



CITY COUNCIL STUDY SESSION REPORT

MEETING DATE: MAY 24, 2011

ITEM NUMBER:

SUBJECT: FISCAL YEAR 2011-2012 PRELIMINARY REVENUE ESTIMATES

DATE: MAY 23, 2011

FROM: FINANCE DEPARTMENT/FINANCIAL PLANNING

PRESENTATION BY: BOBBY YOUNG, BUDGET & RESEARCH OFFICER

**FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, BUDGET & RESEARCH OFFICER
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RECOMMENDED ACTION:

Receive and comment.

BACKGROUND:

Each year the City estimates revenue for all funds from all sources. The most notable fund is the General Fund. As shown in Table A below, total estimated General Fund revenues make up 90.76% of all Governmental Fund revenues. During this time in the budget process, it was requested that staff present some analysis for determining the FY 11-12 Estimated Revenues. Chart B below details the larger single line item revenue sources for the General Fund, in which more analysis is provided.

ANALYSIS:

The following table shows preliminary revenue estimates for all fund types compared to the FY 10-11 adopted budget. Staff estimates revenue for all Governmental Funds increasing approximately 9.65%.

Table A		ESTIMATED REVENUES – ALL FUNDS				
Fund Type	Preliminary FY 11-12	Adopted FY 10-11	Increase (Decrease)		FY 11-12 Percent of Total	
			Amount	Percent		
	\$	\$				
General Fund	94,578,394	85,163,714	\$9,414,680	11.05%	90.76%	
Special Revenue Funds*	6,993,777	7,782,917	(789,140)	(10.14%))	6.71%	
Capital Projects Funds	2,638,506	2,091,867	546,639	26.13%	2.53%	
Subtotal Governmental Funds	104,210,677	95,038,498	9,172,179	9.65%	100.00%	
Internal Service Funds	7,253,737	3,412,349	3,841,388	112.57%		
	\$111,464,41		\$13,013,56			
Total All Funds	4	\$98,450,847	7	13.22%		

* Includes transfers in

The General Fund is the largest single fund type for the City as a whole. Other fund types have specific sources of revenue that restrict the use of those monies. An example of that is the Special Revenue Fund – Gas Tax. These revenues come from the State of California and can only be spent on street related projects. Funds with mostly external revenue sources are considered Governmental Funds. Since the main source of revenues for the Internal Services Funds (Equipment Replacement Fund and Self Insurance Fund) are mostly from charges to the General Fund, they are Proprietary Funds and not Governmental Funds.

Since the General Fund is the largest funding source and it has the greatest revenue diversity, each year staff reviews adopted estimates and proposes adjustments, if necessary. This is normally done during the City's Mid-Year Budget Review. For analysis purposes, staff feels that it is more relevant to compare the FY 11-12 estimated revenues to the FY 10-11 revised estimate as presented at the January 11, 2011 City Council Study Session. Therefore, the following table compares FY 11-12 estimates with the revised FY 10-11 estimate for the larger General Fund revenue line items.

<u>ESTIMATED REVENUES – GENERAL FUND</u>				
<u>Description</u>	<u>Preliminary FY 11-12</u>	<u>Revised FY 10-11</u>	<u>Difference</u>	<u>FY 11-12 Percent Of Total</u>
Sales Tax	\$ 41,750,000	\$ 39,040,000	\$ 2,710,000	44.14%
Property Tax	20,945,000	20,545,000	400,000	22.15%
Transient Occupancy Tax	5,950,000	5,050,000	900,000	6.29%
Motor Vehicle In Lieu Tax	9,050,000	8,700,000	350,000	9.57%
Business License Tax	850,000	850,000	-	0.90%
All Other Revenue	<u>16,033,394</u>	<u>17,496,653</u>	<u>(1,463,259)</u>	<u>16.95%</u>
		\$		
Total	<u>\$ 94,578,394</u>	<u>91,681,653</u>	<u>\$ 2,896,741</u>	<u>100.00%</u>

As shown in the table above, Sales Tax is the single largest revenue source for the City's General Fund, and the top 5 revenues sources account for approximately 83% of General Fund revenues. Therefore, the following is additional analysis related to the preliminary revenue estimates for these accounts.

Revenues

Sales Tax: The City consults with Hinderliter de Llamas (HdL) for in depth sales tax analysis. Each quarter City staff meets with a representative from HdL to discuss sales tax collection and comparability with: the previous year, and other local cities, the county and the state.

As discussed during the mid-year budget review, Sales Tax revenue continues to show improvement when compared to the prior year. This is consistent with County and State wide trends. Analysis of the first nine months of sales tax receipts shows an increase of 9.01% compared to first nine months of the prior fiscal year (09-10). The City has now seen six consecutive quarters of positive revenue when compared to the previous year's quarterly amounts. Based on this trend, it appears sales tax revenue

has slowly rebounded from the recession. Most notably, the largest increases for the City continues to be in the general consumer goods and auto and transportation categories. These are the two categories that decreased the sharpest when the recession first began, therefore it is not a surprise they are the first to rebound. The City benefits from the sales tax revenue generated by stores at South Coast Plaza and those stores are a major sector of the general consumer good category. As for auto and transportation, the rebound has been led mostly by the used auto sector.

Therefore, staff estimates the budget from monthly Sales Tax revenue to be \$31.2 million. This amount is \$2.0 million (or 7.02%) more than the revised estimate in the current year. As a point of reference, the current year revised estimate of \$29.2 million is approximately \$1.9 million (or 7.00%) more than the actual amount received in FY 09-10. In short, if current sales trends continue, the estimated amount for FY 11-12 is approximately the same percentage increase as FY 10-11.

In addition to the monthly sales tax revenue, the City receives semi annual receipts from the State Board of Equalization for the "Triple Flip" commitment. Each year, the State estimates the total each agency should receive based on State wide trends, and it also reconciles the previous year's estimate. So if the State did not advance enough, then it will pay the City the following year the remaining amount. Conversely, if the State advanced too much, then it will reduce the amount the City will receive in the following year.

For FY 11-12, staff estimates this amount to be \$10.5 million. This amount is \$660,000 more than the current year due to the increase in estimated sales activity. It is also expected by both staff and HdL that the State will have underestimated the payment in the current year and therefore remit the balance to the City next fiscal year.

Property Tax – All Accounts: Each year the City estimates Property Tax revenue collected by the County and remitted to the City. The revenue collected is based on the assessed property tax roll and the actual amount paid by property owner's in a given year. There are multiple accounts that make up the Property Tax category – Secured, Unsecured, Supplemental, Homeowner's Exemption, Transfer Tax and Delinquent Collections.

Since the County has not established the actual assessment roll for the coming year, staff uses historical revenue trends, current market trends and Citywide assessed values to estimate Property Tax revenue. In FY 10-11, the Prop 13 adjustment (Statewide CPI factor) was negative and current market trends forced the County to assess property lower than previous years, thereby reducing the City's revenue from Property Tax. However, for the 2011-12 property tax assessment, the County will be using a positive .753% CPI adjustment factor which should increase the revenues over the current year.

Therefore, staff estimates that Property Tax revenue from secured property will be approximately \$19.475 million, a \$475,000 increase (or 2.50%) from the current year revised estimate. Due to estimated reductions in Supplemental Tax and Delinquent Collections, staff estimates revenue from all Property Tax accounts to increase \$400,000 or 1.95% from the current year revised estimate.

Transient Occupancy Tax (TOT): In November 2010, the residents voted to increase the TOT rate from 6% to 8%. This rate increase became effective in January 2011. At the City's Mid-Year Budget Review, staff estimated an increase in TOT revenue for the remaining 6 months of the current fiscal year. In addition to the rate increase, staff estimated revenues to increase 2% above the previous year's amounts.

For FY 11-12, staff is estimating TOT revenue of \$5.95 million, an increase of \$900,000 (or 17.82%) when compared to the revised FY 10-11, mostly due to the first 6 months collection at the higher rate. In addition to this increase, staff is estimating revenue to increase 1.5% when compared to the current year revised amount.

Motor Vehicle In-Lieu Tax: These accounts have traditionally been known as the Vehicle License Fee or VLF. Analysis of actual receipts in the current year show a decrease in revenue compared to the prior year, mostly related to decreases in sales of vehicles – both new and used during the recession. However, it appears the actual revenue for FY 10-11 will exceed the \$200,000 estimated amount by about \$50,000. Based on recent increasing sales trends, staff is estimating revenues of \$300,000, which is an increase of \$100,000 compared to the current year estimate.

The largest portion of this line item is the Vehicle License Fee Swap – Property Tax. This was a part of the State's Budget Act of 2004 which was to swap, in a like amount, monthly revenue from VLF for semi-annual amounts of Property Tax. Increases in this amount are related to the statewide CPI Property Tax adjustment factor. Until this past fiscal year, this adjustment factor was always positive and usually 2% because of Prop 13 requirements. However, since the CPI adjustment factor was negative, the City's revenue decreased compared to the prior year. With a positive adjustment factor for FY 11-12, staff estimates this revenue source will increase \$250,000 and compare in total to FY 09-10, similar to Property Taxes.

Business License Tax: While there are signs of increased business activity throughout the City, it is expected these businesses may replace other business negatively impacted by the recession. Based on analysis and with no changes in the tax rate, staff does not estimate an increase in this revenue source. The estimated amount of \$850,000 is the historical trend for Business License Tax.

All Other Revenue Accounts: The City has many other revenue accounts that make up approximately \$16 million of revenue. A decrease of \$1.5 million is estimated, when compared to the prior year. The most notable account decrease is Transfers In, approximately \$2.0 million. In the current fiscal year, the transfer is mostly the remaining amount from the Police Facility Expansion Project account. Since this project came in under budget, the remaining funds (approximately \$1.6 million) were transferred back to the General Fund to offset current year debt service payments. Some accounts have increased, like Building/Electrical/Plumbing/ Mechanical Permits, Plan Checking Fee, because of expected increase in development activity, while others like dog licenses, have increased because of a change in the fee. All other revenue line items make up about 16.95% of estimated revenues.

CONCLUSION:

During the current fiscal year, it appears many revenue sources have begun to increase slightly. This is consistent with the recent trend in the economy of “slow-low growth”. Staff has considered this with many other trends in developing the FY 11-12 Estimated Revenues. Staff will be providing a presentation at the Study Session meeting to further elaborate on the information provided above. As such, staff will be available to answer questions as needed.

Also, during this review, staff noticed some errors on pages 18-21 related to the revised FY 10-11 revenue estimate amounts. The line items: Property Tax Supplemental, Sponsorship Naming Rights, Reimbursement – Construction Permit Inspection Fees, Reimbursement – Overtime Construction, Damage to City Property, Civil Subpoena Costs, Other Revenue and Transfers In need to be corrected to reflect staffs presentation at the mid-year budget review.

The changes necessary has been taking into consideration for the analysis above. Also, Attachment A provides the revised pages 18-21 for the FY 11-12 Preliminary Operating and Capital Improvement Budget. Staff would like to apologize for these errors and any confusion it may create during the analysis of the budget. These errors will also be corrected when presenting the final Adopted Budget book when complete.

BOBBY YOUNG
Budget & Research Officer

ATTACHMENTS: Attachment A – FY 11-12 Preliminary Budget pages 18-21

CITY OF COSTA MESA, CALIFORNIA

REVENUE & OTHER FINANCING SOURCES
 FROM FISCAL YEAR 2008-2009 THROUGH FISCAL YEAR 2011-2012

FUND/ACCT DESCRIPTION	FY 08-09 Actual	FY 09-10 Actual	FY 10-11 Adopted	FY 10-11 Revised	FY 11-12 Estimated
Fund 101 - General Fund					
Property Tax - Secured	\$ 19,318,328	\$ 19,608,503	\$ 18,500,000	\$ 19,000,000	\$ 19,475,000
Property Tax - Unsecured	844,473	835,771	750,000	800,000	800,000
Property Tax - Supplemental	358,708	187,574	250,000	125,000	100,000
Property Tax - Homeowners	173,626	175,764	170,000	170,000	170,000
Delinquent Tax - Penalties/Int	219,151	187,941	250,000	150,000	100,000
Property Transfer Tax	287,855	326,461	200,000	300,000	300,000
Sales & Use Tax	27,678,291	27,288,810	26,334,000	29,200,000	31,250,000
Sales Tax In-Lieu	10,980,964	7,228,020	8,250,000	9,840,000	10,500,000
Transient Occupancy Tax	4,719,158	4,268,984	4,000,000	5,050,000	5,950,000
Electric Franchise Fee	1,326,555	1,267,914	1,350,000	1,200,000	1,300,000
Cable TV Franchise Fee	955,649	1,030,706	900,000	1,000,000	1,000,000
PEG Cable Franchise Fee	183,624	205,274	175,000	200,000	200,000
Gas Franchise Fee	380,855	219,878	350,000	300,000	300,000
Solid Waste Hauler Franchise Fee	1,328,488	1,221,387	1,250,000	1,250,000	1,250,000
Business License	860,491	858,566	850,000	850,000	850,000
Total Taxes	\$ 69,616,216	\$ 64,911,553	\$ 63,579,000	\$ 69,435,000	\$ 73,545,000
Dog License	\$ 33,223	\$ 40,769	\$ 30,000	\$ 65,000	\$ 100,000
Fire Permits	68,771	79,600	80,000	80,000	100,000
Building Permits	419,983	560,723	480,000	480,000	820,000
Electrical Permits	65,226	78,924	70,000	80,000	95,000
Plumbing/Mechanical Permits	58,908	80,968	70,000	80,000	80,000
Street Permits	135,050	109,735	100,000	110,000	125,000
Special Business Permits	315	430	500	1,000	500
Home Occupation Permits	15,840	15,250	19,000	15,000	15,000
Operator's Permits	-	3,375	1,000	2,500	2,500
Other Permits	156,208	88,055	110,000	50,000	75,000
Total Licenses & Permits	\$ 953,524	\$ 1,057,829	\$ 960,500	\$ 963,500	\$ 1,413,000
Municipal Code Violations	\$ 131,628	\$ 128,954	\$ 100,000	\$ 100,000	\$ 125,000
Vehicle Code Violations	1,192,965	1,005,432	800,000	800,000	900,000
Parking Citations	1,116,362	999,009	1,000,000	1,000,000	950,000
Illegal Sign Removal	-	-	-	-	-
Shopping Cart Retrieval	14,565	9,057	5,000	5,000	-
Red Light Camera Violations	495,952	345,871	250,000	200,000	50,000
Total Fines & Forfeitures	\$ 2,951,472	\$ 2,488,323	\$ 2,155,000	\$ 2,105,000	\$ 2,025,000

REVENUE & OTHER FINANCING SOURCES
FROM FISCAL YEAR 2008-2009 THROUGH FISCAL YEAR 2011-2012

FUND/ACCT DESCRIPTION	FY 08-09 Actual	FY 09-10 Actual	FY 10-11 Adopted	FY 10-11 Revised	FY 11-12 Estimated
Fund 101 - General Fund (continued)					
Investment Earnings	\$ (283,728)	\$ 360,998	\$ 175,000	\$ 175,000	\$ 150,000
GASB 31 Adjustment	565,579	1,057,191	-	-	-
Interest Earned - CMRA Note	920,333	889,983	857,000	857,000	820,000
Other Interest	27,180	243,832	50,000	50,000	75,000
Buildings/Grounds, Rental	191,389	174,503	200,000	200,000	200,000
Rental - Downtown Comm. Center	6,716	8,705	9,000	9,000	11,000
Rental - Balearic Center	30,115	25,465	25,000	25,000	20,000
Rental - Neighborhood Comm. Ctr.	152,849	151,903	140,000	150,000	160,000
Rental - Fields	124,960	146,237	120,000	120,000	125,000
Rental - Tennis	28,576	26,395	28,500	28,500	28,500
Rental - Golf Course Operations	2,222,675	2,096,030	2,000,000	2,000,000	2,000,000
Rental - Bus Shelter Ads	124,387	94,588	100,000	100,000	100,000
Total Use of Money & Property	\$ 4,111,031	\$ 5,275,830	\$ 3,704,500	\$ 3,714,500	\$ 3,689,500
Motor Vehicle In-Lieu Tax	\$ 389,159	\$ 342,149	\$ 200,000	\$ 200,000	300,000
Vehicle License Fee Swap - Property Tax	8,826,768	8,775,317	8,000,000	8,500,000	8,750,000
FEMA - Disaster Reimbursement	-	-	-	-	-
Other Federal Grants	124,299	215,118	-	-	-
POST Reimbursements	33,268	48,537	40,000	40,000	40,000
Custody Officers Training	-	-	-	-	-
Used Oil Recycling Grant	6,202	-	-	-	-
Beverage Container Program	33,902	14,144	-	-	-
SB 90 - State Mandated Costs	23,203	62,449	50,000	60,000	50,000
Other State Grants	383,247	72,671	-	10,156	-
OCTA - SAAV	48,418	44,497	25,000	25,000	40,000
Other County Grants	73,160	77,595	77,500	83,053	80,000
Reimbursement - ABLE	373,307	442,077	300,000	300,000	106,000
Reimb. - Oth Governmental Agencies	-	35,060	-	-	-
Total Other Govt. Agencies	\$ 10,314,933	\$ 10,129,614	\$ 8,692,500	\$ 9,218,209	\$ 9,366,000
Zoning/Variance/CUP Fees	\$ 108,675	\$ 98,288	\$ 60,000	\$ 85,000	\$ 85,000
Subdivision Map Fees	7,935	8,665	2,000	7,500	3,000
Environmental Impact Fees	1,570	-	2,750	2,750	2,000
Plan Checking Fee	212,972	231,771	200,000	200,000	315,000
Vacation/Abandonment of ROW	450	-	500	500	500

REVENUE & OTHER FINANCING SOURCES
FROM FISCAL YEAR 2008-2009 THROUGH FISCAL YEAR 2011-2012

FUND/ACCT DESCRIPTION	FY 08-09 Actual	FY 09-10 Actual	FY 10-11 Adopted	FY 10-11 Revised	FY 11-12 Estimated
Fund 101 - General Fund (continued)					
Source Reduction/Recycling	\$ 7,930	\$ 6,710	\$ 8,700	\$ 8,700	\$ 8,700
Special Policing Fees	474,026	509,778	420,000	450,000	400,000
Vehicle Storage/Impound Fees	444,210	391,260	375,000	375,000	375,000
Repo Vehicle Release Fee	2,535	2,640	2,000	2,500	2,000
DUI/Emergency Response	70,599	51,976	100,000	100,000	50,000
Jail Booking Fees - City	(75,140)	112,891	210,000	150,000	150,000
Jail Booking Fees - County	-	-	-	-	-
Police False Alarms	385,642	259,630	300,000	250,000	275,000
Fingerprinting	38,445	45,020	40,000	40,000	40,000
Animal Pound Fees	125	120	100	100	100
Fire Inspections	7,095	5,680	11,000	5,000	5,000
Hazmat Disclosure Fee	73,030	93,306	100,000	100,000	100,000
EMS - First Responder Fee	226,210	238,364	300,000	300,000	200,000
Paramedic Fee - Advanced	33,085	55,406	50,000	50,000	100,000
Medical Supply Reimbursement	93,727	97,066	100,000	100,000	100,000
Fire False Alarms	22,075	16,065	20,000	30,000	30,000
Accident Cost Recovery	-	45,339	60,000	60,000	60,000
Dispatch/Phone Svc. in 911 Center	7,350	8,493	7,400	7,400	7,400
Park Permits	39,730	35,740	30,000	35,000	35,000
Park Improvements	5,781	9,820	-	2,500	5,000
Youth Sports - Basketball & Football	-	24,942	26,300	-	26,300
Recreation - Aquatics	75,919	81,666	75,000	75,000	95,000
Recreation - Day Camp	167,837	147,190	170,000	170,000	170,000
Playgrounds	2,089	4,040	3,000	5,000	117,494
Special Events	21,997	38,833	650	20,000	650
Recreation - Early Childhood	109,127	133,536	110,000	125,000	120,000
Instructional Classes	571,269	575,927	620,000	620,000	600,000
Recreation - Basketball	27,558	29,672	35,000	61,300	45,000
Adult Open Gym	5,104	3,974	-	5,000	-
Recreation - Softball	128,482	132,260	130,000	130,000	130,000
Teen Camp	26,965	29,305	32,400	32,400	29,000
Family Night/Kids Night	4,034	(30)	-	-	-
Other Adult Sports	-	-	-	-	-
Photocopies	2,343	2,255	2,000	2,500	2,500

CITY OF COSTA MESA, CALIFORNIA

REVENUE & OTHER FINANCING SOURCES
 FROM FISCAL YEAR 2008-2009 THROUGH FISCAL YEAR 2011-2012

FUND/ACCT DESCRIPTION	FY 08-09 Actual	FY 09-10 Actual	FY 10-11 Adopted	FY 10-11 Revised	FY 11-12 Estimated
Fund 101 - General Fund (continued)					
Police Reports	\$ 34,991	\$ 31,386	\$ 33,000	\$ 30,000	\$ 33,000
Police Clearance Letters	3,675	4,620	3,000	3,000	3,000
Sale - Maps & Publications	20,136	13,392	12,500	12,500	12,500
Sale - Miscellaneous Supplies	745	775	750	750	750
Central Services Reimb	101,654	83,768	100,000	100,000	100,000
Charges for Other Services	24,430	8,392	15,000	15,000	15,000
Special Assessments	12,737	58,558	-	8,000	10,000
Total Fees & Charges	\$ 3,529,149	\$ 3,728,489	\$ 3,768,050	\$ 3,777,400	\$ 3,858,894
Contributions	\$ 9,506	\$ 5,600	\$ 2,500	\$ 2,500	\$ 2,500
Sponsorship Naming Rights	33,480	33,480	30,000	33,480	33,000
Reimb. - Const. Permit Insp. Fees	-	294,411	500	11,000	500
Reimb. - Overtime Construction	-	-	100	-	-
Damage to City Property	57,387	86,663	30,000	30,000	30,000
Civil Subpoena Costs	13,783	12,928	10,000	10,000	10,000
Settlements	2,000	-	-	-	-
Other Reimbursements	1,383,566	919,171	200,000	200,000	300,000
Sale - Other Equipment	6,267	1,180	5,000	5,000	5,000
Other	543,695	505,154	50,000	200,000	300,000
Total Other Revenues	\$ 2,049,684	\$ 1,858,587	\$ 328,100	\$ 491,980	\$ 681,000
Total Revenues	\$ 93,526,009	\$ 89,450,225	\$ 83,187,650	\$ 89,705,589	\$ 94,578,394
Operating Transfers In	\$ 220,843	\$ 2,929,230	\$ 1,976,064	\$ 1,976,064	\$ -
Total Other Financing Sources	\$ 220,843	\$ 2,929,230	\$ 1,976,064	\$ 1,976,064	\$ -
Total Fund 101	\$ 93,746,852	\$ 92,379,455	\$ 85,163,714	\$ 91,681,653	\$ 94,578,394
Fund 201 - Gas Tax					
Investment Earnings	\$ (42,432)	\$ 256,205	\$ 70,000	\$ 70,000	\$ 75,000
Gas Tax - 2103	-	-	-	-	1,180,000
Gas Tax - 2105	783,868	627,233	600,000	600,000	650,000
Gas Tax - 2106	491,707	396,565	375,000	375,000	425,000
Gas Tax - 2107.1	1,047,688	834,715	800,000	800,000	850,000
Gas Tax - 2107.5	10,000	10,000	10,000	10,000	10,000
Traffic Congestion Relief Fund	969,284	1,055,081	1,134,805	1,134,805	-
AHRP Grant	1,185,125	-	-	-	-
Total Fund 201	\$ 4,445,240	\$ 3,179,799	\$ 2,989,805	\$ 2,989,805	\$ 3,190,000