City of Culver City, California

City Council Agenda Item Report

Meeting Date: 02/09/09	Item Number: J-2
AGENDA ITEM: JOINT ITEM - Fiscal 2008-09 Mid-Year Budget Report and Adoption of Proposed Budget Amendments	
Contact Person/Dept.: Jeff Muir, Chief Financial Officer	Phone Number: (310) 253-6016
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: [X]	Attachments: [X]
Public Notification: Master E-Mail Notification List (02/04/09); Culver City Observer and Culver City News 01/29/09 and 02/05/09; Culver City Employees Association, Culver City Management Group, Culver City Fire Management Group, Culver City Firefighters Local 1927, AFL-CIO, Culver City Police Officers Association, and Culver City Police Management Group on 02/04/09.	
Department Approval: Jeff Muir (02/04/09)	City Attorney Approval: Carol Schwab (by H. Baker) (02/03/09)
Chief Financial Officer Approval: Jeff Muir (02/04/09)	City Manager Approval: Jerry B. Fulwood (02/04/09)

RECOMMENDATION:

Staff recommends the City Council and Redevelopment Agency receive a presentation on the Fiscal 2008-09 Mid-Year Budget and adopt proposed budget amendments.

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

BACKGROUND / DISCUSSION:

The Finance Department prepares monthly, quarterly, mid-year, and year-end Financial Monitoring Reports for the City Council and the Redevelopment Agency once the accounting periods have been closed for the respective reporting cycle. This mid-year Financial Monitoring Report presents the City Council and Agency Board with a snapshot of expenditures and revenues through the first half of Fiscal Year 2008-09 as well as any upcoming significant financial issues.

City of Culver City

General Fund

Through the first six months of Fiscal Year 2008-09, total General Fund actual expenditures are $38,982,398, or 44.6% of the adjusted budget. General Fund actual revenues are $28,307,828, or 32.4% of the adjusted budget. As a point of reference, over the last three prior fiscal years (2005-06 through 2007-08), the average expenditures at mid-year are 46.0% and the average revenue receipts at mid-year are 34.8%. *Note*: A majority of General Fund revenues are received AFTER mid-year, including Business Tax (beginning in February), Sales Tax In-Lieu (January and May), and State Motor Vehicle In-Lieu Fee (January and May).

General Fund expenditures are below target, and are expected to come in well below the 96.5% spending assumption. In October 2008, the City Manager called for and implemented “pull-back” measures due to the accelerating declining economic activity being experienced at all levels. These measures included:

- Implementation of an immediate hiring freeze, excluding Public Safety positions. All vacant positions will be reviewed on a case-by-case basis with the City Manager.
- Cessation of overtime, excluding Public Safety or emergency situations. All exceptions to be reviewed and approved by the City Manager.
- All Departments shall achieve a 25% budgetary savings in Training & Education, Conferences & Conventions, and Special Events & Meetings line items during the current fiscal year. Any exceptions must be discussed with and approved by the City Manager.
- Assessment of current usage of part-time and contract employees.
- Assessment of current usage of consultants.
- Review opportunities for increased efficiency in procurement and contracting.

Before the mid-year figures were known, it was hopeful that fiscal 2008-09 would end the year with a balanced budget. This is no longer the case given recent news received over the last couple of weeks. Even with the above mentioned “pull-back” measures, it is now expected there will be an operating deficit of at least $500,000 for fiscal 2008-09 due to the continued poor performance in retail sales and the general economy, and the very recent news of the closing of a major sales tax generator in the City. The City recently received news that one of its remaining new car dealers (Hooman Automotive Group) closed its doors, although there are rumblings that it may not be closed permanently. (For forecast purposes, though, we are making projections based on it being permanently closed.) Another business may be closing its doors soon, but the affect from its closing will not be felt until fiscal 2009-10. The Finance Department recommends the following actions to close the projected operating deficit for 2008/09:

1. Implement a strict no exceptions, hiring freeze on all positions that vacate between now and the end of the fiscal year. This would be a more aggressive freeze than is currently in place.

2. The Finance Department will work with all City Departments to achieve an overall savings equal to a 10% reduction of remaining unexpended, unencumbered O&M budget as of January 31, 2009. This would create an approximate savings of $270,000.

It is anticipated these actions would allow the City to finish the current year without a deficit.

Circuit City had previously announced the closure of 155 stores in December, of which Culver City was not one, to help ward off bankruptcy, but was forced to re-evaluate this decision and will now liquidate all inventory and close all stores most likely within the next few months. This is in addition to the Hooman Automotive Group closing its doors this past week. Both of these businesses were within the top 15 sales tax generators for the City. These closings are a major hit to sales tax for the City, and will be heavily felt in fiscal 2009-10 and coming years if additional retail generators are not found to fill the void. Franchise Tax Board rules make sales tax information for individual retailers confidential.

Current Sales Tax receipts through mid-year lag behind last year at this same time by approximately 3.4%. The January receipts and estimated February receipts are known, and the negative gap continues to grow. This information coupled with the recent news of the above business closures is a devastating blow to the City's overall General Fund revenues as sales tax is the City's number one revenue source. These business losses combined with previous ones, mainly due to the types of businesses, are more than can be offset with recent additions of businesses such as restaurants. Even though several of the new restaurants and smaller businesses are doing extremely well, they are not enough, even combined, to offset such large revenue generating business closings.

The renovation of the Westfield Shopping Mall has also contributed to keeping sales tax receipts low during the fiscal year, and hopefully will bounce back to an acceptable level once work is completed in the Fall. The anticipated addition of a Target in Westfield should help in building sales tax receipts back up; although, there is the uncertainty of both Targets in the City remaining open concurrently.

Current reports regarding an actors strike are still unclear. The previous strike by the Writer's Guild a year ago, while not absolutely quantifiable, did result in noticeable revenue losses to the City and the surrounding area. An actor's strike can only lead to more harm in an already damaged and unstable economy.

New development activity in recent years has brought the City a much needed boost. Beginning this fiscal year, many developments have stalled mainly due to the inability to find financing. This most likely will equate to a reduction in one-time revenues for fiscal 2008-09 unless these developments can find some financial backing in the next few months before the end of the fiscal year. These developments will add to the City's coffers in upcoming fiscal years with increased sales tax, utility tax, and business tax revenues. However, these revenues are not expected to be realized until the projects are finished, and most likely will not be fully on-line until fiscal 2009-10 or later.

Many cities throughout California are experiencing significant drops in Property Tax receipts. Culver City, being a low Property Tax rate city, is fortunate not to feel such dramatic drops. Also, since Property Tax makes up approximately 3.5% to 4.5% of the City's General Fund revenues on average, it does not cause such drastic harm as other larger sources. Included in this report, though, is a proposed mid-year reduction to the budgeted Property Tax amount based on an adjustment from our Property Tax consultants. The reduction is $600,000, and is necessary to correctly reflect the proper amount expected to be received. Property Tax estimates are in line with last year, and with the reported "*assessed valuation*" from the County, it is anticipated to meet projections with the proposed adjustment.

Most other major General Fund revenues are on-track or slightly behind mid-year projections. These include Utility Users Tax, Transient Occupancy Tax (TOT), and Real Property Transfer Tax. Utility Users Tax is on-track and shows little negative effect from the current decline in the economy. Gas UUT, which looks low at mid-year, historically comes in higher (approximately 67% of budget) during the second half of the fiscal year. TOT revenues are healthy at mid-year, but reports indicate a decline in receipts through the next few months due to low reported occupancy rates. Real Property Transfer Tax will be tight due to the real estate market, mainly commercial, virtually coming to a standstill. Staff is proposing a mid-year budget reduction adjustment to the Real Property Transfer Tax revenue category of $200,000. Sale of property is down from last year given the current market, but prices have remained relatively stable. A discussion and analysis regarding the various revenues is included in the mid-year Financial Monitoring Report (Attachment 1).

The General Fund beginning balance for fiscal 2008-09 is $34.2 million, or 40.7% of fiscal 2007-08 General Fund operating expenditures. The adjusted 2008-09 budget includes approximately $1.3 million in appropriations for capital projects. The fund balance at the end of fiscal 2008-09 is currently estimated at $33.15 million. This includes the proposed mid-year adjustments discussed in this report, and the noted potential loss of the entire $1 million Lehman Brothers bond. The City is being tremendously diligent in following all of the associated proceedings surrounding the Lehman Brothers issue, and is working with other agencies that are in a similar situation as ours to try and get back some dollars on our initial investment. Until we receive more solid information, we are taking a very conservative approach and removing the entire $1 million amount from the fund balance in the extreme chance the City loses the entire investment. The ending fund balance also includes the repayment of the remaining $7 million of the $9 million loan to the Redevelopment Agency[1]. Per the language in the General Fund Reserve Policy, the loan is considered a part of the reserve calculation.

At the direction of the City Manager, the Chief Financial Officer will be performing a thorough review of capital improvement projects. During the upcoming Capital Improvement Project budget process for fiscal 2009-10, available funds in Fund 420 for projects that have not yet been initiated, or for projects where little or no activity has been done for a long period of time will be removed and re-evaluated to see if the need is still there to fund the corresponding project. In many cases, funding has been appropriated for these projects, and too often the funding carries over from one year to the next without any activity occurring on the project. This ties up funding that could be used for other purposes or projects. Departments will need to resubmit justification for the funding needs of the projects and acquire approval.

Proposed Budget Amendments:

<u>General Fund:</u>

1. **Reduce adopted Sales Tax budget amount by $1,075,000**. Current budget projection for Sales Tax is $17,793,000. Due to the closing of two major businesses, continued record low retail sales, dismal overall economic outlook, adjustment of $150,000 due to an overpayment from the State of the in-lieu sales tax in 2007-08, and combined analysis with the City's Sales Tax auditors, staff believes it is prudent the adopted Sales Tax projection be reduced from $17,793,000 to $16,718,000 for fiscal 2008-09. Further analysis will be done, and the fiscal 2009-10 approved amount will be reviewed and adjusted accordingly during the upcoming budget process.

2. Reduce **Property Tax** budgeted amount by $600,000 from $3,940,000 to $3,340,000 to reflect adjustment from initial projection received from the City's Property Tax consultants. Increase the Property Tax pass-through by $112,000. Net adjustment for Property Tax will be a **reduction of $488,000**.

3. **Reduce State Motor Vehicle License Fee (VLF) by $100,000** (does not affect VLF In-Lieu portion). Department of Motor Vehicle administrative charges to the VLF fund (set in the state budget by the Legislature) have been increasing at roughly 10% per year while the VLF revenue has been flat

[1] Note that due to its own troubles, the Redevelopment Agency may not be able to pay the remaining loan amount in full in fiscal 2008-09.

or declining. The first cut of VLF revenue (about 75%) goes to counties for health and welfare realignment, then the DMV (and Franchise Tax Board and State Controller's Office) takes their administrative cut, then there are a few relatively small fixed allocations (recently incorporated cities that get no property tax in lieu of VLF for example). The remaining amount goes to cities on a per capita basis - and it has steadily been declining. Beginning in November 2008, there was no funding remaining for distribution to cities. The League of California Cities has recommended cities make adjustments to their budget amounts as there are clear indications this funding will not meet projections.

4. **Reduce Real Property Transfer Tax by $200,000.** Mid-year receipts show this revenue category lower than anticipated, and commercial real estate sales have slowed significantly.

5. **Reduce Commercial Industrial Development Tax by $300,000.** This revenue category has seen dramatic increases the last few years due to major development activity within the City. The revenue has mainly been designated as one-time due to the nature of the projects. Projections for fiscal 2008-09 were based on activity moving forward, and given the current downturn of the economy and credit markets, this development has for the most part come to a standstill for this fiscal year. It is hoped that it will move forward in fiscal 2009-10.

6. A budget adjustment increase of $135,500 for the annual maintenance of the Public Safety computer aided dispatch and records management system is being requested. During the budget preparation for fiscal year 20008-09, it was undetermined whether or not this expenditure would be due in fiscal year 2008-09 or 2009-10 given the implementation schedule. The annual maintenance payment was invoiced and due in December 2008. The annual maintenance expenditure was issued from the capital project budget and approval of this request would replenish the project account (42000902). The budget appropriation would be from the City's General Fund Unappropriated Reserve and transferred to Fund 420 – Improvements & Acquisitions.

7. When the Fire Department is reimbursed for strike team callouts, an administrative surcharge portion of the reimbursements is added to cover indirect/additional costs expended by the Department. This administrative surcharge is 15% for the U.S. Department of Forestry, and 16.59% for the State OES. Due to the significant amount of callouts this fiscal year and the exceptional expenses related to them, the Fire Department has requested this additional administrative surcharge percentage be appropriated to their Small

Tools & Equipment (10145100.514600) line item to pay for the additional equipment that has been needed to be purchased.

8. Additional strike team reimbursement checks will be received during the remaining months of fiscal 2008-09. The amount of the administrative surcharge on the additional reimbursements total $59,388. It is requested that Council approve the appropriation of the future administrative surcharge receipts into the account noted in #7, as they are received for the remainder of fiscal 2008-09. (This issue will also be discussed and included in the 2009-10 budget process and resolution for discussion and subsequent adoption if approved by City Council at that time.)

9. Convert 1.98 Maintenance Worker II/RPT positions into a full-time Maintenance Worker I position in the Parks Division. The addition of a Maintenance Worker I full-time position will offer more incentive and job advancement opportunities to current city employees and potential City employees. It will also help stabilize the Parks Division high turnover rate at the Maintenance Worker II/RPT position, allowing the Parks Division to retain the employees it has invested time and training in. RPT positions cap at Step-C. This conversion will allow for a personnel cost savings to the City for the first few years, and also save valuable time and funds in reducing the number of recruitments.

Enterprise Funds

There are no significant budgetary issues in the Refuse Fund, Transportation Fund or Sewer Fund that need mid-year adjustments.

Internal Service Funds

There are no significant budgetary issues to report in the Equipment Replacement, Equipment Maintenance & Fleet Services, and Central Stores funds at this time.

The Self Insurance Fund (SIF) began the year with a reserve balance of $1.8 million. During fiscal 2007-08 the SIF transferred $3.6 million to the City's Capital Improvement fund to repair the Cranks Road hillside. This reduced the fund's balance from a previous healthy $5 million to the current $1.8 million. Building the reserve back-up will be a major goal over the next few years. Additionally, pending General Liability and Worker's Comp costs could further impact the fund balance. Staff continues to evaluate costs, and during the upcoming budget process will review the strategy in re-establish the fund reserve and will assess if an increase in liability reserve charges to operating departments is needed over the next few years.

Workers' compensation and insurance costs are expected to meet the current budget.

Culver City Redevelopment Agency

Unrestricted Fund

Unrestricted funds 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).

The beginning unrestricted fund balance for 2008-09 was approximately $10.8 million. The projected ending fund balance, assuming that the sale of Parcel B is completed and the $9 million loan to the City is fully repaid in this fiscal year, is approximately $2.5 million.

Revenues:

During the preparation of the annual budget for Fiscal Year 2008-09, staff received a projection of tax increment revenues from the Agency's fiscal consultant, Keyser Marston Associates (KMA), which was based on the 2007-08 County Assessor's Assessed Value Report. Subsequent to the adoption of the 2008-09 Redevelopment Agency budget, KMA provided staff with an updated tax increment projection based on the 2008-09 Assessed Value Report, which is received in August each year. The updated projection of $33 million represents an 8% increase from the original projection of $30.5 million. The increase is a result of higher than anticipated property valuations[2]. Mid-year receipts to date support KMA's revised projection. Therefore, staff is recommending that the original tax increment revenue estimate of $30,535,000 be increased to $32,961,000.

Additionally, due to a very strong movie season industry-wide, revenues from the Pacific Theaters are very strong through mid-year and are expected to exceed the budget projection of $1.3 million. Conversely, parking revenues are behind last year's receipts and may not meet budget projections. Since the increase in Pacific Theater revenues are expected to offset the potential loss in parking revenues, no budget amendments to either of these revenue categories are recommended at this time.

[2] More information on the 2008-09 Assessor's Report was provided to the Agency Members in a memo from the Finance Department dated 8/25/08.

Over the last few years, the Redevelopment Agency has acquired a number of blighted properties throughout the Redevelopment project areas. The Agency is now moving forward with selling many of these properties for various redevelopment projects, including Parcel B, the Baldwin Hotel site, and Washington/Centinela. The adopted budget included the projected sale of those properties. However, due to current economic conditions, staff only anticipates to receive land sale proceeds from the Parcel B site in this fiscal year. Therefore, staff is recommending amending the budget accordingly.

All other revenues appear to be on track. No other revenue amendments are recommended at this time.

Expenditures:

There are a number of payments that the Redevelopment Agency is required to pay per State statute. These required payments include the 20% Housing set-aside, statutory pass through payments to other taxing agencies, and administrative fees to Los Angeles County. These payments are all calculated as a set percentage of the total tax increment that the Agency receives. Consequently, as the tax increment revenue increases, there is a corresponding increase in Housing set-aside and statutory pass through payments. Therefore, staff is recommending that the Housing set-aside payment be increased from $6,148,000 to $6,672,000 and the administrative and statutory pass through payments be increased from $3,896,080 to $4,550,600.

Education Revenue Augmentation Fund (ERAF)

The FY 2008-09 budget was particularly tough one for the State. The budget was adopted 85 days late and was re-opened by the Governor less than a month later due to a significant revenue shortfall (approximately $15 billion in this fiscal year). In an effort to close some of the deficit, the legislature re-instituted ERAF payments, basically shifting some of the state's obligation to fund education to local redevelopment agencies. As a result, the Culver City Redevelopment Agency is obligated to make a $2,251,463 ERAF payment this fiscal year. At this point, the ERAF payment is a one-year obligation. However, considering the state's worsening financial condition, there is a possibility that the ERAF shift may become permanent.

The trailer bill that officially made the ERAF requirement a law is called AB 1389. In addition to the ERAF payment, AB 1389 imposed a number of new requirements on redevelopment agencies such as an official reporting of pass through payments to the County Controller's office.

AB 1389 also provided a provision for the Redevelopment Agency to borrow up to 50% of their ERAF obligation from low/moderate income set aside funds. There are some conditions that need to be met in order to be able to borrow from housing set aside funds, and the money that is borrowed can only be used to pay the ERAF obligation. The Culver City Redevelopment Agency is required to pay $2,251,463, which means that up to $1,125,731.50 can be borrowed from Housing Set Aside funds to pay ERAF, provided that the agency can meet conditions for borrowing provided in AB 1389.

The conditions that need to be met, as described in AB 1389, are as follows:

- The RDA must make a finding that it does not have sufficient funds to pay the entire ERAF obligation without the loan;
- The funds must be repaid to the Low/Mod Income Housing Set Aside Fund within 10 years. The loan may be repaid interest free.

According to the Agency's legal counsel, the Agency may be able to make the necessary findings of financial need validly. However, the borrowed funds may only be used to pay the ERAF obligation.

Considering the Agency's current land rich, cash poor financial situation, the Agency Board may wish to pursue a loan from Housing Set Aside funds for 50% of the ERAF obligation. *Staff is seeking direction to either pursue this option and begin the process of making the necessary findings or pay the entire amount now from unrestricted tax increment funds.* If the Agency Board would like to pursue the loan, $1,126,000 will need to be appropriated in the Unrestricted Tax Increment funds and $1,126,000 will need to be appropriated in Housing Set Aside funds. Otherwise, $2,252,000 will need to be appropriated in Unrestricted Tax Increment funds.

NOTE: The California Redevelopment Association (CRA) has filed a lawsuit against the state alleging that taking local redevelopment agency funds is illegal under Proposition 1A approved by voters in November 2004. It is likely that the lawsuit will still be pending on May 1st (when the ERAF payment is due), so the CRA has recommended that agencies make the required payment to avoid any penalties.

Recap of Proposed Budget Amendments:

1. Increase tax increment revenues by $2,426,000;
2. Decrease Land Sale Proceeds by $5,600,000;
3. Increase Housing set-aside expenditures by $524,000 from the Tax Increment Funds and increase the revenues to the Low/Moderate Housing fund by $524,000;
4. Increase statutory pass through payments by $541,000;

5. Increase CCUSD pass through payment by $113,520;
6. Appropriate $2,252,000 for ERAF payment.
   a. $2,252,000 in Unrestricted Tax Increment funds; or
   b. $1,126,000 in Unrestricted Tax Increment funds AND $1,126,000 in Housing Set Aside funds.

Tax Exempt Bond Funds

The beginning restricted tax exempt bond fund balance for 2008-09 is approximately $20 million. Approximately $430,000 is anticipated in interest income and $10.5 million is currently appropriated for capital projects. An additional $9.6 million is earmarked for various projects. Therefore, all bond funds are currently either appropriated or earmarked for projects that meet the restrictions of tax exempt bond funding. No budget amendments are recommended at this time, however, as projects for which funds have been earmarked become more clearly defined, the Agency Board will be asked to allocate those funds at the appropriate time.

Low/Moderate Income Housing Fund

The beginning Low/Moderate Income Housing Fund balance for 2008-09 is approximately $19 million. Other than an increase of $524,000 in Housing set-aside revenues discussed earlier in the report, there are no significant budgetary issues in the Low/Moderate income housing fund. Housing and Community Development staff are currently developing strategies to program the Low/Moderate Income Housing funds and develop a long term work program.

State Budget Analysis

Typically, the Governor releases his proposed budget for the upcoming fiscal year (i.e. 2009-10) in January. However, with the 2008-09 State budget in dire straights, a feasible and realistic budget plan has yet to be released. As previously mentioned, the 2008-09 State budget was adopted 85 days late and was re-opened less than a month later due to significant budget shortfalls and cash flow problems in the current fiscal year. The Governor's office, with concurrence from the Legislative Analyst's Office, estimates a budget shortfall of more than $40 billion over the next 18 months. To date, no solutions to close the gap have been reached. Some of the proposals being considered include:

- Reducing the school year by 5 days and increasing the class size limit of 20 students for kindergarten through third grade (no class limit exists for higher grades);

- Implementing an additional 1.5% state sales tax for the next three years and apply the tax to certain goods and services to which it does not currently apply;
- Restoring the Vehicle License Fee to its original rate of 2% (it is currently less than 0.6%);
- Making the RDA ERAF payment permanent;
- Mandatory furloughs for State employees;
- Reduction of transportation funding;
- Reduction of funding for many state funded programs.

It is unclear at this point which of these proposals have traction and will garner enough support by the legislature (and voters in some cases) to be implemented. It is clear that some drastic measures will have to be implemented to address the substantial shortfall.

In terms of direct impacts to cities, Proposition 1A provides protection from long-term shifting of local funds; however, in the short term, under certain circumstances borrowing is allowed as long as the funds are repaid within three years. Additionally, pending the outcome of existing litigation by the CRA, redevelopment agencies may not be provided with the same protection under Proposition 1A and may be exposed to further ERAF-type funding shifts. As further information on the State budget becomes available, staff will provide the City Council with updates and analyze the potential impact on Culver City.

Proposed Federal Budget Analysis

The new administration's main focus during the first 100 days will be getting a federal budget passed that addresses the current economic crisis. Early details of the American Recovery and Reinvestment Act contain targeted efforts in clean, efficient American energy; transforming the economy with science and technology; modernizing roads, bridges, transit and waterways; educating for the 21st century; providing tax cuts to create jobs; lowering healthcare costs; helping workers' hurt by the economy; and saving public sector jobs and protecting vital services. This plan must still go through the House and Senate and will undoubtedly undergo a number of changes before finally adopted. The final version may or may not include all of the characteristics highlighted above.

Preliminary reports estimate that the cost of this plan would result in more than a $850 billion budget deficit in 2009-10, and the President has warned of the need to prepare for large budget deficits over the next few years, possibly in the trillions of dollars.

FISCAL ANALYSIS:

City of Culver City

Given this mid-year data, General Fund expenditures are projected to come in below the 96.5% spending assumption for the full fiscal year, which is primarily due to the pull-back measures put in place in October 2008 and combined with the high number of vacancies in several Departments. It is now anticipated, though, that this will not be enough to offset the gap from less than stellar recurring revenue activity and the recent news of two large sales tax generating business closures. If the economy continues to weaken even more, which is a strong possibility given recent news reports, and revenues continue to lag even further, the City will be faced with distressing financial decisions in the future. **The City is facing a significant deficit for fiscal 2009-10 that is rapidly approaching $4 million.**

The General Fund has been able to hold up well prior to this fiscal year due to a previously healthy economy and increased new development activity around the City. There were also one-time revenues, such as the sale of the Warner Parking Lot, that enabled the funding of capital projects. The second payment of the Warner Parking Lot sale is expected to be received this fiscal year, which is crucial in covering one-time expenses. The large reduction of the Sales Tax amount, though, is felt to be a necessary adjustment due to current economic trends and unfortunate occurrences. There is currently a sufficient General Fund balance to absorb this decrease this fiscal year, but ongoing projections show the reserve dropping below the required 30% threshold within the next year or two given current trends.

Culver City Redevelopment Agency

As with the City, the Redevelopment Agency is also impacted by the effects of the current economy. The RDA has experienced significant growth in tax increment revenues over the past five years. However, the credit crunch and slumping commercial real estate market will result in much slower growth in tax increment receipts over the next few years. As a result, staff has taken a conservative approach to projecting future tax increment revenues using only a 2% annual growth rate.

Additionally, the State's cash flow problems and projected $40+ billion budget deficit over the next 18 months may have an impact on the RDA's cash flow beyond the $2.25 million ERAF payment being required this fiscal year as the Governor and Legislature look for ways to raise funds and balance the State's budget. There is a distinct possibility that state mandated ERAF contributions, or some other method of shifting funds from the RDA, may be extended beyond this fiscal year or even become permanent. Staff will continue to monitor the State's budget process.

ATTACHMENTS:

1. Fiscal 2008-09 City Mid-Year Financial Monitoring Report
2. Fiscal 2008-09 RDA Mid-Year Financial Monitoring Report
3. Culver City Sales Tax Update Newsletter prepared by HdL

MOTION:

That the City Council:

(1) Receive the presentation of the Fiscal 2008-09 Mid Year Financial Monitoring Report;

and

(2) Adopt proposed amendments to the Fiscal 2008-09 Budget:

A. Reduce adopted 2008-09 Sales Tax revenue amount by $925,000 (10115100.313000) and $150,000 (10115100.313010);

B. Reduce adopted 2008-09 Property Tax revenue net amount by $488,000 (10115100.311100); and

C. Reduce adopted 2008-09 State Vehicle License Fee by $100,000 (10115100.345000); and

D. Reduce adopted 2008-09 Real Property Transfer Tax by $200,000 (10114400.317000); and

E. Reduce adopted 2008-09 Commercial Industrial Development Tax by $300,000 (10115100.319000); and

F. Appropriate $135,500 from the General Fund Unappropriated Reserve to Increase Project 42000902 – Public Safety/CAD/RMS by $135,500 to replenish for payment of annual maintenance contract; and

G. Appropriate additional Strike Team Administrative Surcharge amount of $20,402 received with reimbursements into Fire Department object account 10145100.514600 – Small Tools & Equipment; and

H. Approve future appropriation of additional Strike Team Administrative Surcharge amounts received with reimbursements through the remainder of fiscal 2008-09; and

I. Approve the conversion of 1.98 Maintenance Worker II/RPT positions into one (1) full-time Maintenance Worker I position in the Parks Division.

A budget amendment requires 4/5ths vote

That the Culver City Redevelopment Agency:

(1) Receive the presentation of the Fiscal 2008-09 Mid Year Financial Monitoring Report;

and

(2) Adopt the following amendments to the Fiscal 2008-09 Budget:

A. Increase tax increment projected revenues by $2,426,000 million in the following areas;
   a. *Project Area 1 (51290000.311210): $758,000*
   b. *Project Area 2 (52290000.311210): $473,000*
   c. *Project Area 3 (53290000.311210): $956,000*
   d. *Project Area 4 (54290000.311210): $239,000*

B. Decrease the Land Sale Proceeds revenue (55096000.386350) by $5,600,000;

C. Increase Housing set-aside by $524,000 (this increase will be reflected as an increased expenditure from RDA and an increased revenue for the Low/Moderate Housing fund);

Increase Transfer-Out (Tax Increment Accounts)		*Increase Transfer In (Low/Mod Income Housing Accounts)*	
51299900.952554:	*$153,000*	*55499900.391512:*	*$153,000*
52299900.952554:	*$96,000*	*55499900.391522:*	*$96,000*
53299900.952554:	*$227,000*	*55499900.391532:*	*$227,000*
54299900.952554:	*$48,000*	*55499900.391542:*	*$48,000*

D. Increase statutory pass through payments by $654,520;
   a. *Project Area 2 (52292000.517500): $113,520 (CCUSD Pass Through)*

b. Project Area 4 (54292000.517500): $541,000

E. Appropriate $2,252,000 for ERAF payment
   a. $2,252,000 in Unrestricted Tax Increment funds; OR
   b. $1,126,000 in Unrestricted Tax Increment funds and $1,126,000 in Housing Set Aside funds.