



Office of the City Manager

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May 15, 2009

Dear Mayor and Members of the City Council:

The City Manager's proposed budget for fiscal year 2009-10 is presented for the City Council's consideration. Preparing the Annual Budget & Capital Improvement Program proved to be one of our most challenging efforts in recent decades. While costs are slated to rise, municipal revenues planned to pay for those costs have steeply declined in a deteriorating State and National economy. Aggressive cost cutting action is proposed along with the adoption of measures to improve revenues in order to reduce a greater than \$5 million gap between General Fund revenues and expenditures next fiscal year.

This current financial situation called for more intense engagement by the staff with our stakeholders in preparation of the Annual Budget. Consultations were conducted over the past several months with all City Commissions. Direct feedback from the Budget & Finance Commission and Public Works Commission on specific budget proposals was received. Employees were consulted for solutions in surveys and focus groups. Meetings were held with employee associations to consult, update and solicit feedback. A new community outreach forum "Budget Talk: Live, On-Line" was conducted to educate and seek feedback from the public. Informational meetings with community groups were initiated and budget priorities were identified. This has all been completed ahead of the Council's first Public Hearing on the Annual Budget set for June 2.

It is my strongest recommendation that the City Council adopt the proposed expenditure and revenue proposals to balance the City's budget to ensure continuation of essential services.

Outlook for the Fiscal Year

California cities are today facing a rapid economic and financial downturn. In preparing the recommended budget for the City of Redondo Beach, the key assumptions used for developing the underlying fiscal plan were as follows:

❖ *Projected Revenues*

- Property taxes will be flat instead of increasing due to stagnating property values, lessened sales and the credit and banking crises
- Sales taxes will be significantly down instead of increasing due to changes in consumer buying power, loss of key sales tax generators and heightened regional competition
- Utility Users Taxes will be flat instead of increasing due to our inability to apply the UUT to the AES business
- Transient Occupancy (hotel room) Tax will be down instead of increasing due to lessened business and tourist travel, lower occupancy rates and lower per day room rates
- Fees and charges will be down instead of remaining level due to lessened building activity and fewer general transactions
- Business license taxes will initially be flat, but renewals are expected to be down, due to fewer businesses remaining open during the economic downturn
- Motor Vehicle License Tax will be down due to fewer cars being sold and registered in California
- Intergovernmental revenue for capital projects will be up temporarily due to the federal economic stimulus program funds
- State actions to take away local City revenues under Proposition 1A appears to be a serious consideration by the Governor and Legislature

❖ *Projected Expenditures*

- Maintenance & operation expenses will be down with departments absorbing some cost increases or shedding expenses
- Internal service funds will increase due to higher utility, fuel, equipment, personnel and contract service costs
- Personnel costs will increase due to contracted salary adjustments, benefit cost increases, retirement cost increases and post-retirement health benefit costs

❖ *Projected Reserves, Designations and Fund Balances*

- The General Fund Reserve of approximately \$5.6 million would be exhausted in FY 09-10 should actions not be taken to match revenues with expenditures
- The City Council's past practice to use approximately \$2 million of General Fund Balance to subsidize the Lighting & Landscape District and fund local capital improvement projects may be difficult to continue due to declines in savings and revenues
- One time year-end designation money may not continue to be available to fund Liability and Workers Compensation Funds at previously adopted levels due to declines in savings and revenues

At the March Strategic Plan Workshop, the City Council assessed the economy and the various fiscal actions available for bridging the financial gap in the budget. The City Council adopted the following preferred budget balancing options:

Budget Shortfall Options to Pursue (not in priority)

- Secure employee wage and benefit concessions
- Maintain frozen positions
- Identify and quantify services for reduction of operational costs and consolidation of facilities
- Reduce Commission meetings to save money and staff time
- Pursue federal and other outside funding for operations and capital expenditures
- Increase interagency and intergovernmental collaboration and cooperation to share procurement and reduce operational costs

Riding out the most serious financial impacts of this economic recession requires a plan and the capacity to fully execute a plan. The "Seven Point Plan" described below will be the City Manager's tactical approach for balancing the recommended FY 2009-2010 City Budget.

- #1 Cutting maintenance & operational expenditures and consolidating facilities
- #2 Adopting selected revenue enhancements, i.e., fees, charges, penalties
- #3 Reducing discretionary General Fund capital improvement projects
- #4 Reducing personnel expenses by limiting part-time hours, deauthorizing selected vacant positions and eliminating unfilled vacancy factor positions
- #5 Reducing personnel expenses by deauthorizing selected filled positions
- #6 Negotiating compensation concessions from employee bargaining associations
- #7 Expediting economic development opportunities and evaluating additional revenue sources

Overview of Developing the Proposed Budget

The City Manager is responsible for delivering a proposed budget to the City Council by May 16 of each year. This is done in accordance with the City Charter and the Council's Financial Policies. The City Manager is directly responsible to the City Council under the City Charter to 1) prepare and submit the annual budget to the Council 2) advise the Council on the City's financial condition and future needs 3) be responsible for the budget's administration after adoption 4) prepare and submit a complete report on year-end financial and administrative activities. The City's fiscal year runs from July 1 to June 30.

Every year the budget development process begins with an assessment of our revenue base, followed by an evaluation of potential changes in that revenue base. Next, the proposed expenditure plan for services and capital projects is prepared by the City's Department Heads under the direction of the City Manager. The City's expenditures are categorized into five areas: Personnel; Maintenance & Operations; Internal Service Fund Allocations; Capital Outlay; and Capital Improvements.

The Departments were directed to prepare their budgets starting at the expenditure and service levels adopted by the City Council for FY 08-09. Adjustments were then made to departmental expenditure budgets in the Personnel category that reflect changes due to labor agreements and employee movements within authorized compensation schedules. Additionally, adjustments were made in the departmental Internal Service Fund expenditure category to reflect updated charges and overhead. The combination of all of the above changes set the anticipated departmental "base" budget for FY 09-10.

Those Departments seeking changes to their base budgets or service levels were required to submit a supplemental request (*known as a "Decision Package"*) to the City Manager for each change. Departments were directed to recommend Decision Packages to reduce their anticipated base budget as well as back-up choices should economic conditions worsen.

The highest priority Decision Packages are recommended for approval by the City Council as reductions and supplements to the departments' FY 09-10 base budgets. We have many more departmental needs than we have funding available. The City is primarily a service organization with 75% of our costs associated with the personnel to provide the service are in the General Fund.

The following criteria were used in the evaluation and ranking Decision Packages. However, higher priority was given to providing resources to the police, fire, paramedic and public works functions.

1. Would the Decision Package reduce ongoing General Fund departmental expenditures to align with available City funding resources?
2. Would the Decision Package sustain or improve revenues to the City?
3. Would the Decision Package be needed to comply with mandates or fund unavoidable costs for current basic services?
4. Would the Decision Package be needed to protect the health and safety of the public, employees or environment?
5. Would the Decision Package support achievement of goals and objectives in the Strategic Plan?
6. Would the Decision Package improve organizational efficiency, economy or effectiveness?
7. Would the Decision Package fill gaps in current services or meet new service needs?

This budget is about making tough choices. The economy's downward spiral is taking with it the municipal revenues expected to pay for City services. Using the criteria described above and guided by our corporate value of "*Fiscal Responsibility*", a total of 44 Decision Packages are recommended. The total amount of revenue enhancement recommended is \$1.1 million. The total amount of proposed reductions for all Decision Packages is \$3.5 million with \$2.9 million recommended for the General Fund. The total amount of proposed appropriations for all Decision Packages is \$1.9 million with \$740,000 recommended for the General Fund. Decision Packages recommended by the City Manager are listed immediately following this message.

A key Decision Package for the City Council to consider as part of the “Seven Point Plan” for balancing the budget is a reduction of selected capital projects. Discretionary General Fund capital projects proposed for elimination in the budget are:

• Ainsworth Court Stairs Rehabilitation	\$ 1,840
• City GIS Development Phase II	101,526
• Corporation Yard Planning	14,560
• High Lane Traffic Program	7,647
• Fiber Network Upgrade	4,990
• Pier Enhancement	34,750
• Recreation & Community Services Department Relocation	480,000
• Storm Drain CMP Replacement	400,000
Total	\$1,045,313

Other key Decision Packages as part of the “Seven Point Plan” relate to the scaling back of part-time pay and positions as well as the deauthorization of the following full-time positions. A total of 22 full-time positions are recommended for deauthorization. Of those, 7 are filled, 2 of which are planned retirements, and 15 are vacant.

- Firefighter/Paramedic (2) – Fire Department (Unfilled Vacancy Factor)
- Police Officer (3) – Police Department (Unfilled Vacancy Factor)
- Administrative Coordinator – Police Department (Vacant)
- Administrative Coordinator – City Manager’s Office (Vacant)
- Associate Civil Engineer (Temporary) – Engineering & Building Services (Vacant)
- Assistant Civil Engineer (Temporary) – Engineering & Building Services (Vacant)
- Economic Development Associate – Harbor, Business & Transit (Vacant)
- Librarian (2) – Public Library (Vacant)
- Library Clerical Supervisor – Public Library (Vacant)
- Public Works Maintenance Supervisor – Public Works Department (Vacant)
- Senior Human Resources Analyst – Human Resources Department (Vacant)
- Administrative Specialist – Recreation & Community Services (Filled)
- Administrative Analyst – Recreation & Community Services (Filled – Half Year)
- Computer/Telephone Specialist – Information Technology (Filled)
- Fire Captain – Fire Department (Filled-Half Year)
- Printing & Duplicating Specialist – Financial Services Department (Filled)
- Office Specialist III – City Clerk’s Office (Filled)
- Senior Auditor – City Treasurer’s Office (Filled)
- Police Officer (3) – Police Department (Held Vacant – Pending Grant)

The positions listed above are in addition to the three filled and three vacant positions in the Planning Department and Building Services Division de-authorized by City Council action on May 5, 2009.

Central to the “Seven Point Plan” is seeking the cooperation of our employees in reopening labor agreements to negotiate reduced personnel costs. Proposed cost cutting along with revenue enhancements will not be enough to correct for the economic impacts on the City. Therefore, the following employee compensation changes are proposed:

- Deferral of the 2009 scheduled consideration of increases for part-time employees and an hourly wage rollback of 6% (\$130,000 – General Fund) from current compensation plans
- Deferral of the 2009 scheduled 4% salary increase (\$470,000 – General Fund) for employees represented by the RBCEA, RBPSA and Teamsters plus a 6% salary roll back (\$690,000 – General Fund) from the current compensation plan
- Deferral of upcoming 2009 negotiations on increases for employees represented by the RBPOA and RBFFA plus a 6% salary rollback (\$1,190,000 – General Fund) from the current compensation plans
- Deferral of 2009 upcoming discussions on increases for Management & Confidential employees plus a 6% salary rollback (\$230,000 – General Fund) from current compensation plans

The Annual Budget in Brief

The annual budget is a means to communicate about the municipal *services* we provide, the *quality* of those services and the *value* of those services. The Departments have prepared performance measures that describe their core annual service activities. Identified also are the key departmental projects and assignments that we expect to see completed during the fiscal year. In each department budget is an estimate of where staff hours are applied in accomplishing the work. The approval of budget reductions Decision Packages will necessitate revising work plans and recalculating staff hours for the final adopted budget.

The City Council is scheduled to review the proposed Annual City Budget on June 2. The recommendations for the Capital Improvement Budget are to be reviewed in a workshop on June 9. The second review and adoption of the Budget and CIP is slated for June 16. Approximately 20 to 30 Budget Response Reports are expected to be prepared by staff during the City Council’s budget deliberations. These Response Reports answer important financial, budgetary and policy questions raised by the City Council.

The total City revenue from all sources (excluding internal charges) is estimated to be \$96.5 million in FY 09-10. The total expenditures proposed for all Funds is \$109.4 million. The difference of \$12.9 million will be funded from the estimated beginning fund balance, and the following proposed departmental expenditure reductions of which \$2.7 million are related to the General Fund.

Mayor and City Council	\$ 18,000
City Clerk	76,752
City Treasurer	163,124
City Attorney	10,000
City Manager	126,275
Information Technology	123,210
Human Resources	216,922
Financial Services	100,500
Police	721,962
Fire	420,084
Public Library	433,381
Recreation and Community Services	361,567
Engineering and Building Services	4,446
Harbor, Business and Transit	156,103
Public Works	306,588
Total	\$3,238,914

The FY 09-10 Capital Improvement Plan proposes \$15.9 million in projects to be paid for with \$15.9 million from ten funding sources.

General Fund Revenue

The projected General Fund revenue from outside sources for FY 09-10 is \$60,163,295. This represents a decrease of \$767,382, or approximately 1.3%, when compared to the midyear budget for FY 08-09 and approximately 3.9% when compared to the adopted budget. Below are five major revenue sources of the City and their anticipated changes from the FY 08-09 midyear budget. The explanation for the change is noted in the "Outlook for the Fiscal Year" above.

- Sales taxes are estimated to decrease 6.6% to \$8,508,000.
- Property valuations are projected to remain relatively flat in the City. This translates to a decrease in property tax revenues of 0.5% to \$18,621,000. As a reminder to the Council and public, the City receives only 16.6% of the base rate collected by the County.

- Property Transfer taxes of \$1,262,000 are projected to remain relatively flat when compared with the prior year's midyear estimate.
- Transient Occupancy taxes are estimated to decrease by 5.4% to \$3,500,000.
- Utility Users Tax revenue is estimated to remain flat at \$8,000,000.

Additionally, pursuant to the Council's direction to aid our financial viability, a transfer of one-time parking ticket revenue held in the Solid Waste Fund was made as well as appropriate charges to capital projects instead of the General Fund. Reimbursements from the State for the now too frequent wildfire responses were calculated into the General Fund base. Part of that money is to be used to continue to fund the CERT program as well as fund the support required for the City's participation in Area G emergency planning and preparation.

General Fund Expenditures

The projected General Fund expenditures for FY 09-10 are \$55,156,860, excluding internal service fund allocations. This represents a decrease of \$1.4 million, or approximately 2.4%, when compared to the midyear budget for FY 08-09 and an increase of approximately 4.2% when compared to the adopted budget. The primary reason for the decrease from the midyear budget can be attributed to the inclusion of carryover maintenance and operations appropriations in the FY 08-09 midyear budget amount. Described below are the major assumptions used in projecting our "base" budget expenditures:

- Personnel costs will increase by 2.2% to \$48,326,653.
- 481 positions are authorized compared to 489 five years ago
- Maintenance & Operations and Capital Outlay costs were not permitted to increase from midyear amounts unless a Decision Package was recommended by the City Manager for a specific expenditure purpose.
- Internal Service Fund Allocations will increase to \$16,393,788, or 2.1%.
- Capital Improvements costs are scheduled in the Capital Improvement Plan (CIP).

Costs associated with separation of employees due to their deauthorization in the Budget can be expected. The year-end financial report will request a limited amount of funding to cover payouts, COBRA, workers compensation and unemployment costs that are not measurable at this time. Consistent with the City's cost recovery practices, General Fund engineering costs charged to sewer-related Capital Improvement Projects (July 2004 through June 2008) will be reimbursed from the Wastewater Fund in the amount of \$200,313. The past practice of personnel expenditures being held for an unfilled "vacancy factor" have been proposed for elimination in the departmental Decision Packages.

The difference between the General Fund revenue and expenditures before transfers out and Decision Packages is \$5,931,174. If all decision packages were adopted, revenues would exceed expenditures by \$57,425.

General Fund Reserve, Designations and Fund Balance

In accordance with the City Council's adopted Financial Principles, the General Fund will maintain a minimum reserve (undesignated fund balance) equivalent to 8.33% of the General Fund's operating budget. For FY 09-10, the total amount of this reserve is \$6,088,585. The reserve earns interest, smoothes cash flow and is ready for unanticipated expenditures or emergencies. Year-end fund balance designation money will be needed to handle the costs associated with the Liability Fund - \$459,500, Workers Compensation Fund - \$461,900 and other identified expenses not addressed in the proposed budget.

Harbor Enterprise Fund

The projected Harbor Enterprise Fund revenue for FY 09-10 is \$9,992,480. This represents an increase of \$8,645, or approximately 0.1%, over the midyear budget for FY 08-09.

The projected Harbor Enterprise Fund expenditures for FY 09-10 are \$13,715,434. This represents a decrease of \$3,745,696, or approximately 21.5% from the midyear budget for FY 08-09. The primary reason for the decrease can be attributed to the fluctuation from year to year in Capital Improvement Projects funded by the Harbor Enterprise Fund.

The difference of \$3,722,954 will be funded from the estimated beginning fund balance.

Revitalization of the Harbor & Pier area is underway. Budget Response Reports will be delivered to the City Council on capital improvement planning in the area as well as the next priorities recommended for action by the City Council.

The City Council previously received projected cash flows for the Harbor Uplands Fund describing the situation which would result in a \$819,789 imbalance between available funding and projected expenditures in FY 09-10. This is addressed in Decision Package #23.

Redevelopment Agency Fund

The projected Redevelopment Agency revenue for FY 09-10 is \$6,220,417. This represents a decrease of \$2,390,074, or approximately 27.8% over the midyear budget for FY 08-09.

The projected Redevelopment expenditures for FY 09-10 are \$7,126,500. The Redevelopment Agency expenditures decreased \$1,932,439, or 23.4% when compared to the FY 08-09 midyear budget.

The Courts have ruled that the “taking” of funds from redevelopment agencies across California to balance the State budget was unconstitutional. Therefore, the \$ 288,719 payment to the State prepared for submittal from the Redondo Beach has been suspended while the legal findings are finalized.

Wastewater Fund

The projected Wastewater Fund revenue for FY 09-10 is \$2,356,411. This represents an increase of \$27,521, or approximately 1.2%, over the midyear budget for FY 08-09.

The projected Wastewater Fund expenditures for FY 09-10 are \$4,834,896. This represents a decrease of \$9,151 or approximately 0.3% from the midyear budget for FY 08-09.

Budget & Financial Transparency

We openly communicate the fiscal condition of our various municipal “business units” within the Budget by using mini-financial statements. In this way, the City Council can make informed policy choices, staff can make informed management decisions and the public can have an informed understanding of City activities. This Budget includes mini-financial statements for the following activities:

Community Development Block Grant	Housing Authority
Redondo Beach Performing Arts Center	Seaside Lagoon
Breakwater Camp	Harbor Tidelands
Harbor Uplands	Beach Cities Transit
Parking Structures	Wastewater
Solid Waste	Street Landscaping & Lighting
Farmers’ Market	

Emerging Issues Likely to Effect the City’s Financial Health

The Mayor, City Council and City staff have been effective in taking necessary steps to adapt to the constantly changing financial environment for municipal governments. This is reflected in the City’s AA+ General Fund rating assigned by Standard & Poors. The next round of fiscal issues to tackle includes:

- *Economy.* Our national economy contracted by 6.2% in the final quarter of 2008 and again by 6.1% in the first quarter of 2009. The closely watched economic forecast from the UCLA Anderson School of Management has predicted that the U.S. economy is not likely to begin a recovery until 2010. The forecast indicated that the California economy will remain in turmoil for the foreseeable future as long as consumer and construction sectors continue to drag. Indicated in the report was that while the California economy will be growing in 2011, it will not be generating enough jobs to drive the unemployment rate below double digits until 2012. The City has been proactive in seeking federal economic stimulus money and expects to receive between \$2 - \$6 million for capital projects and services.

- *State Budget Deficit.* The Governor announced this week that the State of California will have a \$21 billion Budget deficit should their May 19 ballot measures not be approved by the voters. The State of California has earned the lowest credit rating of any state in the nation. Public agencies were informed that the State has a contingency plan to borrow 8% of each agencies' property tax receipts to help close the State's budget deficit. Should it use this contingency plan, the State would take \$2 billion from public agencies. The City of Redondo Beach would lose \$2,082,268 million under the State's "taking" of municipal revenues to balance its budget. It would be a mandate to the City to reach into our pocket to pay for its irresponsible actions.
- *Street Landscaping and Lighting District.* Costs to maintain public trees, medians, street lights and signals continue to rise. Assessments for Street Landscaping and Lighting have not been raised since 1991. Property owners, in November of 2006, voted against adding a new assessment which today results in a General Fund ongoing subsidy of \$873,500. This subsidy allows the District to substantially maintain existing service levels; however, it diverts limited General Fund resources away from other functions. To reduce costs, Federal Economic Stimulus Funds in the amount of \$600,000 are expected to be used to change out City owned street lights with energy efficient LED lights, to saving 20% on energy. A Decision Package for \$210,711 is proposed to cover the District's expected increased deficit in FY 09-10. A City Council workshop on the District's financial options will be scheduled for October.
- *Sales Tax.* Redondo Beach's retail businesses are in heavy competition from newer establishments in surrounding South Bay communities. The most visible examples are the Plaza El Segundo lifestyle shopping center and the new regional Costco Stores. These retailers are attracting sales tax dollars that previously came to Redondo Beach. Some improvement in sales tax dollars may come in the next few years, as the Galleria makes a decision to expand and the Pier-Harbor business district makes incremental changes to include new retail ventures. Hurting our sales tax base is the loss of Mervyns and Home Expo and the economic trend for consumers to buy fewer goods than in previous years. We are not sure that we have seen the bottom of the sales tax drop as the economy churns down. To enhance our sales tax base will require an economic recovery, adept business attraction, retention and expansion and the community embracing land use changes to create new jobs and businesses.

- *Transient Occupancy Taxes.* The Transit Occupancy Tax (TOT) from hotel stays is a revenue source that the City needs to continue to nurture and expand. Over-night hotels for business and visitor travel stays is an economic niche in which the City can be more successful based on our location on the Pacific coast, shopping opportunities, fine dining and adjacency to LAX . However, travel is currently declining as the weakened economy has cut into business and tourism trips. Additionally, Redondo Beach is facing major competition from adjacent communities which have newer hotels. The action by the City Council to resolve the Pier-Harbor zoning inconsistencies was a positive step in encouraging new hotel investment. Completion of negotiations with the Shade Hotel group for construction of a new hotel and the finalization of the Community Branding effort will better attract travelers to Redondo Beach and improve TOT revenues.

- *Retirement System Costs.* Employees are members of the State Public Employees Retirement System (PERS) which is a defined benefit retirement program. Contributions from employees, public agencies and investment earnings pay for the retirement benefits. While administrators at PERS use a 15 year smoothing of earnings and losses, should they not meet their target return of investment, public agencies may be obligated to make additional contributions to the PERS fund in order to make retiree payments. The PERS portfolio investment returns have fallen more than 20% in the last year. Should PERS not recover from the investment losses, according to their actuarial calculations, a public agency may experience an increase of 2% - 5% in payroll costs as added contributions to PERS to back-fill the shortfall. This could increase our payments to PERS starting in FY 2011-12 by more than \$2 million. Designation of funds to address this situation needs to be considered in both FY 2009-10 and FY 2010-2011 to be ready for these expected additional costs.

- *Health Care Premiums.* The City contributes to the cost of employee insurance, including health care premiums, based upon its contractual obligations under various Memorandums of Understanding and the Management & Confidential Pay Plan. The current health care premiums are set through January 2010, when it is anticipated rates will increase by at least 10%. While a portion of these cost increases will be borne by employees, the City's costs will also increase. As such, the City's share of any cost increase has not been included in the proposed budget and will have to be determined once the new rates are known. This increased cost will need to be covered by the City unless there are plan changes or benefit concessions to off-set these increases. As of September, 2008, health care premiums increased by 20.24% for the PPO Plan and 14.07% for the HMO for a 16-month coverage period. This resulted in \$266,375 in increased costs for 10 months of FY 2008/09 of which \$176,578 was General Fund costs.

- *Utility Users Tax.* In March, voters approved an update to the telecommunication portion of the City's Utility Users Tax (UUT). This action allowed the City to retain about \$2.5 million of important revenue to help pay for core General Fund functions such as police, fire, paramedics and public works. However, last year due to actions of the Courts, the City was not able to apply the UUT to the AES power plant. Every business and resident in Redondo Beach pays the tax with the exception of low income seniors and AES. It is estimated that the City loses about \$1.5 - \$2 million of General Fund revenue each year due to the Court's interpretation of an exemption for this corporation. A ballot measure to correct the language of the UUT ordinance to meet the Court's standard of application could be considered so that the tax can equitably be applied.

- *City-School District Relations.* The City delivers a variety of no-cost services to the Redondo Beach Unified School District as well as financial and capital project contributions to benefit student safety and education. Additionally, in the short term we anticipate conclusion of lease negotiations for rental of School District properties on Pacific Coast Highway and Knob Hill. In the coming year, the City-Schools Sub-Committee will further guide positive, mutually beneficial efforts joining limited resources to the benefit of the whole community. The recent South Bay Cities-School Districts Forum on stretching community dollars is an example of the types of cooperative efforts underway.

Conclusion

I wish to express my appreciation to the Mayor and City Council for providing leadership to the community and myself in development of a sustainable financial plan through our Annual Budget. Going forward will require a firm hold on the wheel as we steer through more instability and unpredictability in these difficult economic times. We will be a smaller organization in the coming year but one by which we can still provide core services and meet our payroll demands every two weeks. Employees will have essential tools, training and equipment to effectively do their work for the residents, businesses and visitors.

Our Department Heads and employees did a great job in their work to prepare the budget. I want to express special thanks to the Finance Services Department staff including Diana Moreno, Marni Ruhland, Jeff Payne, Steve Erlandson, Doug Kaku, and Robert Shellabarger for their efforts in helping build the budget document. In addition, I would like to say thank you to David Biggs, Ernie Odell and Frank Rowlen for their contributions to this document.

Sincerely,



City Manager Recommended

Decision Packages for City Council Approval

Decision Packages that would reduce departmental expenditures to align with available City funding sources:

Decision Package #1. Mayor & City Council's Office \$18,000 Budget Reduction. The proposed expenditure reduction would decrease funding for consulting services and Council training (\$18,000). The service impact will be lessened Council participation in policy and training programs. Recommended would be a reduction of \$18,000 to the General Fund ongoing core appropriation.

Decision Package #2. City Clerk's Office \$76,752 Budget Reduction. The proposed expenditure reduction would deauthorize one filled Office Specialist III position (\$68,752); and decrease funding related to office supplies, postage, and contracts/professional services (\$8,000). The service impact would be delayed customer service, longer response times and less administrative assistance. Recommended is a reduction of \$76,752 to the General Fund ongoing core appropriation.

Decision Package #3. City Treasurer's Office \$163,124 Budget Reduction. The proposed expenditure reduction would deauthorize one filled Senior Auditor position (\$114,089); and decrease funding for supplies and contractual services (\$49,035). The service impact would be a decreased capacity for tax and compliance auditing and increased reliance on part-time or contract services to conduct essential work. Recommended is a reduction of \$163,124 to the General Fund ongoing core appropriation.

Decision Package #4. City Attorney's Office \$10,000 Budget Reduction. The proposed expenditure reduction would decrease funding for supplies, training and contract services (\$10,000). The service impact would be reduced capacity for responding to legal issues. Recommended is a reduction of \$10,000 to the General Fund ongoing core appropriation.

Decision Package #5. City Manager's Office \$126,275 Budget Reduction. The proposed expenditure reduction would deauthorize one vacant Administrative Coordinator position (\$81,275); and decrease funding for part-time hours (\$5,000), staff training (\$5,000), Commission Training (\$5,000) and consulting services (\$30,000). The service impact would be slower response times, reduced staff support to the Round Table, and reduced technical expertise available to staff for telecommunications,

Decision Package #6. Information Technology Department \$123,210 Budget Reduction. The proposed expenditure reduction would deauthorize one filled Computer & Telephone Specialist position (\$106,210); and decrease funding for part-time hours (\$7,000) and maintenance and operations (\$10,000). The service impact would be a lessened capacity to complete planned IT projects and lengthy delays in responding to and completing telecommunications projects. Recommended is a reduction of \$123,210 to the Information Technology Fund ongoing core appropriation.

Decision Package #7. Human Resources Department \$216,922 Budget Reduction. The proposed expenditure reduction would deauthorize one vacant Senior Human Resources Analyst position (\$133,896); decrease funding for supplies/services, and suspend the Customer Service Academy (\$83,026). The service impact would be a lengthier time to recruit and fill vacant positions, less capacity to address personnel and labor relations issues and a decrease in training. Recommended is a reduction of \$216,922 to the General Fund ongoing core appropriation.

Decision Package #8. Financial Services Department \$100,500 Budget Reduction. The proposed expenditure reduction would deauthorize one filled Printing & Duplicating Specialist position (\$70,140), decrease funding for part-time personnel related to clerical and payroll; and decrease funding for printing and graphics materials. The service impact would be that each department would need to become more self-sufficient by printing their small jobs and there would need to be adherence to the print-job schedule. Recommended is a reduction of \$100,500 to the General Fund and Internal Service Funds ongoing core appropriation.

Decision Package #9. Police Department \$721,962 Budget Reduction. The proposed expenditure reduction would deauthorize three unfilled vacancy factor Police Officer positions (\$327,987), one vacant Administrative Coordinator position (\$78,456); and hold frozen three Police Officer positions (\$315,519) until Federal economic stimulus funding is made available. The service impact would be lessened capacity for special police details and a decreased ability to do crime and statistical analyses. The vacancy factor positions have not been filled in over five years. Recommended is a reduction of \$721,962 to the General Fund ongoing core appropriation.

Decision Package #10. Fire Department \$420,084 Budget Reduction. The proposed expenditure reduction would deauthorize two unfilled vacancy factor Firefighter Paramedic positions (\$251,332); deauthorize one filled Fire Training Captain position (\$124,106) with the incumbent transferring to a vacancy; and reduce funding for a vacant Fire Prevention Plan Checker position (\$44,646). The service impact would be less capacity to organize and maintain training. The vacancy factor positions have not been filled in over five years. Part-time personnel will be used as needed to conduct a significantly reduced number of plan checks. Recommended is a reduction of \$420,084 to the General Fund ongoing core appropriation.

Decision Package #11. Public Library \$433,381 Budget Reduction. The proposed expenditure reduction would deauthorize one vacant Library Clerical Supervisor position (\$100,933) and two vacant Librarian positions (\$217,448); decrease funding in the core budget for supplies, services, training (\$40,000); and decrease purchases of books & periodicals (\$75,000). The service impact would be a lessening of children's services, general reference aid and fewer Library materials. Recommended is a reduction of \$433,381 to the General Fund ongoing core appropriation.

Decision Package #12. Recreation & Community Services Department \$361,567 Budget Reduction. The proposed expenditure reduction would close the Franklin Community Center (\$25,100); reduce Performing Arts Center operational expenses (\$48,100); reduce part-time personnel (\$110,760); deauthorize one filled Administrative Specialist position (\$73,745); deauthorize one Administrative Analyst position (\$56,180) at mid-year (retirement); and consolidate CDBG administration (\$47,682). The service impact would be the relocation of various contract classes from the Franklin Center to alternative recreation venues and the elimination of the annual Summer Drama Camp program, Summer Concerts in the Park Series, Youth and Adult Community Theater Productions, and support staff for the Performing Arts Center and the Administration. It will take a full year to realize the total ongoing savings associated with these actions and beginning in the 2010-11 FY, the annual savings will be \$531,042. Recommended is a reduction of \$361,567 to the General Fund ongoing core appropriation.

Decision Package #13. Planning Department No Additional Budget Reduction. The Planning Department made personnel expenditure reductions of \$451,655 in early May 2009 to adjust for significantly lower development fee revenue.

Decision Package #14. Engineering & Building Services Department \$4,446 Budget Reduction. The Department made personnel expenditure reductions and transfers of \$492,391 in early May 2009 to adjust for significantly lower development fee revenue. The proposed expenditure reduction would decrease funding for supplies, training and contract services (\$4,446). The service impact would be fewer resources to accomplish work. Recommended is a reduction of \$4,446 to the General Fund ongoing core appropriation.

Decision Package #15. Harbor, Business & Transit Department \$156,103 Budget Reduction. The proposed expenditure reduction would deauthorize one vacant Economic Development Associate position (\$120,461); and decrease funding for advertising and promotional materials (\$35,642). The service impact would be less business assistance and economic development work. Recommended is a reduction of \$156,103 to the General Fund ongoing core appropriation.

Decision Package #16. Public Works Department \$306,588 Budget Reduction. The proposed expenditure reduction would deauthorize one vacant Public Works Maintenance Supervisor position (\$131,588); deauthorize one Building & Engineering Department vehicle, and decrease funding for three scheduled vehicle purchases (\$175,000). The service impact would be less supervision of off-hours work and the deferral of needed replacement vehicles. Recommended is a reduction of \$306,588 to the Building Occupancy and Vehicle Replacement Funds ongoing core appropriations.

Decision Package # 17. Special Events \$10,000 Budget Reduction. The proposed expenditure reduction would deauthorize the Memorial Day Parade funding contribution (\$5,000) and decrease funding the 4th of July Event (\$5,000). The six proposed signature events with waiver of City hard and soft costs recommended are: 4th of July 2009 Event \$25,000; Super Bowl 10K Run/Walk \$18,000; Lobster Festival \$5,500; Spring Fest \$4,000; Riviera Village Summer Festival \$2,500; and Riviera Village Holiday Stroll \$2,000. Recommended is a reduction of \$10,000 to the General Fund ongoing core appropriation.

Decision Package #18. Capital Improvement Program \$1,045,313 Budget Transfer. The proposed expenditure reduction would eliminate the following discretionary capital improvement projects: Ainsworth Court Stairs Rehabilitation \$1,840; City GIS Development Phase II \$101,526; Corporation Yard Planning \$14,560; High Lane Traffic Program \$7,647; Fiber Network Upgrade \$4,990; Pier Enhancement \$34,750; Recreation & Community Services Department Relocation \$480,000; Storm Drain CMP Replacement \$400,000. The impact would be fewer future capital projects for completion. Recommended is a transfer of \$1,045,313 from the Capital Projects Fund to the General Fund.

Decision Package #19. Commission Meetings \$17,000 Budget Reduction. The proposed expenditure reduction would schedule City Commissions meetings once every other month instead of monthly thus reducing hourly hard costs (\$17,000). The impact would be delays in reviewing policy issues by the Council's advisory bodies. Recommended is a reduction of \$17,000 to the General Fund ongoing core appropriation.

Decision Package #20. Public Works - Fuel Funding \$50,000 Decrease. A decrease in the appropriation for fuel is proposed to adjust for lower costs expected in the coming year. Recommended is \$50,000 decrease in the appropriation to the Vehicle Replacement Fund.

Decision Package #21. Part-Time Employees 6% Pay Decrease \$148,435 Budget Reduction. The proposed expenditure reduction would decrease part-time hourly wages by 6%. The impact would be potential problems in attraction and retention of hourly employees. Recommended is a reduction of \$131,158 to the General Fund ongoing core appropriation and a reduction of \$17,276 ongoing core appropriation spread to the other funding sources.

Decision Package #22. City Manager's Flexible Hiring Freeze. The continuation of the City Manager's flexible hiring freeze is needed as a tool to create additional savings of approximately \$250,000 as a buffer to further economic and financial uncertainty. Recommended is approval of the City Manager's flexible hiring freeze.

Decision Package #23. Harbor Uplands Fund – \$1,827,220 Budget Freeze Reduction. The City administers the business leases, parking structures and recreational activities in the King Harbor area designated as the Uplands. Revenues generated from the Harbor Uplands pay for the costs related to operating the area and constructing capital projects. While costs have climbed, revenues to pay for those costs have generally remained static. The Harbor Commission and City Council previously received projected cash flows describing the situation which would result in an \$819,789 imbalance between available funding and projected expenditures in FY 09-10. The proposed expenditure reduction would authorize the City Manager to freeze selected expenses for police and public works services (\$452,220) and reduce capital expenditures (\$1,375,000). The service impact would be less police and public works services to the Harbor Uplands and the deferral of capital projects. The freeze would allow time for Council action on the Harbor Business Plan as well as needed changes to the management and revenue generation for the Uplands parking structures. Recommended is a freeze reduction of \$1,827,220 to the Harbor Uplands core appropriations.

Decision Packages that would sustain or improve revenues to the City:

Decision Package #24. Parking Permit Fee. Approval is requested to raise the price of the annual parking permits from \$63 to \$100. The Redondo Beach annual permit is unique among the South Bay Cities. Other cities do not offer this type of permit to all members of the public. Other cities only offer employee and resident permits in specifically impacted areas with restricted times and limited available spaces. This annual permit provides a disproportionate discount from the metered price per day. A public hearing is scheduled for June 2, 2009, for Council to consider this action, which would increase ongoing revenue to the General Fund by approximately \$66,500 per year. An increase of fifty dollars to the employee permits would generate approximately \$12,500 per year. Recommended is approval of this proposed parking permit fee adjustment.

Decision Package #25. Business Licensing Processing Fee. The City does not have a processing fee for handling business license tax applications and renewals. A fee structure of \$10.00 for new applications and \$3.00 for renewals would cover the costs of set up and processing. A public hearing is scheduled for June 2, 2009, for Council to consider this action, which would increase ongoing revenue to the General Fund \$44,000. Recommended is approval of this proposed business licensing processing fee adjustment.

Decision Package #26. Redondo Beach Performing Arts Center Fees. Approval is requested to raise facility rental fees to recover a higher percentage of operational costs, while reducing the subsidy to the Redondo Beach Performing Arts Center. A public hearing is scheduled for June 2, 2009, for Council to consider this action, which would increase ongoing revenue to the General Fund \$15,000. Recommended is approval of this update to the RBPAC fees schedule.

Decision Package #27. Proposed FIRE-MED Program and Fee. The health care crisis has created a significant shift in the delivery of medical services to the City's paramedic program. *FIRE-MED* is a conceptual program which offers a three (3) tiered fee-for-service cost recovery program which includes a residential, non-residential and voluntary membership subscription fee and results in a method of placing the Fire Department's paramedic / EMS service on a partial reimbursable or self-funding basis; this conceptual program would not cover costs associated with ambulance transport as these services are offered by a private provider. *FIRE-MED* is projected to generate approximately \$400,000 annually based upon a conservative 25% cost recovery billing process and subscription participation. Recommended is the approval of conceptual FIRE-MED program and the setting of a Council workshop in September to review the full program prior to the Council's consideration of final approval and implementation.

Decision Package #28. Utility Users Tax (UUT) Language. In May, the voters approved a change in the telecommunication language related to the UUT. A City Strategic Plan objective is to evaluate the feasibility of updating the UUT's language related to public utilities. Such an evaluation needs to include outside expertise for surveys, legal assessments and outreach work. Changes to the public utility language could result in \$1.5 - \$2 million a year in General Fund revenue. Recommended is the appropriation of \$190,000 to the General Fund to complete the evaluation.

Decision Package #29. Sailing Program. Approval of this decision package would transfer the Sailing Program's annual revenue and expenditures from the General Fund to the Harbor Tidelands Fund. The transfer will eliminate \$29,410 of annual General Fund Subsidy. Additionally, increased boat maintenance costs of \$8,000 per year are required. Recommended is approval of the transfer of the existing \$64,410 appropriation and the \$35,000 estimated revenue from the General Fund to the Harbor Tidelands Fund together with an additional ongoing appropriation of \$8,000 to the Harbor Tidelands Fund.

Decision Package #30. Parking Structures Service and Financial Evaluation. The Pier/Plaza Parking Structures customer use and financial viability can be improved. An evaluation of the methods to do so needs to be done using staff and outside expertise (\$10,000). Recommended is an appropriation to the Harbor Tidelands Fund (\$5,000) and the Harbor Uplands Fund (\$5,000).

Decision Package #31. Parking Meter Hourly Rate. Approval is requested to raise the parking meter rate to \$1.00 per hour in all sections of the City subject to parking meter controls. An increase from 50 cents to \$1.00 in those areas currently not at the \$1.00 rate would generate approximately \$350,000 per year to the General Fund. A Public Hearing on this change is scheduled for June 16, 2009. Coastal Commission review will be necessary. Recommended is approval of this proposed parking meter hourly rate adjustment.

Decision Package #32. Refuse Collection and Recycling Program Rate Adjustments. Set for City Council consideration June 16, by separate action from the budget, are proposed refuse rate adjustments which would increase ongoing revenue to the Solid Waste Fund \$471,092 to cover higher refuse and recycling costs and to fund additional litter removal throughout the City. Recommended is an ongoing \$246,522 appropriation to the Solid Waste Fund for two new Maintenance Worker I positions and their necessary equipment.

Decision Packages that would be needed to comply with county-state-federal mandates or fund unavoidable costs to maintain current basic services:

Decision Package #33. South Bay Center Project Area Lease Back Asset. The proposed expenditure and offsetting revenue adjustments would fund the required increase for the South Bay Center bond leaseback structure whereby the City backstops the credit of the Redevelopment Agency bonds with the City's pledge to make lease payments from the General Fund. Recommended is an on-going General Fund appropriation and a General Fund revenue offset of \$204,145.

Decision Package #34. Disaster Planning and Preparedness. An appropriation is needed to cover the increased cost during the last two fiscal years for services provided by the Area "G" Office of Disaster Management Coordinator. Recommended is an ongoing \$4,120 appropriation to the Disaster Recovery Fund.

Decision Package #35. Maintenance Agreement – Harbor Illuminated Signs. An appropriation of \$10,000 is needed for an annual maintenance agreement to pay for routine maintenance of the five new illuminated gateway signs in the Harbor/Pier and Riviera Village areas and the King Harbor arch sign. The Public Works Department does not have the resources to provide on-going maintenance of the signs nor the expertise to maintain "neon" type signs. Recommended is an appropriation of \$5,000 to the Harbor Uplands Fund and \$5,000 to the Street Landscaping and Lighting Fund.

Decision Packages that would be needed to protect the health and safety of the public, employees or environment:

Decision Package #36. Fire Department - Hazardous Materials Disposal. An appropriation is necessary to pay for the purchase of specialized decontamination products and disposal fees associated with the cleanup and disposal of traumatic and non-traumatic incidents involving the discharge and exposure of bodily fluids/infectious waste. Recommended is an on-going \$2,700 appropriation to the Solid Waste Fund.

Decision Package #37. Police Station. The existing Police Station is obsolete and in need of replacement. Consistent with the City's Strategic Goal to Improve Public Facilities and Infrastructure, an appropriation is needed to fund an evaluation of potential sites; begin a conceptual design and space needs assessment; and, identify funding options. Recommended is a one-time appropriation of \$99,390 from the Police Department's PCH Community Contribution Donation Fund.

Decision Package #38. Beautification Grant Program. The City's portion of revenue generated through the sale of recyclable materials is projected to decrease by approximately 80% for FY 2009-2010. This money funds the City's annual \$12,000 Beautification Grant Program. Proposed is the suspension of the Solid Waste Fund Beautification Grant Program for FY 2009-2010. Recommended is a one-time reduction of \$12,000 to the Solid Waste Fund appropriations.

Decision packages that would support achievement of goals and objectives in the Strategic Plan:

Decision Package #39. Street Landscaping and Lighting District. In FY 07-08, the City Council approved an ongoing \$873,500 General Fund subsidy to the Street Landscaping and Lighting District. An additional appropriation is required in FY 09-10 to cover higher costs for the Street Landscaping and Lighting District to prevent a reduction of service. Recommended is a one-time \$210,711 transfer from the General Fund to the Street Landscaping and Lighting District Fund.

Decision Packages that would improve the organizational efficiency, economy or effectiveness:

Decision Package #40. Public Works - Replacement Vehicles. An appropriation is necessary for the scheduled replacement of eleven existing vehicles used by various Departments. Recommended is a one-time appropriation of \$714,500 to the Vehicle Replacement Fund.

Decision Package #41. Information Technology - Replacement Equipment. An appropriation is necessary for the upgrade and/or replacement of equipment that has reached end-of-life or can no longer meet increasing software demands and provide the service levels needed by City staff to serve the community. Recommended is a one-time \$201,875 appropriation to the Information Technology Fund.

Decision Packages that would fill gaps in current services or meet new service needs:

Decision Package #42. Webcasting of Council Meetings. The City began video streaming of Council meetings over the City Web site. Ongoing contract costs of \$12,000 per year are required to continue providing this service. Recommended is an on-going appropriation of \$12,000 per year from the General Fund for this activity.

Decision Package #43. Recreation & Community Services - City's Community Newsletter. The production of the City's Community Newsletter was transferred from the City Manager's Office to the Recreation and Community Services Department. The financial appropriation for this activity also needs to be transferred by Council action. Unfortunately, rising printing and postage expenses have resulted in the need for additional funding to maintain the current publication quality and distribution quantity. Recommended is the interdepartmental transfer of the existing \$32,000 appropriation and an additional on-going appropriation of \$25,000 from the General Fund.

Decision Package #44. Percent for Public Art Policy Development. During the 2008-09 FY budget adoption process, the City Council approved a CIP allocation of \$46,561 for the acquisition/installation of public art. While the budget allocation was determined using a "Percent for Art" methodology, no policy decision was made regarding future public art funding allocations. The recently established Public Art Commission is scheduled to consider Percent for Art program options and public art acquisition/installation guidelines, and make formal policy recommendations to the City Council. As the policy review process is just underway, to date none of the CIP funding for Public Art has been expended. Recommended is a carryover of the original \$46,561 of CIP funds with no additional appropriation until such time as a policy is adopted by the City Council and the fiscal impact is assessed.



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July 1, 2009

City of Redondo Beach, California

Subject: Council Actions Amending the Proposed FY09-10 Budget

Prior to formal adoption of the FY09-10 Budget, reallocation adjustments were needed to several funds described below and reflected in Attachment A.

<i>City Treasurer's Office Auditing</i>	<i>An additional \$10,000 appropriation will fund contract services related to the priority</i>
<i>Drama Camp</i>	<i>An additional \$57,336 appropriation will fund the 2009 drama camp summer program.</i>
<i>Compensation Concessions</i>	<i>A \$3,857,649 reduced appropriation reflects wage and benefit concessions from all of the City's bargaining units.</i>

The adjusted costs reflected in Attachment A were approved by the City Council at its June 30, 2009 meeting. In addition to the items above, Decision Packages #1 through #44 were adopted as proposed with the exception of Decision Packages #19, #24, and #31.

Respectfully Submitted,

William P. Workman
City Manager

ATTACHMENT A

SUMMARY OF BUDGET AMENDMENTS
BY CATEGORY / BY FUND

	City Treasurer's Office Auditing Capacity	Drama Camp	Compensation Concessions	Totals
<u>Revenues</u>				
General Fund	-	65,976	-	65,976
<u>Expenditures</u>				
General Fund	10,000	57,336	(2,693,479)	(2,626,143)
State Gas Tax	-	-	(51,396)	(51,396)
Street Landscaping & Lighting	-	-	(81,069)	(81,069)
Transit	-	-	(6,599)	(6,599)
Air Quality Improvement	-	-	(258)	(258)
Intergovernmental Grants	-	-	(5,846)	(5,846)
Community Development Block Grant	-	-	(16,133)	(16,133)
Housing Authority	-	-	(31,880)	(31,880)
Capital Projects	-	-	(10,601)	(10,601)
Harbor Tidelands	-	-	(159,544)	(159,544)
Harbor Uplands	-	-	(319,887)	(319,887)
Solid Waste	-	-	(44,831)	(44,831)
Wastewater	-	-	(54,853)	(54,853)
Self-Insurance Program	-	-	(11,230)	(11,230)
Vehicle Replacement	-	-	(37,999)	(37,999)
Building Occupancy	-	-	(87,672)	(87,672)
Information Technology	-	-	(66,496)	(66,496)
Printing & Graphics	-	-	(15,212)	(15,212)
Emergency Communications	-	-	(114,153)	(114,153)
Redevelopment Agency	-	-	(48,511)	(48,511)
Total Expenditures	10,000	57,336	(3,857,649)	(3,790,313)