MEETING DATE: 05/05/08

AGENDA ITEM: Budget Study Session – Fiscal Years 2008-09 & 2009-10 Proposed Budget: Budget Overview

ATTACHMENTS

	Pages
1. City Manager's FY 2008-09 and 2009-10 Budget Message	1-15

Culver CITY

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JERRY B. FULWOOD
City Manager

April 28, 2008

Honorable Members of the City Council:

PROPOSED FISCAL YEAR 2008-09 AND 2009-10 BUDGET

INTRODUCTION

In accordance with Section 801 of the City Charter, I am submitting the proposed 2008-09 and 2009-10 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, 2008. We are targeting June 16, 2008 for the Public Hearing and budget adoption.

A YEAR OF ACCOMPLISHMENT AND TRANSITION

There has been much progress by the City in the past year. The City Council and staff have worked hard on completing many important projects, and making significant progress on others.

The City Council approved a ballot measure for the April 2008 ballot to modernize the City's Utility Users' Tax (UUT) Ordinance. This measure was placed on the ballot to protect approximately $3 million in annual revenue from telecommunications UUT that was at risk due to certain legal challenges in other jurisdictions. Culver City residents once again demonstrated their support of the City's high levels and quality of service by approving this item at a 79% rate. The City Council has also continued to actively participate and ensure Culver City is represented in regional issues at all levels. This includes remaining active in the Westside Cities Council of Governments (COG) to create a unified voice with surrounding cities to more effectively address the regional issues that affect us all.

In addition to providing City-wide direction pursuant to City Council policies, the City Manager's office, in conjunction with the new Chief Financial Officer and Budget & Finance staff, successfully completed an update of the City's Comprehensive Financial Plan, which provides information and future projections on all City funds in order to guide the organization in making prudent financial decisions. The City's first two-year budget was also implemented under the City Manager's leadership. The City Manager's Office also played a lead role in an audit of Comcast/Time Warner for calendar years 2002 through 2005 which yielded over $160,000 in underpaid utility users tax and applicable penalties. In April 2008, the Risk Management division implemented an enhanced Employee Wellness Program. Staff believes a successful wellness program will improve employee morale, and over the long run may reduce workers' compensation claims and healthcare costs in the City's budget.

The City Clerk's Office successfully managed the 2008 election process. Also, effective April 9th and pursuant to the approved City Charter change in 2006, the elected City Clerk position was eliminated and the duties have been transitioned to appointed staff. The office will be focusing on an upcoming reorganization to further improve counter services on the first floor, City-wide public notification efforts and document management.

The Fire Department, in addition to ensuring continued quality fire suppression and paramedic services after another year of a record-breaking number of incidents, has achieved a number of accomplishments. The long-awaited ground breaking of the new Station #3 took place, and construction is well underway. The Department successfully coordinated another City-wide Disaster Drill and also put on a successful Disaster Preparedness Fair. Culver City continues to serve as the chair of the board for the Interagency Communications Interoperability System (ICIS) Network Joint Powers Authority.

The Police Department successfully implemented Connect CTY, a citizen notification system that allows city officials to inform the public of any activities that may impact the citizens of Culver City including safety advisories, traffic incidents and street closures. The Police Department, in conjunction with the Fire Department, is also in the midst of implementing a new Computer Aided Dispatch and Records Management System. This system will allow police officers to decrease the amount of time inside the station writing reports, and increase the amount of time on patrol. The Police Department also acquired a new forensic laser that enables technicians to find and identify trace evidence such as fingerprints and DNA, allowing the unit to identify several violent criminals over the past year.

The Parks, Recreation and Community Services (PRCS) Department provided a myriad of contributions to the recreational opportunities available to Culver City residents and visitors. The Parks and Recreation Master Plan, which will serve as a blueprint for open space and recreational planning for many years, reached 75% completion. In conjunction with Public Works, the completion of the Skateboard Park was achieved and the Culver West Alexander Park Project was begun. The Department continues to oversee the maintenance of 110 acres of Culver City parkland and medians, and offer a slate of recreational services and classes to the City's youth, teens and adults. The Culver City RSVP program celebrated its 35th year and their volunteers contributed more than 130,000 service hours to the community. Staff and volunteers served or delivered over 30,000 senior meals.

The Transporation Department continues to operate the City's award-winning bus transit system and provide quality maintenance and service to the City's entire fleet of vehicles. Culver City has implemented the new SmartBus System on all of its buses, and is actively in the process of implementing the new Universal Fare System. Because of the Culver City commitment to environmentally friendly vehicles, the Compressed Natural Gas Station was successfully expanded. A new bus service line (Line 7) was started from Culver City to Marina Del Rey, and expansion of this line to service on Robertson is planned. The Department also worked closely with the Fire Department in purchasing four new fire units to ensure consistency and easier maintenance of the fleet.

The Public Works Department was instrumental in the management of many capital improvement projects, maintenance of City infrastructure and operating a variety of environmental programs. The Department, with the PRCS Department, played a key role in the completion of construction of the Skateboard Park, is actively managing the construction of Fire Station #3. Construction of 1.8 miles of new sewer main and 4.7 miles of street resurfacing was completed. A new in-house graffiti crew was instituted and is now operating seven days a week. A reorganization that created a new Environmental Programs and Operations Division was also implemented. The Department was able to successfully obtain a PLACE Grant from the County of Los Angeles for creation of a City-wide Bicycle and Pedestrian Master Plan.

The achievements of the Community Development Department over the past year were numerous. The West Washington Area Improvement Plan (AIP), a new demonstration project using interdepartmental resources to seed change around redevelopment sites, was begun. A new Code Enforcement Division with new staff, work programs and a new operations manual was integrated into the Department. An Administrative Citation Ordinance has been adopted to support the Division's work. A well-attended public workshop on mixed-use development was conducted in August. A new Solar Photovoltaic Ordinance was drafted and adopted by City Council, requiring mandatory installation of solar photovoltaic systems in all new construction and substantial rehabilition projects that meet a threshold of 10,000 square feet. A Comprehensive Housing Strategy report which provides a blueprint for providing affordable housing opportunities into the future was developed and presented. An immense effort went into the development and ultimate approval of revised Mixed Use Development Standards. Equally resource-consuming was the processing of the EIR and entitlement applications for the Entrada Office Project. The Additionally, the Department worked extremely hard on processing a number of large projects, including Westfield, Sony, Symantec, Parcel B and others.

The Redevelopment Agency has made significant contributions to the City over the past year. A new Business Resource Center that was established to promote economic development through permit assistance for new business relocations and expansions and a new Business Assistance web site was developed to help businesses navigate the permit process. A variety of cultural affairs programs were successfully planned and executed, greatly improving the availability of affordable and local music, dance, theatre and art events to the community. A DDA for the Baldwin site, a LEED certified project which will include creative office, retail and restaurant space, as well as public parking spaces was successfully negotiated and approved. The Redevelopment Agency approved a revised design for the Parcel B site, which will include an office development with ground level retail and restaurant with outdoor,dining as well as expansion of the site to provide a public performance space and other improvements. Additionally, the

Redevelopment Agency approved a concept design for the projects at Washington/Centinela, which will include a very creative design for a LEED certified mixed-use office, retail and residential pedestrian oriented development; and renovation and expansion of the Westfield mall, which is well underway.

The IT Department launched a new City web site that greatly enhances our ability to conduct business on a twenty-four hour, seven-day-a-week basis. One of its primary features is a citizen relationship management application which allows citizens and businesses to lodge complaints, make service requests, or compliment city staff. This application is being used to ensure that all contacts with citizens are tracked and responded to in a timely manner.

The Human Resources Department has conducted an almost record number of recruitment processes over the past year, due to retirements as well as positions that were added to the 2007-08 budget. Human Resources continues to assist other departments in adding talented employees to Culver City's quality workforce. The Department developed and/or revised a number of employee policies, and established a Health Benefits Committee to work collaboratively on solutions for the burgeoning costs of benefits, especially active and retiree medical insurance coverage.

The City Attorney's Office has worked closely with departments to provide sound legal advice and services.

The final changes to the City Charter approved in April 2006 also included the formal transitioning of the duties of the elected City Treasurer to an appointed position. The City has hired its first Chief Financial Officer, and effective April 9th the new and unified Finance Department began. This Department will include both the areas of accounting, payroll, accounts payable, accounts receivable, investment management, cashiering and business and local tax enforcement that were part of the City Treasurer's Office, and the areas of purchasing, central stores and budget management that were formerly under an appointed City Controller.

As evidenced by all of the examples given above, the City has been consistently moving forward over the last number of years. The City Manager, together with City Council, has set a number of goals to continue to move the City forward over the next few years. Unfortunately, there have been great changes in the economic outlook for the nation, the State and even the City since our last budget was created. These economic factors have reduced the projected resources available to the City from prior projections. These factors will be discussed in more detail, but because of the tightening economy this budget strives to maintain the resource allocations necessary to provide the current high levels of service to the community. I am confident that by taking a conservative approach over the next several years, Culver City can survive this economic downturn without service or staff reductions in the short-term. However, the City will once again be battling a structural deficit in future years, and decisions will need to be made over the next year as to how the City will address this long-term financial problem.

ECONOMIC OUTLOOK

One year has made a significant difference in the economic reality and outlook we face. The dramatic shift in the housing market is a driving force in the economic downturn that has occurred. Rising interest rates coupled with a huge number of “unconventional” sub-prime mortgages with adjustable rates that are now resetting have caused a ‘foreclosure crisis’ for many individuals who purchased homes using these loans. An all-time record number of homes are in foreclosure status. Home prices are declining in most areas. Many large financial institutions are taking huge losses based on their investments in sub-prime mortgages, which has had significant negative impacts on the stock market. Oil and gasoline prices continue to increase, which is correspondingly increasing the cost of many other goods. The housing problem coupled with increasing fuel/energy costs is impacting peoples wealth and spending power. Consumer confidence is reported to be at a 26 year low. GDP growth has been slow or stagnant and unemployment is reported to be increasing, which together are a key indicator of the economy being in a recession.

The federal budget, based on the economy and war spending, is being reduced in many areas. This means reductions in many of the federally supported city progams, such as Community Development Block Grant as well as public safety grant allocations.

The governor is scheduled to release his revised State budget proposal May 14 that accounts for updated tax revenue numbers. His January plan assumed the deficit would be $14.5 billion. Legislative Analyst Elizabeth Hill later upped the number to $16 billion. Lawmakers then authorized more borrowing, delayed some debt payments and made other fixes to close the gap to about $9 billion for the fiscal year that begins July 1. The governor said that number has grown by at least $1 billion. While the proposed budget did not include significant, direct revenue diversions from cities, the budget process for the State is far from over. History tells us it is likely that cities will be affected, even with the protections of Proposition 1A. It is unclear if Proposition 1A protections even apply to the Redevelopment Agency, which could make it an easier target. We will not know the effect of the State budget until after our budget is adopted.

LONG-TERM CITY ISSUES

The City contracted with AON Consulting to perform an actuarial study associated with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45. The primary purpose of this study was to determine the long-term costs of the City’s medical insurance for retirees. The draft report was recently provided to the City and presented to the Budget & Finance Subcommittee. The report analyzes the cost to provide the benefits currently offered over the next thirty years, based on current active and retired employees, and using actuarial assumptions and trends. The City currently funds this benefit on a pay-as-you-go basis, and the estimated amount for Fiscal Year 2007-08 is $3.7 million. The report shows that this cost will continuously rise at a fairly significant rate, doubling from the current amount by 2017 and reaching almost $14 million per year at the end of the thirty years. If the City wanted to pre-fund this benefit today, it would need to invest $105 million with a 7.75% rate-of-return (similar to what CalPERS assumes for their portfolio), or $208 million if it earned 4% (the approximate earnings rate for the City's investment portfolio). If the City chose to fund the benefit pursuant to GASB 45 over the thirty years, and deposit funds annually into an irrevocable trust fund, it would require $7.4 million annually in a trust earning 7.75% (lower earnings would require a higher amount). This means basically doubling the current amount the City pays. While there is not a legal requirement to fund this amount, the problem is that in about ten years this is the amount the City will need to fund on a pay-as-you-go basis, and it will only go up from there. Additionally, the City will be required to report the difference between the Actuarily Required Contribution and what it actually funds on its financial statements.

There are only two legitimate ways to control the future costs of retiree medical covereage. Prefunding these future costs or limiting liability. There are several ways the future liabilities can be limited: curbing (reducing) benefits, capping employer contributions, converting to a defined contribution plan or increasing vesting requirements. For reference, the average present value of the current retiree medical benefit is almost $200,000 per employee. The City has formed a Health Benefits Committee consisting of staff from HR, Finance and the City Manager's Office, along with representatives from the City's bargaining groups to discuss this issue. The Proposed 2008-09 and 2009-10 Budget only includes $100,000 towards pre-funding this benefit. Further pre-funding of the existing benefits will require identifying significant new revenues or expenditure reductions in other areas.

Sufficient funding for deferred maintenance continues to be an ongoing struggle for many cities, including Culver City. While the City has been able to appropriate some funding from the General Fund Fund Balance for one-time capital improvement projects, a long-term plan to fund outstanding deferred maintenance is still in process. A study was conducted earlier this year that identified how much the City will need to set aside each year to enable it to meet future facility and infrastructure maintenance needs for streets, streetlights, City buildings and park facilities. It identified the funding needs for immediate repair and replacement costs to bring the City current in its deferred maintenance, and an estimated annual amount to fund routine costs and future reserve requirements. The table below reflects the results of the study:

	Total Est. Deferred Maint. Cost	**Estimated Annual Cost**	**Proposed 2008-09 Funding** **(From all funding sources)**
Streets	$18,000,000	$2,200,000	$1,900,000
Streetlights*	$11,000,000 Total estimated cost to replace old high voltage lights with new low voltage lights	N/A	$200,000
City Buildings General Fund only	$3,650,000	$440,000	$440,000
Park Facilities	$1,800,000	$225,000	$97,000 Carryover of prior year funds

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 updates to the City's Comprehensive Financial Plan with various financing options to address the City's short-term and long-term financial issues for City Council consideration.

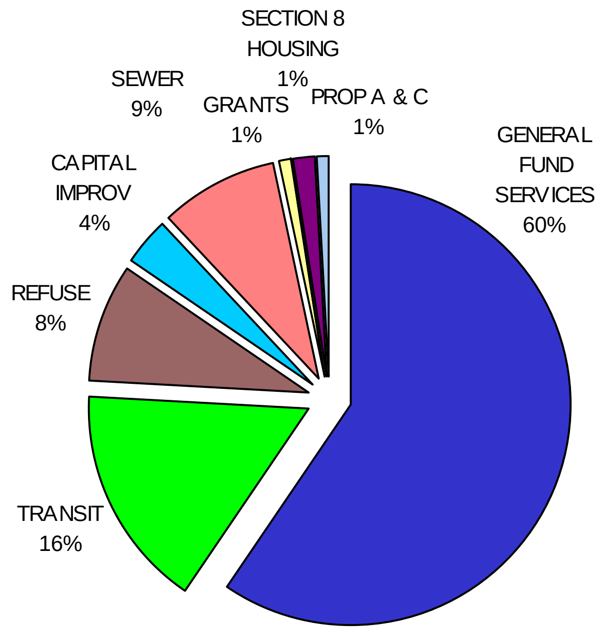
PROPOSED BUDGET SUMMARY

While departments were not asked to reduce their budget as part of this year's process, they were asked to keep enhancement requests to a minimum. After several years of budget reductions prior to 2007-08, there were still a number of requests made. 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;
- Increase accountability;
- Result in cost savings;

Unfortunately, due to funding constraints, very few enhancements could be approved.

The total combined City expenditure budget is $143,156,030. The City's largest funds remain the General Fund (60%), the Transit Fund (16%), the Sewer Fund (9%) and the Refuse Fund (8%), as represented by the graph below:



General Fund revenues are projected to be $87.0 million in fiscal 2008-09. This includes ongoing revenue of $820,000 from adopted increases in fees approved by City Council beginning in Fiscal 2007-08, and $1.5 million in one-time revenues from new development impact and permit fees. The projected revenue also includes the second and final payment, including interest, for the sale of the Warner Parking Lot ($2,947,174). This final payment was originally scheduled to be received in fiscal 2007-08, and is needed to cover capital projects approved in the prior and current fiscal years.

The proposed 2008-09 General Fund appropriations total $85.1 million, which includes a transfer out of approximately $1 million to fund the recommended Capital Improvement Projects and $150,000 to fund Computer Equipment Replacement.

Proposed fiscal 2009-10 General Fund revenues are projected to be $86.4 million. This also includes a projection of $1.8 million from one-time new development impact and permit fees. The proposed General Fund appropriations total $86.3 million, which includes a transfer out of almost $1 million to fund the recommended Capital Improvement Projects and $150,000 to fund Computer Equipment Replacement.

The appropriation level for fiscal 2008-09 remains at 96.5%. For fiscal 2009-10, the appropriation level has been decreased to 96% in order to help close the gap between revenues and expenditures. 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.

It has become apparent that the cost of construction is increasing. As a result, a number of recent construction bids for capital projects have been higher than anticipated. There is a potential for large project cost overruns, which may necessitate the use of General Fund reserve money to fund the gap and complete the project. In the past the Fund has been able to cover these overruns and transfer needed funds, but it may not be able to sustain future transfers. Staff is currently exploring alternate funding sources to relieve some of the pressure on the General Fund.

As previously discussed, this budget strives to maintain the existing levels of City services in light of the economic downturn. Therefore, there are a limited number of additional positions included in this proposed budget. In the General Fund for fiscal 2008-09, there are 5.81 net new positions. These include: Administrative Clerk – City Manager's Office; Executive Assistant to the City Council (0.6) – City Manager's Office; Graphic Services Assistant (0.63) – Graphic Services; Sr. Financial Systems Analyst – Finance Administration & Budget; Deputy PR&CS Director – Parks, Recreation & Community Services; Jailer – Police Department; Sr. Management Analyst – Police Department; Building Engineer – Police Department; Emergency Preparedness Coordinator – Fire Department.

Also included in the fiscal 2008-09 are positions recommended to be eliminated. These include: Associate Analyst – City Manager's Office; Veterans Memorial Complex Manager – Veterans Auditorium; Two Police Lieutenants – Police Department.

In Non-General Fund Departments there are 12.1 net new positions. These include: Bus Operators (7 full-time, 3.6 part-time) – Transportation; Sub-drain Worker – Sewer Operations; Welder (Increase from 0.5 to 0.98 RPT) – Refuse Services.

There is only one recommended new position in fiscal 2009-10, which is a Mechanic – Equipment Maintenance & Fleet Services.

ENTERPRISE FUNDS

Refuse Fund

Over the last four fiscal years, the Refuse Fund has performed exceptionally well by paying down its debt from $1.4 million to $197,000 (period ending June 30, 2007); and based on current revenue and expenditure projections, the Fund will become positive during fiscal 2007-08. 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, though, based on information from the County Sanitation District, as local landfill capacity is depleted.

In order to smooth this transition, 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 7% to 8% 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, which has increased significantly in recent months, equipment maintenance, and equipment replacement.

As a result, the Refuse Fund will again need to increase its rates by 10% in 2008-09 and another 10% in 2009-10 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 provide operating surpluses in 2008-09 and 2009-10. These 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, and assist in paying for any uncontrollable increases in operating costs such fuel prices. It will also assist in paying for some much needed upgrades to the Transfer Station infrastructure scheduled in 2008-09.

Transportation Fund

Transportation continues to play a major role, not only in providing public transit services, but also overseeing Culver City's involvement with the Exposition Light Rail Line and other regional transportation initiatives.

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 include sales taxes and gas taxes. Both the State and the County are predicting 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. Last year, the Legislature and the Governor diverted nearly $1.3 billion from Transit Funds and permanently added some General Fund expenses to the account set aside for Transit Funds. This means a smaller percentage of those funds are now available for traditional transit fund purposes. Also, the Governor's current budget proposes selling only half of the Proposition 1B Transportation Bonds as it did last year, which also means less funding available for Capital Transportation projects, such as the Aerial Station for the Exposition Light Rail.

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 several months ago, which allows Transit Operators to raise their fares without being penalized by the formula. Culver CityBus will be analyzing it's current fare structure in the upcoming year.

In FY 09, the Transportation Department is looking to increase transit service. Culver CityBus is evaluating some service proposals to better provide service for our riders, such as an increase in service on Line 7 which would connect Culver City to the West Hollywood area and provide service to Cedar-Sinai Hospital and the Beverly Center. Metro currently runs that route and is intending to drop the route, however, it is also expected that Line 7 will eventually play a key role in transporting passengers to the Exposition Light Rail Station in Culver City. Another planned increase in service will also add Culver CityBus' first Bus Rapid program on the current Line 6. This service will allow transit riders to move more quickly along Sepulveda Boulevard by skipping less frequented stops. It is hoped that this service will provide better service to Culver CityBus passengers as well as attract new transit riders as gas prices continue to rise.

Sewer Fund

Sewer charges from the City of Los Angeles for use of the Hyperion Treatment Plant and Los Angeles sewer transmission lines will decrease for 2008-09. Each year the City receives communication from the City of Los Angeles as to the amount of charges they will be issued. Over the last few years the amount year-to-year as fluctuated significantly, which makes it difficult to budget at a steady rate. Although charges have decreased for fiscal 2008-09, 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 2008-09, and proposed operating costs are currently covered by recommended operating revenues. A 4% increase on sewer charges is proposed and included in the revenue estimates for 2009-10.

The City is continuing to explore the possibility of future savings by removing itself from the Amalgamated Cities Agreement with Los Angeles and joining the LA County Sanitation District. Membership in the LA County Sanitation District would also provide the City with representation that it currently lacks under the Amalgamated Cities agreement. This idea is still in the conception phase. Staff is currently studying this option and more specific cost information will be available in the future. Continuing to maintain a healthy fund reserve, though, is critical in case the decision is made to initiate the change between agencies.

INTERNAL SERVICE FUNDS

Self-Insurance Fund

The Self Insurance Fund (SIF) has had to face a number of significant challenges during fiscal year 2007-08. The SIF began the year with a relatively healthy fund cash balance of approximately $5 million. 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 will significantly reduce the SIF's available fund balance. In fact, the fund balance is projected to decrease by approximately $4 million. This will leave the SIF with a cash balance of approximately $1 million.

Staff will work to restore the fund balance over the next five years. However, it will take time as the fund's revenue source is an internal service charge to operating departments. In the current economy, the General Fund cannot absorb a dramatic increase in internal service charges. Staff will continue efforts to reduce costs by implementing preventative safety and wellness programs, train staff in proper safety and employment practices, and participate in low-cost insurance solutions that properly mitigate the City's risk. However, it should be noted that the cost of a liability claim or a worker's compensation case may be unpredictable, and it would be prudent for the City to continue to maintain an adequate fund balance.

Equipment Replacement Fund

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

In 2008-09, twenty-four (24) vehicles are scheduled to be replaced and/or upgraded using Equipment Replacement funds and include; fifteen (15) public safety vehicles, one (1) vehicle for Recreation, one (1) Automated Side Loader and four (4) Semi-Truck Line Haulers for Refuse Transfer Station service, one (1) Utility Truck for Refuse, one (1) Utility Truck for Street Maintenance, and one (1) Utility Truck for Equipment Maintenance and Fleet Services. The total replacement amount for vehicles in fiscal 2008-09 is estimated to be $1.65 million. In 2009-10, there are only four (4) vehicles currently scheduled to be replaced. Two (2) Paratransit Vans for Paratransit Services, one (1) vehicle for public safety, and one (1) vehicles in parks. The total amortization charge to all departments is approximately $1.6 million for each budget year.

Capital Projects Funds

In fiscal 2007-08, the City continued efforts to identify deferred maintenance issues so they can be adequately planned for and addressed. Draft versions of two comprehensive assessment studies were completed – 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 2008-09 and 2009-10 proposed Capital Improvement budget.

The total proposed allocation for all Capital Projects in all funds in fiscal year 2008-09 is $8,593,000 and fiscal year 2009-10 is $5,428,000 (excludes carryover funds from prior fiscal year). The following table provides a summary of a few recommended projects:

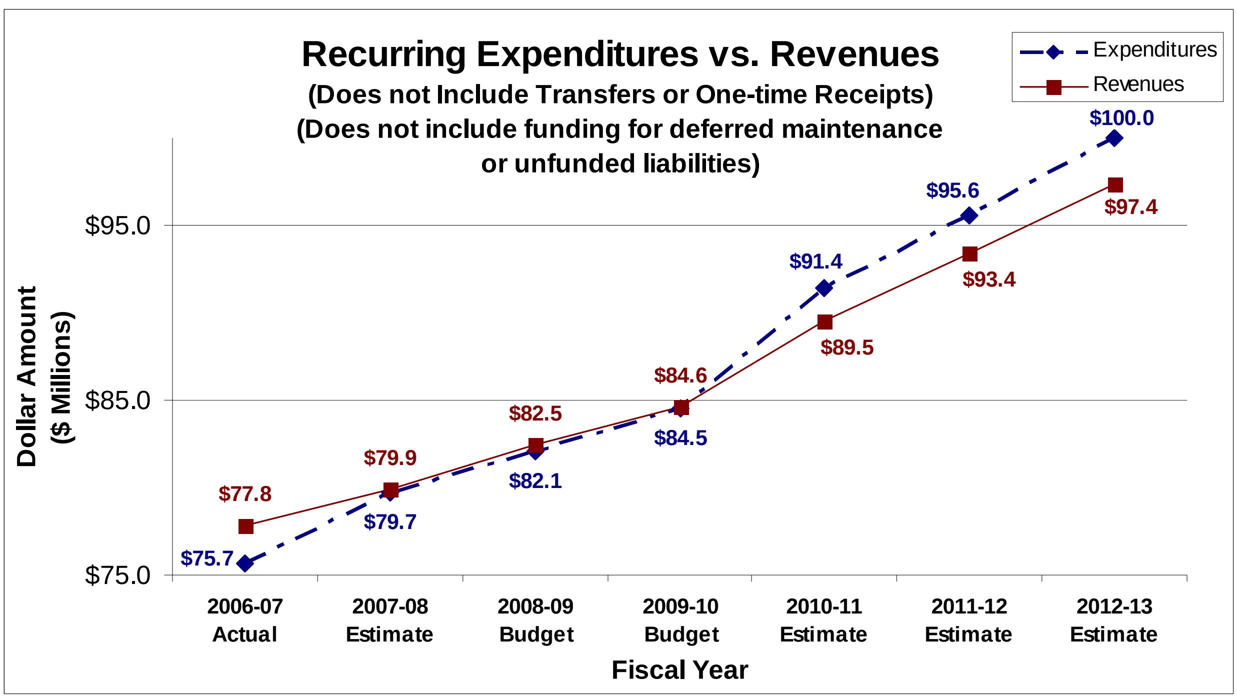
Project Type	2008-09	2009-10
Public Art Projects (Art Fund)	$209,500	$187,000
Building & Property Improvements (I & A Fund)	749,000	245,000
Technology Enhancements (I & A Fund)	251,000	205,000
Parks & Park Facilities Projects (Parks/I & A Fund)	121,000	71,000
Sewer Improvement Projects (Sewer Fund)	3,455,000	2,450,000
Stormwater (NPDES/TMDL) (I & A Fund)	250,000	200,000
Traffic Signal & Lighting Projects (I & A/Gas Tax Fund)	370,000	220,000
Street Improvements (I & A/Gas Tax Fund/Grant Funds)	1,502,000	535,000
Other Grant Funding	551,000	180,500
Transfer to Operating Divisions	1,134,500	1,134,500
TOTAL	$8,593,000	$5,428,000

The proposed budget provides significant resources to address deferred maintenance on City streets ($1.5 million), which includes $656,000 in Proposition 1B funding from the state. It also provides resources toward building improvements, which will address deferred maintenance on City buildings, and sewer improvements ($3.45 million). However, much of this funding is a result of one-time revenues and one-time grants; funding drops off considerably in 2009-10. In order to adequately address deferred maintenance on an on-going basis, staff will need to work with the City Council to identify an on-going funding source.

FISCAL CHALLENGES AND OPPORTUNITIES

In the first year of the two-year cycle, fiscal 2008-09, there is a projected slight surplus in the General Fund. However, although the second year budget, fiscal 2009-10, shows a slight surplus, that is only the result of making assumptions that involve significant 'belt-tightening'. Fiscal Year 2009-10 includes assumptions of reversing the 3% inflationary factor normally applied to Operations and Maintenance accounts in the General Fund, and decreasing the appropriations control from 96.5% to 96%. Because inflation does not go away, Operations and Maintenance costs will increase in 2009-10 and departments will be faced with making reductions in some areas in order to fund mandated increases in others. Decreasing the appropriations control, and achieving it, will likely require a hiring freeze as we approach 2009-10.

The City is faced with an issue that has been discussed many times in previous years, an operational deficit. Without the assumptions made in 2009-10, the General Fund would be facing an estimated almost $1 million operational deficit. This trend was identified when the update to the Comprehensive Financial Plan was presented in January 2008. In the years following 2009-10, the deficit is projected to grow. 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. The rate of these annual salary increases coupled with increases in benefits costs are outpacing the growth of City revenues. This situation is exacerbated in tough economic times, when revenues are flattening or decreasing and the salary and benefit costs continue to increase.

Thus, the City is in a precarious financial position. While we have looming financial requirements for deferred maintenance and retiree medical benefits that require funding, even the status quo cannot be maintained for long without significantly eating into our reserves. New programs or services, without specific identified funding, are not prudent to consider at this time. The City is required to make some difficult long-term decisions. Do we make the requisite cuts in services and personnel to close the gap, knowing that over 50% of the General Fund is dedicated to public safety services? Or do we attempt to educate Culver City residents on the true cost of providing services, attracting and retaining a competitive workforce and addressing long-term maintenance needs, and ask them to support some form of higher local taxes or other revenue measure to put the City on a solid long-term financial path.

Some have raised the question of whether we should be patient and 'grow our way out of the problem'. There has been tremendous development in Culver City over the past several years, and there are a number of developments that are underway or on the horizon. Unfortunately, our Comprehensive Financial Plan has revealed that even under very aggressive development scenarios, we still do not solve the operational deficit. So while smart growth and development is a key factor for Culver City to close the operational deficit, we still must address the fundamental questions posed above in some form.

This City has a history of making the right decisions, as evidenced by our vibrant neighborhoods and business districts. We have made positive progress towards creating stable revenue streams to support our high levels of service. As already mentioned, residents approved Measure W in April to modernize the City's UUT Ordinance and preserve a vital funding source. The City undertook and implemented a comprehensive fee study in order to ensure adequate cost recovery wherever possible which resulted in over $700,000 in additional revenue annually. The City continues to implement Best Management Practices throughout City departments, such as Strategic Workforce Planning and evaluating options for employee health benefit cost containment. The City has undertaken several audits to ensure existing revenue sources are maximized, and will undertake a Business Tax Compliance program in 2008-09. Staff has worked hard with developers to bring new retail, office and housing developments that will compliment the community while adding to our tax base. 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 period of economic uncertainty. 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 extra effort to plan and prepare the City's second two-year budget, which was created on an accelerated time schedule.

Finally, I would like to especially thank the three outgoing Council Members, Alan Corlin, Carol Gross and Steven J. Rose, for their eight years of dedicated service to Culver City. I would also like to welcome our three new Council Members, Christopher Armenta, Micheál O'Leary and Andrew Weissman, who will join Scott Malsin and Gary Silbiger. I, and the entire City staff, look forward to working with the City Council on another year of great achievements.

Jerry Fulwood, City Manager