



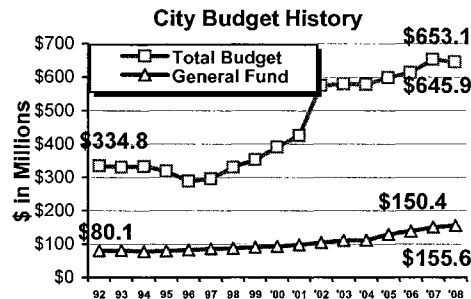
2006/07 BUDGET MESSAGE

ADOPTED BUDGET – 2006/07

Mayor and City Council Members,

This document represents the adopted budget for fiscal year 2006-07 and the recommended budget for 2007-08. The total adopted budget for 2006-07 is \$653.1 million, or 6.5% higher than last year's adopted total budget. The total recommended budget for 2007-08 is \$645.9 million, a decrease of 1.1% in the second year of this two-year budget. The adopted General Fund Budget for 2006-07 is \$150.4 million, or 8.8% greater than last year's originally adopted General Fund Budget. This budget message will summarize the primary financial issues being addressed with this adopted budget.

Beginning in November 2005, the City Council held numerous Budget Study Sessions. A public hearing on the budget was held on May 30th and the budget was adopted on June 20th.



This two-year budget document reflects a projected General Fund surplus for the next two years, while addressing high-priority unfunded needs, including a new Fire Paramedic unit, Adult Recreation Center operations, Nutritional Meals program, brush abatement, Police cadet program funding, catch-up technology replacements, and two libraries (Adams Square Storefront Library and a temporary location for Casa Verdugo Library). As discussed with City Council at the study session on June 6th, in future years, expenses are projected to grow at a greater rate than revenues. To fund the high-priority unfunded needs and help resolve this structural deficit, in 2006/07 almost \$1 million in new revenues and over \$1.4 million (almost \$2 million in 2007/08) in expense reductions were included in this adopted budget.

BUDGET OVERVIEW

The prior year {2005/06} General Fund revenues are projected to be approximately 4.2% higher than originally projected and next year's revenues {2006-07} are projected to increase 6.5%. This increase in 2006-07 projected revenues is due to increased property taxes of 9%, a 6.6% increase in sales taxes, a 4.2% increase in Utility Users Tax, and a 6.4% increase in transfers from other funds.



2006/07 BUDGET MESSAGE

Two-Year General Fund Budget Summary

Adopted Two-Year Budget:	2006/07	2007/08
Estimated Revenues	\$151,899,869	\$156,320,816
Adopted Expenses	150,407,965	155,632,892
Projected Surplus	\$ 1,491,904	\$ 687,924

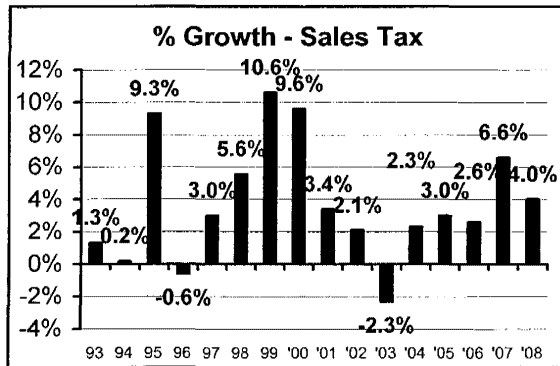
GENERAL FUND REVENUES

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 \$9.2 million or 6.4% in Fiscal Year 2006/07.

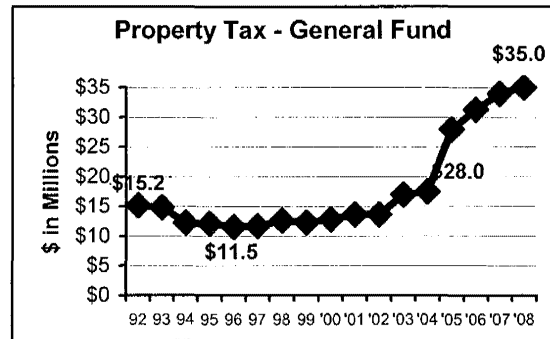
<u>Revenue</u>	<u>Projected Increase</u>
Property Taxes	\$ 2,799,558
Sales Taxes	1,000,000
Utility Users Taxes	1,000,000
Transfers from Other Funds	1,661,000
Other revenues	2,742,769
TOTAL	\$ 9,203,327

Sales Tax - Sales tax is projected to grow 6.6% in 2006-07 from the current year revised total of \$30.6 million (General Fund and CIP Fund). This projection reflects the current healthy economy continuing.



2006/07 BUDGET MESSAGE

Property Tax - The growth in the assessed value in the General Fund of 10.4% is higher than last year's 8.4% 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 continue in 2006/07 before leveling off somewhat in 2007/08.



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 2006-07 is 4.2%. The total estimated Utility tax revenue for 2006-07 is \$24.8 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 with regard to the wireless industry.

Transfers – In 2006/07, the City transfers funds from the Electric Utility (\$17.782 million), Water Utility (\$3.950 million), Sewer Utility (\$1 million), and the Capital Improvement Fund (\$2.8 million).

General Fund Revenue Estimates

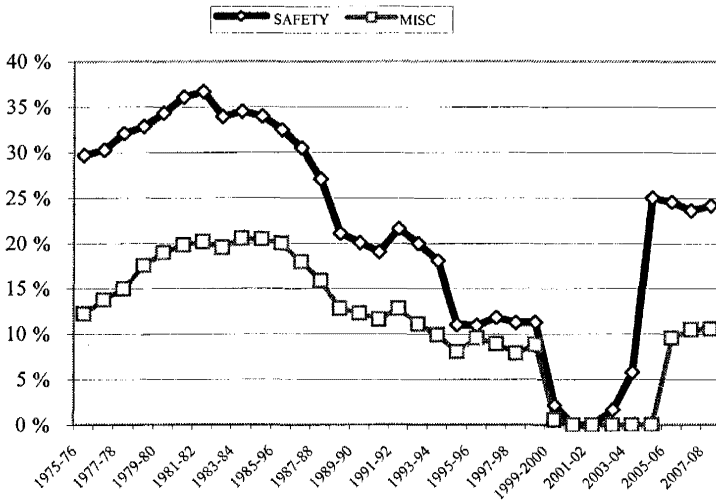
	Revised 2005/06	Projected 2006/07	% Change
Property Taxes	\$ 31,250,442	\$ 34,050,000	9.0 %
Sales Tax	26,275,000	28,000,000	6.6 %
Utility Users Taxes	23,800,000	24,800,000	4.2 %
Other Taxes	7,650,000	7,650,000	0.0 %
Licenses & Permits	6,105,000	6,176,663	1.2 %
Fines & Forfeitures	1,400,000	1,400,000	0.0 %
Use of Money & Property	7,103,000	7,550,000	6.3 %
Revenue from Other Agencies	1,840,000	1,610,000	(12.5 %)
Charges for Services	3,611,100	5,391,206	49.3 %
Misc. & Non-Operating	746,000	520,000	(30.3 %)
Interfund Revenue	7,125,000	7,300,000	2.5 %
Transfers From Other Funds	25,791,000	27,452,000	6.4 %
Total Revenue	\$ 142,696,542	\$ 151,899,869	6.4 %

2006/07 BUDGET MESSAGE

GENERAL FUND EXPENDITURES

Increased costs for salary adjustments for employees covered by multi-year labor agreements and CalPERS retirement costs are included in the adopted budget. As mentioned above, this adopted budget addresses many high-priority unfunded needs discussed and approved by the City Council on June 2, 2006.

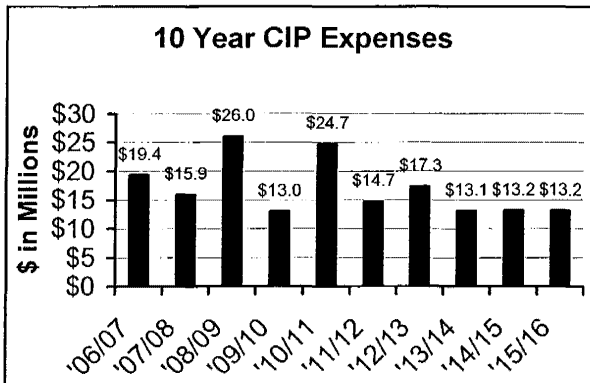
CalPERS Contribution Rates – During the late 1990’s, with the stock market returning over 20% annually, CalPERS reduced our rates for both Safety and Non-Safety employees to a zero contribution rate for the City.



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 increased from 1.665% of payroll {2002/03} to 24.577% {2005/06}. In 2006/07 and 2007/08 these rates are 23.610% and 24.172%, respectively. The Non-Safety employee rates are 10.506%

for 2006/07 and 10.554% for 2007/08. Included in the non-safety rate is the new retirement benefit formula implemented in December 2005, representing about 3% of the 10.5% total rate.

CAPITAL IMPROVEMENT PROGRAM



For fiscal year 2006-07 the approved appropriation for projects totals \$19.4 million with no contingency. This year, the projects planned for the next 10 years total \$162.4 million, including \$24 million in contingencies. The projects approved for funding in 2006-07 are detailed in the CIP budget.

2006/07 BUDGET MESSAGE

OTHER FUNDS

The 2006/07 adopted budget for the Enterprise Funds totals \$345 million. The primary funds are the Electric, Water, Sewer and Refuse Disposal funds, which total \$332 million, or 96%, of the \$345 million. The 2007/08 adopted budget for the Enterprise Funds is \$353 million, a 2.1% increase over 2006/07.

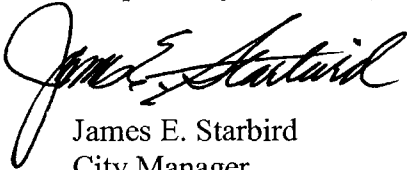
INTERNAL SERVICE FUNDS

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 adopted budget for 2006-07 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