moderate Income housing Fund.

Tax Exempt Bond Funds

All bond funds are currently either appropriated or earmarked for projects that meet the restrictions of tax exempt bond funding. Refer to page 13 of the Culver City Redevelopment Agency Mid Year Financial Monitoring Report (Attachment 4) for more discussion on Tax Exempt Bond funds.

FISCAL ANALYSIS:

City of Culver City

Given the mid-year data, General Fund actual expenditures are projected to come in at 97.0% of budget. This is primarily due to continued vacancies in some Departments as well as anticipated savings in Operations and Maintenance accounts. The recommended revenue adjustments will allow for closer monitoring through the end of the fiscal year. The estimated General Fund operating deficit for Fiscal Year 2010/2011 will be approximately $2.9 million. With the one-time transfer of funds from the Equipment Replacement Fund, the estimated ending deficit requiring the use of unreserved fund balance will be $2.1 million.

It is unknown at this time what effects the State Budget may have on the City's finances for the remainder of the fiscal year and subsequent years. Staff continues to monitor activities and any changes will be brought to the City Council/Agency Board and Executive Management for discussion.

Culver City Redevelopment Agency

Governor Jerry Brown released his proposed Fiscal Year 2011/2012 budget on January 10, 2011. It includes a number of significant recommendations to close the estimated $25 billion state budget deficit. The Governor is asking the voters to extend the temporary Vehicle License Fee, Sales Tax, and Income Tax increases that have been in effect since 2009. He is also proposing deep cuts to many programs. The Governor is also proposing the elimination of all redevelopment agencies in the state.

Budget Hearings related to the proposal to eliminate redevelopment agencies are being held in Sacramento in early February. Actual legislation has yet to be drafted; consequently, there are not a lot of details known about the plan.

There are many questions about the constitutionality of the plan as well potential negative consequences of eliminating a significant driver to the state's economy. Those issues will be discussed and debated over the next few months as the Governor pushes his budget proposal. Staff will keep the Agency Board apprised as details regarding this proposal become more clear.

This proposal, if enacted as presented, would have devastating impacts on the ability of local governments to eliminate blight, improve the economic climate, and generate jobs. Because of the unprecedented negative impact the Governor's proposal would have on Culver City, the Agency Board and City Council met in special session on January 15, 2011 and approved certain agreements between the City and the Agency which obligate the Agency to reimburse the City for critical infrastructure improvements and other legally permitted and necessary costs. On February 17, 2011, the City Council, Agency Board, and Financing Authority will also consider the issuance of tax increment bonds by the Agency to further secure these local tax dollars for critical programs.

ATTACHMENTS:

1. Recommended Revenue Adjustments by Line Item
2. Culver City Mid-Year Summary Report
3. Culver City Mid-Year Financial Monitoring Report
4. Redevelopment Agency Mid-Year Financial Monitoring Report

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Agenda Item Report

MOTION:

That the City Council:

(1) Receive and file the presentation of the Fiscal Year 2010/2011 Mid Year Financial Monitoring Report;

and

(2) Approve proposed budget amendments as shown in Attachment 1.

A budget amendment requires a 4/5ths vote

That the Agency Board:

(1) Receive and file the presentation of the Fiscal Year 2010/2011 Mid Year Financial Monitoring Report;

and

(2) Approve the following budget amendments:

A. Decrease projected tax increment revenues by $3,609,000 in the following areas;
   a. *Project Area 1 (51290000.311210): ($2,680,000)*
   b. *Project Area 2 (52290000.311210): ($243,000)*
   c. *Project Area 3 (53290000.311210): ($522,000)*
   d. *Project Area 4 (54290000.311210): ($164,000)*

B. Decrease Housing set-aside by $721,800 (this decrease will be reflected as a decrease in expenditures from RDA and a corresponding decrease in revenue for the Low/Moderate Housing fund);

Decrease Transfer-Out (Tax Increment Accounts)		*Decrease Transfer In (Low/Mod Income Housing Accounts)*	
51299900.952554:	*($536,000)*	*55499900.391512:*	*($536,000)*
52299900.952554:	*($48,600)*	*55499900.391522:*	*($48,600)*
53299900.952554:	*($104,400)*	*55499900.391532:*	*($104,400)*
54299900.952554:	*($32,800)*	*55499900.391542:*	*($32,800)*

C. Decrease Ince Parking Structure revenues by $75,000 (55093800).