

BUSINESS OF THE COUNCIL OF THE CITY OF HALF MOON BAY

AGENDA REPORT

For meeting of: February 16, 2010

TO: Honorable Mayor and City Council

VIA: Michael Dolder, Interim City Manager 

FROM: Jan Cooke, Finance Manager/City Treasurer 

TITLE: CONSIDERATION OF ADOPTING ADJUSTMENTS TO THE FY 2009-10 ANNUAL BUDGET OF THE CITY OF HALF MOON BAY AND TO DIRECT STAFF TO RETURN WITH RECOMMENDATIONS TO BALANCE THE FY 2009-10 ANNUAL BUDGET OF THE CITY OF HALF MOON BAY

RECOMMENDATION:

- 1) Adopt Resolution No. C-____-10 Adopting the Adjustments to the FY 2009-10 Annual Budget of the City of Half Moon Bay.
- 2) Direct Staff to return to City Council with Recommendations to Balance the FY 2009-10 Annual Budget of the City of Half Moon Bay.

BACKGROUND AND FISCAL IMPACT:

Fiscal Challenges to the FY 2009-10 Annual Budget

The City of Half Moon Bay is facing a significant fiscal challenge. The economic turmoil that the country is facing at the national, state and local level has impacted the City of Half Moon Bay and has resulted in a FY 2009-10 projected revenue shortfall of \$2.1 million (or 19%) (Attachment 1-City of Half Moon Bay FY 2009-10 Mid Year Financial Update). This revenue shortfall provides significant challenges for the City in meeting its Amended Budget for FY 2009-10 as a budget deficit of \$1.6 million is now projected for FY 2009-10.

The City's revenue is showing unprecedented declines. We have experienced economic impacts in almost all of our funding sources including property tax, hotel transient occupancy tax (TOT), sales tax, and development fees. Our most significant decline comes from hotel tax where occupancy is below 2008/09 levels. Property tax in the current year is impacted by state reductions from Prop 1A and future years are projected to decline due to a one to two year lag on assessed property value adjustments.

Fortunately, faced with the immediate revenue reductions, the City staff has managed expenses well. With tight controls over all expenditures, we expect to save \$488,000 (or 4%) in this fiscal year as compared to the FY 2009-10 Amended Budget for the City of Half Moon Bay.

General Fund Revenues

The City's four (4) major General Fund revenue sources for FY 2009-10 are as follows:

	% of Budget	Adopted Revenue	Estimated Revenue	% Change
Transient Occupancy Tax	35%	\$4,011,000	\$3,164,873	-21%
Property Tax	21%	\$2,333,527	\$2,105,453	-10%
Sales Tax	16%	\$1,771,087	\$1,558,974	-12%
Development Fees	11%	\$1,109,765	\$ 559,681	-50%

Transient Occupancy Tax

The FY 2009-10 Hotel Transient Occupancy Tax (TOT) revenue budget assumed revenues would be at the FY 2007-08 TOT revenue level adjusted by a rate increase of 2% effective in July 2008. However, the ongoing recession, especially in the hospitality industry, changes the revenue projection downward by approximately \$846,000, to \$3,165,000. This equates to a TOT revenue projection decline of 21% for this fiscal year. This revenue reduction assumption is made by using the first half TOT revenue receipts, consultation with all major revenue generating hotel operators and projecting revenue through the remainder of FY 2009-10. The local hotels are forecasting occupancy to level out in the second half of 2010.

Property Tax

The FY 2009-10 adopted Annual Budget includes Property tax revenue of \$2.3 million, based on a projected increase of 1.75% over FY 2008-2009. The revenue projection remains unchanged; however cash receipts are expected to be reduced by approximately \$228,000 due to a State of California borrowing of local property taxes. The State's "balanced budget" includes borrowing 8% of local property tax receipts for this fiscal year, with full repayment at the end of the three years. The State will pay 2% interest on funds received through the mandated "borrowing" from the City's property tax revenues. The City's restricted reserve has been reallocated by \$228,000 to include the borrowing from the State.

Property tax revenue is expected to continue to decline in future years as the assessed value of homes is reviewed and adjusted in the tax base. In addition, the City's share of property tax revenue collected for the City of Half Moon Bay Tax Area is only 6.55% of total collected (Attachment 2- City of Half Moon Bay Property Tax Dollar Breakdown), with the remaining taxes allocated to schools (45%), the County (22%), Fire District (19%) and other entities (7%).

Sales Tax

Due to the poor economic climate, sales tax revenue was budgeted to decline by 10.9% in FY 2009-10 over FY 2008-09. The first half results indicate a further weakening of the sales tax revenues in the primary sources for the City, which are food (42%), transportation (23%), and retail (24%). The City of Half Moon Bay's sales tax revenues decreased 19.5% on a rolling 12 month basis for Quarter 3, 2009. The City of Half Moon Bay has been hit harder by the downturn as compared to San Mateo County at -10.2%, S.F. Bay Area at -12.9% and the State at -14.8%, primarily from the decrease in tourism.

In addition, as part of the State's budget process, the State significantly reduced the Sales Tax subvention which was put in place to augment a reduction in the State's allocation of sales tax revenues to Cities and Counties. The State action results in an estimated sales tax revenue reduction of \$158,000 in FY 2009-10.

Development Fees

The City's projected revenues include fees primarily for planning, engineering, and building projects. The delay in the Carnoustie and Pacific Ridge Developments, along with a downturn in new projects is expected to cause the FY 2009-10 General Fund revenue for "development fees" to decline to \$550,000 (or 50%).

Other Revenue Sources

Based on current projections, the other revenue sources for FY 2009-10 – "Other Taxes", "Inter-governmental", and "Other Revenues" are expected to be lower primarily due to Educational Revenue Augmentation Fund (ERAF) reductions taken by the State, lower collected fees on parking due to the downtown street work, and other fees.

General Fund Expenditures

The FY 2009-10 General Fund expenditures are budgeted at \$13,326,511. The current projection for expenditures through FY 2009-10 is reduced by \$488,000 to \$12,838,398. The reduction is primarily due to lower than budgeted employment costs and other savings.

Other Funds Revenues and Expenditures

The economic conditions have not significantly affected the revenues for other fund budgets of the City. Expenditures for the other funds at year end are expected to be consistent with Council adopted budgets. Staff will continue to monitor these funds and provide the City Council quarterly updates on projected revenues and expenditures. With the exception of the Sewer Operating Fund, any current year revenue shortfalls are funded through accumulated fund balance in other funds. Recommendations for addressing the Sewer Operating Fund balance deficit will be brought to the City Council in March 2010.

Proposed Budget Adjustments

Subsequent to City Council's adoption of the Amended Fiscal Year 2009-10 Annual Budget of the City of Half Moon Bay, a variety of circumstances occurred which require budget adjustments. The situation and needs are as follows:

OPEB Funding-Budget Transfer

\$66,500

The Annual Required Contribution (ARC) to the PARS Post-Retirement Healthcare Funding Plan Trust was approved by City Council on September 1, 2009 for \$69,600 and \$71,900 for fiscal years 2008-09 and 2009-10 respectively. The funding for 2008-09 contribution was encumbered at that date for 2008-09, however, the transaction occurred in 2009-10, resulting in a budget overage in 2009-10. Staff is recommending an appropriation of \$66,500 in FY 2009-10 Budget for this expenditure.

Highway One Medians-New Project

\$25,000/\$340,000

The Half Moon Bay Coastside Chamber of Commerce and Visitors Bureau has raised approximately \$140,000 in private funds for landscaping of the Highway One medians between Kelly Avenue to Main Street. The total project including the first three years of maintenance is estimated to cost \$315,000. City Staff plans to submit an application for grant funds for the remaining \$200,000. The application and Caltrans required permits will cost an additional \$25,000. The project needs to be added in the current fiscal year budget as an estimated \$25,000 may be expended before July 2010 for the permits and final plans. The Chamber will reimburse the City for these expenses. Should the grant application not be successful, the project will be eliminated. Therefore, there is no direct cost to the City of Half Moon Bay for either this fiscal year expenditure of up to \$25,000, nor for the entire estimated project cost of \$340,000. Staff is recommending an appropriation of \$25,000 in FY 2009-10 Budget for the design of this project.

Code Enforcement Budget Transfer **\$30,000**

The Code Enforcement outside services budget was budgeted in the Planning Department but is managed by Public Works Department. Staff is recommending that budget be transferred to align with fiscal and operational accountability.

Street and Road Fund Transfer **\$200,000**

The City Council approved a transfer of \$660,000 from the Street and Road Fund to the Highway One Fund as part of the Amended Budget resolution on October 6, 2009. The Highway One project is nearing completion and the requirement for this project has been reduced by \$200,000 from \$660,000 to \$460,000. Staff is recommending a reduction in transfer by \$200,000 in FY 2009-10 Budget.

Highway 92-Cost Reimbursements **\$100,000**

The City is required to pay property owners impacted by the Highway 92 project with a reimbursement for the mandated moving of highway signs. Total costs are estimated at \$80,000 for approximately six signs.

In addition, the City is required to pay the County for providing the right-of-way evaluation and fair market determination for the property along Highway 92. The bill from the County is estimated at \$20,000.

Staff is recommending an appropriation of \$100,000 in the FY 2009-10 Budget in the Highway 92 Fund to pay for the above expenditures.

Funding of Risk Management Fund **\$200,000**

The budgeted funding of \$400,000 in the FY 2009-10 Annual Budget of the City of Half Moon Bay that was set aside for contingency attorney fees will be reduced to \$200,000, as litigation expense has been well managed this fiscal year. Staff is recommending a reduction in the funding of the Risk Management Fund by \$200,000 for FY 2009-10 Budget.

Circulation Element-On Hold **\$200,000***

As presented to City Council on January 5, 2010, the Circulation Element is one of the seven elements that comprise a local agency's General Plan according to Section 65302(c) of the Government Code. The Circulation Element is the primary policy document to guide the location, improvement and maintenance of existing and proposed thoroughfares, transportation routes, terminals, associated utilities and infrastructure, all correlated with the Land Use Element of the General Plan. Staff is recommending to place project on hold until development fees/revenue sources are identified to fund future work on the circulation element. (* less expenses to date)

City Staff recommends approving the Resolution (Attachment 3) adopting the adjustments to the FY 2009-10 Annual Budget of the City of Half Moon Bay.

Next Steps

Given the severity of the reduced revenue projections, additional steps are necessary to address the budget shortfall for both the current fiscal year and next fiscal year and beyond. Both cost savings and revenue enhancements will be necessary. A strategic planning session will be held with the City Council on Saturday, February 20. Following this planning session, a revised FY 2009-10 budget will be presented to the City Council at a future Council meeting

ATTACHMENTS:

1. City of Half Moon Bay FY 2009-10 Mid Year Financial Update
2. The City of Half Moon Bay Property Tax Dollar Breakdown
3. Resolution adopting Adjustments in the Fiscal Year 2009-10 Annual Budget of the City of Half Moon Bay.

ATTACHMENT - 1

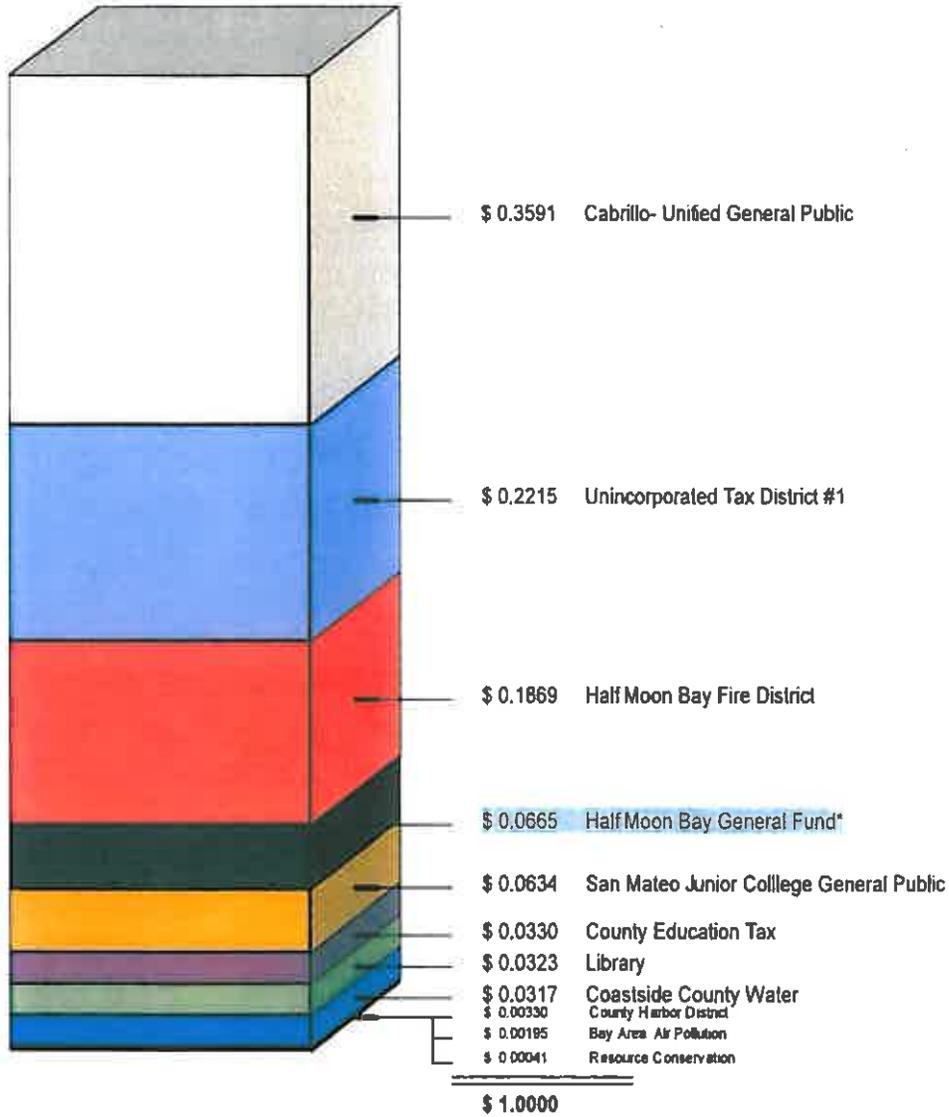
**City of Half Moon Bay
FY 2009-10 Mid Year Financial Update
General Fund**

	Amended Budget	Revised Projection	\$ Change	% Change
Property Tax	\$2,333,527	\$2,105,453	-\$228,074	-10%
Sales Tax	1,771,087	1,558,974	-212,113	-12%
Transient Tax	4,011,000	3,164,873	-846,127	-21%
Other Taxes	785,460	664,074	-121,386	-15%
Charges for Services	1,109,765	559,681	-550,084	-50%
Inter-governmental	335,231	335,231	0	0%
Other Revenues	890,360	742,461	-147,899	-17%
TOTAL REVENUE	11,236,430	9,130,747	-2,105,683	-19%
TOTAL EXPENDITURES	13,326,511 ¹	12,838,398	488,113	4%
REVENUE DEFICIT	-\$2,090,081	-\$3,707,651	-\$1,617,570	
FUND BALANCE END OF YR.	\$5,570,558	\$4,014,884		
<i>Restricted</i>	\$2,857,807	\$2,629,733		
<i>Loan to State (Prop IA taxes)</i>	\$0	\$228,074		

¹ Includes a \$3 million legal settlement on the Beechwood case which was funded by an appropriation from the General Fund balance. A \$5 million insurance recovery was received in FY 2008-09 to cover the cost of settlement and other charges.

ATTACHMENT - 2

THE CITY OF HALF MOON BAY PROPERTY TAX DOLLAR BREAKDOWN



ATI (Annual Tax Increment) Ratios for Tax Rate Area 017-005, Excluding Redevelopment Factors & Additional Debt Service

*LRAF (Educational Revenue Augmentation Fund) general fund tax shifts are not included in tax ratio figures

Data Source: San Mateo County Assessor 2008/09 Annual Tax Increment Tables

Prepared On 11/17/2009 By NEC

This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone

ATTACHMENT - 3

Resolution No. C-____-10

**A RESOLUTION OF THE CITY OF HALF MOON BAY ADOPTING ADJUSTMENTS TO THE
FY 2009-10 ANNUAL BUDGET OF THE CITY OF HALF MOON BAY**

WHEREAS, the City Council of the City of Half Moon Bay adopted a FY 2009-10 Annual Budget on June 16, 2009; and

WHEREAS, the City Council adopted adjustments to the FY 2009-10 Annual Budget on July 7, July 21, August 4, and October 6, 2009; and

WHEREAS, additional budget adjustments to the FY 2009-10 Annual Budget are necessary as described in the February 16, 2010 Staff Report;

NOW, THEREFORE, BE IT RESOLVED THAT

The City Council of the City of Half Moon Bay hereby approves the following adjustments to the FY 2009-10 Annual Budget:

1. OPEB Funding Budget Transfer of \$66,500 (Add Expenditure/Transfer Out from 01-14-790-614; Add Revenue/Transfer In to 63-00-499-123)
2. Highway 1 Medians – New Project \$25,000 in 2009-10 (\$340,000 Full Project Cost) (Add revenue to 11-56-487; Add expenditure to 11-90-820)
3. Code Enforcement Budget Transfer \$30,000 (Add expenditure to 01-52-651; Reduce expenditure in 01-71-651)
4. Street and Road Fund Transfer \$200,000 (Reduce revenue/transfer-in in 44-90-495; reduce expenditure/transfer-out in 11-90-793)
5. Highway 92 Cost Reimbursements \$100,000 (Add expenditure to 44-90-703).
6. Reduced Funding of Risk Management Fund \$200,000 (Reduce expenditure/transfer out in 01-14-790; reduce revenue/transfer-in in 63-00-452)
7. Circulation Element On Hold \$200,000 (less expenses to date) (Reduce expenditure in 01-71-651)

* * * * *

I, the undersigned, hereby certify that the forgoing Resolution was duly passed and adopted on the 16th day of February 2010 by the City Council of Half Moon Bay by the following vote:

AYES, Councilmembers: _____

NOES, Councilmembers: _____

ABSENT, Councilmembers: _____

ABSTAIN, Councilmembers: _____

ATTEST:

Siobhan Smith, City Clerk

Marina Fraser, Mayor

APPROVED AS TO FORM:

Anthony P. Condotti, City Attorney