



AGENDA ITEM

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: ASSISTANT CITY MANAGER

DATE: MAY 4, 2004

SUBJECT: REVISIONS TO THE PROPOSED BUDGET FOR FY 04-05

RECOMMENDATION

Review the proposed changes to the FY 04-05 budget and provide staff with direction.

INTRODUCTION

In 2003, the City prepared a two-year budget document for Fiscal Years 03-04 and 04-05. Even though the budget document covers two fiscal years, the City Council has only adopted the budget for FY 03-04. The budget for FY 04-05 is shown as "proposed" in the budget document. This was purposely done so that during the second year of the two-year budget cycle, the Council can make any necessary adjustments predicated on changes that may have occurred over the last year. To assist the Council, staff has prepared a Fund Summary chart, which estimates the City's fund balances for the fiscal year ending June 30, 2005 (see Attachment A).

DISCUSSION

1. ADJUSTMENTS TO THE FY 04-05 BUDGET DOCUMENT

Staff has reviewed the proposed budget for FY 04-05 and identified three items where circumstances have changed since the final budget document was presented to the City Council in June 2003 and will require a change to the budget. Staff is also proposing the addition of two projects to the Capital Improvement Program. Finally, staff is proposing three changes to the budget that simply move money from one program to another, but result in no net dollar amount changes to the budget. The proposed changes are listed in Attachment B and have been incorporated into the City's Five Year Financial Model, which is also on tonight's agenda.

The three recommended changes resulting from changed circumstances are part of the Planning Department's budget and concern: 1) increased noticing requirements associated with the new Neighborhood Compatibility standards adopted last year (\$8,000); 2) increased tree trimming costs associated with an influx of request to trim City street trees for view restoration purposes (\$12,000); and, 3) the need to continue with the NCCP lobbyist until the City completes the NCCP plan (\$30,000).

Two changes affecting the General fund concern proposed increases to the Capital Improvement Program. The first is the City's Residential Street Overlay/Slurry Seal Program. Which streets are included in this program each year is based on the recommendations of the Pavement Management Program, which specifies that the City's roadways be either overlaid or slurry sealed on a seven-year cycle. Last year, the Council deferred the \$550,000 cost for the FY 03-04 Overlay/Slurry Seal Program (see Attachment C) and the two-year budget document does not include any funding for this program in FY 04-05. Based on funding that is currently available in the City's General fund reserve and in order not to fall behind in our Pavement Management Program, staff recommends that the City implement the equivalent of two years of overlay and slurry sealing during FY 04-05, for a total cost of \$1.1 million.

The Public Works Department recently completed an update of the City's Storm Drain Master Plan and, based on the poor condition of many of the City's corrugated metal storm drain facilities, will be bringing a Storm Drain Rehabilitation Implementation Plan forward to the City Council. Because the two-year budget document does not include any funding for storm drain maintenance or improvements for FY 04-05, the second capital project staff is recommending is the inclusion of \$500,000 in the FY 04-05 budget to implement the first phase of the forthcoming rehabilitation plan.

Taken together, these two CIP projects would require a \$1.6 million transfer from the General fund in FY 04-05. The remaining balance in the General fund reserve would still comply with the City's General fund reserve policy.

The last three changes do not involve budget increases, but only reflect shifting of existing line items between funding programs and result in no net change in the annual budget: 1) shifting the cost of the City's South Bay Cities Council of Government dues from the General fund to the restricted Air Quality Management fund (\$7,913); 2) moving Traffic Supplies previously funded through the General fund to the Street Maintenance fund (\$42,000); and, 3) moving Special Events Preparation from the Street Maintenance fund to the General fund (\$30,000).

The net effect of the eight proposed changes is a \$1,650,000 increase in the overall FY 04-05 Budget, exclusive of the addition of the two budget policy issues discussed in Section 2 below, deferred budget items from FY 03-04 or any of the new requests that are discussed in Section 3.

2. BUDGET POLICY ISSUES

Staff has identified two budget policy issues for Council consideration during the second year of the two-year budget cycle: Employee Compensation and City Grants. Each of these two issues are discussed in more detail below:

- Employee Compensation

Issue: Should employee salary ranges be adjusted equal to the increase in the Los Angeles-Riverside-Orange County CPI for the twelve month period ending March 2004, and should funds be budgeted to allow the City Manager to increase the City employee

payroll by 5%, or to approximately \$2.85 million by June 30, 2005.

Cost: Salary Range Adjustments: \$0

5% Employee Merit Pool: \$30,000

Funding Source: General Fund.

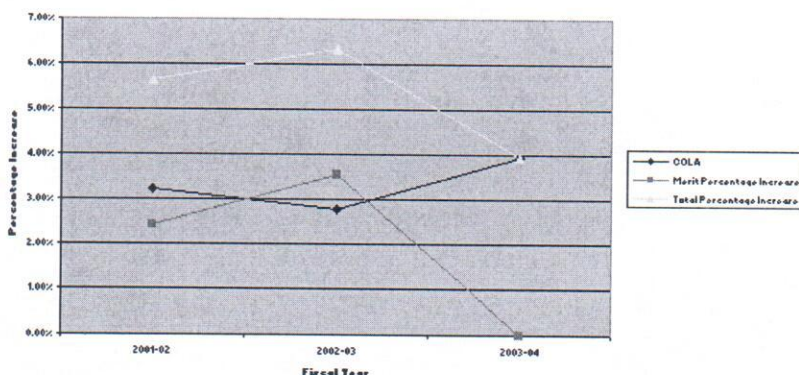
The City currently has 45 authorized full-time positions and a June 30, 2004 estimated annual payroll of about \$2.72 million to fund them.

In addition to salary costs, the City pays the full cost of a defined benefit retirement plan (CalPERS). In FY 2002-03 the cost of our pension plan was \$175,000. This year the cost of the plan is \$256,892, which is 9.455% of employee salaries (up from 7% for the past ten years or so). Next year (FY 2004-05) the cost of the pension plan is expected to rise to 15.537% of employee salaries or \$451,524. The costs of the plan rise and fall consistent with the return on investment of the retirement funds by CalPERS. The heavy losses sustained by the CalPERS investment portfolio between March 2000 and March 2003 account for the doubling of the contribution rate. As high as these costs seem they are less than many of our neighboring cities, with their own police and fire departments, who are paying as much as 40% of salary cost for their pension plans. These agencies approved enhanced retirement plans for their employees and are now struggling to finance them. The City also pays the full cost of medical, dental and vision plans for our employees and pays half the cost of companion plans for employee dependents. The annual cost to the City for employee health, disability and life insurance is about \$365,000. Workers' Compensation costs are about \$60,000.

Employee turnover for the past two years has been low. Between June 2002 and August 2003 there were no resignations of full-time employees who had passed probation. In the one-year period prior to June 2002 we experienced the loss of five full time employees through resignation and one through retirement. Recently, in the past eight months, we have lost four employees who left for other opportunities. As the economy gradually improves there will be more opportunities for our strongest employees and we should make every effort to keep them.

At their July 2, 2002 meeting the City Council established employee salary ranges for each position at the 75th percentile level compared to other cities of like size and service. The top of each salary range is approximately 30% higher than the base salary. Salary ranges are adjusted upwards each year to reflect the increase in the cost of living. The City Manager has authority to set individual salaries within the range established for each position based on the experience and performance of the employee. Each year the City Council budgets a specific dollar amount that the City Manager can utilize for merit and cost of living salary adjustments. Since July 2001 the application of these funds has resulted in the following salary adjustments for the average employee.

EMPLOYEE COMPENSATION HISTORY



During the prior three-year period the City Council has approved about \$371,000 for salary increases resulting in an average increase in annual wages for employees of 5.30% compared to an average increase in the cost of living of 3.45% during the same three-year period. The resulting actual 1.85% "merit" increase (over a three year period) will not be enough to hold onto our best employees during the next three years.

As a general rule, followed by the majority of the cities with whom we compete for personnel, after five years an excellent employee should be at, or near the top of his/her salary range. In our case, the typical excellent five-year employee is slightly above the mid-point of his/her salary range.

The proposed budget for FY 04-05, as it is presently configured, includes adequate funding to increase the anticipated payroll by \$106,000 to approximately \$2.82 million. This request is for an additional \$30,000 to increase the annual payroll to slightly over \$2.85 million during FY 04-05.

- City Grants

Issue: Should the City provide increased City Grants to certain non-profit agencies in the South Bay area.

Cost: \$4,150 (not including School of Champions)

Funding Source: General Fund.

At least since 1995, the City has provided grant funding to various non-profit agencies in the South Bay area. The City Grant program had grown substantially in the last few years. For example, in FY 95-96, four grant recipients received a total of \$15,450 and by FY 02-03 the list had grown to fifteen recipients receiving grants totaling \$46,540. In FY 03-04, although three new organizations were added to the list, the City cut the overall grants funding to \$30,000 and eliminated the \$6,850 discretionary pool previously used for new grant requests that came up after the start of the fiscal year.

As shown in the chart below, five organizations have requested increases in their grants for FY 04-05. Letters from each of these groups are also attached to this report for the Council's information. With the exception of School of Champions, which did not specify the amount of the requested increase, the other requests for FY 04-05 represent an increase of \$4,150 from what was funded in FY 03-04.

Organization	FY 02-03 (Received)	FY 03-04 (Received)	FY 04-05 (Requested)

H.E.L.P.	N/A	\$100	\$500
Peninsula Seniors	\$8,040	\$7,000	\$10,000
School of Champions	\$950	\$400	None Specified
Shakespeare by the Sea	\$1,200	\$750	\$1,250
South Bay Chamber Music Society	\$1,000	\$750	\$1,000

The Council may recall that last year Shakespeare by the Sea agreed to provide a free public performance in the City at the reduced grant amount of \$750. However, it is unclear if they would be willing to do so again this year if the grant amount is not increased to \$1,250.

3. DEFERRED BUDGET ITEMS AND NEW REQUESTS

During the preparation of the FY 03-04 Budget, the City Council considered a list of discretionary budget items. The items that were not funded have been compiled into Attachment C. As described previously in this report, staff has made recommendations or asked for direction from Council on three of these items: 1) Residential Overlay/ Slurry Seal Program; 2) Employee Compensation; and, 3) City Grants. The remaining items are presented for the Council's information and/or consideration. At this time, staff is not recommending any of these remaining items for funding in the FY 04-05 Budget.

The list of new requests was generated by requests from the Department Heads during their FY 04-05 budget meetings with the City Manager. Based on direction from the City Manager, these items were not included in the proposed changes to the FY 04-05 budget, but are presented here if the Council wishes to take them up. Otherwise, staff will revisit this list of items when it begins to prepare the next two-year budget document in early 2005. Subject to the pleasure of the Council, staff is prepared to describe and discuss any of the deferred or new items at this evening's Budget Work Session.

CONCLUSION

Staff is requesting that the City Council review and concur with the proposed changes to the FY 04-05 Budget. If these changes are acceptable to Council, staff will prepare a resolution for adoption of the FY 04-05 Budget, which includes these amendments, as well as any additional items determined by the Council. This resolution is typically presented to the City Council at the first or second regular meeting in June. Once the FY 04-05 Budget is adopted, rather than re-print the budget document, the resolution approving the amendments will be inserted into the front of each document instead. This is the typical practice of cities during the second year of a two-year budget cycle.

Respectfully submitted:

Carolynn Petru

Assistant City Manager

Reviewed,

Les Evans

City Manager

Attachments:

Attachment A - FY 04-05 Fund Summary Chart

Attachment B - List of Proposed Adjustments to FY 04-05 Budget Document

Attachment C - List of Deferred Budget Items and New Requests

Letters from Non-Profit Organizations seeking grant increases