MEETING DATE: March 11, 2013

AGENDA ITEM : Mid-Year Budget Report

ATTACHMENTS

City of Culver City

MID-YEAR BUDGET REPORT
FISCAL YEAR 2012-13
Through December 31, 2012

CITY OF CULVER CITY
2012-13 Mid-Year Report
As of 12/31/12
General Fund

INTRODUCTION

General Fund Operating Revenues through December are **$26.488 million**, or 32.4**%** of the adjusted budget projections. **General Fund Expenditures** through December are **$36.972 million,** or 42.2% of adjusted budgeted appropriations. Revenues lag expenditures at this point in the fiscal year because of year-end accounting adjustments to major revenues and because the bulk of the property tax and business licenses revenues are received later in the fiscal year.

In November, Culver City voters approved Measure Y which will increase the City's sale tax by one half cent beginning in April 2013. Over the coming years, the additional revenue will help balance the City's budget, but the sales tax increase sunsets in ten years, so unless extended the additional revenue does not fully address the City's long term structural deficit.

REVENUES SUMMARY

General Fund Revenue Overview (as of 12/31/2012)

Through December, General Fund operating revenues are $26.488 million, or 32.4% of adjusted budget projections. This is $0.08 million, or 0.3%, lower than the same period last year. The continued gradual improvement in the economy is reflecting in a number of revenue categories that are showing year-over-year increases. These increases are essentially offsetting the lost reimbursements from the former Redevelopment Agency, putting the City almost even compared to the same point in time last fiscal year.

The table below shows a comparison between revenues received as of December 31st for the current and prior fiscal year:

GENERAL FUND REVENUES						
	2011-12 REVENUE AS OF 12/31/11	ADOPTED BUDGET 2012-13	ADJUSTED BUDGET 2012-13	2012-13 REVENUE AS OF 12/31/12	% RECEIVED AS OF 12/31/12	PROJECTED REVENUES 2012-13
Property Tax	1,319,858	3,940,000	3,940,000	1,481,751	37.6%	4,940,000
Sales Tax	3,955,330	17,700,000	17,700,000	4,529,522	25.6%	19,500,000
Public Safety Sales Tax (PSAF)	112,311	345,000	345,000	122,369	35.5%	345,000
Business Tax	429,798	10,050,000	10,050,000	408,159	4.1%	10,050,000
Franchise Tax	111,074	1,350,000	1,350,000	336,875	25.0%	1,350,000
Real Property Transfer Tax	478,476	1,300,000	1,300,000	599,363	46.1%	1,700,000
Electricity UUT	2,794,523	6,300,000	6,300,000	2,859,534	45.4%	6,000,000
Gas UUT	267,814	1,150,000	1,150,000	280,979	24.4%	1,000,000
Water UUT	549,516	1,175,000	1,175,000	602,962	51.3%	1,175,000
Telecomm UUT	2,516,410	5,525,000	5,525,000	2,471,468	44.7%	5,525,000
Cable UUT	256,904	775,000	775,000	211,592	27.3%	775,000
Transient Occupancy Tax (TOT)	1,549,175	3,815,000	3,815,000	2,215,074	58.1%	4,800,000
Commercial/Industrial Dev. Tax	135,938	250,000	250,000	196,484	78.6%	400,000
Licenses and Permits	1,219,137	2,092,810	2,178,323	1,290,306	59.2%	2,505,573
Intergovernmental	49,885	3,470,837	3,470,837	15,371	0.4%	3,470,837
Charges for Services	3,321,492	5,878,300	5,881,435	3,343,124	56.8%	6,496,435
Fines and Forfeitures	1,163,072	3,509,700	3,509,700	1,279,431	36.5%	3,509,700
Use of Money & Property	214,741	2,074,000	2,074,000	588,436	28.4%	2,074,000
Other Revenues	159,601	2,532,230	2,550,925	90,676	3.6%	550,925
Other - Transfers	5,968,462	8,481,875	8,481,875	3,564,202	42.0%	7,230,504
TOTAL GENERAL FUND	**$26,573,517**	**$81,714,752**	**$81,822,095**	**$26,487,678**	**32.4%**	**$83,397,974**

- Sales Tax receipts at mid-year exceed the prior year mid-year totals by 14.5%. The actual increase in sales activity is 6.8% when reporting aberrations are factored out.

  Only 25.6% of the budget revenues have been received because at this point in the fiscal year only four months of receipts have been recorded. In accordance with government accounting standards, sales tax revenue received in July and August is moved back to the prior fiscal year because the actual transactions took place in the prior year.

  In the November 2013 election, Culver City voters approved a sales tax increase which will go into effect in April 2013. It is estimated, that for the current fiscal year, the City will receive an additional $1.8 million from Measure Y proceeds. Next fiscal year, the City will have a full year of tax receipts at the higher tax rate, resulting in approximately $7.7 million in additional revenue. Due increased receipts in the first four months of the year and the passage of Measure Y, it is recommended that the Sales Tax budget be increased by $2.0 million.

- Most of the Utility Taxes are performing near the same level they were at this time last year. In accordance with the same accounting standards that apply to sales tax receipts, UUT receipts in July are moved back to the prior fiscal year, so at this point in the year only five months of receipts have been recorded.

  Gas UUT is performing near the same levels as last year, but receipts are lower than projected in the Adopted Budget. Therefore, it is recommended that the Gas UUT budget be reduced by $150,000 to $1,000,000.

Like Gas UUT, Electricity UUT is performing near the same levels as last year, but receipts have not grown as much as expected. Therefore, it is recommended that the Electricity UUT budget be reduced by $300,000 to $6,000,000.

- Through December, the City has received $1.48 million in Property Tax, which is 12.3% higher than this point last year. Based on data from the City's property tax consultant, revenue is expected to increase from last year by 3.5%. Property tax revenue took a dip in fiscal year 2010-11, but since then it is trending upward, reflecting a return to a more stable real estate market.

  Due to the elimination of the Redevelopment Agencies, the General Fund received an additional one-time $1 million in pass thru revenue. It is recommended that the Property Tax budget be increased by $1.0 million to account for this increase.

- Business Tax renewals are due by the end of February, and therefore is not a significant revenue source as of December 31st. It is expected to perform at approximately the same level as last year, and meet the budget projection.

- In April 2012, Culver City voters approved a measure to increase the Transient Occupancy Tax (TOT) from 12% to 14%. Due to the higher tax rate and increasing room and occupancy rates, current year receipts are $665,887 or 43.0% higher than this point last year.

  In accordance with the same accounting standards that apply to sales tax receipts, receipts in July are moved back to the prior year, so at this point in the year five months of receipts have been recorded.

  Based on the tax increase and growth receipt, it is recommended that the TOT budget be increased by $985,000 to $4,800,000

- Real Property Transfer Tax is difficult to predict as it relies on high value property sales, which fluctuate tremendously from month to month. At this point in the fiscal year, receipts are 67.2% higher than they were at this point last year. But this has no bearing on the remainder of the year.

  Because of increased receipts, primarily due to the sale of commercial properties, it is recommended that Real Property Transfer Tax be increased by $400,000 to $1,700,000.

- Compared to last year, Commercial/Industrial Development Tax receipts have increased by $60,546 or 44.5%. This is reflective of an overall increase in construction activity.

  It is recommended that the budget for Commercial/Industrial Development Tax be increased by $150,000 to $400,000.

- Like the Commercial/Industrial Development Tax, Licenses and Permits revenue is driven by residential and commercial construction activity. Mid-year revenues total $2.18 million which is 5.8% higher than the same point last year. Building Permit revenue is exceeding last year's totals by 25%. Due to the increased construction activity, it is recommended that the budgets for Building Permits be increased by $325,000.

- Intergovernmental revenue is mostly comprised of the motor vehicle license fees from the State Department of Motor Vehicles. The majority of this revenue is received in January and May.

- The Charges for Services category is comprised of the variety of revenues ranging from recreation fees to police services and plan checks. At this point in the year overall revenues are only 0.7% higher than last year. Through December, plan check fees are already at 94% of the budget. Due to the increased construction activity, it is recommended that Plan Check fees be increased by $640,000.

- Fines and Forfeitures category is primarily comprised of red light camera violations and moving violations written by Culver City traffic enforcement. Current year revenue is $116,000 higher than this point last year. The increase is primarily due to the return of red light cameras that were taken out of service during the construction projects last year.

- Use of Money and Property includes interest income and income from the rental of city property. Interest rates are at an all-time low, but overall this category is higher than last year because of rental income from Pacific Theaters that previously went to the RDA.

  There is currently $2 million budgeted for the sale of the old Fire Station #3 on Segrell Way and property in the Culver Crest area. These sales will most likely not close by the end of the fiscal year, so it is recommended that the budget for the Land Sale Proceeds account be decreased by $2 million.

- Other – Transfers is comprised of interfund transfers and cost allocation transfers from other funds. Revenue is $2.4 million lower than last year because of the State action to dissolve Redevelopment Agencies (RDA). In past years the Culver City RDA reimbursed the City for administrative costs and the salaries of RDA staff. The Successor Agency reimburses the City for some administrative costs and staff time, but it’s much less revenue than the City previously received from the RDA. Due to the lower than expected admin reimbursement, it is recommended that the Billings to Successor Agency be reduced by $744,042 and Billings to the Housing Authority be reduced by $507,329.

EXPENDITURES SUMMARY

General Fund Expenditure Overview (as of 12/31/2012)

Overall, General Fund expenditures through mid-year are $36.972 million or 42.2**%** of budgeted appropriations, again almost identical to this point in time last fiscal year.

The table below provides a comparison between the first six months of Fiscal Year 2012-13 and the same period for the prior year:

GENERAL FUND EXPENDITURES						
	2011-12 EXPEND AS OF 12/31/11	ADOPTED BUDGET 2012-13	ADJUSTED BUDGET 2012-13	2012-13 EXPEND AS OF 12/31/12	% EXPEND AS OF 12/31/12	PROJECTED EXPEND 2012-13
ADMINISTRATION	$562,022	$1,274,205	$1,278,605	$579,031	45.3%	$1,278,000
CITY CLERK	$164,647	$295,400	$295,400	$135,873	46.0%	$295,000
CITY ATTORNEY	$603,946	$1,582,184	$1,582,899	$653,899	41.3%	$1,433,000
FINANCE	$1,949,104	$4,467,933	$4,470,317	$1,934,431	43.3%	$4,420,000
HUMAN RESOURCES	$450,497	$1,018,330	$1,018,330	$491,323	48.2%	$1,018,000
INFORMATION TECH.	$1,329,658	$2,838,001	$2,855,689	$1,254,752	43.9%	$2,706,000
PARKS, REC. & COMMUNITY SVCS	$2,817,737	$6,597,029	$6,747,820	$2,940,282	43.6%	$6,135,000
POLICE DEPARTMENT	$13,031,145	$30,829,804	$30,943,364	$13,255,174	42.8%	$30,015,000
FIRE DEPARTMENT	$7,680,377	$16,906,614	$16,942,467	$7,584,759	44.8%	$16,942,000
COMMUNITY DEVELOPMENT	$2,973,546	$5,443,368	$5,578,211	$2,361,219	42.3%	$5,228,000
PUBLIC WORKS	$3,886,917	$9,600,913	$9,710,152	$4,179,354	43.0%	$9,322,000
NON-DEPARTMENTAL	$1,255,594	$3,902,643	$3,882,143	1,351,964	34.8%	$3,882,000
Transfers	$367,342	$500,000	$500,000	$250,000	50.0%	$500,000
Retiree Health Pre-funding	$0	$1,850,000	$1,850,000	$0	0.0%	$1,850,000
TOTAL GENERAL FUND	**$37,072,534**	**$87,106,424**	**$87,655,398**	**$36,972,060**	**42.2%**	**$85,024,000**

Total expenditures are only about $100,000 or 0.3% lower than this point last year.

Notably, the Community Development Department’s expenditures dropped $0.6 million or 20.6%. This is due to the elimination of the Culver City Redevelopment Agency (RDA) which led to many RDA staff members being reassigned to other departments.

City Clerk expenditures are 17.5% lower than last year because of staff changes and reorganization. Two employees retired and two employees were transferred in from another department.

The Information Technology department expenditures are 5.6% lower than last year due to the reduction of one position and a vacancy in another position

All other departments are within a normal expenditure range. As a percentage of the total adjusted budget, the expenditure pattern for Fiscal Year 2012-13 is very consistent with the same point last year. Last year 43.9% of the adjusted budget was expended, whereas this year, it’s slightly lower at 42.2%.

Based on the number of vacancies and spending trends in prior years, it is projected that the current year General Fund expenditures will total $85.024 million. This is $2.6 million lower than the Adjusted Budget and 4.8% higher than the total expenditures last fiscal year. The increase from last year is due to employee bargaining group MOU changes and an increased contribution to the retiree health prefunding trust fund.

OTHER FUNDS SUMMARY

Other City funds are performing within expectations. Below are the details on recommended budget amendments.

- Each year the City receives bicycle and pedestrian grant funding from the Los Angeles County Metropolitan Transportation Authority. When the Adopted Budget was prepared, an estimate of expected grant award was used. The actual allocation to the City is $2,984 higher than projection. Therefore, it is recommended that the revenue and expenditure budgets be increased by $2,984.

- When the Adopted Budget was created, two expenditure line items were excluded. The budget line item is Admin Allocation for the Municipal Bus Fund and the Paratransit Grant. This expense line reimburses the General Fund for overhead costs. It is recommended the Municipal Bus Fund budget be increased by $1,848,616 and the Paratransit Grant be increased by 24,441.

- The Successor Agency reimburses the City for some administrative costs and staff time, but it's much lower than originally projected in the Adopted Budget. Due to the lower than expected admin reimbursement, it is recommended that the Successor Agency Admin Allocation be reduced by $744,042 and Housing Authority Admin Allocation be reduced by $507,329.

FIVE-YEAR PROJECTION

The Adopted Budget for Fiscal Year 2012-13 included a deficit of $5.7 million. It is estimated that during the final quarter of the fiscal year, $1.8 million in revenue from Measure Y will be realized. This additional revenue, in addition to revised revenue and expenditure projections, results in a projected deficit of $1.626 million. This is an improvement from the Fiscal Year 2012-13 Adopted Budget estimated deficit of $5.7 million. General Fund reserves will be used to make up the year end deficit.

This forecast assumes continued gradual growth in most revenues. Specific assumptions include the following:

RATE ASSUMPTIONS

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18
Property Tax	3.0%	3.0%	3.0%	3.0%	3.0%
Sales Tax	3.9%	3.5%	3.5%	3.0%	3.0%
PSAF TAX	3.9%	3.5%	3.5%	3.0%	3.0%
Business License Tax	2.0%	2.0%	2.0%	2.0%	2.0%
Franchise Tax	2.0%	3.0%	3.0%	3.0%	3.0%
Real Property Transfer Tax (1)	-40.0%	0.0%	0.0%	0.0%	0.0%
Utility Users Tax - Electricity	3.0%	3.0%	3.0%	3.0%	3.0%
Utility Users Tax - Gas	1.0%	1.0%	1.0%	1.0%	1.0%
Utility Users Tax - Water	2.0%	2.0%	2.0%	2.0%	2.0%
Utility Users Tax - Telecomm	-2.0%	-2.0%	-1.0%	-1.0%	-1.0%
Utility Users Tax - Cable TV	1.0%	0.0%	-1.0%	-1.0%	-1.0%
Transient Occupancy Tax	5.0%	4.5%	4.0%	4.0%	4.0%
Commercial/Industrial Dev Tax(2)	-37.5%	0.0%	0.0%	0.0%	0.0%
Licenses and Permits	5.0%	5.0%	4.0%	4.0%	3.0%
Intergovernmental	1.5%	1.5%	2.0%	2.0%	2.5%
Charges for Services	3.5%	4.0%	4.0%	4.0%	4.0%
Fines and Forfeitures	3.0%	3.0%	3.0%	3.0%	3.0%
Use of Money and Property	0.0%	1.0%	1.0%	1.0%	1.0%
Interfund Revenues	1.5%	2.0%	2.0%	2.5%	2.5%
Other Revenues	0.0%	0.0%	0.0%	0.0%	0.0%
Transfers-In	0.0%	0.0%	0.0%	0.0%	0.0%

(1) Adjustment of FY12-13 estimate to an on-going assumption of $1 million per year.

(2) Adjustment of FY12-13 estimate to an on-going assumption of $250,000 per year.

On the expenditure side, the forecast includes the resulting assumptions from all of the existing MOU's. Other assumptions of note include:

- The known increases to public safety positions as a result of the Salary Initiative Ordinance are included for the years covered by the L.A. City and L.A. County contracts. For the final two years of the forecast, there is an assumption of 2% in annual increases.
- There are currently no cost-of-living increases assumed for non-sworn personnel during the duration of the forecast.
- CalPERS pension costs continue to rise based on actuarial assumption changes and amortization of past investment losses.
- The Annual Required Contribution for the existing Other Post-Employment Benefits (OPEB) liability is fully funded beginning in Fiscal Year 2013-14.
- By Fiscal Year 2015-16, the General Fund contribution towards capital and infrastructure improvements is increased to $1 million (still not adequate).

Forecast Reflecting Status-Quo with FY 2012-13 as base *[in thousands]*							
	Budget Plus Five-Year Forecast						
	2011-12 Estimate	**2012-13 Budget**	**2013-14 Projection**	**2014-15 Projection**	**2015-16 Projection**	**2016-17 Projection**	**2017-18 Projection**
Beginning **Appropriable** Fund Balance	**42,492**	**41,158**	**39,532**	**39,880**	**39,896**	**39,956**	**40,319**
Total GF Revenues	79,795	83,398	89,296	92,189	94,600	96,968	99,401
Total GF Expenditures	(79,679)	(82,764)	(86,548)	(88,573)	(90,640)	(92,706)	(94,893)
OPEB Pre-funding	(750)	(1,760)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)
Adjusted Net Operating Surplus/Deficit	**(634)**	**(1,126)**	**(152)**	**716**	**1,060**	**1,362**	**1,608**
One-time - Transfers to CIP Projects	(700)	(500)	(500)	(700)	(1,000)	(1,000)	(1,000)
One-time - Sale of Property	0	0	1,000	0	0	0	0
Total Net One-time	(700)	(500)	500	(700)	(1,000)	(1,000)	(1,000)
Gross Surplus/Deficit	**(1,334)**	**(1,626)**	**348**	**16**	**60**	**362**	**608**
Ending **Appropriable** Fund Balance	41,158	39,532	39,880	39,896	39,956	40,319	40,926
	52.11%	48.05%	46.35%	45.40%	44.57%	43.97%	43.59%

Except for the current year, it is estimated that the approval of Measure Y has eliminated the structural deficit over the course of the existing financial forecast. Barring an unforeseen level of revenue growth, Measure Y revenues will continue to be necessary to fund existing City services into the future.

CONCLUSION

As is evident in the number of recommended budget increases to revenue line items, Culver City's economy has begun to rebound. The rebound is led by increased building activity, higher occupancy rates at hotels, rising property values, and increased retail sales. Despite the devastating loss of millions of dollars of RDA funds, the recent economic boost coupled with the passage of the sales tax and transient occupancy tax measures provide some stability to the City's financial situation.

In coming years, it will be important to keep in mind that Measure Y is only a ten year 'fix', unless extended by the voters. The City must continue to keep a tight rein on expenditures, and work towards further efficiencies. Considering how much of our revenue base is affected by economic cycles, a review of our financial policies and how operating revenues are defined will also be important. Finally, a review of needed infrastructure maintenance or improvements, and how they can be financed, are also needed.

Description	Amount
Expenditures	
Additional funding for Police Overtime related to Transit Security (10140200.411300). (Covered by transfer from Transit Fund)	$ 50,000.00
Increased demand for Banner Installations. Offset by increased revenue. (10160150.619800)	$2,250
Transfer Events Supervisor position from Recreation Division - 10130200 to Vets Auditorium Division - 10130110. (No additional funds necessary, position transfer only.)	$ -
Total Change General Fund Expenditures	**$ 52,250.00**
Adjustments to Personnel costs for Y-rated position moved into Equipment Maintenance Division after 2012-13 budget adoption (30870400.411100)	$ 14,820.00
Increase Bicycle and Pedestrian Funds (TDA) budget to actual allocation (41460902.342400)	$ 2,984.00
Add budget for Admin Allocation. Expenditure budget was excluded from the Adopted Budget (41470420.670100)	$ 24,441.00
Add budget for Admin Allocation. Expenditure budget was excluded from the Adopted Budget (20370200.670100)	$ 1,848,616.00
Eliminate budget of Billings to Successor Agency and Housing Authority. The level of admin reimbursement for the General Fund is less than expected and will be shown as a Transfer rather than a Billing (59190000.616100)	$ (744,042.00)
Eliminate budget of Billings to Housing Authority. The level of admin reimbursement for the General Fund is less than expected and will be shown as a Transfer rather than a Billing (47650700.616100)	$ (449,250.00)
Increase Transfer from Transit Funds to cover additional $50,000 in Police Overtime. (20316100.952101)	$ 50,000.00
Total Change Other Fund Expenditures	**$ 747,569.00**
Revenues	
Increase Banner Installation/Removal due to increased demand for banner installations. (10160150.369420)	$ 2,250.00
Increase Property Tax Increment Pass Thru budget due to additional revenue from the elimination of the Redevelopment Agency (10116100.311220)	$ 1,000,000.00
Increase Sales Tax revenue due to the passage of Measure Y (10116100.313020)	$ 1,800,000.00
Decrease Electricity UUT budget due to lower than projected revenues (10114400.312100)	$ (300,000.00)
Decrease Gas UUT budget due to lower than projected revenues (10114400.312110)	$ (150,000.00)

Description	Amount
Increase Transient Occupancy Tax because of tax increase and growth in receipts (10114400.318000)	$ 985,000.00
Increase Real Property Transfer Tax due to the sale of high value property (10114400.317000)	$ 400,000.00
Increase Commercial/Industrial Development Tax due to increased building activity (10116100.319000)	$ 150,000.00
Decrease Land Sale Proceeds because the sale of two City owned properties will not be finalized this fiscal year. (10116100.386350)	$ (2,000,000.00)
Increase Plan Check Fees due to increased construction activity (10160150.371300)	$ 40,000.00
Increase Plan Check Fees due to increased construction activity (10150150.371300)	$ 600,000.00
Increase Building Permits due to increased construction activity (10150150.321000)	$ 100,000.00
Increase Electrical Permits due to increased construction activity (10150150.322000)	$ 75,000.00
Increase Plumbing and Heating Permits due to increased construction activity (10150150.324000)	$ 150,000.00
Decrease Credit Card Convenience Fee budget due to elimination of the convenience fee (10116100.370620)	$ (25,000.00)
Move Paratransit admin revenue to Transportation (10130420.375000)	$ (24,441.00)
Move Paratransit admin revenue to Transportation (10170100.375000)	$ 24,441.00
Eliminate budget of Billings to Successor Agency and Housing Authority. The level of admin reimbursement for the General Fund is less than expected and will be shown as a Transfer rather than a Billing.	
10150500.371120	$ (507,329.00)
10110100.371110	$ (70,888.00)
10114100.371110	$ (33,538.00)
10114500.371110	$ (22,500.00)
10150100.371110	$ (151,416.00)
10150120.371110	$ (465,700.00)
Total Change General Fund Revenues	**$ 1,575,879.00**
Increase Bicycle and Pedestrian Funds (TDA) revenue to actual allocation (41460902.619800)	$ 2,984.00
Total Change Other Funds Revenues	**$ 2,984.00**