

# BUDGET MESSAGE



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

**FROM:** Troy L. Butzlaff, ICMA-CM, City Manager

**SUBJECT:** City Manager's Budget Message for Fiscal-Year 2015-2016

**DATE:** June 15, 2015

### **Introduction**

As your new City Manager, I am very pleased to present to the City Council the operating and capital budget for Fiscal Year 2015-16 (FY 15-16). The City's budget serves as an important policy document, combining elements of a financial plan and operational guide, to communicate the City Council's policies, goals, programs and service priorities to the community. It was developed based on direction provided by the City Council during the budget development process and recommendations made by each department. This year's operating budget is not only balanced without the use of one-time funding, borrowing, or any reduction of current service levels to the community, but the City should end the fiscal year with a projected reserve fund balance of \$250,815.

As the City continues to manage through a tempered economic recovery, we see positive signs of improvement to our five-year forecast. The revenue picture is improving; however, the costs to deliver current services are also growing, restricting our ability to support new or enhanced services. The adopted FY 15-16 budget continues to focus on cost control without impacting the City's core services. This balanced and strategic approach results in a spending plan that adapts to the changing needs of our community, without compromising our financial future.

## **Budget Approach**

The City's budget was developed utilizing Zero-Based Budgeting (ZBB). ZBB is an approach to budgeting in which each budgeted year's activities are evaluated in a self-contained fashion, with little or no weight given to the precedents of past years. ZBB is contrasted to incremental budgeting, in which the budget justification is focused on the difference between the current year and the proposed budget year.

In addition to using a ZBB approach to budgeting, part of this year's budget development included a goal setting workshop that brought together the City Council with the City's Executive Staff and members of the public to ascertain the key goals and top priorities for the City to determine what the necessary levels of resources were needed to provide the services desired by Council and the community. Specifically, economic development, including the development of the downtown area, and achieving fiscal sustainability were amongst the top priorities of the City Council for the coming fiscal year. These top priorities and other key goals identified by the City Council have been incorporated as work plan items in this budget document.

## **Fiscal Outlook**

The City's revenue stream is largely influenced by overall economic conditions. The gradual national recovery has continued to improve but at a slow pace, hampered at times by a nagging level of unemployment, federal policy indecision and a slower rate of recovery in the housing industry. There are, however, encouraging bright spots at the national, state, and local levels, such as 1) improving home resale values; 2) modest improvements in job growth at the national level and slightly improved growth at the state level; 3) healthy gains in stock market indices, restoring some of the wealth lost during the recession; and 4) increased spending on big ticket items like automobiles that reflect a willingness by consumers to spend again.

Locally, improving consumer confidence has resulted in modest city sales tax growth over the last fiscal year (FY 2014-15). For FY 15-16, we are forecasting roughly a 3.6 percent growth in city sales tax revenues. Property tax collections continue to be impacted by the local housing market. Although home valuations have been increasing for the last two years, the lag between the time properties are valued and the time they are billed means we will see property tax collections finally begin to increase. Recent information from the County Assessor's Office projects a 4 percent increase in the City's assessed valuation in FY 15-16. Future valuations should continue to increase, leading to tax collection increases in subsequent years.

## **Revenues**

General Fund revenues and transfers reflect an increase of 2.19% from the prior year's budget. Property tax revenues and projected increase in sales taxes are the major factors in the increase. However, the slight tax revenue increase only represents a minor recovery from the higher historic revenue levels the City received prior to the recession. Other

major revenues are anticipated to remain at prior year levels as the economy continues to improve slowly. A detailed list of revenue projections is included in the Summary section of this Budget.

**Expenditures**

The FY 15-16 budget includes \$36,441,375 in recommended expenditures. Personnel costs, which include salaries and benefits, represent 62.1% (\$22.64 million) of the total expenditures. Operational costs, which include materials, services and supplies, account for \$7.14 million or 19.6% of the budget. Overall General Fund expenditures, operating transfers out, and funding for additional personnel reflect a decrease of 0.20% over the prior fiscal year.

Summaries of expenditures by Department for all funds and the General Fund specifically, are included in the Budget in the Summary section.

**General Fund Summary**

The following schedule summarizes the revenues, expenditures and changes in the General Fund balance for FY 15-16. The primary focus of attention continues to be the General Fund which accounts for the majority of non-utility operations, including, Police, Fire and General Government.

The overall condition of the City's non-general funding sources is included in the Summary section of this Budget.

**FY 2016**

Projected Revenues & Transfers In	<u>36,692,190</u>
Less: Operating Expenses & Transfers out	<u>(36,441,375)</u>
Projected Fund Balance @ 6/30/15	<u>\$ 250,815</u>

## **Capital Improvement Project (CIP) Budget**

Each year the Council updates the Capital Improvement Program (CIP). The CIP provides a schedule of planned improvements over the course of several fiscal years and identifies the revenue sources that will pay for those improvements. The CIP budget includes major investments in parks, roadways, public safety, public facilities, and water and electrical infrastructure. The total proposed CIP budget for FY 15-16 is \$19.31 million. The budget consists of \$2.49 million in new projects, with a carryover of \$16.82 million.

## **Conclusion and Acknowledgements**

The development of the FY 15-16 operating and capital budget was made possible through the cooperation of the City's employees, input and support from our community, and direction of the City Council. Although the City's budget challenges have eased for the time being, difficult economic times can return very quickly. Consequently, we continue to prioritize what is important for the City and to allocate available resources to those programs and services deemed to be critical to improving our community. Our ability to manage scarce resources is a key reason Azusa remains a vibrant and desirable place to live and work.

The development of this budget was made possible through the knowledge and contributions of many individuals on staff. I wish to thank everyone who participated in the budget process this year including the City Council and members of the Executive Team. Finally, I would like to recognize the Finance Department, under the direction of Finance Director Susan Paragas, for their dedication and hard work that went into coordinating, developing, and publishing this budget document.

Respectfully submitted,

Troy Butzlaff, ICMA-CM  
City Manager