

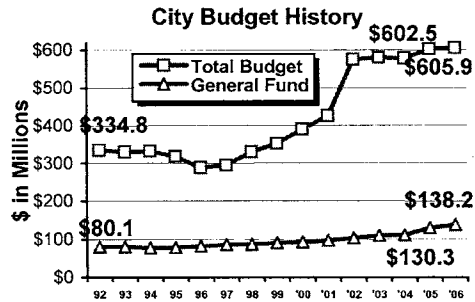


**2005/06 BUDGET MESSAGE**

**PRELIMINARY BUDGET – 2005/06**

Mayor and City Council Members,

This document represents the proposed budget for fiscal year 2005/06, the second year in a two-year budget cycle. In June 2004, a two-year budget was approved, including a recommended budget for 2005/06. This proposed budget reflects minimal changes to the recommended budget presented to the City Council last year. The total proposed budget for 2005-06 is \$605.9 million, or 0.6% higher than last year's adopted total budget. The proposed General Fund Budget for 2005-06 is \$138.2 million, or 6% greater than last year's adopted General Fund Budget. This budget message will summarize the primary financial issues being addressed with this proposed budget.



Beginning in January 2005, the City Council has held numerous Budget Study Sessions. A public hearing on the budget is will be held on June 7<sup>th</sup> and the budget is scheduled for adoption on June 28<sup>th</sup>.

This budget document addresses the major general fund shortfalls that were projected for Fiscal Year 2005/06 with budget strategies that were approved by the City Council in June 2004. This year, the focus has been on the 10-year Long Range Financial Plan, which will help determine next year's two-year budget priorities.

**BUDGET OVERVIEW**

The prior year {2004/05} General Fund revenues are projected to be approximately 0.9% higher than the original estimate and next year's revenues {2005-06} are projected to increase 4.1%. This percentage increase for 2005-06 projected revenues is due to increased property taxes of 5.1%, with a 2.7% increase in other taxes, a 10.1% increase in use of money and property, and a 7.2% increase in charges for services, and an 8.9% 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>2005/06 Budget:</b>	<b>Prior 2005/06</b>	<b>Proposed 2005/06</b>
Estimated Revenues	\$135,413,756	\$136,881,500
Recommended Expenses	135,897,874	138,194,232
Projected Shortfall	(\$ 484,118)	(\$ 1,312,732)
Less Non-Recurring Expenses	92,470	\$ 516,470
Net Surplus/(Shortfall)	(\$ 391,648)	(\$ 796,262)

## 2005/06 BUDGET MESSAGE

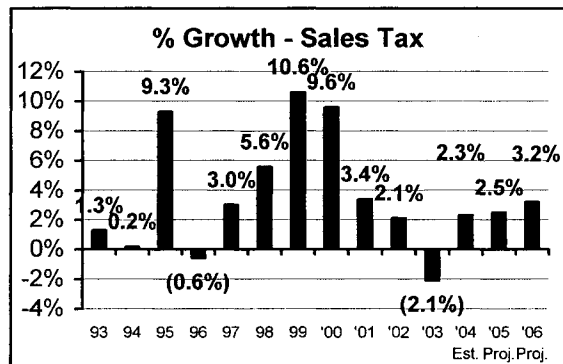
### GENERAL FUND REVENUES

This budget message will highlight some of the changes projected in key General Fund revenue categories, specifically sales tax, property tax, utility user's 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.

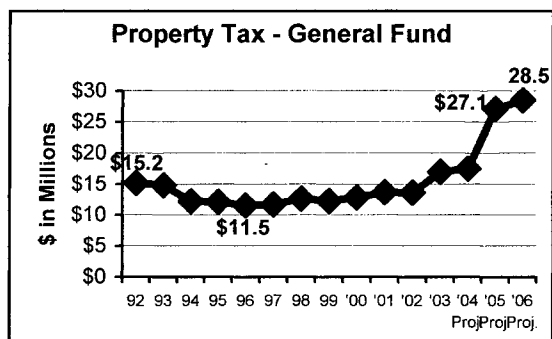
We have estimated increased revenues of \$5.4 million or 4.1% in Fiscal Year 2005/06 compared to the estimated 2004/05 Budget.

<u>Revenue</u>	<u>Projected Increase</u>
Property Taxes	\$ 1,388,000
Sales Taxes	825,000
Utility Users Taxes	400,000
Franchise Taxes	270,000
Transfers from Other Funds	2,010,000
Other revenues	546,273
<b>TOTAL</b>	<b>\$ 5,439,273</b>

**Sales Tax** - Sales tax is projected to grow 3.2% in 2005-06 from the current year revised total of \$29.8 million (General Fund and CIP Fund).



**Property Tax** - The projected growth in General Fund Property Tax of 5.1% is greater than last year's 3.1% and this year's projected growth of 4.7% growth, respectively. This revenue category will likely remain stable or may grow more in 2005/06 due to the real estate market and the related higher number of sales of existing homes and commercial/retail. The major increases in this revenue in 2004/05 were due to the State permanently reducing our VLF revenues and increasing our Property Tax allocation.



## 2005/06 BUDGET MESSAGE

**Utility Users Tax** - 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 2005-06 is 1.7%. The total estimated Utility tax revenue for 2005-06 is \$23.6 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 to or greater than inflation. Both of these utilities are projected to continue their growth patterns of recent years.

**Vehicle License Fees (VLF)** – With the passage of Proposition 1A in November 2004, Vehicle License Fee rates were permanently reduced, shrinking this revenue source. The State restored this revenue by providing local government with an equal amount of Property Tax revenue (ERAF in lieu of VLF). All VLF revenue lost in 2003/04 due to the State Budget crisis was to be repaid in 2006. The City received 94.1% of the lost VLF revenue owed us through a State-wide bond issue in March 2005.

**Transfers** – In 2005/06, the City transfers funds from the Electric Utility (\$16.27 million), Water Utility (\$3.835 million), the Sewer Fund (\$1 million), the Parking Fund (\$1.8 million), and the Capital Improvement Fund (\$1.8 million).

### General Fund Revenue Estimates

	Revised 2004/05	Projected 2005/06	% Change
Property Taxes	\$ 27,067,000	\$ 28,455,000	5.1 %
Sales Tax	25,600,000	26,425,000	3.2 %
Utility Users Taxes	23,200,000	23,600,000	1.7 %
Other Taxes	6,880,000	7,150,000	3.9 %
Licenses & Permits	5,190,125	4,890,000	(5.8 %)
Fines & Forfeitures	1,550,000	1,550,000	0.0 %
Use of Money & Property	6,360,336	7,003,000	10.1 %
Revenue from Other Agencies	1,322,000	1,285,000	(2.8 %)
Charges for Services	3,964,621	4,249,500	7.2 %
Misc. & Non-Operating	630,000	450,000	(28.6 %)
Interfund Revenue	6,983,145	7,119,000	1.9 %
Transfers From Other Funds	22,695,000	24,705,000	8.9 %
Total Revenue	\$ 131,442,227	\$ 136,881,500	4.1 %

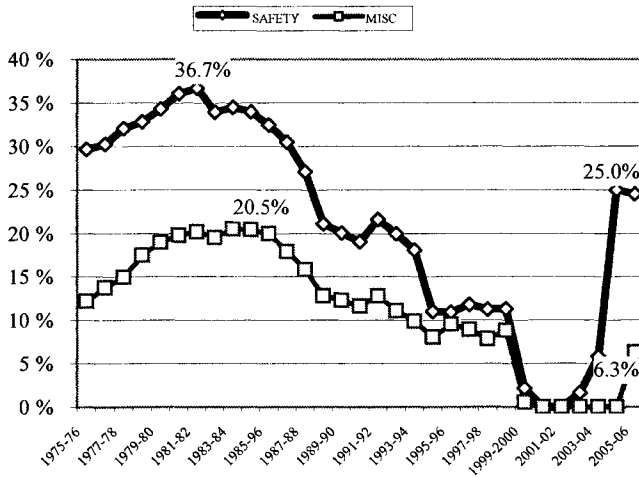
### GENERAL FUND EXPENDITURES

Increased costs for salary adjustments for employees covered by multi-year labor agreements, approved Urgent Needs, Capital Outlay, and expense reductions to balance the General Fund are included in the proposed budget.

## 2005/06 BUDGET MESSAGE

The State of California budgetary crisis continues to threaten Redevelopment Agency revenues. With the passage of Proposition 1A in November 2004, City revenues are now protected from further takeaway by the State. FY 2005/06 will be the last year of the City's contribution of \$2.2 million to the State Budget crisis. However, redevelopment tax increment revenue is still at risk. Fortunately, Governor Schwarzenegger's "May Revise" Budget does not propose the taking of additional Redevelopment revenue beyond existing ERAF payment levels (\$250 million statewide and \$2.2 million for Glendale).

CalPERS cost increases for fiscal year 2005/06 amount to an additional \$3 million cost to the General Fund.



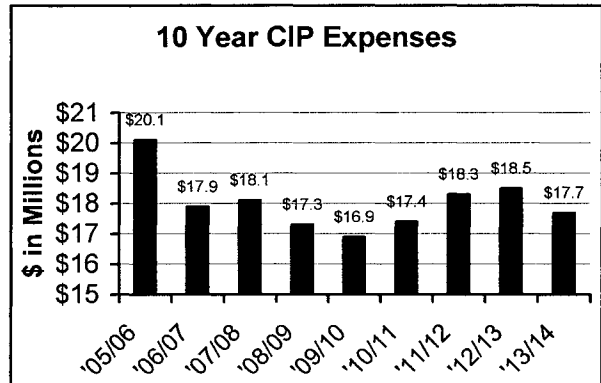
### CalPERS Contribution Rates –

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. Since March 2000, the stock market has lost value for CalPERS. CalPERS invests approximately 60% in U.S. equities. Consequently, the safety employee rates for the City have increased from 1.8% of payroll {2002/03} to 24.58% for 2005/06. The Non-

Safety employee rates were zero from 2000/01 through 2004/05 and will be 6.3% for 2005/06.

### CAPITAL IMPROVEMENT PROGRAM

For fiscal year 2005-06 the proposed appropriation for projects totals \$20.1 million with no contingency. Since 2005-06 is the second year in a two-year budget cycle, there have been minimal changes to the 10-year CIP budget. In next year's budget process, we anticipate once again reviewing new requests and making adjustments to the CIP plan as needed. The projects approved for funding in 2005-06 are detailed in the CIP budget.



## ***2005/06 BUDGET MESSAGE***

### **OTHER FUNDS**

The 2005/06 proposed budget for the Enterprise Funds totals \$320.6 million. The primary funds are the Electric, Water, Sewer and Refuse Disposal funds, which total \$307.4 million, or 96%, of the \$320.6 million. This year, the Fire Paramedic Fund was moved from the Enterprise Funds to the Special Revenue Funds. This budget includes a transfer from the General Fund to help stabilize the fund.

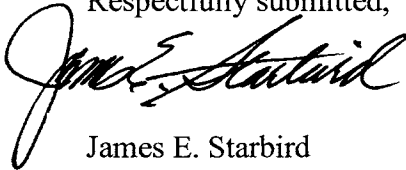
### **INTERNAL SERVICE FUNDS**

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 division 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 proposed budget for 2005-06 reflects a balanced General Fund budget, with the use of prior year surplus, even after incorporating the anticipated State takeaways, which began in 2004/05 and will end next year. The Capital Improvement Program addresses some of the City’s priority infrastructure, park and capital replacement needs.

Respectfully submitted,



James E. Starbird  
City Manager