



**REPORT TO MAYOR AND CITY COUNCIL**

AGENDA ITEM

TO: THE HONORABLE MAYOR  
AND CITY COUNCIL

DATE: May 13, 2008

SUBJECT: Measure E Spending Plan Update

**Report in Brief**

The downturn in the economy, primarily attributable to the slowdown in the real estate market, rising fuel costs, increasing unemployment, and dramatic reductions in consumer spending, has significantly impacted the City's sales tax revenues. The City's FY08 sales tax revenues are projecting approximately 8% lower than the original budget, and the trend is not expected to increase significantly for the next several years. Based on these revised assumptions, and in accordance with Council direction, staff has completed an analysis of MSE sales tax receipts, and recommends a change to the original 12-Year MSE Spending Plan. The recommended changes include:

- A \$6.6 million reduction in cumulative 12-year MSE revenues;
- Road maintenance budget kept at a \$30.2 million minimum;
- Remaining project budgets reduced based on the percentage share of the original MSE allocations.

Staff recommends that the City Council review the updated 12-year MSE Spending Plan and provide comments on the recommended changes, provide policy direction on Opera House Expansion Project, the Opera House request for a loan guarantee, and use of MSE funds on unfunded City facility repairs.

The City Council's direction will be incorporated in the preliminary FY09 Capital Budget and brought back to Council on June 10, 2008 for adoption.

**Background**

On June 6, 2006, the Woodland voters approved Measure E (MSE), which extended the ½ cent supplemental sales tax collected within the boundaries of and for the benefit of the City of Woodland. Additionally, the voters approved three advisory measures outlining the types of projects for which proceeds from MSE would be spent:

- Measure B, approved by 66.8% of voters, allocated a minimum of \$30.2 million or 45% of MSE for road rehabilitation;
- Measure C, approved by 69.37% of voters, approved funding for Community and Senior Center Phase II, Sports Park and renovation and improvements of parks, recreation facilities and pools;
- Measure D, approved by 53.4% of voters, approved funding for expansions of the Library, City Hall and the Opera House

On February 6, 2007, City Council adopted the Measure E Spending Plan, which provided the allocation of total anticipated Measure E revenues in a manner consistent with legal restrictions, advisory measures, and Council policy (see Exhibit One). Included with the spending plan was a resolution calling for preparation of an annual financial report and an updated bi-annual spending plan. The first annual financial report was provided to Council in September 2007.

In late 2007, the Opera Board asked Council for approval of a loan guarantee needed to secure financing on the Opera House Expansion Project. Council gave conceptual approval on the guarantee, but directed staff to work through the details and return to Council for final approval.

On December 4, 2007, Council was provided an update on the general economy, as well as estimated fiscal impacts on the City's FY08 operating and capital budget. At this meeting, Council approved various budgetary reductions including the deferral of some MSE projects and directed staff to review the MSE 12-year revenue assumptions, impacts on project budgets, including the Opera House expansion, and return to Council with an update.

Staff has completed an analysis of MSE sales tax receipts, and recommends a change to the original 12-Year MSE Spending Plan. The recommended changes include:

- A \$6.6 million reduction in cumulative 12-year MSE revenues; revised projections were based on current year trends.
- Road maintenance budget kept at a \$30.2 million minimum;
- Remaining project budgets reduced based on the percentage share of the original MSE allocations.

The Opera Board has been informed of the revised budget. The original and maximum allocation of \$3 million has been reduced to \$2.4 million, and the Opera Board has indicated that they will be unable to proceed with the project with this reduced level of funding. The Opera Board is asking for Council's consideration on increasing the revised budget (approximately \$2.8 million). As well, the Opera Board has not yet proceeded with financing, and is again asking for Council's approval on a loan guarantee.

### **Discussion**

The original MSE revenue projections were based on reasonable, but consistent growth in sales tax revenues. The projections assumed continued growth in the City based on historical average percentages in addition to continued but stabilized growth in Spring Lake and increased sales tax revenues related to the Gateway commercial project. The downturn in the economy has been far worse than anticipated and, given current economic conditions and the unpredictability/timing of recovery, staff is recommending a more conservative outlook on MSE.

The Finance Department has updated its MSE revenue projections based on actual receipts and recent trends. Using conservative assumptions, staff is projecting cumulative MSE revenues at \$60.6 million. This represents a \$6.6 million reduction (approximately \$550K/year or 9.8% reduction) to the original \$67.2 million revenue estimates.

Given the reduction in revenues, staff is recommending a reduction to respective project budgets in a manner consistent with Council adopted guidelines.

As shown below, the allocation to the road projects remains at the minimum amount stated in the advisory measure (\$30.2 million); the balance of revenues are allocated to the remaining projects based on their proportionate “fair share” of the projected \$6.6 million shortfall:

<b>Description</b>	<b>Original Project Budget</b>	<b>Percent of Budget</b>	<b>Revised Project Budget</b>	<b>Percent of Budget</b>	<b>Net Reduction</b>
Revenues	\$ 67,200,000		\$ 60,613,127		\$ (6,586,873)
Road Rehabilitation	\$ 30,200,000		\$ 30,200,000		
Allocation to Other Projects					
CSC / SP Improvements	\$ 11,900,000	32%	\$ 9,758,366	32%	\$ (2,141,634)
Park Rehab	\$ 10,000,000	27%	\$ 8,200,308	27%	\$ (1,799,692)
Library	\$ 5,100,000	14%	\$ 4,254,145	14%	\$ (845,855)
City Hall	\$ 7,000,000	19%	\$ 5,740,216	19%	\$ (1,259,784)
Opera House	\$ 3,000,000	8%	\$ 2,460,092	8%	\$ (539,908)

Staff is also requesting policy direction on the potential re-allocation of project budgets related to the City Hall expansion and Library expansion projects:

- **City Hall Expansion:** Annual budget requests for facility maintenance and repair projects compete against other General Fund programs/projects. Due to limited funds and higher priorities, routine maintenance and repairs have typically been deferred, or implemented on a reactionary and emergency basis. Given the projected economic forecast, staff is concerned about continued deferral and deterioration of City facilities. Staff believes use of the Measure E funds for this purpose is consistent with the Measure’s ballot language.

Given the revised revenue estimates for MSE, it is unlikely that the City Hall project can be completed within the 12-year timeframe. Given economic conditions and the extent of deferred maintenance on City facilities (MSC, Police Station, Fire Stations, and City Hall), staff is requesting Council allow a portion of the money (approximately \$200k per year) budgeted for City Hall expansion be used on facility repairs.

- **The Library Expansion Project:** This project is included in the City’s Major Project Financing Plan (MPFP). The funding for this project has been allocated to development fees (which support 90% of the project cost), with a 10% existing City requirement funded by MSE). Based on the estimated project budget of approximately \$5.6 million, the MSE matching requirement would be only \$560k. The updated 12-year spending plan includes approximately \$3.854 for expansion (the \$4.254 million listed above less \$400,000 for renovations). Based on the current Library Expansion budget, Council may consider reducing the Library MSE budget to an amount consistent with the current MPFP funding splits; and reallocate up to \$3 million in MSE revenues to other projects.

As Council knows, the development community is asking for reductions in City development fees, and as such, staff is evaluating the need and timing of all MPFP projects including the library

expansion. While the determination of MPFP funding is not being discussed in this report, Council should keep in mind that any potential reduction in the development fee burden on the Library expansion project will most likely shift to MSE.

**Fiscal Impact**

Total MSE revenues are projected to be \$60.6 million, which is a reduction of \$6.6 million from the original projection of \$67.2 million. The revised spending plan reduces proposed expenditures by an equal amount. The revised 12-year Spending Plan is reflected on Exhibit Two.

**Public Contact**

Posting of the City Council Agenda.

**Recommendation for Action**

Staff recommends that the City Council review the updated 12-year MSE Spending Plan and provide comments on the recommended changes, and seeks Council's policy direction on Opera House Expansion Project, the Opera House request for a loan guarantee, and use of MSE funds on unfunded City facility repairs.

The City Council's direction will be incorporated in the preliminary FY09 Capital Budget and brought back to Council on June 10, 2008 for adoption.

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Attachments

