MEETING DATE: 5/26/09

AGENDA ITEM: Budget Study Session – Fiscal Years 2009-10 & 2010-11
Proposed Budget: Budget Overview

ATTACHMENTS

Culver CITY

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JERRY B. FULWOOD
City Manager

May 13, 2009

Honorable Members of the City Council:

PROPOSED FISCAL YEAR 2009-10 AND 2010-11 BUDGET

INTRODUCTION

In accordance with Section 801 of the City Charter, I am submitting the proposed 2009-10 and 2010-11 budget for your review. Shortly you will conduct a series of "Budget Study Sessions" at which these documents will be discussed and modifications may be proposed. You will also be asked to set a Public Hearing, which must precede budget adoption and must take place on or before June 30, 2009. We are targeting June 22, 2009 for the Public Hearing and budget adoption.

A YEAR OF CHANGES

Much has changed since the preparation of the Proposed budget a year ago. In April of 2008, three new members were elected to the City Council. The City Council has heard and considered a number of controversial items related to development and City policy. Additionally, after six years with Culver City, I announced my retirement effective in June. After an extensive search process, the City Council has named Mark Scott as the next City Manager for Culver City. In fact, Mr. Scott will be on board with the City beginning in June and will see this proposed budget through to adoption.

Perhaps the biggest change, however, is the unprecedented collapse of our nations' economy. Whereas last year we referred to an economic downturn, at this time our nation is experiencing its greatest financial crisis since the Great Depression, with projections that the situation will still worsen before it improves. The value of the stock market, even with a recent rally, has dropped by a third in the last twelve months. The recession is impacting all segments of the economy, including local, state, and national governments. The development of this year's budget could not be approached as business as usual. As will be discussed in more detail, this is a transition budget. Several years ago, the City identified a looming problem of a structural deficit, where ongoing revenues would not keep up with ongoing costs. The pressures of the economy have both moved this problem forward and intensified it. Although this proposed budget seeks to weather the storm, it does not address the underlying problem. Within the time period covered by this budget, the City will have to enact an action plan to address the structural deficit either through significant revenue increases or significant expenditure (and service) reductions. In order to provide the time needed to make and implement these decisions, this proposed budget will not meet the City's financial policy of a budget that uses ongoing revenues to fund ongoing expenditures. This budget assumes the use of several one-time funding sources, fund reserves, as well as cost savings to be achieved through agreements with the various City bargaining groups. These measures are proposed to avoid immediate service reductions and layoffs while the City determines the path it will follow to close the structural deficit.

Regardless of the financial difficulties we have faced, the City has continued to move forward and there have been many achievements in the past year. Departments have worked hard to tighten their belts and do more with less. The City Council has faced a number of critical issues throughout the year. The City has taken an increased leadership role in several regional issues. Culver City is fortunate is have strong leadership and superior staff.

ECONOMIC OUTLOOK

During the writing of last year's adopted budget message, there were definite signs of difficult economic times on the horizon. The depth as to what ultimately occurred is something no one anticipated. During this past year, unemployment rates have hit record highs at all levels. Large banks and businesses previously regarded as "too big to fail" have filed for bankruptcy or required financial support from the federal government. Businesses of all kinds – large and small – have closed. Auto dealers have seen sales drop to record low levels and dealerships are closing all over the country. The credit markets have essentially frozen. Forecasts estimate it will take years for the economy to turn around, and when it does it will most likely stay at the bottom for a period before slowly rising. Recovery will be slow and it is doubtful we will regain the level of financial security we experienced for these past several years anytime soon – if ever.

The State set a record this past fiscal year for the latest budget adoption in its history. To help balance the budget, funds were taken from Transportation and Redevelopment Agencies. The initial budget included a take-away of $350 million from Redevelopment Agencies, and Culver City's share of this is $2.25 million. A subsequent lawsuit by the California Redevelopment Association claiming that the take of Redevelopment Agency funds is constitutionally illegal was successful in obtaining a court ruling enjoining the State from collecting those funds, which means that the State will have a bigger gap to close. State Transportation Assistance (STA) funds for the third and fourth quarters were originally held, and ultimately diverted to the State's general fund. The loss to Culver City of STA funding is over $1 million. This funding source has now been eliminated for use by local jurisdictions.

Just days after the adoption, the State announced a significant shortfall, which grew to over $42 billion for the remainder of fiscal 2008-09 and through June 30, 2010. The spending plan that was approved to close this gap included several revenue generating items, transferring of funds from other sources, and reduction of services. Some of the more significant items were: increasing of the state sales tax by one percent on April 1, 2009 (generating $5.8 billion); raising the fee for licensing vehicles from 0.65 percent to 1.15 percent (generating $1.5 billion, of which a portion will be dedicated to local law enforcement); raising the state personal income tax rate (potentially generating $3.7 billion); reducing education spending by $8.6 billion over two years; $1.4 billion in savings from continued state employee furloughs; and approving a plan to borrow $5 billion against the value of future lottery revenue.

Several of the gap closing measures listed above are dependent on a special election that will take place Tuesday, May 19, 2009. There are six Propositions on the ballot that directly relate to these items, and while some items have already been implemented (i.e. increases in sales tax, VLF, and Personnel Income Tax), their longevity depends on the passage of these Propositions. Early poll results look rather grim, though, for the passage of these Propositions, and if they do not pass, the State is already making alternative plans to balance the budget for the remainder of this year and into the next. According to the latest statements from the Governor, these alternative plans include borrowing funds from local government.

Local governments have been informed that the State may divert approximately $2 billion in property tax under the guidelines of Prop 1A, which was approved by voters in 2004. For Culver City, this equates to approximately $850,000. The State is required to pay this amount back within three years with interest. There is also talk of Prop 42 funds (Traffic Congestion Relief Funds) being diverted.

The City may be able to cover this one-time diversion of funds with reserves, but it puts our fiscal health in further peril. Over the past year or two Culver City has lost two auto dealerships (Albertson Oldsmobile Chevrolet and Hooman GMC/Pontiac), one major electronic store (Circuit City), a medical supply manufacturer (Karl Storz Endoscopy), and countless other businesses. The Westfield Mall is still in the renovation phase, although a bright spot on the horizon is that it looks to be on track to finish later this calendar year with a new Target Superstore as a tenant. While there have been new businesses moving into the City, nothing has opened that can offset the significant sales tax loss of the businesses mentioned previously.

Sales Tax estimates for fiscal 2009-10 have been dramatically reduced compared to prior years due to the lower receipts currently being received and continued poor retail activity expected this next year. Business License estimates have also been reduced as this revenue source typically mirrors sales tax activity.

New development activity has basically come to a standstill, as developers have been unable to secure financing in order to move forward with their projects. Many development projects have gone through the permit and entitlement process and been approved, but the lack of funding has brought them to a halt. There is little hope that things will change the remainder of this calendar year. Fees and charges estimates attributable to this activity were reduced accordingly for fiscal 2009-10.

Property Tax has not taken the hit that other cities have experienced, in part because Culver City receives a low percentage of the property tax paid by residents (Culver City receives 10 cents for every property tax dollar paid by residents compared to the state

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average of 20 cents on the dollar) and assessed values on the Westside have not dropped as dramatically as other areas of the state. Estimates for this source are being kept relatively flat for fiscal 2009-10, with a small growth in fiscal 2010-11.

LONG-TERM CITY ISSUES

Beginning with the audited financial statements ending June 30, 2009, the City is required to disclose the unfunded portion of its actuarially determined Other Post Employment Benefits (OPEB) per Government Accounting Standards Board Statement No. 45 (GASB 45). The OPEB liability that will be reported consists primarily of retiree medical insurance premiums, which are currently funded on a pay-as-you-go basis. If the City were to fully fund this liability, i.e. pay for the benefits already being received by current retirees as well as set aside funds for active retirees who may receive this benefit in the future, an additional $3.5 - $4 million would be needed annually. At this point, the City is only legally required to report the liability, not fund it. However, best financial management practices dictate that the City begin setting aside funds and developing a plan to fund this liability on an ongoing basis.

Due to the current economic conditions and the operating deficit faced by the City in fiscal 2009-10, fully funding this liability is not financially feasible. However, the Proposed 2009-10 Budget includes a number of measures to begin setting aside funds. As an initial step, the non-General Fund funds (i.e. Sewer, Refuse, Transportation, Redevelopment Agency, and Housing funds) will be setting aside 30% of their total share of the OPEB liability. That percentage is planned to be increased over a period of three years until those funds are fully funding their OPEB obligation. Further erosion of the economy could affect the City's ability to meet this goal.

In fiscal 2007-08 and 2008-09, the City Council approved setting aside $100,000 each year for OPEB from the General Fund. Additionally, the General Fund will begin setting aside a portion of the total user fees and charges receipts, which are primarily driven by personnel costs, toward OPEB. Although all of these actions represent a step in the right direction, they will not generate nearly enough ongoing revenue to fully fund the City's obligation.

In the long-term, the City will need to build this liability into ongoing personnel costs and adjust personnel levels accordingly, limit the liability by restructuring the current retiree medical benefit, or some combination of the two.

Sufficient funding for deferred maintenance continues to be an ongoing struggle for Culver City. While the City has been able to appropriate some funding from the General Fund Fund Balance for one-time deferred maintenance projects, there is still no stable, ongoing revenue stream to fund necessary deferred maintenance projects. Public Works and Parks have both conducted studies to identify how much the City needs to set aside each year to meet future facility and infrastructure maintenance needs for streets, streetlights, City buildings, and park facilities. The studies identify the funding necessary for immediate repair and replacement projects, and an estimated annual amount to establish set aside funding for routine costs such as roof and carpet replacement. The table below reflects the estimated needs identified by those studies:

	Total Est. Deferred Maint. Cost	Estimated Annual Cost	Proposed 2009-10 Funding (From all funding sources)
Streets	$18,000,000	$2,200,000	$709,380
Streetlights*	$11,000,000 Total estimated cost to replace old high voltage lights with new low voltage lights	N/A	$100,000
City Buildings General Fund only	$3,650,000	$440,000	$190,000
Park Facilities	$1,800,000	$225,000	$430,000

Similar to the retiree medical benefits, funding the deferred maintenance issue will require either identifying significant new revenue sources or expenditure reductions in other areas.

Over the coming months, the Chief Financial Officer will be presenting various financing options to address the City's short-term and long-term financial issues for City Council consideration.

PROPOSED BUDGET SUMMARY

For the first time in several years, Departments were asked to reduce their operating and maintenance budgets. The 3% CPI increase that was initially included in last year's approved fiscal year 2009-10 budget was also rolled-back. In order to balance the budget for the next two fiscal years, many one-time options have been incorporated in the budget. These include significant one-time transfers of monies from other funds; still to be determined personnel cost reduction measures from the City's six bargaining groups; reduced operating and maintenance expenditures mentioned earlier; and two position reductions through retirement incentives.

The decision to balance the budget using these measures was to give the City time to evaluate the current economic climate, and see where we are in a year when the economy is expected to recover. There is little doubt, though, the City will be looking at dramatic reductions, most likely in personnel services, if revenues do not recover soon and new revenue sources are not found.

Necessary enhancements were also kept to a minimum and those which were approved have been included in the recommended budgets for fiscal 2009-10 and 2010-11. All requests were carefully evaluated and recommendations were made based on whether the request meets the following criteria:

- Enhance community and/or staff safety and/or security issues;
- Improve organizational efficiency;
- Consolidate and/or centralize a service function;

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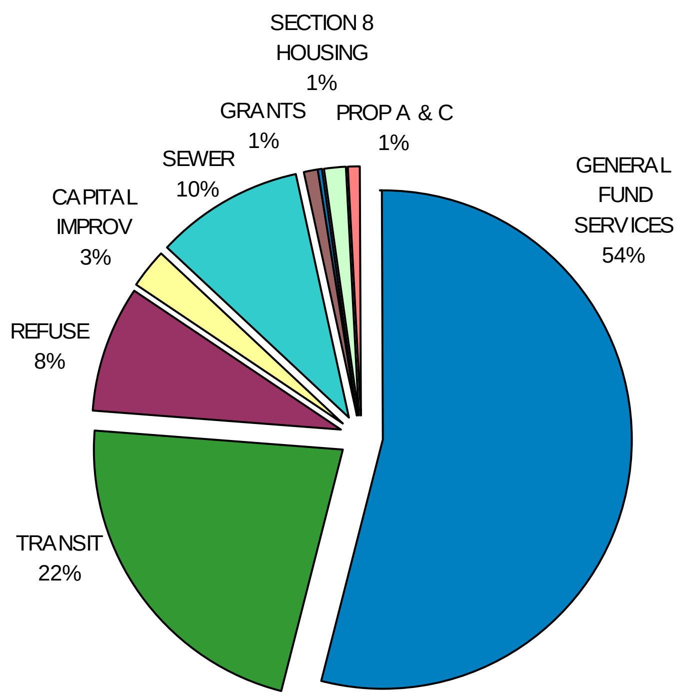
- Increase accountability;
- Result in cost savings;

The total combined City expenditure budget is $154,503,765. The City's largest funds remain the General Fund (54%), the Transit Fund (22%), the Sewer Fund (10%) and the Refuse Fund (8%), as represented by the graph below:



General Fund revenues are projected to be $82.7 million in fiscal 2009-10. This is a reduction of approximately $4.7 million from fiscal 2008-09. It also includes one-time transfers from the Equipment Replacement Fund ($1,250,000) and Innovation Fund ($550,000) that are necessary in order to cover expenditures for fiscal 2009-10.

The proposed 2009-10 General Fund appropriations total $82.8 million, which includes a transfer out of approximately $100,000 to fund the recommended Capital Improvement Projects and $150,000 to fund Computer Equipment Replacement.

For the first time in the City's recent history, funds from the General Fund reserve will need to be used to balance the operating budget. For fiscal 2009-10, approximately $117,000 will be earmarked to close the gap between revenues and expenditures. Gap closing measures for fiscal 2010-11 currently show a slight surplus, but this could very possibly change as the year progresses and plans begin for next year's budget process.

Proposed fiscal 2010-11 General Fund revenues are projected to be $84.4 million. The proposed General Fund appropriations total $84.3 million, which includes a transfer out of $620,000 to fund the recommended Capital Improvement Projects and $150,000 to fund Computer Equipment Replacement. Fiscal 2010-11 also includes a transfer of $750,000 from the Equipment Replacement Fund to help reduce the gap for that year.

The appropriation level for fiscal 2009-10 and fiscal 2010-11 is 96.0% in order to help close the gap between revenues and expenditures. Meeting this target will mean holding many positions vacant, which will have an effect on services and achieving work plans. Budget staff will continue to monitor the monthly expenditure pattern to ensure the budgetary control.

It is projected that the City's General Fund reserve will remain above the 30% policy reserve level at the end of the two-year budget cycle. Receipts from new development activity the last few years have been very beneficial in enabling the fund to remain above this threshold. This will not continue to be the case, though, as our five year projections show the structural deficit quickly depleting reserves in future years. I stress again, the City has to make significant decisions in order maintain this reserve level.

As previously discussed, this budget strives to maintain the existing levels of City services in light of the economic downturn. Therefore, there were no additional positions included in the proposed budget for fiscal 2009-10 or 2010-11. There were a two positions recommended for elimination or reduction through the retirement incentive option. Additionally a vacant Accounting Division Manager position in the Accounting Operations division of the Finance Department was eliminated, as were Laborers/RPT (1.96) in the Refuse Services division. The first three positions are General Fund positions, and the Laborer positions are funded by the Refuse Fund.

ENTERPRISE FUNDS

<u>Refuse Fund</u>

Over the last several years, the Refuse Fund has performed exceptionally well by paying down its negative operating balance from $1.4 million to $79,700 (period ending June 30, 2008); and based on current revenue and expenditure projections, the Fund will become positive during fiscal 2008-09. It is anticipated that from this point on the fund balance will remain positive. Staff is still anticipating significant future solid waste disposal cost increases based on information from the County Sanitation District, as local landfill capacity is depleted. This may not occur, though, as quickly as had previously been estimated. The current economic condition has a direct affect on the amount of refuse sent to landfills as the decrease in development activity and consumer spending translates to less trash being transferred to landfills. Thus, the capacity will not be depleted as quickly as originally forecast, but will still occur.

In order to smooth this eventual transition as local landfill space is depleted, the disposal charges for the City's refuse that is taken to Sanitation District landfills (which handles the majority of the City's refuse) will increase at a rate of approximately 4% to 5% per year over the next twenty years. Additionally, like all City funds, the Refuse Fund is facing significant increases to critical operating costs, including fuel, equipment maintenance, equipment replacement, and funding the retiree medical liability.

As a result, the Refuse Fund will be increasing rates by 5% in 2009-10 and another 3% for some categories in 2010-11 to balance revenues with expenditures. In addition to regular rate adjustments, the Refuse Fund continues to engage in revenue expanding opportunities. In order to help offset the amount of refuse taken to landfills, the City increased its successful bi-weekly residential recycling program to weekly beginning in January 2008.

The rate increases are expected to generate enough revenue to cover operating expenses in 2009-10 and 2010-11. Any surpluses will be used to build a reserve to lessen the impact of significant increases in operating costs that will result from landfill closures anticipated in 2013 or 2014, and assist in paying for any uncontrollable increases in operating costs such fuel prices.

Transportation Fund

The primary funding concern for the Transit Fund is the "threat" on the State's and the County's multiple sources of transit funds which make up the majority of the operational funds for the Culver CityBus. The sources of the State and County transit funds primarily include sales taxes and gas taxes. Both the State and the County are projecting significantly lower sales tax receipts for the next year, which in turn, lowers the allocations of funds that Culver CityBus can expect.

Each source of voter approved transit funding comes with its own set of rules and regulations and is subject to the interpretation of political leaders in the setting of the State budget. Public transit funds were diverted at unprecedented levels in the fiscal 2008-09 State budget. While last year's budget set the record with $1.3 billion in Public Transportation Account (PTA) funds diverted, this year the total was even higher at $1.67 billion. The diversion is primarily due to record gasoline prices that drove up the Spillover — a calculation that is triggered when gasoline prices grow at a faster rate than the overall economy. There is little doubt that fiscal 2009-10 will again see some type of diversion or take-away of funds by the State from Transportation related funding sources.

Transportation had a rough year during fiscal 2008-09 in regards to funding, mainly due to the State taking, diverting and eliminating funds the Department relies on. One of the largest sources of funding the state took during fiscal 2008-09 is the State Transportation Assistance (STA) funds, and ultimately eliminated this funding to local municipalities beginning in fiscal 2009-10. A bright spot, though, was MTA agreed to back-fill the lost amount for fiscal 2008-09.

Measure R, the ½ cent sales tax increase which was approved by LA County voters in November 2008 and will go into effect July 1, 2009, will add some additional monies to the Transit Fund. Fiscal 2009-10 will not show a full year of this additional source as sales tax lags several months, and early estimates are fiscal 2009-10 receipts will be $1,084,147 and fiscal 2010-11 will be $2,115,801.

Over the past few years, the Municipal Transit Operators and MTA have been discussing a revised Fare Allocation Plan (FAP) formula to distribute the County's transit subsidies. A new FAP formula was finally approved, which allows Transit Operators to raise their fares without being penalized by the formula. Culver CityBus will be analyzing its current fare structure in fiscal 2009-10 and proposing new rates that are similar to rates of surrounding municipalities.

Sewer Fund

An audit on sewer charges from the City of Los Angeles for use of the Hyperion Treatment Plant and Los Angeles sewer transmission lines was performed in fiscal 2008-09, and indicated that Culver City had overpaid for the last three years. A credit was applied to the fiscal 2008-09 payments, which ultimately resulted in covering almost the entire payment amount. Over the last few years the amount year-to-year has fluctuated significantly, which makes it difficult to budget at a steady rate. Although charges were minimal for fiscal 2008-09 due to the credit, increases in sewer charges are expected to pick-up again after this fiscal year. Additionally, the City must continue to comply with new Waste Discharge Requirements set by the State Water Resources Control Board.

Currently, there is no recommendation to increase sewer charges for fiscal 2009-10, and proposed operating costs are currently covered by recommended operating revenues.

INTERNAL SERVICE FUNDS

Self-Insurance Fund

The Self Insurance Fund (SIF) has had to face a number of significant challenges over the past few years and the Fund's cash balance has experienced some volatility. The purpose of having a healthy cash balance in the SIF is to safeguard against the General Fund taking a significant financial hit resulting from a particularly expensive lawsuit or workers' compensation claim, or a dramatic unforeseen increase in insurance premiums (like was seen after 9/11 and hurricanes Wilma and Katrina). Unfortunately, in both 2006-07 and 2007-08 the City experienced a number of lawsuits that significantly reduced the SIF's available cash balance from approximately $5 million on June 30, 2007 to approximately $1.8 million on June 30, 2008.

Despite the lawsuits that caused the fund balance to decrease, the Self Insurance fund is expected to increase by approximately $1 million by the end of fiscal year 2008-09. This is due in part to reduced salary continuance costs resulting from an effective modified duty and return to work program as well as staff's efforts to receive approximately $800,000 in Federal Emergency Management Agency funding to offset some of the costs associated with repairing the Cranks/Tellefson hillside. .

In the current economy, the General Fund cannot absorb the dramatic increase in internal service charges necessary to restore the fund to previous levels, so it will take time to fully restore the fund's cash balance. However, staff will continue efforts to reduce costs by implementing preventative safety and wellness programs, training staff in proper safety and employment practices, and participating in low-cost insurance solutions that properly mitigate the City's risk.

Equipment Replacement Fund

The purpose of the Equipment Replacement Fund is to establish a means of accumulating funds for vehicle and equipment replacement costs, communications system replacement costs, and technology related replacement costs. Funding for vehicles within the Equipment Replacement Fund continues to be adequate.

In 2009-10, twenty-four (24) vehicles are scheduled to be replaced and/or upgraded using Equipment Replacement funds and include: seven (7) public safety vehicles, three (3) vehicle for Parks, three (3) vehicles for Paratransit, one (1) vehicle for Housing, seven (7) Automated Front Loaders for Refuse Transfer Station service, two (2) Utility Trucks for Public Works, one (1) Heavy-Duty Forklift for Refuse. The total replacement amount for vehicles in fiscal 2009-10 is estimated to be $2.71 million. The total amortization charge to all departments is approximately $1.6 million for each budget year.

Capital Projects Funds

In fiscal 2008-09, the City continued efforts to address deferred maintenance issues identified in two comprehensive assessment studies were conducted in fiscal 2007-08 – a Facilities Assessment study, which identified building maintenance issues at each City owned facility, and a Parks Assessment study, which identified park and park facility maintenance issues. The results of these two studies have been useful to staff to clearly identify and quantify deferred maintenance needs and were used in conjunction with the existing Pavement Management Master Plan and Sewer Video Analysis and Conditions Assessment Report to develop the 2009-10 and 2010-11 proposed Capital Improvement budget.

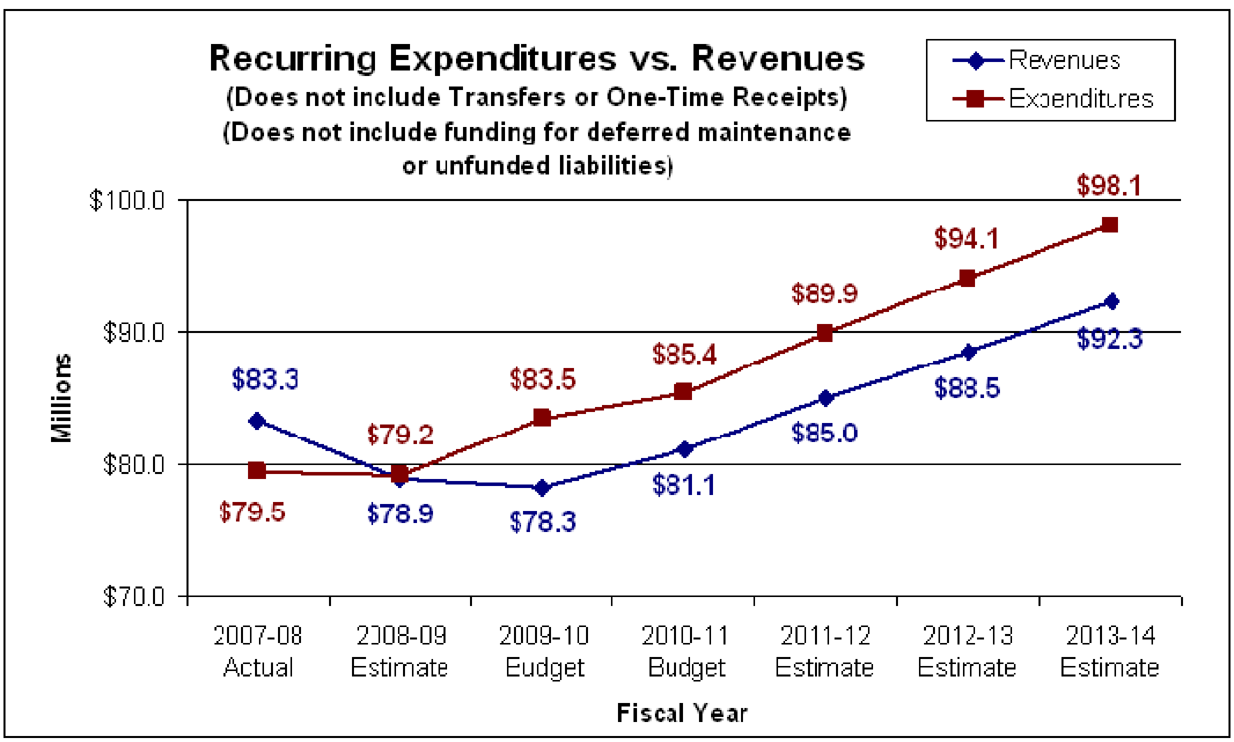
The total proposed allocation for all Capital Projects in all funds in fiscal 2009-10 is $8,919,788 and fiscal 2010-11 is $8,375,241 (excludes carryover funds from prior fiscal year). The following table provides a summary of a few recommended projects:

Project Type	2009-10	2010-11
Public Art Projects (Art Fund)	$122,500	$122,500
Building & Property Improvements (I & A Fund)	190,000	265,000
Technology Enhancements (I & A Fund)	212,058	125,000
Parks & Park Facilities Projects (Parks/I & A Fund)	430,000	120,000
Sewer Improvement Projects (Sewer Fund)	5,050,000	5,000,000
Stormwater (NPDES/TMDL) (I & A Fund)	100,000	100,000
Traffic Signal & Lighting Projects (I & A/Gas Tax Fund)	195,000	270,000
Street Improvements (I & A/Gas Tax Fund/Grant Funds)	709,380	470,000
Other Grant Funding	180,850	172,741
Transfer to Operating Divisions	1,730,000	1,730,000
TOTAL	$8,919,788	$8,375,241

As part of the plan to close the City's projected $6.5 million budget gap, proposed funding for projects from the Improvements and Acquisitions Fund (I & A Fund), which is funded using available one-time General Fund reserves, was significantly reduced. In some cases, project funding was shifted from the I & A Fund to other Special Capital Funds, such as the Parks Facility Improvement fund or Special Gas Tax fund. Additionally, project funds that had been carried over for a number of years without being expended were reviewed and re-allocated to reduce the amount of "new" funding being recommended. The resulting net impact is that only approximately $100,000 in new funding is being recommended in the General Fund I & A Capital Fund as compared to the $700,000 to $1 million that has been allocated over the last few years. The one-time savings being realized by allocating substantially less to capital projects will need to be used to cover some of the projected 2009-10 General Fund operating deficit.

FISCAL CHALLENGES AND OPPORTUNITIES

The City takes great pride in the level of services it is able to offer to residents and business owners. This level of service sets Culver City apart from many surrounding jurisdictions. However, the simple reality is that maintaining this level of services comes at a cost and must be sustainable in the long-term. Based on the current economic realities of decreasing revenues, the State being on the verge of economic collapse and steadily increasing expenditure requirements, the City is faced with an issue that has been discussed many times in previous years, a structural deficit. The chart below identifies this trend:



The increases in costs in the General Fund are outpacing the growth in revenue. Approximately 80% of the General Fund is attributable to personnel costs. This is not surprising since we are a full-service City. MOU's with the various bargaining groups include annual salary increases and benefit levels the City is obligated to pay. While like most cities we are hoping to work cooperatively with our labor groups to limit or reduce personnel costs over the next year or two, in the long term we must remain competitive with other cities. The rate of growth in personnel costs are outpacing the growth of City revenues. In the long-term, the public sector will likely undergo dramatic change in the area of compensation and benefits, but this change will take time. This situation is exacerbated in tough economic times such as these, when revenues are flattening or decreasing and the salary and benefit costs continue to increase.

As previously discussed, this was a very difficult budget to put together and chances are strong it will need to be amended during the coming fiscal year as the City Council makes difficult policy decisions dealing with the structural deficit. To follow the City's financial policies of adopting a budget where ongoing revenues are used to fund ongoing expenditures would have meant significant program and personnel reductions. Prior to such extreme action that would significantly reduce the services that Culver City prides itself on, I am recommending the City explore the possibility of approaching the voters with some kind of new revenue measure. This could include options such as a local sales tax, a parcel tax, assessment districts or other options. Because these options all require some form of voter approval and the City's next general election is in April of 2010, this budget includes a multitude of one-time funding sources to bridge the gap. Funding has been included for professional polling services to determine the areas where Culver City residents may support increased taxes to maintain services and the likelihood of such a measure. Should such a measure be deemed to be infeasible or ultimately fail at the polls, a plan for significant expenditure reductions needs to be in place. It is my recommendation that as part of the upcoming budget presentations and budget approval, direction be provided to the new City Manager and Executive Staff to develop a specific plan of what expenditure and service reductions will be required to address the structural deficit, should a new revenue source be off the table.

While the economy is expected to begin some form of slow recovery by the end of 2010, even at that time Culver City will not be able to grow its way out of the problem. While there has been tremendous development in Culver City over the past several years, and there are a number of developments that are on the horizon, our Comprehensive Financial Plan has revealed that even under very aggressive development scenarios, we still do not solve the structural deficit. So while smart growth and development is a key factor for Culver City to close the operational deficit, it will not address the fundamental problem.

Our vibrant neighborhoods and business districts demonstrate this City's ability to make the right decisions. During difficult times such as these, it is important we work closely with the public to keep them informed of the financial realities we are facing and collaboratively make these critical long-term decisions. Working together, we are up to the challenge of ensuring adequate resources to keep Culver City a top-notch community and destination point.

Conclusion

It is important to remember that a budget is a planning and management tool. It is also a 'living document', which can be amended if needed. The emphasis of this budget is to maintain the high level of services to our community during this unprecedented economic downturn. This budget is presented to provide the City Council with the time needed to make the difficult decisions that must be made. Establishing a balance between recurring revenues and recurring expenditures, while also providing a means of adequately funding capital projects, building up replacement funds for communications and information technology equipment, and the replacement or rehabilitation of public buildings, must remain a top priority of the City Council and staff.

Acknowledgments

Once again, I would like to sincerely thank all City staff for their outstanding efforts and extraordinary contributions towards achieving the City's goals in this fiscal year. I would like to acknowledge the hard work and guidance of the City Council Budget & Finance committee, the dedication of the Chief Financial Officer and the Budget staff, and commend all Departments that put forth the effort to prepare the City's third two-year budget.

Finally, I would like to especially thank the current and previous City Council members I have worked with in Culver City during my tenure, as well as the residential and business communities. It has truly been my honor and pleasure to serve this great City to the best of my ability. I am confident that great achievements will continue to set Culver City apart.

Jerry Fulwood, City Manager