



AGENDA REPORT

Meeting Date: December 15, 2009

Item Number: E-2

To: Honorable Mayor & City Council

From: Scott G. Miller, Director of Administrative Services/CFO

Subject: Fiscal Year 2009/10 1st Quarter Budget Status Report and Economic Update

Attachments: 1. Fiscal Year 2009/10 First Quarter Budget Status Report, Volumes 1 and 2

INTRODUCTION

Attached is the Fiscal Year 2009/10 First Quarter Budget Status Report which is an update of the first quarter standings for the Fiscal Year 2009/10 Budget, including an overview of accomplishments citywide, financial revenue and expenditure reports, and the status of the Work Plan initiatives, Service Indicators, and Capital Improvement Projects. The first quarter represents the period from July 1, 2009, through September 30, 2009. The report is divided into two volumes.

Volume 1 contains:

Chapter I Overview of Accomplishments
Chapter II Work Plan Status Report
Chapter III Service Indicator Status Report
Chapter IV Quarterly Financial Report

Volume 2 contains:

Chapter V Capital Improvement Projects Status Report

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DISCUSSION

The purpose of this report is to provide the City Council with a review of the City's General Fund financial status as of September 30, 2009, and to present economic considerations that might impact the City's finances. The following discussion is based on currently available economic information.

Fiscal Year (FY) 2009-10 General Fund Revenue

For the first quarter of the fiscal year, the General Fund received \$19,542,868 in revenue, which represents 12.3% of the current budget estimated revenues, compared to \$19,174,429 and 13.2% this time last year. The difference is due to the effects of the lingering recession on government revenue. Table 1 below provides a summary of the following: FY 2009/10 original revenue estimates, FY 2009/10 revised revenue estimates, FY 2009/10 first quarter revenues, and the percent of revenues realized through end of the first quarter.

Property Tax

At the close of the first quarter, property tax revenue is at 8.9% of budgeted, this is about the same as last year's first quarter performance against budgeted. Property tax revenue continues to perform well in Beverly Hills. Based on the assessor report of assessed valuation, we are now projecting that revenues will exceed the adopted budget by 3% at year's end. This is largely due to the continued desirability of Beverly Hills as a place to live and do business.

Sales Tax

Sales tax revenue continues to decline, as the impact of the economy has a slight lag on sales tax revenue, this revenue may decline or flatten as the economy begins to recover and somewhat later start to increase. Based on recently obtained sales tax revenue data for the final quarter of FY 2008/09, sales tax revenue has been adjusted down by 7.5% to \$21.7 million. Given the limited revenue data available at this point, this seems a prudent adjustment; however, additional adjustments may be required at the time of the mid-year report.

Transient Occupancy Tax

The decline in tourism has hit our hospitality industry significantly. Recent reports indicate that the decline may have come to an end; however, we still must recover from the drastic drop. As a result, the projected transient occupancy tax revenue has been decreased by approximately \$1.4 million or 5.4%. Information that will be available at mid-year will provide greater indication of how much slope the recovery will generate.

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Business Tax

Given the continued decline of the economy and employment generally, the projection for business tax revenue has been decreased by \$1 million or 3.4%. It must be noted that by late February we should have much better information upon which to base year-end forecast of this revenue and such information will be presented to the City Council with the mid-year report.

General Fund Expenditures

General Fund expenditures through the first quarter amount to \$36,324,635 or 22.9% of the current budget. For comparison purposes, in FY 2008/09, first quarter expenditures equaled 23.4% of the then current budget. Below are the major General Fund Departments and the percent of current budget represented by their expenditures through the first quarter.

Department/Division	FY 2009/10 Current Budget Expenditures	FY 09/10 1st Quarter Actual Expenditures	% of Budget
Administrative Services	\$ 760,876	\$ 197,586	26.0%
Police	\$ 47,159,603	\$ 11,359,285	24.1%
Fire	\$ 28,930,802	\$ 6,647,210	23.0%
Community Development	\$ 9,939,843	\$ 2,269,166	22.8%
Public Works	\$ 13,633,274	\$ 2,828,529	20.7%
Community Services	\$ 42,144,323	\$ 9,927,177	23.6%
Tourism & Economic Development	\$ 3,869,524	\$ 1,068,790	27.6%

PERS Rates

Several years ago the California Public Employees Retirement System (PERS) created a rate “smoothing” plan which provided for more predictable and consistent rates over a period of years. This was accomplished through the amortizing of investment gains and actuarial costs over longer periods to avoid severe fluctuations from swings in the stock market. This plan was beneficial and met its intended purpose until the stock market lost approximately 50% of its value over a nine-month period in 2008/09. As a result, the PERS Board instituted a new smoothing plan that will forestall extreme increases in rates allowing some time for the stock market to recover from the severe shock of the sub-prime mortgage meltdown and the ensuing credit crisis. Below are the actual PERS rates for miscellaneous employees and safety employees for the current fiscal year (2009/10) and for the next fiscal year (2010/11), as well as the projected rates for the following fiscal year (2011/12).

Employee Classification	Actual FY 2009/10	Actual FY 2010/11 (Est. \$ Increase)	Projected FY 2011/12 (Est. \$ Increase)
Miscellaneous Employees	10.067	10.459 (\$150,000)	12.3 (\$706,000)
Safety Employees	25.389	25.545 (\$42,000)	28.5 (\$800,000)

Future Outlook

FY 2009/10

Over the past two years, the economy has struggled through the worst economic recession since the Great Depression. This recession was declared to be ended with the release of the GDP data for the third calendar quarter of 2009. GDP growth for that quarter has been revised to an increase of 2.8%, higher than many economists had predicted. At the UCLA Anderson Forecast in September, Senior Economist David Shulman stated that the recession is over but the recovery will be sluggish.

There are some signs of the economy coming back to life. This despite unemployment rates remaining high; the most recently released unemployment figures for the nation show an unemployment rate of 10%. For a more local perspective, in October unemployment rates were 12.3% in California, and 12.8% in Los Angeles County. As unemployment rates are a lagging indicator of economic activity this is not inconsistent with the expected economic recovery. In contrast, the stock market is considered a leading indicator of economic activity; therefore the Dow Jones industrial average's growth from 6,547 in March to 10,400 in early December, a 59% increase in that period, bodes well for the future of the economy.

The performance of many City revenues lag the performance of the general economy, given this we can expect the City's revenues to trend lower or flatten as the economy initially recovers. Regionally, the Southern California Leading Economic Indicator produced by the Institute of Economic and Environmental Studies at CSU Fullerton has shown increases that should indicate economic improvement for our region. As noted earlier, in Beverly Hills, we have seen some indications that the transient occupancy tax revenue may have bottomed out. However, our sales tax and transient occupancy tax revenues were hit harder than first thought and will lag for this year and the next 1-2 years. Thus additional budget tightening will be needed for this fiscal year to keep a balanced budget.

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FY 2010/11

The outlook for the City's revenues for FY 2010/11 has improved over FY 2009/10 but we do not expect a robust rebound of revenues as was experienced following past recessions. The hyper revenue growth experienced in the middle of this decade is not expected to return, and the level of sales tax, transient occupancy tax, and business tax revenue that were experienced in FY 2006/07 and FY 2007/08 are not expected to return for four to seven years. We hope to be wrong on this prediction but to fulfill our responsibilities we must take the information provided by many sources, synthesize this, and develop a recommendation that meets with the City Council's adopted financial policy of producing conservative revenue estimates. Whereas quarterly economic growth was in the range of 3.2% - 9.3% between 2003 and 2007, the U.S. Department of Commerce predicts that economic growth in 2010-2013 will be between 2.0% and 2.5%.

This economic outlook necessitates adjusting our revenue growth expectations and our plans for expansion of projects and services. It is recommended that we add no new positions and reduce positions wherever possible. All new programs must have a reliable funding source or assume the current funding of a program that will be discontinued in favor of the new program. We should concentrate on fostering retirements from positions which might be eliminated in the hope of downsizing.

Other Considerations

The City of Beverly Hills continues to enjoy good fiscal standing as opposed to other municipalities. The City maintains prudent reserves and its property values have held up relatively well compared with other communities. The City Council over the years has adopted excellent fiscal policies that have kept the City among the leading cities fiscally. In particular, the City Council's policy that the City maintain formal general fund reserves equal to 40% of the City's operating budget, along with the fiscal restraint to allow for the growth of the general fund balance to exceed even this reserve level, have contributed mightily to the achievement of this fiscal standing. However, even for the City of Beverly Hills, to keep our economic strategy and to confirm our Triple A rating - future projects and debt service need to be balanced with new revenues.

Enterprise Funds

At the November 30, 2009 City Council Audit Committee Meeting, Mayor Krasne asked that in future quarterly reports the enterprise funds be included. We will include these funds in such future reports.



Don Harrison,
Budget & Revenue Officer

Approved By



Scott G. Miller, Director of
Administrative Services/CFO

Approved By