



September 19, 2006

Honorable Mayor and Members
of the City Council

Re: Submittal of FY 2006-2007 Budget

Staff is pleased to present to City Council a balanced budget for Fiscal Year 2006-2007. The adopted Budget includes General Fund Expenditures of \$52.9 million offset by General Fund Revenues of \$52.9 million.

As with FY 2005-2006, the department heads and staff worked diligently to find efficiencies in an effort to balance the proposed budget before the City Council. This document reflects those efforts and provides a funding plan that will allow the City to provide a superior level of services to the residents and business community that call El Segundo home. The department directors were asked to examine closely and present a funding plan for their respective core services while recommending reductions in programs that will not affect the ability to provide superior services.

Highlights and New Programs

In keeping with the City's overall goal of improving the quality of services in the community, staff recommended new programs that will enable the City to better serve its constituents. Among those programs are:

- Personnel Management and Employment Relations Training Program (Fiscal Impact \$20,000) This training program will assist in meeting the City Manager's goal of enhancing the skills and knowledge of our supervisory and managerial staff in order to mitigate personnel problems, investigations, and disciplinary processes.
- Employee emergency supplies (Fiscal Impact \$25,000) This program will allow for the purchase and maintenance of emergency supplies such as food and water to be used to sustain City employees while working on a major disaster within the City for an extended period of time.
- Operations and maintenance of new athletic facility (Fiscal impact \$78,000) This will provide maintenance of the new 5 acre site at the corner of Nash and Mariposa, it's elements of a snack bar, picnic areas, restrooms and a playground.

- Also included in the budget is \$200,000 for ten technology projects recommended by the Executive Technology Review Committee (ETRC), which include \$25,000 for purchasing a Point of Sale server to enable the public to make water and recreation and park permit payments over the Internet; \$19,500 for increased Geographic Information System support to allow expansion of the City's ability to print maps and add geographic information to the system; \$5,000 for Wireless Internet access at the Library; \$40,000 to upgrade the City's Business License software system; and \$55,550 to integrate Emergency Operations Center data, information, mapping, and Incident Command System sections on the Internet.

The City Budget Overview:

The following assumptions were taken by staff in balancing the General Fund budget:

- Approximately \$2.7 million is being transferred from the Economic Uncertainty Fund to assist in balancing the budget. That action is in keeping with past City Council policy. This will leave an estimated balance of just over \$550,000 at the end of FY 2006-2007.
- For the first time in two years, the State has not negatively affected our budget. The impact of the State's budget reductions was \$763,400 over the past two fiscal years as a result of Proposition 1A. This reduction has been eliminated in the FY 2006-2007 budget.
- Departments have kept operational expenditure increases to a minimum.
- General Fund revenues have increased \$4.2 million over FY 2005-2006.

Major General Fund expenditure budget assumptions impacting the ability to balance the budget:

- \$3.5 million increase in General Fund expenditures resulting primarily from bargaining unit obligations is included in the budget.
- Safety and Miscellaneous retirement savings of \$750,000 are included in the budget helping to offset the salary and benefit costs.
- Health benefit increases of 10.0% citywide are included in the budget. The impact on the General Fund is approximately \$375,000.
- The budget includes replenishing \$500,000 for the Equipment Replacement Fund and funding 100% of estimated expenses in the Liability Insurance Fund.
- Overall utility costs have increased approximately 10%.
- Overall fuel costs have increased 10%.
- The fiscal impact of new proposed programs included in the budget is \$243,650.
- The fiscal impact of personnel changes included in the budget is \$244,750.
- The fiscal impact of proposed technology projects included in the budget is \$200,000.
- The General Fund contribution to Capital Improvement projects is \$750,000.
- Overall General Fund expenditures have increased \$4.2 million over FY 2005-2006.

While the City is in a strong financial position, we continue to be impacted by ongoing bargaining-unit obligations and increasing health costs for at least the next two years.

General Fund major sources of revenue, such as Utility User's Taxes, Business License Tax, Sales Tax, Transient Occupancy Tax, and Property Tax have grown substantially the past two fiscal years. While the growth of these revenues has contributed significantly to the ability to balance the budget, they can fluctuate greatly thereby making it difficult to make long-term projections.

Even with a strong growth in the revenue base, \$2.7 million was used from the Economic Uncertainty Fund to balance this year's budget, and staff recommends depositing any General Fund surplus generated at the end of this fiscal year 05-06 into the Economic Uncertainty Fund to replenish this fund and use it to assist in balancing future years' budgets when needed.

The budget incorporated these changes and resulted in General Fund appropriations of \$52.9 million, with estimated revenues of \$52.9 million. The FY 2006-2007 Preliminary Operating and Capital Improvement Budget includes \$750,000 in General Fund Capital Improvement projects; \$200,000 in Gas Tax projects; \$726,000 in Water Capital Improvement projects; and \$940,000 in Sewer Capital Improvement Projects as recommended by the Water and Sewer Task Force; and \$100,000 in Prop C projects. A detailed list of the capital projects can be found in the Capital Improvement Program section of this budget document

On June 7, 2006 the City Council reviewed the status of FY 2005-2006 estimated revenues and expenditures compared to budget, and on July 24, 2006 the City Council held a Strategic Planning Session with the City Manager and all department heads. During this planning session, the City Council reviewed a budget overview, revenue and budget assumptions, proposed new programs, personnel changes, all proposed capital improvement programs, proposed new technology projects; provided direction to staff regarding allocating funds for a new Fire Station and Athletic Fields at the Nash/Mariposa site; and received and filed an actuarial report on future medical costs. The budget impact of proposed new projects and personnel changes is included in the FY 2006-2007 Preliminary Budget. Any budget revisions resulting from the two Strategic Planning Sessions or the budget workshop will be reflected in the final adopted budget. The next step in the process is a budget workshop with Council August 15, 2006. The final steps in the budgetary process included a public hearing on September 5, 2005 and the final budget adoption on September 19, 2006.

While El Segundo continues to be well diversified and positioned for the future, staff is continuing to take prudent steps in this budget process to ensure that the City's future is not compromised. The budget for FY 2006-2007 once again adheres to the principle that El Segundo is a "pay as you go" City.

Revenue Assumptions:

Included below is a complete list of FY 2006-2007 revenue budget assumptions.

- Sales tax is estimated to increase \$2.1 million over the FY 2005-2006 adopted budget based on an ongoing strong performance of the top ten sales tax producers. City Council directed staff to follow up with its sales tax consultant to develop a list of sales

tax producers subject to potentially major quarterly fluctuations and staff will follow up with such a list.

- Sales tax for the Plaza El Segundo project is \$350,000 based on the assumption that the City will receive approximately 25% of one year's full sales tax next fiscal year. Nothing is included in the budget for the Corporate Campus project.
- Budget assumes using the Economic Uncertainty Fund to assist in funding the FY 2006-2007 General Fund budget shortfall.
- Property Taxes are projected to increase 3.5%; this percentage change will be revised prior to budget adoption when staff receives the City's specific increase in assessed valuation.
- Business License Taxes are assumed to increase 4% over the FY 2005-2006 estimated actual.
- Utility User's taxes (UUT) overall are estimated to increase \$2.3 million over 05-06 budget, based on the 05-06 estimated actual revenues. Included in this forecast is Gas UUT, which is estimated at \$2.0 million.
- Transient Occupancy Taxes (TOT) is estimated to increase \$414,000 attributable to increases in both occupancy and room rates.
- Budget assumes a \$125.5 million improvement valuation related to building improvements and new construction. The Property taxes based on this new construction are estimated to be \$80,350.
- The impact of the State's budget reductions was \$763,400 over the past two fiscal years as a result of Proposition 1A. This reduction has been eliminated in the FY 2006-2007 budget.
- \$100,000 in COPS grants funding provided by the State has once again been included in the State's budget and is included in El Segundo's FY 2006-2007 budget.
- Overall, General Fund Revenues are estimated to increase \$4.2 million over FY 2005-2006

Appropriation Assumptions:

Included below is a complete list of FY 2006-2007 appropriation budget assumptions.

- PERS safety employer costs decreased from 31.4% of payroll to a projected 25.2% July 1, 2007. The net fiscal impact reflected in the FY 2006-2007 budget is a decrease of approximately \$725,000.

- PERS miscellaneous employer costs decreased from 10.2% of payroll to an estimated 9.9% July 1, 2007. The net fiscal impact reflected in the FY 2006-2007 budget is a decrease of approximately \$25,000.
- Salary and benefit increases, net of retirement savings, incorporated into budget total \$3.5 million.
- Overall health benefit increases of 10.0% have been incorporated into the budget.
- Departments have held the line on all operational line items.
- The fiscal impact of new proposed programs included in the budget is \$243,650.
- The budget includes \$2.7 million in citywide capital improvement projects in all funds as recommended by the Capital Improvement Project Advisory Committee.
- The fiscal impact of personnel changes included in the budget is \$244,750.
- Workers' Compensation, Liability, and Property insurance premiums combined have decreased \$123,400. The Workers' Compensation rate decrease is \$102,200. The General Liability premium is decreasing \$21,650. The Property Insurance premium is increasing \$16,750.
- Overall, General Fund expenditures are estimated to increase \$4.2 million over FY 2005-2006.

In conclusion, I would like to thank staff again for their outstanding efforts on the preparation of this document. Special acknowledgement must be given to the Administrative Services Department for their work in assembling this budget. It also should be remembered that all of the departments have put considerable time and effort into this budget.

The City departments underwent extensive analysis of programs to make sure the core services remain intact. The city staff is committed to serving the residents and businesses of El Segundo. The thoughtful cohesive policy direction from the City Council has provided the basis for this budget.

Sincerely,

Jeff Stewart
City Manager