Atascadero City Council

Staff Report – Administrative Services Department

Budget Amendment and Update

RECOMMENDATION:

Council adopt Draft Resolution to amend the 2008-2009 fiscal year budget.

REPORT-IN-BRIEF:

On July 28, 2009 the Governor signed a $24 billion budget that included the following grabs and borrowing from the City and Agency:

1. $700,000 Proposition 1A borrowing of General Fund property taxes
2. $1,334,00 (2009/2010) and $275,000 (2010/2011) take of Redevelopment Increment
3. Possible delay in Gas Tax Payments (pending)

The results are not good, but they are better than what was expected. The City’s fiscal planning, conservative fiscal policies, diligent monitoring and adjustments, continue to ensure that the City is positioned to weather the economic downturn and state grabs.

DISCUSSION:

History

The current economic downturn has hit government agencies hard and the cities and State have not been spared. The City of Atascadero is experiencing unparalleled reductions in most revenue sources including property tax, sales tax and development service fees. These downturns coupled with the State’s latest hit to the City’s finances will be difficult, but not catastrophic.

This City has been preparing for this economic downturn for the last 10 years or more. The City Council has adopted Financial Strategies, examined reserve levels, discussed fiscal sustainability, encouraged a revenue education program, surveyed citizens regarding potential tax increases, invested in a fiscal analysis of housing, prepared and
reviewed SWOT (Strengths, Weaknesses, Opportunities and Threats) analyses, and spent numerous hours discussing, amending and adjusting various budgets and financial plans, all the while consistently directing staff to implement a conservative fiscal philosophy with a focus toward long-range fiscal stability. Staff has unswervingly worked towards Council’s fiscal goals using not only staff knowledge and time, but also taking advantage of resources from other cities, professional organizations, community members and consultants such as HDL, David Taussig, Piper Jaffrey, Revenue Cost Specialist, Keyser Marsten and a host of other government finance experts. All of the thousands of hours spent planning the City’s financial future brings us to where we are today.

**Today**
As of June 30, 2009 it is estimated that the City’s General Fund has around $8 million in reserves, its revenues are projected to be down 13% from its peak in both of the coming two fiscal years, the City budget includes the use of $1 million in reserves in each of the next 2 fiscal years, and the adopted budget closed a $4.5 million gap by:
- Reducing citywide services and supplies
- Eliminating 14 positions (either through chills or layoffs)
- Reducing funding for roads
- Suspending or reducing annual reserve contributions
- Reducing travel and training
- A multitude of other reductions which are enumerated in the April 28, 2009 staff report to Council

In developing a fiscal plan for the 2-year budget cycle, the City had to focus on core missions, developing a strategy that would work for both the long-term and short-term health of the organization and community. This meant using reserves; eliminating some services or programs (such as the Sunken Gardens Flea Market, “Start-Smart”, and non-sport turf areas at Paloma Park); reducing other service levels (trash cans not emptied as often, thermostats adjusted, front counter personnel reduced, turf areas will not be as green); adopting a policy of no new programs, focusing on economic development, increasing fiscal communications and always looking for opportunities. The City plans to respond to the State budget takes in the same manner, focusing on core missions, using reserves prudently, looking for ways to tighten budgets, and taking advantage of opportunities.

**State Budget**

On July 28, 2009 Governor Schwarzenegger signed the State budget into law. Although at one point in the budget negotiations Sacramento was threatening to hit cities with takes or borrowing of 4 types of revenues, in the end only the Proposition 1A Borrowing and the take of Redevelopment Agency increment were fully implemented. A proposed grab of Gas Tax funds was defeated (leaving a pending potential delay to the City’s gas tax payments) and the threat to Proposition 42 Funds never materialized.
As of July 30, 2009, many questions still remain and details are sketchy; however below is a discussion of the revenues affected and current financial strategies being developed.

Proposition 1A
Proposition 1A has been extremely useful in defending local funds against the raids of the State. Prop 1A does allow borrowing, but under constitutional regulations:

1. Up to 8% of total local property tax is eligible to be borrowed. (The adopted legislation includes an 8% borrowing from each local jurisdiction. “Hardship Exemptions” may be granted in certain instances. If a “hardship exemption” is granted to a jurisdiction, the loans from other local jurisdictions within the same county will increase proportionately to cover the amount of the hardship exemption.)
2. The funds must be repaid within 3 years with interest (June 30, 2013).
3. The funds may be borrowed twice in a 10 year period.
4. The funds must be repaid before borrowing again.

Statewide, $2 billion in property tax revenues will be borrowed from local governments. Atascadero will be forced to loan an estimated $700,000 of General Fund revenues to the State. This forced loan was not unexpected and staff has been looking at several possible solutions to this forced loan including the following:

1. The adopted State budget contains securitization language that is expected to allow Cities to borrow funds through a Joint Powers Authority. Since the budget was adopted just days ago, details on this loan program are not available, and staff continues to monitor the situation to determine if the participation in the potential loan program would be advantageous to the City.
2. There are City funds which have available cash that is not programmed for expenditure within the next 5 years. While the General Fund may not take these funds, in some instances it is allowed to borrow the funds, repaying them at a later date with interest. This potential solution, along with the others continues to be developed and monitored so that once the details of all of our options are known, the City can chose the solution or combination of solutions that works best.
3. The City has prudently set aside reserves in good times to get us through the tough times that we are facing. Although the books are not closed, it is estimated that at June 30, 2009 the general fund has almost $8 million in reserves ($4 million of which are “available”) The City’s current reserve policy is to use no more than $1 million of reserves in each of the next 2 years to balance the budget, leaving $6 million of reserves that the State loan could be taken out of. These reserves may also be needed to fill future budget gaps, and current reserve policy is to not drop below the $4 million in reserves. Since these funds will be paid back by the State no later than June 30, 2013, the City could use reserves to fund the loan to the State.
4. The City could also make further budget cuts to make up for the loan, spreading the cuts over 1-5 years. While staff is not currently considering making $700,000 worth of budget cuts to 2009/2010, it is prudent in these economic times to
continue with the City’s conservative fiscal policy of continuing the hiring chill, and budget tightening measures, while looking for economic opportunities. It is expected that potential hiring chills and further budget tightening measures already identified could save $400,000 more than budgeted, making up the $700,000 in less than 2 years.

Redevelopment Increment
The Redevelopment Increment is the Redevelopment Agency’s allocation of property tax. The General Increment revenue projection for fiscal year 2009-2010 is approximately $2.3 million. Approximately $850,000 of this is used for bond payments, leaving $1.5 million for operations and projects in the Redevelopment Agency such as Economic Development, Administration, maintenance of the Sunken Gardens, current City Hall building maintenance, Zoo Restroom and Entrance project, Downtown Streetscape project, Downtown Parking Improvements, Property Tax Collection costs, Debt Services, and Historic City Hall.

The State is taking over $2.0 billion statewide of RDA Increment, which for the Agency amounts to $1,334,000 on May 10, 2010 and $275,000 on May 10, 2011. The California Redevelopment Association (CRA) recently won the case against the State for the $275,000 grab that was slated for fiscal year 2008-2009. The State believes they have found a way around the court ruling that allows them legal access to the funds. The CRA disagrees and will continue to fight the State on this issue. If the CRA is unsuccessful in its attempt to legally stop the take of the RDA Funds, the Agency will not only lose over $1.5 million, but it also has the potential to affect creditors’ confidence in RDA increment as a revenue source, thus limiting redevelopment agencies’ ability to issue bonds.

While larger than expected, this second attempt at a grab of Redevelopment Funds was not unexpected. The Agency budget adopted in June was a fiscally conservative budget. Because of uncertainties in the bond market, the budget was designed to ensure that the projects funded as part of the budget cycle could be completed, if necessary, without the issuance of bonds. Factors currently under consideration by staff to address the $1.5 million grab include those listed below.

1. The adopted legislation includes provisions to suspend all or part of the required allocation to the Low/Moderate Income Housing Fund. Details on implementation, limitations, and restrictions are not yet defined; however we know that these funds would have to be paid back by 2015. Failure to pay back these funds in time would cause the required amount of Low/Mod restricted funds to move from 20% to 25% for the remainder of the life of the Project.
2. The adopted legislation also permits the Agency General Fund to borrow Low/Moderate Income Housing Funds. Again details are not known, however, a finding that there are insufficient funds to meet obligations for the applicable fiscal year would need to be made. These funds would also have to be paid back by 2015.
3. The Agency currently has enough increment or bonding capacity to issue more bonds. In a “normal” bond market / economic climate, the Agency would
Currently be looking at issuing bonds as part of the normal course of its life as a redevelopment agency. In these economic times though, staff is monitoring how the bond market reacts to the adopted State budget and in particular it raided on RDA funds. If market conditions make it advantageous to issue bonds, the RDA has the capacity to do so.

4. There are City funds, such as the Wastewater Fund, which have available cash that is not programmed for expenditure within the next 5 years. The Agency could enter into a loan agreement with the City fund. This loan could benefit both the loaning fund as it earns a lucrative interest rate, and the Agency.

5. In keeping with the Agency’s conservative fiscal policies, the Agency is seeking ways to further tighten operations and is looking to delay the Downtown Parking Improvement Project.

6. The budget legislation includes a one-year extension on the Agency’s life if the Agency makes its ERAF payments in a timely manner. While this is not a solution to the grab, this seems to provide an opportunity for the Agency.

Currently if the Agency were able to borrow or suspend the entire grab by State, it would be able to complete all of its currently budgeted projects and pay back the loan / suspension in 2013/2014 (One year prior to the deadline).

Staff will continue to monitor the situation (legal, legislative and economic) and will work to determine which combination of suspending payments, borrowing funds and/or trimming expenditures will work best towards the Agency’s goals and fiscal health. As with all fiscal plans and budgets, communications and adjustments will be brought before the Agency’s Board as information becomes available or the situation changes.

Gas Tax (HUTA)
Gas Tax is the common name for the Highway Users Tax (HUTA). This is the 18 cents per gallon that is paid at the gas pump. The City receives a portion of that revenue which amounts to about $500,000 annually. It is used for the operations of the Streets Department for payroll, pavement markings, street lights, drainage maintenance, signal maintenance, and road signs among other things. Gas tax revenues are deposited in the Gas Tax Fund, separate from the General Fund, but as gas tax revenues are taken by the State, they must be backfilled with General Fund dollars.

As late as July 23rd, 2009 it looked as if the State would take nearly all of the City’s Gas Tax in 2009-2010 and 2010-2011. Luckily this State grab failed in the Assembly and there was no State grab of Gas Tax included in the current adopted budget. There was, however, language that was adopted in preparation of the State grab that delays Gas Tax payments. It is uncertain at this time whether the delay language is actually valid since the grab did not pass. This is a pending issue that is expected to be resolved through clean-up legislation.

In keeping with the City’s policy of being fiscally conservative, staff is recommending that some funds be reallocated. This reallocation of funds would better position the City to weather any delays in Gas Tax funding payments and future potential grabs by the State.
The fiscal year 2008-2009 budget had $321,000 budgeted in the Gas Tax fund for the San Andres Road Rehabilitation Project. By switching the funding source for this project to the Local Transportation Fund (LTF), $321,000 is freed up in the Gas Tax Fund. This switch is important because while Gas Tax Funds may be used for street operations or street projects, LTF funds may only be used for street projects. This switch would free up the street operations funds needed for traffic signals, street striping and other street operations that are critical to the safety of the community. The effect of this switch would be a temporary delay in the LTF funded Atascadero Avenue Overlay Project. Staff also recommends a temporary delay of the San Luis Avenue Overlay Project, and the San Ramon Overlay Project which are funded through Traffic Congestion Relief Funds. Delays in these projects allow the City to hold onto precious street operations funds until such time as the fallout from the State budget is known and we are confident that the State will not need to look to Gas Tax funds to balance future budget shortfalls. Once the City is confident that Gas Tax Funds are safe, these three projects can once again move forward. Staff will continue to monitor the situation and report to Council as things change.

Summary
The State plans on taking over $2 million of Atascadero revenues within a two-year period, and borrowing another $700,000. This is terrible news, but given the State’s track record for siphoning off local funds, this wasn’t unexpected. The City has been carefully positioning itself to be able to thoughtfully respond to the State’s decisions. While cost-cutting is never easy, it is being done in a measured manner, at the rate necessary to keep the delicate balance between the City’s responsibilities to provide quality services to the public with its need to maintain fiscal health.

The City’s financial plan will continue to evolve and adapt as new developments arise, and fiscal realities change. Staff will carefully monitor the revenues and expenses, and the actions of the State that affect local government. Until more is known, staff will move forward with budget tightening and the budget adjustment, if approved by Council. Through this process, the City will be strategically positioned to take advantage of opportunities and to provide mission critical services to the community, while still maintaining the health of the organization.

FISCAL IMPACT:
The proposed budget reallocation will move $321,000 in expenditures from the Gas Tax Fund to the Local Transportation Fund.

ATTACHMENT:
Draft Resolution of the City Council of the City of Atascadero Amending Fiscal Year 2008-2009 Budget
DRAFT RESOLUTION

RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF ATASCADERO
AMENDING FISCAL YEAR 2008-2009 BUDGET

WHEREAS, the City Council adopted Resolution 2007-049 setting for the budget for fiscal year 2008-2009; and,

WHEREAS, the City Council hereby wishes to amend said budget.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Atascadero,

SECTION 1. The appropriation amounts are amended as follows:

<table>
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<th>Appropriation</th>
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<tr>
<td>Gas Tax Fund</td>
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<tr>
<td>Local Transportation Fund</td>
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SECTION 2. These changes are effective immediately upon adoption of this resolution.

PASSED AND ADOPTED at a regular meeting of the City Council held on the 11th day of August, 2009.

On motion by ____________________ and seconded by ____________________, the foregoing Resolution is hereby adopted in its entirety on the following roll call vote:

AYES:

NOES:

ABSENT:

ADOPTED:
CITY OF ATASCADERO

Ellen Béraud, Mayor

ATTEST:

Marcia McClure Torgerson, City Clerk

APPROVED AS TO FORM:

Brian A. Pierik, City Attorney