City of Culver City, California

Agenda Item Report

Meeting Date: _05/10/2010_	Item Number: J-1
JOINT CITY COUNCIL/REDEVELOPMENT AGENCY BOARD AGENDA ITEM: FOUR-FIFTHS VOTE REQUIREMENT - Fiscal Year 2009-10 Third Quarter Financial Monitoring Report and Adoption of Proposed 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: (E-mail) Meetings and Agendas – City Council and Redevelopment Agency (05/05/10); (E-mail) Ongoing Topics – Fiscal and Budget Issues (05/05/10)	
Department Approval: Jeff Muir (05/04/10)	City Attorney Approval: Carol A. Schwab (by R. Miranda) (05/05/10)
Chief Financial Officer Approval: Jeff Muir (05/04/10)	City Manager/Executive Director Approval: P. Lamont Ewell (05/06/10)

RECOMMENDATION:

Staff recommends the City Council and Redevelopment Agency Board (Agency Board) receive a presentation on the Approved Budget for Fiscal Year 2009-10 and adopt proposed 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 Third Quarter Financial Monitoring Report presents the City Council and Agency Board with a snapshot of expenditures and revenues through the third quarter of FY 2009/2010.

FY 2008-09 Recap

December 2007 marked the beginning of one of the worst economic crises the nation has experienced in decades. A collapse in the residential housing market resulting from a record number of foreclosures led to a collapse in the financial services industry. To protect themselves, many financial services firms initiated mass layoffs and stopped lending money. Since most Americans' spending is dependent on available credit, the tightening of credit by lenders caused a significant drop off in consumer spending. The drop off in consumer spending spelled financial trouble for the retail and automobile industries. This led to more layoffs, more foreclosures, and further decreased consumer spending.

For state and local governments, this meant lower tax revenues to support growing demand on services as demand for free or low cost public services tends to increase in recessionary periods.

FY 2008/2009 was no different for Culver City as total General Fund revenues declined by 3.5% from the prior year and the General Fund finished the year with a $3.6 million operational deficit. This operational deficit was almost offset by one-time revenue received from the sale of the Warner Lot, which was $2.947 million.

FY 2009-10 Discussion

Due to the significant economic uncertainty experienced during the FY 2009/2010 budget process, the City's adopted Budget anticipated a number of one-time measures to provide the City with additional time to more fully evaluate options to reduce costs or raise revenues. Since the Adopted FY 2009/2010 Budget was approved, some of the one-time stop gap measures did not materialize and revenues fell further than even the conservative estimates used when the City Manager's Proposed FY 2009/2010 Budget was presented. Consequently, for the second consecutive fiscal year, the City will have an operational deficit. The estimated operational deficit for FY 2009/2010 is approximately $5 million. As anticipated, to partially address this operational deficit, one-time transfers of $1.25 million from the Equipment Replacement Fund and $550,000 from the Innovation Fund will be made prior to the close of the fiscal year on June 30, 2010. Even with these one-time transfers, there remains approximately $3.2 million in operational deficit. As the prior City Manager had conveyed to the City Council on November 9, 2009, this $3.2 million deficit was proposed to be addressed by utilizing funds from the City's General Fund Reserve (the City's savings account).

Although the economy as a whole has shown signs of improvement, tax revenues typically lag economic trends by 6 – 12 months, which means the great majority of governments, including Culver City, are just now feeling the effects of the deepest part of the recession. Also, it is important to remember that even though there is talk of the beginning of a recovery, California has been among the hardest hit states in regard to the housing fall out and unemployment (only Michigan [14.1%] and Nevada [13.4%] had higher unemployment rates in March than California [12.6%]). Reports from the State of California indicate the State continues to face major operational deficits, currently estimated at $20 billion annually, which the State has "addressed" in part by redirecting traditionally local revenues into the State Treasury. Therefore, California's recovery is expected to lag behind the nation and other states and take a longer period of time to be realized.

The following sections will discuss the revenue and expenditure trends for the City and Redevelopment Agency through three quarters of FY 2009/2010.

General Fund

Through the third quarter of FY 2009/2010, total General Fund revenues are $55.825 million, or 67.5% of the adjusted budget, and expenditures are $60.955, or 71.9% of the adjusted budget. As a point of reference, over the last three prior fiscal years (2006/2007 through 2008/2009), the average revenue receipts at the end of the third quarter are 69.4% and the average expenditures are 69.9%.

Results through March 31, 2010 for the City are not encouraging. Although expenditures are approximately at the budget target, revenues are coming in even lower than originally anticipated. Certain categories of revenues have continued to perform poorly this fiscal year, including the City's major tax revenues – Sales Tax and Utility User Tax. As a result, staff recommends the following budget amendments be made to adjust budget revenues accordingly (which results in a net reduction in revenues) and to better reflect projected receipts in certain larger categories. (Individual line item amounts can be found in Attachment 1.)

FISCAL YEAR 2009/2010
THIRD QUARTER GENERAL FUND REVENUES

	ADOPTED BUDGET FISCAL 2009/2010	RECOMMENDED ADJUSTMENTS FOR FISCAL 2009/2010	DIFFERENCE
Property Tax	$3,685,000	$3,870,000	$185,000
Sales Tax	$16,165,140	$14,563,000	($1,602,140)
Public Safety Sales Tax (PSAF)	$360,000	$298,000	($62,000)
Business Tax	$9,541,000	$9,541,000	$0
Franchise Tax	$1,330,000	$1,330,000	$0
Real Property Transfer Tax	$1,500,000	$750,000	($750,000)
Utility Taxes	$14,637,000	$14,390,000	($247,000)
Transient Occupancy Tax (TOT)	$2,746,450	$2,837,000	$90,550
Commercial/Industrial Dev. Tax	$985,000	$300,000	($685,000)
Licenses and Permits	$1,816,790	$2,270,625	$453,835
Intergovernmental	$3,453,380	$3,477,800	$24,420
Charges for Svcs. (Includes RDA billings)	$10,212,115	$11,841,185	$1,629,070
Fines and Forfeitures	$4,057,000	$4,306,000	$249,000
Use of Money & Property	$1,039,000	$984,000	($55,000)
Interfund/Departmental (Admin. Allocation)	$6,689,009	$5,237,200	($1,451,809)
Other Revenues	$474,169	$795,420	$321,251
Other (Interfund Transfers)	$3,995,300	$4,134,750	$139,450
TOTAL GENERAL FUND	**$82,686,353**	**$80,925,980**	**($1,760,373)**

The total proposed net revenue adjustments are a reduction of $1.76 million from the Adopted Budget. The Adopted FY 2009/2010 Budget included $1 million in to be determined personnel reductions that did not, and will not, materialize this year. Though there were discussions with labor groups as to potential cost reduction measures, no agreement was reached. This is anticipated to result in a budget deficit for the General Fund of approximately $3.2 million in FY 2009/2010.

A detailed discussion of the performance of third-quarter revenues and expenditures can be found in Attachment 2 - Third Quarter Financial Monitoring Report (Report). The discussion for each General Fund revenue category can be found on pages 2 through 7 of the Report and General Fund expenditures by Division can be found on pages 12 through 13 of the 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 Report on pages 11 through 13 and expenditures on page 18.

Culver City Redevelopment Agency

The Redevelopment Agency's primary revenue source is Tax Increment (TI), which is driven by the growth in assessed value of properties within the Redevelopment Project Areas. The Redevelopment Project Area has experienced very strong growth over the last 10 years. Despite the housing market crash and stagnant commercial development, the Agency continues to see relatively strong growth due to recently completed developments (e.g. Westfield Culver City renovation, Sony parking lot, and 9900 Culver Boulevard – Culver Centrale). However, since property tax assessed values typically lag economic conditions by approximately 12 months and commercial credit continues to be tight, TI receipts are expected to slow in FY 2010/2011.

Additionally, there is still fear that a so-called "mortgage meltdown" for commercial property is imminent. The recession has caused a significant amount of commercial space to go vacant (Culver City's vacancy rate is approximately 8%, compared to 3-4% prior to the onset of the recession in December 2007), and there was a large turnover in commercial properties during the real estate boom. Consequently, many commercial property owners need to get high lease rates to cover their debt payments. Some large commercial property investment companies have already walked away from properties and many industry experts expect more to come. The commercial loan sector is much smaller than the residential property loan sector, so a "meltdown" , should one occur, is not expected to have as significant an impact on the financial industry as the residential mortgage meltdown did. However, it is another potential drag that may further inhibit the economic recovery.

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 TI revenues, but also include other revenues generated from the Agency's business operations (e.g. revenues from RDA owned parking lots).

Revenues

During the preparation of the City Manager's Proposed Budget for FY 2009/2010, staff received a projection of tax increment revenues from the Agency's fiscal consultant, Keyser Marston Associates (KMA), which was based on the 2008/2009 County Assessor's Assessed Value Report. Subsequent to the adoption of the Adopted Budget for FY 2009/2010, KMA provided staff with an updated tax increment projection based on the 2009-10 Assessed Value Report, which is received in August each year. The updated projection of $36.6 million represents a 9% increase from the original projection of $33.5 million. The increase is a result of higher than anticipated assessed valuations. Receipts to date support KMA's revised projection. Therefore, staff is recommending that the original tax increment revenue estimate of $33,462,000 be increased to $36,575,000.

All other Agency revenues are expected to meet or exceed budget projections, except parking, which is expected to fall slightly short of budget projections. A more detailed discussion of the Agency's revenues can be found on pages 7 through 11 of the Culver City Redevelopment Agency Third Quarter Financial Monitoring Report (Attachment 4).

Expenditures:

There are a number of payments the Agency is required to pay per State Law. 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 the Agency receives. Consequently, as TI revenue increases, there is a corresponding increase in those payments. Therefore, staff is recommending that the Housing set-aside payment be increased from $6,728,400 to $7,315,000 and the administrative and statutory pass through payments be increased from $4,742,000 to $5,273,000.

On July 20, 2009, the City Council and Agency Board approved a Purchase and Sale Agreement between the City and Agency for property located at 3433 Wesley Street. Per this agreement, the Agency purchased 3433 Wesley Street for $395,000. The legal actions necessary to complete this transaction have been executed, however, in order to complete the financial transaction and transfer the funds from the Agency to the City, a budget amendment is needed.

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 Third Quarter Financial Monitoring Report (Attachment 4).

Supplemental Education Revenue Augmentation Fund (SERAF)

On May 3, 2010, staff presented the Agency Board with information related to the FY 2009-10 SERAF payment that is required by the State as one of the major redirections of traditionally local funds initiated to partially address the State's budget deficit. Staff also provided the Board with options for making this payment, including borrowing all, or a portion, of the payment from the Low/Moderate Income Housing Fund. As of the writing of this report, the Court had issued a ruling in favor of the State. Unless a higher court issues some kind of stay, staff will make the payment under protest. If there are any additional developments in this area, staff will keep the Board informed.

Low/Moderate Income Housing Fund

Other than an increase of $586,600 in Housing set-aside revenues discussed earlier in the report, there are no significant budgetary issues in the Low/Moderate income housing fund. Community Development Department staff are currently working towards implementing the Comprehensive Housing Strategy as approved by the Board. Please refer to page 12 of the Culver City Redevelopment Agency Third Quarter 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. No budget amendments are recommended at this time, however, as projects for which funds have been earmarked become more clearly defined, the Board will be asked to allocate those funds at the appropriate time. Refer to page 13 of the Culver City Redevelopment Agency Third Quarter Financial Monitoring Report (Attachment 4) for more discussion on Tax Exempt Bond funds.

FISCAL ANALYSIS:

City of Culver City

Given the third quarter data, General Fund expenditures are projected to come in at the 96.0% spending assumption for the full fiscal year, which is primarily due to the high number of vacancies in several Departments resulting from a hiring freeze implemented by the City Manager. Also included in the Adopted FY 2009/2010 Budget was an assumption of a reduction of $1 million in to-be-determined personnel reductions that did not materialize. This, coupled with the poor activity being experienced with many revenue categories, will result in an approximate deficit of $3.2 million.

The City Council is being asked to formally acknowledge that approximately $3.2 million from the General Fund Reserve is needed to cover the anticipated deficit for FY 2009/2010. It should be noted that the actual amount needed from the Reserve will not be known until the accounting for FY 2009/2010 has concluded and the audit for that period is complete. While staff will vigorously limit expenditures to minimize the amount needed from the General Fund Reserve, it is possible that additional amounts from the Reserve may be necessary once the audit is complete.

There is currently a sufficient balance in the General Fund Reserve to cover this reduction in reserve without falling below the current 30% Reserve Policy requirement. However, ongoing projections show the reserve dropping below the 30% Reserve Policy requirement next fiscal year unless significant corrective action is taken. The City Manager will also be discussing this current policy with the City Council as part of the presentation of the City Manager's Proposed Budget for Fiscal Year 2010/2011.

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 TI revenues over the past five years. However, the credit crunch and slumping commercial real estate market are expected to result in much slower growth in TI receipts over the next few years.

Additionally, the State's cash flow problems and projected $20 billion budget deficit currently projected for the State's FY 2010/2011 and forecast for the foreseeable future may have an impact on the RDA's cash flow beyond the current $11 million SERAF payment being required this fiscal year as the Governor and Legislature look for ways to raise funds and balance the State's budget. If current litigation is not successful in protecting RDA funds, there is a distinct possibility that State mandated SERAF 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. Proposed Recommended Revenue Adjustments
2. Culver City Third Quarter Summary Report
3. Culver City Third Quarter Financial Monitoring Report
4. Redevelopment Agency Third Quarter Financial Monitoring Report

MOTION:

That the City Council:

1. Receive the presentation of the FY 2009/2010 Third Quarter Financial Monitoring Report; and,
2. Adopt proposed amendments to the Adopted Budget for Fiscal 2009/2010 Budget as shown In Attachment 1; and,
3. Approve the use of General Fund Reserves to cover the anticipated deficit for FY 2009/2010.

A budget amendment requires 4/5^{ths} vote

That the Culver City Redevelopment Agency:

1. Receive the presentation of the FY 2009/2010 Third Quarter Financial Monitoring Report; and,

2. Adopt the following amendments to the Adopted Fiscal 2009/2010 Budget:

   A. Increase tax increment projected revenues by $2,933,000 in the following areas:
      a. *Project Area 1 (51290000.311210): $1,635,000*
      b. *Project Area 2 (52290000.311210): $6,000*
      c. *Project Area 3 (53290000.311210): $1,430,000*
      d. *Project Area 4 (54290000.311210): ($138,000)*

   B. Increase Housing set-aside by $586,600 (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:	*$327,000*	*55499900.391512:*	*$327,000*
52299900.952554:	*$1,200*	*55499900.391522:*	*$1,200*
53299900.952554:	*$286,000*	*55499900.391532:*	*$286,000*
54299900.952554:	*($27,600)*	*55499900.391542:*	*($27,600)*

   C. Increase county administration fees and statutory pass through payments by $531,000:
      a. *Project Area 1 (51292000.517500): $26,000*
      b. *Project Area 3 (53292000.517500): $20,000*
      c. *Project Area 4 (54292000.517500): $485,000*

   D. Appropriate $395,000 from the Tax Exempt Bond Fund Reserve to fund the acquisition of property located at 3433 Wesley Street from the City (57396000).