

City of Agoura Hills
FY 2009-10



Date: June 10, 2009
To: Honorable Mayor and Members of the City Council
From: Greg Ramirez, City Manager
Subject: Fiscal Year 2009/10 Budget Executive Summary

Introduction

This document includes the 2009/10 Preliminary Budget for the City of Agoura Hills, and the Agoura Hills Redevelopment Agency. The adoption of the budget is one of the most important actions taken by the City Council, as it establishes the City's direction for the near future.

Developing and monitoring the budget is an ongoing process and the budget that is developed from this process is modified throughout the budget period to respond to unanticipated events. At the June 10 budget study session the City Council will review the 2009/10 Preliminary Budget.

Financial Highlights

In April 2009, the City of Agoura Hills received a very strong financial endorsement from one of the two major bond rating agencies. Standard and Poor's Rating Service ("S&P") upgraded its rating on the Agoura Hills Public Financing Authority's Series 2007 Refunding Lease Revenue Bonds from AA to AA+. The City now enjoys one of the highest bond ratings available to cities in California. The S&P Rating Report cited the City's "very strong financial position, which sound financial management policies support, extremely strong wealth and very strong income levels and access to employment opportunities throughout the Los Angeles area". See a later discussion in this letter on the City's debt obligations.

For the first time ever, the City received the California Society of Municipal Finance Officer's (CSMFO) Meritorious in Operating Budgets Award for the 2008/09 Budget. It is our intention to submit this year's budget to CSMFO for consideration as part of the award program.

Overall Budget

The recommended Fiscal Year 2009/10 budget of \$31.9 million, includes approximately \$19.6 million in day to day operational/service costs with an additional \$12.3 million in Capital Improvement Projects of which \$10.9 million is estimated for the US 101/Reyes Adobe Road Interchange Project (most of which comes from outside funding sources).

The overall budget consists of the following:

General Fund	\$11,397,818
Other City Funds	\$14,214,631
Total City of Agoura Hills	\$25,612,449
Redevelopment Agency	\$ 6,319,529
Total All Funds	\$31,931,978

Public Safety continues to be a high priority, as is seen through the City's financial commitment (32% of the General Fund budget) to the various safety programs. The funds allocated for public safety are comprised of patrol and traffic personnel, a juvenile intervention team, school crossing guards, youth drug awareness education programs, and animal control services. In addition to the Reyes Adobe Interchange project, the City Council has approved funding for several capital improvement projects, including beautification through trash and weed abatement along the US 101 corridor, the annual street overlay program, sidewalk repairs, design of Chesebro Interchange enhancements, and other traffic improvement projects.

General Fund

The General Fund is where the majority of discretionary funds are recorded and where the majority of general municipal services are provided. Excluding \$1.2 million in one-time revenues received in 2008/09 for the YB Property and Kanan Interchange, the General Fund revenue is recommended to be decreased \$156,088 (2%). This decrease is primarily a

result of a reduction in building permits and interest earnings. As the overall general economy declines, the City projects that an impact will be felt in these two areas with less building activity and lower interest earnings.

Operational expenses and transfers are recommended to decrease 2% (\$338,305) in the General Fund. This decrease is a combination of an increase the Los Angeles County Sheriff contract to provide police services of \$80,508 (3%) and an increase in positions allocated to the General Fund (\$242,920) offset by a decrease in anticipated City Attorney costs (\$105,000) and in development related expenses (\$462,912).

The recommended General Fund operational budget is balanced with revenues of \$11.8 million, expenditures of \$11.1 million and operating fund transfers of \$672,000 (\$11.8 million total). The transfer out is to pay for debt service on the 2007 bond refunding. This bond pays for the Civic Center (City Hall/Library) and for a portion of the Reyes Adobe Interchange Project.

Additionally the recommended General Fund budget includes a transfer to the Recreation Center Capital Projects Fund of \$1.5 million and a payment to CalPERS of \$240,000 to reduce the City's unfunded liability. All of these recommendations are discussed elsewhere in this letter. The addition of these expenses brings the total recommended expenses to \$13.6 million for a reduction in reserves of \$1.7 million. The City's reserves are also discussed elsewhere in this letter.

The Budget Process

While the budget process usually begins in March, this year due to the economic downturn, the budget process began in February. The department heads were asked to prepare revenue and expenditure projections and to provide recommendations for reducing expenses. During the first week of March, the City Manager met with each of the department heads to discuss their requests for the 2009/10 year and to review their estimates for the 2008/09 year.

On March 11, 2009, the City Council held a Goal/Budget Workshop to set a plan for the 2009/10 budget. On May 13, 2009 the Finance Committee, comprised of two council members, met to review the draft budget and to discuss community service grant requests which were received from various service organizations in the community. The City Council will hold a budget study session on June 10, 2009 to discuss the preliminary 2009/10 budget. On June 24, 2009, the City Council and the Agoura Hills Redevelopment Agency will hold a public hearing to adopt the 2009/10 Budget.

2009 Budget Calendar:

- February 20 Department Heads – Budgets to Finance

- March 2 – 3 City Manager meets with Dept. Heads
- March 5 Department Heads – Revenue Projections due
- March 26 Goals/Budget Workshop
- May 13 Finance Committee/Community Grants
- June 10 Preliminary budget review workshop
- June 24 Adopt budget

Developing and monitoring the budget is an ongoing process. The estimates that are developed from this process are modified throughout the budget period to respond to unanticipated events.

Level of Budgetary Control

Since the budget is an estimate, from time to time it is necessary to make adjustments to fine-tune the line items within it. Various levels of budgetary control have been established to maintain the integrity of the budget. The City Manager has the authority to transfer between expenditure accounts, within the same department, office, agency, or program activity. Where an appropriation requires an increase that cannot be supported by a transfer within those guidelines, City Council authorization is required.

Basis of Budgeting

The City of Agoura Hills basis of budgeting is the same as the basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The City only has governmental funds (General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds) whose budgets are prepared on a modified accrual basis where revenues are recognized when they become measurable and available, and expenditures are recorded when the related liability is incurred; except that principal and interest payments on general long-term debt are recognized when due. Revenue availability criteria are defined as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., sixty days after fiscal year end).

The Funds within the Budget

All of the 21 budgeted funds are segregated into fund types as shown in the following list. They are described in more detail later in this memo. The City also holds fiduciary responsibility for several funds which are shown in the financial statements, but are not budgeted.

In 2009/10 the City will receive a new revenue source, Measure R. Measure R is a ½ cent sales tax approved by a 2/3 majority of the voters in Los Angeles County. The revenue is dedicated to traffic relief and transportation funding. Additionally, a new fund was added during 2008/09 to begin setting aside monies towards future stormwater capital projects. In order to continue

to be in compliance with the future TMDL (Total Maximum Daily Loads) and NPDES (National Pollutant Discharge Elimination System) Permits, the City is setting aside monies to pay for future costs.

City of Agoura Hills

General Fund

010 – General Fund

Special Revenue Funds (13)

020 – Gas Tax Fund

021 – Traffic Congestion Relief Fund

040 – Traffic Safety Fund

060 – Proposition A Fund

061 – Proposition C Fund

063 – Measure R Fund

070 – South Coast Air Quality Control Fund

110 – Traffic Improvement Fund

240 – Supplemental Law Enforcement Fund

250 – Community Development Block Grant Fund

260 – Miscellaneous Grants Fund

420 – Inclusionary Housing In-Lieu Fund

520 – Solid Waste Management Fund

Debt Service Fund

300 – Financing Authority Debt Service Fund

Capital Projects Funds (3)

015 – Recreation Center Capital Projects Fund

016 – Storm Water Capital Projects Fund

500 – Financing Authority Capital Projects Fund

Agoura Hills Redevelopment Agency

Special Revenue Fund

410 – Housing Set Aside

Debt Service Fund

390 – RDA Debt Service Fund

Capital projects Fund

400 – RDA Capital Projects Fund

Basis for Assumption for Key Revenue Estimates

Property Taxes – The City's General Fund receives property taxes. The estimate is projected to decrease one percent based on information received from the State and County of Los Angeles, historical trends, and a forecast of

a moderate decrease in assessed valuations. Also included in this category is the Property Tax In-Lieu of Vehicle License Fee (VLF). Beginning with 2005/06, a majority of the VLF revenue source has been reclassified from Grants & Subventions as the State reallocates its funding methodology.

Net Tax Increment – The Agoura Hills Redevelopment Agency was established in 1991/92. This revenue represents the increase in property tax over the base year. The Redevelopment Agency uses the funds to make improvements in the redevelopment district. These revenues are based on projections obtained from the County of Los Angeles.

Transient Occupancy Tax – The City imposes a 12% Transient Occupancy Tax on occupants at hotel, motel, or other lodging facility within the incorporated area of the City. The increase in the Transient Occupancy Tax is forecast based on past trends.

Intergovernmental Revenue – The City anticipates reimbursement by a Federal Appropriation for the Reyes Adobe Interchange Capital Project. This one-time revenue is projected based on estimated expenditures and grant information received.

Major Issues

There are certain current issues that are of major interest to the City. They include the following:

- The State's Budget and Legislative Issues
- The Agoura Hills Recreation Center
- The Storm Water Discharge Compliance
- The Reyes Adobe Interchange Capital Project
- Agoura Hills Redevelopment Agency

The State's Budget and Legislative Issues

The Legislature and the Governor of California are seeking ways to close an estimated \$24 billion budget deficit caused by a weakened economy. In May 2009, voters rejected several Propositions aimed at raising taxes and balancing the 2009/10 State Budget. Since the election the Governor's office has released a list of proposed budget cuts in his "May Revise". These cuts include a proposal to take \$750 million from the local share of Highway Users Tax Account (HUTA) or gas tax to pay for bond debt, bringing the total local share next year from \$1.05 billion to \$300 million. This would not be a loan, and would cost the City of Agoura Hills \$300,000 in annual Gas Tax revenue.

During a Budget Conference committee hearing, the League of California Cities strongly opposed this proposal based upon the impact that losing these funds would cause. The League's initial legal research has found that this proposal has significant legal flaws that would cause it to be in violation

of various state constitutional provisions. Since the proposal is only in the initial stages, staff has not included this proposed reduction in the recommended budget.

Since the passage of Proposition 13, the Legislature of the State of California has had the power to reallocate property taxes among local governments. The most significant use of this authority has been to allocate city, county and special district shares of the property tax to schools through ERAF and reduce state general fund support for schools. Proposition 1A, passed by the voters in November 2004 and Proposition 1A (Prop 1A) passed by the voters in November 2006 preclude the State from taking away resources but do not preclude the State from borrowing from local government. At the time of this letter, the State of California Legislative Budget Conference Committee recommended suspending the 2004 Prop1A and borrowing monies from local government.

The suspension of the 2004 Prop1A requires the Governor to declare a "severe state fiscal hardship" and for the Legislature to enact an urgency statute suspending Proposition 1A with 2/3 vote of each house; and for the Legislature to enact a law providing for full repayment of the "borrowed funds" plus interest within three years. The Legislature may not enact such a suspension more than twice in any ten year period and may only do so if any previous borrowings have been repaid. If Prop 1A is suspended, the City of Agoura Hill's estimated share of the loan would be \$391,722. These monies would come from the City's General Fund Reserves (see discussion later) and would be treated as a long-term borrowing. As such the estimate is not included in this recommended budget.

The City will continue to monitor the progress of the State budget, and if these recommendations are passed, Staff will bring recommendations forward at a later date.

The Agoura Hills Recreation Center

The City of Agoura Hills currently leases space for a recreation center. The lease expires in December, 2014. City plans to build a recreation center to replace the existing leased facility. The City has set aside \$3.3 million towards the cost of the recreation center as of June 30, 2009. This recommended budget proposes to set an additional \$1.5 million aside from the General Fund towards the construction of the recreation center.

The Stormwater Discharge Compliance

In order to remain in compliance with the future TMDL (Total Maximum Daily Loads) and NPDES (National Pollutant Discharge Elimination System) Permits, the City is setting aside monies to pay for future costs. In 2008/09,

the City set aside \$53,507 and it is recommended that any Stormwater Department funds unspent in the 2008/09 budget be set-aside in 2009/10. On going monitoring expenses are being paid through the General Fund operational budget. These funds would be set aside for various capital projects to remain in compliance with current and future requirements.

The Reyes Adobe Interchange Capital Project

In the fall of 2009, the City of Agoura Hills plans to expand the Reyes Adobe Interchange, which spans US Freeway 101. This Interchange is anticipated to cost \$10.9 million with a construction cost of \$8.6 million. It will be funded with \$2.6 million in bond proceeds from the 2007 Agoura Hills Financing Authority Lease Revenue Refunding Bonds; \$2.6 million from a Federal Grant; \$100,000 in tax increment from the Agoura Hills Redevelopment Agency; \$2.1 million in a METRO Grant; \$690,000 in Federal Stimulus Funds and \$2.8 million in Traffic Improvement Fees. The expansion of the bridge will allow for further development along the US 101 corridor.

Agoura Hills Redevelopment Agency

The Agoura Hills Redevelopment Agency was formed in 1988 and covers 1,028 acres, most of which lies in the southern portion of the City along commercial arterials and the 101 Freeway. The Agency issued the following debt in June, 2008.

- \$10 million in Housing Set-Aside Tax Allocation Bonds
- \$ 5.7 million in Tax Allocation Bonds

In 2008/09 the Agoura Hills Redevelopment Agency used \$4.1 million of the Tax Allocation Bonds to purchase property within the Redevelopment Agency. Furthermore the City has used some of the Housing Set-Aside Bond proceeds to lease property within the Agency for the construction of Affordable Housing.

AB 1389 was approved by the State Legislature in September 2008 as part of the Fiscal Year 2008/09 State budget package and authorized a one-time take of \$350 million from redevelopment agencies. The Agoura Hills Redevelopment Agency was slated to pay \$206,800. California Redevelopment Association (CRA) and the redevelopment agencies of the Cities of Moreno Valley and Madera filed a lawsuit against the State. The lawsuit sought to block parts of budget trailer bill AB 1389. The lawsuit argued that State raids of redevelopment funds to balance the State's budget are unconstitutional, violating Article XVI, Section 16 of the California Constitution on multiple counts. Article XVI, Section 16 of the California Constitution states that redevelopment funds can only be used to finance redevelopment project activities. The lawsuit contended that taking redevelopment funds to balance the state's budget - the questioned

reason for AB 1389 - does not qualify as a constitutionally permitted use of tax increment funds and is a clear violation of the Constitution. The Court agreed, holding that ". . . the distribution of contributions by RDAs to their county ERAFs in accordance with the requirements of section 33685 can be expected to regularly result in the use of RDA's tax increment revenues by schools and education programs unrelated to the RDA's redevelopment projects." Currently the State is appealing the decision. Although the Agoura Hills RDA does not expect the State to prevail, the Recommended Budget for 2009/10 includes \$206,800 in the RDA Capital Projects Fund for ERAF. Furthermore AB1389 required agencies to file a report of all pass-through obligations and payments for fiscal years 2003-04 through 2007-08, to their County Auditor. Because the Agoura Hills Redevelopment Agency is not subject to AB1290 statutory pass-through, no findings were made against the agency.

General Fund Reserve Policy

A prudent General Fund reserve policy should be an integral part of municipal financial operations. In June, 2005, the City of Agoura Hills passed Resolution No. 05-1378 stating that the City Council and City Staff will endeavor to designate an amount equal to or greater than forty percent (40%) of each year's proposed General Fund Operating Budget as the City's unobligated General Fund Reserve. The City Council recognizes that the unobligated General Fund reserves are needed for cash flow requirements; and contingencies such as exposure to natural disasters, exposure to economic impacts, and vulnerability to actions of the State. This resolution requires that if, in any budget year, the City Council determines that the public interest requires expending any amount remaining in General Fund Reserves to fall below forty percent (40%) of that year's General Fund Operating Budget, the City Council and city staff, shall, in the following budget year, present a plan for returning the General Fund Reserve to the 40% level as soon as practicable based on the City's then-current budget circumstances.

For the budget year 2009/10 the General Fund recommended fund balance is \$7.5 million or 63% of operating expenditures and transfers. This fund balance includes a recommendation to be reduced by \$1.7 million from the 2008/09 level. The reductions include \$1.5 million to transfer to the Agoura Hills Recreation Center Capital Projects Fund and \$240,000 to be used to reduce the City's unfunded liability with CalPERS (see further discussion below).

It is important to note that the General Fund advanced \$2.1 million for the completion of the Kanan Road Interchange. This \$2.1 million is anticipated to be received from CalTrans at sometime in the future. This amount is not included in the recommended fund balance.

Overall, the combined City of Agoura Hills and Agoura Hills Redevelopment Agency fund balances are recommended to change from \$40.7 million at 6/30/2009 to \$33.4 million at 6/30/2010. The main reason for the decline relates to the Reyes Adobe Interchange capital project within the Traffic Improvement Fund and Public Financing Public Authority. The City fund balances overall are anticipated to fall \$6.4 million or 30%, while the Agoura Hills Redevelopment Agency is scheduled to decline 5%.

<u>Fund</u>	<u>6/30/09</u>	<u>6/30/10</u>	<u>Percent Change</u>
General	\$9,210,416	\$7,477,283	- 19%
All other City Funds	15,707,557	11,029,290	- 30%
Redev Agency	15,793,393	14,933,864	- 5%
Total	\$40,711,366	\$33,440,437	- 18%

Personnel Additions/Promotions and Reclassifications

The 2008/09 headcount included 36 full-time employees; 5 Council members; 5 Planning Commissioners; 1 appointed part-time Treasurer and numerous part-time staff, who are primarily employed at the Recreation Center. During 2008/09 two Community Development Planning Technician positions were vacated and frozen. For 2009/10 it is recommended that the City hire a Public Works Projects Manager. This position will assume some of the workload currently done by a consultant and some additional duties related to managing capital projects. The cost of the position (\$120,000 inclusive of benefits) is recommended to be funded by the General Fund through the reduction in our current Storm Water Contract. Overall salaries and benefits are recommended to be adjusted 3%. The salary bands are recommended to adjust upward by 3.9%.

The Public Employees Retirement System (CalPERS) estimates that the City's rate will be 10.05%. The rate in 2008/09 was 10.9%. In 2006 CalPERS pooled all plans with under 100 actives. When the plans were pooled, their unfunded liability was calculated and each agency was placed on a 15 year repayment plan with an interest rate of 7.75%. The unfunded liability was placed in a "Side Fund". Included in this budget is a recommendation to pay-off the "Side Fund" in two years, with an additional \$240,000 in 2009/10 and an equal installment in 2010/11. By pre-paying the "Side Fund" the City will save approximately \$400,000 in interest. It is anticipated that CalPERS rates will go up in the next several years due to investment losses, and this prepayment will help lower the anticipated increase.