

**TOWN OF
APPLE VALLEY, CALIFORNIA**

AGENDA MATTER

Subject Item:

FISCAL YEAR 2010-2011 MID-YEAR BUDGET STATUS REPORT

SUMMARY STATEMENT

Attached for your review is a copy of the Mid-Year Budget Status Report. This report provides an update on the budgetary status of all funds as of December 31, 2010, the fiscal mid-year for Fiscal Year 2010-2011. Specific attention is focused on the Town's General Fund.

Included within the Mid-Year report are certain proposed budget adjustments to adjust various revenue sources and categories of expense due to financial events occurring subsequent to adoption of the budget.

BACKGROUND

The Town Council adopted the FY 2010-2011 budget on June 8, 2010. The adopted operating and capital improvement budget is the Town's spending plan for FY 2010-2011. After adoption, financial events occur throughout the course of the year that impact upon the budget and the implementation of spending priorities outlined therein. These events, such as the State's proposed elimination of the Town's Redevelopment Agency, may necessitate adjusting the budget projections from time to time during the course of the fiscal year. Also, there are several other adjustments proposed by staff based upon actual experience and/or historical data.

Adjustments to the various estimated revenue projections in the FY 2010-2011 General Fund adopted budget total \$47,300. Adjustments to the various categories of budget appropriations in the General Fund totals \$236,566. These adjustments to the FY 2010-2011 General Fund adopted budget are proposed as summarized in Budget Adjustment 11-21 and Exhibit A attached.

Staff will be making a presentation summarizing the proposed changes to the budget outlined in the attached exhibit and highlighting financial events occurring at the State and local level since adoption of the budget. (cont.)

RECOMMENDED ACTION:

1. Receive and file the Fiscal Year 2010-2011 Mid-Year Budget Status Report
2. Review and adopt the attached Budget Adjustment number 11-21.

Proposed by: Marc R. Puckett, Director of Finance

Item Number _____

T. M. Approval: _____

Budgeted Item Yes No N/A

BACKGROUND (CONT.)

Due to external factors affecting the Federal, State, and local economy, it was felt that a brief review of the Town's revenue and expenditure structure may be helpful in understanding some of the challenges ahead in the coming year's budget cycle. This review will be presented at the Town's February 8, 2011 Study Session and focus primarily on the City's key revenue sources and expenditures of general interest.

From time to time, the Town Council may approve additional appropriations for various programs and services throughout the course of the fiscal year. Some of the additional appropriations that may be approved throughout the year include adjustments to project appropriations due to increasing the scope of the project or for those programs that receive grant funding after adoption of the budget.

Integration of the budget into the Town's accounting system and internal control processes is essential in demonstrating the strength of the Town's financial policies and management practices. This process is essential, for example, during a financial management assessment performed by credit rating agencies, such as Standard & Poor's or Moody's Investor Services. The budgetary integration process is demonstrated through adoption of reasonable and comprehensive budget assumptions with budget reviews and revisions performed at interim periods throughout the course of the fiscal year.

The focus of the mid-year budget review presentation is primarily the Town's General Operating Fund revenues and expenditures. The majority of the Town's operating expenditures are accounted for within this fund. Other special revenue fund budgets, such as for the Community Development Block Grant (CDBG) or Home Funds, do not usually require adjustments at mid-year due to the specific nature of the resource allocations and program requirements. When revenues for these special revenue funds are not fully expended during the year, balances are carried forward for re-appropriation in the subsequent years' budget process. Adjustments to other funds are submitted to Council on an "as needed" basis periodically throughout the year.

All Town departments have provided feedback to the Finance department regarding the status of their current year's expenditures and budgetary performance as projected through the end of the fiscal year. A comparison of budget-to-actual performance by department for the first six months of the fiscal year is included in Exhibit B.

ANALYSIS

In total, except as otherwise noted herein, revenues are on track to achieve the revenue estimates noted in the adopted budget. Also, all departmental budgets are in-line with their adopted spending plans at mid-year.

Based on staff's analysis of the current year's operating revenues and expenditures and, based upon information and input provided by all departments, staff recommends the following adjustments to the FY 2010-2011 budget highlighted below and as outlined in the attached proposed Budget Adjustment No. 11- 21 (Only selected significant General Fund changes have been highlighted):

Revenues:

Property Tax: Per the County Assessor's Office, with respect to property values, the worst is behind us. The residential real estate market has stabilized. Overall, although there appears to be some slight improvement in the real estate market, the taxable values will

remain flat for the next year. The Assessor's Office is anticipating a slight increase in the Assessment roll of 0.75% due to a CPI adjustment. However, the County CAO's Office is projecting 1.0% growth in taxable values. The Assessor's Office is projecting some true appreciation and raising assessed values for FY 2012-13 due to Prop. 8 increases. However, the increases are not expected to be "large."

Sales Tax: Staff projects that sales tax revenue collections will increase slightly over the second half of the fiscal year as retail sales begin to pick up throughout the County. On an adjusted basis for the most recent quarter that information is available (July through September) countywide sales tax collections were up 6.3% on average when compared to the same period in the prior year. Statewide sales tax collections were up an average of 4.7%. Sales tax collections for Apple Valley were up 1.9% but have lagged the statewide and countywide averages.

Code Enforcement Fees and Fines: Code Enforcement fees and fines are up significantly by \$250,000 due to fines on foreclosed properties and abatement warrants on those properties. These fines are paid by the banks that hold the title to the foreclosed properties. The fines are reduced significantly, usually to \$1,000 per violation, if the banks correct the violations and request a reduction in the fine amount.

Sale of Cell Easements: One-time revenues for the sale of cell tower easements are up \$310,000 due to an increase in the sale of easements throughout the town. \$250,000 of these revenues are paid into the Parks Fund per a previous Council action to fund the Parks Master Plan and BMX bike park project design.

Interest Earnings: Investment earnings are down significantly by \$175,000 due to the existing interest rate environment. Interest rates that Town funds have been reinvested at have continued to hover at historic lows under 1.0%. Currently, the State Local Agency Investment Fund (LAIF) used by most public agencies throughout the state as a liquidity pool is paying 0.46% rate of return as of December 31.

Expenditures:

Information Systems: The existing server used to backup data on the Town's network has failed. As a result of this failure, the remaining server used to back-up data across all software systems only has disk capacity for approximately two weeks of data. A replacement server is needed to provide the necessary capacity to backup data. The cost of the new server is \$36,000. An additional appropriation to the Information Systems budget is needed to purchase the new server.

Miscellaneous Refunds: Permit fee deposits incorrectly recorded in the General Fund were refunded in the amount of \$100,000. As a result of these refunds an unfavorable budget variance was created within this line item requiring an appropriation to offset the refund of the deposits held in trust in the General Fund.

Building and Safety: An additional appropriation \$59,000 is needed for the contractor due to increased activity performed by Building and Safety during the first six months of this fiscal year.

Engineering: An additional appropriation of \$47,000 is needed for the contractor due to increased activity performed and chargeable to General Fund operations during the first six months of the fiscal year.

Building and Safety and Engineering costs are typically charged to project budgets where the work is performed outside of the General Fund. This year, a larger percentage of work

performed related to General Fund activities for the first six months of the year. It is anticipated that a larger percentage of their budget will be charged to projects during the second half of the year as construction activity increases during the construction season.

State Budget Update:

As has been widely reported, Governor Brown has proposed the elimination of local redevelopment agencies as part of his FY 2011-12 State budget proposal. This proposal has been summarily rejected by local agencies as destructive to local government's economic development efforts. Local agencies have been urged by the League of California Cities to pass resolutions opposing this measure. Per the Governor's proposal, it is projected that \$1.7 billion of the redevelopment agencies' revenues will be used to close the State's budget gap and fund shortfalls in Medi-Cal (\$840 million) and the trial courts (\$860 million) funding.

The impact of Governor Brown's State budget proposal on the Town of Apple Valley's Redevelopment Agency would eliminate annual collections of property tax increments amounting to \$6.6 million. The Town would be able to fund previously existing debt obligations of the Agency from these funds. However, no new debt may be issued.

SUMMARY

In total, except as otherwise noted herein, revenues are on track to achieve the revenue estimates noted in the adopted budget. Also, all departmental budgets are in-line with their adopted spending plans at mid-year.

The FY 2010-2011 budget was adopted with a planned appropriation from General Fund available fund balance. Following adoption of the budget, Council approved additional appropriations for various programs, services, and carryovers from FY 2009-2010. As of December 31, 2010, the planned appropriation from available fund balance in the General Fund amounted to \$298,161. Additional appropriation requests in the amount of \$236,566 are also proposed in the General Fund as outlined in Exhibit A. These additional appropriation requests are partially offset by other slight revenue increases (under \$10,000) or favorable budget variances across all departments totaling \$105,046. In addition, proposed revenue adjustments to the General Fund result in a net increase of \$47,300 to General Fund revenues. The net result of these changes in revenue estimates and appropriation increases will increase the amount of the planned appropriation from the General Fund available fund balance by \$89,220 (from \$293,161 to \$382,381).

ALTERNATIVES CONSIDERED

No alternatives were considered.

FISCAL REVIEW

The attached Exhibit A summarizes the proposed adjustments in revenues and appropriations (expenditures) to the current year's adopted operating and capital improvement budget reviewed herein. The attached budget adjustment, BA 11-21, summarizes the proposed increases in revenue estimates and appropriation adjustments. Exhibit B summarizes the changes in revenue estimates and budgetary performance for all departments and all funds reflective of all budget amendments previously approved by Council through December 31, 2010.

The net result of these changes in revenue estimates and appropriation increases will increase the amount of the planned appropriation from the General Fund available fund balance by \$89,220 from \$293,161 to \$382,381.

LEGAL REVIEW

No legal review is required for this item.

CONCLUSION

The attached budget adjustment (BA 11-21) is recommended to Council for adoption. Staff is committed to ensuring that the Town continues its conservative fiscal practices; adopts sound, responsible, financial plans; and maintains its high-level of service delivery to the community in the most cost-effective and efficient manner possible.

ATTACHMENTS: Budget Adjustment 11-21
Exhibit A – Mid Year Budget Adjustment Summary
Exhibit B – Budget to Actual Comparison by Fund/Department/Division



TOWN OF APPLE VALLEY

No. 11-21

BUDGET AMENDMENT REQUEST

Requesting Department	Prepared By	Date Prepared
Finance	M. Puckett	January 31, 2011

REVENUES AND OTHER FINANCING SOURCES

Account Description	Fund	Dept	Account No.	Amendment Amount
Various Revenue Sources (Per attached Exhibit A)	Various	Various	Various	Various
REVENUE TOTAL				-

EXPENDITURES AND OTHER FINANCING USES

Account Description	Fund	Dept	Account No.	Amendment Amount
Various Expenditure Sources (Per attached Exhibit A)	Various	Various	Various	Various
EXPENDITURE TOTAL				-

PURPOSE

To adjust various revenue and expenditure sources as recommended by staff at the mid-year budget review and in the amounts as noted per the attached Exhibit A

Department Head	Date	Accounting Manager	Date

Town Manager	Date	Entered by	Date

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TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
GENERAL FUND
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
General Fund:				
Revenues -				
Property Tax - Sales Tax Backfill	1,200,000	-	1,382,000	182,000
Property Tax - VLF Tax Backfill	6,000,000	-	5,169,000	(831,000)
Sales & Use Tax	3,200,000	1,311,965	3,665,000	465,000
Tax Increment/Pass Through	-	-	100,000	100,000
Motor Vehicle In-Lieu	250,000	60,990	200,000	(50,000)
Business License Fees	200,000	83,899	180,000	(20,000)
Property Transfer Tax	200,000	63,796	155,000	(45,000)
Subtotal - Local Taxes	<u>11,050,000</u>	<u>1,520,650</u>	<u>10,851,000</u>	<u>(199,000)</u>
Police Reports & Charges	50,000	2,212	10,000	(40,000)
Tow Release	-	46,800	46,800	46,800
Subtotal - Fines & Fees	<u>50,000</u>	<u>49,012</u>	<u>56,800</u>	<u>6,800</u>
Debris Recycling	15,000	-	2,500	(12,500)
Animal Licenses	260,000	107,138	225,000	(35,000)
Pet Adoptions	50,000	38,389	80,000	30,000
Code Enforcement Fees	200,000	203,357	250,000	50,000
Code Enforcement Fines	50,000	204,151	250,000	200,000
Subtotal - Public Services	<u>575,000</u>	<u>553,035</u>	<u>807,500</u>	<u>232,500</u>
Building Permits	180,000	140,284	280,000	100,000
Electrical	20,000	19,748	30,000	10,000
Subtotal - Building & Safety	<u>200,000</u>	<u>160,032</u>	<u>310,000</u>	<u>110,000</u>
General Plan Amendment	10,000	14,464	20,000	10,000
Subtotal - Planning Fees	<u>10,000</u>	<u>14,464</u>	<u>20,000</u>	<u>10,000</u>
Plan Check	20,000	4,909	10,000	(10,000)
Subtotal - Engineering	<u>20,000</u>	<u>4,909</u>	<u>10,000</u>	<u>(10,000)</u>
Sale of Cell Easement	290,000	344,346	350,000	60,000
State Manadated Cost Reimb	18,000	29,034	30,000	12,000
Interest Earnings	250,000	25,228	75,000	(175,000)
Subtotal - Other	<u>558,000</u>	<u>398,608</u>	<u>455,000</u>	<u>(103,000)</u>
General Fund Totals	<u><u>12,463,000</u></u>	<u><u>2,700,710</u></u>	<u><u>12,510,300</u></u>	<u><u>47,300</u></u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
GENERAL FUND
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
General Fund:				
Expenditures				
PERS	62,807	37,815	81,933	19,126
Subtotal - Town Manager	62,807	37,815	81,933	19,126
Salaries & Wages	711,925	308,977	656,526	(55,399)
PERS	155,500	53,412	115,128	(40,372)
Subtotal - Finance	867,425	362,389	771,654	(95,771)
Salaries & Wages	257,360	135,663	293,937	36,577
Subtotal - Town Clerk	257,360	135,663	293,937	36,577
Salaries & Wages	285,000	139,594	302,454	17,454
Subtotal - Human Resources	285,000	139,594	302,454	17,454
Salaries & Wages	184,450	90,678	196,469	12,019
Hardware/Software	26,550	41,764	80,000	53,450
Subtotal - Information Systems	211,000	132,442	276,469	65,469
Insurance	735,000	784,851	785,000	50,000
Refunds	-	99,703	100,000	100,000
Subtotal - General Government	735,000	884,554	885,000	150,000
Salaries & Wages	235,190	101,140	219,137	(16,053)
Leased Equipment	184,770	194,257	200,000	15,230
Subtotal - Facilities	419,960	295,397	419,137	(823)
Salaries & Wages	477,250	205,772	445,839	(31,411)
Salaries & Wages - PT	-	11,625	25,188	25,188
Cafeteria Benefits	87,150	34,739	75,268	(11,882)
Subtotal - General Government	564,400	252,136	546,295	(18,105)
Salaries & Wages	349,175	166,584	360,932	11,757
Subtotal - Public Services	349,175	166,584	360,932	11,757
Salaries & Wages	610,000	264,270	572,585	(37,415)
Subtotal - Code	610,000	264,270	572,585	(37,415)
Building & Safety Cont.	230,000	120,324	288,778	58,778
Subtotal - B & S	230,000	120,324	288,778	58,778

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
GENERAL FUND
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
General Fund:				
Expenditures				
Engineering Contractor	300,000	86,742	346,968	46,968
Subtotal - Engineering	300,000	86,742	346,968	46,968
Salaries & Wages	491,325	218,712	473,876	(17,449)
Subtotal - Planning	491,325	218,712	473,876	(17,449)
General Fund Totals	<u>5,383,452</u>	<u>3,096,622</u>	<u>5,620,018</u>	<u>236,566</u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Parks & Recreation Fund
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Revenues				
General				
Rents (cell towers)	170,000	58,037	125,000	(45,000)
Total - General Revenues	<u>170,000</u>	<u>58,037</u>	<u>125,000</u>	<u>(45,000)</u>
Expenditures				
James Woody				
Salaries	105,633	62,642	135,724	30,091
PERS	18,150	13,342	28,908	10,758
Subtotal - James Woody	<u>123,783</u>	<u>75,984</u>	<u>164,632</u>	<u>40,849</u>
PIO Events				
Concerts in the Park	12,000	22,141	22,141	10,141
Subtotal - PIO	<u>12,000</u>	<u>22,141</u>	<u>22,141</u>	<u>10,141</u>
Recreation				
Salaries & Wages	20,650	18,406	39,880	19,230
Contract Services	5,000	34,845	110,000	105,000
Subtotal - Recreation	<u>25,650</u>	<u>53,251</u>	<u>149,880</u>	<u>124,230</u>
Total Expenditure Adjustments				175,220
Net Change to Fund Balance				<u><u>(220,220)</u></u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Redevelopment - VVEDA Project Area
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Low/Mod - 20% Set-aside				
Expenditures -				
Loan to 80% Fund			2,355,068	2,355,068
Subtotal - Expenditures	-	-	2,355,068	2,355,068
Net Change to Fund Balance				<u><u>(2,355,068)</u></u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Redevelopment - VVEDA Project Area
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Debt Service - 80% of Increment				
Revenues -				
Bond Sale	8,383,455	-	-	(8,383,455)
Borrowing from Low/Mod	-	-	2,355,068	2,355,068
Subtotal - Revenues	<u>8,383,455</u>	<u>-</u>	<u>2,355,068</u>	<u>(6,028,387)</u>
Expenditures -				
ERAF/SERAF	-	-	401,767	401,767
Water System	9,406,230	-	-	(9,406,230)
Subtotal - Expenditures	<u>9,406,230</u>	<u>-</u>	<u>401,767</u>	<u>(9,004,463)</u>
 Net Change to Fund Balance				 <u><u>2,976,076</u></u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Redevelopment - VVEDA Project Area
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Capital Projects				
Expenditures -				
Operating Transfer	-	241,491	482,982	482,982
Subtotal - Expenditures	-	241,491	482,982	482,982
Net Change to Fund Balance				<u><u>(482,982)</u></u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Redevelopment - Project Area #2
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Low/Mod - 20% Set-aside				
Expenditures -				
Loan to 80% Fund	-	-	2,563,030	2,563,030
Subtotal - Expenditures	-	-	2,563,030	2,563,030
Net Change to Fund Balance				<u>(2,563,030)</u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Redevelopment - Project Area #2
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Debt Service - 80% of Increment				
Revenues -				
Borrowing from Low/Mod	-	-	2,563,030	2,563,030
Subtotal - Revenues	-	-	2,563,030	2,563,030
Expenditures -				
ERAF/SERAF	-	-	364,000	364,000
Subtotal - Expenditures	-	-	364,000	364,000
 Net Change to Fund Balance				 <u>2,199,030</u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Wastewater Fund
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Revenues				
Administrative Fees	3,000	18,630	18,630	15,630
Total Revenues	<u>3,000</u>	<u>18,630</u>	<u>18,630</u>	<u>15,630</u>
Expenditures				
Salaries & Wages	340,000	163,253	353,715	13,715
Legal	-	187,579	250,000	250,000
Transfers (prior year legal)	-	467,281	467,281	467,281
Total Expenditures	<u>340,000</u>	<u>818,113</u>	<u>1,070,996</u>	<u>730,996</u>
 Net Change to Fund Balance				 <u><u>(715,366)</u></u>

TOWN OF APPLE VALLEY
MID-YEAR BUDGET ADJUSTMENT SUMMARY
Apple Valley Country Club
FISCAL YEAR 2010-2011

Exhibit A

<u>ACCOUNT DESCRIPTION</u>	<u>Amended FY2010-11</u>	<u>Actual 12/31/10</u>	<u>Mid-Year Revised</u>	<u>Increase (Decrease)</u>
Expenditures				
Utilities	258,870	329,751	400,000	141,130
Debt Service	44,970	96,952	150,000	105,030
Transfers (prior year legal)	-	(467,281)	(467,281)	(467,281)
Total Expenditures	<u>303,840</u>	<u>(40,578)</u>	<u>82,719</u>	<u>(221,121)</u>
 Net Change to Fund Balance				 <u><u>221,121</u></u>