


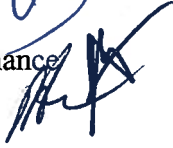


Staff Report

City of Manhattan Beach

TO: Honorable Mayor Cohen and Members of the City Council

THROUGH: Geoff Dolan, City Manager 

FROM: Bruce Moe, Director of Finance
Henry Mitzner, Controller 

DATE: November 3, 2009

SUBJECT: Consideration of Report on FY 2009-2010 First Quarter Financial Results

RECOMMENDATION:

Staff recommends that the City Council receive and file this report. We do not believe any adjustments to the FY 2009-2010 budget are necessary at this time. However, revenues and expenditures will be continuously monitored and reported to the City Council, with modifications recommended as warranted.

FISCAL IMPLICATION:

There is no fiscal implication with the recommended action.

BACKGROUND:

This report provides information on the City's General Fund financial performance for the first quarter of FY 2009-2010 (July-September). While it is early in the fiscal year, and the data may not provide true guidance on the full year results, we can use this information as an early indicator of the direction of our finances.

DISCUSSION:

While the audit of FY 2008-2009 is just now being completed, last year proved to be filled with challenges. From plummeting sales tax and large drops in building related revenues, to declining transient occupancy tax, we saw revenues under perform final budget (including all adjustments during the year) by \$2.06 million. Fortunately, through belt tightening and a selective hiring freeze, we were able to reduce expenditures, and come in \$3 million below final budgeted expenditures. The results, while preliminary and pre-audit, are that the General Fund had a slight deficit (expenditures in excess of revenues) of about \$100,000 for FY 2008-2009, less than the \$1.03 million shortfall budgeted for the year (this included the \$520,000 contribution to the school district). The final audit report and results will be presented to the City Council at the first meeting of February 2010.

As Council knows, the budget process for FY 2009-2010 was difficult. Council and staff spent over twenty hours in public meetings identifying spending cuts and revenue enhancements that resulted in the adopted budget, which includes a \$1,508,675 deficit (including the \$1.3 million contribution to the school district this year). This shortfall is being covered through the use of available unreserved General Fund moneys, with no use of reserves. The budget reflects the recession that officially began in December 2007, and the severe downturn that started in September 2008.

General Fund Revenues

The following is an illustration of the changes in major revenues from pre-audit *preliminary* 2008-2009 year end results compared to the budgeted amount in FY 2009-2010. This provides a point of reference as to how our FY 2009-2010 revenues are estimated to perform against our most recent actual results.

<u>Revenue Source</u>	<u>08-09 Actual</u>	<u>09-10 Budget</u>	<u>Difference</u>	<u>% Above/Below Prior Year Actual</u>
Property Taxes	\$ 19,930,492	\$ 20,043,000	\$ 112,508	0.6%
Sales Tax	\$ 7,480,416	\$ 7,452,500	\$ (27,916)	-0.4%
Transient Occupancy Tax	\$ 2,990,348	\$ 2,940,000	\$ (50,348)	-1.7%
Business License Tax	\$ 2,767,070	\$ 2,550,000	\$ (217,070)	-7.8%
Building Permits	\$ 626,346	\$ 600,000	\$ (26,346)	-4.2%
Plan Check Fees	\$ 605,565	\$ 550,000	\$ (55,565)	-9.2%
Interest Earnings	\$ 1,189,619	\$ 450,000	\$ (739,619)	-62.2%
Parking Citations	\$ 2,148,096	\$ 2,393,455	\$ 245,359	11.4%
Real Estate Transfer Tax	\$ 325,001	\$ 275,000	\$ (50,001)	-15.4%
Selected Revenue Totals	\$ 38,062,953	\$ 37,253,955	\$ (808,998)	-2.1%
All General Fund Revenues	\$ 50,009,925	\$ 49,402,520	\$ (607,405)	-1.2%

Overall FY 2009-2010 projected revenues are budgeted 1.2% (\$607,405) below the total actual General Fund revenues for FY 2008-2009. FY 08-09 revenues, while preliminary and pre-audit, performed slightly better than what we predicted in May 2009, at which time we estimated total revenues to be \$49,743,970 (an increase of \$265,955 or .5%).

As we review the first quarter results for FY 2009-2010, it is important to note that it is very early in the year, and that the results, while interesting, may not be indicative of the full year results just as the same comparison one year ago would have not given guidance on what ultimately occurred in FY 2008-2009. The following chart provides the first quarter comparison:

<u>Revenue Source</u>	<u>08-09 Q1</u>	<u>09-10 Q1</u>	<u>Difference</u>	<u>%</u>
	<u>Actual</u>	<u>Actual</u>		<u>Above/Below</u>
				<u>Actual</u>
Property Taxes	\$ 549,973	\$ 574,647	\$ 24,674	4.5%
Sales Tax	\$ 1,534,102	\$ 1,342,042	\$ (192,060)	-12.5%
Transient Occupancy Tax	\$ 980,689	\$ 775,982	\$ (204,707)	-20.9%
Business License Tax	\$ 166,713	\$ 143,126	\$ (23,587)	-14.1%
Building Permits	\$ 172,682	\$ 148,169	\$ (24,513)	-14.2%
Plan Check Fees	\$ 161,581	\$ 143,942	\$ (17,639)	-10.9%
Interest Earnings	\$ 420,510	\$ 152,700	\$ (267,810)	-63.7%
Parking Citations	\$ 435,012	\$ 677,809	\$ 242,797	55.8%
Real Estate Transfer Tax	\$ 129,358	\$ 119,664	\$ (9,694)	-7.5%
Selected Revenue Totals	\$ 4,550,620	\$ 4,078,081	\$ (472,539)	-10.4%
All General Fund Revenues	\$ 8,043,029	\$ 7,877,347	\$ (165,682)	-2.1%

While it is too early to predict full year results for our revenues, if we were to apply the trend of a 2.1% reduction from first quarter results for the full year in General Fund revenues (compared to the prior year), we would receive \$1,050,208 less revenue, for a total of \$48,959,700. This would be \$442,820 (.9%) less than the FY 2009-2010 budget projects.

As we look at each of the key revenues listed above, there are several points that should be noted:

Property Taxes: While we already know the change in assessed values from the Assessor's Office reports (1.5% growth), that growth applies to the current year secured and unsecured portions of this revenue source only. However, it does not provide indications of prior years' taxes that may be collected, supplemental property taxes that may be generated from home sales, or how much we may collect in penalties and interest. These components accounted for 5% (\$1.08 million) of total property tax collections in FY 2008-2009. The impact from those revenue sources will not be known until actual collections are received starting in December.

Sales Tax: With the advent of the Triple Flip a few years ago, the State replaced 25% of our sales tax with Property Taxes, and distributes it in January and May of each fiscal year. In addition, the remaining 75% of the sales tax distribution occurs monthly, but are estimated amounts until the State reconciles the true amounts and then adjusts our revenues. Through those reconciliations, it is common that the State adjusts our revenues at year end to reflect the actual collections. This past year, our adjustment was nearly \$300,000 because the State had over advanced our sales tax throughout the year. As a result, the State has now adjusted this year's sales tax allocations to a lesser amount than we had budgeted. While we believe we should see revenues closer to what we budgeted for FY 2009-2010 when the year end reconciliations are performed in 2010, our sales tax revenues will continue to show weakness during the year.

Transient Occupancy Tax: This revenue source has suffered from the economic downturn for the past twelve months, and this fiscal year has shown continued weakness thus far. In fact, the past two months, the revenue from hotels performed 25% below the prior year levels. While we expect that number to show less dramatic change from the prior year as we compare revenues to the very weak results from 12 months earlier, the hotels are still lagging, and will not fully recover until the economy shows more strength.

Business License Tax: Business License Tax renewals are collected in the March-April time frame, and are typically based on a business' results from the prior calendar year. As a result, we expect the FY 2009-2010 receipts to reflect the weak economy of 2009 (because last year's results were based on 2008 business activity, the 2008-2009 business tax collections did not include a full year of the economic downturn). We budgeted 7.8% below the prior year actual amount, so we are optimistic that the budget amount is attainable.

Building Permits and Plan Check Fees: The housing and construction slowdown continues to be reflected in the performance and projections of the Building Permits and Plan Check Fee revenues. Existing tight credit markets may be having some effect on constraining a rebound in the housing market and related activity. Some improvement in activity is occurring, but we may still see less revenue than originally budgeted.

Interest Earnings: Historically low interest rates continue to have an effect on our interest income. As investments mature, we find that we are exchanging 4% and 5% notes for 1.5% to 2% investments. As we developed the FY 2009-2010 budget, we dramatically lowered our expectations, and believe that we should approximate budgetary estimates.

Parking Citations: Revenue from parking citations is expected to outperform our budgetary estimates due to an increase in the number of citations being issued. For the first quarter of 2009-2010, the number of cites increased by 5,400 or 33%.

Real Estate Transfer Tax: The drop off in home sales volume, coupled with reductions in sale prices has impacted our Real Estate Transfer Tax revenue, which is derived from a charge of fifty-five cents per \$500 of sales price, split evenly between the City and the County of Los Angeles. We greatly reduced our budget for FY 2009-2010 by half to \$275,000. Given our first quarter revenues, and some signs that the housing market may be thawing, we believe we may achieve slightly better results of \$300,646.

Based on these comments, we have projected full year revenues as follows:

<u>Revenue Source</u>	<u>09-10 Budget</u>	<u>Q1 Full Year</u>		<u>Variance</u>	<u>%</u>
		<u>Projections</u>			
Property Taxes	\$ 20,043,000	\$ 20,229,449	\$ 186,449	0.9%	
Sales Tax	\$ 7,452,500	\$ 7,012,165	\$ (440,335)	-5.9%	
Transient Occupancy Tax	\$ 2,940,000	\$ 2,801,379	\$ (138,621)	-4.7%	
Business License Tax	\$ 2,550,000	\$ 2,375,578	\$ (174,422)	-6.8%	
Building Permits	\$ 600,000	\$ 537,433	\$ (62,567)	-10.4%	
Plan Check Fees	\$ 550,000	\$ 539,458	\$ (10,542)	-1.9%	
Interest Earnings	\$ 450,000	\$ 431,987	\$ (18,013)	-4.0%	
Parking Citations	\$ 2,393,455	\$ 2,747,564	\$ 354,109	14.8%	
Real Estate Transfer Tax	\$ 275,000	\$ 300,646	\$ 25,646	9.3%	
Selected Revenue Totals	\$ 37,253,955	\$ 36,975,659	\$ (278,296)	-0.7%	
All General Fund Revenues	\$ 49,402,520	49,033,471	\$ (302,706)		

It is important to note that with the volatility in the economy, forecasting at this point in the fiscal year is more of an academic exercise than a forecast with any precision. However, it appears as though on the revenue side, at this juncture, we are within close range of budget estimates.

General Fund Expenditures

On the expenditure side of the equation, through the first quarter, we have spent approximately \$800,000 less than the same period last year (after eliminating the school district support that was paid in Q1-2009). As you can see from the chart below, savings have occurred from the cuts in internal service charge allocations, salaries and wages due to the elimination of seven positions, and belt tightening in materials and services, and contract/personnel services.

<u>Expenditure Category</u>	<u>08-09 Q1</u>	<u>09-10 Q1</u>	<u>Difference</u>	<u>%</u>
				<u>Above/Below</u>
	<u>Actual</u>	<u>Actual</u>		<u>Prior Year</u>
				<u>Actual</u>
Salary and Wages	\$ 6,090,492	\$ 5,896,025	\$ (194,467)	-3.2%
Employee Benefits	\$ 2,429,728	\$ 2,511,068	\$ 81,340	3.3%
Contract & Personnel Services	\$ 1,473,264	\$ 1,298,965	\$ (174,299)	-11.8%
Materials & Services*	\$ 645,354	\$ 429,165	\$ (216,189)	-33.5%
Utilities	\$ 208,470	\$ 187,882	\$ (20,588)	-9.9%
Internal Service Charges	\$ 1,261,985	\$ 960,120	\$ (301,865)	-23.9%
Property & Equipment	\$ 20,151	\$ 7,500	\$ (12,651)	-62.8%
Debt Service	\$ 955,349	\$ 997,793	\$ 42,444	4.4%
General Fund Expenditures	\$ 13,084,793	\$ 12,288,518	\$ (796,275)	-6.1%

* School District Support removed from 08-09 Actual for comparison purposes.

A review of our year-to-date expenditure results by department is as follows:

	Annual Budget	YTD Expend.	YTD Encumb.	Available Budget	Percent Utilized
Management Services	\$ 3,354,023	\$ 440,198	\$ -	\$ 2,913,825	13.12
Finance	\$ 2,681,087	\$ 683,005	\$ 16,700	\$ 1,981,382	26.10
Human Resources	\$ 879,247	\$ 186,259	\$ 11,500	\$ 681,489	22.49
Parks and Recreation	\$ 5,646,822	\$ 1,707,037	\$ 14,008	\$ 3,925,776	30.48
Police	\$ 19,641,220	\$ 4,852,889	\$ 22,654	\$ 14,765,677	24.82
Fire	\$ 10,460,270	\$ 2,723,040	\$ 28,564	\$ 7,708,665	26.31
Community Development	\$ 3,283,745	\$ 673,533	\$ 179,816	\$ 2,430,395	25.99
Public Works	\$ 5,293,074	\$ 1,022,558	\$ 9,470	\$ 4,261,047	19.50
	\$ 51,239,487	\$ 12,288,519	\$ 282,712	\$ 38,668,256	24.53%

Through the first quarter (25% of the year) we have expended/committed 24.5% of the budget. As with the revenues, it is very early to project a full year of expenditures based on these numbers. There are some one-time expenditures that will occur later in the year that may skew the current trends. However, at this point, we believe our budgetary estimates are accurate, and will be sufficient to fund operations this year.

CONCLUSION:

As previously stated, it is very early in the fiscal year, and given the volatility in the economy over the past year, the predictability of revenues is difficult at best, however, at this time we expect revenues to approximate budget. Similarly, expenditures appear to be on track. We do not believe any adjustments to the FY 2009-2010 budget are necessary at this time. We will continue to closely monitor our financial position, provide reports on a monthly basis, and make recommendations for adjustments as warranted. We will provide a complete mid-year budget review in early 2010.