

The total proposed appropriations for all City funds for FY 2009-10 are \$42,717,563, which is a \$239,722 (0.6%) decrease from the FY 2008-09 Adopted Budget of \$42,957,285. The City fund types contained in this document are the General, Special Revenue, Capital Projects and Debt Service Funds. The General Fund appropriations of \$24,105,015 equate to approximately 56% of the City's total appropriations. Also included in this document, but separate from the City, are the budgets for the Redevelopment Agency and the Cypress Recreation and Park District. While the summary below is limited to the funds of the City, the budget activities of both the Redevelopment Agency and the Cypress Recreation and Park District are discussed later in this transmittal letter.

	<u>Proposed FY 2009-10</u>	<u>Adopted FY 2008-09</u>	<u>Percent Change</u>
General Fund	\$24,105,015	\$23,915,924	0.8%
All Other Funds	<u>18,612,548</u>	<u>19,041,361</u>	(2.3%)
Total-All Funds	<u>\$42,717,563</u>	<u>\$42,957,285</u>	(0.6%)

The proposed budget meets the following standards: maintaining the City's infrastructure through Capital Improvement funding, continuing the current level of services to the City's residents without incorporating any layoffs or furloughs, incorporating the City Council's adopted goals, implementing no increases to current tax rates, maintaining reserve levels and spending within the State appropriation limit.

The City continues to be proactive in its effort to promote economic development, to enhance revenues where feasible, and to stabilize costs through better efficiency and technology. The following sections summarize the highlights of the FY 2009-10 Budget.

REVENUES

The City's projected revenues for FY 2009-10 are \$35,799,8955 and do not include any tax rate increases from the previous year. The FY 2008-09 revenue budget is 5.0% less than the FY 2008-09 adopted revenue budget of \$37,698,205.

The major changes in revenues for the FY 2009-10 Budget are as follows:

- ◆ Decreased Sales Tax revenues (including backfill amounts classified as other taxes) of slightly over \$1.5 million are expected. The decrease is due to the latest sales tax collection trends and projections made by the City's sales tax consultant. While added development has increased the number of sales tax providers in the City, the negative impact of the overall economy has caused the significant decrease (approximately 11.5%) in estimates for the coming year.
- ◆ Other Taxes (excluding the sales tax backfill discussed above) are projected to decrease by approximately \$140,000 due primarily to two factors. First, the City expects satellite wagering taxes to decrease \$80,000 due to recent trends and the potential for further closures of racing facilities. In addition, transient occupancy taxes are projected to fall \$50,000 which is directly attributed to the economy and its impact on business travel.
- ◆ Decreased investment earnings of approximately \$680,000 are expected as a result of several factors: 1) the market interest rate earned on the City's cash balances has continued to decrease over the past year as a result of the banking crisis and the actions of the Federal Reserve and all indications are that the rates will remain low through FY 2009-10 and are projected at 1.75%; 2) the City's cash balances will be decreased due to

implementing another year of the City's Capital Improvement Program which totals over \$16.5 million and 3) the interest rate on the loans made by the City to the Redevelopment Agency has decreased as compared to the prior year.

- ◆ Property taxes, based on projections made by the County, are expected to increase slightly when compared to the prior budget. Due to a large portion of the City's property tax base being assessed below market values due to Proposition 13, the recent downturns in the housing market tend to be offset by the 2% growth associated with the properties controlled by Proposition 13. While it is expected that many of the properties that have been sold in the past five or six years may be reassessed downward in the coming year, the impact to City revenues resulting from these reassessments will likely not be felt until future budget years.
- ◆ Other Revenues are projected to more than double to nearly \$237,000. The increase is primarily attributable to receiving more than \$100,000 in Federal Asset Seizure monies associated with having two task force officers being assigned to drug investigations, yielding the City a portion of seized monies.

Despite the overall economy experiencing one of the worst downturns in history during the past year, the City's outlook remains relatively stable. The City has historically limited growth in its operating budget and built up reserves, with the expectation that it will be able to weather any such downturns without having to make drastic budget cuts or decrease levels of service. However, the City remains vulnerable to both the ongoing uncertainties associated with the overall economic climate and the dire prognosis for the State's budget. While the majority of the City's revenue sources are not under the control of State legislators, and current speculation indicates that any diversion of City revenue sources to the State would be in the form of "borrowing", the City continues to take a proactive approach to limiting growth in operating expenditures to stay in line with projected revenues.

It seems that the ever-worsening annual State budget crisis, along with the history of legislative actions at the State level which took away or shifted local funding, serves as a reminder that the City's long-term autonomy is not a certainty. While the passage of Proposition 1A several years ago abolished many of the methods historically used to divert City revenues, past experiences indicate that if the State is desperate for revenues they will likely find creative new ways to route revenues away from local governments. It is important to remember that the two-year ERAF shift which ended back in FY 2005-06 was in addition to the ERAF shift in the early 1990's which has permanently decreased annual property tax revenues by more than \$3.0 million (between the City and Recreation and Park District).

Although the looming State budget deficit problems are known at this time, the impact to local governments cannot be predicted. Therefore, the City budget submitted here has been prepared under the assumption that there will not be any additional cuts to the City's revenue sources controlled by the State. As mentioned previously, any State takeaways are expected to be in the form of "loans" and are not expected to exceed \$1.6 million for all funds of the City. The City expects to have sufficient reserves to cover any negative cash flow impacts next year resulting from these takeaways. As has been done in the past, staff will be closely monitoring future economic developments and legislative actions at both the Federal and State level to determine the precise long-term and short-term impacts they may have to local governments.

EXPENDITURES

The FY 2009-10 Budget once again includes funding of the City's goals and objectives as established by the City Council in April 2007. Some funded objectives include: 1) pursuing retail development and continuing to diversify the City's economic base through economic

development programs in the General Fund and Redevelopment Agency activities; 2) communicating with residents and business and fostering community well-being through quarterly newsletters, website maintenance and enhancements, and the continuance of the City's banner program; 3) funding of the Capital Improvement Program, enhancing the GIS system, maintaining the funding of the tree trimming program, preparing a City-wide traffic count and speed study, and help ensure that adequate replacement funds will exist for public facilities and infrastructure; 4) ongoing funding of Community Oriented Policing and the replacement of four vehicles and 65 hand guns to help sustain and enhance public safety; and 5) providing for effective government operations through each department further conducting a departmental review of their operations that resulted in small budget growth and a more effective use of resources.

Other major highlights in the expenditures for the FY 2009-10 Budget are as follows:

- ◆ Maintaining current service levels.
- ◆ Year one of the City's latest Seven Year Capital Improvement Program totals \$16,510,475, of which \$3,605,000 is being funded with General Fund monies and \$5,425,883 is funded with monies in the Storm Drainage Fund.
- ◆ Capital Outlay funding of \$379,657 to acquire and/or replace various computer hardware, tools and equipment, and four replacement vehicles used by the police department.
- ◆ The General Fund portion of the budget reflects an overall increase of .8%. This slight increase is a result of each department once again thoroughly reviewing their budgets and identifying controllable expenditures that could be adjusted downward or delayed without impacting current operations. All City departments, except police, were able to cut their general operating appropriations from the prior year. Some of the major components that can be attributed to the net decrease include: anticipated and/or negotiated salary and benefit increases for all employee associations being offset by continued overtime decreases and salary savings due to implementing a hiring freeze for all positions that are currently vacant, each department eliminating all unreimbursed out-of-area travel, extending the accounting life of the City's computers, and limiting the majority of all capital outlay purchases to non-General Fund sources.

FUND BALANCES AND RESERVES

The FY 2009-10 Budget reflects the City's policy of fully funding the capital outlay replacement schedule, and the employee benefit and self-insurance liabilities. These liabilities are funded in the Internal Service Funds through charge-backs to the operating funds.

The Budget also reflects the City Council policy of a 25% Contingency Reserve in the General Fund as well as the 30% reserve policy for the cash flow/emergency reserve in the CIP Fund. Additionally, the Infrastructure Reserve Fund was established in the FY 2009-10 budget to track monies accumulated for the replacement and enhancement of the City's infrastructure in accordance with the Seven Year Capital Improvement Program. The General Fund reflects projected expenditures/uses to exceed revenues/sources for FY 2009-10 by \$61,684. Included in total expenditures/uses is a total of nearly \$5.0 million being set aside in the Infrastructure Reserve Fund to pre-fund future capital improvement projects. The remaining fund balance amounts projected to be available at the end of the upcoming fiscal year will be available for supplemental appropriation by Council should any unforeseen needs develop during FY 2009-10. There are no significant changes projected in the fund balances of the other funds of the City.

CYPRESS REDEVELOPMENT AGENCY

The total proposed FY 2009-10 appropriations for the Cypress Redevelopment Agency are \$4,716,919. This represents a decrease of \$34,350,230 over the budget for FY 2008-09. The decrease is largely three-fold. First, a total of \$30.6 million in loans to the City were scheduled to mature in the prior year as compared to no loans maturing in FY 2009-10. Secondly, the interest rate paid on the \$42.5 million in loans from the City has been decreased resulting in interest payments dropping from \$3.4 million in FY 2008-09 to slightly over \$2.1 million in FY 2009-10. Additionally, the Agency has appropriated \$1.1 million in development assistance in the low and moderate income housing fund for pending projects compared to appropriating \$3.5 million in FY 2008-09. Other significant recurring appropriations include:

- ◆ Commercial development assistance on Lincoln Avenue.
- ◆ Development assistance in the Los Alamitos Race Track Project Area.
- ◆ First-time homebuyer and rehabilitation housing assistance.
- ◆ Transfer of low and moderate housing set aside funds to the Housing Fund.

The Agency's budgeted net tax increment revenues (excluding any ERAF shifts) are projected to increase over the previous year budget by approximately \$175,000. The increase reflects continued valuation increases in both the Lincoln Avenue and Los Alamitos Racetrack (LART) Project Areas resulting from development activities. The FY 2009-10 tax increment projections assume that the State will attempt to institute the ERAF shift during the year, even though a recent court case deemed the shift unconstitutional. Although the State attempted to shift monies in this past fiscal year prior to the court ruling, no actual shifts have occurred since FY 2005-06.

CYPRESS RECREATION AND PARK DISTRICT

The total FY 2009-10 appropriations for the Cypress Recreation and Park District are \$4,185,836, which represents a \$44,077 increase over last year. The operating budget is \$66,877 (1.6%) higher than the previous budget, with known and anticipated increases in personnel costs due to labor agreements being partially offset by budget decreases associated with facility and park maintenance. The District is in the midst of performing a facility assessment which will yield the information necessary to develop a multi-year capital improvement program for the District. As a result of this pending assessment, no capital projects were proposed for either FY 2008-09 or FY 2009-10. Additionally no capital outlay items are being requested to be funded with operating fund monies in FY 2009-10, which is a \$22,800 decrease from the prior year.

The District's revenue is projected to increase by \$138,384 and total \$4,621,880. The overall revenue increase is the result of multiple factors. First, modest growth in net property tax revenues is anticipated and has caused estimated property tax revenues to increase by approximately \$79,000 (2.2%) over the prior year. Lower market interest rates will be earned, resulting in a decrease of \$50,000 in interest earnings over the prior year. The District revised their fee structure in the last year which in part has yielded almost \$90,000 in additional revenues for service charges.