



# CITY of CYPRESS

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DATE: **June 13, 2011**

TO: **Honorable Mayor and Members of the City Council**

FROM: **John B. Bahorski, City Manager**

SUBJECT: **Fiscal Year 2011-12 Annual Budget**

## INTRODUCTION

I am pleased to submit the Fiscal Year (FY) 2011-12 Annual Budget. This document represents a balanced spending plan for the delivery of specific services and programs to the residents and businesses in the community of Cypress.

The total proposed appropriations for all City funds for FY 2011-12 are \$41,208,043, which is a \$8,975,195 (17.9%) decrease from the FY 2010-11 Adopted Budget of \$50,183,238. The City fund types contained in this document are the General, Special Revenue, Capital Projects and Debt Service Funds. The General Fund appropriations of \$23,531,376 equate to approximately 57% 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 2011-12</u>	<u>Adopted FY 2010-11</u>	<u>Percent Change</u>
General Fund	\$23,531,376	\$23,534,453	0.0%
All Other Funds	<u>17,676,667</u>	<u>26,648,785</u>	(33.7%)
Total-All Funds	<u>\$41,208,043</u>	<u>\$50,183,238</u>	(17.9%)

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 decreases to current staffing levels through 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 2011-12 Budget.

Leroy Mills, Mayor

Todd W. Seymore, Mayor Pro Tem

Doug Bailey, Council Member

Phil Luebben, Council Member

Prakash Narain, M.D., Council Member

## REVENUES

The City's projected revenues for FY 2011-12 are \$34,072,839 and do not include any tax rate increases from the previous year. The FY 2011-12 revenue budget is essentially unchanged from the FY 2010-11 adopted revenue budget of \$34,092,562.

The major changes in revenues for the FY 2011-12 Budget are as follows:

- ◆ Increased Sales Tax revenues (including backfill amounts classified as other taxes) of nearly \$274,000 are expected. The increase is due to a slight turnaround from the economic downturn of the past few years and is derived from the latest sales tax collection trends and projections made by the City's sales tax consultant. While added development over the years has increased the number of sales tax providers in the City, the recent negative impact of the overall economy has caused a significant decrease in annual sales tax revenues over the peak of three or four years ago.
- ◆ Other Taxes (excluding the sales tax backfill discussed above) are projected to increase by approximately \$257,000 due to several factors. First, the City expects satellite wagering taxes to decrease \$80,000 due to recent trends and the potential impact of closures of racing facilities. Second, transient occupancy taxes are projected to rise \$250,000 which can be partially attributed to the gradual turnaround of the economy and its impact on business travel. Also, an increase of \$150,000 in the Educational Revenue Augmentation Fund - Vehicle License Fee (ERAF-VLF) backfill paid by the State is projected for the upcoming year.
- ◆ Decreased interest and rent revenue of approximately \$1,066,000 are expected as a result of two factors: 1) the Redevelopment Agency recently paid off nearly \$18.6 million in notes due to the City which paid \$929,000 of annual interest to the City's General Fund; and 2) the interest rate earned on the City's cash balances continues to be low and the City's cash balances will continue to decrease due to implementing another year of the City's Capital Improvement Program (which totals over \$15.3 million) for the upcoming 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 current market values due to Proposition 13, the ongoing downturns in the local housing market tends to be offset by the 2% growth associated with the properties controlled by Proposition 13. While it is expected that some additional properties that have been sold in the past five or six years may be reassessed downward in the coming year, the exact impact to City revenues resulting from these reassessments will likely not be known until future budget years.
- ◆ Total service charges are projected to increase by slightly more than \$380,000. The primary reason for the increase is the impact of another year of the multi-step adjustment to sewer fees that was approved a few years ago. These additional sewer fees will help pay for the necessary capital improvements associated with maintaining and enhancing the City's sanitary sewer system over the next several years.
- ◆ Other revenues are projected to increase by nearly \$220,000 due largely to the ongoing receipt of federal asset seizure monies. These monies are generated from the Police Department's involvement in local drug enforcement task forces and are restricted to use for approved police expenditures.

Despite the negative impact of one of the worst economic downturns in memory during the past several years, which resulted in significantly lower revenue streams, the outlook for the City remains relatively positive. The City has historically limited growth in its operating budget and focused on building up its reserves, with the expectation that it would be able to survive any such downturns without having to make drastic budget cuts or decrease levels of service. Despite this proactive approach to limit controllable costs, the City remains vulnerable to both the continued uncertainties associated with the overall economic climate and the annual attempts by the State to balance their budget at the expense of local governments. The history of legislative actions at the State level which have taken away, or shifted, local funding serves as a constant 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. In the past few months, the State introduced a plan to eliminate all Redevelopment Agencies and steer the associated property tax increment revenues away from local governments. While it remains to be seen what the ultimate fate of Redevelopment Agencies will be, it serves as further notice that there are no guarantees for local entities in regards to preserving the status quo. It is important to remember that any future State takeaways would be 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), as well as the multiple "one-time" ERAF shifts of the past ten years.

In addition to the ERAF shifts discussed above, the State "borrowed" approximately \$1,213,000 from the City and Recreation and Park District in FY 2009-10 under Proposition 1A. The State is supposed to repay these amounts prior to June 30, 2013 and cannot borrow any additional monies until all outstanding amounts are repaid. However once the initial amount borrowed is repaid, the State does have the ability to implement one additional round of borrowing from local agencies within a ten-year period. Although ongoing State budget deficit problems are known to exist 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 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 2011-12 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) continuing with the funding of economic development programs to highlight the City in programs in both the General Fund and Redevelopment Agency; 2) communicating with residents and businesses 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, maintaining the funding of the tree trimming program, and helping to ensure that adequate replacement funds will exist for future public facilities and infrastructure; 4) ongoing funding of Community Oriented Policing and the replacement of two vehicles and two motorcycles along with various other equipment items to help sustain and enhance public safety; and 5) providing for effective government operations through each department once again reviewing their operations to optimize the use of available resources and limit budget growth.

Other major highlights in the expenditures for the FY 2011-12 Budget are as follows:

- ◆ Maintaining current service levels.
- ◆ Year one of the City's updated Seven Year Capital Improvement Program totals \$15,331,000, of which \$9,875,000 is being funded with General Fund/Infrastructure Reserve Fund monies, \$540,000 is funded with monies accumulated in the Storm Drainage Fund and \$2,016,000 is funded by Sewer Fund monies.
- ◆ Capital Outlay funding of \$290,184 to acquire and/or replace various computer hardware and software, tools and equipment, and two vehicles and two motorcycles used by the police department.
- ◆ The General Fund operating portion of the budget is essentially unchanged from the prior year. The ability for operations to remain flat, despite incorporating negotiated/projected salary and benefit increases, 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 or current service levels. Some of the major components that can be attributed to preventing growth in General Fund operations include: the continuation of freezing currently vacant positions, the continuation of limiting overtime and out-of-area travel, and limiting all capital outlay purchases to non-General Fund sources.

As discussed earlier, the City has succeeded in limiting growth in its operating budget and as a result the outlook for the City's financial condition remains solid despite all the ongoing uncertainties surrounding the national and local economy. Over the last two years, the City has reduced its budgeted full-time positions from 163 full-time equivalents (FTE's) to 147 FTE's. This reduction has been achieved by reviewing department operations and eliminating positions deemed non-essential as they have become vacant. Also, during the course of preparing each of the last three annual budgets, all departments were asked to thoroughly review their operating costs and identify areas for further reductions. An area of particular concern to the City's ongoing operating expenditures relates to the annual amount required to be paid to fund employee pensions through California Public Employees Retirement System (CALPERS). Based on recent actuarial projections by CALPERS, the amount the City will be required to contribute on behalf of all employee groups is expected to increase dramatically over the next few years. These annual CALPERS increases are outside the control of the City and are in addition to any pay increases that may be negotiated by the various employee associations. As always, City staff will continue to look at methods for containing ongoing operating costs and ensuring that such costs are within the parameters created by the City's annual revenue receipts.

### **FUND BALANCES AND RESERVES**

The FY 2011-12 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 a few years ago to track monies accumulated for the replacement and enhancement of the City's infrastructure in accordance with the Seven Year Capital Improvement Program. This fund provides an effective mechanism to project available resources to fund the many infrastructure needs of the City.

The General Fund reflects projected revenues/sources to exceed expenditures/uses for FY 2011-12 by \$5,682. Included in total expenditures/uses is a total of \$3.75 million which will be set aside in the Infrastructure Reserve Fund during the next budget year to fund identified future cash flow needs per the updated Seven Year Capital Improvement Program. 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 2011-12. The City's general policy is to use eligible fund balance amounts that are legally restricted before using discretionary amounts such as the General Fund. The proposed budget has been prepared factoring in the restricted fund balance amounts that are available to pay for various City programs. As a result, the net changes in the restricted fund balances are consistent with using restricted monies in advance of discretionary funding options.

### **CYPRESS REDEVELOPMENT AGENCY**

As discussed earlier, as part of their budget plan the State has discussed dissolving Redevelopment Agencies. However until a final decision has been made by the State legislature, it will be assumed for budget purposes that the operations of the Cypress Redevelopment Agency will not be impacted. Therefore, the total proposed FY 2011-12 appropriations for the Cypress Redevelopment Agency are \$4,378,428. This represents an increase of \$465,660 over the budget for FY 2010-11. The overall net increase is the result of a large increase in operations being partially offset by a decrease in debt service appropriations. In regards to operations, the Agency appropriated only \$250,000 in development assistance in the low and moderate income housing fund in FY 2010-11 as compared to appropriating nearly \$1.7 million in FY 2011-12. The additional development assistance relates primarily to the Habitat for Humanity project on Lincoln Avenue. The proposed debt service budget has decreased by \$929,000 due to the recent sale of Agency property to the City. The sale of the land resulted in the outstanding loans decreasing by nearly \$18.6 million, which in turn will cause annual interest payments from the Agency to the City to decline by \$929,000. Other significant recurring appropriations include first-time homebuyer and rehabilitation housing assistance programs and the required transfer of low and moderate housing set aside funds to the restricted Low and Moderate Housing Fund.

The Agency's budgeted net tax increment revenues (excluding any ERAF shifts) are projected to decrease over the previous year budget by approximately \$217,000. The decrease is a result of current trends indicating slightly lower receipts for secured property taxes in all three project areas, with the largest decrease in the Lincoln Avenue Project Area. However, when factoring in the positive impact of not having another year of ERAF shift to the State, which totaled over \$388,000 in FY 2010-11, the total tax increment receipts retained by the Agency will actually increase in FY 2011-12.

### **CYPRESS RECREATION AND PARK DISTRICT**

The total FY 2011-12 appropriations for the Cypress Recreation and Park District are \$4,903,280, which represents a \$663,154 increase over last year. The operating budget is \$47,140 (1.2%) more than the previous budget, with projected increases in personnel costs being partially offset by overall budget tightening in various District programs. Appropriations for capital projects have increased from \$146,695 in FY 2010-11 to \$769,969 in FY 2011-12. The increase is consistent with implementing the second year of the District's parks infrastructure needs assessment which was completed last year. Capital outlay expenditures funded by District operating funds decreased from \$27,968 (for chairs at the Community Center) in the prior year to \$20,708 (for the purchase of tables at the Community Center and volleyball equipment) in FY 2011-12.

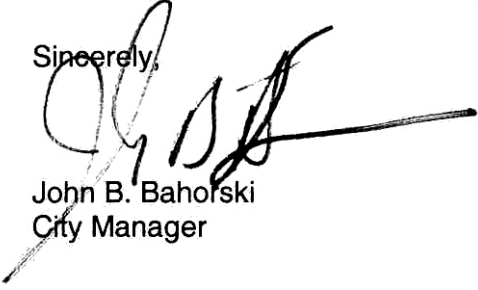
As with the City, staff continues to thoroughly review the District's operating programs with the intent of identifying areas for possible reductions. Over the last few years, the District has reduced its total budgeted positions (full-time and part-time) from 33.9 FTE's to 28.4 FTE's. This reduction has been achieved by reviewing program operations and eliminating positions deemed non-essential as they have become vacant.

The District's revenue is projected to decrease by \$14,015 and total \$4,635,578 in FY 2011-12. The overall revenue decrease is the result of slightly lower property tax revenues and interest earned on the District's cash balances being partially offset by higher contract class revenues. The District revised their fee structure in 2008 and the impact on annual revenues continues to be positive, with growth in the amounts received from contract classes, user fees and building rents.

### **CONCLUSION**

This budget achieves the City Council's policies and priorities with the limited resources that are available. It is consistent with the City's goals and maintains reserves. The City has continued its proactive approach to containing operating expenditures so that sufficient monies exist to preserve current service levels and address the identified short-term and long-term infrastructure needs of the City. I would like to once again thank the City Council for their continued leadership and commitment to dealing with the difficult budgetary issues that have developed over the last few years. The City Council has continued to fulfill their obligation to the citizens of Cypress by adopting a budget that is balanced and does not include any layoffs or furloughs, while at the same time does not provide for any tax increases or decreases to current service levels. I would like to express my thanks to the City staff for working together to deliver high-quality services in an efficient manner. Also, I would like to extend a special thank you to the staff of the Finance Department for their ongoing efforts in coordinating the annual budget process and monitoring the budget throughout the year to ensure all expenditures are within the approved budget parameters. The City of Cypress remains a desirable community in which to live and work because of the continued efforts to provide the best quality services in a cost effective manner.

Sincerely,



John B. Bahorski  
City Manager