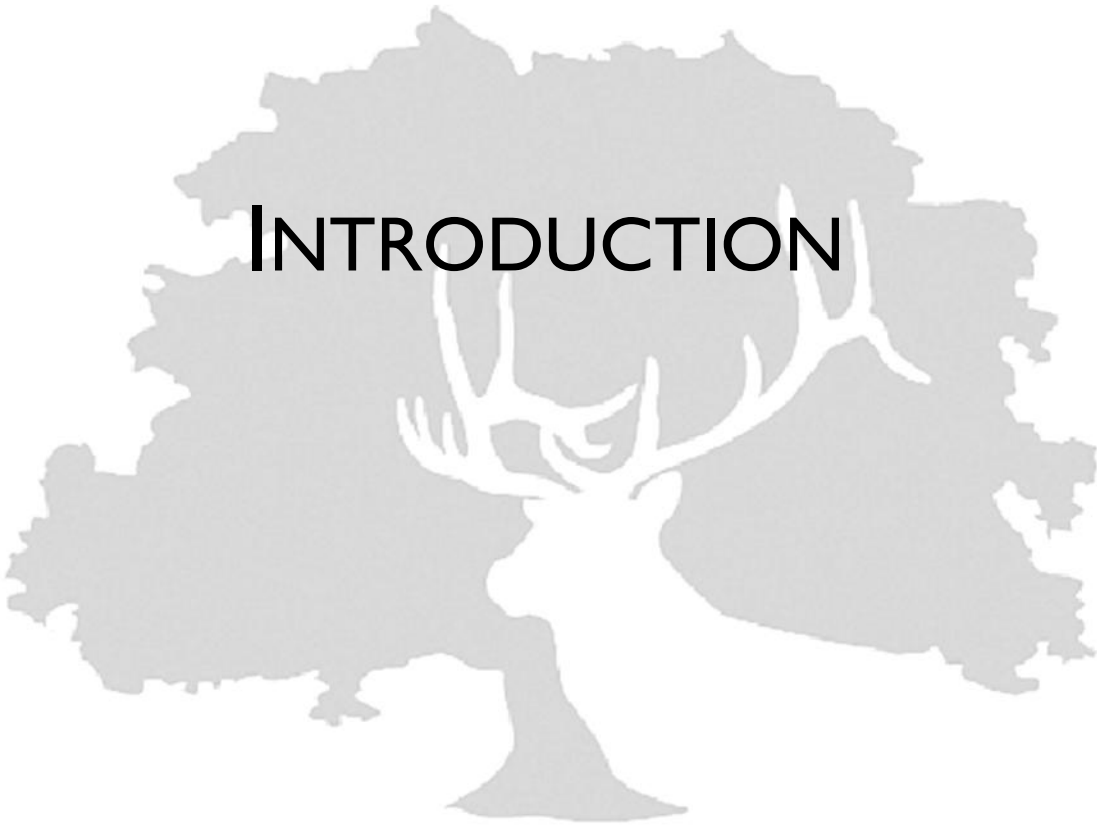


ANNUAL BUDGET
Fiscal Year 2009-2010





Mayor and Council Members:

I am pleased to submit the Fiscal Year 2009-10 Proposed Budget and Fiscal Year 2010-11 Fiscal Plan for your review and consideration. The total Proposed Budget for FY 2009-10 is \$203.8 million, which is \$53.6 million (-20.8%) less than the final FY 2008-09 budget of \$257.4 million. The City's proposed General Fund budget, which provides discretionary funds for services, is \$49.9 million, which is \$5.3 million (-9.6%) less than the FY 2008-09 final budget of \$55.2 million.

The Proposed FY 2008-09 Budget generally provides for the current level of service to the citizens of Elk Grove despite the effects of the most challenging economic climate in recent history. Consider the following adjustments in the local economy currently underway:

- The residential real estate market has weakened as more properties are foreclosed upon or sold through short sales. Mortgage defaults, the first step in the foreclosure process, rose sharply during the first quarter of 2009. Additionally, economists warn of a second wave of foreclosure activity to begin in 2011, as many adjustable rate mortgages are reset. Consequently, real estate experts suggest that the weakening in residential real estate values will continue through 2012. This weakening translates into lower property tax revenues.
- Homeowners who enjoyed robust growth in their property during the housing boom may have used the resulting equity to finance more expensive household goods and vehicles. With the weakening residential real estate market, homeowners have seen this equity sharply reduced or eliminated. The loss of equity translates into declining retail activity and decreased sales tax revenues.
- As the credit market tightened during the current fiscal year, retailers could not find the necessary capital to continue operations. As a result, a number of national retailers have closed their doors. A number of these retailers had a presence in Elk Grove. These closures adversely impact the City's sales tax revenues. The tightening credit market has also resulted in the indefinite delay in the completion of the Promenade Mall.
- According to the Sacramento Regional Research Institute (SRRI), job growth in the Sacramento region continues to worsen, as the region lost five percent of payroll jobs from March 2008 to March 2009. The loss is worse than the statewide and national averages, and is lower than any annual period since 1988. The SRRI job growth outlook for the next year is poor, as its forecast indicates an average growth rate of -6.0%. SRRI concludes its synopsis with the following statement: "Absent some external factor that cannot be accounted for in examining the dynamics driving regional economic behavior, the forecast offers no hope for significant recovery in the Sacramento region during the next 12 months." The loss of jobs will adversely impact the ability of homeowners to stay in their homes and the ability of people to buy goods.

The City first felt the impacts of the contracting economy in its sales tax receipts. After realizing anticipated amounts of sales tax revenues for the first quarter of FY 2008-09, the reductions in sales tax receipts began in October. In addition, the Sacramento Tax Assessor notified the City that it would receive less in property tax revenues due to Proposition 8 assessed value reductions. Due to these revenue shortfalls, staff decreased planned expenditures by \$2 million at mid-year and implemented a flexible hiring freeze.

Unfortunately, by the end of April, it became clear that additional reductions needed to be made in order to maintain a balanced budget at year-end. Consequently, due to lack of funds, I made the decision to layoff four employees and shifted those responsibilities to others within the organization, while cutting additional operating expenses. Staff continues to monitor sales tax receipts, as we will not receive all of the FY 2008-09 sales tax revenues until mid-August.

It now appears that the decline in the major revenue sources for the General Fund will likely continue through 2012. Once economic recovery is underway, growth will be much more modest than the growth rates the region experienced in the mid-2000s. Consequently, the next two to three fiscal years will be a recalibration period to realign our services with the new fiscal reality. This budget proposal recognizes the need for this recalibration through the preparation of a two-year plan that uses a balanced approach of:

- Reducing Operational Expenses,
- Unfunding positions where functions can be reassigned to other staff,
- Suspending components of employee compensation, and
- Using one-time resources on a limited basis.

FY 2009-10 Service Plan

For the first time, the City Council held a series of Town Hall Meetings during January and February 2009 to solicit citizen comments regarding the City's budget and service levels. Each town hall meeting provided residents an opportunity to communicate with members of the City Council and City staff in order to learn more about the budget process and the City's plans for the upcoming year. The format provided an open dialogue between the public and City representatives.

The City Council conducted a two-day Special Council Strategic Planning session on Friday, February 27 and Saturday, February 28. During that meeting, the Council and Executive staff created five goals to guide the activities of the City Council and staff for FY 2009-10 and FY 2010-11. In preparation for the retreat, City Council and staff reflected on the City's internal strengths and weaknesses and its external opportunities and challenges. To help in that reflection, the City Council received a summary of the input provided by citizens during the Town Hall meetings. At its March 25 meeting, the City Council formally adopted its five goals. The City's FY 2009-10 Work Plan centers toward the achievement of the five Council goals.

Create a vibrant, diverse economy.

- **Economic Development Corporation:** The Proposed FY 2009-10 Budget assumes that the City will continue its close working relationship with the Elk Grove Economic Development Corporation (EGEDC). The agreement between the City and the EGEDC calls for a contribution of \$150,000 made up of direct support and in-kind services. In FY 2008-09 the City exceeded the agreed-upon EGEDC obligation through a \$150,000 direct contribution and significant additional in-kind support from the Development Services Departments and the Public Information Office. Though the Proposed FY 2009-10 Budget provides \$150,000

in direct support to the EGEDC, it also reduces City-led economic development marketing and sponsorship efforts. Furthermore, a sustainable level of in-kind support will be identified as the City and EGEDC continue to confer about the appropriate mix of direct and in-kind support.

- **Redevelopment:** At its March 25 meeting, the City Council directed staff to further explore the feasibility of creating a Redevelopment Agency. The Proposed FY 2009-10 Budget provides a \$200,000 loan from unallocated fund balance in the General Fund to continue studies towards the creation of a Redevelopment Agency and the designation of redevelopment areas. (The Redevelopment Agency would repay the loan once it is formed.) As findings emerge from those studies, staff is committed to involving all stakeholders, including all taxing entities, in the process.
- **Youth Vocational Training and Employment:** In partnership with our neighboring governmental entities and non-profit agencies, the Neighborhood Services Department will develop strategies to help the youth of Elk Grove build skills and competencies that allow them to flourish as adults. One strategy that the City can implement relatively quickly is an Employee Mentoring Program, where City employees may take City-approved leave to mentor a teen.

Grow and support safe, livable, attractive neighborhoods.

- **Citizen Satisfaction Survey:** The Proposed FY 2009-10 Budget includes \$50,000 in the City Manager's budget for a citywide citizen satisfaction survey and follow-up outreach. Cities undertake citizen satisfaction surveys to determine what city services require improvement and what citizens' priorities are for the allocation of resources. If implemented, the survey will provide City Council and staff with a baseline on which to measure improvements to citizen satisfaction levels and measure changes to citizen priorities. The survey would then be repeated in the fall of even-numbered years. The FY 2009-10 survey will also include questions to explore the most effective methods to communicate with residents and businesses.
- **Emergency Management:** The City Manager's work plan for FY 2009-10 includes convening the City's Disaster Council and reviewing emergency procedures against standards established by the Emergency Management Accreditation Program (EMAP).
- **Youth Development:** The City's youth is blessed with a myriad of organizations and programs that are provided to develop your youth into productive adults. The City has demonstrated its commitment to play its part in youth development: During FY 2008-09, the City Council established its Youth Commission to engage youth in the policymaking process. Given that the City's resources are becoming more limited, what programs should the City undertake that addresses the needs of our youth while not duplicating the efforts of others? During FY 2009-10, the City's Executive Team, with assistance from other governmental agencies and non-profit organizations, will conduct a gap assessment of the various youth programs provided to identify where the City can invest its resources for the highest result while avoiding a duplication of efforts.
- **Communication with Neighborhood Leaders:** During FY 2008-09, the City conducted two summits with Neighborhood Leaders to highlight solutions that individual neighborhoods used to solve problems, as well as to inform neighborhood leaders of available City resources. The Neighborhood Services Department will continue its support through additional neighborhood summits.

- **Improved Traffic Safety and Circulation.** During FY 2009-10, the Public Works Department will oversee the installation of additional Intelligent Transportation Software to minimize traffic congestion during peak commute hours.
- **Rental Housing and Abandoned Property Registries.** In July, the Neighborhood Services Department will bring the proposed Rental Housing and Vacant Building Registration Ordinances to the City Council. The enactment of these ordinances will strengthen Community Enhancement's ability to proactively monitor properties for violations while also improving communication with property owners who are absent while their properties are vacant or rented.

Promote Elk Grove as a recreational and cultural center that attracts visitors.

- **Market and Development Analyses:** The work plan for the City Manager's Office includes the completion of market and development analyses to guide the future development of the Civic Center and Community Park, including the involvement of Private Sector partners in the development of the project. The City Manager has convened an interdepartmental task force to guide this work. The funds needed to complete the studies are included in the CFD 2003-1 capital projects fund.
- **Old Town Elk Grove:** At its March 25 meeting, the City Council directed staff to conduct the triennial review of the Old Town Elk Grove Special Planning Area and bring back suggested changes, including the creation of a visioning statement. The FY 2009-10 Budget for the Planning Department includes funding to complete that process, and the City Manager's budget includes \$30,000 in continued marketing support for Old Town.

Serve as wise, responsible stewards of fiscal resources.

- **Multi-Year Projections:** The Finance Department will continue to review and address sustainability of current operations through the development and analysis of five-year financial forecasts for the General Fund and the major enterprise funds. Given that it may take as long as three years for the current economy to adjust to sustainable conditions, the multi-year forecast is more important than ever so that the City continues to operate within its means and not create a structural deficit for future years.
- **Performance Measurement System:** The Proposed FY 2009-10 Budget includes a number of performance measures that each department will use to measure its progress towards providing responsible, effective, and efficient services to our citizens. From that beginning, we will develop a performance measurement system that provides feedback in the achievement of Council goals.
- **Grant Locator:** The Proposed FY 2009-10 Budget includes \$23,000 in the City Manager's Budget for e-Civis, a grant locator service, to reduce our reliance on contract grant identification and writing services in favor of improving our internal capacity and developing a more comprehensive organization-wide strategy for matching potential grant opportunities with City priorities. This subscription includes 10 licenses that the City may provide to non-profit agencies, which will allow those non-profits to find and apply for grant opportunities outside of the City organization. The subscription also includes one grant-writing seminar to be conducted on-site.

Develop an efficient and effective City organization with a regional perspective

- **Multi-jurisdictional Capital Improvement Program:** One theme that emerged from the Town Hall meetings is the need for the various governmental agencies to work better together. The City has already reached out to the Cosumnes Community Services District (CCSD) and the Elk Grove Unified School District (EGUSD) by convening regularly scheduled meetings among elected officials and executive staff. Now, we are looking for other ways to demonstrate partnership. One way to strengthen working relationships is to review the capital investments that each agency plans to construct and examine how the three agencies can increase synergy. The Finance Department will work with counterparts from the CCSD and EGUSD in establishing a multi-jurisdictional Capital Improvement Program to catalog the various capital improvements into one document.
- **Electronic Plan Submittal/Plan Check Software:** The Proposed FY 2009-10 Budget includes \$102,000 to install and implement electronic plan submittal/plan check software. The software, compatible with the City's existing platform, will allow customers to submit their building plans electronically. All agencies included in the development review process will provide comments on plans together instead of providing their comments sequentially, thus reducing processing time between submittal and building permit issuance.

Financial Overview

General Fund. The Proposed FY 2009-10 Budget and FY 2010-11 Fiscal Plan reflects the contraction of the City's major revenue sources. Various economic sector experts warn that property and sales taxes, the major sources of revenue for the General Fund, will continue to decline through 2012. When it occurs, recovery in both sectors is expected to be extremely mild. Both real estate experts and sales tax experts are warning that growth beyond 2012 will be flat to 3%.

- **Property Taxes:** The City's property tax base will reflect continued market declines. Real estate brokers are warning that the fallout from foreclosures and short sales will continue through 2012. Those markets with new housing will feel the brunt harder, and Elk Grove is one of those communities.

The FY 2008-09 revised estimate reflects a 7.5% decline in assessed values over FY 2007-08. Based on information provided by the County Tax Assessor, assessed values are expected to decline 13% in FY 2009-10 and another 4% in FY 2010-11. Staff will be monitoring real estate trends throughout the year in order to refine the FY 2010-11 projection.

- **Sales Taxes:** Our sales tax consultant has advised the City not to expect recovery in the retail sector until FY 2012. Consumers no longer have access to credit through inflated home values to finance large-dollar purchases or improvements, nor do banks have equity to speculate with business inventory or expansion.

The FY 2008-09 revised estimate reflects an 18% decline in sales tax revenues over FY 2007-08. Retail sales are estimated to decline another 7.7% in FY 2009-10 and a modest 1% in FY 2010-11 before the economy is expected to stabilize.

Fund Balance Analysis. At its February 11 meeting, the City Council adopted a Fund Balance Reserve policy:

- The contingency reserve is comprised of designations for economic uncertainty (75%) and for exposures and emergencies (25%).
- The contingency reserve will fall no lower than 15% of appropriations. The optimum level is 20% of appropriations.

The Proposed FY 2009-10 Budget assumes the following uses of fund balance:

- Equipment Replacement (\$725,000)
- Loan for redevelopment activities (\$200,000) from undesignated fund balance
- Transfer to Development Fund to cover FY 2008-09 operating deficit (\$1 million) from undesignated fund balance

The FY 2010-11 Fiscal Plan assumes the following uses of fund balance:

- Equipment Replacement (\$270,000)
- One-time revenue to balance FY 2010-11 appropriations (\$2,630,000) from undesignated fund balance

The following chart outlines the use of fund balance for the Proposed FY 2009-10 Budget and the FY 2010-11 Fiscal Plan that is compliant with the City Council’s fund balance policy:

	Fund Balance 7/1/09	FY 2010 Appropriation	Fund Balance 7/1/10	FY 2011 Appropriation	Fund Balance 7/1/11
Beginning Fund Balance at July 1					
Designated for Contingency Reserve					
- Economic Uncertainty	\$ 7,725,000	\$ -	\$ 7,725,000	\$ -	\$ 7,725,000
- Exposure/Emergencies	2,575,000	-	2,575,000	-	2,575,000
Subtotal Designated for Contingency Reserve	\$ 10,300,000	\$ -	\$ 10,300,000	\$ -	\$ 10,300,000
Designated for Equipment Replacement	2,700,000	(725,000)	1,975,000	(270,000)	1,705,000
Undesignated	4,000,000	(1,200,000)	2,800,000	(2,630,000)	170,000
Ending Fund Balance at June 30	\$ 17,000,000	\$ (1,925,000)	\$ 15,075,000	\$ (2,900,000)	\$ 12,175,000
Adjusted Appropriations			\$ 49,860,500		\$ 49,250,000
Fund Balance at 7/1 as % of appropriations			30.23%		24.72%
Contingency Reserve as % of appropriations			20.66%		20.91%

State Property Tax “Borrowing.” With the defeat of the State budget propositions on May 19, there is a high probability that the State may “borrow” property tax revenues from local government in order to address its deficit. The exposure to the City, after adjusting for revenue neutrality, is estimated at approximately \$1.5 million. The State would be required to repay these funds in three years per Proposition 1A.

If the State “borrows” property tax funds, I propose that the City Council appropriate funds from the Contingency Reserve in order to balance the General Fund. If the City Council approves this approach, the level of contingency reserve will fall below the optimum level of 20% of appropriations but remain above the minimum threshold of 15%. The following chart illustrates the effect of the potential appropriation on fund balance levels:

	Fund Balance 7/1/09	FY 2010 Appropriation	Fund Balance at 7/1/10	FY 2011 Appropriation	Fund Balance 7/1/11
Beginning Fund Balance at July 1 Designated for Contingency Reserve					
- Economic Uncertainty	\$ 7,725,000	\$ (1,452,086)	\$ 6,272,914	\$ -	\$ 6,272,914
- Exposure/Emergencies	\$ 2,575,000		\$ 2,575,000	\$ -	\$ 2,575,000
Subtotal Designated for Contingency Reserve	\$ 10,300,000	\$(1,452,086)	\$ 8,847,914	\$ -	\$ 8,847,914
Designated for Equipment Replacement	\$ 2,700,000	(725,000)	1,975,000	(270,000)	1,705,000
Undesignated	\$ 4,000,000	(1,200,000)	2,800,000	(2,630,000)	170,000
Ending Fund Balance at June 30	\$ 17,000,000	\$(3,377,086)	\$ 13,622,914	\$ (2,900,000)	\$ 10,722,914
Adjusted Appropriations Fund Balance at 7/1 as % of adj appropriations Contingency Reserve as % of appropriations			\$ 49,860,500		\$ 49,250,000
			27.32%		21.77%
			17.75%		17.97%

Five-Year Projection. The preliminary five-year forecast suggests that, if services remain at current levels and compensation reductions are restored in FY 2011-12, the City is at risk of running a \$4 million structural deficit annually. Reserve balances are not adequate to weather the slow recovery of property and sales tax revenues. We will continue monitoring and analyzing revenues to determine the extent of additional, permanent cost reductions versus draws on Reserves to recommend at both the FY 2009-10 Mid-Year Review and FY 2010-11 Proposed Annual Budget.

Development Services Fund. The FY 2008-09 Budget for the Development Services Fund was adopted with a structural deficit of over \$2.5 million. Through the work of the Assistant City Manager and the new department heads, the amount of the structural deficit has been decreased to \$1 million. The FY 2009-10 Budget assumes that a transfer from unassigned fund balance will be used to cover the FY 2008-09 structural deficit. Moving forward, funds from the General Fund will be transferred to the Development Services Fund to pay for services and studies that may not be fully recovered from developers.

Transit Fund. At the end of FY 2007-08, the financial statement for the Transit Fund shows an accumulated operating deficit of \$4 million. Since the adoption of the FY 2008-09 Budget, the City Council and staff have taken a number of important steps to make transit operations more sustainable, with the goal of having a balanced transit operation by the end of FY 2009-10. We do not propose any corrections to the Transit Fund by way of a transfer to fund balance at this time. More detail concerning the City's operating funds can be found in the "Financial Analysis" section of the document.

Organizational Issues

Compensation. Because of the decline in the City's major revenue sources, the Proposed FY 2009-10 Budget is prepared with reductions to the City's compensation package over the next two fiscal years. In the course of preparing this budget proposal, I met with two groups of non-represented employees so I could review the options available and to ask for their input on which compensation items that they would prefer to reduce. The employees were able to vote with hand-

held devices, providing immediate feedback and the basis for further discussions. Both unrepresented groups indicated their preference for the following mix of compensation reductions:

- Take eight furlough days in FY 2009-10 and FY 2010-11. Eight furlough days is the equivalent of 3% of salary, which represents the percentage increase that most employees received in July 2008.
- Reduce 401(a) match to 3% (employees could then divert any current contribution above 3% to cover loss of salary)
- Reduce the number of times that employees can cash out a portion of their vacation and/or administrative leave from twice a year to once per year.

We acknowledge that the City is currently negotiating with the Elk Grove Police Officers Association (EGPOA) on a number of issues, including compensation. The Proposed FY 2009-10 Budget assumes compensation concessions from the EGPOA, but the future Memorandum of Understanding will outline the specific reductions that EGPOA members will take. Consequently, the Police Department's budget assumes a \$680,000 reduction without identifying specific compensation items.

The estimated amount of savings derived from these compensation suspensions are shown in the table below:

	Non-POA	POA	Total
Furlough (8 days annually)	\$ 320,000		\$ 320,000
Reduce 401(a) by 50%	150,000		150,000
Reduce buy-back to 1x/year	100,000		100,000
POA (method to be determined)		\$ 680,000	680,000
Total	\$ 570,000	\$ 680,000	\$ 1,250,000

Position Management. During the course of the current fiscal year, staff implemented a flexible freeze on vacant positions. Administrative positions were frozen as they were vacated and evaluated on a case-by-case basis. Departments were allowed to fill positions that provide direct services to citizens in order to keep field services whole or provide essential support to field staff. This flexible freeze will remain in place for the next two fiscal years. In the meantime, we will continue to look for further efficiencies as opportunities arise.

The number of funded positions has decreased by 6.8 full-time equivalents (FTEs) across all funds, from 272 to 265.2. This reduction includes the layoff of four employees that is effective after May 29, 2009. A further analysis of positions can be found in the "Financial Analysis" section of the document.

Performance Management

This document contains the measures that each department will monitor for FY 2009-10. The performance experience for the upcoming year will allow for the establishment of a performance baseline. In future years, departments will include information concerning the actual performance level compared to the performance "target."

Conclusions/Acknowledgements

This year, departments were vigilant in keeping with the budget instructions that essentially limited their budget requests to a "status-quo" spending plan, which was reduced further as revenue estimates were updated. This budget could not have been balanced without their assistance.

I also want to thank the employees who have participated in my "fireside chats" over the past few months to discuss the worsening economic situation and to help identify reductions in employee compensation. It is gratifying to have colleagues who are willing to help develop solutions that protect the organization.

I wish to acknowledge the staff of the Finance Department for their perseverance and dedication in preparing this document. This document represents the first budget for our new Budget Manager, Katy Baumbach. I also want to thank the City Council for their support of our workforce.

I have dedicated the City Council meeting of June 10 to the Council's deliberation of the Proposed FY 2009-10 Budget. At that time, the Council will receive a recommendation regarding the allocation of Community Grant funds. The City Council may adopt the Proposed FY 2009-10 Budget as early as the June 10 meeting.

My staff and I look forward to working with you as you review the proposed budget. During your review, please contact me with any questions that you or the public may have concerning the Proposed FY 2009-10 Budget and FY 2010-11 Fiscal Plan.

Respectfully submitted,

A handwritten signature in black ink that reads "Laura S. Gill". The signature is written in a cursive, flowing style.

Laura S. Gill
City Manager

Budget Calendar

Date	Item
January	Management budget planning session
February	Citywide Budget Town Hall Meetings with Council
February	Kick off budget requests
February	Develop department work plans according to Council priorities
February	Capital improvement outlay requests due
March	Department budget requests due
April	Budget team reviews with departments
May	Present the Draft Budget to Council
June	Budget Work Session & First opportunity for budget adoption
June	Second opportunity for budget adoption