



August 21, 2007

Honorable Mayor and Members  
of the City Council

Re: Submittal of FY 2007-2008 Budget

Staff is pleased to present to City Council a balanced budget for Fiscal Year 2007-2008. The Preliminary Budget includes General Fund Expenditures of \$55.2 million offset by General Fund Revenues of \$55.2 million.

As with FY 2006-2007, 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 who call El Segundo home. The department directors were asked to present a funding plan for their respective core services and to make program recommendations that sought to maximize efficiency while not affecting 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 utilize its workforce and serve its constituents. Among those programs are:

- Wellness Program (Fiscal Impact \$105,000) This program is intended to promote physical fitness, nutrition and healthy lifestyle changes as well as strength and muscular endurance for all police and fire department safety personnel.
- Crime View Program (Fiscal Impact \$22,000) This new program will enhance the mapping of crime data for crime analysis and statistical reporting.
- Computerized Bar Code System for Tracking Evidence (Fiscal impact \$13,282) The purpose of this program is to simplify and streamline the processing of evidence/property booking and storage.
- Emergency Supplies for Mutual Aid Responders and Disaster Service Workers (Fiscal impact \$20,000) The supplies purchased under this program would sustain

employees working on major disasters within the City for an extended period of time.

- Vehicle Purchase and Replacement (Fiscal impact \$24,000) New low-emission vehicles for the Planning & Building Safety staff will be purchased with this funding from the Air Quality Management District.
- Planning & Building Safety Fee Study (Fiscal impact \$50,000) This funding will provide the background information needed to increase fees for services provided by this department, which fees have remained unchanged for many years and have not kept pace with expenses.
- Downtown Sidewalk Cleaning Project (Fiscal impact \$20,000) This program will pay for the contracted costs of maintaining the cleanliness of the Downtown sidewalks.
- Also included in the budget is \$240,200 in the General Fund for five technology projects recommended by the Executive Technology Review Committee (ETRC). These include \$46,800 for Database Server licensing; \$35,950 for increased physical security for the City Hall complex; \$28,900 for e-mail server licenses; \$99,050 for a Network Backbone Router and Firewall; and \$29,500 for Questys Application Interface. Additionally, a project for public computer stations for adult internet access and children's software will be funded by the Library Outside Services Trust and utility billing software will be funded by the Water Fund.

### 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 \$3.75 million at the end of FY 2007-2008.
- Departments have kept operational expenditure increases to a minimum net of new programs, fuel and utility costs.
- General Fund revenues have increased \$2.1 million over FY 2006-2007.

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

- \$2.2 million increase in General Fund expenditures resulting primarily from bargaining unit obligations is included in the budget.
- Health benefit increases of 6.0% citywide are included in the budget. The impact on the General Fund is approximately \$206,000.

- The budget includes funding 100% of the annual fiscal charge for the Equipment Replacement Fund and funding 100% of estimated expenses in the Liability Insurance and Workers' Compensation Funds.
- Overall utility costs have increased approximately 10%.
- Overall fuel costs have increased 38.9%.
- The fiscal impact of new proposed programs included in the budget is \$276,425.
- The fiscal impact of personnel changes included in the budget is \$190,836.
- The fiscal impact of proposed technology projects included in the budget is \$240,000.
- The General Fund contribution to Capital Improvement projects is \$750,000.

While the City is in a strong financial position, we continue to be impacted by ongoing bargaining-unit obligations and increasing health costs. 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 in 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 2006-07 into the Economic Uncertainty Fund to replenish this fund and use it to assist in balancing future years' budgets when needed.

The FY 2007-2008 Preliminary Operating and Capital Improvement Budget includes \$750,000 in General Fund Capital Improvement projects; \$200,000 in Gas Tax projects; \$986,000 in Water Capital Improvement projects; and \$1,477,000 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 August 8, 2007, 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 The budget impact of proposed new projects and personnel changes is included in the FY 2007-2008 Preliminary Budget. The next step in the process is a public hearing which is scheduled for September 4, 2007, any budget revisions resulting from the public hearing will be reflected in the final adopted budget. The final budget adoption is scheduled for September 18, 2007.

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 2007-2008 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 2007-2008 revenue budget assumptions. These assumptions may change, as we get closer to the completion of the budget process.

- Property Taxes are projected to increase 2.1%; this percentage change might be revised prior to budget adoption when staff receives the City's specific increase in assessed valuation.
- Sales tax revenue is currently projected to increase 2.9% over FY 2006-2007 adopted budget plus an additional \$1,050,000 projected for Plaza El Segundo
- Business License Fees are assumed to decrease 3.8% over the FY 2006-2007 estimated actual.
- Utility User's taxes (UUT) overall are estimated to decrease \$2.2 million over FY 2006-2007 budget, based on the 2006-07 estimated actual revenues. Included in this forecast is \$1.2 million reduction due to the loss of the power plant production and the Telecom UUT reduction of \$450,000.
- Transient Occupancy Taxes (TOT) are estimated to increase \$450,000 attributable to increases in both occupancy and room rates.

### Appropriation Assumptions:

Included below is a complete list of FY 2007-2008 appropriation budget assumptions. It is not expected that these assumptions will change much as we progress through the budget process.

- PERS safety employer costs decreased from 25.6% of payroll to a projected 25.2% July 1, 2007. The net fiscal impact reflected in the FY 2007-2008 budget is a decrease of approximately \$43,000.
- PERS miscellaneous employer costs increased from 9.96% of payroll to an estimated 10.2% July 1, 2007. The net fiscal impact reflected in the FY 2006-2007 budget is an increase of approximately \$31,000.
- Salary and benefit increases, net of retirement savings, incorporated into the budget total \$2.2 million.
- Departments have controlled operational expenditure growth at 2.9% over FY 2006-2007 adopted budget, net of new programs, fuel and utility costs. This closely parallels the Consumer Price Index (CPI) growth of 2.7% reported as of June 2007.
- The fiscal impact of new proposed programs included in the budget is \$243,650.

- The budget includes \$3.5 million in citywide capital improvement projects in all funds as recommended by the Capital Improvement Project Advisory Committee.

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 Deborah Cullen, Interim Director of Finance and Jeanne McLeod, Accountant, for their work creating and 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 and cohesive policy direction from the City Council has provided the basis for this budget.

Sincerely,

Jeff Stewart  
City Manager