



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
February 18, 2009**

TO: Mayor and City Council

FROM: Lianne Marshall, Assistant City Manager of Admin Services
Cathy Heater, Finance Manager

SUBJECT: Mid-Year Financial Report for Fiscal Year 2008-09

DATE: February 9, 2009

RECOMMENDATION:

Accept the Mid-Year Financial Report for Fiscal Year 2008-09 and approve the resolution to adopt adjustments presented in this report. The Budget Subcommittee reviewed this report at its meeting on February 4, 2009, and recommended forwarding to the City Council for approval.

BACKGROUND:

Economic Conditions

The U.S. economy is in the midst of the worst recession since the early 1980's and shows no signs of recovery. The perfect storm of a free-falling housing market; collapse of numerous major financial institutions; a downward spiraling stock market; and national unemployment rates well over 7%, led to an economic contraction not seen in over 25 years. The national economy shrank in the 4th quarter of 2008 by a staggering 3.8%. The White House is working feverishly to win approval of its \$800 billion economic stimulus package. Without the stimulus, leading economists have estimated the unemployment rate will soar to 9.5% or higher. Rescuing the national housing market also remains a priority. A recent report from *Zillow.com* indicated that foreclosures and short sales accounted for roughly 30% of home sales in 2008, which wiped out \$3.3 trillion in home equity. It is estimated that 17.6% of all homes nationwide are worth less than their mortgage balances. To make matters worse, the turmoil of the financial markets has resulted in a virtual stranglehold on the availability of credit. Many qualified home buyers are kept out of the market at a time it needs them most because banks are unwilling to underwrite the loans needed to finance the purchase. The situation in the labor markets is equally as dire. Nearly 600,000 jobs were cut nationwide in January, making it one of the worst months for layoffs ever and the most lost jobs in a month since 1974.

The East Bay's economy has suffered a similar fate to that of the nation. The median value of homes sold in Contra Costa County suffered a 50% year-over-year decline in November 2008. Home sales in Martinez fared better, but the median value was still 22% lower than last year.

Unemployment across Contra Costa County rose to 7.6% in December 2008, compared with 9.1% for the State. The City's rate was 6.1%. The Financial Services and Construction employment sectors continued to post annual losses and mirror the national job market. The statewide recession is expected to continue well into 2009.

The State has identified an estimated shortfall of almost \$42 billion between revenues and expenditures through 2010, and the Governor is recommending a number of program reductions and cash management initiatives to address the gap. In addition to the 10% across-the-board cuts proposed last year, many of the proposals entail borrowing against future revenues, including a 1 and ½ cents increase in the State sales tax for 3 years (which would require voter approval) and securitization of future State lottery revenues. The Governor's proposal also anticipates reducing the value of dependent credits for income tax purposes and deferring Prop 98 K-14 school obligations. The State also plans to continue its practice of delaying gas tax payments to local agencies such as Martinez. Approximately half of the City's gas tax supports street maintenance, and if there is not an adequate reserve of gas tax to cover the anticipated 7 months' deferral, the City may need a short term loan from its General Fund. Although most of the Governor's proposals to balance the budget are not projected to directly impact the City, the larger issue remains of whether or not the State will have the available cash on hand to pay its obligations, including those to local governments. The State Controller's Office announced it will begin delaying for 30 days over \$3.3 billion in payments to its vendors; other State agencies; assistance for disabled citizens; and citizens owed income tax refunds. The Legislative Analyst's Office (LAO) warned that achieving a balanced budget too heavily dependent upon deferring costs to future periods and disregarding existing State priorities will not adequately address the crisis at hand. Instead, the LAO recommends categorical program and mandate reforms, and presenting additional tax increases before the voters in a special election. The City will continue to follow the State budget discussions and report any impacts on the City's budget.

Overview of 2008-2009 Mid-Year General Fund Revenues

Overall revenues received in the first half of FY 2008-09 are \$249,715 more than those at mid-year 2007-08. The increase is largely attributable to one-time monies received in 2008-09 for worker's compensation/liability rebates.

Property tax revenue, the City's single-highest source of revenue, is 1.85% less than this time last year due to falling home prices and reassessments of property values.

Sales tax revenues for 2008-09 are up by 17.9% from this time last year, primarily due to the increased price of gas through the second quarter.

Intergovernmental revenues are down 43.23% compared to the same period last year, due to grant revenue received in the prior year of \$174,511.

Charges for services are up 5.50%, mostly due to planning and engineering fees received on a large project in 2007-08.

Fines and forfeitures are down by 5.87% over last year, mostly in parking citations.

Use of money and property is down 50.84% due to lower investment earnings.

Miscellaneous revenue is up due primarily to a one-time worker's compensation/liability rebate.

Table 1 shows a year to year comparison of the various sources of revenue.

MID YEAR REVIEW YEAR TO YEAR COMPARISON					<i>Table 1</i>
	Mid-Year	Mid-year	Dollar	Percent	
	12/31/07	12/31/08	Variance	Variance	
REVENUE					
Property Taxes	\$ 3,937,019	\$ 3,864,351	\$ (72,668)	-1.85%	
Sales Tax	1,095,972	1,292,019	196,047	17.89%	
Other Taxes	1,058,232	928,251	(129,981)	-12.28%	
Intergovernmental	417,703	237,122	(180,580)	-43.23%	
Licenses, Permits & Fees	269,507	304,700	35,194	13.06%	
Charges for Services	394,679	437,137	42,458	10.76%	
Fines and Forfeits	151,257	142,377	(8,880)	-5.87%	
Use of Money & Property	234,655	115,366	(119,290)	-50.84%	
Miscellaneous	96,972	534,388	437,416	451.07%	
Sub-total	7,655,996	7,855,711	199,715	2.61%	
Transfers In	60,700	110,700	50,000	45.17%	
TOTAL	\$ 7,716,696	\$ 7,966,411	\$ 249,715	3.24%	

The Budget Subcommittee accepted staff's recommended General Fund revenue revisions that total \$183,479, listed below and shown in Table 2:

- Decreases in Taxes, including Property Tax by \$250,000; Transfer Tax by \$40,000; Franchise Fees by \$50,000; and Documentary Transfer Tax by \$40,000; partially offset by increases in VLF Property Tax Swap of \$63,236; Sales Tax In-lieu of \$15,448; and Business License of \$40,000.
- Decrease Fines & Forfeitures by \$9,700 due primarily to a reduction in court fines.
- Decrease Intergovernmental by \$80,905 reflecting a decrease in Motor Vehicle License fees of \$103,300, offset by an increase in State Mandates of \$21,144 and \$1,251 in federal grants.
- Increase Charges for Services by \$40,600 due mostly to a one-time development payment.
- Decrease Use of Money & Property by \$50,000 due to lowered interest earnings.
- Increase Other Revenue by \$61,523, primarily due to employee workers comp payments, and damage and recoveries.
- Increase Transfers In by \$76,137 from the legal reserve to cover legal costs associated with two cases.

MID YEAR REVIEW 2008 - 2009 GENERAL FUND REVENUES					<i>Table 2</i>	
	Adopted Budget	Mid-year July-Dec	Percent Received	Proposed Budget Revisions	Revised Budget	
REVENUE						
Property Taxes	\$ 6,959,548	\$ 3,864,351	55.53%	\$ (250,000)	\$ 6,709,548	
Sales Tax	2,952,024	1,292,019	43.77%	(0)	2,952,024	
Sales Tax In-Lieu	1,083,643			15,448	1,099,091	
Property Tax Swap	2,600,000			63,236	2,663,236	
Other Taxes	2,846,492	928,251	32.61%	(50,001)	2,796,491	
Intergovernmental	769,800	237,122	30.80%	(80,904)	688,896	
Licenses, Permits & Fees	550,000	304,700	55.40%	182	550,182	
Charges for Services	761,744	437,137	57.39%	40,600	802,344	
Fines and Forfeits	355,000	142,377	40.11%	(9,700)	345,300	
Use of Money & Property	445,000	115,366	25.92%	(50,000)	395,000	
Miscellaneous	525,645	534,388	101.66%	61,523	587,168	
Sub-total	19,848,896	7,855,711	39.58%	(259,616)	19,589,280	
Transfers In	110,700	110,700	100.00%	76,137	186,837	
TOTAL	\$ 19,959,596	\$ 7,966,411	39.91%	\$ (183,479)	\$ 19,776,117	

Recommended General Fund Budget Adjustments

The Budget Subcommittee also accepted staff's recommended mid-year expenditure reductions. Expenditures were reduced by \$259,616 to offset the reduction in income, and increased by transfers of \$111,070 from legal reserves and fund balance to cover legal costs associated with two cases for a net reduction of \$148,546.

Table 3 highlights the FY 2008-09 mid-year expenditures and proposed adjustments by department.

MID YEAR REVIEW 2008 - 2009 EXPENDITURE SUMMARY BY DEPARTMENT					<i>Table 3</i>	
Description	2008-09 Budget	Mid-year Actuals	Percent Expended	Proposed Budget Revisions	Revised Budget	
General Government	\$ 1,094,256	\$ 522,765	48%	\$ 72,914	\$ 1,167,170	
Non-Departmental	1,297,999	454,651	35%	(49,600)	1,248,399	
Admin Services	823,868	330,566	40%	(10,000)	813,868	
Public Works	3,846,215	1,718,618	45%		3,846,215	
Police	10,174,939	4,849,555	48%	(35,000)	10,139,939	
Community Development	3,077,695	1,336,144	43%	(126,860)	2,950,835	
Sub-total	20,314,972	9,212,297	45%	(148,546)	20,166,426	
Transfers Out	1,004,195	1,004,195	100%		1,004,195	
Total	\$ 21,319,167	\$ 10,216,492	48%	\$ (148,546)	\$ 21,170,621	

Table 4 below illustrates the impact of the recommended mid-year revisions on the General Fund Ending Fund Balance, which is estimated to be \$5.8 million.

	<i>Table 4</i>
	Adopted
	Budget
<i>2008 - 2009 MID-YEAR FUND BALANCE</i>	
Beginning Fund Balance @ 7/1/08	\$ 6,896,775
Revenues & Expenditures:	
Revenues	19,848,896
Prior Year Reserved for Encumbrances	306,293
Expenditures	<u>(20,214,972)</u>
Excess Revenue (Expenditures)	(59,783)
Transfers In	10,700
Transfers Out	(1,004,195)
Prior Year Encumbrances	<u>0</u>
Net Change to Fund Balance	(1,053,278)
Budget Adjustments Authorized by Council:	
Loan to Willows Theatre	(100,000)
Transfer from Reserves-Willows Loan	100,000
Fund Balance at Mid-Year	5,843,497
<i>Budget Adjustments: Revenue</i>	
Decrease Revenues	(259,616)
<i>Budget Adjustments: Expenses</i>	
Legal Fees	(111,070)
Transfer from Legal Reserve	76,137
Decrease Expenses	259,616
Net Change to Fund Balance	<u>(34,933)</u>
Ending Fund Balance	<u>\$ 5,808,564</u>

Recommended Non-General Fund Budget Adjustments

Staff recommends increasing expense in NPDES Special Revenue Fund by \$20,000 for supplies and maintenance on storm drains.

FISCAL IMPACT:

The budget amendments proposed for the General Fund include \$76,137 from the legal reserve and \$34,933 from fund balance. The budget amendments proposed for NPDES are covered by operational revenues.

ACTION:

Motion adopting a resolution accepting the mid-year budget adjustments for 2008-09.

References: UCLA Anderson Forecast; Regional Economic Outlook, ABAG; MBIA MuniServices; East Bay Economic Development Alliance, California Legislative Analysis's Office, MDA DataQuick, National Bureau of Economic Analysis, Bureau of Labor Statistics, California Employment Development Department, Zillow.com.

Attachment: Resolution

APPROVED BY:

A handwritten signature in black ink, appearing to read "Phil Vucic". The signature is written in a cursive, flowing style.

City Manager

RESOLUTION NO. -09

**APPROVING THE MID-YEAR ADJUSTMENTS TO THE ADOPTED BUDGET
FOR THE 2008-2009 FISCAL YEAR**

WHEREAS, in June 2007, the City Council adopted the Budget for the City of Martinez for Fiscal Years 2007-08 and 2008-09; and

WHEREAS, at mid year, it is necessary to amend the budget to update certain general fund, special revenue fund and enterprise fund revenue projections and expenditures; and

WHEREAS, those changes to the 2008-09 Fiscal Year Budget have been described, including their fiscal impact, in the attached staff report.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Martinez adopts the revisions to the 2008-09 Fiscal Year Budget.

* * * * *

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution duly adopted by the City Council of the City of Martinez at a Regular Meeting of said Council held on the 18th day of February, 2008 by the following vote:

AYES:

NOES:

ABSENT:

RICHARD G. HERNANDEZ, CITY CLERK
CITY OF MARTINEZ