



September 15, 2009

Honorable Mayor and Members
of the City Council

Re: Submittal of FY 2009-2010 Budget

I am pleased to present to City Council a balanced budget for Fiscal Year 2009-2010. The Adopted Budget includes General Fund Expenditures of \$62.3 million offset by General Fund Revenues of \$62.3 million.

As with FY 2008-2009, the department heads and staff worked diligently to find efficiencies and reduce expenditures in an effort to balance the proposed budget before the City Council. The ongoing economic crisis that is facing the nation, our state and El Segundo is unprecedented in scope and presents unique challenges for balancing the FY 2009-2010 Operating Budget. With revenues declining and costs escalating staff was forced to recommend many cost reductions, revenue generators and the use of one-time monies to bridge the identified gap between revenues and expenditures.

This document reflects those efforts and provides a funding plan that will allow the City to maintain a superior level of services to the residents and business community that call El Segundo home. The department directors were asked to examine their budgets closely and present a funding plan for their respective core services while recommending reductions in expenditures and 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:

- Included in the budget is \$270,900 for ten technology projects recommended by the Executive Technology Review Committee (ETRC), which includes \$48,000 for a Human Resources Applicant Tracking System; \$18,000 for wiring needed in the Recreation and Parks Department; and \$35,000 to upgrade the City's website.

The City Budget Overview:

The City began the budget planning process at a Special Meeting held March 19, 2009. At this meeting staff presented an overview of the challenges, limitations, goals and strategies with

associated projects and programs. The purpose of this meeting was to get preliminary direction from Council on prioritizing projects/programs for the FY 2009-2010 budget. Staff highlighted the following areas that would negatively impact the City's 2009-2010 budget:

- **National Economic Crises**
- **Reduced revenues**
- **Escalating PERS rates driven by higher salaries and portfolio losses**
- **Unemployment rate continues to increase**
- **Other Post Employment Benefits (OPEB) Funding**

Additionally, staff highlighted potential revenue generators to help fund prioritized projects/programs:

- **New Telecom Ordinance**
- **TOT Class-Action**
- **Fee Study**
 - **Continuous implementation of fee study**
 - **Fee study for police fees and fines**
 - **County/Court fee increase**
- **Economic Stimulus Plan**
- **Disposition of F.S. #2 Land**
- **Developer Fees - PLF**
- **Water/Sewer Rate Study**

At this meeting Council directed staff to take the following steps to balance the General Fund budget:

- Transfer \$4.9 million from Internal Service Funds and the Economic Uncertainty Fund
 - Transfers included:
 - \$2,280,550 Transfer from the Equipment Replacement Fund;
 - \$750,000 Transfer from the General Liability Fund;
 - \$500,000 Transfer from the Workers' Compensation Fund
 - \$1.96 million Transfer from the Economic Uncertainty Fund
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- Approximately \$1.1 million in cost savings were identified from temporary reduction in staffing;
- Approximately \$914,000 in cost savings were identified from reduction in non-personnel costs

On July 8, 2009, the City Council held the second Strategic Planning Session with the City Manager and all department heads. During this planning session, the City Council reviewed the FY 2009-2010 Preliminary Budget that included the actions that were proposed in the March 19, 2009 planning meeting. Staff also presented the major General Fund expenditure

budget assumptions, and although Departments had kept operational expenditure increases to a minimum, there were still expenditure impacts that were identified as follows:

- \$1.5 million increase in General Fund expenditures, resulting primarily from bargaining-unit obligations, has been included in the budget.
- OPEB (Other Post Employment Benefits) applicable to funding retiree healthcare coverage was budgeted at \$2.2 million in FY 2009-2010.
- Health benefit increases of 5.0% citywide are included in the budget. The impact on the General Fund is approximately \$321,500.
- The Budget includes funding 90% of the annual fiscal charge for the Equipment Replacement Fund and funding 100% of estimated expenses in the Liability Insurance and Workers' Compensation Fund.
- The fiscal impact of proposed technology projects included in the budget is \$270,900.
- The General Fund contribution to Capital Improvement projects is \$350,000.

The following revenue impacts were highlighted by staff and while the City has achieved a balanced budget for the fiscal year, we continue to be impacted by the ongoing decline in the economy. The City experienced a decrease in revenues for Fiscal Year 2008-2009 and for Fiscal Year 2009-2010 is projecting an overall reduction in revenues of \$1,025,000 or 1.8%. As a result, the Fiscal Year 2009-2010 revenue budget includes reductions in several major General Fund revenues when compared to the prior year's budgeted amount. These revenue reductions include:

- An 8.3% reduction in Transient Occupancy Tax revenues, which approximates \$404,000;
- A 9.25% reduction in Business License Tax revenues, which approximates \$917,000;
- A 25% reduction in Building Permit revenues, which approximates \$300,000;
- A 24% reduction in Plan Check Fee revenues, which approximates \$379,000;
- A 38% reduction in Interest on Investment revenues, which approximates \$800,000;
- A 23.6% reduction in Cogenerated Electric revenues, which approximates 650,000.

The FY 2009-2010 Preliminary Operating and Capital Improvement Budget includes \$350,000 in General Fund Capital Improvement projects; \$220,000 in Gas Tax projects; \$500,000 in Water Capital Improvement projects; and \$500,000 in Sewer Capital Improvement Projects as recommended by the Water and Sewer Task Force; and \$220,000 in Prop C projects. A detailed list of the capital projects can be found in the Capital Improvement Program section of this budget document.

The next step in the process was a public hearing which occurred on September 1, 2009. Any budget revisions resulting from the public hearing were reflected in the final adopted budget, which was adopted on September 15, 2009.

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 2009-2010 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 2009-2010 revenue budget assumptions. These assumptions may change as we get closer to the completion of the budget process.

- Property Taxes are projected to increase 2.6% from the FY 2008-2009 adopted budget; this percentage may be revised at mid-year review after the staff receives and reviews the new assessed valuations.
- Sales tax revenue is currently projected to increase 1.8% over FY 2008-2009 adopted budget which is primarily attributed to the slow-down in the economy.
- Business License Fees are assumed to decrease 9.25% over the FY 2008-2009 adopted budget.
- Utility User's taxes (UUT) overall are estimated to increase \$782,000 over FY 2008-2009 budget, based on the 2008-2009 estimated actual revenues.
- Transient Occupancy Taxes (TOT) are estimated to decrease \$403,400 from FY 2008-2009 budget as a result of decreases in both occupancy and room rates.

Appropriation Assumptions:

Included below is a list of FY 2009-2010 appropriation budget assumptions.

- PERS safety employer costs increased from 25.5% of payroll to a projected 27.06% July 1, 2009. The net fiscal impact reflected in the FY 2009-2010 budget is an increase of approximately \$456,000.
- PERS miscellaneous employer costs increased from 10.65% of payroll to an estimated 10.75% July 1, 2009. The net fiscal impact reflected in the FY 2009-2010 budget is an increase of approximately \$11,000.
- Overall health benefit increases of 5.0% have been incorporated into the budget.
- General Fund non personnel expenditures decreased by 7.6% or \$1.1 million over the FY 2008-2009 adopted budget.
- The budget includes \$2.6 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 the entire City's staff for their outstanding efforts in the development of this year's budget. Special acknowledgement must be given to the Finance Department, especially Deborah Cullen, Angelina Garcia, Jeanne McLeod and Stella Georgious for their efforts in assembling this budget.

The City departments underwent extensive analysis of costs, revenues and programs to ensure that 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,

A handwritten signature in black ink, appearing to read 'Jack Wayt', is written over the typed name.

Jack Wayt
City Manager