

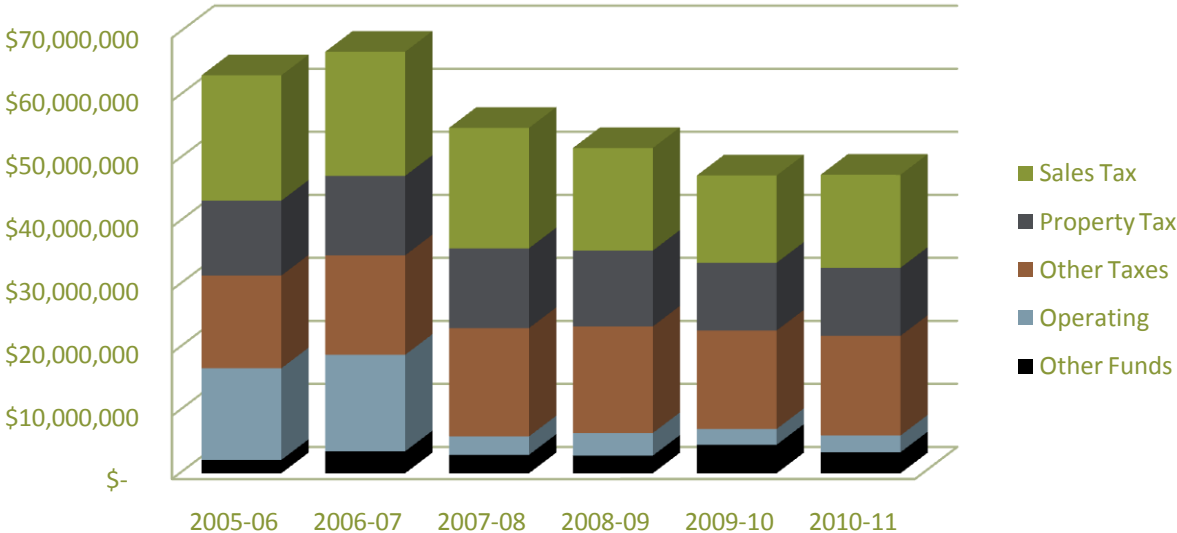
**General Fund**

All City activities not accounted for in special revenue, capital, debt service, proprietary or agency funds are included in the General Fund. The General Fund accounts for approximately 25% of all activities in FY2010-11.

**Revenues**

The City of Elk Grove experienced significant population growth from 2003 through 2006 that resulted in an expanded residential and commercial assessed value base that generated additional retail sales.

**General Fund Revenues  
Actual, Estimated and Projected**

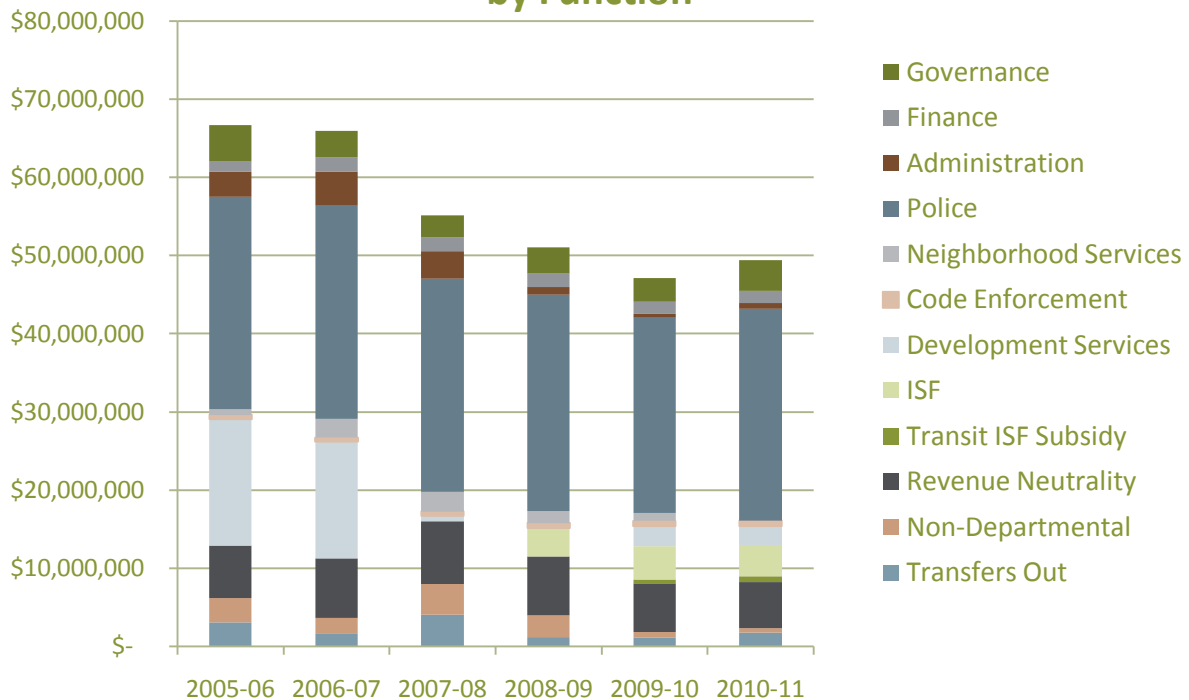


- Sales tax is a volatile revenue source, yet it is the City’s largest single source for general operations. Although retail sales have weakened since FY 2006-07, projections indicate the decline has reached bottom in FY 2009-10 at -15% growth. Sales tax revenues will stabilize and are projected to increase statewide by 6% in FY 2010-11 as consumer confidence improves, fuel prices increase, and additional retailers enter the market.
- Property taxes are considered a stable revenue source for long-term dependability; however, the market is correcting for multi-year over-inflated new home values. Although assessed values declined 5% and 11% in FY2008-09 and FY2009-10, respectively, recent sales activity indicates that assessed value growth will be flat or even experience marginal growth in FY2010-11.
- One-fourth of the sales tax revenue and all Vehicle Licensing Fees (VLF) are distributed per State formulas (Triple Flip and VLF Swap agreements) semi-annually based upon assessed property values and are therefore projected to remain constant with FY2009-10 activity.
- Other taxes, including Utility User’s, Transient Occupancy and Franchise fees, are remaining steady for now.
- The City accounted for the development processing and related permit fees in the General fund as operating revenue until they were segregated to a special revenue fund in FY2008.

### Base Expenditures

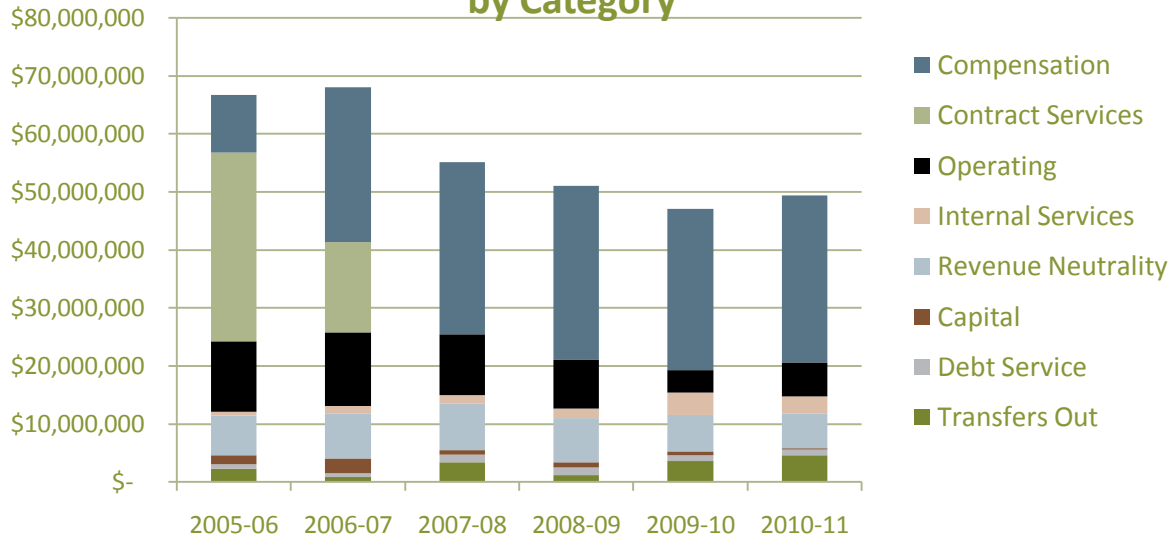
The City appropriates and accounts for the majority of its programs including police, governance, community enhancement, animal services, special events, community grants and other general government programs in the General Fund.

**General Fund Expenditures  
by Function**



- Operating expenditures decreased by nearly 8% from FY 2008-09 to FY 2009-10. Expenditures are projected to be over \$2 million under budget for FY 2009-10, which protects the General Fund's contingency reserve for future use.
- The City initially procured Police Services through a contract with the County Sheriff and subsequently established its own force in FY 2006-07. Further, the City segregated contracted Development Services to a special revenue fund in FY2007-08. The General Fund provides support to the Planning Commission and \$643,000 for advanced planning functions requested of the Planning Department. Reorganization resulted in the elimination of some costs associated with Neighborhood Services and Animal Services has been incorporated into the Police Department.
- The General Fund does not provide direct support for Transit's operations; however, it absorbs Transit's share of indirect support identified through cost allocation and internal service fund (ISF) charges.
- The City Manager proposes a transfer of \$1 million to address prior year Development Services fund shortfall; a \$550,000 loan to initiate a Redevelopment Authority (RDA); \$600,000 to establish an economic development incentive fund; \$275,000 for capital outlay, including replacement computers and servers; \$100,000 for a utility rate assistance program; and \$800,000 for Development Services operations.

### General Fund Expenditures by Category



Salaries and benefits for 247 General Fund FTE equals 58% of the annual budget and totals \$28.8 million, approximating \$116,500 per position. Total funded positions increase by 9.2 in FY 2010-11, as follows:

Department	FY2009-10 Position Count	FY2010-11 Position Count	Change in Position Count
<b>General Fund:</b>			
City Council	2.0	5.0	3.0
City Manager	6.0	8.0	2.0
City Attorney	5.0	5.0	-
City Clerk	5.0	4.0	-1.0
Finance	15.0	14.0	-1.0
Human Resources	4.0	4.0	-
Police	200.0	200.0	0-
Code Enforcement	8.0	8.0	-
<b>General Fund Total</b>	<b>245.0</b>	<b>248.0</b>	<b>3.0</b>
<b>Other Funds:</b>			
Dev Svcs Admin	3.0	4.0	1.0
Planning	1.0	1.0	-
Building	1.0	2.0	1.0
Public Works	1.0	5.0	4.0
Integrated Waste	3.2	3.4	0.2
Utility Billing	5.0	5.0	-
Transit	4.0	4.0	-
Risk Management	1.0	1.0	-
Facilities & Fleet	4.0	4.0	-
<b>All Funds Total</b>	<b>268.2</b>	<b>278.4</b>	<b>9.2</b>

- Revenue Neutrality accounts for the incorporation agreement to hold the County of Sacramento cost-neutral. The County collects and retains a portion of the property taxes collected from the original

incorporation boundaries at a declining rate over twenty-five years (see chart on page 42). In FY 2010-11, the retention percentage decreases from 85% to 80%. The City expects the County to retain \$5.875 million, which totals 1/8 of all general revenues.

- A non-departmental contingency account totaling \$100,000 has been established. This foresight provides the City Council and City Manager authorized appropriations in the event unforeseen activities arise beyond those programmed.

### Employee Services

The City Manager implemented a flexible hiring freeze in Fall 2008 at the Council’s request to mitigate declining revenues. As such, many vacant positions have either been unfunded, eliminated, or under-filled. The Council directed staff to create six positions in Development Services, funded by contract savings. Also, two Deputy City Managers left the organization in FY 2009-10; those positions are proposed to be eliminated and replaced by two much-needed and less-expensive positions: a Police Lieutenant and an Emergency Management Coordinator.

A summary of the position changes:

#### New

- Police Lieutenant
- Emergency Management Coordinator
- 3 Development Services-Public Works Contract Managers
- Administrative Assistant in Development Services
- Accounting Technician in Development Services
- Customer Service Specialist in Development Services
- Administrative Assistant in Police
- Part Time Battery Collector (add 0.2 FTE) in Integrated Waste

#### Eliminate

- Customer Service Specialist in Police
- 2 Deputy City Managers

Employee compensation deductions will continue in FY 2010-11, totaling \$1.25M, or 4% of wages and benefits. The savings are identified 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 Concessions		\$ 680,000	680,000
<b>Total</b>	<b>\$ 570,000</b>	<b>\$ 680,000</b>	<b>\$ 1,250,000</b>

In December 2009, the City Council revised the Health Retirement Account (HRA) Benefit for employees. Program costs for FY 2010-11, approximately \$400,000, will continue to be funded through prior year Annual Retirement Contribution (ARC) payments that now exceed the amount required by actuarial study. In FY 2011-12, program expenses will be incorporated in the compensation budget.

**Internal Services**

Risk Management, Information Technology, Geographic Information Systems, Facilities Management and Fleet operations support multiple city departments and are budgeted in separate internal service funds (ISFs). Independent oversight ensures operating departments are charged a proportionate value for each function, resulting in a clearer picture of program costs. ISFs are classified as Proprietary and operate as self-sustaining businesses with a long-term focus.

<b>Internal Service Fund</b>	<b>Total Budget</b>	<b>General Fund</b>	<b>Other Funds</b>
Risk Management	\$ 649,683	\$ 565,089	\$ 84,594
Facilities	1,870,258	901,010	969,249
Fleet Services	1,470,950	1,455,084	15,866
Information Technology	2,243,092	708,000	1,535,092
Geographic Info Sys	788,848	338,283	450,565
Total	\$7,022,831	\$3,967,466	\$3,055,365
Portion		56%	44%

The Transit fund's share of ISF charges are reflected within the Transit budget, although revenues are not sufficient to absorb the cost. Consequently, the General Fund subsidizes the \$302,677 in ISF charges, as well as \$487,344 in overhead charges sent to the Transit fund through the Cost Allocation Plan.

**Cost Allocation Plan**

The City hired a consultant to identify the costs incurred by the General Fund and Development Services fund that support other funds' activities. Further, the consultant determined multiple applicable bases to allocate the costs. The resulting Plan documents the cost allocations with supporting data and methodology. A table summarizing these allocations can be found in Schedule 3 on page 20.

**General Fund Reserves**

The City Council adopted a Fund Balance Reserve Policy in February 2009 that establishes a goal to retain 20% of General Fund adjusted appropriations for contingency purposes. The contingency reserve is comprised of designations for economic uncertainty (75%) and for exposures and emergencies (25%). The Council may reduce the balance for allowable uses to 15% as needed and define a plan for returning the balance to 20% reserves goal within three years.

## FINANCIAL ANALYSIS

The following chart outlines the use of fund balance in FY 2009-10 and the Proposed FY 2010-11 Budget:

	Fund Balance 7/1/09	FY 2010 Activity	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
<b>Subtotal Contingency Reserve</b>	<b>\$ 10,300,000</b>	<b>\$ -</b>	<b>\$ 10,300,000</b>	<b>\$ -</b>	<b>\$ 10,300,000</b>
Designated for Equipment Replacement	2,700,000	-	2,700,000	(275,000)	2,425,000
Undesignated	4,600,000	245,000	4,845,000	(1,400,000)	3,145,000
<b>Ending Fund Balance at June 30</b>	<b>\$ 17,600,000</b>	<b>\$ 245,000</b>	<b>\$ 17,845,000</b>	<b>\$ (1,675,000)</b>	<b>\$ 16,170,000</b>
<b>Adjusted Appropriations</b>			<b>\$ 49,860,500</b>		<b>\$ 49,526,595</b>
<b>Fund Balance as % of appropriations</b>			<b>35.79%</b>		<b>32.04%</b>
<b>Contingency Reserve as % of appropriations</b>			<b>20.66%</b>		<b>20.80%</b>

The total fund balance at July 1, 2009 was \$17.6 million, of which \$10.3 million is reserved for contingency. Of the remaining \$7.3 million, \$2.7 million is reserved for future equipment replacement, in line with the policy's allowable use. The FY 2009-10 budget proposed to draw down the Undesignated Reserve balance by \$1.2 million; however, reduced operating expenditures are expected to add \$245,000 to the fund balance.

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

- Equipment Replacement (\$275,000)
- Loan for redevelopment activities (\$550,000)
- Establish economic development incentive program (\$600,000)
- Transfer to Development Services fund to cover FY 2009-10 operating deficit (\$250,000)

### General Fund Actual and Estimated Total Reserves versus Contingency Policy



A five-year forecast of the General Fund suggests that, if services remain at current levels and compensation reductions are restored in FY 2011-12, the City is at risk of running an ongoing structural deficit between \$3-4 million. Reserve balances are not adequate to weather the slow recovery of property and sales tax revenues. Staff will continue to monitor and analyze revenues to determine the extent of additional, permanent cost reductions versus draws on Reserves to recommend in FY 2011-12 and beyond.

### Development Services Fund

The City segregated the activities encompassing the processing of planning, building and engineering services related to residential and commercial private development provided by multiple contracted service providers in FY 2007-08. This fund also accounts for administration of city-wide planning projects and public works' oversight of infrastructure capital and maintenance. Although current development is not occurring at the pace experienced in 2004-2007, the City Council is cognizant of its long-range opportunities and supports the Advanced Planning function accordingly.

Due to the economic downturn and the revenue policy that does not fully support operations, levels of service are continuing to be reduced throughout the department and the General Fund is transferring \$800,000 to support customer service at the public counter.

The service delivery model was 100% contractor-provided until FY2008-09. In January 2009, three department heads were hired and proposed positions for FY 2010-11 include three contract managers, an accounting technician, an administrative assistant, and a customer service specialist, pursuant to Council direction.

### Capital Improvement Plan

The Capital Improvement Plan (CIP) identifies the infrastructure, land, buildings and equipment expected to be needed in providing services and amenities to the residents through the next five years. Further, the plan documents the various funding sources. The projects and equipment requested for FY 2010-11 have been entered as requests for appropriation within the proposed budget.

### **Impact Fee Deferral Program**

To stimulate private development during this construction slow-down, Council adopted an Impact Fee Deferral Program in April 2008. The program allows land-owners to apply for deferral of certain city-wide impact fees, including roadway, capital facilities, affordable housing and very low income affordable housing at time of building permit. The program sunsets June 30, 2012 and can be extended at the Council's discretion.

The short-term impact of existing and recommended measures will be the deferral of revenue collections and associated construction of facilities necessitated by the impact for many years. With minimal impact fee monies expected to be received during the next few years, the existing funds' balances are the only monies that will be available for appropriation in FY 2010-11 unless the Council chooses to loan monies from the General Fund.

### **Integrated Waste**

In May 2010, the City Council enacted legislation to address the cash flow and write-off issues that face the integrated waste utility billing operation through stop service authorization on delinquent accounts and application with deposit requirements for new accounts. New processes will be introduced and implemented in Summer 2010.

With verbal discussions indicating a shrinking competitive market and resulting cost increases associated with trash and recycling collection and disposal, the City Council approved a residential rate increase effective July 1, 2007 to fund a long range planning project that explores options for constructing and operating an Integrated Waste Transfer Station, Materials Recycling Facility, Household Hazardous Waste Facility and other possible ancillary facilities. The proposed FY 2010-11 includes funding for land acquisition, design, and construction of a Household Hazardous Waste Facility through debt financing. If approved, staff will coordinate the debt issuance with a financial adviser and bond counsel.

### **Transit Operations**

The fixed, commuter and para-transit bus service operation commenced FY 2009-10 with a \$1.3 million negative balance. Through a combination of increased fares, revised service provision, and a renegotiated contract with the service provider, transit operations are nearing a sustainable level. The General Fund continues to subsidize Transit's support operations, valued at approximately \$800,000 in FY 2010-11, and the proposed Transit budget continues to reflect an operating deficit, although it has narrowed to approximately \$325,000.