City of Culver City, California
City Council Agenda Item Report

Meeting Date: 1/23/06	Item Number: _A-4_____
AGENDA ITEM: Fiscal Year 2005-2006 Mid-Year Budget Monitoring Report and Consideration of Modifications to the Adopted Budget for Fiscal 2005-06 Budget	
Contact Person/Dept.: Marlee Chang	Phone Number: 310-253-6011
Fiscal Impact: Yes [x] No []	General Fund: Yes [x] No []
Public Hearing: [] Action Item: [x]	Attachments: [x]
Public Notification: Master Notification List	
Department Approval: Marlee Chang (01/23/06)	CAO Approval: Jerry B. Fulwood (01/19/06)
City Controller Approval: Marlee Chang (01/23/06)	

RECOMMENDATION

That the City Council approve the proposed budget modifications to the adopted fiscal 2005-06 budget.

This item is a budget amendment and requires a 4/5th vote for adoption.

BACKGROUND:

The adopted fiscal year 2005-06 budget includes some significant increases compared to prior year. They are:

- Projected one-time new development monies ($2.5 million revenues);
- Increased cost allocation to all departments to fund annual deficit in Self-insurance Fund ($2.7 million);
- Establish Computer Replacement Fund ($300,000)
- Transfer of $1.2 million to Capital Improvement & Acquisition Fund which includes: Pavement Improvement ($325,000), Slurry Seal ($75,000), and Park Facility Assessment ($50,000); and
- Transfer additional funding from Parking Meter Fund to General Fund ($180,000).

After the adoption of the budget, there were several fiscal developments with significant impacts to the City's finances. The following is a list of those developments which were not included in the adopted 2005-06 budget:

1. An estimated loss of General Fund revenue (net loss of $700,000) due to business relocations;
2. An estimated revenue loss from the Triple Flip "True up" adjustment of ` $703,000;

3. Increased one-time revenue adjustment for the VLF in-lieu fee (i.e. "True up" for VLF Triple Flip of $367,000);
4. Increased estimate for Property Tax revenue ($133,000) based on the County Assessor's property value report, which is higher than the adopted budget projection;
5. Potential increased appropriation in PERS contribution required by Memorandum of Understanding, July 1, 2001 to June 30 2005 ($500,000 for Police Officer's Association 3% @ 50).

As a result, it is estimated that there will be approximately a $1.4 million operating budget shortfall in the current fiscal year. This is a preliminary projection based on activity through the first six months of the fiscal year. The General Fund revenue and expenditure transactions during the rest of the year may effect this projection. However, there is no economic indication that the revenue will significantly improve in the near future to cover this identified budget shortfall; therefore, the budget amendment is recommended.

FISCAL ANALYSIS

The un-reserved fund balance at the end of fiscal year 2004-05 was $24 million, of which $1.2 million was appropriated to fund capital projects in the current budget year. This reduced the fund balance to approximately $22.8 million. As described above, the mid-year budget review is projecting an approximate $1.4 million General Fund operating deficit. Consequently, the un-reserved fund balance will be further reduced to approximately $21.5 million or 29.3% of the City's General Fund expenditures. Also, it was identified that the assumption of an annual 96% appropriation spending pattern is no longer realistic; posing more difficulty to keep expenditures in line with the adopted budget. In order to close this year's budget deficit and to minimize the negative impact to our next budget year, it is necessary to cut back spending for this fiscal year. Effective December 15, 2005, the following actions were implemented:

- Hiring freeze;
- Reduce training & education expenses by 30%;
- Tighten the use of overtime in all departments;
- Freeze any special assignment pay and any accelerated step increases that were not included in the adopted budget;
- Avoid any budget amendments during the fiscal year; and
- Reduce the spending from the appropriated reserve account.

DISCUSSION

General Fund Financial Condition

As of December 31, 2005, the General Fund has collected 34% of the budgeted revenues and expended 47% of budgeted appropriations. It should be noted that the personnel expenses may increase in the remainder of the fiscal year due to Memorandum of Understanding contracts currently being negotiated with the remaining groups. Additionally, there may be adjustment entries in the expense accounts which were not recorded before the closing of December. Therefore, the actual annual expenditures will be higher for the remainder of this fiscal year. The table below summarizes the budgeted revenues and expenditures for the General Fund:

Summary of General Fund Revenues and Appropriations

	2005-06 ADOPTED BUDGET	2005-06 ADJUSTED BUDGET	2005-06 REVISED BUDGET	NET DIFFERENCE
Beginning Fund Balance	**23,534,000**	**24,091,000**	**24,091,000**	**0**
General Fund Revenues:				
Revenues	71,405,467	71,414,867	70,514,867	(900,000)
Plus: Transfers in	1,391,500	1,391,500	1,391,500	0
Plus: Encumbrance Carryover	0	730,000	730,000	
Total General Fund Revenues	72,796,967	73,536,367	72,636,367	(900,000)
				0
General Fund Appropriations:				0
Expenditures	72,104,038	72,833,472	73,333,472	500,000
Plus: Transfers out	1,903,940	1,903,940	1,903,940	0
Total General Fund Appropriations	74,007,978	74,737,412	75,237,412	500,000
Ending Fund Balance	**22,322,989**	**22,889,955**	**21,489,955**	**(1,400,000)**

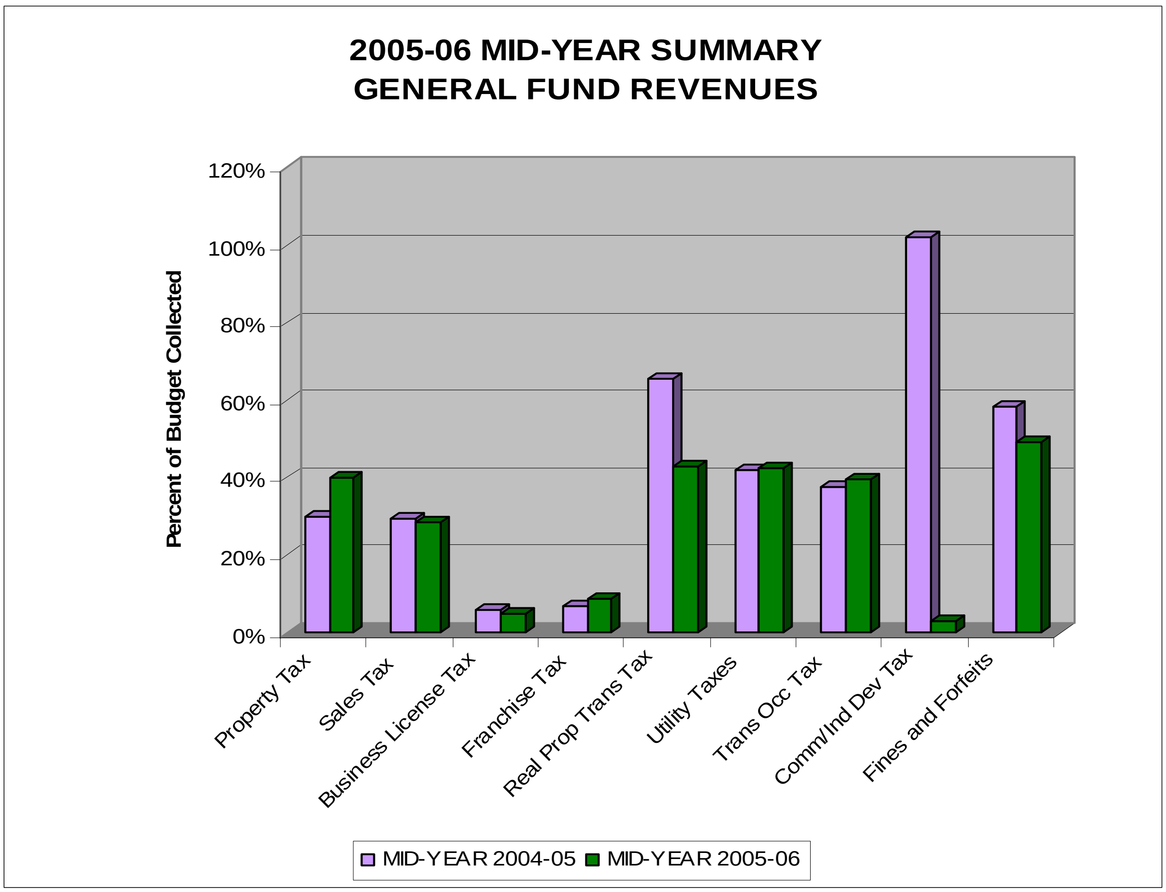
The following analysis contains a number of tables and graphs to illustrate the General Fund revenue and expenditure budgets and year-to-date (YTD) collections or expenditures for fiscal year 2005-2006.

Revenues

The following section summarizes revenue receipts for the General Fund. Although revenue receipts are shown to be below 50% (due to seasonal collections for some of the major revenues including property tax, sales tax, and business license tax), 2005-06 revenue receipts appear to be relatively on target with the exception of the identified sales tax loss and Triple-flip potential reduction. The majority of actual receipts for the Commercial/Industrial tax are expected to be received after the permit review process is finalized in February or March 2006.

General Fund

According to the mid-year analysis, General Fund receipts as a percentage of the adjusted budget are down slightly from fiscal year 2004-05. The following table and corresponding chart provide a more detailed illustration of the General Fund revenues as compared to mid-year 2004-05:



General Fund Revenue Categories

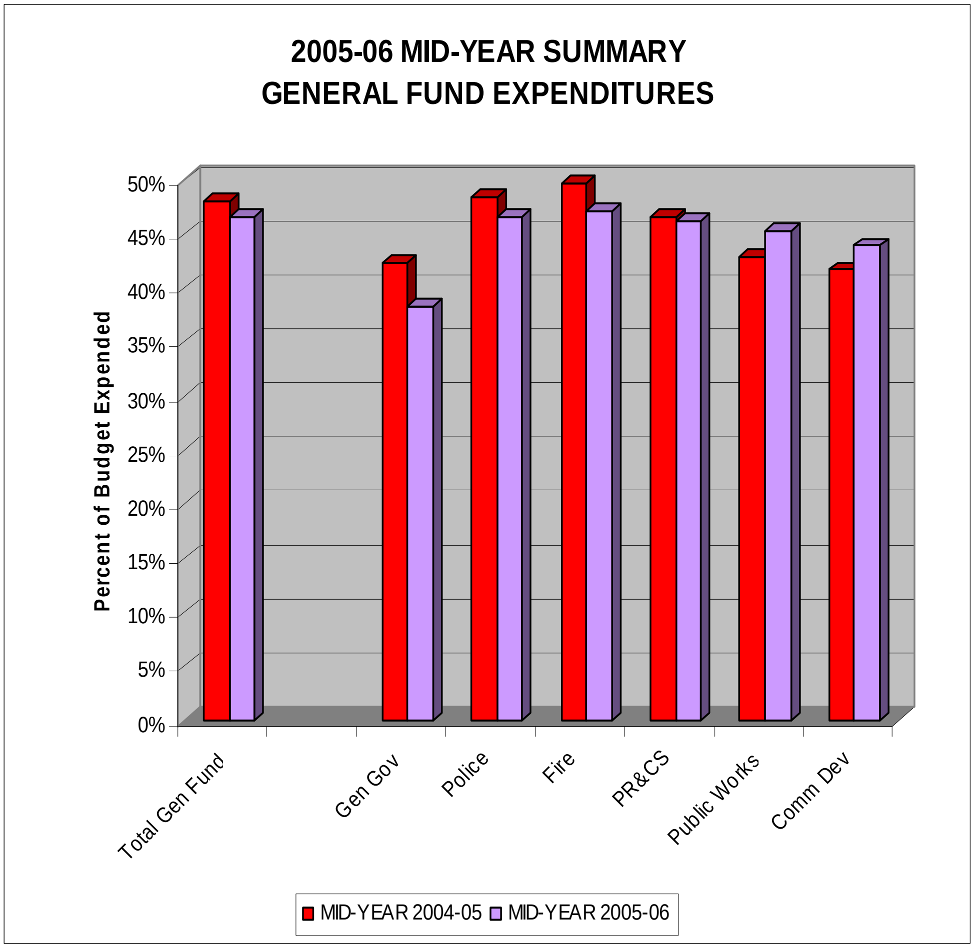
	ADOPTED BUDGET	ADJUSTED BUDGET	YTD COLLECTED	MID-YEAR %	PROPOSED REVISED BUDGET
Property Tax	1,804,000	1,804,000	725,631	40.2%	1,937,000
Sales Tax	17,640,000	17,640,000	5,046,402	28.6%	16,240,000
Public Safety Sales Tax	350,000	350,000	119,051	34.0%	350,000
Business License Tax	8,275,000	8,275,000	393,701	4.8%	8,275,000
Franchise Tax	1,375,000	1,375,000	119,964	8.7%	1,375,000
Real Prop.Trans Tax	2,025,000	2,025,000	869,591	42.9%	2,025,000
Utility Taxes	13,340,000	13,340,000	5,654,169	42.4%	13,340,000
Trans Occ Tax	2,250,000	2,250,000	893,916	39.7%	2,250,000
Com/Ind Dev Tax	1,663,750	1,663,750	47,223	2.8%	1,663,750
Licenses And Permits	1,751,800	1,755,800	584,332	33.3%	1,755,800
Intergovernmental	2,540,000	2,540,000	10,886	0.4%	2,907,000
Charges For Services	7,592,620	7,592,620	3,929,972	51.8%	7,592,620
Fines And Forfeits	3,925,000	3,925,000	1,937,782	49.4%	3,925,000
Use Of Money & Property	905,500	905,500	511,477	56.5%	905,500
Inter Fund/Departmental	5,862,097	5,862,097	2,951,151	50.3%	5,862,097
Other Revenues	105,700	111,100	47,558	42.8%	111,100
Transfers	1,391,500	1,391,500	695,750	50.0%	1,391,500
TOTAL GENERAL FUND	72,796,967	72,806,367	24,538,556	33.7%	71,906,367

As previously mentioned, a majority of receipts for the Commercial/Industrial tax are expected to be received after the permit review process is finalized in February or March 2006. Also, projected Commercial/Industrial tax revenues were significantly increased in fiscal year 2005-06 (from $75,000 in 2004-05 to $1,663,750 in 2005-06) due to various new construction projects. This increase represents one-time revenue.

Expenditures

General Fund

According to the mid-year analysis, General Fund expenditures as a percent of the adjusted budget are down from fiscal year 2004-05. The following table and chart provide a more detailed illustration of the mid-year 2005-06 General Fund expenditures as compared to mid-year 2004-05:



2005-06 Mid-Year Summary General Fund Expenditures

	ADOPTED BUDGET	ADJUSTED BUDGET	YTD EXPENDED	MID-YEAR %	PROPOSED REVISED BUDGET
GENERAL FUND EXPENDITURES:					
GENERAL GOVERNMENT	14,495,108	14,770,969	5,649,811	38.2%	14,770,969
PARKS, REC. & COMM. SVCS	5,967,440	5,993,989	2,770,416	46.2%	5,993,989
POLICE DEPARTMENT	26,900,407	26,956,576	12,536,979	46.5%	27,456,576
FIRE DEPARTMENT	13,980,400	13,991,038	6,599,040	47.2%	13,991,038
COMMUNITY DEVELOPMENT	5,667,766	5,815,684	2,552,043	43.9%	5,815,684
PUBLIC WORKS	8,092,917	8,305,216	3,755,424	45.2%	8,305,216
Transfers	1,903,940	1,903,940	969,852	50.9%	1,903,940
Projected 4% excess appropriations	(3,000,000)	(3,000,000)	0	0.0%	(3,000,000)
TOTAL GENERAL FUND	**74,007,978**	**74,737,412**	**34,833,563**	**46.6%**	**75,237,412**

Conclusion

As discussed above, the General Fund un-reserved fund balance will fall slightly below 30% of the operating budget. This is a concern since the City has virtually no Fund Balance for its Capital Projects Funds or Equipment Replacement Fund (other than for vehicles), or an adequate reserve for the Self-Insurance Fund, which means the true amount available for purely General Fund uses is much lower than 30%. These issues will be addressed in the coming budget year. Unless significant new on-going revenue sources are developed, or annual on-going spending is reduced, balancing the City's annual budget will become more challenging. It is important that the City continue to maintain tight budget control and keep proactive fiscal planning to safeguard the City's financial health. The Budget & Finance Office will provide monthly budget review reports to City Council; this will give Council members the opportunity to discuss any budget issues with the City Controller.

The CAO is presenting the forecast for the next five years tonight as a separate staff report, which describes in more detail the historical revenue and expenditure trend, as well as what the City will be facing in the near future with a number of other financial issues.

ATTACHMENTS

Exhibit A Summary of Revenue Comparison
Exhibit B Summary of Expenditure Comparison

MOTION

That the City Council:

A. Amend the adopted FY 2005-2006 budget to increase appropriation from General Fund fund balance in the amount of $ 500,000 to fund the Safety PERS contribution in the Police Department;

B. Amend the adopted FY 2005-2006 budget to revise the following revenue estimates:
   A. Decrease Sales Tax revenue by $1,400,000
   B. Increase Property Tax revenue by $133,000
   C. Increase Vehicle License Fee in-lieu fee by $367,000