

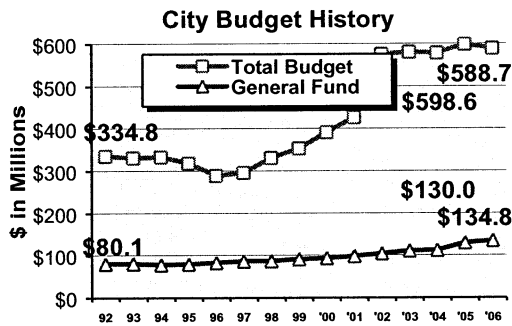


**2004/05 BUDGET MESSAGE**

**PRELIMINARY BUDGET – 2004/05**

Mayor and City Council Members,

This document represents the recommended budget for fiscal year 2004-05 and 2005-06. The total proposed budget for 2004-05 is \$598.6 million, or 3.3% higher than last year's adopted total budget. The total proposed budget for 2005-06 is \$588.7 million, a decrease of 1.6% in the second year of this proposed two-year budget. The proposed General Fund Budget for 2004-05 is \$130 million, or 14% greater than last year's adopted General Fund Budget. This includes \$4.1 million of costs transferred from the CIP fund mid-year and \$8 million for payment of retirement benefit costs. This budget message will summarize the primary financial issues being addressed with this proposed budget.



Beginning in January 2004, the City Council has held numerous Budget Study Sessions. A public hearing on the budget will be held on June 8<sup>th</sup> and budget adoption is scheduled for June 29<sup>th</sup>.

This preliminary budget document addresses the general fund shortfalls that were projected for Fiscal Years 2004/05 and 2005/06 with budget strategies that were reviewed with the City Council in April and May. It also includes the funding of 25 new sworn police positions and 11.5 new police support staff as phase one of plan to grow the Glendale Police Department by 100 new police officers over the next few years.

We originally projected a \$4.5 million budget shortfall in Fiscal Year 2004/05 due primarily to increased retirement benefit costs and anticipated losses to the State of California. In anticipation of the 2004/05 shortfall, we reduced the General Fund/Capital Improvement expenses by \$5.5 million last year (2003/04) to generate a \$3.2 million surplus in 2003/04. All of the reductions were ongoing reductions as opposed to one-time measures. This enabled the City to prepare for the increased retirement costs to CalPERS in 2004/05 and for potential revenue losses stemming from the State of California budget crisis.

**BUDGET OVERVIEW**

The prior year {2003/04} General Fund revenues are projected to be approximately 4.3% higher than originally projected and next year's revenues {2004-05} are projected to increase 10.3%. This percentage increase for 2004-05 projected revenues is also due to increased property taxes of 5.3%, with a 3.4% increase in other taxes, a 15.4% increase in licenses and permits, and a 50.2% increase in VLF revenue (not accounting for VLF loss to bail-out the State the next two years), and a 19.1% increase in transfers from other funds.

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**Two-Year General Fund Budget Summary**

<b>Recommended Two-Year Budget:</b>	<b>2004/05</b>	<b>2005/06</b>
Estimated Revenues	\$130,043,521	\$134,801,000
Recommended Expenses	<u>130,028,840</u>	<u>134,754,242</u>
Projected Surplus	\$ 14,681	\$ 46,758

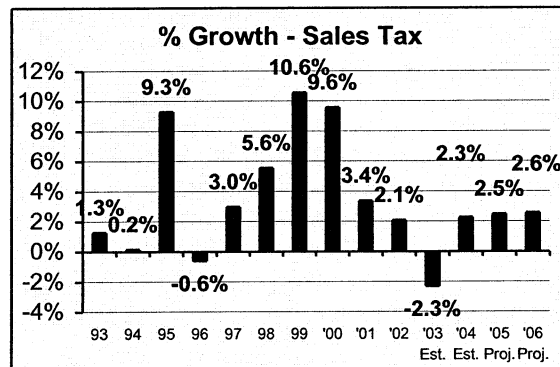
**GENERAL FUND REVENUES**

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, vehicle license fees 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 \$12.3 million or 10.3% in Fiscal Year 2004/05.

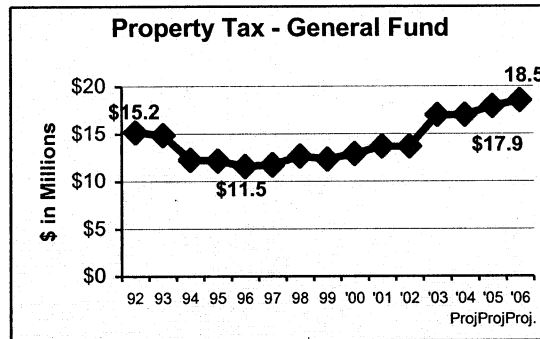
<u>Revenue</u>	<u>Projected Increase</u>
Property Taxes	\$ 900,000
Sales Taxes	600,000
Utility Users Taxes	1,200,000
Franchise Taxes	(100,000)
Motor Vehicle in Lieu (VLF)	4,200,000
Transfers from Other Funds	3,745,000
Other revenues	<u>1,797,966</u>
<b>TOTAL</b>	<b>\$ 12,342,966</b>

**Sales Tax** - Sales tax is projected to grow 2.5% in 2004-05 from the current year revised total of \$28.7 million (General Fund and CIP Fund).



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**Property Tax** - The projected growth in the assessed value in the General Fund of 5.3% is the slightly greater than last year's 4.9% growth. This revenue category will likely remain stable or may grow more in 2004/05 due to the real estate market recovery and the related higher number of sales of existing homes and commercial/retail.



**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 2004-05 is 5.5%. The total estimated Utility tax revenue for 2004-05 is \$23.2 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.

**Vehicle License Fees (VLF)** - Although vehicle owners have received a 67.5% reduction in VLF fees {starting January 1, 1999}, the reduction did not impact City revenues because the State agreed to replace, or "backfill" the reduction with State revenues. Our projections are consistent with the reestablishment of the backfill in December 2003 and on a total revenue level, our estimates include the governor and League's agreement to bail-out the state for two years (see discussion on State Budget below).

**Transfers** - In 2004/05, the City transfers funds from the Electric Utility (\$16.030 million), Water Utility (\$3.75 million), and the Capital Improvement Fund (\$1.8 million).

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### General Fund Revenue Estimates

	Revised 2003/04	Projected 2004/05	% Change
Property Taxes	\$ 17,017,000	\$ 17,917,000	5.3 %
Sales Tax	24,075,000	24,675,000	2.5 %
Utility Users Taxes	22,000,000	23,200,000	5.5 %
Other Taxes	6,950,000	6,975,000	0.4 %
Licenses & Permits	4,013,000	4,630,000	15.4 %
Fines & Forfeitures	1,500,000	1,550,000	3.3 %
Use of Money & Property	5,151,000	5,702,000	10.7 %
Revenue from Other Agencies	8,365,000	12,565,000	50.2 %
Charges for Services	4,311,278	4,535,521	5.2 %
Misc. & Non-Operating	291,000	361,000	24.1 %
Interfund Revenue	6,539,277	6,700,000	2.5 %
Transfers From Other Funds	19,635,000	23,380,000	19.1 %
State Loss	0	(2,147,000)	
Total Revenue	\$ 119,847,555	\$ 130,043,521	8.5 %

### GENERAL FUND EXPENDITURES

Increased costs for salary adjustments for employees covered by multi-year labor agreements are included in the recommended budget. There are two main issues confronting the City of Glendale and our General Fund budget. The first and most imminent is the budget crisis at the State level. The second is the payment for retirement costs to CalPERS.

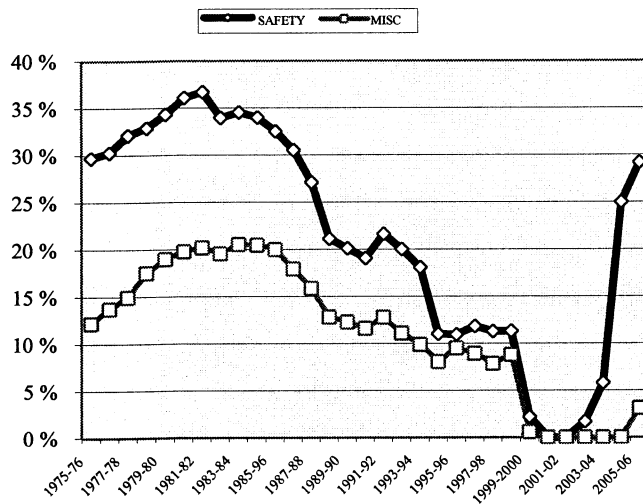
The State of California budgetary crisis continues to threaten City revenues. The League of California Cities and LOCAL have put a ballot initiative together for the November 2004 ballot to protect City revenues. With the State budget crisis still looming, Governor Schwarzenegger has reached agreement with municipalities and Counties to help bail out the State over the next two years in exchange for his support of a ballot initiative that is as strong or stronger than the initiative brought by the League of California Cities and LOCAL. The League has agreed with the Governor and the terms of this alternative ballot measure. CalPERS cost increases for fiscal year 2004/05 amount to an additional \$8 million cost to the General Fund.

**State of California Budget** – The budget gap at the State level grew to over **\$38 BILLION** last year. In 2003/04, the State has already taken over \$3 million of Glendale's VLF {Vehicle License Fee} revenue. We are estimating that the State will take \$4.3 million from us for the next two fiscal years, as a state bail-out. Then, in 2006/07, the State will repay \$3.6 million in lost VLF backfill. The history of State budgets in years past is that municipalities have contributed some amount of money to bail the State out of

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its budgetary crisis. Since 1993-94 the City has contributed over \$3.5 million annually in the form of an ERAF {Educational Revenue Augmentation Fund} shift to the State. During the 1980's, the State took: Cigarette taxes, alcohol taxes, bank-in-lieu taxes, a portion of the VLF and others from municipalities.

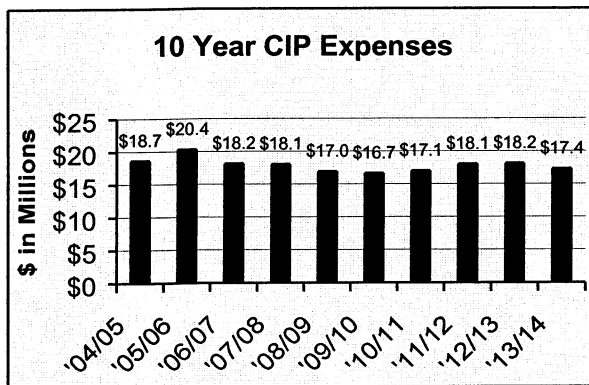
**CalPERS Contribution Rates** – During the late 1990's, with the stock market returning over 20% annually, CalPERS reduced our rates for both Safety and Non-Safety



employees to a zero contribution rate for the City. Since March 2000, the stock market has lost a tremendous amount of 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 5.8% {2003/04} and for 2004/05 and 2005/06 it is projected to grow to 24.99% and 29.2%, respectively. The Non-Safety employee rates are projected to be zero for 2004/05 and 3.1% for 2005/06.

### CAPITAL IMPROVEMENT PROGRAM

For fiscal year 2004-05 the approved appropriation for projects totals \$18.7 million with



no contingency. This year, the total projects planned for the next 10 years (including contingencies) have decreased because the CIP fund's share of sales tax decreased in January 2004. More sales tax is now shifted to the General Fund to eliminate the transfer from the CIP fund to the General Fund, and to properly fund maintenance costs in the General Fund. The projects approved for funding in 2004-05 are detailed in the CIP budget.

### OTHER FUNDS

The 2004/05 recommended budget for the Enterprise Funds totals \$335 million. The primary funds are the Electric, Water, Sewer and Refuse Disposal funds, which total \$313 million, or 94%, of the \$335 million. A sixty-one cent (5%) per month residential {single-family} rate increase (along with comparable increases in other categories) will be necessary in the refuse disposal fees in order to have a balanced budget for the Refuse Fund. This increase is the fourth of a planned 5-year program of increases to ensure the fiscal stability of this Enterprise Fund. The 2005/06 recommended budget for the Enterprise Funds is \$319 million.

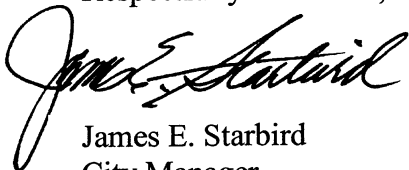
**INTERNAL SERVICE FUNDS**

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. Beginning in Fiscal Year 2004/05, there will be eight new Internal Service Funds: Helicopter Depreciation Fund, Technology Equipment Replacement Fund, Application Software Replacement Fund, Police CAD/RMS Replacement Fund, Citywide Document Management System Fund, Graphics Operation Fund, Wireless Communications System Fund, and the Financial System Operation Fund.

**CONCLUSION**

The recommended budget for 2004-05 reflects a balanced General Fund budget, even after incorporating the anticipated State takeaways for the next two years. The Capital Improvement Program addresses some of the City’s priority infrastructure, park and capital replacement needs.

Respectfully submitted,



James E. Starbird  
City Manager