AGENDA
EL SEGUNDO CITY COUNCIL
EL SEGUNDO PUBLIC LIBRARY
111 W. Mariposa Avenue, El Segundo, CA 90245

The City Council, with certain statutory exceptions, can only take action upon properly posted and listed agenda items.

Unless otherwise noted in the Agenda, the Public can only comment on City-related business that is within the jurisdiction of the City Council and/or items listed on the Agenda during the Public Communications portion of the Meeting. The time limit for comments is five (5) minutes per person.

Before speaking to the City Council, please come to the podium and state: Your name and residence and the organization you represent, if desired. Please respect the time limits.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact City Clerk, 524-2305. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

SPECIAL MEETING OF THE EL SEGUNDO CITY COUNCIL
THURSDAY, MAY 29, 2014
El Segundo Public Library
111 W. Mariposa Avenue, El Segundo, CA 90245
7:30 a.m.

7:30 A.M. SESSION

CALL TO ORDER

ROLL CALL

PUBLIC COMMUNICATIONS – (Related to City Business Only – 5 minute limit per person, 30 minute limit total) Pursuant to Government Code § 54954.3(a), the only public comment that will be permitted during this Special Meeting is that pertaining to the agenda item listed below. Individuals who have received value of $50 or more to communicate to the City Council on behalf of another, and employees speaking on behalf of their employer, must so identify themselves prior to addressing the City Council. Failure to do so shall be a misdemeanor and punishable by a fine of $250. While all comments are welcome, the Brown Act does not allow Council to take action on any item not on the agenda. The Council will respond to comments after Public Communications is closed.
SPECIAL ORDERS OF BUSINESS:

1. Consideration and possible action regarding a strategic planning workshop resulting in City Council receiving and filing of staff’s analysis and recommendations for the Fiscal Year 2014-2015 Preliminary Budget. Staff will present a brief overview of policy issues, challenges/limitations, goals and potential strategies associated with preparation and planning of the fiscal year budget including, without limitation, the following matters:

   a. OpenGov Demonstration - New Software to provide enhanced transparency of the City’s operations to the public
   b. Midyear/Yearend Fund Balance Update for Fiscal Year 2013/2014
   c. Fiscal Year 2014-2015 Budget Assumptions
   e. Specific Staff Preliminary Policy Issues
      i. Reserves/Sensitivity Analysis – Discussion regarding reserves for Economic Uncertainty Fund
      ii. Update on Credit Card Policy
      iii. Infrastructure Needs for Fiscal Year 2014/2015
      iv. Insurance – Additional Coverage (Earthquake)
   f. Budget Calendar: Setting of dates for additional budget workshops and meetings.

Council may raise other issues relating to any and all City revenues and expenditures, including but not limited to land use developments, fiscal policies, capital projects and potential budget reduction items for consideration as part of staff’s preparation of the FY 2014-2015 Preliminary Budget.

Recommendation: 1) Receive and file Staff Report regarding preparation of the Preliminary FY 2014-2015 Operating Budget and Three-Year Forecast; 2) Approve the FY 2014-2015 Budget Calendar; and 3) alternatively, take such additional, related, action that may be desirable.

ADJOURNMENT

POSTED: DATE: 
TIME: 
NAME:
AGENDA DESCRIPTION:
Consideration and possible action regarding a strategic planning workshop resulting in City Council guidance to staff for preparing the Fiscal Year 2014-2015 Preliminary Budget. Staff will present a brief overview of policy issues, challenges/limitations, goals and strategies associated with preparation and planning of the fiscal year budget. (Fiscal Impact: none)

RECOMMENDED COUNCIL ACTION:
1) Council to provide direction to staff regarding preparation of the Preliminary FY 2014-2015 Operating Budget and Three-Year Forecast;

2) Alternatively, take such additional, related, action that may be desirable.

ATTACHED SUPPORTING DOCUMENTS:
none

FISCAL IMPACT: None
  Amount Budgeted:  $0
  Additional Appropriation: N/A
  Account Number(s):  None

ORIGINATED BY:  Angelina Garcia, Fiscal Services Manager
                 Steve Jones, Business Services Manager

REVIEWED BY:  Deborah Cullen, Director of Finance

APPROVED BY:  Greg Carpenter, City Manager

BACKGROUND AND DISCUSSION:
Midyear Financial Review Fiscal Year 2013-2014

Staff has reviewed all revenues and expenditures for midyear Fiscal Year 2013/2014, with an emphasis on the General Fund, to determine if all sources and uses are on target with the originally adopted budget and to highlight any areas that may end the fiscal year significantly above or below budget. As we review the midyear results and begin the budgeting process for FY 2014/2015, the City continues to recover from the economic recession and financial challenges. As of April, the Bureau of Labor and Statistics reports that the state of California’s unemployment rate has gone down from 9.3% to 7.8% when compared to April 2013. Nationwide, this number has decreased from 7.5% to 6.3% for the same period.
Beacon Economics expects the economy to grow for the remainder of FY 2013/2014 and is expected to accelerate in the first half of FY 2014/2015 as the economy gains momentum. They are estimating U.S. Real GDP Growth at 3.8%, up from 3.3% last year.

The City’s business and industry sectors provide the majority of sales and use tax and this sector has shown improvement but is still sensitive to the overall economy. Statewide, it is expected that Sales & Use Tax will increase about 3.7% in calendar year 2014. El Segundo’s estimated increase is estimated at around 3.4%. The City is lagging behind statewide growth in Building/Construction and allocation of the County Pool.

Property Tax growth within the City is going to remain relatively flat for the next fiscal year. The City will receive the normal 2% CPI growth, but currently has outstanding assessments that could erode that growth. The City generally has fewer home sales compared to the surrounding cities, and the average sales price is also lower. Although this is a very reliable revenue source, its growth is 2% or less a year.

In January 2014, CalPERS released the results of investment earnings of 16.2% for 2013. This is good news, as the report adds that investments have grown by 10.9% during the past five calendar years and by 7.9% during the last 20 years. This rate of return exceeds the 7.5% estimated return assumed in the pension contribution rate.

Overall, the economy is showing signs of recovery statewide. While we are projecting moderate growth in City revenues, the concentration of revenues coming from the business and industry sector creates a higher level of volatility in our core tax revenues that is difficult to forecast.
General Fund Revenues

The following is a list of major General Fund revenues and the performance of each source through midyear plus estimates to yearend:

Table 1: General Fund Revenues

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Prior Year Through 3/31/2013</th>
<th>Current Year Through 3/31/2014</th>
<th>FY 2013-2014 Adopted Budget</th>
<th>% of Budget Received</th>
<th>FY 2013-2014 Year-end Estimate</th>
<th>Variance Over/(Under) FY 2013-2014 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business License</td>
<td>9,796,417</td>
<td>10,580,180</td>
<td>10,294,500</td>
<td>102.78%</td>
<td>10,900,000</td>
<td>605,500</td>
</tr>
<tr>
<td>Sales &amp; Use Tax</td>
<td>2,988,712</td>
<td>3,409,276</td>
<td>7,500,000</td>
<td>45.46%</td>
<td>7,450,000</td>
<td>-50,000</td>
</tr>
<tr>
<td>Sales Tax in Lieu</td>
<td>1,325,962</td>
<td>1,003,398</td>
<td>2,226,500</td>
<td>45.07%</td>
<td>2,006,800</td>
<td>-219,700</td>
</tr>
<tr>
<td>Property Tax</td>
<td>3,374,316</td>
<td>3,532,573</td>
<td>6,537,500</td>
<td>54.04%</td>
<td>6,655,000</td>
<td>117,500</td>
</tr>
<tr>
<td>Transient Occupancy (TOT)</td>
<td>2,234,111</td>
<td>2,513,597</td>
<td>5,125,000</td>
<td>49.05%</td>
<td>5,375,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>2,078,561</td>
<td>2,306,498</td>
<td>4,215,900</td>
<td>54.71%</td>
<td>4,031,845</td>
<td>-184,055</td>
</tr>
<tr>
<td>Electric Utility Tax</td>
<td>1,551,768</td>
<td>1,409,351</td>
<td>3,225,000</td>
<td>43.70%</td>
<td>2,985,000</td>
<td>-240,000</td>
</tr>
<tr>
<td>Franchise Tax</td>
<td>209,676</td>
<td>182,350</td>
<td>2,455,000</td>
<td>7.43%</td>
<td>3,075,000</td>
<td>620,000</td>
</tr>
<tr>
<td>Cogeneration Electric</td>
<td>543,361</td>
<td>781,646</td>
<td>1,350,000</td>
<td>57.90%</td>
<td>1,590,000</td>
<td>240,000</td>
</tr>
<tr>
<td>License &amp; Permits</td>
<td>753,510</td>
<td>1,248,152</td>
<td>1,477,500</td>
<td>84.48%</td>
<td>1,764,900</td>
<td>287,400</td>
</tr>
<tr>
<td>Gas Utility Tax</td>
<td>848,033</td>
<td>2,120,908</td>
<td>1,800,000</td>
<td>117.83%</td>
<td>2,900,000</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Interest on Investments/Rentals</td>
<td>95,989</td>
<td>105,872</td>
<td>240,000</td>
<td>44.11%</td>
<td>255,417</td>
<td>15,417</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>1,886,749</td>
<td>7,804,545</td>
<td>9,896,700</td>
<td>78.86%</td>
<td>9,729,413</td>
<td>-167,287</td>
</tr>
<tr>
<td>Total General Fund Revenues</td>
<td>27,687,165</td>
<td>36,998,346</td>
<td>56,343,600</td>
<td>65.67%</td>
<td>58,718,375</td>
<td>2,374,775</td>
</tr>
<tr>
<td>Net of Transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers In</td>
<td>2,290,002</td>
<td>100,002</td>
<td>400,000</td>
<td>25.00%</td>
<td>400,000</td>
<td>0</td>
</tr>
<tr>
<td>Total General Fund Revenues</td>
<td>29,977,167</td>
<td>37,098,348</td>
<td>56,743,600</td>
<td>65.38%</td>
<td>59,118,375</td>
<td>2,374,775</td>
</tr>
</tbody>
</table>

Business License Tax is the City’s largest General Fund revenue source, accounting for 18.14% of total estimated revenues. The majority of this revenue stream is collected in January and February, and based on the revenues received in the first 6 months of the fiscal year this category is projected to exceed revenues by $605,500 of the adopted budget. This increase was primarily due to a business that is no longer receiving a large sales tax credit when compared to prior years. Although there are new businesses being established in the City, there has been a large reduction in employment from some of the existing businesses. Due to a loss of a major GPS contract, Leidos, Inc. laid off approximately 80 employees in December 2013; due to its closing and downsizing of its ROS manufacturing operation in El Segundo, Xerox laid off 47 employees in December 2013; DirecTV laid off 66 employees in December 2013 due to a regional layoff; Mattel laid off 128 employees the end of March 2014; and 21 employees are expected to be laid off from Boeing the end of May 2014. These reductions will affect the FY 2014-15 and subsequent budgets as the business license taxes are based on the average of the four quarters of the previous calendar year. The impact of the headcount reduction is approximately $40,000.
Business License Tax
FY 2013 Actual Revenue: $10,082,800
FY 2014 Adopted Budget: $10,294,500
FY 2014 Yearend Estimate: $10,900,000

Sales & Use Tax and Sales Tax in Lieu combined is the City’s second largest revenue source, accounting for over 17.14% of the General Fund revenues. Sales and Use Tax receipts for the City’s October through December sales (1st quarter receipts for fourth quarter sales) were 22.1% lower than the same quarter last year. Actual sales activity was down 8.9% when reporting aberrations were factored out. The business and industry category was the main reason for the decline as the group experienced a 52% drop due to several large payment anomalies in multiple categories. Once adjusted, the business and industry category dipped 10.8%. The city’s allocation from the countywide use tax pool decreased 25.1% during the last quarter, further depressing overall results. Adjusted for reporting aberrations, taxable sales for all of Los Angeles County showed an increase to fourth quarter last year of 1.7% while the Southern California region as a whole was up 2.7%. Sales and use tax is expected to be lower than originally estimated due to negative fund transfers from misallocated past revenues to the City. These misallocations have been mitigated with the Board of Equalization and most have been approved to be paid back over a maximum of 8 quarters. The total impact for these mitigated misallocations is approximately $600,000 going forward.

Sales Tax in Lieu is received in two payments each year (January and May) and is calculated as a percentage of the estimated Sales and Use Tax and is projected to end the year under budget by $219,700 and is $645,123 below last years actual revenue.

Sales & Use Tax
FY 2013 Actual Revenue: $6,447,822
FY 2014 Adopted Budget: $7,500,000
FY 2014 Yearend Estimate: $7,450,000

Sales Tax in Lieu
FY 2013 Actual Revenue: $2,651,923
FY 2014 Adopted Budget: $2,226,500
FY 2014 Yearend Estimate: $2,006,800

Property Tax is currently 4.6% or $158,257 more than the same period last year and is projected to end approximately $117,000 over budget. The City has experienced a net taxable value increase of 6.3% for the 2013-2014 tax roll, which was slightly more than the increase experienced countywide at 4.7%. The assessed value increase between 2012-13 and 2013-14 was $607 million. The change attributed to the 2% Proposition 13 inflation adjustment of $96.4 million, which accounted for 16% of all growth experienced by the city. El Segundo has 725 pending appeals from 2008 through 1st qtr 2014. The projected or potential average assessed valuation loss is $1,677,118,356 and the projected or potential revenue loss is $1,061,875.
Based on El Segundo’s historical appeals history 25% end up being successful and the loss rate is approximately 16%. Over the last 5 quarters 113 homes have sold for an average price of $888,937. During these last 5 quarters, Manhattan Beach sold 433 homes for an average price of $1,907,582, Hermosa Beach sold 150 homes for an average price of $1,363,050, and Redondo Beach sold 391 homes for an average price of $855,749.

**Property Taxes**

FY 2013 Actual Revenue: $6,332,163  
FY 2014 Adopted Budget: $6,537,500  
FY 2014 Yearend Estimate: $6,655,000

**Transient Occupancy Tax (TOT)** is currently 12.5% or $279,486 above the same period last year, with 49.05% of budget received. This revenue has been rebounding as the economy improves due to increased occupancies and room rates. At this time TOT is projected to exceed budgeted revenues by approximately $250,000. Based on staff inquiries the increase in this category is due to higher than projected occupancy levels driven by the increase in tourism and business travel and increases in room rates. Occupancy rates are up 6.7% and room rates are up 8.0% from a year ago. Staff will continue to monitor and report any changes due to the economic conditions at third quarter.

**Transient Occupancy Tax**

FY 2013 Actual Revenue: $5,156,080  
FY 2014 Adopted Budget: $5,125,000  
FY 2014 Yearend Estimate: $5,375,000

**Charges for Services** includes Zoning and Planning fees, Plan Check fees, Plan Retention fees, Energy Plan Check fees, and Planning Service fees and have a combined budget of $4,215,900. The City has received $2,306,498 or 54.71% of budget through the second quarter. This is a 10.96% or $227,937 increase over the same period last year. According to the Planning and Building Safety Department, there has been an increase in plan check fees during the 1st two quarters compared to the same two quarters last year. Zoning and Planning Fees and Paramedic Transportation Fees are down through the 2nd quarter compared to last year. At this time staff is estimating this revenue group to end the year down approximately $184,000 to budget. Staff will continue to closely monitor this category and update the yearend estimate at the end of the third quarter.

**Charges for Services**

FY 2013 Actual Revenue: $4,678,092  
FY 2014 Adopted Budget: $4,215,900  
FY 2014 Yearend Estimate: $4,031,845
Electric Utility User's Tax is down $142,417 compared to the same period last year. Additionally, 43.7% of revenue has been received and it is projected that this revenue source will be below budget by approximately $240,000. This is primarily due to the increase in cogenerated electricity production at the Chevron refinery which offsets its previous usage with Southern California Edison. Usage was down considerably during the 1st quarter of FY 2013-14 and leveled off during the second quarter. The decrease is also attributable to a decrease in consumption in the commercial/industrial sector. Based on staff research, electric rates have increased and a large portion of this decrease in revenue is attributed to a decrease in the workforce in El Segundo.

**Electric Utility User’s Tax**
- FY 2013 Actual Revenue: $3,203,205
- FY 2014 Adopted Budget: $3,225,000
- FY 2014 Yearend Estimate: $2,985,000

Franchise Tax is another one of the City’s major revenue sources that is always impacted by the price of natural gas. The average price of natural gas for the 2013 calendar year is up approximately 30% compared to calendar year 2012. This revenue is slightly below target when strictly compared to the same period last year at midyear. However, the majority of the revenue is received from the gas and electric franchises in April each year. These two franchises are difficult to project as they are based on pipeline transportation in El Segundo for the commodities to reach their customers, along with the price of natural gas. This year’s annual payments from the two top tax producers were $802,839 higher than last year’s payments. This revenue source is projected to exceed estimated revenues by $620,000 due to increased gas transportation for the new power plant and a large customer using less tax exempted natural gas (“equity gas”). However, this revenue category is still below 2008-09 peak levels by approximately $503,000.

**Franchise Tax**
- FY 2013 Actual Revenue: $2,328,235
- FY 2014 Adopted Budget: $2,455,000
- FY 2014 Yearend Estimate: $3,075,000

Cogenered Electric Utility User’s Tax is 43.8% or $238,285 higher than the same period last year with 57.9% of budget received. The fluctuation of the price of natural gas has a large impact affecting the price per megawatt hour. Electricity production was higher as the fourth Cogen train at the refinery has been fully implemented after resolving previous operational problems. This revenue category expects to exceed estimated revenue projections at year end by $240,000 and will offset the expected under performance in Electric UUT.

**Cogenered Electric Utility User’s Tax**
- FY 2013 Actual Revenue: $1,234,854
- FY 2014 Adopted Budget: $1,350,000
- FY 2014 Yearend Estimate: $1,590,000
License and Permits includes animal licensing, various building permits, and street permits. Through the second quarter the City recorded revenues of $1,248,152 or 84.48% of budget. According to the Planning and Building Safety Department, this increase is primarily due to a large increase in building, plumbing, electrical, street, and mechanical permits through the second quarter compared to the same period last year. This revenue stream is expected to exceed budgeted revenues by $287,400.

License and Permits
FY 2013 Actual Revenue: $1,541,224
FY 2014 Adopted Budget: $1,477,500
FY 2014 Yearend Estimate: $1,764,900

Gas Utility Tax is currently at 117.83% of budget received. The primary factor for the increase is gas use at the refinery. In addition, the usage at the power plant is up because the new power plant has been fully operational this fiscal year compared to same period last year. This category will be watched closely by focusing on the price of natural gas along with consumption. This revenue source continues to be difficult to forecast. This is primarily due to the uncertainty of the local power plant’s production along with the continuous fluctuation of the price of natural gas.

Gas Utility Tax
FY 2013 Actual Revenue: $1,765,855
FY 2014 Adopted Budget: $1,800,000
FY 2014 Yearend Estimate: $2,900,000

Interest on Investments for the quarter ending March 31, 2014 is tracking slightly ahead of plan with $52,455 in general fund income received year-to-date net of bank fees. Earnings continue to be constrained due to low interest rate yields for investments with maturities between 1-day to 5-years. Currently, the City’s portfolio is invested in Local Agency Investment Funds (LAIF – 44.34% of portfolio value), Federal Agency Issues (33.28%), negotiable Certificates of Deposit (15.1%), and corporate securities (7.28%) with an overall effective yield of 0.87%. Included in the interest on investments are property rentals for cellular antennas located on city property.

Interest on Investments/Rentals
FY 2013 Actual: $113,172
FY 2014 Adopted Budget: $240,000
FY 2014 Yearend Estimate: $255,417
Estimated Revenues for Enterprise Funds

Revenues in the Water and Sewer Fund are both on track to meet budget at yearend. The Golf Course Fund is currently showing 32% of budget received although it is likely that revenue will increase with the typical usage in spring and summer.

General Fund Expenditures

Fiscal Year 2013-2014 Midyear Review of General Fund Expenditures

The General Fund expenditures through March 31, 2014 are illustrated in the following table:

<table>
<thead>
<tr>
<th>Department</th>
<th>Midyear 12/13</th>
<th>Midyear 13/14</th>
<th>Change from PY Midyear</th>
<th>% Change from PY Midyear</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elected Officials</td>
<td>$438,563</td>
<td>$447,337</td>
<td>$8,773</td>
<td>2.00%</td>
</tr>
<tr>
<td>Administrative Support</td>
<td>1,738,868</td>
<td>2,003,094</td>
<td>224,879</td>
<td>12.93%</td>
</tr>
<tr>
<td>Police</td>
<td>7,999,717</td>
<td>8,939,676</td>
<td>933,466</td>
<td>11.67%</td>
</tr>
<tr>
<td>Fire</td>
<td>6,610,926</td>
<td>7,382,742</td>
<td>811,163</td>
<td>12.27%</td>
</tr>
<tr>
<td>Communications Center</td>
<td>666,818</td>
<td>715,774</td>
<td>48,956</td>
<td>7.34%</td>
</tr>
<tr>
<td>Planning/Building Safety</td>
<td>1,038,604</td>
<td>1,179,874</td>
<td>107,270</td>
<td>10.33%</td>
</tr>
<tr>
<td>Public Works</td>
<td>2,316,761</td>
<td>2,736,068</td>
<td>420,556</td>
<td>18.15%</td>
</tr>
<tr>
<td>Recreation and Parks</td>
<td>2,299,169</td>
<td>2,346,090</td>
<td>46,920</td>
<td>2.04%</td>
</tr>
<tr>
<td>Library</td>
<td>1,054,518</td>
<td>1,109,063</td>
<td>54,598</td>
<td>5.18%</td>
</tr>
<tr>
<td>Nondepartment</td>
<td>1,961,738</td>
<td>2,472,387</td>
<td>493,227</td>
<td>25.14%</td>
</tr>
<tr>
<td>Transfers to Other Funds</td>
<td>69,426</td>
<td>173,202</td>
<td>103,776</td>
<td>149.48%</td>
</tr>
<tr>
<td>Total General Fund Expenditures</td>
<td>26,195,108</td>
<td>29,505,307</td>
<td>3,253,584</td>
<td>11.77%</td>
</tr>
</tbody>
</table>

Midyear Comparison – FY 2013 v. FY 2014

In comparing between the first half of the year between current and prior years, the major differences are due to the following:
- CalPERS Rate Increase – Year to Date, this accounts for approximately $543,000 increase in the first six months compared to prior year;
- Workers’ Compensation Increase – The rate was increased from 10% to 14% of total salaries for Public Safety, which resulted in a total increase of approximately $400,000 in the first six months of the year.
- The 401(a) matching that had previously been frozen was re-instituted as of December 2013. As a result, the increase in this expense was $215,000 compared to same period last year;
- Equipment Replacement Charge – The FY 2013-2014 budget was adopted to include a $1.4 million charge to all departments to fund the Equipment Replacement Fund, compared to no funding in the prior year. At March 31st, this amount was $710,000;
- Public Works Contractual Expenditures – Compared to the prior year ended March 31st, the Public Works Department has experienced greater activity in contract services. In total, this has increased approximately $320,000 compared to the prior year;
- Nondepartmental Charges – This category includes an increase over the same period last year of $200,000 in sick and vacation cashouts, $120,000 increase in the charges for General Liability Insurance Premiums, and approximately
- Citywide, the impact of the .8% salary increase accounts for approximately $90,000;

The **projected** General Fund expenditures at yearend are estimated to come in within budget at September 30, 2014. Any changes to estimates will be reported in the Third Quarter Review later this summer.

**Table 3 – Fiscal Year 2013-2014 Budget v. Projected Year-end – General Fund**

<table>
<thead>
<tr>
<th>Department</th>
<th>Midyear 13/14</th>
<th>Adopted 13/14</th>
<th>% Expended YTD</th>
<th>Yearend Estimate 13/14</th>
<th>Over (Under) Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elected Officials</td>
<td>$447,337</td>
<td>$979,965</td>
<td>45.65%</td>
<td>$ 979,965</td>
<td>-</td>
</tr>
<tr>
<td>Administrative Support</td>
<td>2,003,094</td>
<td>4,531,268</td>
<td>44.21%</td>
<td>4,531,268</td>
<td>-</td>
</tr>
<tr>
<td>Police</td>
<td>8,939,676</td>
<td>16,977,868</td>
<td>52.65%</td>
<td>16,977,868</td>
<td>-</td>
</tr>
<tr>
<td>Fire</td>
<td>7,382,742</td>
<td>14,388,932</td>
<td>51.31%</td>
<td>14,388,932</td>
<td>-</td>
</tr>
<tr>
<td>Communications Center</td>
<td>715,774</td>
<td>1,389,500</td>
<td>51.51%</td>
<td>1,389,500</td>
<td>-</td>
</tr>
<tr>
<td>Planning/Building Safety</td>
<td>1,179,874</td>
<td>2,855,720</td>
<td>41.32%</td>
<td>2,855,720</td>
<td>-</td>
</tr>
<tr>
<td>Public Works</td>
<td>2,736,068</td>
<td>5,901,178</td>
<td>46.36%</td>
<td>5,901,178</td>
<td>-</td>
</tr>
<tr>
<td>Recreation and Parks</td>
<td>2,346,090</td>
<td>5,093,636</td>
<td>46.06%</td>
<td>5,093,636</td>
<td>-</td>
</tr>
<tr>
<td>Library</td>
<td>1,109,063</td>
<td>2,361,417</td>
<td>46.97%</td>
<td>2,361,417</td>
<td>-</td>
</tr>
<tr>
<td>Nondepartment</td>
<td>2,472,387</td>
<td>4,591,145</td>
<td>53.85%</td>
<td>4,591,145</td>
<td>-</td>
</tr>
<tr>
<td>Transfers to Other Funds</td>
<td>1,378,236</td>
<td>346,400</td>
<td>397.87%</td>
<td>346,400</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total General Fund Expenditures</strong></td>
<td><strong>30,710,341</strong></td>
<td><strong>59,417,029</strong></td>
<td><strong>51.69%</strong></td>
<td><strong>59,417,029</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

**Summary of Expenditures by Cost Category:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Benefits</td>
<td>$46,207,749</td>
</tr>
<tr>
<td>Nonpersonnel</td>
<td>13,209,280</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$59,417,029</td>
</tr>
</tbody>
</table>

The following is summary of General Fund expenditures by major categories:

Currently, staff is estimating that all departments will end the year at the budgeted amounts. While some departments are performing better than expected at midyear overall the General Fund has expended 51.69% of expenditure though midyear. This puts the General Fund on track to meet adopted budgeted amounts at yearend.

During the remainder of the fiscal year staff will continue to monitor department expenditures and will update the yearend projections at the end of the 3rd quarter and prior to the Fiscal Year 14/15 budget adoption.
Department Heads and staff continue their commitment to maximize savings by identifying efficiencies and cost saving measures that ensure reliable—trustworthy—conscientious—diligent use of revenues needed to provide quality service to the community.

**Strategic Planning – Fiscal Year 2014-2015 General Fund**

The yearend projections for FY 13-14 are used as the base for building the preliminary estimates for the FY 14-15 budget. The following assumptions were used to forecast the FY 2014/2015 preliminary revenues and expenditures:

**General Fund Revenues**

In preparing for Strategic Planning for next year’s budget staff analyzes the performance of all General Fund revenues with additional emphasis on the City’s core tax revenues and fees for service.

The City receives 69% of its General Fund tax revenues from the Business Sector. Staff utilizes historical data and information from outside consultants as well as industry experts to predict future revenues for this sector. Over the past year the City has experienced a modest recovery in the business to business tax base and overall this sector appears to be recovering. This recovery will help to stabilize and add confidence to the forecasted revenues going forward for this tax base. Other revenue categories, with the exception of Property Tax and Interest on Investments appear to be stabilizing as well with moderate growth predicted.

Overall, the General Fund’s core tax revenues are estimated to grow 2.58% or $929,000 compared to FY 13/14 yearend estimates.

Below is a summary of the revenue assumptions used for the FY 14/15 projections as compared to yearend projections:

- Business License Tax – $218,000 net increase over yearend estimates; 2% Growth due to annual CPI change and anticipated reduction of sales and use tax credits which result in a higher Business License Tax
- Property Tax – Current projection is flat based on pending reassessment appeals
- Transient Occupancy Tax (TOT) – $84,200 net increase over yearend estimates; 1.57% growth due to an increase in rates and occupancy.
- Sales Tax – $1,243,000 or 13% increase from 2014 estimated yearend; This category is projected to rebound in FY 2015 due to two major reasons:
  - The end to two misallocations approximating $700,000 that reduced FY 2014 sales tax revenue
  - An increase of $543,000 due to the strengthening sales statewide as well as locally
- Charges for Services – $75,000 or 1.85% increase from yearend estimates, due to forecasted decrease in demand for permits/inspections
• Interest on Investments – ($8,500) or 3% decrease from yearend estimates primarily due to low Federal Reserve Rate
• Utility Users’ Tax and Franchise Fees – $225,000 or 3.5% increase from yearend estimates. These revenue categories are rebounding but are still susceptible to dramatic increases or decreases due to the fluctuation of the price of natural gas. Therefore these categories are estimated at a very conservative level.
• All other revenues remain flat or have very little growth compared to yearend estimates.

**General Fund Expenditures**

General Fund expenditure assumptions for FY 2014-2015 are as follows, as compared to the prior year adopted budget:
The City is currently beginning negotiations with all 6 labor groups therefore the forecast is being created based on the expiration of the contracts and related concessions as of October 1, 2014.

• Salaries – increase of $642,800 due to:
  - Expiring Concessions - $292,800
  - Overtime increases - $350,000

• California Public Employees’ Retirement System (CalPERS) Rate Increases – $822,000 increase in the City’s pension contribution due to the discount rate reduction implemented by CalPERS. The CalPERS board lowered the discount rate from 7.75 to 7.5%. This impacts both rates, safety and nonsafety:
  - Safety Rate Increase: $761,731
  - Misc. Group Rate Increase: $60,269

• Increases to CalPERS costs due to Expiring Concessions - $729,865
  - The current labor contracts include concessions of the Employer-Paid Member Contributions (“EPMC”). Per the contracts, employees conceded to pay from 3% of the EPMC, depending on the labor group. The assumptions include the expiration of those concessions.
  - EPMC will still be paid by employees in the following groups:
    • Executives 7%
    • Management/Confidential 9%
    • Supervisory & Professional Employees’ Association 3%

• Health Benefits – $400,000 estimated increase based on historical trends, these amounts will be updated during the budgeting process if actual amounts come in lower/higher than the estimates.

• Workers’ Compensation – The latest actuarial valuation of the City’s Workers’ Compensation Program reported a decrease in the estimated liability for FY 2014-2015. The impact of this reductions results in a savings to the General Fund of approximately $1,200,000. To hedge against future increases, staff has also set aside and additional $475,000 in the Workers’ Compensation Fund.
• Increase in OPEB - $400,000 estimated increase based on historical trends, these amounts will be updated during the budgeting process if actuals amounts come in lower/higher than the estimates.

• Non-Personnel Costs - Total increase of $417,000
  - Equipment Replacement Charge –10% increase – 142,000.
  - Increase in Utility Fees –3% CPI increase – $32,000
  - Contractual Services & Professional/Technical – CPI Increase of $123,000
  - Increase for Credit Card Fees - $120,000; this line item is new and was not included in the FY 2013/2014 Adopted Budget.

• All other Nonpersonnel Costs, such as Meetings & Travel, Training & Education, Supplies and Services have been budgeted with no growth.

• ESUSD Funding –
  - $250,000 Cash Contribution
  - $ 80,000 Crossing Guard Services

Table 4 – FY 2014/2015 Estimate – General Fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td>$59,118,375</td>
<td>60,349,930</td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td>59,417,029</td>
<td>61,637,833</td>
</tr>
<tr>
<td>SURPLUS (DEFICIT)</td>
<td>($298,654)</td>
<td>(1,287,903)</td>
</tr>
</tbody>
</table>

Three-Year Forecast

Below are the assumptions used for the 3-year forecast:

Revenue Assumptions

• Property Tax 2% CPI growth annually
• Business License Tax – 2% growth annually
• CPI growth Gas UUT and Electric UUT
• Sales and Use Tax increase $375,000 in FY 15/16 (Pointe), 1.5% increase for subsequent years
• TOT increase in FY 15/16 of 876,000 estimated growth from newly refurbished hotel; an additional 1.5% increase for normal growth annually
• All other categories, including Licenses & Permits, Charges for Services, and Fines & Forfeitures have stagnant or no growth forecasted through 2018.
Expenditure Assumptions

- Salaries – increase on average $130,000 annually due to:
  o Normal Step/Longevity Increases - $30,000
  o Increase in Sick/Vacation Payouts - $100,000
- California Public Employees’ Retirement System (CalPERS) Rate Increases –
  o FY 2016 - $479,500
  o FY 2017 - $600,000 (First Year of Change in Mortality Assumptions)
  o FY 2018 - $434,962 (Second Year of Change in Mortality Assumptions)
- Health Benefits – $200,000 annual increase
- Increase in OPEB - $200,000 annual increase
- Workers’ Compensation – $200,000 annual increase.
- Non-Personnel Costs - Total increase of $417,000
  o Equipment Replacement Charge –10% annual increase.
  o Increase in Utility Fees –3% annual increase.
  o Contractual Services & Professional/Technical – 2% annual increase
  o New Pool – $300,000 annual costs beginning in FY 2015/2016
- All other Nonpersonnel Costs, such as Meetings & Travel, Training & Education, Supplies and Services have not been increased.
- ESUSD Funding –
  o $250,000 annual cash contribution
  o $ 80,000 annual cost to City for ESUSD crossing guard services

Policy Decisions

In addition to the assumptions made above, staff is also recommending the following items are considered for future funding:

- Capital Improvement Funding – The City has deferred much needed maintenance and rehabilitation of City infrastructure due to a lack of funds. For the last three years, the only improvements that have been done have been funded through the City’s apportionment of Proposition A & C Funds, State Gas Tax, Measure R, and other small grant awards.
- Facility Maintenance Funding – Increase funding to restore adequate level of maintenance and repairs.
- Equipment Replacement – The funding level in the Equipment Replacement Fund is approximately 70%. Staff recommends increasing the funding level in each year of the forecast to ultimately get back to 100% funding level.
- Fund Policy to address instability of tax revenues-- In anticipation of changes to the multi-year forecast that would affect the financial stability of the City staff is recommending a fund policy that will endeavor to ensure there are adequate reserve levels are maintained in the Economic Uncertainty Fund to sustain the City through unforeseen economic impacts.
- Update Credit Card Policy to address fees.
Table 5 – Three Year Forecast – FY’s 2016-2018

<table>
<thead>
<tr>
<th></th>
<th>2015-2016 FORECAST</th>
<th>2016-2017 FORECAST</th>
<th>2017-2018 FORECAST</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td>$62,037,919</td>
<td>63,334,003</td>
<td>64,377,096</td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td>63,478,552</td>
<td>64,831,189</td>
<td>66,188,969</td>
</tr>
<tr>
<td>SURPLUS (DEFICIT)</td>
<td>(1,440,634)</td>
<td>(1,497,186)</td>
<td>(1,811,873)</td>
</tr>
</tbody>
</table>

Increase to Expenditures for:

| Funding for Capital Projects | 500,000 | 500,000 | 500,000 |
| Funding for Equipment Replacement | 200,000 | 200,000 | 200,000 |
| Funding for Facilities Maintenance | 80,000 | 150,000 | 150,000 |

Cumulative increase to 2013-2014 Estimate:

| 780,000 | 850,000 | 850,000 |

DEFICIT, AS ADJUSTED

| $ (2,220,634) | (2,347,186) | (2,661,873) |

OPTIONS FOR CONSIDERATION TO MAINTAIN A BALANCED BUDGET

During the Strategic Planning Session staff will be presenting the updated multi-year forecast to aid in the long-term planning for the City with the desired outcome of forecasting and planning for a balanced budget going forward each year.

To prepare this forecast many estimates and assumptions are used based on information and data that is available today. As the economy, external impacts and assumptions change so will the forecast. To ensure the adoption of a balanced budget in future years the options listed below are for Council consideration:

- Salary and Benefit reductions
- Service level reductions
  - Re-organize the Police Department from 62 authorized positions to 60 positions
- Recovery of the Trash fees for 3 and 4 units
- Recovery of Residential Trash Fees
- Reduce ESUSD Funding
  - $250,000 cash contribution
  - $190,000 School Library resources
  - $80,000 Crossing Guard contract