

SEPTEMBER 30, 2005

TO: MAYOR AND COUNCIL MEMBERS
FROM: CITY ADMINISTRATOR
SUBJECT: 2005/06 FISCAL YEAR BUDGET

In the pages that follow you will find the adopted consolidated annual operating budget for Fiscal Year 2005/06, which is once again balanced, as is required by law.

Messages in recent years have described the profound impact of intergovernmental funding instability on our budget, the fragile nature of local and regional economic conditions, and the volatility of selected operating expenses. Operating within this environment has posed manifold challenges. Annual messages have stressed the importance of constraining expenses while growing revenues. They have been characterized by somber realism, but have always included ample reasons to be confident about our future. Upon assuming his new post recently and assessing our financial position, the City's Budget Officer confided in Department Heads that he is learning how to simultaneously be a pessimist and an optimist. This year's message incorporates the same starkly contrasting elements, but the balance is tilting and there is more basis for hopefulness.

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Our General Fund balance has actually increased slightly from year-to-year. General Fund expenditures adopted for FY 2005/06 decrease by 3.0% over the FY 2004/05 amended budget, and some difficult-to-control expenses, notably workers'

compensation, are beginning to decline. Of significant note, excluding pension and health costs beyond our control, we have trimmed \$1.2 million annually in

recurring personnel costs by downsizing the organization. Even with the modest staff additions outlined later in this message, the City's 739 (FT) member workforce has 24 fewer (FT) positions this next Fiscal Year compared to Fiscal Year 2002/03.

One area of uncertainty has largely abated; the amount of revenue the State siphons out of local government budgets has decreased. After years of State "takeaways", in November 2004 a bipartisan local government coalition won overwhelming support for Proposition 1A. Proposition 1A does not provide immediate relief, nor does it prohibit the State from interrupting the flow of funds to local government. However, importantly, beginning next Fiscal Year (FY 2006/07) it restricts the legislature's ability to cure their monetary problems by raiding local government shares of property tax, sales tax, and vehicle license fees (VLF). As if to further punctuate the Governor's goodwill covenant with local government, he included in his FY 2005/06 State budget the accelerated repayment of VLF funds seized from us earlier. This \$1.94 million one-time payment to Inglewood received just weeks ago replenishes lost VLF funds, and bolsters our beginning General Fund balance.

Current year recurring General Fund revenues are up 2.1% over the FY 2004/05 adopted budget on the strength of unprecedented increases in real estate assessed valuation, development fees, sales tax and traffic enforcement fines. On balance, revenue categories, including VLF, utility, transient, and business, taxes are expected to sustain present levels. Another one-time revenue in the amount of \$1,100,000 was recently received from Watt Developers as mitigation settlement fees in connection with the 376-home Renaissance project.

Complimenting above average revenues, the City anticipates saving \$2.9 million in operating expenses during the current fiscal year, adding to a fortified beginning year General Fund balance. As is typical, the savings is largely from personnel vacancies; however limited spending on non-essential travel, training and capital purchases also provided relief. Energy and material resource conservation, and management efficiencies have contributed as well.

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One of the most significant aspects of the proposed FY 2005/06 budget is the expenditure that will not be made. The roughly \$7 million CalPERS combined annual contribution and "catch-up" pensions payment is deferred this year as a result of the City Council's approval of an alternative financing mechanism to pay down \$56 million in unfunded pension liability costs. The recent issuance of pension obligation bonds (POB) will save the City approximately \$18 million net present value dollars over the 30-year life of the bond. Approximately half of this

savings will be captured during the first 3 years of the term, providing critical short term budgetary relief designed to aid the City in its financial recovery.

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And, we will need this “gap financing” and more.

Inglewood has endured the economic environment common to California cities better than many municipalities. Other local governments have elected, or

been forced, to layoff full-time personnel, including in some cases fire and police, and have made substantial cuts in services. While we have seemingly suffered less, it is in large part because we have delayed addressing our fundamental structural budget imbalance. Once again, in FY 2005/06 the City’s General Fund expenditures (absent most pension costs) will outstrip recurring revenues, this year by \$ 2.04 million. Perhaps initially accepted reluctantly as an aberration, the City now routinely relies on windfalls and other tenuous gap financing to achieve a balanced budget. This flies in the face of conventional wisdom, and not unexpectedly has had a deleterious affect on our municipal bond rating.

Deferring immediate and pronounced pain in the belief that better times are just around the corner has resulted in adverse impacts. These include: the postponement of needed infrastructure repairs, capital improvements, equipment and furnishing replacements, technological upgrades, and ongoing building and property maintenance.

Loyal, hardworking employees are at once grateful to have a job, but are becoming increasingly discontent about being asked to do more with less, while foregoing annual cost of living increases. The practical impact of fewer training opportunities, coupled with weakened salaries, affects not only employee morale but results in diminished productivity and higher turnover. It handicaps efforts in a competitive job market to recruit the top talent that the City needs and deserves.

In the weeks ahead, I will be bringing to you some good faith action recommendations intended to provide employees with a modicum of relief and to serve as a gesture of appreciation for their patience and perseverance.

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FY 2005/06 BUDGET BY THE NUMBERS

Last year, the City Council approved a budget that included an increase in General Fund expenditures of 9.7%, primarily driven by explosive growth in required pension costs.

This year's adopted budget contains several organizational changes that will increase management and supervision, facilitate communication and coordination among departments, and enhance responsiveness to all service requests. Of particular note is the elimination of both Deputy City Administrator positions, the addition of 1 Assistant City Administrator, and reinstatement of a dedicated Public Works Director and ITC Director. The former Assistant City Administrator / Public Works Director will rejoin the Administrative Office and oversee the Community Development, Parks Recreation and Community Services, and Library departments. The new Assistant City Administrator position will oversee the Finance, ITC and Personnel Departments. Other key Assistant functions such as contract compliance, labor relations, legislative analysis, long-term planning, and public information and education will be divided among the Assistants. The Police and Public Works Departments will report directly to the City Administrator, who will also continue to work closely with the City Council, City Clerk, City Treasurer and City Attorney on a daily basis.

Citywide, this budget recommends the addition of 13 full-time employees, the elimination of 2.81 FTEs and the reduction of 387 overtime hours. Of the new full-time positions, only 2 require new General Fund support. Complete personnel changes, detailed in the Department Highlights section of this message, are summarized below. Please note that beginning this year, reference to "part-time hours" has been replaced with the more conventional "full-time equivalent" (FTE) format. A full-time position equates to 2,080 hours of service annually, and any fraction of an FTE simply is a division of that number. For instance .5 FTE represents 1,040 hours of service.

A net of 3 new non-general fund positions are being added to the workforce: in Public Works and Information Technology & Communications. Ten new net full-time positions are being added to the General Fund: 4 positions in the City Attorney's office to take over much of the City's litigation internally and 6 code enforcement-related positions which are being transferred from the Neighborhood Preservation Division formerly budgeted under CDBG in the Grants Fund. The cost of the added positions in Legal are offset by a corresponding reduction in the contract services sum available for outside litigators, while 4 of the code enforcement positions will continue to be funded by CDBG. Three positions were added in the Public Works Department, including a Public Works Director, offset by elimination of 3 positions, two from Administration and one (civilian) from the Police Department.

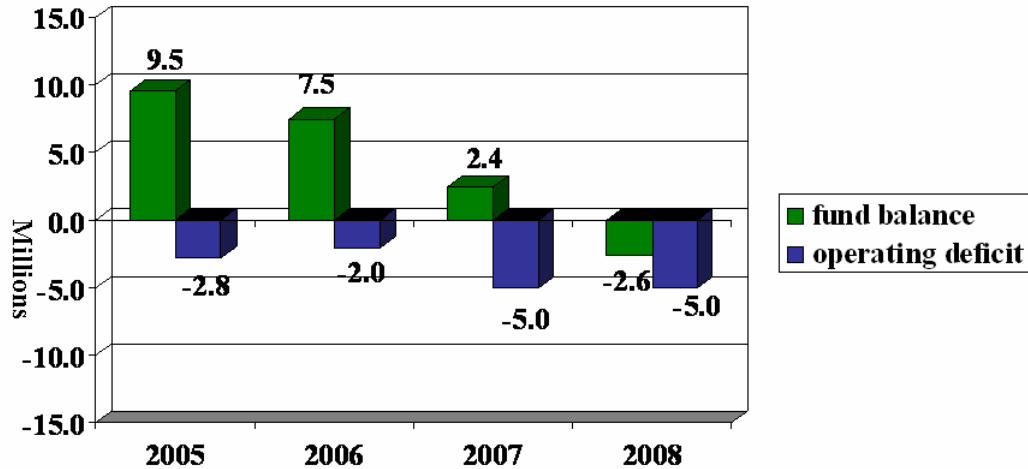
The combined FY 2005/06 budget for the City, its agencies, authorities, and special funds is \$230,199,618, up 10.6% compared to the current modified FY 2004/05 budget of \$208,047,653. Approximately \$23.9 million of increased expenditures are due solely to Operating Transfers Out which must be budgeted under Redevelopment funds to move balances to the Capital Projects Fund. A total of \$49,844,278 is devoted to capital improvement projects, of which only \$250,000 is General Fund financed. The budget also includes \$10.3 million in non-capital project related federal, state, and local grants.

The City's General Fund accounts for \$74,199,842 of the consolidated budget, which is a 3% decrease from the FY 2004/05 current modified budget. This \$2.3 million decrease can be attributed, in large part, to issuance of Pension Obligation Bonds, which sharply reduced this year's annual pension contribution by \$4 million. General Fund operating expenses will enjoy further relief from \$700,000 in lowered Worker's Compensation charges due to lower cost experience. Overall savings are tempered, however, by a \$1.8 million spike in health care costs for employees and retirees and \$300,000 in other miscellaneous net increases. Public Safety comprises 52% of the total General Fund Budget.

It is anticipated that there will be a \$9.5 million unobligated General Fund balance to begin FY 2005/06. Due to a structural imbalance between revenues and expenditures of \$2.0 million, the ending unobligated General Fund balance for FY 2005/06 is projected at approximately \$7.2 million. It is important to note that the Pension Obligation Bonds issued in FY 2004/05 included financing the City's FY 2005/06 normal contribution to PERS of approximately \$6 million. The City will be required to resume payment of this in FY 2006/07, of which the General Fund portion is estimated at \$4.5 million. This will be tempered somewhat by the restoration of \$1 million in property taxes taken by the State and an estimated \$500,000 in sales tax from the Village at Century project. However, with all other things being equal, this scheduled expenditure increase will effectively bring the Fiscal Year 2006/07 structural budget deficit up to \$5.0 million.



General Fund Balance and Operating Deficit Estimated Trend



DEPARTMENT HIGHLIGHTS

Administrative Office

In lieu of replacing a retiring Deputy City Administrator, this budget proposes reinstatement of a dedicated Public Works Director, who will also be a licensed engineer. This will permit the Assistant City Administrator to provide expanded support to the City Administrator, while at the same time overseeing the Community Development, Parks Recreation and Community Services and Library departments. The position of Deputy City Administrator for Administrative Services will be upgraded to Assistant City Administrator, and will assume additional duties including oversight of the Administrative Office, Council Support, Commission and Committees Staff, and public information and education. Additional changes include deletion of two management support positions and the transfer of Facilities Maintenance/Custodial Services from Public Works to the Purchasing Division.

City Clerk's Office

A full-time Assistant to the Clerk has replaced 1.5 full-time equivalent positions. Work continues on fully automating the agenda development process, electronic document storage, management and retrieval, and improving office security.

Legal Department

Two Sr. Assistant City Attorneys, 1 paralegal and 1 Legal Secretary positions are being added to the Legal Department. These staff additions will permit the Legal Department to administer and defend more liability claims against the City. The increased personnel costs are offset by a like reduction of outside attorney contract fees.

Added staff, reorganization, and improved management will permit the Legal Department to support the City, its agencies, the City Council, the Administrative Office, and all operating departments. This support includes the development of legal strategies, drafting of ordinances and agreements, and providing analysis and opinions. Prosecuting all misdemeanors and code infractions, as well as reducing exposure and managing risk are also principal functions of the City Attorney's Office, that will be strengthened by these additions.

Personnel Department

No personnel changes are scheduled for this department. The Personnel Department is upgrading City recruitment, testing, selection, hiring and promotional processes. Personnel policies and procedures will be reviewed and updated where necessary to increase internal customer support, and comply with applicable law. Efforts to implement recommendations included in the City's 2003 comprehensive classification and compensation study will continue. Additionally, the Personnel Department will assist all operating departments in adopting the recommendations of the Independent Cities Risk Management Association Safety and Risk Control Assessment Report.

Information, Technology and Communications (ITC) Department

Reinstatement of the ITC Director is critical in order for the Department to achieve its goals during the next several years. A primary ITC strategic goal over the next 2 years is migrating business applications from a mainframe to a server host environment. There are currently 12 core business applications which will have to be replaced with commercial software packages, or rewritten internally. To assist with this process, several positions are being eliminated, and 2 Systems Analyst II positions are being created. A Web Application Development Specialist is being added as a more economical alternative to contracted programming.

A web-based version of the City's Parking Ticket System (PTS) is expected to debut early in the new fiscal year. In order for the PTS Division to meet the growing demands of its nearly 100 contract agencies investment is required to support application development and maintenance, project management, software implementation and training. The proposed budget will transfer in 2

existing software development positions, as well as add a Systems Analyst II to serve as a technical liaison between customer service staff, clients and the development team. A Systems Implementation Specialist and an Accountant are also added.

Finance Department

One Administrative Assistant is being eliminated and an Accountant position is being upgraded to Accounting Manager. This change will increase technical expertise needed for the preparation of financial statements and provide expanded leadership for the accounting function. The Finance Department will continue to focus on maximizing the collection of City revenues, providing timely and accurate payments to employees and vendors, enforcing accounting policies and procedures, and ensuring accurate and timely financial statements.

The Community Development Block Grant program staff and activities are being transferred from the Finance Department to the Community Development Department.

Community Development

The Community Development Block Grant (CDBG) is being transferred into Community Development from the Finance Department, and the Residential Sound Insulation Program (RSIP) is being transferred in from the Public Works Department. Code Enforcement functions are being returned to the Parks, Recreation and Community Services Department. The Economic Development Director position has been downgraded from its aberrant executive status to the more appropriate manager level.

The Community Development Department will comprehensively update the City's General Plan, and attempt to implement many of the recommendations included in the forthcoming consultant management audit report of the department. Emphasis will be placed on: accelerating the sound attenuation of all remaining eligible residential properties in the City; facilitating the redevelopment of downtown, Century Boulevard, Prairie Avenue, North Inglewood and other prime locations; stimulating the construction of affordable housing; and assisting the Bay Meadows group as they explore redevelopment opportunities at Hollywood Park.

Police Department

The Parking Enforcement Division of the Police Department is being transferred back to the Parks, Recreation and Community Services Department. Two full-time equivalent Special Enforcement Officers will be added to the Police Department to offset the loss of key crossover personnel associated with the function. A long-standing vacant Program Specialist position assigned to

Community Affairs has been eliminated. A Payroll Technician position, which splits its time between the Police Department and the Administrative Office, has been upgraded to Administrative Assistant. One grant-funded Administrative Aide was added to the Department's Real Estate Fraud Unit.

Internal personnel reassignments will take place designed to enhance homicide investigations, prepare for and respond to domestic terrorism threats, and better address narcotics and gang crime, prostitution and other vice offenses. The newly formed Traffic Safety Section will intensify commercial enforcement to compliment its effective DUI checkpoint program. Civilianization of the Forensics function is planned to free sworn officers for alternative deployment.

Library Department

No organizational or personnel changes are proposed for the Library. Programmatically, emphasis will continue to be placed on business outreach services, early childhood education and family literacy programs. A full menu of cultural, arts and educational programs will once again be available. Special consideration will be given to the Library's collections in African American history and literature, business and Spanish materials. Administrative support such as fax and passport services, along with expanded internet access through wireless "hot spots" will be in place. Assisted by the ITC technicians, the Library will begin inventorying its special collections with the intention of replacing dated and missing materials.

Early in the fiscal year, the Crenshaw-Imperial branch library will become even more inviting as it is made ADA compliant and refurbished with air conditioning and improved lighting, security and more.

Public Works Department

The Fiscal Year 2005/06 Public Works Department budget restores the position of Public Works Director. When the Assistant City Administrator was asked to fulfill this dual role in 2002 it was intended to be an interim appointment until the City's financial position improved and an Engineer could be hired to fill the post. Mr. Givens' contributions to the management and operation of the Department have resulted in numerous improvements and achievements, and we are anxiously awaiting his return to the Administrative Office. The City Transportation Engineer position has been added back into the budget. An HVAC Mechanic was added to the General Services division, while a Public Works Supervisor was deleted from the Sewer Fund. Finally, 3 Community Services Inspectors (CSI) funded through proceeds from the City's waste hauling contract are being added. The Residential Sound Insulation Program (RSIP) is being transferred from Public Works to Community Development, and Facilities Maintenance / Custodial Services is being transferred to the Purchasing Division of the Administrative Office.

The proposed budget includes a total of \$6.2 million for street improvement and reconstruction projects funded by Prop C and MTA monies. It also provides \$400,000 to continue resurfacing local streets, \$350,000 for sidewalk replacement, \$250,000 for alley construction, and \$200,000 for construction and reconstruction of damaged and substandard pedestrian ramps—all in CDBG eligible neighborhoods with the exception of \$100,000 in Gas Tax funding for sidewalk replacement.

Currently, 200 vehicles in the City's fleet have aged beyond useful life expectancy. At a minimum, the Fleet Services Division will replace 1 street sweeper, 10 police cars, 5 dump trucks, 10 pickup trucks, and 20 other service vehicles. Emphasis will be placed on purchasing and operating alternative fuel vehicles wherever possible.

The Department will continue to conduct National Pollutant Discharge Elimination Systems (NPDES) programs, combining public education with rigorous enforcement, to reduce the discharge of pollutants into the storm drain system and protect water quality.

Parks, Recreation and Community Services Department (PRCS)

Parking Enforcement and Code Enforcement functions are being combined and returned to PRCS. Personnel from the Community Development Block Grant (CDBG) Neighborhood Preservation section are being transferred into this section as well. A Property & Zoning Superintendent position is being eliminated and replaced with a Code Enforcement Manager and a Code Enforcement Supervisor to provide greater oversight to this division.

Nearly a million residents and visitors are again expected to visit the City's 11 parks, community facilities, Senior and Veterans Centers, as well as take advantage of scores of program offerings and participate in a full slate of community celebrations. Next year's planned restroom, play court and equipment renovation or replacement projects will follow on the heels of this year's Darby Skate Park debut and Lockhaven Community Center transformation.

Efforts are underway to enact a comprehensive facilities joint use agreement with the Inglewood Unified School District. Finally, work continues in earnest to complete the History of Transportation Mural and Art Park slated for dedication in the Spring, and the recently created Inglewood Centennial Celebration Committee will begin planning for the 100th year anniversary of our Cityhood: February 2008.

IMPROVED POSITION, BETTER OUTLOOK, CAVEATS STILL IN ORDER

In summary, recurring General Fund revenues are expected to rise 3.8% in the coming year compared to the current modified FY 2004/05 budget while expenditures, unencumbered by a pension payment, retreat 3.3% from the FY 2004/05 current modified budget. The projected FY 2005/06 year-end unobligated General Fund balance is higher, and a streamlined workforce is smaller than that in place 3 years ago. Workers' compensation awards are easing and liability costs in the mid-term are expected to recede. Short-term budgetary and long-term debt servicing relief has been achieved through the recent issuance of \$65 million in Pension Obligation Bonds.

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The City is better protected against state seizures of local revenues, and this summer received an early repayment of VLF funds withheld last year. Further relief will follow in FY 2006/07 when the state restores to the City \$1 million in annual revenues diverted in the most recent Educational Revenue Augmentation

(ERAF) shift. After a 2-year hiatus, a much needed \$500,000 in Proposition 42 gas tax funds are once again in route from Sacramento to Inglewood.

City programs and core services are intact and, in many cases, are thriving. Department Highlights included in this transmittal memorandum describe service initiatives that enhance and expand offerings and build on a tradition of customer service. Crime suppression and traffic safety and enforcement programs are producing measurable results. Community and economic development goals, aided by favorable market forces, are being facilitated by a comprehensive General Plan update, citywide environmental impact report, management audit, and strategic plans. Nearly \$50 million in capital improvements are planned for the coming year, and include infrastructure, roadway, parks and facilities repairs and upgrades. Featured will be \$2.64 million in improvements to La Brea Avenue and \$3 million for Century Boulevard, two very important transportation corridors.

Leading, managing and living in a dynamic metropolitan environment invariably presents complex challenges and we have our share. Though state developments have been kind, the situation is not as stable for Federally funded programs in urban and economically disadvantaged areas. Community Development Block Grant monies and other Housing and Urban Development assistance programs to cities and individuals are under attack. Congress has not yet approved specific proposals, but consolidation of programs and new rules regarding obtaining funding are likely at a minimum. Pledges of increased funding from the FAA to enable acceleration of the City's Residential Sound

Insulation Program (RSIP) are gratifying. Nevertheless, RSIP progress is being stalled by LAWA's ill conceived strategies aimed at defusing the City's opposition to expansion without mitigation.

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An aging infrastructure, deferred capital improvements, equipment repair and replacement, full compliance with ADA accommodations,

and keeping pace with emerging technologies are all important issues which must be addressed.

Notwithstanding the City's better financial position, much remains to be accomplished to fully restore our fiscal health and insure long-term prosperity. The City's structural imbalance (deficit) is poised to mushroom from \$2 million in FY 2005/06 to \$5.0 million the following year when pension contributions are due once again. Even the most optimistic development scenarios are unlikely alone to close this gap before the unobligated General Fund balance is exhausted. However, eliminating the General Fund's projected \$1.8 million subsidy of the City's five assessment districts, raising fees where appropriate, outsourcing some services, and maximizing the profits from the City's proven Parking Ticket System are a few strategies that can help meet this goal.

Yes there are problems, and yes there are reasons to celebrate. And yes, our new Budget Officer will adjust to being a neurotic until local government financing stabilizes and our path to growth, development and prosperity is irreversibly set. He will also quickly come to appreciate that Inglewood is an exceptional City enjoying a unique time in its history. A city's budget is a snapshot in time and its portrait may include mixed signals.

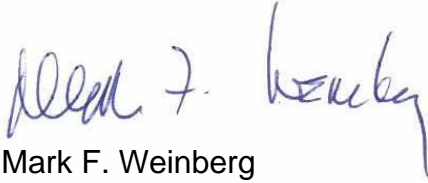
But, Inglewood's beacon shines bright and steady, and its signal is resolute. It will meet the needs of those who need affordable housing, and will gladly cater to those who aspire to luxury living. It will provide safe and aesthetically pleasing neighborhoods, easy-to-navigate streets, and a full bounty of cultural, recreational and learning opportunities. Inglewood will reject unbridled airport expansion and demand mitigation, environmental justice, occupational training and jobs as part of any managed growth option. It will insist that corporate

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America respect governing bodies and protocol, and pay those who work here a living wage. This City, born from oil fields and bean plantings in 1908, will, with the Hollywood Park transformation,

signal its place as one of the most coveted location choices for development in America. And, finally, Inglewood, which has always signaled a deep and abiding appreciation for its faithful civil servants, must work tirelessly to insure their continued service and just compensation.

With the approval of this budget, the Mayor and all Council Members signal their appreciation for the blessings bestowed upon this City and its residents, the formidable challenges that lie ahead, and the unbridled potential that is our destiny. With your leadership, guidance and support, we will build on the City's proud tradition of success.

A handwritten signature in blue ink, appearing to read "Mark F. Weinberg". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Mark F. Weinberg
Administrative Officer