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EXECUTIVE SUMMARY

Uncertain Economy, Rising Costs, and State Budget Create Many Challenges

The fiscal environment facing the City of Santa Barbara is one of the most difficult that has been faced over the past thirty years. It has been influenced by three major factors: an uncertain national and state economy, rising costs, and the worst State budget crisis since the Great Depression. As a result of these factors, Council adopted only a one-year financial plan, rather than the customary two-year plan. Current events make it too difficult to predict revenues and expenditures accurately two years into the future.

The events of September 11, 2001 and the national economic slowdown had a significant impact on the City's overall revenues. Local tourism and retail spending dropped dramatically, affecting both transient occupancy and sales tax receipts. As a result of this revenue slowdown, City operating departments were asked to reduce expenditures in both the last half of fiscal year 2002 and in fiscal year 2003. These short term efforts were very successful and have minimized the use of reserves in order to balance the City's operating budget.

Santa Barbara is now experiencing signs of a slow economic recovery. For next year, the recovery is expected to continue, with sales and transient occupancy tax revenues projected to grow by 2-3% and property tax revenues projected to grow 6% next year due to the strong real estate market. However, due to continuing instability in the Middle East and the continued threat of terrorism, the prolonged period of economic uncertainty is expected.

The biggest challenge to balancing the fiscal year 2004 budget was not the sluggish economy, but rising costs. For example, health insurance benefits provided to City employees will cost almost \$8 million in fiscal year 2004, an increase of 9%. Due to the poor performance of the Public Employees Retirement System (PERS) investment portfolio, the City faced a major increase in retirement costs. In fiscal year 2004, premium payments to PERS are estimated at \$10.5 million, a \$2.9 million (38%) increase. In fiscal year 2005, PERS estimates these costs will escalate even more, with an additional projected annual cost to the City of \$4.7 million.

The challenges facing the City are not unique. Virtually all cities across the State are facing increasing costs related to health care, retirement contributions, workers' compensation costs and property and liability insurance premiums.

State Budget Crisis Hits Home

After a long and heated political battle, the State adopted its fiscal year 2004 budget in July 2003. Unfortunately, the State once again used many one-time measures to address its staggering \$38 billion projected deficit. And, once again, the State solved part of its deficit on the backs of local government, although the impacts were not as significant as had originally been expected.



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The biggest impact was a one-time shift in property tax revenues from redevelopment agencies statewide totaling \$135 million. The impact to the City of Santa Barbara Redevelopment Agency in fiscal year 2004 will be approximately \$675,000. Although this one-time hit is manageable, the concern now is that the one-time loss will be made permanent as the State seeks to address continued deficits in subsequent years. An ongoing loss of this magnitude will clearly affect the Santa Barbara Redevelopment agency's ability to meet the demand for affordable housing in the community.

The proposed elimination of the vehicle license fee (VLF) became an academic point as the State "pulled the trigger" contained in the original legislation that enabled the State Department of Finance to administratively restore the VLF to the 1998 level, when it was originally lowered. While this leaves intact the VLF payments to local governments, the State will retain 3 months of fiscal year 2004 VLF backfill payments, totaling approximately \$852 million Statewide as a "loan" from local governments to help balance its budget. The City of Santa Barbara share equates to approximately \$1.2 million. The State has indicated that this loan will be repaid in 3 years when, presumably, the fiscal issues will have been resolved. Clearly, the City remains skeptical as to the security of this unilaterally executed "loan" agreement.

The most interesting and troublesome scheme implemented by the State is termed the "Triple Flip", which swaps a portion of sales tax revenues collected by local government for an equal portion of property tax revenues. In order to issue \$10.7 billion in deficit reduction bonds, Wall Street bankers required the State to identify and secure a dedicated revenue stream to secure the bonds. As a result, the State took half of the 1% portion of the sales tax allocated to local governments as the dedicated funding source to secure the bonds. In order to compensate local governments for their loss, the State agreed to "backfill" the sales tax loss with an equal amount of property taxes. The swap in revenues will continue for five years and, as structured, will result in no loss in revenues to local governments.

However, other components of the State's adopted budget result in lost revenues to cities. For example, booking fee reimbursements, totaling \$38 million Statewide, will be permanently eliminated. The impact to the City is approximately \$217,000 annually. Reimbursements to local government for mandated programs and activities pursuant to SB 90 have been indefinitely deferred. The impact to City in fiscal year 2004 is difficult to quantify, but historically the reimbursements have been under \$100,000 annually. Libraries have also taken another cut in funding of approximately \$60,000 in fiscal year 2004, beyond the reduction implemented in fiscal year 2003.

City Well Positioned to Address Challenges

As a result of sound budget policies and fiscal management, the City of Santa Barbara is well positioned to meet the current and upcoming challenges. Although the impacts of the economic downturn continue to affect City revenues, these impacts have been incorporated into revenue estimates, and measures have been implemented to address previous revenue shortfalls. In



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addition, during the boom years of the late 1990's, the City retained a portion of the revenue growth to increase its reserve levels specifically designated for economic downturns. The adopted budget contains modest use of these reserves over the next few years to ease the organization through the transition to a balanced budget as other measures to address rising costs are implemented.

As a long-term strategy, the size of the City workforce will need to be reduced through attrition to help offset increasing costs and lower the overall cost structure of the organization. This will provide a leaner and more efficient organization that can more effectively respond to future challenges. As a part of this natural downsizing, the fiscal year 2004 budget includes the elimination of 26.9 full-time equivalent positions. Clearly, with a smaller organization, there will be impacts to services; the goal, however, is to minimize these impacts by establishing a more efficiently run organization.

This long-term strategy of creating a smaller and more efficient organization will be helped by the recent implementation of a performance measurement program throughout the City. The program includes measurable objectives and performance measures for every program area in the City. Combined with a greater emphasis on better cost accounting, this program will assist management and staff in identifying opportunities for improvement and efficiency. This is a major effort requiring a significant investment of time and resources. However, measuring the performance of City operations makes good business sense. More importantly, it provides the community, City Council and staff with objective information from which rational decisions regarding City services can be made.

Amid the Challenges, Important Projects Still Move Forward

Even with the current challenges, the City is proceeding with a number of important projects and initiatives. For example, the City's Redevelopment Agency is making significant progress on the Mercy Housing Project, a planned housing development that will include 75 rental units for low-income families and 95 units for low-income seniors. The City's street sweeping program was expanded, beginning July 1, 2003, to include Eastside neighborhoods. As part of the efforts to improve the water quality of our City, the City will continue major improvements to the Cater Water Treatment Plant, Sheffield Reservoir and El Estero Wastewater Treatment Plant. The adopted budget also continues the implementation of the Airport Facilities Master Plan and a variety of infrastructure improvements to the City's transportation network.

CURRENT FISCAL CHALLENGES

Effects of Economic Downturn Continue

Although growth is projected in the major General Fund revenues, the effects of the economic downturn and events of September 11, 2001 still remain. Sales tax revenue, the largest General Fund revenue source, is projected at \$18.1 million for fiscal year 2004. This is only \$130,000 more



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than revenues received in fiscal year 2001. Similarly, transient occupancy tax revenue is budgeted at \$10.5 million next year, only \$317,000 more than amounts received in fiscal year 2001. In total, this represents an increase of less than 2% over a three-year period. The structural imbalance created by the events of the last eighteen months will take several years to resolve.

The decline in interest rates stemming from the economic downturn continues to affect the interest earnings of all funds. Beginning in January 2001, signs of a slowing economy began to emerge and the Federal Reserve Board lowered short-term interest rates a total of eleven times through November 2002, from 6.5% to 1.25%, the lowest short-term rates have dropped in over 40 years. From January 2001 to June 2003, the yield on the City's portfolio has dropped from 6.28% to 3.52% as higher yielding investments have matured and have been replaced by lower yielding ones. In fiscal year 2001, the General Fund earned over \$2.8 million in interest; projections for fiscal year 2004 are down to \$1.25 million, a 55% decline.

Although economic downturns do not have as much impact on most Enterprise Funds, these independent operations are not immune from economic forces. For example, the effects of the September 2001 terrorist attacks and the impact on the airline industry have seriously impacted the City's Airport. Although passenger volume has increased in the last year, total passenger volume is still below pre-September 11, 2001 levels. As a result, commercial aviation revenues, including parking, concessions and landing fees are down in relation to fiscal year 2001, and new FAA-mandated security costs have been added.

Costs Are On the Rise

The biggest challenge in balancing the 2004 budget has been the impact of rising costs, especially salary and benefit costs. These costs consume approximately 74% of total General Fund expenditures. The City has multi-year contracts with most of the bargaining units, and the negotiated salary and benefit adjustments are included in the adopted budget for fiscal year 2004.

Over the last several years, health insurance costs nationwide have been increased dramatically. In fiscal year 2002, General Fund health insurance costs totaled \$4.5 million. Beginning in January 2004, these costs are expected to rise to \$5.5 million, a \$1 million increase in just two years. More significantly, health insurance costs are expected to double by fiscal year 2010, representing a 10% increase each year over the next seven years.

By far, the biggest impact over the next two years will be from increased retirement benefit costs. The City participates in the California Public Employees Retirement System (PERS), a defined benefit retirement plan. During the five years prior to fiscal year 2001, PERS realized average investment returns in excess of 10%, well above the actuarially assumed rate of return. Consequently, the City's required contribution rates, which are calculated as a percentage of total payroll costs, were very low. However, with the dramatic stock market declines during 2001 and 2002, PERS' rate of return on investment holdings fell well below the assumed rate, resulting in a sharp increase in contribution rates beginning in fiscal year 2004. Based on rates already provided by PERS, General Fund contributions are expected to increase by almost \$1.9 million in fiscal year



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2004, from approximately \$6.2 million to \$8.1 million. This is a 30% increase in just one year. Moreover, based on estimates provided by PERS, rates for fiscal year 2005 are projected to increase an additional \$3.4 million (42%) to \$11.5 million, resulting in an 85% increase in just two years.

The cost associated with property and liability insurance and workers' compensation claims and losses have also been on the rise over the last several years. The dramatic increase in property insurance over the last few years is largely attributable to what is termed a "hard market", wherein the cost of insurance is more expensive. This is evidenced by the increase in premiums of almost \$1 million from fiscal years 1996 to 2002, a 300% increase in six years. Workers' compensation costs are also increasing as a result of ongoing increases in medical costs and changes to State law that provides more benefits to injured employees.

Cities Vulnerable to Additional State Action

A year ago, the State faced a \$23.6 billion deficit for fiscal year 2003. Although leaving cities relatively unharmed, the budget was balanced largely through one-time measures and revenue accelerations based upon the assumption of an improved economy and associated revenue growth. As a result, as fiscal year 2004 approached, the State of California faced a daunting \$38 billion deficit through June 30, 2004. Again, in a highly political battle, the State failed to make tough decisions and address the structural imbalance between ongoing revenues and ongoing costs. Instead, a number of one-time measures were employed and, as expected, local government was forced to pick up a portion of a tab created by State mismanagement.

Although the impacts to cities were minor relative to expectations, redevelopment agencies were hit with a major cut in revenues. The bigger concern now, however, is what the State will do next year. Prospects for an economic recovery in the near term are uncertain, instability continues in the Middle East despite U.S. ongoing presence, and the State still faces a projected deficit next year of approximately \$8 billion based on current estimates. As a result, local government is not out of the woods in terms of State impacts.

General Economic Uncertainty Looms

The City of Santa Barbara is a tourist destination and much of its General Fund revenues are tied to the condition of the national, state and local economies. Although revenues are growing at moderate rates, the uncertainty that marked the last 18 months still remains. The economy has shown only limited signs of recovery; interest rates continue to be at historic lows; the stock market has shown only modest recovery; the Middle East unrest and the United State's involvement in Iraq continues; and there is still the underlying fear of additional terrorist acts. These circumstances all affect the local economy and City revenues, yet they are all outside of City control. Because of this uncertainty, the adopted budget reflects a conservative fiscal approach. This is not the time period to be initiating new programs or service enhancements. Instead, it is a time to carefully monitor expenditures and use reserves sparingly.



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STRATEGIES TO MEET CHALLENGES

Reserves to be Used Sensibly Over Next Few Years

In fiscal year 1996, the City Council adopted policies that provided for the accumulation and maintenance of reserves in each operating fund specifically designated to respond to economic downturns and the impacts of natural disasters. These policy reserves are set at 25% of the operating budgets of the respective operating funds.

As part of budget development efforts, staff maintains a multi-year forecast for its operating funds, including the General Fund. The purpose of the forecast is to identify trends over time, which in turn informs long-term planning and decision-making efforts. It also helps in calculating reserves in excess of policy requirements available to fund capital improvements. Given economic conditions and their impacts on revenue trends, issues associated with increasing costs, and resulting deficits, the forecast has also helped in evaluating the impacts of available reserves into the future. The table below summarizes the current forecast through fiscal year 2007.

As shown in the "Multi-Year Forecast" table on the next page, the fiscal year 2004 budget contains an operating deficit of \$1.4 million, which will be funded from reserves. Including capital and an additional allocation towards required reserves pursuant to City policy, the fiscal year 2004 adopted budget reflects an expected use of reserves totaling \$1,577,077. Additionally, the use of reserves totaling \$1,477,091 and \$245,992 is proposed for fiscal years 2005 and 2006, respectively. It is important to note that these projections assume that an additional \$3 million of budget adjustments will be implemented during the next two fiscal years. The modest use of reserves, combined with the planned downsizing of the organization, is an orderly way to address the financial challenges the City faces over the next several years. Moreover, it minimizes the use of reserves should the economic recovery falter or the City be impacted further by State budget actions.



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City of Santa Barbara Multi-Year Forecast General Fund

	<u>FY 2003 Actual</u>	<u>FY 2004 Adopted</u>	<u>FY 2005 Estimated</u>	<u>FY 2006 Estimated</u>	<u>FY 2007 Estimated</u>
Total Revenues	\$ 84,065,940	\$ 79,468,394	\$ 82,226,212	\$ 84,692,999	\$ 87,233,789
Total Expenditures	<u>82,869,262</u>	<u>80,875,800</u>	<u>86,077,447</u>	<u>88,393,483</u>	<u>90,482,671</u>
Net Operating Surplus (Deficit)	1,196,678	(1,407,406)	(3,851,235)	(3,700,484)	(3,248,882)
Cumulative Budget Measures	-	-	2,000,000	3,000,000	3,000,000
Budgeted Use of Reserves	1,196,678	(1,407,406)	(1,851,235)	(700,484)	(248,882)
Anticipated Year-End Variance	-	1,617,516	1,721,549	1,767,870	1,809,653
Expected Oper. Surplus (Deficit)	1,196,678	210,110	(129,686)	1,067,386	1,560,771
Capital Program	(2,233,730)	(1,015,150)	(1,000,000)	(1,000,000)	(1,000,000)
Adjustment to Policy Reserves	<u>(106,012)</u>	<u>(772,037)</u>	<u>(347,405)</u>	<u>(313,378)</u>	-
Net Addition to (Use of)					
Reserves	(1,143,064)	(1,577,077)	(1,477,091)	(245,992)	560,771
Beginning Reserves Balance	<u>19,091,123</u>	<u>17,948,059</u>	<u>16,370,982</u>	<u>14,893,891</u>	<u>14,647,899</u>
Ending Reserves Balance	<u>\$ 17,948,059</u>	<u>\$ 16,370,982</u>	<u>\$ 14,893,891</u>	<u>\$ 14,647,899</u>	<u>\$ 15,208,670</u>

New Budgeting Approach, Revenue Targets, Implemented

Beginning with the development of the fiscal year 2004 budget, the City implemented a new budgeting approach, called "revenue targets". During the previous eight years, the City utilized "expenditure targets" as a means to balance the General Fund budget. Under the earlier approach, each department was assigned an expenditure target, within which departmental budgets were developed and submitted. The targets were based on a "status quo" expenditure budget, adjusted for any known cost increases, in relation to available resources (i.e., ongoing revenues).

Under the new approach, the focus is not on expenditures, but rather on the level of subsidy provided to each department from tax and other non-departmental revenues. The key feature of this approach is that it inspires a more entrepreneurial approach to the development of department budgets by fixing upfront the share of General Fund tax subsidy the department will receive. Departments now have the option and incentive of not only identifying cost cutting measures, but also identifying new or additional departmental revenues to "finance" their expenditures. It also encourages creativity and innovation in finding opportunities for increasing efficiencies and more effectively allocating resources within a department.

The use of revenue targets has already proven successful and the adjustments included within this adopted budget document reflect this success.



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Fees and Charges Evaluated Against Related Costs

Over the last number of years, revenues from fees have played a limited and decreasing role in funding General Fund programs and services. For example, based on a 1989 study of the Community Development Department's Planning Division, only 22% of costs were recovered from fees. Since that time, departmental fees and charges have failed to keep pace with the department's cost structure. Consequently, the recovery rate has fallen to below 20%. Other departments have also been impacted by this same set of circumstances. Today, less than 10% of the General Fund's total operating costs is now recovered from fees and charges.

As part of the effort to balance the fiscal year 2004 General Fund budget, departments were asked to evaluate and adjust fees, as necessary, to recover a more appropriate level of costs, thus reducing the burden on tax revenues. This process and the ensuing adjustments have enabled the City to preserve essential services and, where possible, continue with other worthwhile services. Therefore, the adopted budget includes a number of adjustments to fees as one part of an overall strategy, including expenditure cuts and the use of reserves, to address the current financial challenges.

One of the more significant adjustments to fees is in the Community Development Department's Land Development Program. Currently, only \$335,000 (19.7%) of salary and benefit costs of \$1.7 million is recovered from fees. Therefore, an adjustment to land development fees is included in the adopted budget, which would generate an additional \$67,000 in revenue and raise the recovery rate by less than 5% (from 19.7% to 23.6%). Such a fee increase still leaves the City of Santa Barbara's fees substantially lower in relation to other agencies in the tri-county area.

Another significant fee proposal in the Parks and Recreation Department budget is a new Resident Fee Discount Program, which would require non-residents to pay higher fees for certain programs, such as sports leagues, classes, summer camps, and facility rentals. Currently non-resident use of recreation services ranges from 26% to 70% depending on the program. To offset General Fund support for Park and Recreation programs and reduce the level of subsidy provided to non-residents, non-residents would be charged 20% more than residents who receive an annual resident discount card.

To establish a rational basis for fees and charges, the City is currently working on a comprehensive study of all General Fund fees. The objective of the study is to determine the total cost associated with providing City services and the level of cost recovered from fees. The results of this study will enable a more informed discussion of what level of subsidy is appropriate in the context of overall service priorities and available tax revenues. It will also identify areas where the cost to provide the service may be too high.

Performance Measurement Program Implemented

Another initiative that will help identify and implement more efficient processes and systems is performance measurement. During fiscal year 2003, the City implemented a performance



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measurement program, labeled Paradise Performance Program ("P3"). The goal of the program is to establish measurable objectives and performance measures for each program area in the City. Combined with efforts to improve the City's cost accounting systems, this program will allow staff to identify the full cost of providing various City services and private sector business practices to evaluate program effectiveness and efficiency. It will also provide management and the City Council with effective tools to allocate limited resources. It is also the expectation that this program will provide greater incentives to the organization to implement additional operational efficiencies during difficult financial times.

HIGHLIGHTS OF THE ADOPTED BUDGET

A Broad Range of Services Provided by the City

The City of Santa Barbara, including the City of Santa Barbara Redevelopment Agency, is a full service City providing a broad range of services to the community by 8 operating departments and 4 administrative departments. These services include:

- Police and fire protection
- Parks and recreation
- Library
- Community development (planning, building, housing and redevelopment)
- Public works and streets maintenance
- Creeks restoration and water quality improvement
- Solid waste management
- Parking and transportation
- Water supply and distribution
- Wastewater collection and treatment
- Regional airport
- Harbor and waterfront
- Government access television

In addition to these direct services, the City financially supports a number of non-profit organizations involved in arts development, community promotions, marketing and human services.

The adopted budget includes a total operating budget of \$154 million funding a General Fund, fourteen special revenue funds, 7 enterprise funds and 4 internal service funds. The adopted budget also includes a capital program totaling \$24.6 million.

A total of 1,053.9 full-time equivalent (FTE) positions are included in the adopted budget. This is a decline of 26.9 FTEs from the fiscal year 2003 amended budget of 1,080.8 FTEs.



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Overall General Fund Revenue Picture Favorable

Total General Fund revenues for fiscal year 2004 are estimated at \$79,468,394. This is a \$1.8 million absolute drop in revenues from the amended fiscal year 2003 budget. However, a number of structural changes were made effective with the adopted budget that shifted costs and revenues to other funds. Therefore, adjusting for these structural changes, total revenues are actually estimated at approximately \$4 million above the amended fiscal year 2003 budget.

The table below summarizes the revenues of the General Fund's five largest revenues, showing actual revenues for fiscal years 2001 and 2002, fiscal year 2003 budgeted revenues and updated year-end projections, as well as the fiscal year 2004 estimates included in the adopted budget. Although, in total, fiscal year 2002 actual revenues were greater than in fiscal year 2001, the impacts of the economic downturn and events of "9-11" were evident in the decline in the two largest General Fund revenues: Sales Tax and Transient Occupancy Tax.

	Fiscal Year				
	<u>2001 Actual</u>	<u>2002 Actual</u>	<u>2003 Budget</u>	<u>2003 Actual</u>	<u>2004 Adopted</u>
Sales and Use Tax	\$ 18,237,203	\$ 17,511,104	\$ 17,853,400	\$ 17,903,527	\$ 18,042,000
Utility Users Tax	9,736,580	10,212,514	11,364,100	10,886,009	5,607,700
Property Tax	8,699,624	9,513,754	9,541,000	10,373,212	10,992,200
Transient Occupancy Tax	10,170,747	9,837,862	9,974,700	9,864,043	10,273,900
Motor Vehicle License Fee	4,931,316	5,258,291	5,563,200	5,382,659	5,797,300
TOTALS	<u>\$ 51,775,470</u>	<u>\$ 52,333,525</u>	<u>\$ 54,296,400</u>	<u>\$ 54,409,450</u>	<u>\$ 50,713,100</u>

In general, fiscal year 2004 General Fund revenue estimates are based upon assumptions, made in the spring of 2003, about the remainder fiscal year 2003 and how revenues will perform in next year. As such, it is important to recognize that with the uncertainties surrounding the nation and the economy, conditions could change that would materially affect these estimates. The following provides a detailed discussion of the revenue assumptions used to develop the fiscal year 2004 estimates for the five revenues shown in the previous table.



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Sales and Use Tax

Sales and Use Tax is the largest General Fund revenue, representing 23% of total budgeted revenue in the General Fund. In December 2002, the City received the final sales tax payment for the quarter ended September 30, 2002, which reflected a 3.4% increase from the same quarter of the previous year. This was very encouraging news. However, in March 2003, the City received the final payment for the quarter ended December 31, 2002, which reflected a decline of 2.1% from the same quarter of the prior year. At the time, 3% growth was projected for the remainder of fiscal year 2003; however, actual revenues for the final quarter were flat. Accordingly, although a 2% growth projection for fiscal year 2004 was maintained, sales tax revenue is now projected at just slightly over \$18 million next year.

Property Tax

Property tax revenue continues to perform extremely well. During the three-year period between 1995 and 1998, property tax revenue grew only \$500,000 to \$6.9 million in FY 1998, a total of only 8%. However, in the ensuing four years through fiscal year 2002, it grew \$2.6 million, a total of 38%, with an average growth rate of 9.5% per year. For the current year, property tax revenue is projected to grow 6%; for fiscal year 2004, an additional 6% growth is projected. This is a \$1.14 million increase in budgeted revenues from fiscal year 2003, totaling almost \$11 million.

Utility Users' Tax

In fiscal year 2003, Utility Users' Tax (UUT) revenue was the City's second largest revenue source behind Sales and Use Tax. By ordinance, 50% of UUT revenue is restricted to streets maintenance and capital. Beginning in fiscal year 2004, this portion of UUT will be recognized as revenue in the Streets Fund, rather than the General Fund, as part of the structural changes to be implemented next year. This explains the drop in General Fund UUT revenues from the amended fiscal year 2003 budget of \$11.4 million to \$5.6 million in fiscal year 2004.

In fiscal year 2003, through mid-year, UUT revenues were essentially flat in relation to the prior year. As such, fiscal year 2003 revenues fell short of budget by \$478,000. For fiscal year 2004, a 2% growth rate is assumed, bringing total UUT revenues to \$11,215,400, of which \$5,607,700 (50%) will be recognized in the General Fund and an equal amount in the Streets Fund.

Transient Occupancy Tax

Transient Occupancy Tax (TOT) revenue is the third largest General Fund revenue, estimated in fiscal year 2004 at almost \$10.5 million. Through February 2003, TOT revenues were 3.8% ahead of fiscal year 2002. At the time, it was assumed that growth rate would continue through the rest of the fiscal year, resulting in overall growth of 3.5%. However, from February to April, TOT revenues did not perform as expected, and thus fiscal year 2003 projections were adjusted downward as well as the fiscal year 2004 estimates included in the recommended budget. For fiscal year 2004, a



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growth rate of 3% is assumed, which would generate an additional \$409,857 in revenues in relation to the fiscal year 2003 actual amounts.

Note that the TOT revenues recognized in the General Fund do not include the 2% portion of TOT that is restricted to creeks restoration and water quality improvement activities pursuant to voter-approved Measure B; these restricted funds are placed in a separate fund.

Enterprise Fund Revenues Largely Unaffected by Economic Downturn

With the exception of the Airport Fund, the City's enterprise operations (water, wastewater, golf, airport, downtown parking, waterfront) were only nominally affected by the economic downturn and the terrorist acts. The water and wastewater utility enterprise operations provide basic services to the community, which are more affected by weather and seasonal variations, rather than economic conditions. The table below summarizes Enterprise Fund revenues beginning in fiscal year 2001.

CITY OF SANTA BARBARA Recap of Enterprise Fund Revenues					
	Fiscal Year				
	2001 Actual	2002 Actual	2003 Adopted	2003 Actual	2004 Adopted
Airport Fund	\$ 9,683,635	\$ 9,459,701	\$ 8,666,867	\$ 10,712,160	\$ 9,916,777
Downtown Parking Fund	5,057,342	4,977,364	4,460,000	4,685,611	4,850,000
Golf Fund	1,929,274	1,970,320	1,967,142	2,001,412	2,064,500
Wastewater Fund	10,347,982	9,704,475	10,960,000	9,994,460	10,575,000
Water Fund	25,609,568	25,115,397	25,035,000	24,138,395	24,641,937
Waterfront Fund	11,340,424	9,162,730	8,641,148	9,011,937	9,301,230

Airport Fund

The events of September 11, 2001, resulted in an immediate and dramatic reduction in air travel felt both locally and across the nation. The City's Airport was affected, resulting in a decline in commercial aviation revenue, including landing fees, concessions and parking fees. This is evidenced by a decline of \$223,934 in total revenues from fiscal year 2001 to 2002, as shown in the table above.

Although fiscal year 2003 adopted revenues assumed a continued decline in revenues, actual revenues surpassed expectations significantly, generating \$10.7 million. This large increase was due to several factors, including a bump in lease revenues generated from the commercial/industrial properties owned by the Airport. Over the last several years, the Airport has



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invested significant funds towards the improvement of the commercial and industrial properties, which has enabled the Airport to adjust lease rates to market. Fiscal year 2004 revenues have been conservatively estimated because of the lingering uncertainty in air travel. In fact, passenger volume is still not back to pre-September 11, 2001, levels and fiscal year 2004 estimates are based on the assumption that this trend will continue.

Downtown Parking Fund

Downtown Parking Fund revenues are generated primarily from hourly parking charges in the various parking lots throughout the City's downtown area, making up 64% of total budgeted revenues. Local residents and visitors use these parking lots when they come into the downtown area for shopping and dining. Although use of parking lots, and thus revenue, is affected by economic conditions, as consumer spending and parking demands are linked together, the impacts are generally not severe. This was illustrated in fiscal year 2002 when, amid a weakened economy and fears inspired by terrorist acts, total revenues dropped by only \$79,978. In fiscal year 2004, revenues are estimated at approximately \$4.85 million, representing an increase of \$164,389 (3%).

Golf Fund

The Golf Fund has been unaffected by the slowdown in the economy and terrorist attacks. Revenues grew modestly from fiscal year 2001 to 2002, and are expected to grow similarly in fiscal year 2004. Overall, the demand for play times is strong as a result of highly competitive green fees and improvements made to the course.

Wastewater Fund

Approximately 90% of total Wastewater revenue comes from service charges. Due to the rate structure, which caps the charges at a specific level, revenues are fairly stable from year to year. Fiscal year 2003 revenues increased over 2002 due to a rate increase approved to cover the increasing costs of operations, particularly the sharp increase in electricity costs. Still, fiscal year 2003 revenues fell short of budget by almost \$1 million. Consequently, estimates for fiscal year 2004 have been lowered to be in line with fiscal year 2003 year-end projections, and also reflect a 4% increase in wastewater service rates, which is expected to generate approximately \$370,000 in additional revenues. These revenues will be used to finance the costs of major enhancements to the El Estero Treatment Plant over the next several years, totaling over \$10 million. The 30-year old plant requires systematic replacement and overhaul of major components used to treat wastewater, including rehabilitation of the primary and secondary clarifiers, aeration basins, process air blower and influent pumps, air scrubbers, and the replacement of the debris removal system.

Water Fund

Water Fund revenues have generally been stable over the last few years. As shown in the preceding table, revenues spiked in fiscal year 2001 as a result of new accounting standards, as previously discussed, requiring the recognition of over \$700,000 in revenue for the change in fair



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market value of investments. Otherwise, revenues are in line with fiscal years 2002 and 2003 actual revenues.

Fiscal year 2003 actual revenues fell short of budget of budget estimates by over \$800,000 due to unexpected rain levels during the year affecting water sales and, perhaps, overly optimistic revenue estimates. Fiscal year 2004, revenue estimates are consistent with fiscal year 2003 actual revenues, and include an additional \$900,000 in revenues due to a 4% fee increase to water rates that will cover the increasing costs of operations, including an expanded capital program to address aging facilities and systems. For example, over the next six years, an estimated \$17.5 million will be spent on improvements to the 39-year old Cater Treatment Plant. The improvements involve the replacement of aging equipment, changes needed to meet upcoming drinking water regulations and standards mandated by the Federal Safe Drinking Water Act. For fiscal year 2004, the Water Capital Program will total \$6.4 million.

Waterfront Fund

The Waterfront Fund accounts for the management and operation of the harbor, wharf, beach and waterfront parking lots and the waterfront area pursuant to a Tidelands Trust Agreement with the State of California. Although heavily reliant on tourism for its revenues, the Waterfront Fund has only been mildly affected by the events of the last 18 months. Although revenues appear to have dropped dramatically between fiscal years 2001 and 2002 (see preceding table), fiscal year 2001 revenues include \$2.3 million in insurance proceeds associated with the Stearns Wharf fire. In reality, revenues actually grew during the period. Fiscal year 2004 revenue estimates are based on a continuation of this trend, as well as adopted increases to harbor related fees and parking fees. These fee increases are needed to cover same rising costs affecting all funds, including property and workers' compensation insurance, health insurance, retirement, and salary costs.

New Initiatives/Major Projects

Housing Element Update Under Review

In 2003, the City of Santa Barbara is required to update the Housing Element of the General Plan. In the fall of 2002, two public workshops were held to identify new housing options that Council may want to include in the 2003 Housing Element Update (HEU). The first workshop was held on October 24, 2002 and identified a number of policy ideas for consideration. A follow-up one day forum was held on December 13, 2002.

Subsequently, staff drafted the preliminary HEU chapters for review and discussion. From March to August, a series of discussion meetings were held with the Planning Commission and public to consider information in the draft chapters and discuss housing issues. In August, the Planning Commission completed its review of the Draft Element. On August 19th, the Council reviewed the Draft HEU and directed staff to submit the draft to the State for review. The City expects to



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complete environmental review, respond to comments from the State and adopt the new Housing Element by December 2003.

Creek Development Standards Being Considered

The City of Santa Barbara is creating new creek development standards as a part of its overall Creeks Restoration and Water Quality Improvement Program. Creek development standards may include required setbacks for buildings, structures, and uses on certain parts of City creeks, creek restoration standards and techniques, water quality improvement measures, and environmental review and permit coordination.

The Draft Creek Development Standards (CDS) Report was released in February 2003 and was followed by a public information meeting, two Planning Commission meetings, and a follow-up public workshop. Based upon public and Planning Commission input, City staff is working on extensive and substantive changes to the recommendation to address comments received as part of the public review process. Once staff has developed proposals that respond to the suggestions raised, another round of public outreach will begin as part of the deliberation of the revised standards. The matter will eventually go to City Council for direction on preparing appropriate ordinances at a date yet to be determined.

Mercy Housing Project Gets Approval

The City and the Redevelopment Agency are proceeding with the most significant affordable housing development to be built on the South Coast. Mercy Housing California and St. Vincent's Institution are developing 75 low-income family apartments and 95 low-income senior apartments on the 19-acre St. Vincent's School campus at Highway 154 and Calle Real. The development will be financially supported by the City and County of Santa Barbara as a regional response to affordable housing needs. The City and the County cooperated in annexing the property into the City to make it possible for the City and the Redevelopment Agency to use subsidy funds restricted to use within the City. The Redevelopment Agency has committed \$10.6 million to the project costs, and the County has committed \$3 million. Additionally, the senior housing component of the development received an \$11 million funding commitment from the Federal government. Construction is expected to begin in 2004.

Major Improvements Underway at Cater Water Treatment Plant

The William B. Cater Water Treatment Plant, which was built in 1964, supplies drinking water to the City of Santa Barbara, Montecito Water District and Carpinteria Valley Water District. The plant has a maximum capacity of 37 million gallons per day and an average production rate of 16 million gallons per day.

Major improvements to the Cater plant are planned over the next several years. The improvements involve the replacement of aging equipment, changes needed to meet upcoming drinking water



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regulations and standards mandated by the Federal Safe Drinking Water Act, and both process and physical improvements to increase reliability, efficiency and security of the entire water treatment operation.

The total cost of the improvements is estimated at approximately \$20 million, which will be funded from a loan from the State Department of Water Resources. The terms of the loan include a 2.5% interest rate and a repayment term of 20 years. Pursuant to a Joint Powers Agreement, the Montecito and Carpinteria Water Districts will pay 39% of the total debt service requirements on the loan.

Sheffield Reservoir to be Buried

The Sheffield Reservoir Water Quality Project involves replacement of the open reservoir with two 6.5 million gallon buried concrete reservoirs and conversion of the site to a passive open space park.

Construction to replace the open Sheffield Reservoir with two permanent buried reservoirs has begun. Before actual construction of the buried reservoirs begins in Spring 2003, two temporary tanks must be installed. Temporary tank construction began in August 2002 and will continue through July 2003, and this portion of the project includes site clearing, constructing the tank foundations, retaining walls, and piping to support the two above ground bolted steel reservoirs. The temporary tanks will be disassembled by December 2004 when the permanent buried reservoirs are complete. Neighborhood issues and needs will be continuously addressed to monitor dust, dirt, and noise and to limit working hours and truck routes. Total project cost is estimated at \$22 million.

Recycling Program to be Expanded

In September 2002, City Council approved the Solid Waste Program Policies, Principles, Goals and Strategies, outlining Council's intent to become the recycling leader in the State of California. Council's goal includes reaching diversion rates of 60% by the year 2005 and 70% by the year 2010. The Solid Waste Fund is currently funded from a 2% franchise fee and had an annual budget of approximately \$250,000 in the prior fiscal year (2003). These revenues covered salaries and benefits costs, the Looking Good Santa Barbara Program, and a limited public outreach effort to the commercial sector. The prior year budget allowed no room for growth in critical solid waste functions necessary to reach the above-stated goals.

In November 2002, Council approved modifications to solid waste rates to provide the City's franchise hauler, Browning Ferris Industries (BFI), an incentive to recycle more in the commercial sector. Rates for commercial bins collecting recyclables were established at 40% - 60% less than trash rates and, in so doing, the City received BFI's commitment to collect commercial recyclables up to six (6) days per week (recyclables were previously collected only once per week).

For fiscal year 2004, a 4% rate increase will be implemented to fund programs critical to the advancement of Council's goals. The 4% rate increase will generate approximately \$400,000 and



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will be applied to both residential and commercial rates - with no fiscal effect on the haulers. The monthly increase to the typical residential and commercial customer with can service is less than \$1.

Highlighted activities include: a State-required Solid Waste Assessment Test of Las Positas Landfill; establishment of a food waste recycling program in accordance with the Council's Solid Waste Policy; hiring a Recycling Coordinator to assist in development and implementation of diversion programs; establishment of a school recycling program; and conducting a waste characterization study at the Tajiguas Landfill.

Clean Sweep Coming to the East Side

In July 2003, the City expanded its street sweeping program to include daytime residential street sweeping of twenty four miles of streets on the Eastside, beginning in July 2003. This program is similar to the Westside Residential Sweeping Pilot Program ("Clean Sweep") in fiscal year 2003.

The City currently provides daytime street sweeping in residential areas pursuant to the Westside Residential Street Sweeping Pilot Program ("Clean Sweep") and street sweeping in the downtown area pursuant to the Commercial Night-Time Street Sweeping Program. In December 2002, Council approved a Consolidated Street Sweeping Program (CSSP) to combine the efforts of the commercial and residential street sweeping programs and to allow for continued expansion of street sweeping to other neighborhoods over time. The ultimate goal is to sweep as many streets as possible on a regular basis. CSSP was implemented on July 1, 2003.

Expansion of street sweeping to Eastside neighborhoods will require a community information program similar to what was done on the Westside. It will include community meetings, print ads and distribution of bilingual information flyers. This expanded program will also offer a Street Sweeping Web Page where residents can get information about sweeping schedules and leave any questions or comments for staff on-line. As with the Westside Program, on-street parking demand on the Eastside is high; therefore, alternate-side parking regulations will be needed to provide a clear curb for effective sweeping.

Three Parking Enforcement Officer positions were created in January 2003 to the Parking Enforcement Unit of the Police Department to allow for enforcement of parking-regulated sweeping areas on the Westside and Eastside, as well as some limited enforcement in future areas. The addition of new officers will also restore prior parking enforcement levels in the central business district. All revenue from citations issued for sweeping-related parking violations will be dedicated to support of sweeping activities in the Consolidated Street Sweeping Program. Fines collected for citations issued for non-sweeping related violations will continue to be revenue for the General Fund. In fiscal year 2004, the costs of the CSSP totaling \$740,458 will be funded from \$150,000 in Measure B funds, an estimated \$531,159 in parking citation revenue and the balance from other streets revenue.



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Old Mission Creek Restoration Project at Bohnett Park Approved

Last July, Council approved the Old Mission Creek Restoration Project at Bohnett Park. This project is part of the City's effort to restore creeks and improve water quality throughout the City. This project and similar projects are being funded from the increase in the transient occupancy tax from 10% to 12% pursuant to voter-approved Measure B. The Old Mission Creek Restoration Project will enhance and restore approximately 1½ acres of valuable riparian habitat in a severely deficient urbanized neighborhood and improve water quality by creating a vegetative bio-filter in the expanded habitat area. The Project will also provide environmental and educational opportunities for neighbors and other volunteers. Final design is now complete and Federal, State and local permits have been received. Construction is expected to begin later this year.



INTRODUCTION

Directory of City Officials

Marty Blum
Mayor

Dan B. Secord, M.D.
Councilmember

H.P. "Rusty" Fairly
Councilmember

Gregg A. Hart
Councilmember

Roger L. Horton
Councilmember

Iya G. Falcone
Councilmember

Babatunde Fodayemi
Councilmember

James L. Armstrong
City Administrator/City Clerk/Treasurer

Daniel J. Wallace
City Attorney

Joan Kent
Assistant City Administrator

Robert D. Peirson
Finance Director

Karen S. Ramsdell
Airport Director

Richard C. Johns
Parks and Recreation Director

Carol L. Keator
Library Director

Camerino Sanchez
Police Chief

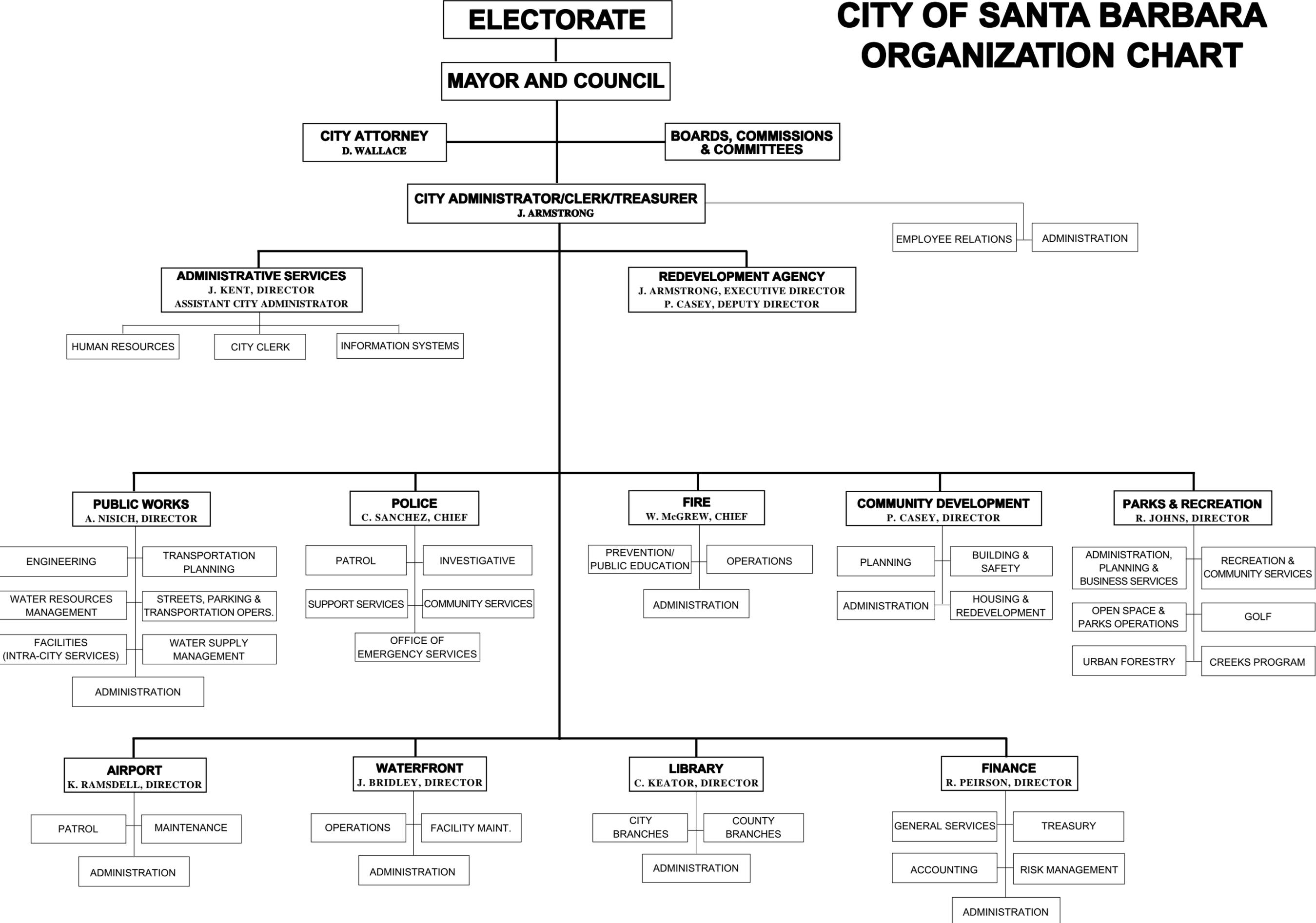
Warner R. McGrew
Fire Chief

Paul A. Casey
Community Development Director

Anthony J. Nisich
Public Works Director

John N. Bridley
Waterfront Director

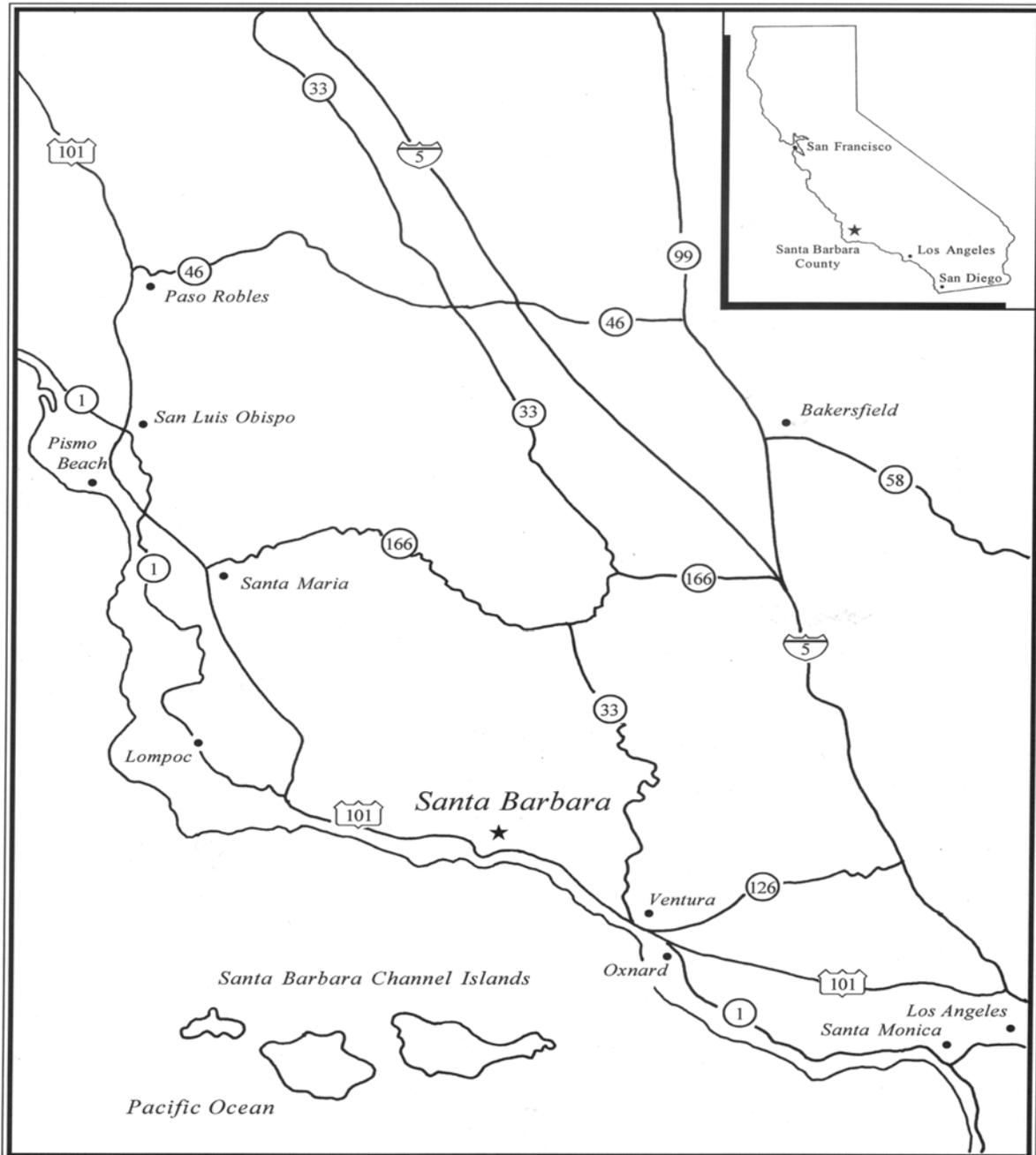
CITY OF SANTA BARBARA ORGANIZATION CHART





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Santa Barbara Area Map





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About the City of Santa Barbara

The City of Santa Barbara is located approximately 90 miles north of Los Angeles off of U.S. Highway 101, and is geographically sheltered by mountains on the north and the Pacific Ocean on the south. The City of Goleta and the unincorporated area of Montecito border the City on the west and east, respectively.

Until the late 1700's, the area currently known as "Santa Barbara" was occupied by the Chumash Indians. The Chumash lived in small villages along the coast and on the Channel Islands, living comfortably for thousands of years thanks to the abundance of wildlife and natural resources.

In 1542, Portuguese explorer Juan Cabrillo entered the Channel and claimed the land for Spain. In 1602, three frigates under the command of Sebastian Vizcaino entered the Santa Barbara Channel. One of the Carmelite friars on board named the bay and nearby shore after Saint Barbara.

In 1782, a group led by Father Junipero Serra, Captain Jose Ortigas, and Governor Felipe de Neve established a military presidio and, three years later, a mission. Spain governed the area until 1822, when California became a Mexican territory. Just 24 years later, in 1846, Colonel John Fremont and his soldiers took Santa Barbara for the United States.

The City of Santa Barbara (the primary government) was incorporated on August 26, 1850. The City is a charter city under the laws of the State of California and operates under a Council-Administrator form of government. The Council consists of six council members and a mayor, all of whom are elected at-large. The current City Charter was adopted on May 2, 1967 and provides for the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning and general administration. Enterprise funds, operated in a manner similar to a private business, include water, wastewater, airport, parking, golf and waterfront.

The Redevelopment Agency of the City of Santa Barbara (Agency), a blended component unit of the City, was established in 1968 and is a separate governmental entity as prescribed in the State of California's Community Redevelopment Law as set forth in the State's Health and Safety Code.

The City Council of the City of Santa Barbara and the Board of Directors of the Agency are legally separate boards; however, they share common membership. The City also provides all support staff and performs all administrative functions for the Agency under the terms of a written agreement between the two entities.



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Miscellaneous Statistics

General City Information:

Date of incorporation	August 25, 1850
Form of government	Council-Administrator
Area in square miles	23
Miles of streets	280
Number of traffic intersections	104

Community Forest, Beaches and Gardens:

Number of park and open space trees	12,000
Number of street trees	23,000
Linear miles of city-owned beaches	3.4
Community gardens	4

Airport:

Number of terminals	1
Number of commercial carriers	4
Number of ticketed passengers annually	781,995
Number of runways	3
Total airport acreage	950
Commercial / industrial acreage	95
Number of leased buildings	76
Goleta Slough Ecological Reserve wetlands acreage	400

Hospitals:

Number of hospitals	2
Number of patient beds	128

Libraries:

Number of city libraries	2
Number of bookmobiles	1
Number of county libraries	6
Total volumes	373,850

Municipal Water Department:

Gallons of potable water treated and distributed annually	4.3 billion
Gallons of reclaimed water treated and distributed annually	265 million
Number of reservoirs	13
Number of pump stations	11
Number of treatment plants	4
Number of wells	10
Number of water reclamation facilities	1



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Miscellaneous Statistics

Municipal Wastewater Department:

Number of treatment plants	1
Number of lift stations	13
Gallons of water treated annually	3.1 billion

Parks and Recreation:

Park acreage	1,764
Number of developed parks	46
Number of undeveloped parks	11
Number of park playgrounds	22
Number of swimming and wading pools	5
Number of community centers	13
Number of sports facilities	9
Number of municipal golf courses (18 holes)	1

Public Safety:

Number of police stations	1
Number of police officers and other sworn personnel	152
Number of law violations	
Physical arrests	11,087
Traffic violations (citations and warnings)	12,619
Parking violations	52,374
Number of fire stations	8
Number of firefighters and officers	115

Public Schools:

Elementary schools	13
Annual enrollment	6,260
Secondary schools	7
Annual enrollment	9,480
Colleges	1
Enrollment per semester	14,000

Waterfront:

Acreage of city-managed tidelands and submerged lands	252
Wharf length in feet	1,978
Acreage of wharf decking	3.8
Number of marinas	4
Number of commercial and pleasure vessel slips	1,133
Number of waterfront property leases	60



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Demographics

Population 90,464

Land Area 23 square miles

Population Demographics: ⁽¹⁾

	<u>Number</u>	<u>%</u>
Households	35,605	100.0
Family households	18,954	53.2
Married couples	14,163	39.8
Male householder	1,415	3.9
Female householder	3,376	9.5
Non-family households	16,651	46.8
Households with individuals under 18 years	9,578	26.9
Households with individuals 65 years and over	8,871	24.9
Average household size	2.47	(X)
Average family size	3.17	(X)

Housing Occupancy:

Total housing units	37,076	100.0
Occupied housing units	35,605	96.0
Vacant housing units	1,471	4.0
For seasonal, recreational, or occasional use	525	1.4
Homeowner vacancy rate	(X)	0.7
Rental vacancy rate	(X)	2.3

Housing Tenure:

Occupied housing units	35,605	100.0
Owner-occupied units	14,957	42.0
Renter-occupied units	20,648	58.0
Average household size of owner- occupied units	2.51	(X)
Average household size of renter- occupied units	2.43	(X)

	<u>Number</u>	<u>%</u>
Gender:		
Male	45,454	49.2
Female	46,871	50.8

Age:

Under 5 years	5,194	5.6
5 to 9 years	5,499	6.0
10 to 14 years	4,789	5.2
15 to 19 years	6,684	7.2
20 to 24 years	8,790	9.5
25 to 34 years	15,809	17.1
35 to 44 years	13,993	15.2
45 to 54 years	12,124	13.1
55 to 64 years	6,716	7.3
65 to 74 years	5,391	5.8
75 to 84 years	4,862	5.3
85 years and over	2,474	2.7
Median age (in years)	34.6	(X)

Race:

White	68,355	74.0
Black or African American	1,636	1.8
American Indian/Alaska Native ...	990	1.1
Asian	2,554	2.8
Pacific Islander	126	0.1
Some other race	15,110	16.4
Two or more races	3,554	3.8

Hispanic or Latino and Race:

Total population	92,325	100.0
Hispanic or Latino (of any race) ..	32,330	35.0
Not Hispanic or Latino	59,995	65.0
White alone	53,849	58.3



INTRODUCTION

Demographics

Economic Demographics: ⁽²⁾

<u>Service Industry (private & non-profit)</u>	<u>Number of Businesses</u>	<u>Number of Employees</u>
Retail trade	655	7,589
Professional, scientific, and technical services	520	2,950
Healthcare and social assistance	416	3,277
Foodservice and accommodation	386	7,570
Real estate and rental & leasing	256	1,277
Other services (except public administration	205	1,130
Administrative and support, waste management, and remediation services	162	3,331
Wholesale trade	157	1,145
Manufacturing	155	2,204
Arts, entertainment, and recreation	43	395
Educational services	26	165

Leading Area Employers, Public and Private (with industry): ⁽³⁾

University of California, Santa Barbara (public administration-education).....	9,500
County of Santa Barbara (public administration)	4,467
Santa Barbara Cottage Hospital (healthcare)	1,951
Raytheon Electronic Systems (manufacturing)	1,875
Santa Barbara City College (public administration-education).....	1,570
Santa Barbara High School District (public administration-education)	1,230
Sansum-Santa Barbara Foundation Clinic (healthcare)	1,170
City of Santa Barbara (public administration)	1,069
U.S. Postal Service (postal service)	1,005
Santa Barbara Bank and Trust (banking)	820

(1) Source: U.S. Bureau of the Census, 2000 Census

(2) Source: U.S. Bureau of the Census, 1997 Economic Census

(3) Source: Santa Barbara Chamber of Commerce, as of June 30, 2002