



May 26, 2010

Mayor and Council Members:

I am pleased to submit the Fiscal Year 2010-11 Proposed Budget for your review and consideration. The total Proposed Budget for FY 2010-11 is \$210.6 million, which is \$6.8 million (3.3%) more than the final FY 2009-10 budget of \$203.8 million. The City's proposed General Fund budget, which provides discretionary funds for services, is \$49.3 million, which is \$600,000 (-1.2%) less than the FY 2009-10 final budget of \$49.9 million.

The Proposed FY 2010-11 Budget maintains the Council's effort to recalibrate the City's fiscal reality while preserving the current level of service to the citizens of Elk Grove. Although FY 2009-10 presented the greatest financial challenges Elk Grove has endured in its relatively short history, economic conditions are slow to improve. As economists look to various factors to predict the timing and intensity of recovery, the following activity in the local economy suggests continued struggle with potential for a more positive outlook:

- The residential real estate market is experiencing a decline in mortgage defaults, although real estate experts are unclear as to whether improving market conditions or changing lender policies are responsible. Economists continue to warn of a second wave of foreclosure activity to begin in 2011, as many adjustable rate mortgages are reset. However, increased sales activity in recent quarters indicates that Proposition 8 assessed values will flatten or even experience modest growth, which could represent a bottoming out of the recent decline in property tax revenues.
- The past year continued to see national retailers close their doors or indefinitely delay expansion plans in Elk Grove, as the tight credit market and decreased consumer spending took their toll. While auto sales, which represent about a quarter of the City's sales tax revenues, remain sluggish, additional dealers are positioning themselves in the Elk Grove market in preparation to take advantage of rising consumer confidence.
- Despite many economists' agreement that the recession has ended, employment-related indices are lagging indicators of economic recovery. Unemployment will continue to hover around ten percent through the coming year in the Sacramento region, with potential for modest job growth expected in 2011. This continued unavailability of jobs, coupled with the State of California's ongoing employee furlough program, will adversely impact the ability of Elk Grove citizens to purchase goods and afford their homes.

The City exercised prudent planning for the current fiscal environment by cutting nearly ten percent of the General Fund budget in FY 2009-10. As economic recovery gets underway, growth will be much more moderate than the growth rates the region experienced in the mid-2000s. Consequently, the next two to three fiscal years will likely see major revenue sources trending at flat to modest growth. Thus, this budget proposal continues the recalibration effort of FY 2009-10 through a balanced approach of:

- Reducing operational expenses,
- Suspending components of employee compensation, and
- Using one-time resources on a limited basis.

## FY 2010-11 Service Plan

Through a series of Town Hall Meetings and Strategic Planning Sessions held in early 2009, the City Council adopted five goals to guide City activities for FY 2009-10 and FY 2010-11. The City's FY 2010-11 Work Plan furthers accomplishments of FY 2009-10 toward the ultimate achievement of these five goals:

### Create a vibrant, diverse economy

- **Economic Development Corporation:** The Proposed FY 2010-11 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 in either cash or in-kind services, and the FY 2010-11 Budget assumes a cash contribution of \$150,000.
- **Redevelopment:** The Proposed FY 2010-11 Budget provides for continued efforts to explore the feasibility of creating a Redevelopment Agency through a \$550,000 loan from unallocated fund balance in the General Fund. (The Redevelopment Agency would repay the loan once formed and generating sufficient revenue to do so.) As findings emerge from those studies, staff is committed to involving all stakeholders, including all taxing entities, in the process.
- **State Agency Incentive Program:** In December 2009, the City Council adopted an incentive program specifically targeting State office buildings. The program is designed to bring State jobs closer to where their employees reside by offering incentives that may be used towards relocation costs, building improvements, monthly rent, or even transportation or other quality of life subsidies for the employees. In FY2011, Economic Development efforts will be focused on implementing this incentive program due to the fact that 33% of Elk Grove's workforce comprises state employees.
- **Economic Development Incentive Fund:** The Proposed FY 2010-11 Budget includes the establishment of an Economic Development Incentive Fund. Established through a transfer from the General Fund, the \$600,000 appropriation will allow the City to offer grants or low-interest loans for specific projects as approved by the City Council.
- **Regional Awareness Campaign:** This fall, the City will be launching a regional campaign to support the City's Economic Development efforts. The campaign is aimed at raising awareness throughout the region about the City's continual efforts to streamline its processes, become more business friendly, and provide top-notch amenities to employers and residents alike. Ads will focus on new programs and services designed to make opening a business in Elk Grove as easy and efficient as possible.
- **Market Study:** During the current fiscal year, the City and private sector partners began a market study to determine the best economic niches for the City to fill within the Sacramento region. The study will identify future land use needs and economic development opportunities. This Study is a collaborative effort between the City, existing business interests and future development interests. The Market Study will be a tool the City ultimately uses to develop a formal Economic Development Strategy.

### Grow and support safe, livable, attractive neighborhoods

- **Emergency Management:** The City Manager's work plan for FY 2010-11 includes recruiting and hiring an Emergency Operations Coordinator, who will be responsible for convening the City's Disaster Council; managing structural and technological upgrades to the Emergency Operations Center; and supervising emergency preparedness and disaster response exercises.
- **One-Stop City Hall Contact Number:** The FY 2010-11 work plan for the City Manager's office includes evaluating, implementing, and marketing a one-stop City Hall contact number. Citizens will be able to use

one phone number to reach knowledgeable staff to answer and address questions, suggestions, and concerns pertaining to any of the services the City furnishes.

- **Improved Traffic Safety and Circulation:** During FY 2010-11, 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:** The Rental Housing and Vacant Building Registries, created by the City Council in March 2010, 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**

- **Civic Center and Community Park:** The FY 2010-11 work plan calls for embarking on initial design schemes for the Civic Center and Community Park based on Council's direction regarding the feasibility program and market analysis. The FY 2010-FY 2015 Capital Improvement Program includes future construction phases of the Civic Center through FY 2013-14.
- **Historic Preservation:** The City is currently working towards attaining Certified Local Government (CLG) status through the California Office of Historic Preservation. Once attained, the City's CLG status will allow for acquisition of grant funding to conduct a Historic Context study, to gain a better understanding of the City's place in the historic fabric of the region. Following completion of the Historic Context study, the City will then embark on an Historic Resources Inventory, to inventory all existing historic resources present within the City today. These two studies will provide technical basis for discussions and policy directions by the City Council to actively preserve the history of the Elk Grove community and foster a positive community image.

#### **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 2010-11 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. The City will also continue its participation in the International City/County Management Association's Center for Performance Measurement to educate staff in best practices and learn from the successes of similar-sized agencies nationwide.

#### **Develop an efficient and effective City organization with a regional perspective**

- **Electronic Plan Submittal/Plan Check Software:** The Development Services and Information Technology departments will complete the implementation phase of electronic plan submittal in FY 2010-11. Working closely with the development industry group, Development Services will begin allowing 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.

- **Development Services Fee Study:** Development Services is conducting a fee study for Council consideration and implementation in FY 2010-11. Comparison to other municipalities in the region and stakeholder involvement will facilitate competitive rates, a business-friendly environment, and more efficient work flow processes for Development Services and Finance staff.

## Financial Overview

**General Fund Revenue Sources.** The Proposed FY 2010-11 Budget reflects relative stabilization in the City's major revenue sources. After declining for two years, property tax receipts for FY 2010-11 are projected to remain at FY 2009-10 levels. Additionally, the decline in retail sales appears to have hit bottom in FY 2009-10. Statewide, sales taxes are projected to increase by 6% in FY 2010-11, as consumer confidence improves, fuel prices increase, and additional retailers enter the market. The City's sales tax consultant sees a similar growth pattern for Elk Grove, and the 6.6% projected increase in sales tax revenues reflects the statewide growth estimate.

**Fund Balance Analysis.** In FY 2008-09, the City Council adopted a Fund Balance Reserve Policy:

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

The adopted FY 2009-10 Budget assumed an appropriation of almost \$3.4 million from fund balance to provide for the following:

- State property tax "borrowing" (\$1,452,086), from fund balance designated for economic uncertainty;
- Equipment replacement (\$725,000), from fund balance designated for equipment replacement;
- Loan for redevelopment activities (\$200,000), from undesignated fund balance; and
- Transfer to Development Fund to cover the FY 2008-09 operating deficit (\$1,000,000), from undesignated fund balance.

In determining the revised estimates, for FY 2009-10, staff has determined that there will be sufficient revenue available at June 30, 2010 to cover all expenditures without any appropriation from fund balance necessary. Consequently, the level of fund balance at June 30 prior to appropriations in the FY 2010-11 Budget is the same as it was prior to appropriation in the FY 2009-10 Budget, as shown in the table below:

	Fund Balance at July 1, 2009 (CAFR)	FY 2010 Appropriation	Fund Balance at July 1, 2009 after FY 10 appropriation	Add to/(Take From) Fund Balance at June 30	Estimated Fund Balance at July 1, 2010
<b>Beginning Fund Balance at July 1</b>					
Designated for Contingency Reserve					
- Economic Uncertainty	\$ 7,875,000	\$ (1,452,086)	\$ 6,422,914	\$ 1,452,086	\$ 7,875,000
- Exposure/Emergencies	2,625,000		\$ 2,625,000		\$ 2,625,000
<b>Subtotal Designated for Contingency Reserve</b>	<b>\$ 10,500,000</b>	<b>\$ (1,452,086)</b>	<b>\$ 9,047,914</b>	<b>\$ 1,452,086</b>	<b>\$ 10,500,000</b>
Designated for Equipment Replacement	2,744,396	(725,500)	2,018,896	725,500	2,744,396
Undesignated	4,196,899	(1,200,000)	2,996,899	1,445,000	4,441,899
<b>Total Fund Balance</b>	<b>\$ 17,441,295</b>	<b>\$ (3,377,586)</b>	<b>\$ 14,063,709</b>	<b>\$ 3,622,586</b>	<b>\$ 17,686,295</b>

There are two reasons for this result:

- The State property tax “borrowing” was covered through reductions in interfund transfers during the course of the fiscal year, saving the \$1,452,086 in fund balance designated for economic uncertainty.
- Departmental expenditures were below budget by \$2.1 million.

The Proposed FY 2010-11 Budget assumes the following uses of fund balance:

- Equipment replacement (\$275,000), from fund balance designated for equipment replacement;
- Loan for redevelopment activities (\$550,000), from undesignated fund balance;
- Transfer to Development Fund to cover the FY 2008-09 operating deficit (\$250,000), from undesignated fund balance; and
- Transfer to Economic Development Incentive Fund (\$600,000), from undesignated fund balance.

The following table demonstrates that the planned use of fund balance in the Proposed FY 2010-11 Budget is compliant with the City Council’s fund balance policy:

	Estimated Fund Balance at July 1, 2010	FY 2011 Appropriation	Fund Balance at July 1, 2010 after FY 11 appropriation
<b>Beginning Fund Balance at July 1</b>			
Designated for Contingency Reserve			
- Economic Uncertainty	\$ 7,875,000	\$ -	\$ 7,875,000
- Exposure/Emergencies	\$ 2,625,000		\$ 2,625,000
<b>Subtotal Designated for Contingency Reserve</b>	<b>\$ 10,500,000</b>	<b>\$ -</b>	<b>\$ 10,500,000</b>
Designated for Equipment Replacement	2,744,396	(275,000)	2,469,396
Undesignated	4,441,899	(1,400,000)	3,041,899
<b>Total Fund Balance</b>	<b>\$ 17,686,295</b>	<b>\$ (1,675,000)</b>	<b>\$ 16,011,295</b>
<b>General Fund Appropriations</b>			<b>\$ 49,520,350</b>
<b>Fund Balance at 7/1 as % of appropriations</b>			<b>32.33%</b>
<b>Contingency Reserve as % of appropriations</b>			<b>21.20%</b>

**Five-Year Projection.** The current five-year forecast suggests that the restoration of compensation levels and the implementation of a step play plan system in FY 2011-12 will expose the City to a \$4.6 million structural deficit annually. (This forecast assumes the current level of services and a 1.5% growth in operating revenues.) Reserve balances are not adequate to weather the slow recovery of property and sales tax revenues through the forecast period. We will continue to monitor and analyze revenues to determine the extent of additional, permanent cost reductions versus draws on reserves to recommend at the FY 2010-11 mid-year review and during the preparation of the proposed FY 2011-12 Budget and FY 2012-13 fiscal plan.

More detail concerning the City’s financial position can be found in the *Financial Analysis* section of this document.

## Organizational Issues

**Compensation.** The Proposed FY 2010-11 Budget is prepared with the continuation of the following reductions to the City’s compensation plan, representing a savings of \$1,250,000:

- Take eight furlough days, or the equivalent of 3% of salary, for FY 2010-11, which represents the percentage increase that most employees received in July 2008.

- Reduce 401(a) match to 3%.
- 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.
- Reduce cash overtime compensation to members of the Elk Grove Police Officers Association consistent with the Memorandum of Understanding.

As noted earlier, the revised estimates for fund balance levels in the General Fund reflect \$2.1 million in operational savings projected to be achieved in FY 2009-10. If these results remain at the conclusion of the annual audit for FY 2009-10, and if local economic conditions warrant, I will return to the City Council with a recommendation to suspend the four furlough days to be taken between January 1, 2011 and June 30, 2011.

**Position Management.** Continuing a practice begun in FY 2008-09, 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 have been allowed to fill positions that either provide direct services to the public in order to keep field staff whole or provide essential support to field staff.

Over the course of this fiscal year, two Deputy City Managers left the organization. The proposed FY 2010-11 Budget assumes the replacement of these positions with two much-needed and less-expensive positions: a Police Lieutenant to oversee the Animal Control and Problem-Oriented Policing units, and an Emergency Operations Coordinator.

In addition, the proposed FY 2010-11 Budget assumes the implementation of the Public Works reorganization by adding three contract managers and three administrative/accounting positions to the department. The cost of the positions will be offset by contract savings.

More detail concerning City positions can be found in the *Financial Analysis* section of this document.

### **Conclusions/Acknowledgements**


During 2009-10, departments were vigilant in limiting their spending and prioritizing those services directly affecting the citizens of Elk Grove. Their sustained dedication through the 2010-11 budget process facilitated the balanced plan I am proposing, which once again could not have been achieved without their assistance.

I wish to acknowledge the staff of the Finance Department, particularly Katy Baumbach, for their perseverance and dedication in preparing this document. I also want to thank the City Council for their support of our workforce.

I have dedicated the City Council meeting of June 9 to the Council's deliberation of the Proposed FY 2010-11 Budget, with adoption opportunities at either regularly scheduled meeting in June.

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 2010-11 Budget.

Respectfully submitted,



Laura S. Gill  
City Manager

## Budget Calendar

Date	Item
January	Departments submit ICMA Center for Performance Measurement data
January – February	Cost allocation plan development
February	Community grant applications available
February	Budget instructions distributed to departments
February	Capital improvement project requests due
March	Department budget requests due
March	Develop department work plans according to Council priorities
April	Community grants awarded by City Council
May	2010-15 Capital Improvement Program reviewed by Planning Commission
May	Present Proposed FY 2010-11 Budget to City Council
June	City Council Budget Work Session and opportunities for budget adoption

