



BUDGET MESSAGE

City Administrator's Budget Message

INTRODUCTION

I am pleased to present the adopted budget for fiscal year 2014 and a financial plan for fiscal year 2015. The adopted budget for the General Fund, the primary operating fund of the City, is balanced for fiscal year 2014 and has a small projected surplus in fiscal year 2015. This improved financial situation is a reflection of both the improved economy and continued close attention to controlling expenses.



Over the past five years, the national recession has severely affected local governments in California. This situation has been amplified by the State of California's severe financial distress and the rising costs of retirement and post retirement benefits. As a result, two large California cities have declared bankruptcy, and other major cities face huge deficits.

The City of Santa Barbara faced the same impacts as other agencies in the State. However, we managed to maintain the City's financial stability due to the implementation of several cost-cutting measures starting in fiscal year 2009. These measures included a combination of staff reductions, employee concessions, and operational efficiencies. As a result, we achieved annual savings of approximately \$10 million, representing ten percent of the General Fund operating budget. This early response proved critical in avoiding more severe cuts to the organization and services, and avoided the use of General Fund reserves. In each of the last four years, during the worst part of the recession, the General Fund ended the year with a small surplus, restoring critical reserve balances.

The City's rebound is also attributable to the economic recovery, which prompted strong growth in key General Fund revenues. For example, Transient Occupancy Taxes have increased by 15% over the past two years. This key revenue source has now fully recovered from the declines seen in the depth of the recession. Retail sales taxes also had healthy growth, and we expect this critical revenue source to be back to 2008 levels by the end of fiscal year 2013.

Although Santa Barbara has weathered the storm better than most agencies, we face significant challenges ahead. One of these challenges is maintaining the City's infrastructure. The City owns assets valued at over \$1 billion, requiring a significant investment each year just to maintain them at current conditions. Over the last 30 years, the community benefitted



BUDGET MESSAGE

City Administrator's Budget Message

from the Redevelopment Agency (RDA), which provided funding that was essential to the huge success of our downtown shopping areas. The RDA also provided funding for several large capital improvements, such as the restoration of the Fire Headquarters and the Carrillo Recreation Center. Unfortunately, the State dissolved the RDA in 2012 as a part of its actions to solve the State's financial crisis. The RDA was originally scheduled to expire in 2015, and its premature elimination resulted in the loss of over \$40 million slated for infrastructure projects.

Another challenge ahead is dealing with the increasing costs of retirement benefits provided to City employees. This situation was caused by large investment losses incurred by the California Public Employees Retirement System (CalPERS) in 2008 and benefit enhancements granted thirteen years ago when CalPERS was nearly fully funded. New State Legislation will reduce the benefits for new employees hired after December 31, 2012, and will result in long-term savings. However, we expect costs to rise significantly over the next five years in order to fund the benefits granted to employees hired before the State reforms went into effect.

The continued growth in General Fund revenues may allow the restoration of certain services cut during the recession. However, labor and benefit costs will continue to put pressure on the General Fund's overall financial condition. It is critical that we control these costs in order to restore important services.

In addition to the services provided through the General Fund, the City has a number of other operations that provide important services to the community. The City's enterprise funds include the Water, Wastewater, Airport, Solid Waste, Downtown Parking, Waterfront, and Golf Funds. Only one enterprise fund – the Golf Fund – was impacted significantly by the recession. The remaining enterprise funds are in good financial condition and their reserve levels are at or above City policy requirements.

FINANCIAL HIGHLIGHTS

Summary of Adopted Budget by Fund Type

The fiscal year 2014 adopted budget is comprised of all City funds, including the General Fund, special revenue funds, enterprise funds and internal service funds. Each fund accounts for distinct and uniquely funded operations. The adopted budget includes a total combined operating budget of \$264.8 million and a combined capital budget totaling \$40.1 million.

The General Fund, the largest individual fund in the City, is comprised of six operating and three administrative departments. The adopted General Fund operating budget totals \$110.9



BUDGET MESSAGE

City Administrator's Budget Message

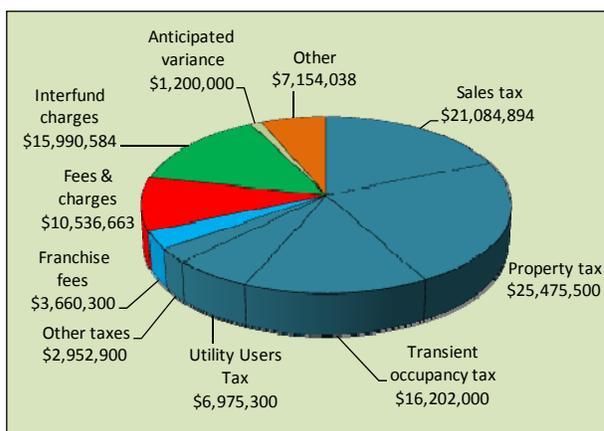
million and includes an additional \$1,295,000 for capital expenditures. The General Fund is balanced in fiscal year 2014, and has a projected a surplus of \$210,951 in fiscal year 2015.

Special revenue funds account for revenues restricted by ordinance, contract or state statute. This category includes the Transportation Sales Tax Fund, which accounts for the receipt and use of the ½-cent sales tax approved by voters in 2010 (Measure A), and is restricted to streets maintenance and improvements. Special revenue funds have a combined adopted operating budget of \$27.8 million and a combined capital budget of \$6.4 million.

Enterprise funds, on a combined basis, make up approximately 40% of the total City operating budget. They consist of seven distinct operations funded from user fees and charges. Enterprise operations function much like private sector businesses. They generally require a significant investment in plant, equipment, and infrastructure to deliver services and they receive funding primarily from user fees and charges. Their operating budgets total \$107.2 million, and have an adopted capital budget of \$26.7 million.

Internal service funds provide services exclusively to other City operations, including building maintenance, information systems, vehicle maintenance and replacement, and insurance. All funding for the internal service funds is derived from charges to City operating departments. Their adopted budget includes an operating budget of approximately \$18.8 million and a \$5.8 million capital program budget.

General Fund Revenues



As reflected in the blue-green slices in the accompanying pie chart, the General Fund's largest source of revenues is derived from taxes. This is typical of cities in California where taxes pay for services that have a general benefit to the community, such as public safety, library and recreation services. The balance of revenues includes franchise fees, fees & charges, and inter-fund charges.

The largest tax revenues are property taxes, sales taxes, transient occupancy taxes, and utility users' taxes, making up \$69.7 million (63%) of General Fund revenues totaling \$111.2 million.

Property tax revenues in fiscal year 2013 are expected to reach \$25 million, a 2.9% increase over the prior year. A large portion of the 2.9% increase is due to a reduction in property tax



BUDGET MESSAGE

City Administrator's Budget Message

administration fees charged by the County due to a recent court decision. Otherwise, property taxes would have grown by less than 1%. The projections for the next two years assume a growth rate of 2%, reflecting the recent increase in real estate sales and values.

Sales tax revenues are projected to end fiscal year 2013 at slightly over \$20 million, 4.5% higher than the prior year. This follows growth rates of 8.8% and 5.2% in fiscal years 2011 and 2010, respectively. For both fiscal years 2014 and 2015, we are projecting a growth rate of 3.5%.

We expect to receive \$14.7 million in **TOT revenues** in fiscal year 2013, a growth rate of 6.7%. This follows growth rates of 8.7% and 9.7% in the prior two years. In fiscal year 2014, the 10.2% projected growth rate factors in the re-opening of the El Encanto Hotel in March 2013. Excluding the El Encanto Hotel, the growth rate assumed in both 2014 and 2015 is 5%.

CITY OF SANTA BARBARA						
Summary of Key General Fund Revenue Estimates (and Growth Assumptions)						
	FY 2013	Est.	FY 2014	Est.	FY 2015	Est.
	Projected	Growth	Adopted	Growth	Proposed	Growth
		%		%		%
Property Tax	\$ 25,000,784	2.9%	\$ 25,475,500	1.9%	\$ 25,972,900	2.0%
Sales Tax (Excl. Prop 172)	20,019,200	4.5%	20,720,000	3.5%	21,450,000	3.5%
Transient Occupancy Tax	14,706,700	6.7%	16,202,000	10.2%	17,013,000	5.0%
Utility Users Tax	6,838,530	0.1%	6,975,300	2.0%	7,115,000	2.0%
	<u>\$ 66,565,214</u>		<u>\$ 69,372,800</u>		<u>\$ 71,550,900</u>	

Utility users' tax (UUT) revenues for fiscal year 2013 are projected to total \$6.8 million. These monies are received from a 6% tax on utilities (water, natural gas, and electricity) and a 5.75% tax on telecommunications services (cable TV, landline, and cellular telephone, and voice over internet) provided within the City. UUT revenues are affected by numerous factors including energy prices, weather, and changes in communications technology. In the last two years, UUT revenues have seen little growth. The fiscal year 2014 and 2015 estimates assume a continuance of this trend.



BUDGET MESSAGE

City Administrator's Budget Message

Use of Small General Fund Surpluses to Enhance Services

The recommended General Fund budget filed in April included small surpluses for fiscal years 2014 and 2015. During budget deliberations in June, the City Council decided to use the surpluses to fund needed service enhancements. Above is a summary of the service enhancements funded by the proposed surpluses. With these enhancements, the adopted General Fund budget is balanced in fiscal year 2014 and reflects a small surplus of \$210,951 in fiscal year 2015.

CITY OF SANTA BARBARA General Fund Service Enhancements		
	FY 2014 Adopted	FY 2015 Proposed
Community Development Department		
Zoning Enforcement Hourly Help	\$ 15,000	\$ 15,000
City Arts Advisory Program	10,000	20,000
Community Promotions/General Government		
Round Up Community Promotions Funding	1,317	1,317
Visitor Information Center Funding	5,478	5,478
Restoration of the Courthouse Mural Room	10,000	-
Library Department		
Full-time Librarian II (Reference & Youth Services)	57,163	62,146
Expanded Collection Budget	43,000	45,000
Parks & Recreation Department		
Expanded Park Maintenance Services	115,000	115,000
Recreation Hourly Staff	20,000	20,000
Youth Job Apprentice Program	25,000	25,000
Police Department		
Police Officer (Motorized Foot Patrol)	145,000	130,849
Total General Fund Service Enhancements	\$ 446,958	\$ 439,790

One-Time Revenues and Use of Redevelopment Bond Proceeds

During fiscal year 2013, we expect the City's General Fund will receive an estimated \$3,997,771 in one-time funds from three separate sources as follows:

- \$570,000 from its fidelity bond insurer for the theft of parking violation monies between 2004 and 2011;
- \$1,130,771 from the County of Santa Barbara as reimbursement of property tax administration fees overcharged from fiscal year 2007 through 2012; and
- \$2,297,000 in additional property tax revenues, representing the City's allocation (13%) of the funds remitted by the City, held by the former Redevelopment Agency, to the County pursuant to AB 1484.

In March 2013, City Council approved the use of \$277,942 for design costs for the temporary relocation of the Police 9-1-1 Call Center to the Granada Garage offices. Therefore, a balance of \$3,719,829 remains unbudgeted.

Since these monies were unanticipated and one-time in nature, we are recommending that the City Council utilize these monies for critical capital improvement projects in Fiscal Year 2014.



BUDGET MESSAGE

City Administrator's Budget Message

In addition to these one-time monies, we anticipate State Department of Finance approval of the City's steps to date to dissolve the Redevelopment Agency, resulting in a "Finding of Completion." This approval will free up approximately \$14.1 million of existing RDA bond monies for use on eligible projects, as defined in the original bond sales documents.

At a separate workshop, Council will decide how to allocate the one-time and bond monies once staff is able to finalize how much funding is available, determine which projects are eligible for funding with the RDA bond monies, and create a preliminary priority listing for Council consideration.

RECENT ACCOMPLISHMENTS

Restorative Policing and Transient Issues

In fiscal year 2012, the Council approved additional funding for the Police Department to address issues caused by transients and chronically homeless persons with mental health and substance abuse problems. The goal of the additional funding was to reduce the impacts caused by aggressive panhandling, public intoxication, illegal camping, and nuisance crimes in the downtown, Milpas and waterfront corridors. It is important that residents and visitors feel safe visiting local businesses, and for our public spaces to be inviting and welcoming to residents and visitors.

The enhanced program consists of two full-time Restorative Police Officers, three part-time Restorative Outreach Specialists and six part-time Community Service Liaisons. This program has encouraged chronically homeless individuals to participate in treatment programs rather than spend time in jail, and has resulted in a greater presence of sworn and non-sworn police personnel in downtown, along the waterfront, and in the Milpas corridor. This program has also increased collaboration with other governments and non-profit stakeholders.

Beat Coordinators

Over the last couple of years, there has been an increased focus on expanding police services to address youth gang issues, chronic homelessness, and criminal activity. Because of increased staffing and a reduction in vacancies, the Police Department has been able to fully staff the Beat Coordinator's Program. The Program now includes one sergeant and four beat coordinators.



BUDGET MESSAGE

City Administrator's Budget Message

Beat Coordinators are the eyes and ears of the community, working closely with businesses and neighborhood groups to resolve specific neighborhood problems affecting the quality of life of City residents. Among their activities are the following:

- Beat Coordinators conduct four Citizens Academy Programs each year (two in English and two in Spanish). This ten-week program (one evening a week) allows officers and community members to collaborate on law enforcement issues in specific communities. This course explains law enforcement procedures in order to provide the community with a better understanding of police department policies and processes.
- Beat Coordinators conduct all neighborhood watch programs.
- Beat Coordinators address quality of life issues in all of our communities, specifically managing blight and nuisance issues citywide. They also prioritize collaborations with the business community on State Street and Milpas Street regarding transient matters in partnership with the restorative policing team.
- Beat Coordinators work closely with the Police Activities League and supervise the Police Explorer Program and other youth leadership programs.

General Plan Update

In December 2011, the City Council adopted a new General Plan. This was the culmination of a multi-year effort, which included many public meetings and discussions with businesses, community leaders, and other stakeholders. The General Plan provides a policy framework to ensure Santa Barbara maintains its quality of life and remains a sustainable community into the future.

To date, the General Plan implementation has included the adoption of the Climate Action Plan in September 2012, the Historic Resources Element in October 2012, and the Nonresidential Growth Management Ordinance in March 2013. Other efforts well underway include an Average Unit-size Density Incentive Ordinance; Zoning Ordinance map amendments, consistent with the adopted General Plan Land Use map; an updated Safety Element; and a new Adaptive Management Program.

Contract for Refuse Services

In March of 2013, the City Council approved an exclusive ten-year franchise agreement with MarBorg Industries for solid waste services in the City. This agreement, which takes effect July 1, 2013, was the culmination of an 18-month negotiation process between the City and MarBorg.



BUDGET MESSAGE

City Administrator's Budget Message

The final agreement provides expanded services, including:

- Unlimited green waste collection services in the residential sector;
- New programs for the collection of batteries and hypodermic needles;
- Additional bulky-items pick-up service to the multi-unit residential sector; and
- Free pick-up of refrigerators, washers, dryers, water heaters and other large "white" goods

The new franchise agreement will also position the City to comply with anticipated new diversion mandates imposed by the State of California. The adopted budget includes the new rate structure that is incorporated in the franchise agreement.

KEY PROJECTS AND INITIATIVES

Increased Funding for General Fund Capital

Recently, the Council updated the City's reserve policies. The new policies maintain the amount of reserves required in each fund and impose additional requirements before policy reserves can be appropriated. This new policy requires an assessment of the financial condition of the affected fund and a specific plan for the restoration of any reserves used.

Another important policy

change relates to capital funding in the General Fund. The new policy requires 50% of any year-end surplus be set-aside in a capital fund for use in subsequent years. For example, in fiscal year 2012 the General Fund generated a surplus of \$1,880,000; thus, \$940,000 was set aside for capital. This amount was added to the \$1 million allocated for capital from operating revenues for a fiscal year 2014 total of \$1,940,000, the highest allocation for General Fund capital in the last ten years.

CITY OF SANTA BARBARA Capital Funding - General Fund		
	FY 2014 Adopted	Where Project is Accounted For
General Fund Capital		
Neighborhood Enhancement Program	\$ 20,000	Capital Outlay Fund
Cabrillo Ballfield Renovation	75,000	Capital Outlay Fund
Park Infrastructure Safety Program	100,000	Capital Outlay Fund
Park Irrigation System Renovation	150,000	Capital Outlay Fund
Park Restroom Renovation	120,000	Capital Outlay Fund
Parks & Recreation Facilities Sign Replacement	100,000	Capital Outlay Fund
Playground Replacement Program	350,000	Capital Outlay Fund
Pool ADA Regulatory Improvements	150,000	Capital Outlay Fund
Shoreline Park Safety Improvements	30,000	Capital Outlay Fund
ADA Transition Plan	100,000	Capital Outlay Fund
Walkways and Pathways	100,000	Capital Outlay Fund
Subtotal	<u>1,295,000</u>	
Other Projects Funded from the General Fund		
Financial Management System Replacement	413,000	Info. Systems Fund
Public Wireless Access in City Facilities	15,000	Info. Systems Fund
Miscellaneous Facilities Renewal	55,000	Facilities Cap Fund
Zoning Ordinance Update	162,000	GPU Fund
Subtotal	<u>645,000</u>	
Total Capital Funded from the General Fund	<u>\$ 1,940,000</u>	



BUDGET MESSAGE

City Administrator's Budget Message

Of the total \$1,940,000 allocated to capital from the General Fund, \$645,000 is presented as an operating transfer, rather than capital, in the General Fund. This is because the related capital expenditures will be accounted for in other funds. The accompanying table details the allocation of the \$1.94 million from the General Fund, including the projects that are accounted for in other funds and presented within the operating budget of the General Fund.

Efforts at Increasing Efficiencies and Improving Operations

Beginning in fiscal year 2014, the City will undertake three separate studies aimed at improving operational efficiencies as well as a complete overhaul of the City's zoning ordinance. These initiatives are discussed below:

Parking Enforcement

Approximately \$4.2 million in gross revenues are generated from parking violations each year. Of this total, \$1.1 million is allocated to the County courts and \$650,000 is allocated to the City's Streets Sweeping Fund. The net revenues retained by the General Fund, helping to fund police operations, is approximately \$2.4 million.

The parking enforcement program is an important component of the City's overall parking management program in the downtown business district. The City's Police Department is responsible for the enforcement of parking restrictions throughout the City, which includes enforcing the 75-minute free-parking limit and parking restrictions related to the City's Street Sweeping Program. Under the supervision of a Police Sergeant, twelve Parking Enforcement Officers enforce the parking restrictions.

The administration of this program is cumbersome, in part due to an old computerized parking citation system used to record and track the payment of citations. A number of staff in the Police and Finance Departments are needed to ensure this program functions well.

A new automated parking citation system is being considered. However, prior to investing in a new system, the fiscal year 2014 adopted Police Department budget includes \$25,000 to study the entire parking enforcement process, from enforcement to collection. The study will determine if there are more cost effective ways to manage and conduct this important program.

Allocation of Streets and Transportation Funds

The City's Streets and Transportation Programs are funded from a variety of revenue sources, including utility users' taxes, the ½-cent sales tax approved through Measure A in 2010, and State gas taxes allocated to cities. These funds are supplemented, to varying degrees, by federal and state capital grants. The accompanying table presents the various funding sources



BUDGET MESSAGE

City Administrator's Budget Message

for streets and transportation programs by fund that are included in the fiscal year 2014 and 2015 budgets. All of these funds are essentially restricted for streets purposes.

As shown in the table, the largest source of revenue comes from UUT at \$7 million. This represents 50% of total UUT revenues; the other 50% goes into the General Fund as unrestricted revenue. An additional \$2.7 million comes from gas tax revenues. The City also receives almost \$3.4 million in sales tax pursuant to Measure A.

In total, \$13.8 million in revenues is projected next fiscal year. These funds are allocated to the following nine distinct programs: Traffic Markings & Signage, Traffic Signals, Traffic Operations, Transportation Planning, Alternative Transportation, Roadway Maintenance & Sidewalks, Storm Drain Repair & Maintenance, Engineering Services and Capital. To the extent federal and/or state grants are secured, they are used to enhance the Capital Program.

CITY OF SANTA BARBARA Streets and Transportation Revenues		
	FY 2014 Adopted	FY 2015 Proposed
Streets Fund		
Utility Users Taxes	\$ 7,000,000	\$ 7,000,000
State Gas Taxes	2,731,238	2,731,238
Other	718,614	583,889
	<u>10,449,852</u>	<u>10,315,127</u>
Measure A Fund		
Sales Taxes	3,397,816	3,293,129
TOTAL REVENUES	<u>\$ 13,847,668</u>	<u>\$ 13,608,256</u>

Over the past several years, the City's streets have continued to deteriorate. The adopted budget includes \$50,000 to review all of the City's transportation programs. The study will determine if there is a more efficient way to meet existing needs and allocate more monies for basic street capital and maintenance.

Aircraft, Rescue and Fire Fighting Services (ARFF)

The City's airport receives aircraft, rescue, and fire fighting services from the City's Fire Department. As a commercial airport with airline operations, the Federal Aviation Administration (FAA) requires that the Airport maintain dedicated aircraft, rescue, and firefighting services. In fiscal year 2013, the Airport will pay almost \$1.8 million to the Fire Department for these services. The cost of these services has risen significantly over the past several years.

Airport and Fire management have been looking at options at reducing the cost of these services without compromising overall safety. As a result, \$40,000 is included in the fiscal year 2014 adopted budget to identify and evaluate alternative approaches in providing these services while ensuring the Airport meets federal requirements. The cost of the study will be divided equally between the Fire Department (General Fund) and the Airport Fund.



BUDGET MESSAGE

City Administrator's Budget Message

Zoning Ordinance Update

In addition to the three studies noted above, we will also undertake a complete update of the City's zoning ordinance, beginning in fiscal year 2014. The zoning ordinance is a compilation of amendments dating back to 1957 and contains many conflicting and confusing sections, which can result in different interpretations by property owners and City staff. With the completion of Plan Santa Barbara, it is now appropriate to update this antiquated set of rules and regulations.

Over the next three years, the Community Development Department will be working to update the current Zoning Ordinance in order to clarify conflicting and confusing policies. This effort will cost approximately \$597,000. This amount includes staff costs of \$327,000, consultant costs of \$200,000, and City Attorney support costs of \$70,000.

Because this effort is one time in nature, the funding will come from the Capital Outlay Fund.

Additional Funding for Post Employment Benefits

The City provides employees certain benefits upon retirement, in addition to pensions. These benefits are funded on a pay-as-you-go basis. The benefits include limited retiree medical payments from the date of retirement until age sixty-five; payout of accumulated vacation; and credit for a portion of unused sick leave hours. An employee is only eligible for retirement medical payments if the employee works for at least 15 years and retires from the City. In addition, an employee is only eligible for sick leave credit if they retire from City service.

Accounting standards, as well as good business practices, recommend these benefits be advanced funded, which means funds should be accumulated while the employee is employed rather than waiting until he/she retires. Because these benefits are currently not funded in advance, the City has accrued a large unfunded liability.

Beginning in fiscal year 2014, the City will start accumulating funds that can be used to pay out the benefits when due. Every operating fund, including the General Fund and enterprise funds, will be charged a premium for post-employment benefits. The premiums will be collected and accounted for in a newly created Post Employment Benefits Internal Service Fund. In fiscal year 2014, a total of \$1.6 million will be deposited into this fund with \$1.1 million being contributed by the General Fund. The General Fund's portion is an increase of approximately \$169,000 compared to the average amounts paid in a typical year. However, this amount represents an increase to the General Fund budget of almost \$700,000, since vacation and sick leave payouts have not previously been budgeted.



BUDGET MESSAGE

City Administrator's Budget Message

For the first time, the City will begin making progress toward addressing the unfunded liabilities associated with post employment benefits. This system also establishes budgets for these previously unbudgeted costs, allowing better control of expenses.

Key Capital Projects

El Estero Wastewater Treatment Plant Air Process Improvements

The El Estero Wastewater Treatment Plant operates under a federal National Pollutant Discharge Elimination System (NPDES) Permit. The permit requires regular assessment, refurbishment, and improvement of unit processes.

This project consists of constructing air system improvements and related secondary clarifier improvements associated with the facility's activated sludge secondary treatment processes. The project is an important part of the Plant's overall efforts to maintain compliance with the NPDES Permit. The project is currently in the preliminary design phase, and the final design phase will be completed by the end of calendar year 2013. Construction is scheduled to begin in June 2014.

The total project is estimated at \$18.5 million. City staff is in the process of applying for a low-interest revolving loan from the State. If that application process is unsuccessful, staff will pursue the sale of revenue bonds to finance the project.

Lower Mission Creek and Bridge Improvements

For over four decades, the Lower Mission Creek Flood Control Project has been in the planning stages as a collaborative improvement project between the City, the Santa Barbara County Flood Control District, and the U.S. Army Corps of Engineers. Its goal has been to reduce flooding and potential property damage from major storm events along Mission Creek from the ocean to Canon Perdido Street. The Project uses a design developed by the U.S. Army Corps of Engineering that has undergone significant City Council and Planning Commission review. It will contain, at a minimum, 20-year peak floods. In contrast, the existing channel can only contain an 8-year peak flood.

Recently, both the City and the County have constructed parts of the Project. The City has constructed new bridges at Haley Street and Ortega Street, while the County Flood Control District has constructed the box culvert element of the Project through the Railroad Depot and a portion of the new channel just north of State Street. This summer the County will construct the new channel between Mason Street and Yanonali Street. This work is being coordinated with the City's replacement of the Chapala, Mason, and Cabrillo Bridge projects planned for



BUDGET MESSAGE

City Administrator's Budget Message

the next two years. The County is planning the completion of the last segments of the Project from the 101 Freeway southerly by fall 2015.

A large portion of overall City costs will be paid from federal grants, with matching monies from the Streets Fund. The County is using the Flood Assessments funds and grants. The rest of the project north of the Freeway is planned for future years as funding becomes available.

Playground Replacement Program

The purpose of this program is to maintain the City's 22 playgrounds in accordance with safety and accessibility standards. The program is based on a ten-year replacement schedule, which provides for maximum risk reduction and aesthetic quality.

The highest priority for fiscal year 2014 is the Chase Palm Park playground. The project was scheduled for replacement in fiscal year 2012, but was postponed due to the elimination of its funding through the City's RDA. Custom designed and constructed with the park in 1997, the playground is now 16 years old. Many playground elements have been removed due to deterioration, and none remain for younger children.

For fiscal year 2015, proposed playground replacements include the Cabrillo Pavilion, East Beach, and Parque de los Niños.

Security Cameras in Downtown Parking Lots

In response to security concerns, and to enhance the safety of parking staff, the City installed surveillance cameras at all kiosks in the five downtown parking structures. Downtown Parking staff will be expanding this effort by installing similar security cameras in the interior of the structures. In the next three years, cameras are planned for Lots 2, 9, and 10. Beginning in fiscal year 2017, cameras will be installed in the surface lots.

Financial Management System Replacement

In fiscal year 2012, the City began the process of replacing its 20-year old financial management system with a new, state of the art system. After an extensive selection process, we have begun making the transition to the new system. The first phase will implement nine modules, including purchasing, general ledger, accounts payable, and budgeting. This first phase will be completed by early January 2014. The second phase, which includes Payroll and Human Resources, will begin in October 2013 and be completed by June 2014.



BUDGET MESSAGE

City Administrator's Budget Message

The project cost of \$3 million is being funded over a three-year period through fiscal year 2014. The cost is shared between the General Fund at 40% with the remaining 60% paid out of special revenue and enterprise funds.

FINANCIAL CHALLENGES FACING THE CITY

Retirement Costs

The City participates in the California Public Employees Retirement System (CalPERS), which administers the retirement plans for most public agencies in the state. Each year, CalPERS establishes the required contributions to the plans based on actuarial valuations designed to cover current costs as well as a portion of any unfunded liabilities.

Beginning in the early 2000s, two factors caused contribution rates to increase significantly: the recession of 2001-2002, and benefit enhancements. Since then, retirement costs have increased steadily. When the economy crashed in 2008, CalPERS sustained

losses of nearly \$100 billion, which represented a 38% loss in assets accumulated to pay benefits. This extraordinary loss has created large funding gaps in virtually all retirement plans administered by CalPERS.

The actuarial staff at CalPERS has recently announced a plan to raise contribution rates, set as a percentage of salaries, by approximately 50% over five years beginning in fiscal year 2016. This increase in rates will have a significant impact on City expenses and could affect our ability to maintain service levels.

In an effort to address rising pension costs, the State Legislature adopted the Public Employees Pension Reform Act (PEPRA), which has substantially reduced the benefits of new employees hired after December 31, 2012. It also requires new employees to pay 50% of the "normal" retirement costs. Over the long-term, as existing employees retire and are replaced by new employees, PEPRA will result in reduced employer retirement costs. However, we do not expect any significant savings from the new plan in the next few years.

Infrastructure Financing

Although the City's financial picture has improved, the City faces a major challenge in maintaining our critical infrastructure. As noted in the recently adopted six-year Capital

CITY OF SANTA BARBARA PERS RATES			
Fiscal Year	Police	Fire	Misc.
2001	14.813%	14.734%	4.042%
2011	36.629%	37.852%	20.155%
2012	43.631%	41.543%	21.988%
2013	43.900%	41.664%	22.558%
2014	43.633%	43.740%	23.412%



BUDGET MESSAGE

City Administrator's Budget Message

Improvement Program, unfunded projects total well over \$400 million. Among the unfunded projects are a new Police Headquarters, rehabilitation of the Cabrillo Arts Pavilion, and major transportation improvements.

Compounding this situation is the premature loss of the City's Redevelopment Agency, which has been a major funding source for downtown improvements and major City facilities. This action eliminated \$45 million in monies that were programmed for capital improvements.

The City Council is currently considering options to address this issue, including potential tax increases that would require voter approval. This approach has been used by many communities in California to finance infrastructure improvements and enhance service levels.

ENTERPRISE FUNDS

In addition to services financed through the City's General Fund, the City provides other important services that are accounted for in separate enterprise funds. They differ from the General Fund in that they do not receive any general tax support; instead, their services are funded almost entirely from direct fees and charges for services. The City currently manages seven distinct operations that are accounted for in enterprise funds: water, wastewater, downtown parking, solid waste, airport, golf, and waterfront operations.

Water and Wastewater Funds

The largest enterprise funds are the Water and Wastewater Funds, which have a combined operating and capital budget of \$71.5 million. Revenues in the Water and Wastewater Funds are affected not only by economic conditions, but also by weather and conservation efforts. As such, revenues tend to fluctuate from year to year, particularly in the Water Fund. Due to dry weather over the past year, water sales are higher than normal. However, a trend towards conservation has resulted in a general decline in water sales, putting pressure on rates. For fiscal years 2014 and 2015, the budget includes a 3% rate increase in each year for water services and a 4% rate increase for wastewater services.

On the expenditure side, both the Water and Wastewater Funds are capital-intensive operations and require a significant amount of resources to maintain and replace capital infrastructure. In response to stringent State and Federal regulations, the City has made major improvements to the Cater Water Treatment Plant over the last ten years. Most of the improvements were funded from low-interest, 20-year loans from the State Department of Water Resources. Over the next two fiscal years, staff is planning a total of approximately \$18.2 million in Water System capital projects. This includes \$8.125 million towards water



BUDGET MESSAGE

City Administrator's Budget Message

main replacement. An additional \$7.8 million is budgeted to expand the City's Recycled Water Program, an integral element of the City's Long-Term Water Supply Plan.

The adopted Wastewater Fund budget includes major capital improvements to the El Estero Wastewater Treatment Plant to replace aging and deteriorating equipment. Over the next two years, improvements to the El Estero air processing equipment are planned totaling \$18.5 million. These projects will be funded from either a State revolving loan or tax-exempt bonds. An additional \$8.4 million in capital projects are planned over the next two years, including \$2.3 million for pipeline replacement. These projects will be funded primarily from operating revenues. The 4% increase in wastewater rates will provide the needed funding to cover the loan repayments, including interest, as well as to position the Wastewater Fund to meet other long-term capital needs.

Airport Fund

With the recently completed terminal, the Airport has settled into more routine operations. Generally, revenues in all aviation-related categories are increasing due to the increased rents charged to airlines and concessionaires occupying more square footage. With the completion of construction and the return of the short-term parking lot, parking revenues will also increase. All of these revenues will primarily go toward funding increased costs associated with operating and maintaining a larger facility.

The slowly improving economy and increased passenger volume is expected to generate more revenues from parking, concession, and rental car sales. Fiscal year 2014 aviation-related revenues are expected to grow between 2-3%. Lease revenues from the commercial and industrial properties owned by the Airport are also projected to increase by approximately 2-3%.

The larger airline terminal, coupled with increased requirements from the Transportation Security Administration, has created a need to supplement staffing. Consequently, the adopted two-year financial plan includes a reorganization of security functions and the addition of staff to address the workload impacts. Specifically, four full-time staff are added – two Senior Airport Operations Specialists, one Operations Specialist, and one Administrative Specialist. Other positions will be reclassified to align with overall changes made to security operations.

Waterfront Fund

There are no major changes for the Waterfront in the next two fiscal years. In fiscal year 2013, Waterfront revenues are generally stronger due to the recovering economy and good weather.



BUDGET MESSAGE

City Administrator's Budget Message

Waterfront revenues are generated in three major areas: Slip fees, parking, and rents. Slip fee revenues are generally stable and are increasing 2% each year to keep pace with operating costs and to finance infrastructure investments. Parking revenues are generally driven by weather conditions. As a way to improve efficiency, Waterfront staff has begun replacing the honor-lot payment kiosks with automated payment systems that accept cash, credit cards and debit cards. These new systems have generated additional revenues where they have been installed.

No increase to parking fees are included in the two-year financial plan. However, changes to the self-pay lots are included to make the rates consistent with the staffed lots, which currently charge \$2 per hour.

Rental income in the Waterfront is received primarily from long-term leases with restaurants and shops. With the improved economy and good weather this past year, revenues from leases have been much stronger. The adopted financial plan uses conservative assumptions for growth in the next two years. The only significant change in rents is the result of the Maritime Museum exercising the lease buy-down option in their existing lease. The existing lease agreement approved by Council in April 2008 allowed the Museum to buy-down the lease within the first 5 years of the lease term for \$1 million, reduced by any rents paid during that five-year period. As a result, the Waterfront Department will lose the \$144,000 in annual rent previously paid by the Maritime Museum for the duration of the remaining 25-year lease.

In previous years, cruise ships rarely included Santa Barbara. However, due to the efforts of staff from the Waterfront, the Downtown Organization, and the Conference and Visitor's Bureau to promote Santa Barbara, the number of cruise ships visiting the City has sharply increased. In fiscal year 2011, only four ships visited Santa Barbara. In contrast, twenty-two cruise ship visits are expected in each of the next two fiscal years. These visits will generate \$300,000 each year in landing fees to the Waterfront Department. More importantly, spending by an estimated 40,000 to 60,000 disembarking passengers at the local stores and restaurants provide a boost to the local economy.

On the expenditure side, there are no significant changes. The Waterfront Fund continues to make progress on the Marina One Replacement Project. Phases 1-4, which were financed through loans from the State Department of Boating and Waterways, are now complete. The adopted two-year financial plan assumes that Phases 5-8 will be constructed beginning in fiscal year 2015.

Golf Fund

After several challenging years and a general decline nationally in golf play, the Golf Fund's finances have stabilized. Revenues and play have gradually increased since their lows in fiscal



BUDGET MESSAGE

City Administrator's Budget Message

year 2010. Projected revenues for fiscal year 2014 reflect an 11.3% increase over fiscal year 2013 projections. This large increase stems from three factors:

1. The City's golf course is expected to benefit from the recent closure of Ocean Meadows Golf Course in Goleta. Staff has conservatively assumed 20% of that business will shift to the City's golf course.
2. A \$1 increase is approved for most green fees to cover increased operating costs.
3. A new Players' Course Improvement Fee of \$1 per round is approved. The revenue will be dedicated to specific projects identified by golfers and recommended by the Golf Advisory Committee to further improve the golfer experience.

The adopted fiscal year 2014 and proposed fiscal year 2015 expenditure budgets are largely unchanged. The golf course continues to operate with a lean staff that was cut back in response to declining revenues. In fiscal year 2013, the Golf Course replaced several pieces of its aging fleet of turf equipment, which will improve efficiency and reduce repair and maintenance costs.

Downtown Parking Fund

The Downtown Parking Fund accounts for the operation and maintenance of seven hourly surface lots, five hourly parking structures, two commuter (permit) lots, and two 90-minute lots. Parking is integral to the economic vitality of the City by ensuring residents and visitors have easy access to shops, restaurants, and cultural and recreational venues, particularly in the downtown area.

Parking revenues generally track overall economic conditions, particularly revenues from hourly parking in the parking structures and surface lots. For example, in fiscal year 2008, hourly parking revenues totaled \$4.5 million. From fiscal 2009 through 2011, during the worst part of the recession, revenues from hourly parking fell and stayed in the \$4.3 million range. In fiscal year 2012, however, revenues reached an all-time high at \$4.725 million.

In fiscal year 2013, revenues from hourly parking are projected at \$4.7 million. For fiscal years 2014 and 2015, revenues are conservatively estimated at \$4.7 million and \$4.79 million, respectively.

Over the next two fiscal years, the Downtown Parking Fund is planning \$2.3 million in capital expenditures for maintenance and upgrades to the parking lots and structures. Half of these improvements will be funded from accumulated reserves with the remainder from operating revenues. These amounts include the routine annual maintenance program of \$300,000.



BUDGET MESSAGE

City Administrator's Budget Message

In fiscal year 2014, the installation of a new access control system at the Cota commuter lot is planned, at an estimated cost of \$400,000. At Lot 5, located on the 1200 block of Chapala Street near Victoria Court, a new exit kiosk and landscaping will be installed at an estimated cost of \$203,750.

Solid Waste Fund

The Solid Waste Fund aggregates all revenues and expenditures related to the City's Solid Waste activities, including collection, disposal, recycling, and regional programs. The largest component of the Solid Waste Fund finances is the services provided by MarBorg Industries, pursuant to a long-term contract/franchise agreement. Of the total \$19.9 million adopted fiscal year 2014 budget, \$17.3 million is for payments to MarBorg for collection and recycling services. An additional \$545,000 will go to the County for regional programs, including costs related to the hazardous materials collection center located at UCSB.

The Solid Waste Fund continues to rely on revenues from the sale of comingled recyclables (glass, plastic bottles, cans and paper). Over the last three years, the Solid Waste Fund has generated \$268,474 in recycling revenues annually, in accordance with an agreement with the County to spread the revenues evenly over the three-year period. In fiscal year 2014, the agreement expires and the City will revert to receiving the revenues based on actual revenues collected two years in arrears, which total \$449,816. More recently, however, commodity values have dropped and revenues are estimated at just \$125,000 in fiscal year 2015. As a result, the proposed fiscal year 2015 budget includes the use of reserves totaling \$313,628. Over the next year, staff will evaluate options for avoiding, or minimizing, the use of reserves as well as addressing the overall finances of the fund to reduce its reliance on volatile recycling revenues.

CONCLUSION

Over the past few years, our organization has responded in a proactive way to reduce costs, increase efficiency, and adjust service levels to available resources. As a result, our City's finances remain strong, with sufficient reserves to meet unexpected financial or natural disasters.

The adopted two-year financial plan continues the City's slow recovery from the impacts caused by the recession that affected our entire country since 2008. The plan is balanced, does not use one-time monies for ongoing operations, and will maintain the City's financial stability. The plan also includes several efforts to improve efficiency and effectiveness, and includes small increases in funding to begin addressing post-retirement benefits.



BUDGET MESSAGE

City Administrator's Budget Message

As the economy improves, City staff looks forward to working with the City Council to address the need to find new revenues to address our critical infrastructure needs, and to find ways to minimize the looming impacts of spiraling pension costs. Overcoming these challenges will not be easy, but I am confident we will achieve success by working with the community and our employees.

ACKNOWLEDGEMENTS

The preparation of the two-year financial plan was a team effort, involving employees throughout the entire organization. I have been especially impressed by the cooperative approach demonstrated by all the City departments, who have worked together during the economic recession to maintain service levels and keep our community moving forward.

I especially want to recognize the outstanding work done by our Finance Department led by Finance Director Bob Samario. Of special note are the efforts of Budget Manager Michael Pease, Accounting Manager Julie Nemes, Budget Analyst Jonathan Abad, Financial Analyst Diego Martin and Executive Assistant, Jenny Hopwood. They worked tirelessly during normal work hours, late into the night and on weekends to ensure that the final document was timely and professionally done. They have done a wonderful job.

Respectfully submitted,

James L. Armstrong
City Administrator