



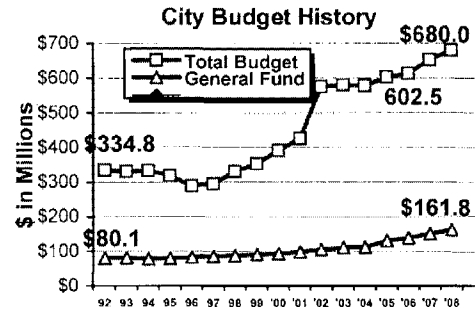
**2007/08 BUDGET MESSAGE**

**ADOPTED BUDGET – 2007/08**

Mayor and City Council Members,

This document represents the adopted budget for fiscal year 2007/08, the second year in a two-year budget cycle. In June 2006, a two-year budget was approved, including a recommended budget for 2007/08. This adopted budget reflects minimal changes to the recommended budget presented to the City Council last year. The total adopted budget for 2007-08 is \$680 million, or 4.1% higher than last year's adopted total budget. The adopted General Fund Budget for 2007-08 is \$161.8 million, or 7.6% greater than last year's adopted General Fund Budget. This budget message will summarize the primary financial issues being addressed with this adopted budget.

Beginning in May 2007, the City Council has held numerous Budget Study Sessions. A public hearing was held on June 19<sup>th</sup> and the budget was adopted on June 26<sup>th</sup>.



This adopted budget reflects a balanced General Fund budget for 2007/08 with the use of prior year surplus.

**BUDGET OVERVIEW**

The prior year {2006/07} General Fund revenues are projected to be approximately 2.9% higher than the original estimate and next year's revenues {2007-08} are projected to increase 3.2%. This percentage increase for 2007-08 projected revenues is due to increased property taxes of 4%, with a 3.3% increase in other taxes, a 14.8% increase in use of money and property, a 2.3% increase in charges for services, and a 2.7% increase in transfers from other funds. Reductions in estimated permit revenue and other revenues offset a portion of the increases.

**General Fund Budget Summary**

<b>2007/08 Budget:</b>	<b>Prior 2007/08</b>	<b>Adopted 2007/08</b>
Estimated Revenues	\$156,320,816	\$161,369,500
Recommended Expenses	<u>155,632,892</u>	<u>161,232,369</u>
Projected Surplus/(Shortfall)	\$ 687,924	(\$ 462,869)
Less Non-Recurring Expenses	<u>5,000</u>	<u>564,875</u>
Net Surplus/(Shortfall)	\$ 692,924	\$ 102,006

## 2007/08 BUDGET MESSAGE

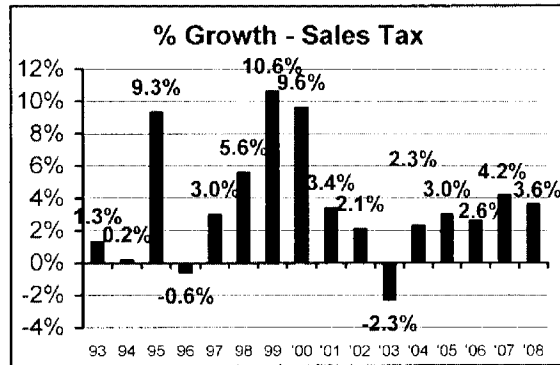
### GENERAL FUND REVENUES

This budget message will highlight some of the changes projected in key General Fund revenue categories, specifically sales tax, property tax, utility users tax, and transfers. These are major revenue sources for the City General Fund and their projections are critical in terms of overall revenue projections for the General Fund.

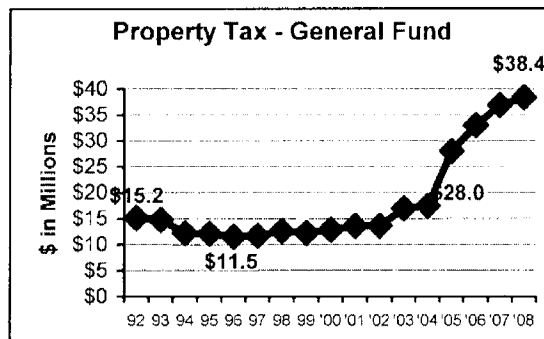
We have estimated increased revenues of \$5.0 million, or 3.2%, in Fiscal Year 2007/08 compared to the estimated 2006/07 Budget.

<u>Revenue</u>	<u>Projected Increase</u>
Property Taxes	\$ 1,475,000
Sales Taxes	965,000
Utility Users Taxes	750,000
Interest & Investment Revenue	1,000,000
Transfers from Other Funds	738,000
Other revenues	81,900
<b>TOTAL</b>	<b>\$ 5,009,900</b>

**Sales Tax** - Sales tax is projected to grow 3.5% in 2007-08 from the current year revised total of \$32.6 million (General Fund and CIP Fund). This projection reflects the current stable economy continuing.



**Property Tax** - The projected growth in the assessed value in the General Fund of 10.4% is higher than last year's 8.0% growth. The continued real estate sales and healthy values for properties being sold has resulted in higher than normal year-to-year increases which are projected to level off somewhat in 2007/08.



## 2007/08 BUDGET MESSAGE

**Utility Users Tax (UUT)** - Growth in this revenue is related to changes in utility rates charged to customers for telephone, cell phone, cable TV, electric, natural gas, and water. In addition, new customers for any of these utilities will generate growth in utility tax revenue. The projected growth for 2007-08 is 3.0%. The total estimated Utility tax revenue for 2007-08 is \$25.8 million. Electric and natural gas related utility tax increases are difficult to project due to the volatility of natural gas prices. We have projected a conservative increase of about 3%. Telephone and cable utility taxes continue to grow at a rate equal or greater than inflation. Both of these utilities are projected to continue their growth patterns of recent years. An estimated \$5 million of UUT revenue is “at risk” due to litigation, State/Federal legislation, and Telecommunication industries changes.

**Transfers** – In 2007/08, the City transfers funds from the Electric Utility (\$18.375 million), Water Utility (\$4.125 million), Sewer Utility (\$1.04 million), Parking (\$1.9 million) and the Capital Improvement Fund (\$2.8 million).

### General Fund Revenue Estimates

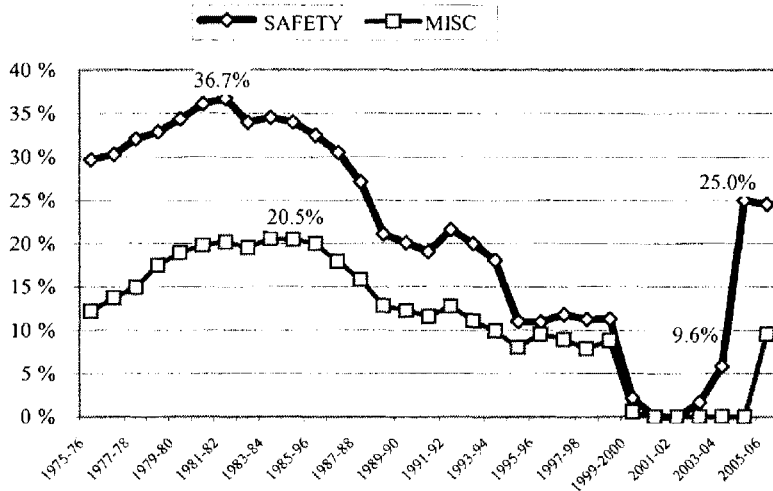
	2006/07	2007/08	% Change
Property Taxes	\$ 36,875,000	\$ 38,350,000	4.0 %
Sales Tax	27,075,000	28,040,000	3.6 %
Utility Users Taxes	25,000,000	25,750,000	3.0 %
Other Taxes	7,800,000	8,075,000	3.5 %
Licenses & Permits	7,540,000	7,055,000	(6.4 %)
Fines & Forfeitures	1,400,000	1,400,000	0.0 %
Use of Money & Property	7,450,000	8,555,000	14.8 %
Revenue from Other Agencies	1,905,000	1,897,500	(0.4 %)
Charges for Services	4,777,600	4,887,000	2.3 %
Misc. & Non-Operating	535,000	520,000	(2.8 %)
Interfund Revenue	8,500,000	8,600,000	1.2 %
Transfers From Other Funds	27,502,000	28,240,000	2.7 %
Total Revenue	\$ 156,359,600	\$ 161,369,500	3.2 %

### GENERAL FUND EXPENDITURES

Increased costs for salary adjustments for employees covered by multi-year labor agreements and approved Capital Outlay are included in the approved budget.

**2007/08 BUDGET MESSAGE**

**CalPERS Contribution Rates** – During the late 1990’s, with the stock market returning

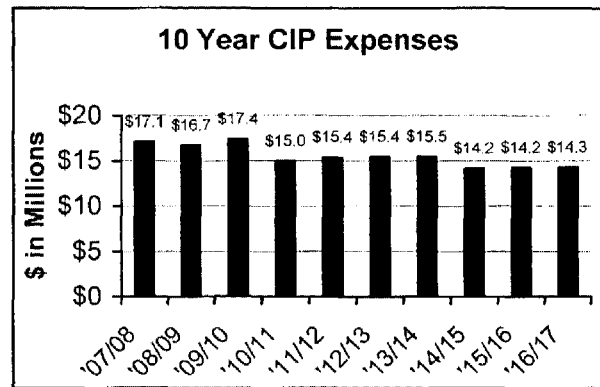


over 20% annually, CalPERS reduced our rates for both Safety and Non-Safety employees to a zero contribution rate for the City. Beginning March 2000, the stock market lost a tremendous amount of value for CalPERS. CalPERS invests approximately 60% in U.S. equities. Consequently, the safety employee rates for the City have increased from 1.665% of payroll {2002/03} to

24.577% {2005/06}, 23.610% {2006/07}, and 24.172% for 2007/08. The Non-Safety employee rates were zero from 2000/01 through 2004/05 and will be 10.866% for 2007/08. Included in the non-safety rate is the new retirement benefit formula implemented in December 2005, representing about 3% of the 10.866% total rate.

**CAPITAL IMPROVEMENT PROGRAM**

For fiscal year 2007/08 the adopted appropriation for projects totals \$17.1 million with a \$1 million “to be programmed” contingency. This year, the projects planned for the next 10 years total \$131.3 million, including \$26 million in contingencies. The projects approved for funding in 2007-08 are detailed in the CIP budget.



## *2007/08 BUDGET MESSAGE*

### **OTHER FUNDS**

The 2007/08 adopted budget for the Enterprise Funds totals \$363.6 million. The primary funds are the Electric, Water, Sewer and Refuse Disposal funds, which total \$350.3 million, or 96%, of the \$363.6 million.

### **INTERNAL SERVICE FUNDS**

The Internal Service Fund budgets can be found in the Administrative Services part of the budget. The Internal Service Funds, by definition, receive their funds “internally” from other funds of the City. For instance, each department within the General Fund pays its Workers Compensation costs by a line item budget in the General Fund and that payment is made to an Internal Service Fund for Workers Compensation programs. The Workers Compensation Fund then takes the “revenue” from the General Fund payments and Other Fund payments and expends those funds to pay the claims for Workers Compensation benefits. Similarly other Internal Service Funds for equipment replacement, liability insurance, and employee medical, dental, and vision benefits are included in the miscellaneous or Internal Service Fund categories.

### **CONCLUSION**

The adopted budget for 2007-08 reflects a balanced General Fund budget. The Capital Improvement Program addresses some of the City’s priority infrastructure, park and capital replacement needs.

Respectfully submitted,



James E. Starbird  
City Manager