



BUDGET MESSAGE

City Administrator's Budget Message

INTRODUCTION

Overview



I am pleased to present the Two-Year Financial Plan for Fiscal Years 2016 and 2017, which includes the Fiscal Year 2016 Operating and Capital Budget. This document is the culmination of many months of effort on the part of City staff across the entire organization and has been prepared in the context of an overall favorable financial and economic climate.

Tourism, the City's largest industry, has benefitted from the overall economic recovery, but also from unusually dry and warm weather, even through the winter months. The lodging industry in particular has experienced tremendous gains in the last few years, with revenues growing an average of over 10% from fiscal year 2012 to 2014. The City's transient occupancy tax (TOT) revenues, generated from a 12% tax applied to room rates, have correspondingly experienced strong revenue growth over the last several years. While not as strong as TOT revenues, both property tax and sales tax revenues, the two largest General Fund revenues, have also performed well.

The strong revenue growth provided additional funds to address several important needs, although not enough to fully address them all. The challenge in preparing the fiscal year 2016 budget, therefore, was finding the right balance among competing priorities, specifically: (1) responding to the increasing demand for services, increasing workloads, and restoring some needed services that were cut during the difficult budget cycles of earlier years; (2) addressing the funding gap in reserves relative to City policy; and (3) providing appropriate levels of funding for much needed capital. I believe the budget strikes the right balance among these competing priorities.

The adopted budget allocates a portion of the additional revenues to fund modest enhancements to General Fund departments totaling approximately \$730,000 to restore and augment important services. These increases are consistent with the strategy of incrementally restoring previously cut staff and services and increasing resources in key areas. The balance of the additional revenues has been set aside as an "Appropriated Surplus" totaling \$1,887,742 and \$1,159,701 in fiscal years 2016 and 2017, respectively. This strategy is designed to ensure some level of funds is available at year-end to increase reserve balances and provide supplemental funding for capital. In fiscal year 2013, the City Council adopted a policy requiring 50% of any year-end surplus to be



BUDGET MESSAGE

City Administrator's Budget Message

allocated to capital, with the balance going to meet reserve requirements. Since adoption of this policy, a total of \$3.6 million was generated and augmented the annual capital program.

Over the last several years, the strong revenue growth has helped close the funding gap in General Fund reserves, which were approximately \$10 million below the amounts required per City policy in 2008. The funding gap at the end of fiscal year 2014 was just \$1.7 million. This was accomplished even with the new policy requiring that 50% of any surplus be allocated to capital. Moving forward, however, the ability to close the gap completely, or perhaps maintaining the current funded status, will be a challenge since reserve requirements are calculated as 25% of the operating budget. As operating budgets grow over the next several years due to increasing retirement costs, providing reasonable cost of living increases to employee wages and salaries, and modestly restoring/augmenting key services, reserve requirements will grow and will add yet more pressure on revenue growth to cover the increasing reserve requirements.

To close the funding gap in General Fund reserves in two years, the City Council has approved a plan to allocate portions of the expected surpluses in Fiscal Year 2015 through 2017 that would otherwise be allocated to capital projects per City reserve policies, as shown below:

- 75% of Fiscal Year 2015 Expected Surplus to Operating Reserves (25% Allocated to Capital)
- 100% of Fiscal Year 2016 Budgeted Surplus to Operating Reserves
- 75% Fiscal Year 2017 Budgeted Surplus to Operating Reserves (25% Allocated to Capital)

Another challenge to restoring reserves has been recent legal suits brought against the City that have resulted in large settlement payouts and the loss of ongoing revenue in the General Fund. One of the lawsuits is challenging the City's 1% franchise fee charged to Southern California Edison. The plaintiffs argue the franchise fee is a tax that should have been approved by the voters pursuant to Proposition 218 adopted in 1995. The trial court agreed with the City's position, but it was overturned on appeal. The City Council petitioned the Supreme Court to hear the case since it could set a major precedent affecting franchise fees collected by local governments statewide and the Supreme Court agreed to hear the case. In the meantime, to be safe we have reduced General Fund revenues by approximately \$700,000 per year, resulting in a large ongoing impact to the General Fund. However, we have not made provision for any refunds we may need to pay going back to 2010, which could be several hundred thousand dollars.

In addition, the City recently settled a lawsuit alleging racially polarized voting under the



BUDGET MESSAGE

City Administrator's Budget Message

California Voting Rights Act. The settlement included establishing district elections, which the City has done, as well as paying legal fees to the attorney representing the plaintiffs. In total, the City has paid \$677,000 in attorney fees.

Finally, the City's appeal of the trial court's decision in an inverse condemnation case involving properties in a landslide area was unsuccessful. The City will have to pay damages and legal fees totaling close to \$1 million.

These cases have created a larger gap in our goal to restore policy reserves, and have led to a tempered budget submittal.

The warm and dry weather these past several years, while helping to boost the local economy and the General Fund, has also resulted in unprecedented drought conditions, both locally and statewide. The community has responded to a request for a voluntary reduction in water usage of 20%; through February, water usage was down 23%. The City has also looked to other water sources to offset the shortfalls in primary water sources. In addition to rehabilitating closed wells and purchasing water on the open market, the City is also moving forward with reactivation of the Charles E. Meyer Desalination Plant. The Plant, which was originally built in the early 1990s, is expected to be in operation by late summer of 2016 and will have the capacity to produce 3,125 acre-feet of water per year, approximately one-third of the City's annual water supply needs. As long as the drought continues, however, conservation will continue to be an important element of the response plan, along with additional use of underground water supplies and purchased water from external sources.

Apart from the drought, one of the lingering challenges facing the City is the large funding gap in maintaining and rehabilitating major facilities and infrastructure, such as streets and sidewalks and older buildings. The funding gap is estimated at \$400 million over the next twenty years – approximately \$20 million per year. The City created an Infrastructure Financing Taskforce (IFT) in 2008 made up of members of the community and City staff. Their report, which included a number of recommendations, was unfortunately issued in early 2009 just as the Great Recession began. With the economy back on track, and looking to build on the work of the IFT, the City formed a committee of Council members to bring this matter back to the forefront. The Council committee held numerous public meetings during the summer and fall of 2014 to hear from the community as to their priorities for the backlog of infrastructure capital needs. More recently, the City hired a firm to conduct a scientific survey of the community to gauge their interest in addressing the infrastructure funding gap and whether they would support a tax measure that would provide a dedicated funding source for this purpose. Depending on the results of the survey and Council interest, the City may add such a measure to the November 2015 ballot for the public to vote on. The goal of the measure is to generate sufficient



BUDGET MESSAGE

City Administrator's Budget Message

revenues to fund approximately half of the \$400 million deficit over a 20-year period.

Outside of the General Fund, important services are provided out of the City's enterprise funds. These funds, which operate like private enterprises, do not receive any tax support, but rather fund their operations primarily from fees to customers directly using those services. The City's enterprise funds include the Airport, Golf, Water, Wastewater, Waterfront, Downtown Parking, and Solid Waste funds. All of these funds face their own unique financial challenges, and this year the challenges for several are more pronounced than normal. Each of these funds is discussed later in this budget message.

Overall, the short term outlook is very favorable. We look forward to continued strong growth in General Fund revenues through the next two years as projected. We are also pleased to be in a position to make further strides in restoring services cut during the recession and, in some cases, augment existing services in key areas. Long-term, it will be important to continue to keep costs in check to ensure reserve levels are maintained and adequate funding is provided for capital.

Summary of Citywide Budget

The adopted fiscal year 2016 citywide operating budget totals \$293.4 million and has a \$105.8 million capital program. Separate funds are used to account for discrete operations.

At \$124.3 million, the General Fund is the largest individual fund in the City and accounts for most services associated with municipal government, including parks, recreation, library, police, fire, building and planning services. The General Fund is primarily funded from general tax revenues such as sales, transient occupancy, and property tax revenues.

Special revenue funds, totaling \$33.7 million (including \$5.2 million for capital), are used to account for restricted revenues. Examples of these funds include: the Community Development Block Grant Fund, in which federal funds are used to provide programs targeted at low and moderate income families; the Creeks Restoration and Water Quality Improvement Fund, which is funded from a 2% transient occupancy tax approved by City voters in 2000; and the Transportation Sales Tax Fund, which accounts for a ½ cent sales tax measure approved by County voters to fund improvements to local and regional streets and highways.

Enterprise funds include the Airport, Water, Wastewater, Golf, Downtown Parking, Solid Waste, and Waterfront Funds. These funds are funded primarily from fees and other user charges. Their operating budget totals \$117.6 million and capital program totals \$93.7 million.



BUDGET MESSAGE

City Administrator's Budget Message

Internal service funds, totaling \$27.2 million (including a \$4.2 million capital program), account for services provided internally to City departments. These services include information systems management, vehicle maintenance, facilities maintenance, and risk management.

GENERAL FUND HIGHLIGHTS

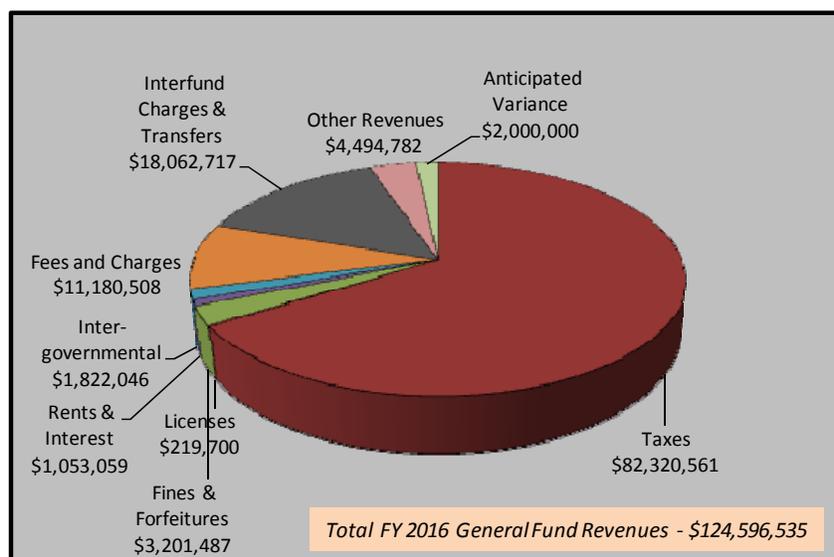
Balancing the General Fund

The adopted fiscal year 2016 General Fund budget totals \$124.3 million. It includes modest but important increases to staffing across many General Fund departments. The need for additional staff is driven by a variety of factors. In some cases, they are in response to increasing demands for services or increasing workloads; in other cases, it involves restoring positions and related functions that were eliminated during the recession.

The capital program for fiscal year 2016 totals \$2,745,000. This reflects a baseline funding of \$905,000 plus an additional \$1,840,000 derived from prior year's surplus pursuant to the new policy adopted by City Council in 2013 that requires 50% of any General Fund surplus realized at the end of the year to be used to augment the annual funding for capital. In fiscal year 2014, the General Fund realized a surplus of approximately \$3.7 million. Therefore, \$1,840,000 (i.e., 50%) was made available for capital in fiscal year 2016.

General Fund Revenues

The accompanying chart presents the major revenue categories for the General Fund. Total General Fund revenues are approximately \$124.6 million. At \$82.3 million, the largest revenue category is Taxes, making up 66% of total revenues. Taxes include property, sales, utility use, transient occupancy, and other smaller taxes. The fact





BUDGET MESSAGE

City Administrator's Budget Message

that such a large portion of General Fund revenues is derived from taxes is common in local governmental agencies. These tax revenues are used primarily to fund services of a general benefit to the community, such as police, fire, libraries, parks and recreation.

For fiscal year 2016, the General Fund expects to generate \$18.3 million in Interfund Charges and Transfers, which consists of charges imposed by the General Fund for services provided to other City funds and operations. For example, the General Fund charges all funds for central administrative services, such as financial services, administrative services, legal services and City administration.

Revenues from Fees and Charges are estimated at \$11.2 million for fiscal year 2016. These revenues are generated from fees charged to residents for direct services received. This category includes a broad range of fees imposed across different departments, such as recreation fees for dance classes or the use of a facility for a wedding; fire inspection fees; plan check fees; and building permit fees.

Each year, the General Fund budget includes a quasi-revenue called "Anticipated Variance." This "revenue" actually represents the estimated savings in expenditures – primarily salaries and benefits – to be realized by the end of the fiscal year. Each year, due to staff vacancies and changing circumstances, the General Fund realizes varying amounts of expenditure savings relative to the adopted budget. Historically, these savings have been between \$2 and \$3 million. For fiscal year 2016, we have estimated \$2 million, which is an increase from the \$1.2 million estimate budgeted in recent years.

Growth Rate Assumptions

The table below summarizes the five largest General Fund revenues, showing the actual results for fiscal year 2014, the fiscal year 2015 projections, and the assumed growth rates and revenue amounts contained in this two-year financial plan for fiscal years 2016 and 2017.

	FY 2014 Actual	FY 2015 Projected	Projected Growth	Two-Year Financial Plan			
				FY 2016 Adopted	Assumed Growth	FY 2017 Proposed	Assumed Growth
Property Tax	\$26,555,242	\$27,669,900	4.2%	\$28,742,300	3.9%	\$29,857,700	3.9%
Sales Tax	21,323,309	22,311,041	4.6%	23,367,961	4.7%	24,426,951	4.5%
TOT	16,821,995	18,612,400	10.6%	19,707,100	5.9%	21,022,100	6.7%
UUT	7,008,202	6,973,700	-0.5%	7,219,700	3.5%	7,395,000	2.4%
Franchise Fees	3,822,441	3,899,900	2.0%	3,219,400	-17.4%	3,242,900	0.7%
TOTAL	<u>\$75,531,189</u>	<u>\$79,466,941</u>		<u>\$82,256,461</u>		<u>\$85,944,651</u>	



BUDGET MESSAGE

City Administrator's Budget Message

The largest General Fund revenue is **property taxes**. After a few years of no growth, property tax revenues are now growing at moderate rate. Properties are assessed a 1% tax annually, payable in two equal installments. In addition, the assessed values can increase by the lesser of the Consumer Price Index (CPI) or 2%. The CPI has been relatively low in recent years, resulting in only a modest increase to assessed values and tax revenues. Starting in fiscal year 2014, an uptick in property values and sales have driven up assessed values, resulting in a 4.2% growth in City property tax revenues anticipated in fiscal year 2015. For the next two years, we anticipate almost 4% in revenue growth in each year.

Sales tax revenues have performed well during the last few years, averaging almost 6% per year from fiscal year 2011 through 2014, with a low of 3.3% and a high of 8.8%. Based on two quarters' receipts in fiscal year 2015, we project a 4.6% growth for the year, and similar growth for the next two years. In general, the allocation of sales taxes statewide has been subject to a great deal of discussion and concern, in particular with the growth of online sales transactions. Certainly, the growth in internet sales has created winners and losers among California cities due to the way sales taxes from internet sales are collected and allocated. The City of Santa Barbara, with its strong "bricks and mortar" presence, could potentially see deterioration in future sales tax revenues unless and until this issue is resolved on a statewide level.

Transient occupancy tax (TOT) revenues have led the way in terms of overall percentage growth. Following two years of decline due to the recession, TOT revenues have grown an average of 10% over the last four years. A number of factors have likely played into this tremendous growth, including the dry and warm weather, increased marketing by Visit Santa Barbara funded from the Tourism Business Improvement District that has doubled the funding available for marketing the south coast, and an increase in vacation rentals. We anticipate strong growth over the next two years, although tempered in fiscal year 2017 given the general increased risk associated with longer-term projections.

It is important to note that our TOT revenue projections contained within this two-year plan do not factor in any potential revenue loss from vacation rentals. The City has recently initiated a process to determine how to address the sharp increase in these types of businesses in residential neighborhoods where the City's zoning ordinance prohibits this type of activity. Thus far, the City has not been actively enforcing the zoning ordinance except on a complaint basis. This year, the City expects to receive between \$800,000 and \$900,000 in TOT revenues from vacation rentals. The TOT revenue will see a decline to the extent the City Council decides to prohibit and strictly enforce vacation rentals in neighborhoods.



BUDGET MESSAGE

City Administrator's Budget Message

We have also not factored an increase in TOT as a result of the La Entrada project on lower State Street, which is scheduled to be completed by late fall of 2016. The La Entrada project is fully entitled for a 114-room luxury hotel, nine fractional vacation units, and 21,557 square feet of retail space with open plazas, paseos and gardens. While the project will certainly generate additional TOT and sales tax revenues to the City starting in fiscal year 2017, it is too premature to make any meaningful estimates for purposes of the two-year financial plan. However, we do expect to have more information when we develop the recommended budget for fiscal year 2017.

Utility users' tax (UUT) revenues are generated from a 6% tax applied to water, electricity, natural gas, and refuse; and a 5.75% tax applied to telecommunication services, including telephone (landline, cellular, internet-based) and video services. Revenues over the last several years have been relatively stable, realizing only modest increases. There have been shifts, however, within the telecommunications sector. For example, UUT revenues from traditional landline telephone services have been in decline for several years, with a corresponding increase in cellular and internet-based phone services as more households are moving away from landline telephone services in favor of cellular telephone services. More recently, there has been a consumer shift away from long-term contracts for cellphone (wireless) service to prepaid wireless services. Until recently, there has been no mechanism in place to collect UUT on prepaid wireless services. However, the state legislature recently enacted AB 1717 which establishes a mechanism, through the State Board of Equalization, to collect UUT from retail stores selling prepaid wireless cards. The effective date for AB 1717 is January 2016, and we have factored in the estimated additional UUT revenues in the two-year plan.

Since **franchise fees** are applied in the same manner and generally to the same utilities as UUT, the pattern of growth between the two revenues are fairly aligned. Historically, growth has been in the 0%-2% range, and our projections are consistent with this historical trend. However, revenues have been lowered starting in fiscal year 2016 by approximately \$700,000 due to a recent court ruling against the City regarding a 1% franchise fee charged to Southern California Edison (SCE). Unlike UUT, which is a tax levied on the consumer, franchise fees are charged to the service provider – in this case, SCE – to compensate the General Fund for SCE's use of the public right-of-way for electrical infrastructure (e.g., electric utility poles and boxes). In this way, franchise fees have long been recognized to be more akin to a rental fee, but not a tax. The court of appeals, in overturning the lower court's decision, ruled that the 1% franchise fee implemented in 2005 was a tax and, therefore, required voter approval pursuant to Proposition 218 enacted in 1995.

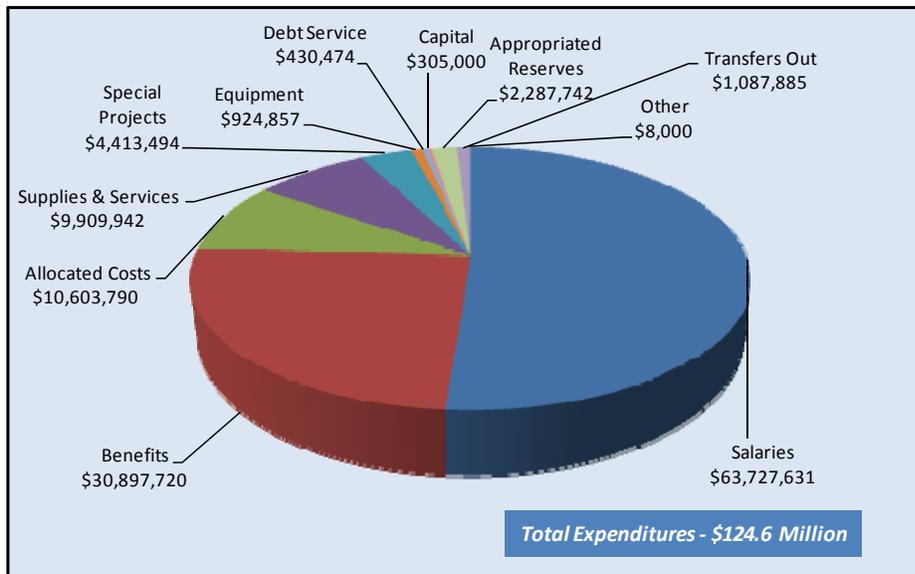


BUDGET MESSAGE

City Administrator's Budget Message

General Fund Expenditures

The table below presents General Fund operating expenditures by major category adopted for fiscal year 2016. The total adopted operating budget is approximately \$124.3 million and the capital program is \$305,000 for a total of \$124.6 million.



million and the capital program is \$305,000 for a total of \$124.6 million.

At 51% of total expenditures, salaries totaling \$63.7 million represent the largest expenditure category. Benefit costs are projected to cost \$30.9 million, and include health insurance,

retirement, and workers' compensation insurance. For most employees, salaries and benefits are negotiated and established through multi-year contracts. During the recession, all City employees did not receive increases to either salaries or benefits and, in fact, took pay cuts as concessions to help address the sharp revenue declines realized during that period. With the local economy and City revenues in growth mode, the City has recently negotiated modest increases to compensation starting in fiscal year 2013.

One of the unfortunate outcomes of the Great Recession was the investment loss incurred by the California Public Employee Retirement System (CalPERS), the pension administrator for most local government agencies in the State of California. The dramatic investment losses directly and significantly reduced the assets held by CalPERS that were accumulated for retirement benefits, creating unfunded liabilities in the billions of dollars statewide. After a few years of adjusting retirement rates, CalPERS ultimately approved a five-year rate strategy to address the unfunded liabilities. The rate strategy, starting in fiscal year 2016, involves large rate increases through fiscal year 2020. For the City of Santa Barbara, the current and projected contribution rates through fiscal year 2020 are shown in the accompanying table. Note

Fiscal Year	Retirement Plan		
	Misc.	Police	Fire
2015	24.17%	40.13%	41.12%
2016	25.71%	37.63%	42.08%
2017	26.93%	41.30%	45.42%
2018	27.83%	43.80%	47.74%
2019	28.67%	46.20%	50.05%
2020	29.57%	48.60%	52.37%



BUDGET MESSAGE

City Administrator's Budget Message

that these rates and costs reflect all employees paying their full share of the retirement costs by 2016, which is 9% for public safety and 8% for all other employees.

Allocated costs total \$10.6 million and represent charges for central services provided by internal service funds, such as information systems, fleet maintenance, facilities maintenance, and insurance. Supplies & services total \$9.9 million and historically have been relatively stable. It includes such costs as training, professional services, office supplies, and utilities.

General Fund Service and Staffing Enhancements

The two-year plan includes modest enhancements to services and staffing across most General Fund departments. The accompanying table presents the General Fund adopted expenditures by department.

Included within the table are the approved enhancements and any added positions to departments. In all cases, the enhancements are in response to increasing demands for services or restoring staff and services cut during the recent recession. The adopted

Fiscal Year 2016 Adopted Budget				
Summary of Expenditures Including Service Enhancements				
GENERAL FUND				
	Baseline Budget	Enhance- ments	Adopted Budget	Added Positions
Mayor & Council	\$ 3,409,528	\$ 52,390	\$ 3,461,918	-
City Attorney	2,353,995	10,800	2,364,795	(0.60)
City Administrator	2,106,819	-	2,106,819	-
Finance	5,439,352	-	5,439,352	1.0
Administrative Services	2,678,762	95,414	2,774,176	1.0
Community Development	10,398,736	132,000	10,530,736	-
Fire	24,880,475	-	24,880,475	-
Police	39,187,073	165,000	39,352,073	-
Public Works	8,390,878	-	8,390,878	-
Library	5,068,343	87,100	5,155,443	1.0
Parks & Recreation	16,243,660	185,566	16,429,226	3.6
General Government	1,822,902	-	1,822,902	-
Appropriated Surplus	1,887,742	-	1,887,742	-
	<u>\$ 123,868,265</u>	<u>\$ 728,270</u>	<u>\$ 124,596,535</u>	<u>6.0</u>

enhancements total \$728,270 and include 6 full-time equivalent positions across many General Fund departments. A summary of the enhancements and added positions by department is provided below.

Mayor & Council

Starting in fiscal year 2015, the Community Promotions Program was moved into the Mayor & Council's Office budget. Community Promotions includes funding to various organizations that provide cultural events and festivals within the City. Such events



BUDGET MESSAGE

City Administrator's Budget Message

include Fiesta, Summer Solstice, etc. The largest component of this program, which totals approximately \$1.5 million, is the funding provided to Visit Santa Barbara whose purpose is to promote Santa Barbara as a destination for tourism. The \$52,390 enhancement represents: (1) \$25,000 in one-time funds for the Legal Aid Foundation's Common Ground project, and (2) \$27,390 for a 3% increase in funding to the above cultural events with the exception of Visit Santa Barbara who currently receives approximately \$1.5 million from the City.

City Attorney's Office

The City Attorney's Office adopted budget includes very minor increases to fund new software, professional publications and memberships totaling \$10,800. In addition, a vacant part-time (0.60) Legal Secretary position is being eliminated. The savings from the position have been reprogrammed to provide funding for contracted legal support as needed to assist existing staff when caseloads are high.

Finance Department

A new Accounting Supervisor position is included in the adopted budget, which is fully funded from existing appropriations for hourly staff support and a portion of monies allocated to conduct revenue audits. The Accounting Program currently consists of two Senior Accountants and an Accountant I, all of whom report to the Accounting Manager who oversees three other programs. The Accounting Program staff maintains the general ledger and performs the year-end closing of the books and all monthly and annual reporting, including the Comprehensive Annual Financial Report (CAFR). Over the last several years, the overall workload of the Accounting Program has increased due to increasing demands for service from operating departments. In addition, the Accounting staff, including the Accounting Manager, work many overtime hours to complete the year-end closing and annual reports to a level that is not sustainable. Adding a supervisor will serve three purposes: first, it will provide additional staff resources to the Accounting Program to better respond to the demand for services; second, it will reduce the overtime hours spent over the four-month long year-end and reporting season; and third, it will enable the Accounting Manager to better manage the Accounting Division and to provide more support on various departmental and Citywide projects.

Administrative Services Department

The \$95,414 in increased funding will pay for an Administrative Analyst II to provide professional level staff support to the labor relations function. Last year the Labor Relations Manager was promoted to Administrative Services Director, who has continued her role in labor relations in addition to managing the Administrative Services Department. The duties of the new Administrative Analyst II position will be to perform



BUDGET MESSAGE

City Administrator's Budget Message

difficult and complex labor relations and human resources tasks, conduct various management studies, and coordinate other complex projects of Citywide importance. As fully imagined, this position would be assigned and work at the Human Resources Analyst II/Administrative Analyst II level. The position would be partially funded with savings from reclassifying an existing Human Resources Analyst II position to a Human Resources Assistant (currently under-filled at this level).

Community Development Department

The \$132,000 enhancement includes two items: (1) \$125,000 in one-time funding to continue to same funding level for the Casa Esperanza Homeless Center, and (2) \$7,000 for a one-time cost to fund outreach assistance in connection with the effort to improve the zoning information report requirements and processes.

Not included in the enhancements is the addition of a full-time Plans Examiner approved by Council during fiscal year 2015 in response to the increased development activity and to ensure quick turnaround in the plan check process. Last year City Council appropriated funds for Building & Safety to hire one part-time hourly Plans Examiner. Since then, the division has processed 11% more applications, trained staff and assisted customers with a new State Energy Code, and performed more over-the-counter reviews. The recently approved Plans Examiner position replaces the part-time hourly position hired last year. Staff anticipates \$67,000 more in building permit revenue in fiscal year 2015 as a result of increased permit activity, which would be sufficient to cover the additional costs of the full-time position.

Police Department

A new civilian Combined Communications Center (CCC) Manager position is included in the Police Department at a top-of-the range cost estimated at \$165,000. The City Council approved the addition of a police officer during fiscal year 2015. However, starting in fiscal year 2016, the police officer position is replaced with the civilian CCC Manager position. Therefore, there is no net increase in positions in the department. This was the top recommendation of both the Police Department and Fire Department for staffing changes included in the adopted budget.

The civilian CCC Manager position was eliminated approximately thirteen years ago and was replaced by an existing sworn lieutenant position. At that time, the department was staffed with seven lieutenant positions (three Watch Commanders, three Assistant Division Commanders, and one Public Information Officer). The Dispatch Center had a long standing history of being understaffed, and it was believed that the civilian manager played a role in the problems associated with the Dispatch Center at that time. A lieutenant (former PIO Lieutenant) was transferred into the position of CCC Manager, and



BUDGET MESSAGE

City Administrator's Budget Message

the civilian manager position was eliminated during budget adjustments shortly thereafter. The Police Department has continued to operate the CCC with a sworn lieutenant ever since.

The problems associated with the CCC have continued despite our best efforts with four different lieutenant managers over the last thirteen years. The Police Department recently hired a consulting firm to analyze the CCC operations. The consultants strongly recommended the civilian CCC Manager position be reinstated. The creation of the Dispatch Manager will:

- Create a sense of stability and continuity in the leadership of the Communication Center;
- Bring a higher level of technical expertise in Dispatch Center management;
- Ensure Dispatch operations are being conducted in accordance with ever-progressing industry standards;
- Provide enhanced strategic planning for future Dispatch Center development;
- As a career dispatcher, trainer, and supervisor, the new Dispatch Manager will be better able to assess the needs of the Dispatch Center and address the root causes of complicated problems involving employee recruitment, training, and retention.

As mentioned above, the creation of the civilian CCC Manager position is the Police Department's top priority for service enhancements in fiscal year 2016. The Fire Department also strongly supports reinstating this position.

With the creation of the civilian CCC manager, the lieutenant currently holding that assignment in CCC will be transferred to the position of Investigative Assistant Division Commander, a position that was eliminated due to the recession in fiscal year 2009. While coordinating investigative resources and assisting in the management of the Investigative Division, this lieutenant will also manage the Records Bureau. (NOTE: The Records Bureau Manager position was eliminated during the budget adjustments of 2010.) In summary, the creation of the civilian CCC Manager will help off-set the loss of three manager positions during past budget adjustments. It will also bring consistent, long term management to the CCC by a civilian manager whose expertise is in Dispatch Center operations.

Library Department

The Library Department budget includes the restoration of a Youth Librarian position to work in the new Children's Library in the basement of the central library on the corner of Anacapa and Anapamu Streets. The new Children's Library was made possible through a community-wide fundraising effort which raised \$3.8 million in private funds. In addition, the City contributed \$500,000 towards the project. This improvement to the library provides an expanded, modernized and appropriately equipped space for children and will



BUDGET MESSAGE

City Administrator's Budget Message

need appropriate staffing to ensure its success.

Parks & Recreation Department

A total of \$185,566 in increased funding is included in the Parks & Recreation Department, which includes the addition of 3.6 full-time equivalent (FTE) positions and \$12,830 for the Santa Barbara School District's Junior High After-School Sports Program. Two of the positions (1.8 FTE) are funded from salary and benefit savings realized from recent reclassifications and the use of funds allocated for hourly salaries. The positions and their associated funding are discussed below.

1.0 FTE Senior Planner – The Senior Planner will support the Assistant Parks and Recreation Director in the development, planning, and implementation of the Parks and Recreation Department's capital improvement and planning projects. The position will provide direct project management for capital projects and supervise other program staff. Over the last two fiscal years, a total of \$2.3 million has been allocated from the General Fund annual capital program for Parks & Recreation projects. In addition, Parks & Recreation Department staff is managing the rehabilitation of the Cabrillo Arts Pavilion and Bath House, a project estimated to cost over \$10 million and funded from the balance of redevelopment agency funds. At a projected cost of \$140,000, the Department is requesting \$79,500 in new appropriations for this position. Revenue and other budgeted savings would provide the additional funds for this position.

0.8 FTE Recreation Specialist – The restoration of a 0.8 FTE Recreation Specialist will help to expand revenue-based classes and programs at the Carrillo Recreation Center. Revenues from these programs have been on the decline since fiscal year 2014. A total of \$49,136 in new appropriations is included in the budget to restore this critical position that was eliminated during the recession with the hope that this will increase revenue to the department as well.

1.0 FTE Office Specialist II – This position restores permanent clerical staff in the Recreation Division and would be assigned to the Carrillo Recreation Center to provide support to Youth Activities and the Sports/Tennis Programs. Currently, these programs receive administrative support from hourly clerical staff with backup from the Active Adults Office Specialist II and the Aquatics Administrative Specialist. The position will enhance program effectiveness, improve customer service, and provide enhanced administrative and financial support to program staff.

0.8 FTE Head Pool Lifeguard – This new permanent, part-time, position is included in the budget as a result of the contractual change between the City and the Santa Barbara Swim Club (SBSC), which now requires City lifeguard services during all SBSC practice times. This position has been filled with hourly staff; however, the contract now imposes



BUDGET MESSAGE

City Administrator's Budget Message

an increase of 2,031 lifeguard staff hours for Los Banos Pool, with 1,069 (53%) of the additional hours occurring during early morning and late evening practice times when existing permanent and appropriately certified aquatic employees are not scheduled. The Head Pool Lifeguard requires a minimum of 112 hours of certification training, and often receives additional training to troubleshoot pool maintenance issues, ensures staff and patron safety, and provides high quality customer service while preventing unplanned interruptions to regular pool programming.

ENTERPRISE FUNDS

Golf Fund

Over the last twenty years, in keeping with national trends, the number of golf rounds played at the City's municipal golf course has been in decline. As recent as 2004, a total of 84,057 rounds were played; in 2014 rounds dropped to 62,512. Although Santa Barbara Golf Club remains one of the busiest golf courses in the tri-county area, the



current level of play is not sufficient to meet the ongoing costs of the Golf Fund. As a result, the Golf Fund has faced deficits over the last several years, which have depleted its reserve balances to approximately 50% of what they should be.

In response, a number of measures have been implemented to minimize the deficits, including reducing costs where possible, evaluating and increasing fees in a manner that does not further reduce

play, increasing marketing efforts including using social media, and implementing a new, more robust, point of sale system that will capture important data regarding play to more effectively establish promotions and fees.

Additionally, Council recently approved two important measures that are expected to resolve the projected deficits. The first is a refinancing of existing Golf Fund long term debt over a twenty-year period. The General Fund will lend the Golf Course approximately \$1.2 million to pay off all existing debt, which will reduce the Golf Course Fund's annual debt service costs from \$263,000 to \$83,000. The second measure is contracting out the grounds maintenance that is currently performed by regular and hourly City employees. Existing regular employees will be absorbed into the other



BUDGET MESSAGE

City Administrator's Budget Message

General Fund Parks & Recreation operations, although several of the maintenance staff will be retiring or will be of retirement age in the next two years. This last measure is expected to reduce operating expenses by approximately \$200,000 per year.

Water Fund

Spring 2015 marks the driest four consecutive years on record in Santa Barbara, and severe drought conditions persist locally and across the State of California. Even though this drought is extreme, the City is confident that there will be sufficient water to meet health and safety needs with help from the community.

The City planned for droughts in its 2011 Long Term Water Supply Plan and 2011 Water Shortage Contingency Plan. To offset diminished surface water supplies, the City is using Lake Cachuma water reserved from prior years, purchasing water to be delivered through the State Water pipeline, and increasing groundwater production through well rehabilitation and replacement projects.

An important element of the drought response plan has been conservation. In May 2014, City Council declared a Stage Two Drought Condition, requiring a 20% city-wide reduction in water use. The community has responded by conserving 23% through February 2015, eight months into the fiscal year.

However, assuming that the drought continues, minimal surface water supplies will be available from Lake Cachuma and Gibraltar Reservoir by the end of 2016, groundwater levels will be reduced, and State water deliveries will remain low. Therefore, in June 2015, the City Council approved reactivating the City's existing Charles E. Meyer



Desalination Plant. The Plant will provide 3,125 acre-feet of water, roughly one-third of the City's water supply needs, by late summer of 2016.

The drought response has resulted in extraordinary costs to the Water Fund for the purchased water, groundwater projects, Cachuma emergency pump project, and potential reactivation of the desalination plant. Consequently, water rates will need to be raised substantially starting July 1, 2015 to generate additional revenues of over 30%. In addition, water rates are currently designed based on a 20% demand reduction. While



BUDGET MESSAGE

City Administrator's Budget Message

water conservation is an important part of our drought response, if water conservation exceeds 20%, there is a negative effect on revenues to the Water Fund and water rates would need to be adjusted.

The revenues from the water rates will also be used to provide funding for maintaining the City's water distribution system; including pipes, pump stations, and reservoirs. This is essential to minimize disruption from breaks and other failures to the water distribution system.

Wastewater Fund

A major focus in fiscal year 2016 continues to be the renewal of capital facilities, particularly the Wastewater Treatment Plant processes. El Estero, the City's wastewater



treatment plant is 37 years old and needs major rehabilitation. A low-interest State Revolving Loan (SRF) for \$20 million was recently secured to finance the rehabilitation of the aeration basins. Staff is currently working to secure another \$29 million SRF loan to fund major improvements to the solids processing. If the second SRF is not available, other traditional financing will be needed to provide the needed funding.

In addition to the projects financed through the SRF loans totaling \$49 million, an additional \$4.15 million in capital is adopted starting in fiscal year 2016, which will be financed from operating revenues. Approximately \$2.1 million will be used for pipe replacements, which includes \$900,000 to stay in compliance with a recent settlement with Santa Barbara Channelkeeper to augment our annual sewer pipe replacement program for five years through fiscal year 2017.

Wastewater staff has developed a long-term financing plan to ensure revenues are adequate to meet operating costs as well as any financing costs to repay existing and future loans and/or bonds. This plan contemplates annual increases to wastewater rates in the 5-6% range. These rate increases have been adjusted to offset some of the recent revenue losses arising out of the voluntary conservation efforts for water consumption. Since wastewater revenues are tied to water use, the conservation efforts are expected to result in a \$600,000 annual revenue shortfall.

Airport Fund

Similar to the Golf Fund, the Airport Fund has been impacted by national trends that have



BUDGET MESSAGE

City Administrator's Budget Message

affected air services. In an increasingly competitive industry, airlines have undergone mergers and have consolidated services at major airports at the expense of the medium and small airports, such as the City's municipal airport. From the peak in 2005 of 436,206, the number of passengers leaving out of the Santa Barbara Airport has declined to a projected 321,897 in 2015, which is a 26.2% decline.

As with other airports, passenger volumes affect virtually all aviation-related revenues, such as concessions, parking and rental cars. Charges to airlines for use of the terminal and airfield, which are intended to recover the costs to maintain the terminal and landing areas and provide federally mandated security, must remain competitive. Since these costs are relatively fixed, the reduction in air service means the airport has to further subsidize the cost of the airport from other revenues.

In April 2014, American Eagle pulled out of the airport, which created a \$1 million loss in revenues. A year later, Frontier Airlines terminated their services, creating additional revenue losses. The Airport has



responded with a number of cost-cutting measures as well as negotiating modest increases to landing fees and rents with airlines to offset most of the revenue losses. These measures have helped rebalance the operating budget, but the Airport is still unable to cover its capital program needs over the next several years, which would therefore require the use of policy reserves to fund these costs.

Solid Waste Fund

The Solid Waste Fund accounts for the services, primarily provided by contract, associated with collection and disposal or processing of trash and recyclable materials. Collection is handled by the City's franchise hauler, MarBorg Industries, with the trash component sent to the County-operated Tajiguas Landfill. Recyclable materials are sorted and sold by a privately-run materials recovery facility (MRF) in Ventura.

Two years into a ten-year franchise agreement for collection and hauling, programs and services are reasonably stable. However, efforts continue towards continuing to increase



BUDGET MESSAGE

City Administrator's Budget Message

diversion rates, particularly in the business sector, by expanding the current food scraps collection and composting program. This program has been very successful in diverting organic materials away from the landfill where they break down and generate harmful methane gas. The organic materials, primarily food collected from participating restaurants, are trucked to north Santa Barbara County where they are converted into compost and sold to local farmers.



With the Tajiguas Landfill expected to reach its permitted capacity within the next ten years, Solid Waste staff have been working with the County and the Cities of Goleta, Buellton, and Solvang to build a facility that will substantially extend the permitted capacity of Tajiguas. The facility, called the Resource Recovery Project (RRP), would include a MRF to sort

the material in trash containers to extract recyclable materials (paper, aluminum cans, glass and plastics), thereby reducing the volume of materials buried at Tajiguas; and include an Anaerobic Digester that would take the organic fraction of the trash and convert it into energy and a potentially useful residue. The RRP has gone through environmental review and a vendor has been selected. The project is currently in the negotiations phase. Construction could begin in late fiscal year 2016 or early fiscal year 2017.

If built, the RRP will substantially reduce the amount of materials currently being buried by approximately 60%, provide rate stability over the contemplated twenty-year contract period, extend the life of the landfill, and mitigate the environmental impacts of buried organics.

Waterfront Fund

The Waterfront Fund, like the General Fund, has benefitted from the great weather these last few years, drawing many visitors to the waterfront area, including Stearns Wharf and the harbor. Waterfront revenues are largely affected by both economic conditions and weather, both of which have been excellent. A major component of Waterfront revenues is derived from rents charged to tenants in the harbor and on the Wharf, which include shops, restaurants and water sport rental outlets. Since rents are tied to gross revenues, the overall success of businesses has resulted in more revenues to the Waterfront Fund.





BUDGET MESSAGE

City Administrator's Budget Message

Parking revenue has also increased. In addition to higher volume of transactions, the Waterfront has installed several automated payment systems in previously unmanned lots, replacing the old boxes operated on the honor system. In the old honor lots, visitors were required to insert their cash into slots assigned to each parking space. The new system allows for payment through a credit/debit card, which has increased the level of compliance of paid parking.

Slip transfer fees, charged when a rented slip changes hands, have seen a marked increase in the last two years. Similar to the real estate market, as the economy improves more boats are bought and sold, a transaction that often includes transfer of a slip permit. This slip transfer is subject to a fee paid to the Waterfront Fund for the privilege of immediate access to a Waterfront slip and in recognition that slips permits themselves have considerable value in the Santa Barbara Harbor, where demand for berthing far exceeds supply.

Additionally, cruise ship visits have become more popular over the last few years. Several years ago, key members of the business community, City staff, and members of Council made a concerted effort to attract cruise ships to the area during the off-season. Not only is it good for business, it is a way to promote Santa Barbara by having visitors get a glimpse of the many amenities and attractions the City has to offer, thus leading to future visits. Each year, between 25 and 30 cruise ships come to the City, generating net revenues of approximately \$250,000 per year to the Waterfront Fund. Thus far, the cruise ships have been widely supported by local businesses.

Downtown Parking Fund



The Downtown Parking Program is responsible for the maintenance and operation of the City's parking system and infrastructure. This includes five parking structures, eight surface lots and two commuter parking lots primarily within the downtown corridor. The parking lots along the waterfront are operated by the Waterfront Department and, therefore, are not included within these numbers.

Of the total \$8.4 million in Downtown Parking revenues projected for fiscal year 2016, approximately \$5.2 million (62%) is derived from the hourly parking charges. Of the total transactions at the hourly lots, only 60% are paid transactions; the remaining 40% stay



BUDGET MESSAGE

City Administrator's Budget Message

less than 75 minutes and therefore are free. The majority of the patrons use the parking lots to shop, eat at restaurants, attend events, or otherwise conduct business in and around the downtown area, and include both local residents and visitors. As such, the revenues are generally impacted by local economic conditions. As expected, given the favorable economic climate, hourly parking revenues have been strong in the last several years. Revenues over the next few years are expected to remain strong, and no increases or adjustments to parking rates are contemplated.

The next largest component of Downtown Parking revenue is derived from Parking and Business Improvement Area (PBIA) assessments, which is projected at \$1.1 million for fiscal year 2016. The PBIA was created to offset the 75-minute free parking provided by the City in the parking lots. This partnership between the City and local businesses benefits businesses to varying degrees. The quarterly assessment to individual businesses is calculated using a formula that factors in the type of business, the proximity to a parking lot and whether the business provides dedicated parking for their customers.

An additional \$1 million in revenue is projected in fiscal year 2016 from monthly parking permits at designated lots. The City also charges a heavily discounted fee per month in the two commuter parking lots, and that demand remains high.

An ongoing effort in fiscal year 2016 will be implementing the Downtown Parking Fund capital program, which totals \$1.3 million. Most of the capital program funding is devoted to the ongoing maintenance of the structures and surface lots that address safety, cleanliness and customer service issues; however other improvements are planned, including installing energy efficient LED lighting in the parking garages; installing additional security cameras in the parking garages and surface lots; and installing more electric vehicle charging stations.

KEY INITIATIVES

Infrastructure Financing

In January 2008, the City Council formed the Infrastructure Financing Taskforce (IFT) to develop recommendations for addressing the unfunded infrastructure needs. The IFT consisted of members of the community appointed by Council and staffed by the City Administrator's Office and Finance Department. The report and recommendations were





BUDGET MESSAGE

City Administrator's Budget Message

presented to the City Council in March 2009, in the midst of the Great Recession. With the General Fund facing major deficits, the City's ability to implement the more significant of the recommendations was severely hampered.

With a much improved economy and the funding gap growing, Council formed an Infrastructure Financing Committee last summer to bring this matter back to the forefront. During the summer and fall, a number of public meetings were held to educate the community on the issue and receive input on what their priorities might be among a long list of needs, including streets, sidewalks, facilities, etc. Those meetings were followed with additional public meetings to discuss financing options, such as selling bonds and/or increasing taxes. More recently, the City hired a firm to scientifically gauge the community's support for a ballot measure to provide the resources to address the infrastructure financing gap.

The City is facing an estimated \$400 million funding gap – approximately \$20 million per year. If the survey indicates general support, the City could place a tax measure sufficient to meet 50% of the infrastructure gap on the November 2015 ballot, approximately \$10 million per year. One logical means of generating such revenues is increasing the local sales tax rate by ½ cent.

District Elections

In 2014, the City was sued for alleged racially polarized voting as defined in the California Voting Rights Act of 2001 (CVRA). The City recently settled the lawsuit with the plaintiffs, agreeing to move to district elections starting with the November 2015 election.

Ideally, a move to district elections would be left to the voters. In fiscal year 2015, the City held several public forums and created a website which offered an online tool for the public to view several district map options and suggest alternative district boundaries within certain parameters. Based on the input received, on March 30th the City Council adopted a map with the six districts consisting of approximately similar number of voters, and includes two districts where the majority of the voters are the minority, pursuant to the settlement agreement. In November 2015, three of the districts will be voting for a representative, and the remaining three districts will be voting in November 2017.

In addition to moving to district elections, the City also had to pay attorney fees of approximately \$677,000.



BUDGET MESSAGE

City Administrator's Budget Message

Efforts to Address Issues Surrounding Homelessness

In an effort to address issues surrounding homelessness, in 2011 the City established an Enhanced Restorative Policing Pilot Program funded from the former City Redevelopment Agency. The Program included the addition of a second police officer to the program, three part-time Outreach Workers and six part-time Community Service Liaisons. The Outreach Workers work with the two full-time restorative police officers to identify and assist homeless persons with housing and services. The Community Service Liaisons are assigned in teams of two to State Street, Cabrillo Boulevard and Milpas Street to be the



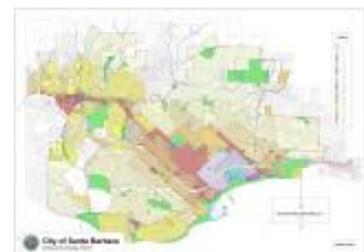
“eyes and ears” of the Restorative Policing Program as well as local merchants. After a three-year pilot, the Program has transitioned to a permanent program funded by the General Fund.

Unfortunately, the downtown area still suffers from aggressive panhandling and other inappropriate behavior, including vending goods on sidewalks, urinating in public spaces, and sleeping on sidewalks. This type of behavior has been a problem for many years and the City has been searching for appropriate measures to curtail this type of activity while being sensitive to freedom of speech rights and other applicable and federal and state laws.

To that end, the City approved \$150,000 in funding in fiscal year 2015 for six uniformed Community Service Officers (CSOs). Unlike the Community Service Liaisons, these CSOs will have citation authority to enforce City ordinances prohibiting certain behavior on State Street. More recently, the City Council approved proposed ordinances that, when adopted, will enable the City to more effectively address inappropriate behavior and activities along State Street, giving more enforcement capabilities to the CSOs. This comprehensive approach is intended to significantly reduce the level and types of unwanted activities in the main business corridor of the City.

Zoning Ordinance Update

The City is currently underway with updating the Municipal Code related to zoning. The Zoning Ordinance (Title 28 of the City's Municipal Code) establishes the zone classifications, permitted uses in the various zones, development standards and regulations, and the development review process. The zoning regulations affect land use, design, parcel size, building heights, density, setbacks, parking, landscaping,





BUDGET MESSAGE

City Administrator's Budget Message

fencing and other aspects of property development and use.

The City's current Zoning Ordinance was first adopted in 1957, and has been amended many times over the years. However, it is out-of-date and difficult to apply consistently. As such, a comprehensive update is needed to bring it up to date to reflect current uses and practices.

At the end of the New Zoning Ordinance (NZO) process, the goal is to have an improved Zoning Ordinance that is:

- Restructured and easier to understand
- Modern and current
- Flexible in administering the code, including staff administrative authority for minor items
- Responsive to nonconforming situations

A Zoning Ordinance Update project was approved for funding beginning in fiscal year 2014. The cost is estimated at \$602,000 to be spread over three years; \$162,000 was funded in the fiscal year 2014 budget; \$265,000 is included in the fiscal year 2015 budget for a consultant, a full-time Project Planner and City Attorney support; and the final funding of \$175,000 is included in the fiscal year 2016 adopted budget. The project is expected to be completed by the end of fiscal year 2016.

Vacation Rentals

Over the last several years, there has been a significant increase in the number of private homeowners offering their residences as a short-term rental, particularly to visitors who might otherwise stay in a local hotel. Online websites and services, such as Airbnb make it easy for homeowners to list their homes or rooms for short-term rent (less than 30 days).

Many of these vacation rentals are located in areas of the City that are zoned for residential purposes only, thus they are not in compliance with local zoning ordinances. Several years ago, as they started to emerge, the City began pursuing collection of both transient occupancy taxes and business license taxes in accordance with applicable tax ordinances, while enforcement of the zoning rules was handled on a complaint basis. The City's General Fund currently receives approximately \$800,000 annually from approximately 331 registered vacation rental properties. It is likely that many more vacation rentals exist that are not registered.



BUDGET MESSAGE

City Administrator's Budget Message

Due to the rapid increase in popularity, the City recently evaluated options for how to appropriately deal with these types of activities. There are many differing views in the community. Certainly, vacation rentals have the ability to negatively impact the character and nature of neighborhoods; and there is also a concern that vacation rentals reduce the number of homes that would otherwise be available for monthly rentals where vacancy rates in residential rentals is virtually zero.

In June 2015, City Council directed staff to continue enforcing existing zoning regulations regarding vacation rentals and develop a work program to allow home sharing where residential uses are allowed. Over the next year, the City will hold public meetings to get input from stakeholders and decision-makers as staff implements this work program.

Guide to City Business Regulations and Services

As there are a number of laws, rules and regulations affecting new and existing businesses in Santa Barbara, the City offers many services and resources to the business community. In an effort to help businesses learn more about the City and help them be more successful and ensure they are complying with applicable rules and regulations, the City has started work on a series of informational tools, including brochures, videos and online resources targeted to the business community.

The first in this series targets small businesses, with an emphasis on new businesses. The tools, for example, inform businesses about taking out a business license; they provide information on activities/businesses that require City approval; and provide tips on what you should know before you sign a lease. In upcoming phases, the information will focus on what to know if you are expanding or relocating your business, and how to "green" your business.

Santa Barbara is known for its high standards, aesthetics and environmental leadership. The City's efforts to provide resources and information to the business community stem from the fact that local businesses play a vital role in the City's overall success and, to the extent the City can help make businesses successful, the City is better able to preserve the community's quality of life.

Key Capital Projects

Cabrillo Arts Pavilion and Bath House

The City is in the design and permitting phase for a major renovation of the





BUDGET MESSAGE

City Administrator's Budget Message

Cabrillo Pavilion and Bathhouse. The primary objectives of the renovation project (Project) are to achieve a viable community recreation center and return the building to its original status as the "crown jewel of East Cabrillo Boulevard." Constructed and given to the City by David Gray, the Cabrillo Pavilion and Bathhouse has provided community cultural and recreational opportunities since 1926. Today, the building's outdated interiors, structural deficiencies, failing mechanical, electrical and plumbing systems, as well as poor site accessibility, significantly limit its potential to serve Santa Barbara residents and visitors. A City designated Structure of Merit and one of its most significant public assets, renovation of the building will ensure its role as a prime recreational facility well into the future.

The Project includes complete renovation of the facility's mechanical, electrical, plumbing and communication systems, and associated structural, seismic, fire protection, and accessibility upgrades. Proposed exterior building improvements include restoration of the original beach level promenade, renovation of exterior building modifications, site improvements, and renovation of landscaping, outdoor showers, and covered walkways adjacent to the playground. The Project also proposes installation of a boardwalk to connect to the recreational beach. Proposed interior improvements for the Bathhouse floor include restoration of the lobby, renovation of men's and women's shower and locker facilities, new multi-purpose rooms, a new small tenant space, and renovation of the private restaurant concession area. Improvements for the Pavilion floor include redesign of the lobby to create one large room, renovation of the main special event room and restrooms, installation of a modern prep kitchen for special events and functions, and renovation of the enclosed terrace with new windows and doors. An interior elevator will connect the two floors.

The Project will be funded from revenues of the former redevelopment agency (RDA), totaling approximately \$9.1 million. The Governor's action a few years ago to dissolve RDAs statewide resulted in a loss of ongoing revenues for infrastructure improvements. As these funds were deemed "committed", the City was able to retain the funds for this project rather than be part of the monies the City had to effectively give to the State. Additional project support of \$1.5 million is proposed from the General Fund with a goal of attaining \$1.5 million in matching grant funds and community fundraising for a total estimated project cost of \$12 million.

Children's Library

After a successful community-wide fundraising effort that raised approximately \$3.8 million and a contribution from the City of \$500,000, work on the new Children's Library is





BUDGET MESSAGE

City Administrator's Budget Message

nearing completion. There has been a tremendous amount of support from the community for this project, and both the Friends of Santa Barbara Public Library and the recently formed Santa Barbara Public Library Foundation have been major partners in this effort.

The previous Children's Library was located on the main floor of the Central Library but no longer met the needs of the community in terms of space, function, technology and furnishings appropriate for children. The new Children's Library will be located on the lower floor and will feature state-of-the art equipment, furnishings, and technology suited to children.

Bridges

The City of Santa Barbara has an inventory of over 60 vehicle bridges. Many of these bridges are approaching 100 years of age or have been deemed structurally deficient by Caltrans. Therefore, the City has developed a bridge program aimed at replacing this aging infrastructure.

Over the past several years, the City has completed bridge replacement projects at De La Vina, Ortega, and Chapala Streets over Mission Creek. Additional bridge replacement projects at Cabrillo, Mason, and Cota Streets over Mission Creek are currently under construction. With other private development work underway on lower State Street near Cabrillo Boulevard, including the La Entrada Project and the new Children's Museum adjacent to the railroad station, successfully managing the flow of traffic and pedestrians is an important element of the Cabrillo Bridge project.



Design for replacement of the De La Guerra and Gutierrez Street bridges over Mission Creek is underway. These bridge replacements are an integral part of the Lower Mission Creek Flood Control Project, which will increase the flood water conveyance and enhance the riparian habitat along Lower Mission Creek.

In addition to these projects on Lower Mission Creek, design is also underway for the replacement of the Quinientos Street and Montecito Street bridges over Sycamore Creek as well as the Anapamu Street Bridge over Old Mission Creek.



BUDGET MESSAGE

City Administrator's Budget Message

Major Private Developments

Children's Museum

The Wolf Museum of Exploration + Innovation (MOXI) is building a world-class museum from the ground up on Lower State Street near the Santa Barbara Railroad Depot. The Museum will be built on land owned by the City, which will be secured through a long-term ground lease.

MOXI is billed to provide a vibrant, one-of-a-kind experience where brains play and minds work. MOXI will be built to create a new museum for the 21st century, based on thorough research, cutting edge ideas, and the best practices of children's museums and science centers around the globe. In addition, MOXI is aligned with national goals to boost student achievement in Science, Technology, Engineering, the Arts, and Math (STEAM), ensuring that children learn the critical thinking skills they will need to succeed in the future.

La Entrada Project

After many years of delays and uncertainty underlying the project, the Entrada de Santa Barbara project (referred to as "La Entrada") is now underway. The project is located on State Street between Cabrillo Boulevard and the Union Pacific Railroad, and on West Mason Street from Kimberly Avenue to State Street, and will include a 114-room luxury hotel, nine fractional vacation units, and 21,557 square feet of retail space with open plazas, paseos and gardens. The project includes widening the State Street sidewalks, installing new landscaping and street trees, utilities, decorative street lights and roadway improvements.

Along with the new Children's Museum on the 125 block of State Street and the bridge improvements going on in the area, lower State Street near Cabrillo Blvd is undergoing a major revitalization. With the emergence of restaurants, wine tasting rooms and micro-breweries in the Funk Zone, which has quickly grown in popularity, once all of the construction is completed, lower State Street will truly become the "Entrance to Santa Barbara" and finally integrate all of State Street from the beach to all of downtown.

CONCLUSION

The adopted 2016 budget reflects the strong revenue growth we are seeing with an improved local and national economy. This increase in revenue has allowed us to make strategic restoration of services in key areas, put more money towards our policy reserve goals, and continue to make funding capital improvements a priority.



BUDGET MESSAGE

City Administrator's Budget Message

Challenges remain of course, including the severe drought conditions which will lead to higher water rates, the reactivation of the desalination plant, and continued emphasis on conservation for the community. Finding adequate resources to fund our deficit in infrastructure financing will also be a key discussion during the next fiscal year. And the City will also start its transition to a district based City Council with the November 2015 election. I believe the organization is well prepared to face these and other challenges going forward and City staff look forward to working with the City Council and community on appropriate responses.

The preparation of the annual budget is a substantial effort on behalf of the entire organization and one of the most important things we do in city management. I want to thank all the departments for their effort and creativity in putting the budget together and keeping a focus on how best to deliver services to the community. I especially want to thank the budget managers for each of the departments who put in so much time and effort to get it all right.

I also want to recognize the efforts of the City's strong finance team for their countless hours, late nights and long weekends in putting the budget together. This includes Acting Assistant City Administrator/Finance Director Robert Samario, Budget Manager Michael Pease, Budget Analyst Jonathan Abad, Administrative Analyst Kate Whan, Treasury Manager Julie Nemes, Treasury Analyst Diego Martin, and Executive Assistant Jennifer Disney. Their professionalism and dedication are greatly appreciated.

Respectfully submitted,

Paul Casey
City Administrator

[This page intentionally left blank.]