

Meeting Date: 3/30/10

AGENDA REPORT

Agenda Item # 7A.12



City of Santa Clara, California



Date: March 23, 2010

To: City Manager, Redevelopment Agency (RDA) Executive Director, Sports and Open Space Authority (SOSA) Contract Administrator for the City Council, Redevelopment Agency Board and SOSA Board Action

From: Director of Finance, Redevelopment Agency Treasurer, SOSA Director of Finance

Subject: Acceptance of FY 2009-10 Mid-year Revenue Report

EXECUTIVE SUMMARY:

Staff has completed an analysis of revenues for the first half of FY 2009-10. This report includes comments about the economy in general and the City's revenue projections in key areas: General Fund, Electric Utility, Water & Sewer Utilities, Redevelopment Agency, Convention Center and SOSA. Although, this report does not include an analysis of the expected expenditures across the funds, comments are included on expenditures where information is available. Additional expenditure analysis will be included in the budget hearings in May and June.

Mid-year revenue performance has continued to be below budget expectations due to the lingering effects of the national and regional recession. The recession, which started at the end of 2007, continues to have adverse impacts on City revenues, especially sales tax and transient occupancy tax receipts. Although economists indicate the technical end of the recession occurred in 2009, the impact on employment, housing, retail sales, and tourism is likely to continue for some time. As a result, General Fund revenues are down significantly for the year. Declines in General Fund revenues from 2008-09 to the current period are summarized below.

- General Fund Revenues (direct revenues) in 2008-09 were \$129.0 million
- Budgeted General Fund Revenues (direct revenues) for 2009-10 are \$127.3 million, down 1.3% from the prior year
- Year-end General Fund Revenues (direct revenues) for 2009-10 are now projected to be \$118.8 million, 6.7% below budget

This additional \$8.5 million revenue shortfall increases the General Fund deficit well beyond the originally adopted budget of \$6.7 million. Partially offsetting this revenue shortfall are General Fund expenditure savings which are currently projected to be about \$2.1 million lower than assumed due primarily to the managed hiring freeze and other departmental efforts to reduce expenditures. Staff will present an updated projection during the budget study sessions in May and June.

The primary reasons for revenue underperformance are as follows: Significant underperformance in sales tax receipts, down \$4.8 million from the adopted 2009-10 budget and almost \$6.1 million from a very poor year in 2008-09. In addition, transient occupancy tax receipts continue to be lower than expected with the first half of 2009-2010 coming in about 30% below the down year in 2008-2009. Based on the poor performance during the first half of the year, we now project that this revenue source will come in \$1.5 million below budget (note that the budget was already \$1.3 million below actual 2008-09 collections). Declines in other revenue categories from budget are expected to total \$2.9 million. Partially offsetting these declines are categories where revenues are projected to be above budget. These include property and franchise tax collections, business license fees, and homeowners tax relief payments from the State.

For the Electric Utility, revenues are running about 2.2% above last year although below budget projections. Revenues from the sale of electricity are 47.5% of budget as of December 31, 2009 due to lower than forecast sales. Developer contributions have increased over last year, but are still lagging behind budget estimates. Actual operating expenses are running 47.5% of FY 2009-10 budget and are down 12.3% from last year. Improving hydro conditions, lower energy prices and the implementation of approved rate increases should minimize or eliminate any further withdrawals from reserves for this fiscal year. Staff continues to monitor the situation and will return to City Council with recommendations as may be required.

With regard to the Water & Sewer Utilities, water sales are estimated to be 7.5% lower than last fiscal year and may decline further. The effects of this decrease are compounded by decreases experienced in the previous years. Over the last 10 years, potable water sales have decreased by 23%. Water customer service charge revenues currently stand at 49.3% for the first six months of the fiscal year. Total revenues for the utilities through December stand at 48.3% of budget due to much lower than forecasted sewer service charges and water sales due to economic contraction in the business and residential sectors, and water conservation due to the statewide drought. Expenditures were at 41.5% of budget as of December 31, 2009.

Redevelopment Agency revenues are expected to be over budget with tax increment tax collections expected to exceed budget by \$1.6 million due to higher than projected assessed valuation partially offset by shortfalls in rental and interest income. These results do not take into account the pending outcome of litigation over the State's \$1.7 billion RDA takeaway for 2009-10 and \$350 million takeaway for 2010-11. If the litigation is unsuccessful, the City must make a \$9.8 million payment to the State this fiscal year and an additional \$2.0 million payment in 2010-11. It should also be noted that for 2010-11 there are significant commercial appeals and revaluation requests that may impact RDA tax increment for the next several years.

Convention Center revenues are forecasted to come in ahead of budget and Sports and Open Space Authority (SOSA) revenues are projected to come under budget. These variances directly impact the General Fund, as it subsidizes the Convention Center and will receive a lower transfer from SOSA.

Additional details on all funds are included in the Discussion section attached to this report.

ADVANTAGES AND DISADVANTAGES OF ISSUE:


Given the significant impact the recession has had on the City's current fiscal year projections, it is in the City's interest to carefully monitor revenues and expenditures throughout the year. There are no disadvantages to this plan.

ECONOMIC/FISCAL IMPACT:

The overall impact on the City's FY 2009-10 General Fund is a forecasted deficit of approximately \$13.5 million compared to the adopted budget deficit of \$6.7 million, an increase of \$6.8 million. This deficit is projected to grow in 2010-11 as salary and benefit costs will rise based on labor contracts and revenue growth will not keep pace. The City's Electric Utility is not currently forecasted to require further draws on reserves for the current fiscal year. The Water & Sewer Utilities revenues are forecasted at \$38.9 million, below the budget of \$43.6 million.

RECOMMENDATION:

That the Council, Agency and Authority accept the FY 2009-10 Mid-year Revenue Report.



Gary Ameling
Director of Finance
Redevelopment Agency Treasurer
Director of Finance (SOSA)

APPROVED:



Jennifer Sparacino
City Manager
Executive Director for Redevelopment Agency
Contract Administrator for Sports and Open Space Authority

Documents Related to this Report:

Exhibit 1) City of Santa Clara Revenue Analysis Revised Estimates for 2009-10

DISCUSSION:

The following highlights the midyear FY 2009-10 revenue results compared to the same period last year and discusses the changes in forecasted revenues compared to the FY 2009-10 budget.

GENERAL FUND:

Property Tax (Including Property Tax in Lieu of Vehicle License Fee): The City received \$9.5 million in property taxes compared to \$9.7 million for the same period last year, down 1.7%. The County Assessor's final assessed valuation for the City in 2009-10 represents a 0.8% increase over the prior year, somewhat higher than the expectation when the budget was prepared. We now project that the City will collect \$29.7 million, or about \$0.4 million more than the budget.

The City of Santa Clara successfully participated in the Proposition 1A securitization program which fully backfilled the \$3.1 million in property tax borrowed by the State. The State is solely responsible for all issuance costs and interest being paid for the program.

A word of caution on property tax collections for 2010-11. Under Proposition 13, County Assessors are required to adjust the assessed valuation of all properties that did not change ownership by the lesser of 2% or the percent change in the California Consumer Price Index (October to October percent change). For the first time since Proposition 13 passed in 1978, this factor was negative at -0.237%. This means that even before considering requests for Proposition 8 valuation adjustments or appeals, our base assessed valuation will decline for 2010-11 compared to 2009-10. It is anticipated that the impact of other valuation adjustments and appeals will push this decline further into negative territory resulting in a decline in property tax collections in 2010-11. Staff is in contact with the Assessor's Office to monitor their progress in calculating our 2010-11 assessed valuation.

Sales Tax: Sales tax revenues include the remaining City ¾ cent sales tax receipts and payments made through the County from property tax collections to replace the ¼ cent sales tax lost through the triple flip (i.e., property tax in lieu of sales tax). This category also includes the City's share of the ¼ cent Proposition 172 sales tax. Sales tax revenue for the first half of FY 2009-10 was \$11.6 million compared to \$14.0 million for the same period last year, down \$2.4 million, or 17.2%. Sectors in decline include Retail which is down 10.1%, Construction which is down 31.4%, Transportation (New and Used Autos) which is down (down 9.0%), Food Products (Restaurants) which is down 11.1%, and Business to Business which is down 26.7%. The only sector with an increase is Miscellaneous (Health Care and Government) which is up 1.7%. Based on the mid-year sales tax receipts and input from the City's sales tax consultant (Muni Services), the year end estimate for sales tax has been revised down to \$29.7 million. This equates to \$4.8 million or 13.9% under budget.

Transient Occupancy Tax (TOT): TOT revenues were slightly under \$4 million for the first half of FY 2009-10, compared to \$5.8 million last year. This is a significant decline of 31.2%. The beginning of the new calendar year will reflect the revenues from large block and group contracts, which are typically negotiated for January-December calendar years. Based on industry experts who took into account the

impacts of the recession, the adopted budget was reduced for 2009-10 compared to 2008-09. Our current collections are tracking below this lower budget and TOT revenue is now forecasted to be \$1.5 million under budget.

Other Revenue Sources in the General Fund: The attached table (Exhibit 1) shows that revenues are projected to be above budget in the franchise tax, business license, and homeowners tax relief categories. These amounts are more than offset by revenues which are projected to be under budget in the documentary transfer tax, fines & penalties, use of money & property, other revenue, and development-related fee and charges for services categories.

General Fund Summary: In summary, the General Fund revenues are currently expected to come in \$8.5 million below the FY 2009-10 budget.

ENTERPRISE FUNDS:

Electric: Customer service charges for the sale of electricity were \$127.5 million for the first half of FY 2009-10 compared to \$125.8 million for the same period last year, up 1.3%. This represents 47.5% of the FY 2009-10 adopted budget. Operating expenditures for the first half of FY 2009-10 were \$135.7 million compared to \$154.1 million for the same period last year. The balance in the Cost Reduction Fund was \$82.9 million at December 31. Improving hydro conditions, lower energy prices and the implementation of approved rate increases should minimize or eliminate any further withdrawals for this fiscal year. Staff continues to monitor the situation and will return to City Council with recommendations in the near future.

Water: Customer service charges for the Water Utility were \$12.7 million for the first half of FY 2009-10 compared to \$12.7 million in FY 2008-09. Although water rates were increased by 8.5% effective July 1, 2009, revenue did not increase due to a continued decrease in the volume of water sold. This decrease is due in part to water conservation but mostly the result of declining water sales in the industrial and commercial sectors. Based on these figures, 49.3% of the FY 2009-10 budgeted revenue has been received to date. The Water Utility Customer Service Charges are projected to be \$23.4 million, or 91% of budgeted revenues of \$25.8 million.

Sewer: Customer service charges for the first half of FY 2009-10 for the Sewer Utility were \$8.2 million compared to \$7.4 million for the same period last year, up 11.1%. This represents 46.1% of the adopted budget. The increase in revenue is due to the sewer rate increases that became effective on July 1, 2009. However, the Sewer Utility Customer Service Charges are projected to be \$15.5 million for the year, down 13.2% from budgeted revenues of \$17.8 million. This is due to a 9.5% decline in industrial and commercial sewer discharges for the past year, as a result of further economic contraction in the manufacturing and commercial sectors.

Recycled Water: Customer service charges for Recycled Water were \$896 thousand for the first half of FY 2009-10 compared to \$874 thousand for the same period last year, up 2.5%. Approximately 57.3% of the adopted budgeted revenue has been received. The Recycled Water Utility revenues are projected to be \$1.4 million at year end, an increase of 5% over the previous year.

Solid Waste Clean-Up Campaign: Solid Waste customer service charges were \$738 thousand for the first half of FY 2009-10 compared to \$732 thousand for the same period last year, up 0.8%. The City is anticipated to meet budget in this area.

REDEVELOPMENT AGENCY:

The Redevelopment Agency received \$12.4 million of property tax increment during the first six months of FY 2009-10. This compares to \$11.6 million received last year, an increase of 6.5%. Based on higher assessed valuation for 2009-10, year-end collections are estimated to exceed budget by about \$1.6 million.

The figures above do not reflect the one-time RDA takeaway signed into law by the Governor on July 29 2009 (ABX4-26). A payment of \$9,834,223 must be made by May 10, 2010. Note that as was the case with the 2008-09 proposed RDA takeaway, a suit has been filed by the California Redevelopment Association claiming that this takeaway is unconstitutional. A ruling on this suit is expected before the payment is due.

For 2010-11, assessed valuation in the RDA project areas will likely decline. This is due to the base assessed valuation decrease discussed in the property tax section of this report and the impact of large commercial appeals that have been filed. This decline is expected to result in lower tax increment collections.

SPORT AND OPEN SPACE AUTHORITY:

SOSA revenues were \$1.3 million for the first half of 2009-10. This is a decrease of \$115 thousand or 8.6% compared to the same period last year. This represents 44.7% of the FY 2009-10 adopted budget. Based on these results it is expected that SOSA will not meet its revenue budget.

CONVENTION CENTER:

The Convention Center's revenues for the first six months were \$1.6 million compared to \$1.8 million for the same period last year, down 12.6%. Although revenues are down compared to last year, they are running somewhat higher than budget and are expected to exceed budget by about \$0.3 million at year-end. Combined with expected expenditure savings, the General Fund subsidy is expected to be lower than budget.

EXHIBIT 1
CITY OF SANTA CLARA
REVENUE ANALYSIS
REVISED ESTIMATES FOR 2009-10

	(1) FY 2008-09 Actual Revenue	(2) FY 2009-10 Adopted Budget Revenue	(3) FY 2009-10 Estimates Based on 12/31/09 YTD Data	(4) \$ Change FY 2009-10 Estimate vs. FY 2009-10 Budget (3) - (2)	(5) Percent Change FY 2009-10 Estimate vs. FY 2009-10 Budget (3)-(2)/(2)	(6) FY 2009-10 Actual Revenue Through 12/31/2009	(7) Actual Revenue as % of Original Budget 12/31/2009 (6)/(2)	(8) FY 2008-09 Actual Revenue Through 12/31/2008	(9) Pct Incr (Decr) 2009-10 to 2008-09 (6)/(8)
GENERAL FUND									
Property Tax	\$ 29,918,830	\$ 29,254,186	\$ 29,704,186	\$ 450,000	1.5%	\$ 9,520,825	\$ 9,682,908	-1.7%	
Sales Tax	35,780,564	34,500,000	29,700,000	(4,800,000)	-13.9%	11,563,788	13,972,877	-17.2%	
Franchise Tax	3,369,990	3,000,000	3,150,000	150,000	5.0%	1,292,423	1,353,863	-4.5%	
Transient Occupancy Tax	9,762,655	8,500,000	7,000,000	(1,500,000)	-17.6%	3,961,694	5,756,397	-31.2%	
Documentary Transfer Tax	425,020	500,000	400,000	(100,000)	-20.0%	275,438	296,460	-7.1%	
Total Taxes	79,257,050	75,754,186	69,954,186	(5,800,000)	-7.7%	26,514,168	31,062,605	-14.3%	
Business License	843,902	800,000	825,000	25,000	3.1%	407,825	412,362	-1.1%	
Building Permits	1,727,802	1,500,000	1,000,000	(500,000)	-33.3%	568,364	1,691,146	-66.4%	
Other Permits	636,644	395,400	345,400	(50,000)	-12.6%	250,280	35,736	600.4%	
Total Licenses & Permits	3,208,348	2,695,400	2,170,400	(525,000)	-19.5%	1,226,469	2,139,244	-42.7%	
Traffic/CVC Fines	915,224	1,261,730	911,730	(350,000)	-27.7%	418,907	464,171	-9.8%	
Other Fines & Penalties	849,626	825,000	800,000	(25,000)	-3.0%	414,687	424,070	-2.2%	
Total Fines & Penalties	1,764,850	2,086,730	1,711,730	(375,000)	-18.0%	833,595	888,241	-6.2%	
Interest Income	4,434,402	3,839,000	3,339,000	(500,000)	-13.0%	1,706,465	2,176,369	-21.6%	
Rents and Royalties	3,190,089	5,491,338	4,891,338	(600,000)	-10.9%	1,433,881	1,606,713	-10.8%	
Other Use of Money & Property	9,829	15,000	15,000	-	0.0%	4,586	4,838	-7.1%	
Total Use of Money & Property	7,634,320	9,345,338	8,245,338	(1,100,000)	-11.8%	3,144,932	3,788,020	-17.0%	
Motor Vehicle License Fee	331,942	375,000	375,000	-	0.0%	167,779	172,485	-2.7%	
Misc Revenue - Other Agencies	873,978	415,000	415,000	-	0.0%	136,507	236,749	-42.3%	
Homeowners Tax Relief	166,922	100,000	150,000	50,000	50.0%	25,004	25,038	-0.1%	
Total Rev from Other Agencies	1,372,843	890,000	940,000	50,000	5.6%	329,290	434,272	-24.2%	
Plan Check	999,520	900,000	900,000	-	0.0%	577,917	596,212	-3.1%	
Planning/Engineering Fees	419,963	465,827	315,827	(150,000)	-32.2%	89,302	177,489	-49.7%	
Interdepartmental Services	14,674,800	15,193,830	15,193,830	-	0.0%	7,915,445	6,745,832	17.3%	
Recreation & Other Charges	4,449,653	5,020,512	5,020,512	-	0.0%	2,262,871	2,107,694	7.4%	
Total Charges for Services	20,543,976	21,580,169	21,430,169	(150,000)	-0.7%	10,845,535	9,627,227	12.7%	
Contribution in Lieu of Taxes	15,149,536	14,213,444	13,713,444	(500,000)	-3.5%	6,898,887	7,784,852	-11.4%	
Miscellaneous Other Revenue	107,659	742,943	642,943	(100,000)	-13.5%	65,443	70,861	-7.8%	
Total Other Revenue	15,257,235	14,956,387	14,356,387	(600,000)	-4.0%	6,964,330	7,855,713	-11.3%	
TOTAL DIRECT GEN. FUND REVENUE	\$ 129,038,633	\$ 127,308,210	\$ 118,808,210	\$ (8,500,000)	-6.7%	\$ 49,958,318	\$ 55,795,322	-10.5%	
Transfer (To) From Reserves	5,265,005	6,721,968	6,721,968	-	0.0%	6,721,698	2,481,983	170.8%	
Inter Fund Transfers	7,373,134	10,060,118	10,060,118	-	0.0%	(1,436,509)	4,692,999	-130.6%	
TOTAL GENERAL FUND REVENUE	\$ 141,676,772	\$ 144,090,296	\$ 135,690,296	\$ (8,500,000)	-5.9%	\$ 55,243,506	\$ 62,970,303	-12.3%	

EXHIBIT 1
CITY OF SANTA CLARA
REVENUE ANALYSIS
REVISED ESTIMATES FOR 2009-10

	(1) FY 2008-09 Actual Revenue	(2) FY 2009-10 Adopted Budget Revenue	(3) FY 2009-10 Estimates Based on 12/31/09 YTD Data	(4) \$ Change FY 2009-10 Estimate vs. FY 2009-10 Budget (3) - (2)	(5) Percent Change FY 2009-10 Estimate vs. FY 2009-10 Budget (3)/(2)(2)	(6) FY 2009-10 Actual Revenue Through 12/31/2009	(7) Actual Revenue as % of Original Budget 12/31/2009 (6)/(2)	(8) FY 2008-09 Actual Revenue Through 12/31/2008	(9) Pct Incr (Decr) 2009-10 to 2008-09 (6)/(8)
<u>Utility Enterprise Funds</u>									
Electric charges	\$ 248,488,304	\$ 268,390,913	\$ 258,390,913	\$ (10,000,000)	-3.7%	\$ 127,468,111	47.5%	\$ 125,825,024	1.3%
Water charges	22,317,513	25,788,505	23,400,000	(2,388,505)	-9.3%	12,713,703	49.3%	12,668,734	0.4%
Sewer charges	13,944,671	17,849,367	15,500,000	(2,349,367)	-13.2%	8,222,739	46.1%	7,401,533	11.1%
Solid Waste Clean-Up Campaign	1,445,396	1,464,000	1,476,000	12,000	0.8%	737,984	50.4%	731,844	0.8%
Water recycling charges	1,290,629	1,563,000	1,355,000	(208,000)	-13.3%	895,846	57.3%	874,224	2.8%
Total Utility Revenue	\$ 287,486,512	\$ 315,055,785	\$ 300,121,913	\$ (14,933,872)	-4.7%	\$ 150,038,383	47.6%	\$ 143,978,459	4.2%
<u>Redevelopment Agency</u>									
Tax increment	\$ 31,896,621	\$ 30,340,000	\$ 31,940,000	\$ 1,600,000	5.3%	\$ 12,389,843	40.8%	\$ 11,631,044	6.5%
Rents and leases	11,887,581	12,033,002	11,691,000	(342,002)	-2.8%	5,839,847	48.5%	6,553,578	-10.9%
Interest income	3,831,883	3,753,500	3,085,000	(668,500)	-17.8%	1,380,516	36.8%	2,191,890	-37.0%
Other income	385,863	250,000	250,000	-	0.0%	155,513	62.2%	104,005	49.5%
Total RDA Revenue	\$ 48,101,948	\$ 46,376,502	\$ 46,966,000	\$ 589,498	1.3%	\$ 19,755,719	42.6%	\$ 20,480,517	-3.5%
<u>Convention Center</u>									
Operating revenue	\$ 3,856,929	\$ 3,228,500	\$ 3,501,506	\$ 273,006	8.5%	\$ 1,654,640	48.2%	\$ 1,778,064	-12.6%
Total Convention Center Revenue	\$ 3,856,929	\$ 3,228,500	\$ 3,501,506	\$ 273,006	8.5%	\$ 1,654,640	48.2%	\$ 1,778,064	-12.6%
<u>Sports and Open Space Authority</u>									
Rents and leases	\$ 1,744,887	\$ 1,709,000	\$ 1,402,000	\$ (307,000)	-18.0%	\$ 709,053	102.1%	\$ 768,758	127.0%
Interest Income	3,166	9,000	12,000	3,000	33.3%	8,892	98.8%	6,125	45.2%
Santa Clara Golf & Tennis Club	946,687	1,263,258	1,212,000	(51,258)	-4.1%	614,294	48.6%	671,974	-8.6%
Total SOSA Revenue	\$ 2,694,720	\$ 2,981,258	\$ 2,626,000	\$ (355,258)	-11.9%	\$ 1,332,239	44.7%	\$ 1,446,857	-8.3%