



2003/04 BUDGET MESSAGE

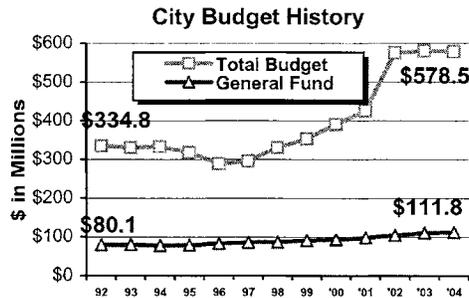
ADOPTED BUDGET – 2003/04

Mayor and City Council Members,

This document represents the adopted budget for fiscal year 2003-04. The total adopted budget is \$578.5 million, or 0.7% less than last year's adopted total budget. The adopted General Fund Budget for 2003-04 is \$111.8 million, or 1.1% greater than last year's adopted General Fund Budget. This budget message will summarize the primary financial issues being addressed with this adopted budget.

Beginning in April 2003, the City Council has held numerous Budget Study Sessions. A public hearing on the budget was held on June 10th before adopting the budget on June 24th.

This adopted budget document addresses the general fund shortfall of approximately \$1.7 million for Fiscal Year 2003/04 with budget reduction strategies that produce a General Fund surplus of \$3.2 million. We project a \$4.5 million budget shortfall in Fiscal Year 2004/05 (the year following this budget) due primarily to increased retirement benefit costs. We have reduced the General Fund/Capital Improvement expenses by \$5.5 million in Fiscal 2003/04. All of the reductions are ongoing reductions as opposed to one-time measures. This will enable the City to prepare for the increased retirement costs to CalPERS and to prepare for potential revenue losses stemming from the State of California budget crisis.



BUDGET OVERVIEW

The prior year {2002/03} General Fund revenues are projected to be approximately 0.3% higher than originally projected and next year's revenues {2003-04} are projected to increase 4.7%. This percentage increase for 2003-04 projected revenues is mainly due to increased property taxes of 7.2%, with a 1.8% increase in other taxes, a 8.7% increase in licenses and permits, and an 8.2% increase in transfers from other funds.

2003-04 General Fund Budget Summary

| 2003-04 Adopted Budget: | |
|--------------------------------|---------------|
| Estimated Revenues | \$115,015,558 |
| Adopted Expenses | 111,784,016 |
| Projected Surplus | \$ 3,231,542 |

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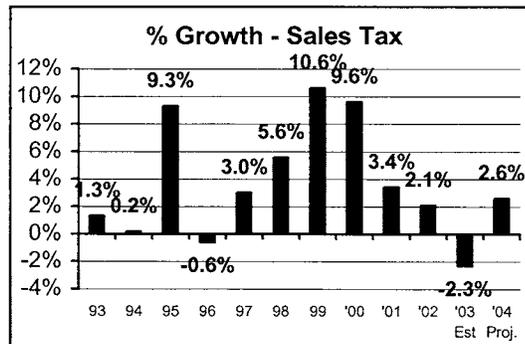
GENERAL FUND REVENUES

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.

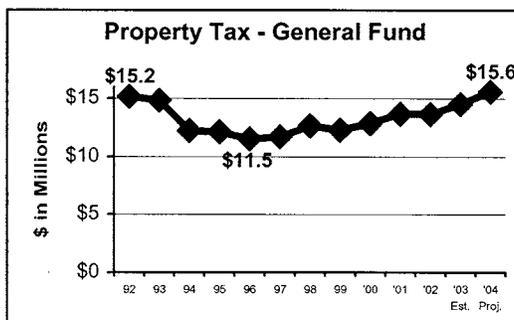
We have estimated increased revenues of \$5.21 million or 4.7% in Fiscal Year 2003/04.

| <u>Revenue</u> | <u>Projected Increase</u> |
|-----------------------------|---------------------------|
| Property Taxes | \$ 1,110,000 |
| Sales Taxes | 350,000 |
| Utility Users Taxes | 500,000 |
| Franchise Taxes | (305,000) |
| Motor Vehicle in Lieu (VLF) | 400,000 |
| Transfers from Other Funds | 996,000 |
| Other revenues | 2,158,221 |
| TOTAL | \$ 5,209,221 |

Sales Tax - Sales tax is projected to grow 2.6% in 2003-04 from the current year revised total of \$26.9 million (General Fund and CIP Fund). The revised projection for 2002/03 represents a 2.3% decrease over the prior year actual revenue. We are projecting a small percentage growth in 2003-04 due to several factors. Currently, the overall sales tax growth rate is negative. Secondly, auto sales were at a record level and they are the only category that continues to increase, but at a slower pace. All other retail outlets have declining revenue.



Property Tax - The projected growth in the assessed value in the General Fund of 5.2% is slightly greater than last year's 4% growth. This revenue category may grow faster in 2003/04 due to the real estate market recovery and the related higher number of sales of existing homes and commercial/retail.



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Utility Users Tax - Growth in this revenue is related to changes in utility rates charged to customers for telephone, 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 2003-04 is 2.7%. The total estimated Utility tax revenue for 2003-04 is \$19 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. Our ongoing Utility Users Tax audit may generate significant increased revenues not currently included in our projections.

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 has agreed to replace, or “backfill” the reduction with State revenues. Our projections are consistent with the State pulling the “trigger” on the reinstatement of the full vehicle license fee to the vehicle owners on June 20, 2003. However, our estimates did not include the loss of an estimated \$2.1 million from the elimination of the “backfill” on June 20th and Oct 1st when the higher vehicle license fee revenue starts coming in. Without this loss, this revenue was projected to grow to \$11.9 million, or 3.5% in 2003-04.

Transfers – The City transfers funds from the Electric Utility (\$13.935 million), Water Utility (\$3 million), and the Capital Improvement Fund (\$6.75 million). Transfers are the General Fund’s largest revenue source.

Other Revenues – Overall General Fund revenues are projected to grow 4.7%, including the increased CIP fund transfers.

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General Fund Revenue Estimates

| | Revised 2002/03 | Projected 2003/04 | % Change |
|-----------------------------|--------------------|----------------------|----------|
| Property Taxes* | \$ 15,464,000 | \$ 16,574,000 | 7.2 % |
| Sales Taxes | 13,450,000 | 13,800,000 | 2.6 % |
| Utility Users Taxes | 18,500,000 | 19,000,000 | 2.7 % |
| Other Taxes | 6,600,000 | 6,445,000 | (2.3 %) |
| Licenses & Permits | 3,580,000 | 3,893,000 | 8.7 % |
| Fines & Forfeitures | 1,350,000 | 1,600,000 | 18.5 % |
| Use of Money & Property | 3,917,000 | 5,318,000 | 35.8 % |
| Revenue from Other Agencies | 12,223,295 | 12,185,000 | (0.3 %) |
| Charges for Services | 3,564,474 | 3,644,124 | 2.2 % |
| Misc. & Non-Operating | 794,200 | 936,434 | 17.9 % |
| Interfund Revenue | 5,873,368 | 6,134,000 | 4.4 % |
| Transfers From Other Funds | 24,490,000 | 25,486,000 | 4.1 % |
| Total Revenue | \$ 109,806,337 | \$ 115,015,558 | 4.7 % |

*5.2% excluding effect of accounting change.

GENERAL FUND EXPENDITURES

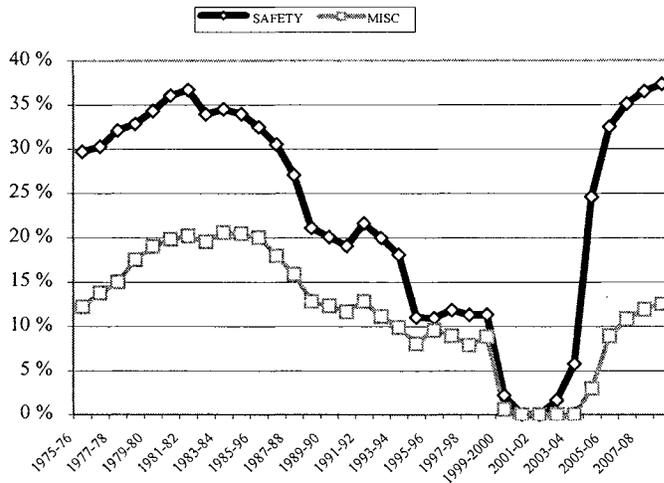
Increased costs for salary adjustments for employees covered by multi-year labor agreements (estimated cost = \$2.4 million) are included in the adopted budget. There are two main issues confronting the City of Glendale and our General Fund budget. The first and most imminent is the budget crisis at the State level. The second is the payment for retirement costs to CalPERS.

One year ago we were projecting that fiscal year 2003/04 would show a General Fund shortfall of \$3.6 million. The shortfall in the preliminary budget stood at approximately \$1.7 million reflecting some improvement in revenues and some cost reductions. If that was all the City had to deal with for FY 2003/04 then we could have balanced our budget with minimal pain, although without needed service level increases. However, the State of California failed to address its budget issues a year ago, and entered into budgetary crisis following the statewide election in November. We are currently estimating a \$2-3 million General Fund loss to the State. On top of this loss, we have CalPERS cost increases for fiscal year 2004/05, with a dramatic rate increase on our Safety employee retirement costs, amounting to an additional \$8 million for 2004/05.

During the budget process, City management staff developed a list of potential budget reductions totaling \$10 million. We have implemented \$5.5 million of those reductions in fiscal year 2003/04 to generate a \$3.2 million surplus in the General Fund. In the coming months, we will begin the planning for the following year.

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State of California Budget – The budget gap at the State level grew to over **\$38 BILLION**. We are estimating that the State will take approximately \$2-\$3 million from us for fiscal year 2003/04. The history of State budgets in years past is that municipalities will contribute some amount of money to bail the State out of 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. In anticipation of the State taking some revenues from the City, we have implemented budget reduction strategies to produce a \$3.2 million surplus in the General Fund for FY 2003/04.

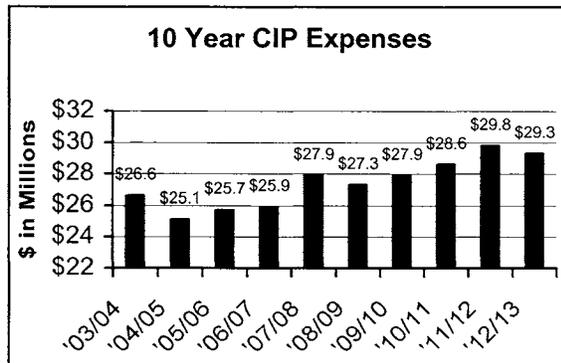


CalPERS Contribution Rates

– During the late 1990's, with the stock market returning over 20% annually, CalPERS reduced our rates for both Safety and Miscellaneous down to a zero contribution rate for the City. The employees continued to contribute their 9% or 7% of payroll respectively to fund their retirement. 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 it is projected to grow to 24.6%. The Miscellaneous employee rates are projected to be zero for 2003/04 and 2004/05 but they are projected to rise following those two years.

CAPITAL IMPROVEMENT PROGRAM



For fiscal year 2003-04 the approved appropriation for projects totals \$26.6 million with no contingency. Projects planned for the next 10 years (including contingencies) were reduced by over \$20 million in order to increase General Fund resources by \$2.3 million per year.

The projects approved for funding in 2003-04 are detailed in the CIP budget.

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OTHER FUNDS

The adopted budget for the Enterprise Funds totals \$314 million. The primary funds are the Electric, Water, Sewer and Refuse Disposal funds, which total \$294 million, or 94%, of the \$314 million. A sixty-one cent per month residential {single-family} rate increase (along with comparable increases in other categories) will be necessary this fiscal year for the refuse disposal fees in order to have a balanced budget for the Refuse Fund. This increase is the third of a planned 5-year program of increases to ensure the fiscal stability of this Enterprise Fund.

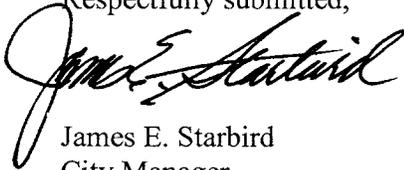
INTERNAL SERVICE FUNDS

The Internal Service Fund budgets can be found in the Finance & 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 2003-04 includes an approximate \$3.2 million surplus in the General Fund. The City Council approved budget reductions proposals for the General Fund Budget to better prepare the General Fund in light of the State's potential takeaways. The Capital Improvement Program addresses some of the City's priority infrastructure, park and capital replacement needs.

Respectfully submitted,



James E. Starbird
City Manager