



City of Villa Park

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June 24, 2008

SUBJECT: Fiscal Year 2008-2009 Operating Budget and Capital Improvement Program

Honorable Mayor and Members of Council:

I am pleased to present to you the 2008-2009 Operating Budget and Capital Improvement Program. As typical, the drafting of the budget is a team effort, starting months in advance of the adoption. Michelle Danaher, our Finance Manager, took on the bulk of the task through her efforts to ensure that all data contained in our budget system was true and reflecting actual fund amounts as determined by external audits. Michelle's knowledge and ability were instrumental in ensuring that the proposed budget figures are sound and truly reflect the overall fiscal condition of the City. Additionally, I want to thank the following staff members for their input in compiling this year's budget: Maintenance Supervisor Mike Knowles, City Engineer Joe O'Neil, Deputy City Engineer Warren Repke, Associate Planner Jason Carson, and Assistant to the City Clerk Jarad Hildenbrand. Finally, I want to thank the Council in general and Mayor Pro Tem Jim Rheins and Councilman Rich Ulmer, in their role as the Budget and Finance Committee, for reviewing and providing input into the document.

The City of Villa Park is a community that prides itself on continuous enhancement to its quality of life. Councils from the City's inception to present day seek to ensure City operations are efficient, effective, and fiscally conservative in our approach to using tax receipts to provide City services. The proposed budget continues this tradition.

The Budget is the City's annual financing and spending plan, providing the formal ability for the City to provide necessary services to its residents. The more important role the physical budget book plays is that it serves as a communications, accountability, management, and resource allocation tool. The Budget, as presented, is the road map for the upcoming fiscal year and an important check on the use of taxpayers' funds and special assessments. Overall, the budget book is an important educational document to assist our residents in knowing: What the City is; what we are planning to do; how we have done business in the past; and, what the restraints are as we set out to provide the necessary services which make Villa Park the Hidden Jewel of Orange County.

2008-2009 Budget Summary

The budget process begins by using the estimated available funding of \$1,247,514 plus the General Fund Reserve amount of \$690,000 for a total of \$1,937,514 combined fund balance. The estimated revenues of \$4,526,700 are added to the total fund balance for a combined funding source of \$6,464,214. The 2008-2009 Budget proposes to expend \$4,894,800 resulting in an estimated combined fund balance \$1,569,414 as of June 30, 2009. The General Fund, which is the primary revenue source for discretionary spending, is estimated to generate revenue of \$2,633,600 for the operating year of 2008-2009. Combined with the General Fund balance available at the start of the operating year, the General Fund will have available revenues of \$3,490,930. Expenditures allocated to the General Fund will total \$3,242,600 for the operating year, therefore leaving an estimated General Fund balance as of June 30, 2009 of \$219,626. This amount does not include the City Council designated and restricted General Fund Reserve which is estimated to be increased to \$718,704 for Fiscal Year 2008/09.

Revenue sources other than the General Fund have a balance available of \$390,184. Expenditures charged to non-General Funds are estimated to be \$1,652,200. Based on estimated revenues to non-General Funds of \$1,893,100 there is an estimated fund balance for non-General Funds as of June 30, 2009 of \$631,084. Overall, available funding for Fiscal Year 2007-08 exceed expenditures.

Prior Year Accomplishments

The following were some of the accomplishments during Fiscal Year 2008-09:

- The City accomplished improvements to Serrano Avenue and Nichols Street, to include a new rubberized asphalt roadway which increases the durability and longevity of the street surface, thereby increasing its lifespan.
- The City completed the long awaited improvements to Villa Park Road. This included new curb ramps on the corners and complete resurfacing using rubberized asphalt for the roadway. The use of rubberized asphalt, in addition to increasing the lifespan of the road, will reduce noise generated by moving vehicles.
- The City completed two improvement projects to the City's sewer system using funds generated by the Sewer Service User Charge. The projects further the City's efforts to repair and improve high priority sewer projects as well as completely relining our sewer pipe infrastructure.
- A landscaping contract was competitively bid saving the City almost \$20,000 a year in contract costs.
- The City applied for and was awarded over \$1,491,000 in grant funding for Fiscal Year 2008-09 and 2009-10 capital projects to include improvements to increase children's safe route to schools and to fund landscaped medians, curb and gutter, and trail improvements along various portions of Lemon Street.
- A part-time Finance Manager was hired which has brought a very high level of expertise and knowledge to the City for financial and accounting practices

Challenges and Opportunities

The annual inability of the State elected leadership to permanently balance the State budget continues to be a dark cloud over all local governments including the City of Villa Park. The City is cautiously watching the actions of the legislators as several funding sources are at risk of being diverted for State budget needs. The three specific funding sources at risk currently are supplemental law enforcement funds, gas tax revenues and up to 8% of our property tax proceeds. Other challenges include the ongoing level of public employee pension costs due to the City's small size and reduced performance from the California Public Employees Retirement System.

The most immediate challenge to the City for Fiscal Year 2008-09 is the second failure, in a different location, of the Cannon Street Retaining Wall. This wall is within the City limits but is of otherwise no benefit to the City. Cannon Street is a primary arterial highway and serves as a critical regional transportation link between North Orange County and points south. As such, it is the City's contention that the retaining wall – and the proper rebuilding of it – is a regional benefit and therefore funds other than Villa Park's should be used to repair the wall. The City allocated an initial \$100,000 in Fiscal Year 2007-08 and is allocating \$400,000 in Fiscal Year 2008-09 towards this repair. City Staff are currently working with regional government agencies on identifying other funding sources to assist.

The City continues to position itself to selectively make capital improvements based on available General Funds by aggressively pursuing grant opportunities. During the last year over \$1,491,000 in grant funding was successfully gained. One challenge to this activity is ensuring that General Funds are available to match the grant opportunities. City staff and the City Engineer will work with the Budget and Finance Committee to schedule improvements accordingly. It was planned that starting Fiscal Year 2008-09 the City would begin several years of saving resources for future years' projects. However, based largely on the Cannon Wall failure, the active saving will be delayed by one year. The importance of a year in which resources are saved is that it provides an opportunity to reflect on the City's needs, review available resources, pursue outside available funding, and plan accordingly for future improvements. Through the Strategic Financial Planning process and Capital Improvement Program, the City will develop a comprehensive multi-year approach to expending funds and ensuring General Funds are available to match grant funds.

As identified in previous years, regulations imposed upon the City and the duties it must therefore perform are greatly different than in years past and the challenges continue for the new Fiscal Year. Increased state and federal regulatory requirements for clean air and water, for example, have increased the cost burden to the City and require more time and resources. The challenge of complying with increased regulatory requirements given the City's static resources is an opportunity that must be pursued by the City through its own effort, not forced by outside entities. As such, the City will continue to vigorously work to achieve compliance and dialogue with appropriate agencies and as an example, successfully negotiated with the Santa Ana Regional Water Quality Control Board for a reduction in a State fine imposed for missing reporting deadlines and inadequate filing of regulatory paperwork.

Opportunities abound in Villa Park. The continued fiscally prudent and conservative budgeting approach and careful watch of expenditures allows the City to focus discretionary funding to maintain the high quality of life expected by our residents. Community participation and partnership, between the City and the Villa Park Community Services Foundation, the Villa Park Women's League, the Villa Park Rotary and Friends of the Villa Park Library, are opportunities for progress and improvement in a collaborative approach that highlights community involvement and understanding.

Major Programs In Progress

The City will continue its yearly Street Maintenance Program. Each year, the City allocates significant General Fund revenues to maintain the City's street infrastructure through street slurry and pavement rehabilitation projects. Based on available revenue and the need to gain better pricing on annual projects, the City will merge two years of programs into overlapping projects – gaining the benefit of two years funding for one project. For Fiscal Year 2008-2009, it is proposed to expend approximately \$600,000 on projects determined by the City's Pavement Management Program – an amount that may increase based on economic conditions or reduced expenditures for the Cannon Wall repair.

The major expenditure from the General Fund continues to be law enforcement. The City will continue its contract with the Orange County Sheriff's Department and this year will contract for four deputy positions providing 24/7 coverage. The dedicated School Resource Officer position was not funded; however, the City is increasing its ability to conduct directed enforcement – increased Sheriff presence when warranted – to include special assignments by the Deputy trained for School Resource Officer duties, paid for by supplemental funding sources.

Fiscal Year 2008-09 will see some major Capital Improvement Program progress with the construction of the long planned for Taft Avenue landscaped medians. This improvement project, in which landscaped medians will be installed on Taft Avenue from Lemon Street to Sycamore Street, will create a new, aesthetically pleasing look for Taft Avenue while serving to reduce speeds on the street. Additionally, the Mesa Drive guardrail project will be constructed.

Additional programs include:

- The continuation of National Pollution Discharge Elimination System (NPDES) or water quality programs to respond to increased regulatory requirements for ensuring that urban runoff and illegal discharges do not enter protected waterways. The City will expend approximately \$56,000 in this activity for Fiscal Year 2008-2009.
- The fourth sewer improvement project funded by the Sewer Service User Charge.
- Safe Route to School funded projects on Center Drive for sidewalk improvements and various locations for signal upgrades or improvements.
- The Civic Center is proposed to undergo a fire sprinkler retrofit using funds made available by the Orange County Fire Authority from excess Structural Fire Funds.

Revenue Trends

The City primarily receives revenue from Property Taxes, representing approximately 68% of the General Fund revenues and 39.8% of total revenues for Fiscal Year 2008/09. This amount includes property taxes received in-lieu of Vehicle License Fees. The projected amount for Fiscal Year 2008-2009 is \$1,801,000. This represents a very conservative approach to the current economic uncertainty and housing market downturn. Property tax revenues overall were held consistent with last year's projected amounts. It is important to remember that the City receives approximately 10.5% of the 1% property tax rate. Therefore, a year in which the valuation of homes within Villa Park increases by \$80,000,000 will increase our secured property tax revenue by \$84,000. In a downturn, homeowners are more apt to seek a re-assessment of their property values thereby possibly lowering the overall assessed valuation and decreasing property tax revenues.

Additional trends in revenue sources:

- The Vehicle License Fee (VLF) is projected to be flat and Property Tax in-lieu of VLF is projected to be \$430,000 – above last year's projected revenue and slightly below the estimated actual.
- Building Permit revenue is projected to remain low at \$150,000 based on a review of expected building permit activity in the City.
- Charges for current services is projected to decline slightly to approximately \$42,600.
- Gas Tax revenue is projected to remain flat at approximately \$122,000 – however, the State borrowed five months of revenue, to include two months from the prior Fiscal Year which is reflected in the budget. The effect of higher gas prices on gas tax revenues is not known and therefore not taken into consideration.

It is important to note that revenue received by the City is not received all at once or at regular intervals. The majority of revenue, as derived from property tax payments, is received by the City in January and May of each year. These two months account for up to approximately 40% of the City's revenue. All other months typically see any where from 6% to 8% of the remaining revenue received from other sources.

New Expenditures

At this time, there are no major expenditures proposed within any departments of the City. Based on projected flat revenues and continued economic uncertainty, staff made several expenditure reductions throughout City departments. Larger expenditures beyond normal operating supplies will be handled on a case by case basis and brought to the City Council for consideration based on new revenue realized in the Fiscal Year. The large expenditure of funds are all directly related to the Capital Improvement Program as detailed in that section of the budget and 52% of the expenditures are grant funded. A full list of expenditure changes is in the Summary of Expenditures.

City Staff Organization

Central to operating the City in an efficient and effective manner is maintaining a flexible and responsive administrative organization. The City for Fiscal Year 2008-09 will employ four (4) full time employees and two (2) part time employees. The City will continue to contract out for building, water quality, and engineer services with those respective positions holding various office hours at City Hall. For Fiscal Year 2008-09 the four full time positions will include the City Manager/City Clerk; Assistant to the City Clerk/Management Assistant; Maintenance Supervisor; and, Maintenance I position. The part time positions are the Finance Manager and Office Assistant position. With the elimination of a dedicated planning position, the City Manager will handle more advanced planning – conditional use permits & variances – while the Assistant to the City Clerk will handle site plan reviews. The Office Assistant will take on more finance activities such as cash receipts and deposits which were formerly under the Assistant to the City Clerk. The City Manager will serve as the primary Code Enforcement Officer.

Conclusion

While continually revenue challenged because of limited sales tax base and the general residential nature of the City, Villa Park continues to be fiscally conservative in its elected leadership, budgeting practices and expenditure history. The City is a viable and thriving municipality able to perform its core functions while judiciously planning improvements and expenditures which benefit the residents' quality of life. Throughout the year, City staff will monitor available revenue sources and potential grant opportunities in order to reduce the burden on discretionary General Funds so such funds may be utilized more effectively for proposed Capital Improvement Projects in the future. All expenditures will be analyzed and potential for expenditure reductions will be pursued. With the adoption of the Fiscal Year 2008-2009 Operating Budget and Capital Improvement Program, the City will continue to serve its residents in a manner consistent with their expectations.

I appreciate your support and leadership.

Sincerely,



Kenneth A. Domer
City Manager