City of Culver City, California

City Council Agenda Item Report

Meeting Date: 02/25/08		Item Number: J-2
AGENDA ITEM: Fiscal 2007-08 Mid-Year Budget Report and Adoption of Proposed Budget Amendments		
Contact Person/Dept.: Jeff Muir, Chief Financial Officer	Phone Number: (310) 253-6012	
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []	
Public Hearing: []	Action Item: [X]	Attachments: [X]
Public Notification: Master Notification List 02/20/08		
Department Approval: Jeff Muir (02/19/08)	City Attorney Approval: Carol Schwab (by H. Baker) (02/19/08)	
Fiscal Impact Review: Jeff Muir (02/19/08)	City Manager Approval: Jerry B. Fulwood (02/21/08)	

RECOMMENDATION:

Staff recommends the City Council and Redevelopment Agency receive a presentation on the Fiscal 2007-08 Mid-Year Budget and adopt proposed budget amendments.

For the City Council, Budget amendments require a 4/5^{ths} vote.

BACKGROUND / DISCUSSION:

The Budget & Finance division periodically prepares Budget Monitoring Reports for the City Council once the City Treasurer's Office has closed the books for the respective time periods. Due to the significant amount of activity by the Redevelopment Agency, the Budget & Finance division has also begun preparing a Budget Monitoring Report for the Redevelopment Agency Board. This mid-year Budget Monitoring Report represents the first of these Reports and provides the Agency with a snapshot of expenditures and revenues through the first half of Fiscal Year 2007/2008 as well as any financial issues as they relate to the budget.

City of Culver City

General Fund

Through the first six months of Fiscal Year 2007-08, total General Fund actual expenditures are $38,844,000, or 45.6% of the adjusted budget. General Fund actual revenues are $27,481,000, or 33.3% of the adjusted budget. As a point of reference, over the last three fiscal years (2004-05 through 2006-07), the average expenditures at mid-year are 46% and the average revenue receipts at mid-year are 35%. *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 on target, and are expected to come in slightly below the 96.5% spending assumption. This is partially due to vacancies in several Departments. Human Resources is working closely with Departments on recruiting, although some of these positions may remain open through the end of the fiscal year. A discussion and analysis regarding Department and Division expenditures is included in the mid-year Budget Monitoring Report (Attachment 1)

Overall, General Fund revenues are lagging somewhat behind projections, most notably in Sales Tax. Sales Tax receipts through mid-year also lag behind last year at this same time. The City lost another automobile dealership near the beginning of the fiscal year, which was not factored into Sales Tax projections during the budget process as it was not known to happen at the time. Although the City is seeing growth through new development activity, this is not enough to offset the immediate loss of large sales tax generators. Also, with the weakening economy, struggling housing market, and sub-prime mortgage crisis, all of these factors directly affect consumer spending. This is being felt nationwide, including California and Culver City. Closer to home, the Writer's Guild strike has had a direct effect on the local economy, although the magnitude of this impact is unknown at this time. Fortunately, as the City Council is aware, the strike ended in early February.

New development activity mentioned above has brought the City a much needed boost. In upcoming fiscal years, there will be an increase in sales tax, utility tax, and business tax revenues. However, these revenues are not expected to be realized for a few years, and most likely will not be fully on-line until fiscal 2009-10.

Most other major General Fund revenues are slightly behind mid-year projections, but are expected to meet year-end projections. These include Utility Users Tax, Transient Occupancy Tax (TOT), Property Tax, and Real Property Transfer Tax. Utility Users Tax is slightly behind projections, and one category, Gas UUT, historically comes in higher (approximately 67% of budget) during the second half of the fiscal year. TOT revenues are on line to meet projections. Property Tax and Real Property Transfer Tax will be tight, but year-end projections based on mid-year activity show the revenues meeting their targets. Sale of property is down from last year given the current market, but prices have remained relatively stable. Property Tax estimates are in line with last year, and with the reported "*assessed valuation*" from the County, it is anticipated to meet projections. A discussion and analysis regarding the various revenues is included in the mid-year Budget Monitoring Report (Attachment 1).

The General Fund beginning balance for fiscal 2007-08 is $31.9 million, or 41.4% of fiscal 2006-07 General Fund operating expenditures. The adjusted 2007-08 budget includes approximately $4.5 million in appropriations for capital projects, which was funded using a significant portion of the surplus monies (approximately $3.2 million) realized at the end of fiscal 2006-07. The fund balance at the end of fiscal 2007-08 is currently estimated at $29.3 million. If the proposed budget amendments are adopted (see proposed amendments below), the General Fund reserve would be reduced to approximately $28.8 million, which is just below 33.8% of 2007-08 operating expenditures. The ending fund balance includes the repayment of the $9 million loan to the Redevelopment Agency. 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 2008-09, we will be changing the practice of automatically carrying over 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. 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. Decrease adopted Sales Tax budget amount by $500.000. Current budget projection for Sales Tax is $18,800,000. Due to the closing of a car dealership, weakening economic outlook, and combined analysis with the City's Sales Tax auditors, staff believes it is prudent the adopted Sales Tax projection be reduced from $18,800,000 to $18,300,000 for fiscal 2007-08. Further analysis will be done, and the fiscal 2008-09 approved amount will also be reviewed and adjusted accordingly during the upcoming budget process.

2. Increase the Sr. & Social Services Division expenditures by $25,300. This increase is necessary to increase part-time position salaries, which should have been increased during the fiscal 2007-08 due to approved salary survey increases for part-time positions. The positions include Sr. Recreation Leader and Recreation Leader II.

3. Increase one (1) Fire Captain position, and decrease one (1) Communications Supervisor position in the Fire Department. Currently, a Fire Captain is overseeing the Communication Division due to the difficulty in recruiting a qualified Communications Supervisor. Two recruitments have failed to produce a qualified candidate over the last two and a half years, with the second being an open "until filled" recruitment, and the Fire Department is requesting to maintain the current staffing with the Fire Captain. Total increase is $82,110 ($32,850-General Fund [40%]; $16,420-Refuse [20%]; $16,420-Transit [20%]; $16,420-Sewer [20%].)

Enterprise Funds

1. Increase Transportation Department Garage Expenses account by $275,000. Approximately 2,000 additional labor hours are expected for expanded transit projects in Transit Operations. These are directly related to the new Smart Bus/Orbital system, farebox (GFI to Cubic) changeouts, and bus shelter improvements. There are also increases in commercial labor and parts, which have added to the increased costs. The increase in expenses will be paid with Prop A fund reserves.

There are no significant budgetary issues in the Refuse and Sewer Funds at this time.

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 began the year with a reserve balance of $5 million, its healthiest cash reserve balance in approximately three years; however, the Self Insurance Reserve Fund will be significantly reduced by almost $4 million due to costs related to the Culver Crest hillside litigation. Additionally, pending General Liability costs may further impact the fund balance. During the upcoming budget process, staff will develop a strategy to 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 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).

The beginning unrestricted fund balance for 2007-08 was approximately $12.5 million. The projected ending fund balance, assuming that a number of parcels are sold in this fiscal year and the $9 million loan to the City is fully repaid, is approximately $3.4 million.

Revenues:

During the preparation of the annual budget for Fiscal Year 2007/2008, 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 2007-08 Redevelopment Agency budget, KMA provided staff with an updated tax increment projection based on the 2008-09 Assessed Value Report. The updated projection of $29.6 million represents a significant increase from the original projection of $26.6 million. The increase is a result of higher than anticipated property valuations[1]. Mid-year receipts to date support KMA's revised projection. Therefore, staff is recommending that the original tax increment revenue estimate of $26.6 million is increased to $29.6 million.

Additionally, revenues from the Ince parking structure are very strong through mid-year and are expected to exceed the budget projection of $380,000. A significant amount of the use of the Ince parking structure comes from businesses related to filming and operations at Sony and Culver Studios. Despite the Writers' Guild strike, film parking at Ince has remained relatively strong as many of the game shows and reality type shows filmed at Culver Studios have not been significantly impacted by the strike. Therefore, staff is recommending that the Ince parking structure budget estimate of $380,000 is increased to $420,000.

Over the last few years, the Redevelopment Agency has acquired a number of blighted properties throughout the Redevelopment project areas. The Agency is

[1] More information on the 2008-09 Assessor's Report can be provided to the Agency Members at their request.

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 includes the projected sale of those properties. However, staff does not expect to receive land sale proceeds revenues from all of those properties in this fiscal year. Therefore, staff is recommending to amend 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, pass through agreements with 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 $5.3 million to $5.9 million and the statutory pass through payments be increased from $2.99 million to $3.75 million (see table below for more information).

Revenue Description	Actual 2006-07 Expense	Adjusted 2007-08 Budget	Revised 2007-08 Estimate
20% Housing Set Aside	5,692,215	5,329,800	5,918,600
Total Housing Set Aside	**$5,692,215**	**$5,329,800**	**$5,918,600**
Pass Through Pymnts			
LA County – General	1,452,081	1,350,104	1,694,514
LA County Fire Dept	9,987	9,265	11,628
LACCD	40,497	37,568	47,152
LA West Vector Control	501	465	583
LA County Flood Contrl	18,153	16,840	21,136
LA County School Serv	5,606	5,201	6,527
CCUSD	1,217,774	1,383,111	1,735,940
City of Culver City	164,414	152,523	191,431
LA County Library	38,725	35,924	45,088
Total Pass Through	**$2,947,737**	**$2,991,000**	**$3,754,000**

Due to the uncertainty related to relocation costs for the Washington/National project, sufficient funding for relocation services was not originally included in the adopted 2007-08 budget. Therefore, staff is recommending a budget amendment to increase relocation services in the Washington/National project by $250,000.

All other expenditures appear to be on track. No other expenditure amendments are recommended at this time.

Recap. of Proposed Budget Amendments:

4. Increase tax increment revenues by $2.9 million;
5. Increase the Ince parking structure revenue by $40,000;
6. Decrease Land Sale Proceeds by $5.4 million;
7. Increase Housing set-aside expenditures by $589,000 from the Tax Increment Fund and Increase the revenues to the Low/Moderate Housing fund by $589,000);
8. Increase statutory pass through payments by $763,000;
9. Increase Land Acquisition costs by $1,093,000;
10. Increase relocation services in the Washington/National project (55092620.610500) by $250,000.

Tax Exempt Bond Funds

The beginning restricted tax exempt bond fund balance for 2007-08 is approximately $23.5 million. Approximately $770,000 is anticipated in interest income and $9 million is currently appropriated for capital projects. Therefore, approximately $15 million is currently available to be appropriated for projects that meet the restrictions of tax exempt bond funding.

There are a number of high profile capital projects that are funded, at least partially, with tax exempt bond funds. These projects include the construction of Fire Station #3, the realignment of Washington Boulevard, and the Town Plaza expansion. All of these projects are underway. No budget amendments are recommended at this time.

Low/Moderate Income Housing Fund

The beginning Low/Moderate Income Housing Fund balance for 2007-08 is approximately $15.1 million. Other than an increase of $589,000 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, which will be presented to the Redevelopment Agency at a later date. Initial work indicates there are sufficient projects to allocate the entire balance of the Low/Moderate Income Housing Fund.

Proposed State Budget Analysis

In January, the Governor released his proposed 2008-09 budget for the State, which included across the board cuts to State programs, especially to education. He also declared a 'fiscal emergency' which required the legislature to provide a spending reduction plan for the current fiscal year to the Governor within 45 days. The proposed State budget for 2008-09 does not currently include direct recommendations to divert critical revenues from cities or from transportation, but even the cuts proposed would have an effect on Culver City.

In terms of direct results to cities, the proposed budget would delay monthly Highway User Tax payments for April through August until September of 2008. Culver City uses these funds for street maintenance as well as matching funds for street and signal improvements. This delay in receipt of funds ($322,960) will impact our ability to move forward with some of these projects.

The State budget also proposes reducing payments to Counties for Local Detention Facilities. Because the proposed funding falls below $35 million, the County may impose booking fees on Culver City. This would represent charges the City did not have to make in the current year and would affect our budget, although it is not expected to be significant. It would also reduce the local law enforcement discretionary grants by 10%, affecting our ability to fund supplemental law enforcement programs.

The budget would also extend the sunset of the triple flip mechanism to at least 2012. This would continue to affect our cash flows due to the portion of sales tax funds that used to be received monthly that is now being backfilled with property tax and being remitted in January and May.

Proposed reductions to Medi-cal and other health programs will certainly have an effect on the already troubled health-care industry. Culver City has a hospital that is already facing bankruptcy proceedings and further reductions in Medi-cal reimbursements could increase the likelihood of the hospital no longer operating. This will have impacts on our community of having to travel further for medical care and economic impacts based on the number of people employed there, the suppliers they use, etc.

While it is fortunate from a city perspective that the proposed State budget looks to primarily solve its problems within its own programs, some of these reductions will also have a direct impact on the City as well. The dramatic reduction of proposed education funding will likely lead first to reductions in “non-core” educational programs like after-school and enrichment programs. This could greatly increase the demand on some of the programs and services offered by the City, increasing our costs to operate or forcing us to turn people away.

Proposition 42 transportation funds are proposed to be fully funded after a two year gap. To address both current and deferred maintenance items, Culver City has a pressing need for funds to improve its local streets and roads. And although we can look forward to receiving the first half of the Proposition 1B funds released by the State in Fiscal Year 2007-08, we were hoping to see additional funds allocated in 2008-09, which is not included in the current proposed State budget.

In summary, considering the reported deficit faced by the State, the current proposed budget does not look to be as damaging to local governments as in the past. However, it is widely agreed upon that the final adopted budget will be dramatically different from the proposed budget. For this reason, there is still concern that local government revenues may be diverted. Proposition 1A should provide more protection to our local dollars than in the past, but the State is still able to ‘borrow’ tax revenue from local governments twice in any ten year period with a two-thirds vote of the legislature. Redevelopment agencies may also be raided again as well. Staff will be monitoring upcoming State budget deliberations carefully as they progress.

When Governor Schwarzenegger declared a fiscal emergency in January, it triggered constitutional provisions under Proposition 58 (2004) that required the Legislature to send the Governor legislation to address the fiscal crisis within 45 days. That deadline was Saturday, February 21, 2008. On Friday, February 15, 2008, both houses approved a reduction package containing a variety of program cuts, payment deferrals and other mechanisms designed to address cash flow issues in the current fiscal year. Among other things, it cuts about $400 million in school spending and reduces rates paid to doctors who care for the poor, which would save about $550 million next year. Included is the five month deferral of the Highway User Tax Account (HUTA), mentioned previously. Additionally, on February 19, 2008, the Governor signed an executive order freezing state hiring and halting nonessential service contracts -- a move he said could save the cash-strapped state $100 million by June 30.

<u>Proposed Federal Budget Analysis</u>

In early February, the proposed $2.9 trillion budget for fiscal year 2008 submitted by the President would balance the budget by 2012, while continuing to cut taxes by eliminating or severely reducing billons of dollars in spending for programs critical to our nation’s cities.

Funding for Community Development Block Grant (CDBG), transit programs, Amtrak, first responders, emergency management training, and the COPS program would be reduced or eliminated.

The budget requests $145.2 billion for the war in Iraq and Afghanistan for fiscal year 2008 in addition to a supplemental request for $99.6 billion for the rest of this fiscal year. In order to balance the budget by 2012, spending for nonmilitary and homeland security programs would grow by one percent. Even in the public safety and homeland security area, funds to help cities combat violent crime, prepare for and respond to emergencies would be cut back from current levels.

With the submission of the President's budget, Congress will begin the 2008 budget cycle with hearings on spending requests before the Appropriations Committees in the House and action on an overall spending package by the Budget Committee.

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 vacancies in several Departments. This will help offset any potential gap from less than stellar recurring revenue activity. It does not, however, solve the City's ongoing operating deficit issue. If the economy continues to weaken, and revenues continue to lag, the City will be faced with difficult financial decisions in the future.

The General Fund has been able to hold up well these last few years due to a healthy economy and increased new development activity around the city. There have also been one-time revenues, such as the sale of the Warner Parking Lot, that have enabled the funding of capital projects. The reduction of the Sales Tax amount, though, is felt to be a necessary adjustment due to current economic trends. There is currently a sufficient fund balance to absorb this decrease. There is also a potential for additional new development activity revenue that was not known to be realized this fiscal year. This could also help offset the decrease, although it would be one-time revenue filling a gap left by the loss of recurring revenue. Overall, the General Fund will end the year above the 30% reserve policy level.

Transportation will be using Prop A reserves to fund the additional request of $275,000 for Garage Expenses. There is sufficient funding in this reserve to fund this request.

Culver City Redevelopment Agency

As with the City, the Redevelopment Agency also impacted by the effects of the current economy and slumping housing market. In fact, the RDA's primary source of revenue, tax increment, is directly related to property values. The RDA has experienced significant growth in tax increment revenues over the past five years. However, with the slumping housing market, that growth is expected to slow over the next few years. As a result, staff has taken a conservative approach to projecting future tax increment revenues.

Additionally, the State's cash flow problems and projected $14+ billion budget deficit in 2008-09 may have an impact on the RDA's cash flow 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 contributions to the Educational Revenue Augmentation Fund (ERAF)[2], or some other method of shifting funds from the RDA, may be imposed on RDA's state-wide. Staff will continue to monitor the State's budget process.

ATTACHMENTS:

1. Fiscal 2007-08 City Mid-Year Budget Report
2. Fiscal 2007-08 City Mid-Year Revenue Summary
3. Fiscal 2007-08 City Mid-Year Expenditure Summary
4. Fiscal 2007-08 RDA Mid-Year Budget Report
    a. Unrestricted Funds Cash Flow
    b. Tax Exempt Bond Funds Cash Flow

MOTION:

That the City Council:

(1) Receive the presentation of the Fiscal 2007-08 Mid Year Budget Report;

and

(2) Adopt proposed amendments to the Fiscal 2007-08 Budget:

[2] In 1992, the state enacted legislation that partially shifted their financial responsibility for funding education (under Prop 98) to local governments by diverting part of the property tax allocation from local governments into "Educational Revenue Augmentation Funds" to support schools.

A. Reduce adopted 2007-08 Sales Tax revenue amount by $500,000 (10115100.313000);

B. Increase the Sr. & Social Services Division budget in the Parks, Recreation and Community Services Department by $25,300 (10134100.xxxxxx) to cover salary survey approved increases for part-time positions not originally included in 2007-08 budget process; and

C. Increase the Fire Department Budget (10145900.xxxxxx) by $32,850; Refuse Fund (20299900.952101) $16,420; Transit Fund (20399900.952101) $16,420; and Sewer Fund (20499900.952101) $16,420; and

D. Increase Transportation Department Garage Expenses account by $275,000 (20368300.600800) due to increased labor expenses for capital projects; and

E. Transfer $275,000 from Prop A Fund reserves (42499900.952203) to Transportation Department (20399900.391424).

A budget amendment requires 4/5ths vote

That the Culver City Redevelopment Agency:

(1) Receive the presentation of the Fiscal 2007-08 Mid Year Budget Monitoring Report;

and

(2) Adopt the following amendments to the Fiscal 2007-08 Budget:

A. Increase tax increment projected revenues by $2,944,000 million in the following areas;
   a. *Project Area 1 (51290000.311210): $1,043,000*
   b. *Project Area 2 (52290000.311210): $493,000*
   c. *Project Area 3 (53290000.311210): $812,000*
   d. *Project Area 4 (54290000.311210): $596,000*

B. Increase the Ince parking structure projected revenue (55093800.372130) by $40,000;

C. Decrease the Land Sale Proceeds revenue (55096000.386350) by $5,400,000;

D. Increase Housing set-aside by $589,000 (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:	*$288,000*	*55499900.391512:*	*$288,000*
52299900.952554:	*$99,000*	*55499900.391522:*	*$99,000*
53299900.952554:	*$83,000*	*55499900.391532:*	*$83,000*
54299900.952554:	*$119,000*	*55499900.391542:*	*$119,000*

E. Increase statutory pass through payments by $763,000;
   a. *Project Area 2 (52292000.517500): $352,829*
   b. *Project Area 4 (54292000.517500): $410,171*

F. Increase relocation services in the Washington/National project (55092620.610500) by $250,000.