

# REPORT

To the Honorable Mayor and City Council  
From the City Manager

February 5, 2005

## Subject

Council Direction for 2005/2006 General Fund Budget

## Recommendation

1. Revisit Council policy regarding the use of reserves as compared to budget reductions for the 2005/2006 general fund operating budget, 2. Provide direction on format and information needed for June budget hearings, and 3. Confirm budget hearing dates.

## Background

### Council Policy regarding use of reserves

On January 2004 at the Council Budget Study Session, staff presented Council with initial projections regarding the 2004/2005 and 2005/2006 general fund operating budgets. At that time, in order to make up for the initially projected deficit, Council direction was to use 50% of reserves and make 50% in budget reductions for 2004/2005, and to use 33% of reserves and make 67% in budget reductions for 2005/2006.

In June 2004, Redwood City faced a \$9.2 million deficit for fiscal year 2004/2005. During the budget hearings, Council proposed to take \$4.1 million from reserves and make budget reductions in the amount of \$5.1 million, which was projected to yield a fund balance equal to 12% at the end of fiscal year 2006/2007. You will recall, that Council's initial policy is for reserves to be 15% to 20% of anticipated revenues.

Staff has received updated information regarding revenues and has been able to revise the projections for 2005/2006. The current data, allows us to provide more accurate projections than what we were able to provide in January and July of 2004. The revised projections show an additional \$2.8 million in revenues that we have added since July 2004. We are also starting to see indications that the economy is starting to gradually recover. Please see "Assumptions" Attachment which describes the assumptions that have been included in the projections.

Given, the revised projections, staff feels we should revisit the current policy and take a higher percentage from reserves than originally endorsed at the last priority setting session. Therefore, staff is presenting four new possible alternatives (Options B, C, D and E) to Council's current policy (Option A), which are listed below from most conservative to least conservative.

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Option A is Council's original direction to staff, which states that in 2005/2006 we would take 33% of the initially estimated operating deficit from reserves and 67% in budget reductions. For 2006/2007, the direction was to take 0% from reserves and 100% in budget reductions. As presented in January 2004, this scenario projected that the City would have 12% in reserves by the end of 2006/2007.

Option A-Updated also describes Council's current policy, however, with current revenue and expenditure estimates. Moving forward with Option A-Updated is a more conservative approach of any outlined below, and gets rid of the structural deficit the quickest, but causes the deepest budget cuts. Should Council elect to continue with its current policy, we project 20% in reserves by the end of 2007/2008. The risk of Option A-Updated is that we may make cuts much deeper than is necessary.

| <b>*As of Jan 2004</b>          | <b>Option A</b>  |                  |                  |  |
|---------------------------------|------------------|------------------|------------------|--|
| <b>Close deficit by use of:</b> | <b>2005/2006</b> | <b>2006/2007</b> | <b>2007/2008</b> | <b>Projected 12% Reserve at June 2007 <sup>1</sup></b> |
| Reserves                        | 33%              | 0%               | 0%               |  |
| Budget reduction                | 67%              | 100%             | 100%             |  |
|                                 |                  |                  |                  |  |
| % Cut to all depts.             | 5.5%             | 2.66%            | n/a              |  |

| <b>*Updated numbers as of Jan. 2005</b> | <b>Option A-Updated</b> |                  |                  |  |
|---|-------------------------|------------------|------------------|--|
| <b>Close deficit by use of:</b>         | <b>2005/2006</b>        | <b>2006/2007</b> | <b>2007/2008</b> | <b>Projects 20% Reserve at June 2008</b> |
| Reserves                                | 33%                     | 0%               | 0%               |  |
| Budget reduction                        | 67%                     | 100%             | 100%             |  |
|   |                         |                  |                  |  |
| % Cut to all depts.                     | 3.23%                   | 0.32%            | 0.32%            |  |

<sup>1</sup> Projections include three years of projections; therefore, in Jan. 2004 the projections ended with fiscal year 2006/2007.

Option B is the most conservative option of the new possible options, as it takes 50% of the projected operating 2005/2006 deficit from reserves and 50% in budget reductions; 33% from reserves and 67% in budget reductions for 2006/2007, and finally 0% from reserves and 100% in budget reductions for 2007/2008. Option B leaves us with a projected 19% in reserves by the end of 2007/2008.

|                          | Option B  |           |           |                                   |
|--------------------------|-----------|-----------|-----------|-----------------------------------|
| Close deficit by use of: | 2005/2006 | 2006/2007 | 2007/2008 | Projects 19% Reserve at June 2008 |
| Reserves                 | 50%       | 33%       | 0%        |                                   |
| Budget reduction         | 50%       | 67%       | 100%      |                                   |
|                          |           |           |           |                                   |
| % Cut to all depts       | 2.41%     | 0.75%     | 0.68%     |                                   |

Option C involves taking 67% of the projected operating 2005/2006 deficit from reserves and 33% in budget reductions; 50% from reserves and 50% in budget reductions for 2006/2007, and finally 33% from reserves and 67% in budget reductions for 2007/2008. This option leaves us with an anticipated 17% in reserves by the end of 2007/2008.

|                          | Option C  |           |           |                                   |
|--------------------------|-----------|-----------|-----------|-----------------------------------|
| Close deficit by use of: | 2005/2006 | 2006/2007 | 2007/2008 | Projects 17% Reserve at June 2008 |
| Reserves                 | 67%       | 50%       | 33%       |                                   |
| Budget reduction         | 33%       | 50%       | 67%       |                                   |
|                          |           |           |           |                                   |
| % Cut to all depts       | 1.64%     | 0.93%     | 0.82%     |                                   |

Option D is less conservative of the two new possible options described above (Option B and C), however, it is still more conservative than Council's policy adopted in Jan. 2004. Council's original policy left us with forecasted reserves of 12%, while this option will leave us with a projected 15% reserve. With this option we would take 75% from reserves and make 25% in budget reductions in 2005/2006 and 2006/2007. In 2007/2008, we would take 67% from reserves and 33% in budget reductions.

|                          | Option D  |           |           |                                   |
|--------------------------|-----------|-----------|-----------|-----------------------------------|
| Close deficit by use of: | 2005/2006 | 2006/2007 | 2007/2008 | Projects 15% Reserve at June 2008 |
| Reserves                 | 75%       | 75%       | 67%       |                                   |
| Budget reduction         | 25%       | 25%       | 33%       |                                   |
|                          |           |           |           |                                   |
| % Cut to all depts       | 1.21%     | 0.57%     | 0.67%     |                                   |

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Option E is the least conservative of the four new possible options. This option involves taking 90% from reserves for each of the next three fiscal years, and 10% in budget reductions. Under this option, we project 12% reserves on June 2008. In the details of Option E, you can see that at the end of fiscal year 2007/2008, we still have a \$1.9 million operating deficit and will run out of reserves before we can grow our way out. For this reason, staff is not recommending Option E.

| Close deficit by use of: | Option E  |           |           | Leaves 12% Reserve at June 2008 |
|--------------------------|-----------|-----------|-----------|---------------------------------|
|                          | 2005/2006 | 2006/2007 | 2007/2008 |                                 |
| Reserves                 | 90%       | 90%       | 90%       |                                 |
| Budget reduction         | 10%       | 10%       | 10%       |                                 |
|                          |           |           |           |                                 |
| % Cut to all depts       | 0.48%     | 0.29%     | 0.29%     |                                 |

In reviewing the options described above, Council may want to consider the following points in determining a revised Council direction for the amount of reserves to be used as compared to budget reductions:

- How optimistic do you feel that Redwood City will “grow” itself out of the budget deficit?
- Do we need to have a balanced budget by 2007/2008, even if you have reason to believe revenues and expenditures will be in line by 2008/2009?
- Given the assumptions about excess ERAF rebates from the County and software sales tax revenues, what level of risk do you have in deciding your policy if either or both of these revenues go away?

Staff does not believe that Redwood City can completely grow out of this deficit without further budget reductions. We will run out of reserves before we can grow our way out. Therefore, the question is what balance of reserves and budget reductions make Council comfortable.

From a public policy standpoint, staff recommends that Council adopt a policy that will put us in the range of Option C.

### **Format and information need for Budget Hearings**

Fiscal year 2005/2006 is the second year of our two-year budget, therefore, staff will prepare the 2005/2006 proposed budget by exception, showing recommended reductions/changes to the budget that were approved in June 2004. As requested, staff will also provide a variety of alternative reductions should Council elect to add back a proposed reduction.

At this time, we also ask that Council advise staff of any additional documentation or information you would like to see as part of the proposed budget document or be presented at the budget hearings.


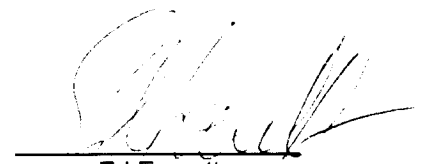
**Budget Hearing dates**

Soon after this meeting, staff will begin to prepare the 2005/2006 proposed budget. As part of that process, a budget calendar must be established. Therefore, staff proposes the following three dates for the budget hearings. We expect to complete the budget presentation in two sessions, so the third date may not be necessary.

Monday, June 20,  
Monday, June 27, and  
Wednesday, June 30, 2005

**Alternatives**

Staff would ask that Council update its policy regarding the use of reserves. Council may also elect to modify the proposed budget hearing dates.

  
\_\_\_\_\_  
Magda Gonzalez  
Assistant City Manager  
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Brian Ponty  
Finance Director  
\_\_\_\_\_  
Ed Everett  
City Manager**Attachments**

1. Assumptions
2. Five Year General Fund Projections
3. Option A
4. Option A-Updated
5. Option B
6. Option C
7. Option D
8. Option E

5. B-C-D. 6

## Projected FY2005/06 and FY2006/07 General Fund Budgets

### Assumptions Relied Upon By Staff

- Sales tax revenue:
  - 3% to 4% annual growth.
  - The retail/cinema project opens in January 2006.
  - Century 12 site generating sales tax in FY2006/07.
  - No further losses from electronically delivered software.
- Property tax revenue increases 4% to 5% annually.
- "Excess ERAF" rebates continue at \$1 million annually.
- No increases in supplies and services budgets in FY2005/06 and FY2006/07 with a 2% increase in FY2006/07.
- Each bargaining unit will forego one or two years of a salary increase.
  - The three non-safety employee groups will have each given up two years of annual salary increases.
  - Foregoing at least one year of salary increases is assumed for the safety employee groups.
- No increases in staffing levels except for those associated with the opening of the Redwood Shores Branch Library in FY2007/08.
- The only other increases in salary and benefits costs will be due to increases required under labor agreements (e.g. negotiated salary increases, retirement costs, and health benefits).
- The revenue estimates presented today are **very preliminary and will change** before the FY2005/06 budget is presented to Council in June 2005.

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5.00% annual increase in employee costs

GENERAL FUND - FIVE YEAR PROJECTION 2004-05 THROUGH 2008-09 (in '000s)

|  | 1998-99       | 1999-2000     | 2000-01       | 2001-02        | 2002-03       | 2003-04       | 2004-05       | 2005-06       | 2006-07       | 2007-08       | 2008-09       |
|--|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | ACTUAL        | ACTUAL        | ACTUAL        | ACTUAL         | ACTUAL        | ACTUAL        | ESTIMATE      | ESTIMATE      | ESTIMATE      | ESTIMATE      | ESTIMATE      |
| <b>REVENUES</b>  |               |               |               |                |               |               |               |               |               |               |               |
| Property Taxes   | 12,423        | 13,947        | 15,404        | 18,674         | 18,975        | 20,436        | 21,186        | 21,402        | 22,472        | 23,596        | 24,776        |
| Sales Tax  | 15,333        | 18,254        | 20,842        | 14,938         | 15,090        | 15,745        | 16,421        | 17,093        | 18,323        | 19,056        | 19,818        |
| Other Taxes  | 4,502         | 5,076         | 5,221         | 4,272          | 4,322         | 4,922         | 5,325         | 5,224         | 5,433         | 5,651         | 5,871         |
| Licenses and Permits   | 1,669         | 1,659         | 2,546         | 1,107          | 871           | 960           | 1,442         | 1,117         | 817           | 817           | 1,117         |
| Fines and Forfeitures  | 266           | 244           | 320           | 441            | 591           | 582           | 706           | 706           | 706           | 706           | 706           |
| Interest Earnings/Rentals  | 1,625         | 2,231         | 2,958         | 2,860          | 2,021         | 1,466         | 1,288         | 1,207         | 1,170         | 1,170         | 1,170         |
| Revenue from Other Agencies  | 5,051         | 6,277         | 7,625         | 7,394          | 7,329         | 6,406         | 5,811         | 5,776         | 7,478         | 7,740         | 8,011         |
| Charges for Services   | 3,351         | 3,960         | 4,466         | 4,044          | 4,168         | 3,930         | 4,065         | 3,977         | 4,027         | 4,100         | 4,338         |
| Other Revenues   | 6,868         | 4,670         | 4,696         | 4,722          | 5,461         | 5,588         | 5,998         | 6,209         | 6,426         | 6,651         | 6,884         |
| Library  | 918           | 1,048         | 1,004         | 1,049          | 1,097         | 809           | 551           | 550           | 569           | 589           | 610           |
| Recreation Revenues  | 791           | 1,128         | 1,119         | 1,185          | 1,373         | 1,583         | 1,558         | 1,572         | 1,627         | 1,694         | 1,743         |
| <b>Total Revenues</b>  | <b>52,797</b> | <b>58,494</b> | <b>66,201</b> | <b>60,686</b>  | <b>61,298</b> | <b>62,428</b> | <b>64,351</b> | <b>64,834</b> | <b>69,049</b> | <b>71,759</b> | <b>75,049</b> |
| Transfers-In:  |               |               |               |                |               |               |               |               |               |               |               |
| Others   | 345           | 545           | 670           | 731            | 936           | 652           | 244           | 213           | 213           | 213           | 213           |
| Sandpiper Community Center   | 131           | 138           | 148           | 156            | 163           | 173           | 182           | 193           | 204           | 215           | 228           |
| GID 1-64 Maintenance District  | 200           | 200           | 70            | 150            | 64            | 140           | 150           | 155           | 155           | 155           | 155           |
| <b>Total revenues and transfers-in</b>   | <b>53,473</b> | <b>59,377</b> | <b>67,089</b> | <b>61,723</b>  | <b>62,461</b> | <b>63,393</b> | <b>64,927</b> | <b>65,395</b> | <b>69,621</b> | <b>72,342</b> | <b>75,645</b> |
| <b>EXPENDITURES</b>  |               |               |               |                |               |               |               |               |               |               |               |
| City Council   | 149           | 160           | 176           | 192            | 215           | 208           | 204           | 220           | 242           | 246           | 249           |
| City Manager   | 709           | 790           | 837           | 945            | 960           | 975           | 956           | 980           | 1,048         | 1,086         | 1,126         |
| City Attorney  | 398           | 397           | 400           | 504            | 654           | 626           | 612           | 644           | 695           | 720           | 746           |
| City Clerk   | 313           | 353           | 380           | 428            | 465           | 477           | 474           | 504           | 545           | 565           | 585           |
| Human Resources  | 1,027         | 1,010         | 1,071         | 1,289          | 1,330         | 1,344         | 1,225         | 1,288         | 1,365         | 1,412         | 1,461         |
| Finance  | 2,170         | 2,040         | 2,406         | 1,841          | 2,789         | 2,830         | 3,171         | 3,243         | 3,350         | 3,442         | 3,537         |
| Police   | 14,665        | 15,206        | 16,681        | 17,260         | 19,187        | 20,567        | 23,470        | 24,122        | 25,128        | 26,063        | 27,033        |
| Fire   | 9,423         | 9,420         | 9,821         | 10,319         | 11,808        | 12,420        | 13,814        | 14,373        | 14,858        | 15,424        | 16,012        |
| Community Development Services   | 3,574         | 3,994         | 4,732         | 4,818          | 5,210         | 4,580         | 4,678         | 4,930         | 5,257         | 5,441         | 5,631         |
| Parks & Recreation   | 7,173         | 8,096         | 9,094         | 10,333         | 11,240        | 10,743        | 10,387        | 10,805        | 11,379        | 11,771        | 12,176        |
| Library  | 4,685         | 4,920         | 5,293         | 5,681          | 6,179         | 5,949         | 5,147         | 5,443         | 5,829         | 6,389         | 6,621         |
| Public Works Services  | 634           | 766           | 1,247         | 1,206          | 1,228         | 1,178         | 1,136         | 1,169         | 1,203         | 1,239         | 1,277         |
| Budget Adjustments   | 0             | 0             | 0             | 0              | 0             | 0             | -131          | -131          | 0             | 0             | 0             |
| <b>Total Expenditures</b>  | <b>44,920</b> | <b>47,152</b> | <b>52,138</b> | <b>54,816</b>  | <b>61,265</b> | <b>61,897</b> | <b>65,143</b> | <b>67,590</b> | <b>70,899</b> | <b>73,797</b> | <b>76,454</b> |
| Transfers-Out  | 8,288         | 5,924         | 6,108         | 14,678         | 2,069         | 1,166         | 1,092         | 1,121         | 1,169         | 1,225         | 1,284         |
| <b>Total expenditures and transfers-out</b>                                      | <b>53,208</b> | <b>53,076</b> | <b>58,246</b> | <b>69,494</b>  | <b>63,334</b> | <b>63,063</b> | <b>66,235</b> | <b>68,711</b> | <b>72,068</b> | <b>75,022</b> | <b>77,738</b> |
| <b>Net surplus (deficit)</b>   | <b>265</b>    | <b>6,301</b>  | <b>8,843</b>  | <b>-7,771</b>  | <b>-873</b>   | <b>330</b>    | <b>-1,308</b> | <b>-3,316</b> | <b>-2,448</b> | <b>-2,680</b> | <b>-2,094</b> |
| Net surplus (deficit) as a percentage of general fund revenues and transfers-in: | <b>0.50%</b>  | <b>10.61%</b> | <b>13.18%</b> | <b>-12.59%</b> | <b>-1.40%</b> | <b>0.52%</b>  | <b>-2.02%</b> | <b>-5.07%</b> | <b>-3.52%</b> | <b>-3.70%</b> | <b>-2.77%</b> |
| Detail of transfers-out:   |               |               |               |                |               |               |               |               |               |               |               |
| gas tax operations   | 237           | 40            | 4             | 0              | 0             | 0             | 0             | 0             | 2             | 10            | 18            |
| gas tax construction   | 245           | 1,133         | 368           | 982            | 0             | 21            | 0             | 0             | 0             | 0             | 0             |
| traffic safety   | 830           | 770           | 778           | 1,045          | 1,087         | 1,010         | 962           | 985           | 1,025         | 1,068         | 1,112         |
| capital projects   | 3,582         | 3,415         | 4,300         | 10,775         | 851           | 0             | 0             | 0             | 0             | 0             | 0             |
| others   | 3,394         | 566           | 658           | 1,876          | 131           | 135           | 130           | 136           | 142           | 148           | 153           |
| <b>TOTAL</b>   | <b>8,288</b>  | <b>5,924</b>  | <b>6,108</b>  | <b>14,678</b>  | <b>2,069</b>  | <b>1,166</b>  | <b>1,092</b>  | <b>1,121</b>  | <b>1,169</b>  | <b>1,225</b>  | <b>1,284</b>  |

5. B-C-D. 8

**Projection as of January 2004 - Option "A"**

|   | 2003-04  | 2004-05  | 2005-06  | 2006-07  |
|---|----------|----------|----------|----------|
| <b>Total Revenues</b>                     | 62,007   | 62,591   | 64,527   | 67,745   |
| <b>Total Expenditures</b>                 | (64,150) | (70,610) | (74,899) | (78,061) |
| <b>Adjustments:</b>                       |          |          |          |          |
| Revenues:                                 |          | 1,000    | 1,000    | 1,000    |
| State takeaways                           | (635)    |          |          |          |
| Prior year reductions                     |          |          | 3,510    | 7,437    |
| "Initial" Deficit                         | (2,778)  | (7,019)  | (5,863)  | (1,879)  |
| Deficit - % of expenditures               | -4.33%   | -9.94%   | -8.21%   | -2.66%   |
| Deficit - % of revenues                   | -4.48%   | -11.21%  | -9.09%   | -2.77%   |
| Percentage of deficit covered by reserves |          | 50.00%   | 33.00%   | 0.00%    |
| Expenditure reductions \$                 |          | (3,510)  | (3,928)  | (1,879)  |
| (Use)/addition of/to reserves \$          | (2,778)  | (3,510)  | (1,935)  | 0        |

**Reserve Analysis**

|               |        |         |
|---------------|--------|---------|
| July 1, 2003  |        | 16,917  |
| drawdown      |        | (2,778) |
| June 30, 2004 | 22.80% | 14,139  |
| July 1, 2004  |        | 14,139  |
| drawdown      |        | (3,510) |
| June 30, 2005 | 16.72% | 10,630  |
| July 1, 2005  |        | 10,630  |
| drawdown      |        | (1,935) |
| June 30, 2006 | 13.27% | 8,695   |
| July 1, 2006  |        | 8,695   |
| drawdown      |        | 0       |
| June 30, 2007 | 12.65% | 8,695   |

| <b>Reductions as a Percentage of Expenditures:</b> | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|
| "across the board"                                 | 4.97%   | 5.50%   | 2.66%   |
| "no cuts to public safety"                         | 9.94%   | 11.00%  | 5.32%   |

## Projection as of January 2005 - Option "A-Updated"

|   | 2004-05  | 2005-06  | 2006-07* | 2007-08  |
|---|----------|----------|----------|----------|
| <b>Total Revenues</b>                     | 64,927   | 65,395   | 69,621   | 72,342   |
| <b>Total Expenditures</b>                 | (66,235) | (68,711) | (72,068) | (75,022) |
| <b>Adjustments:</b>                       |          |          |          |          |
| Revenues:                                 |          | 0        | 0        | 0        |
| Prior year reductions                     |          |          | 2,222    | 2,447    |
| "Initial" Deficit                         | (1,308)  | (3,316)  | (225)    | (233)    |
| Deficit - % of expenditures               | -1.97%   | -4.83%   | -0.32%   | -0.32%   |
| Deficit - % of revenues                   | -2.01%   | -5.07%   | -0.32%   | -0.32%   |
| Percentage of deficit covered by reserves |          | 33.00%   | 0.00%    | 0.00%    |
| Expenditure reductions \$                 |          | (2,222)  | (225)    | (233)    |
| (Use)/addition of/to reserves \$          | (1,308)  | (1,094)  | 0        | 0        |

## Reserve Analysis

|               |        |         |
|---------------|--------|---------|
| July 1, 2004  |        | 16,948  |
| drawdown      |        | (1,308) |
| June 30, 2005 | 24.09% | 15,640  |
| July 1, 2005  |        | 15,640  |
| drawdown      |        | (1,094) |
| June 30, 2006 | 22.24% | 14,546  |
| July 1, 2006  |        | 14,546  |
| drawdown      |        | 0       |
| June 30, 2007 | 20.89% | 14,546  |
| July 1, 2007  |        | 14,546  |
| drawdown      |        | 0       |
| June 30, 2008 | 20.11% | 14,546  |

|  | 2005-06 | 2006-07* | 2007-08 |
|--|---------|----------|---------|
| <b>Reductions as a Percentage of Expenditures:</b> |         |          |         |
| "across the board"                                 | 3.23%   | 0.32%    | 0.32%   |
| "no cuts to public safety"                         | 7.52%   | 0.75%    | 0.75%   |

\* FY06/07 revenues does not include the State's promise to make a one-time only payment of \$1.3 million for FY03/04 VLF revenues

5.B-C-D.10

**Projection as of January 2005 - Option "B"**

|   | 2004-05  | 2005-06  | 2006-07* | 2007-08  |
|---|----------|----------|----------|----------|
| <b>Total Revenues</b>                     | 64,927   | 65,395   | 69,621   | 72,342   |
| <b>Total Expenditures</b>                 | (66,235) | (68,711) | (72,068) | (75,022) |
| <b>Adjustments:</b>                       |          |          |          |          |
| Revenues:                                 |          | 0        | 0        | 0        |
| Prior year reductions                     |          |          | 1,658    | 2,187    |
| "Initial" Deficit                         | (1,308)  | (3,316)  | (789)    | (493)    |
| Deficit - % of expenditures               | -1.97%   | -4.83%   | -1.12%   | -0.68%   |
| Deficit - % of revenues                   | -2.01%   | -5.07%   | -1.13%   | -0.68%   |
| Percentage of deficit covered by reserves |          | 50.00%   | 33.00%   | 0.00%    |
| Expenditure reductions \$                 |          | (1,658)  | (529)    | (493)    |
| (Use)/addition of/to reserves \$          | (1,308)  | (1,658)  | (260)    | 0        |

**Reserve Analysis**

|               |        |         |
|---------------|--------|---------|
| July 1, 2004  |        | 16,948  |
| drawdown      |        | (1,308) |
| June 30, 2005 | 24.09% | 15,640  |
| July 1, 2005  |        | 15,640  |
| drawdown      |        | (1,658) |
| June 30, 2006 | 21.38% | 13,982  |
| July 1, 2006  |        | 13,982  |
| drawdown      |        | (260)   |
| June 30, 2007 | 19.71% | 13,722  |
| July 1, 2007  |        | 13,722  |
| drawdown      |        | 0       |
| June 30, 2008 | 18.97% | 13,722  |

|  | 2005-06 | 2006-07* | 2007-08 |
|--|---------|----------|---------|
| <b>Reductions as a Percentage of Expenditures:</b> |         |          |         |
| "across the board"                                 | 2.41%   | 0.75%    | 0.68%   |
| "no cuts to public safety"                         | 5.61%   | 1.75%    | 1.58%   |

\* FY06/07 revenues does not include the State's promise to make a one-time only payment of \$1.3 million for FY03/04 VLF revenues

## Projection as of January 2005 - Option "C"

|   | 2004-05  | 2005-06  | 2006-07* | 2007-08  |
|---|----------|----------|----------|----------|
| <b>Total Revenues</b>                     | 64,927   | 65,395   | 69,621   | 72,342   |
| <b>Total Expenditures</b>                 | (66,235) | (68,711) | (72,068) | (75,022) |
| <b>Adjustments:</b>                       |          |          |          |          |
| Revenues:                                 |          | 0        | 0        | 0        |
| Prior year reductions                     |          |          | 1,127    | 1,787    |
| "Initial" Deficit                         | (1,308)  | (3,316)  | (1,320)  | (893)    |
| Deficit - % of expenditures               | -1.97%   | -4.83%   | -1.86%   | -1.22%   |
| Deficit - % of revenues                   | -2.01%   | -5.07%   | -1.90%   | -1.23%   |
| Percentage of deficit covered by reserves |          | 66.00%   | 50.00%   | 33.00%   |
| Expenditure reductions \$                 |          | (1,127)  | (660)    | (598)    |
| (Use)/addition of/to reserves \$          | (1,308)  | (2,189)  | (660)    | (295)    |

## Reserve Analysis

|               |        |         |
|---------------|--------|---------|
| July 1, 2004  |        | 16,948  |
| drawdown      |        | (1,308) |
| June 30, 2005 | 24.09% | 15,640  |
| July 1, 2005  |        | 15,640  |
| drawdown      |        | (2,189) |
| June 30, 2006 | 20.57% | 13,451  |
| July 1, 2006  |        | 13,451  |
| drawdown      |        | (660)   |
| June 30, 2007 | 18.37% | 12,792  |
| July 1, 2007  |        | 12,792  |
| drawdown      |        | (295)   |
| June 30, 2008 | 17.27% | 12,497  |

|  | 2005-06 | 2006-07* | 2007-08 |
|--|---------|----------|---------|
| <b>Reductions as a Percentage of Expenditures:</b> |         |          |         |
| "across the board"                                 | 1.64%   | 0.93%    | 0.82%   |
| "no cuts to public safety"                         | 3.82%   | 2.16%    | 1.90%   |

\* FY06/07 revenues does not include the State's promise to make a one-time only payment of \$1.3 million for FY03/04 VLF revenues

5.B-C-D.12

**Projection as of January 2005 - Option "D"**

|   | 2004-05  | 2005-06  | 2006-07* | 2007-08  |
|---|----------|----------|----------|----------|
| <b>Total Revenues</b>                     | 64,927   | 65,395   | 69,621   | 72,342   |
| <b>Total Expenditures</b>                 | (66,235) | (68,711) | (72,068) | (75,022) |
| <b>Adjustments:</b>                       |          |          |          |          |
| Revenues:                                 |          | 0        | 0        | 0        |
| Prior year reductions                     |          |          | 829      | 1,234    |
| "Initial" Deficit                         | (1,308)  | (3,316)  | (1,618)  | (1,447)  |
| Deficit - % of expenditures               | -1.97%   | -4.83%   | -2.27%   | -1.96%   |
| Deficit - % of revenues                   | -2.01%   | -5.07%   | -2.32%   | -2.00%   |
| Percentage of deficit covered by reserves |          | 75.00%   | 75.00%   | 66.00%   |
| Expenditure reductions \$                 |          | (829)    | (405)    | (492)    |
| (Use)/addition of/to reserves \$          | (1,308)  | (2,487)  | (1,214)  | (955)    |

**Reserve Analysis**

|               |        |         |
|---------------|--------|---------|
| July 1, 2004  |        | 16,948  |
| drawdown      |        | (1,308) |
| June 30, 2005 | 24.09% | 15,640  |
| July 1, 2005  |        | 15,640  |
| drawdown      |        | (2,487) |
| June 30, 2006 | 20.11% | 13,153  |
| July 1, 2006  |        | 13,153  |
| drawdown      |        | (1,214) |
| June 30, 2007 | 17.15% | 11,940  |
| July 1, 2007  |        | 11,940  |
| drawdown      |        | (955)   |
| June 30, 2008 | 15.18% | 10,985  |

|  | 2005-06 | 2006-07* | 2007-08 |
|--|---------|----------|---------|
| <b>Reductions as a Percentage of Expenditures:</b> |         |          |         |
| "across the board"                                 | 1.21%   | 0.57%    | 0.67%   |
| "no cuts to public safety"                         | 2.81%   | 1.32%    | 1.55%   |

\* FY06/07 revenues does not include the State's promise to make a one-time only payment of \$1.3 million for FY03/04 VLF revenues

## Projection as of January 2005 - Option "E"

|   | 2004-05  | 2005-06  | 2006-07* | 2007-08  |
|---|----------|----------|----------|----------|
| <b>Total Revenues</b>                     | 64,927   | 65,395   | 69,621   | 72,342   |
| <b>Total Expenditures</b>                 | (66,235) | (68,711) | (72,068) | (75,022) |
| <b>Adjustments:</b>                       |          |          |          |          |
| Revenues:                                 |          | 0        | 0        | 0        |
| Prior year reductions                     |          |          | 332      | 543      |
| "Initial" Deficit                         | (1,308)  | (3,316)  | (2,115)  | (2,137)  |
| Deficit - % of expenditures               | -1.97%   | -4.83%   | -2.95%   | -2.87%   |
| Deficit - % of revenues                   | -2.01%   | -5.07%   | -3.04%   | -2.95%   |
| Percentage of deficit covered by reserves |          | 90.00%   | 90.00%   | 90.00%   |
| Expenditure reductions \$                 |          | (332)    | (212)    | (214)    |
| (Use)/addition of/to reserves \$          | (1,308)  | (2,984)  | (1,904)  | (1,923)  |

## Reserve Analysis

|               |        |         |
|---------------|--------|---------|
| July 1, 2004  |        | 16,948  |
| drawdown      |        | (1,308) |
| June 30, 2005 | 24.09% | 15,640  |
| July 1, 2005  |        | 15,640  |
| drawdown      |        | (2,984) |
| June 30, 2006 | 19.35% | 12,656  |
| July 1, 2006  |        | 12,656  |
| drawdown      |        | (1,904) |
| June 30, 2007 | 15.44% | 10,752  |
| July 1, 2007  |        | 10,752  |
| drawdown      |        | (1,923) |
| June 30, 2008 | 12.20% | 8,829   |

|  | 2005-06 | 2006-07* | 2007-08 |
|--|---------|----------|---------|
| <b>Reductions as a Percentage of Expenditures:</b> |         |          |         |
| "across the board"                                 | 0.48%   | 0.29%    | 0.29%   |
| "no cuts to public safety"                         | 1.12%   | 0.69%    | 0.67%   |

\* FY06/07 revenues does not include the State's promise to make a one-time only payment of \$1.3 million for FY03/04 VLF revenues