



BUDGET MESSAGE

City Administrator's Budget Message

INTRODUCTION

In accordance with the City Charter, I am pleased to present to the City Council the adopted Two-Year Financial Plan for fiscal years 2008 and 2009. This spending plan is not only financially responsible, but also reflects the unique priorities of Santa Barbara: environmental leadership, sound planning, citizen engagement, and the provision of high-quality services to the community.

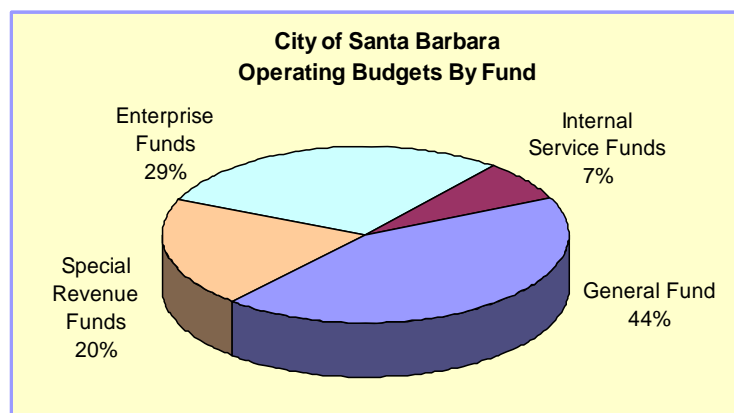


One of the challenges in putting together any long-term financial plan is to balance the many competing priorities of the community. Financial resources are always limited, and it is difficult to maintain existing services while also attempting to address new challenges. However, City staff believes the financial plan does a good job in balancing the many needs of our community.

A Balanced Budget Submitted in Virtually All Funds

The fiscal year 2008 adopted budget includes a total City operating budget of \$239.1 million and a citywide capital program of \$48.65 million. Almost all funds in this two-year financial plan are balanced, meaning operating revenues fully fund operating expenditures. In certain special revenue funds, reserves have been intentionally accumulated from prior years and will be used in the next two years for special projects.

In addition to the General Fund, with an operating budget of \$103.4 million, the City has a number of other funds used to account for the many services and activities provided (see chart). Special revenue funds, totaling \$48.2 million (20%), are used to account for revenues legally restricted for specific purposes. Internal service funds, totaling \$17.3 million (7%) are used to account for services



provided internally to City departments and programs, such as the Information Systems and Self-Insurance Funds. Enterprise funds, totaling \$70.3 million (29%), are used to account for the activities of the City that operate in a manner similar to the private sector.



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The City's enterprise funds include the Water, Wastewater, Downtown Parking, Waterfront, Golf and Airport Funds. Each relies on a unique set of fees and charges to fund its operating and capital costs. As with the General Fund, all of the enterprise funds are in good financial health and have balanced operating budgets in fiscal years 2008 and 2009.

General Fund Budget Balanced Including Capital

The General Fund adopted operating budget includes estimated revenues totaling \$105.2 million, and operating expenditures of \$103.4 million, leaving a surplus of \$1.8 million. Approximately \$1.6 million of the operating surplus, plus grant funds of \$65,000, will be used to fund a \$1.7 million capital program, leaving a surplus of approximately \$209,000.

Balancing the General Fund is a significant achievement in light of several factors, some of which are discussed in more detail later: (1) the general slowdown in the local economy affecting key General Fund revenues, such as sales taxes, property taxes and transient occupancy ("bed") taxes; (2) an increase in funding provided to the City's facilities maintenance program; (3) a substantial negotiated salary and benefit increase to police officers; and (4) an increase in funding for capital.

Long-Term Forecast Improved

After several years of uncertainty, the local economy seems to have normalized – at least for the time being – and the City is still in reasonably good financial position.

In fiscal year 2006, the General Fund generated a small surplus, even after funding a capital program of over \$600,000. By the end of fiscal year 2007, we expect to utilize reserves of approximately \$700,000 to balance operations, with an additional use of almost \$1.9 million of reserves for capital.



However, the adopted two-year financial plan includes a balanced General Fund in both fiscal years 2008 and 2009. In fact, estimated revenues are not only adequate to cover operating expenditures, but are expected to fund an enhanced capital program totaling \$1.7 million and \$1.9 million in fiscal years 2008 and 2009, respectively. The financial plan also includes contributions to reserves totaling just over \$209,000 during the two-year planning period.

As shown in the Multi-Year Forecast on the following page, the General Fund is balanced through fiscal year 2011, with approximately \$805,000 being contributed to replenishing reserves between 2008 and 2011.



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CITY OF SANTA BARBARA General Fund Multi-Year Forecast

	<u>FY 2007 Projected</u>	<u>FY 2008 Adopted</u>	<u>FY 2009 Proposed</u>	<u>FY 2010 Projected</u>	<u>FY 2011 Projected</u>
Operating Revenues	\$ 99,122,704	\$ 105,185,375	\$ 109,641,326	\$ 114,023,641	\$ 118,587,473
Operating Expenses	99,854,047	103,148,959	107,946,974	112,116,510	116,732,202
Net Operating Gain (Loss)	(731,343)	2,036,416	1,694,352	1,907,131	1,855,271
Capital program	(1,870,102)	(1,827,336)	(1,694,352)	(1,895,325)	(1,271,210)
Use of Reserves	\$ (2,601,445)	\$ 209,080	\$ 0	\$ 11,806	\$ 584,061

* The presentation of operating and capital amounts varies slightly from the amounts presented in the financial section of this report due to (1) transfers to the Information Systems Fund to pay for the General Fund's share of two capital projects are included in the Capital Program here, rather than in the operating budget as Transfers Out, and (2) certain capital projects funded from grants, which do not affect the bottom line, are not reflected here.

Although the adopted financial plan begins to replenish General Fund Reserves, based on our forecast, we will continue to fall further behind in relation to the Council's established reserve policies. This is because our reserve policies are based on a fixed percentage of the operating budget, which means the required reserve levels will increase commensurate with the growth in operating costs. As a result, the projected net surpluses over the next several years are not expected to be sufficient to fund the increasing reserve requirements, and the gap between required reserves per City policy and actual reserves will likely widen over time.

The following table shows the required reserve levels from fiscal year 2006 through 2011, which increase by approximately \$5.7 million to almost \$31.4 million. Developing a strategy for addressing this issue will be a high priority of the City over the next few years.

CITY OF SANTA BARBARA Summary of Projected Policy Reserves

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Budget Reserve (10%)	\$ 9,856,906	\$ 10,314,896	\$ 10,794,697	\$ 11,211,651	\$ 11,673,220	\$ 12,140,149
Disaster Reserve (15%)	14,785,359	15,472,344	16,192,046	16,817,477	17,509,830	18,210,223
Capital Reserve	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Policy Reserves	25,642,265	26,787,240	27,986,743	29,029,128	30,183,050	31,350,372
Reserves Over (Under)	\$ (1,677,527)	\$ (5,423,947)	\$ (6,414,370)	\$ (7,456,755)	\$ (8,598,871)	\$ (9,182,132)



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State Budget Deficit Still a Concern

In November of 2004, Proposition 1A was overwhelmingly approved by California voters, which provided enhanced Constitutional protection to local government revenues. The measure allows the State to *borrow* property tax revenues from local governments, but only if: (1) the Governor proclaims a "significant State hardship," (2) the Legislature approves the borrowing with a 2/3 vote, and (3) the State repays any outstanding loans from local governments, with interest.

Despite the historic agreement between the Governor and local governments that led to Proposition 1A, the State continues to rely on borrowing to balance its budget. In addition, State tax collections this year are \$2 billion below expectations and the recent passage of several bond measures will add even more pressure to the State's General Fund.

While Proposition 1A does provide a great deal of protection from further raids from the State, it is not an absolute guarantee that the State will not find some way to tap into local revenues to balance their budget.

Revenue Projections Reflect Recent Slowdown in Local Economy

After more than a year of strong growth, the current performance of key General Fund revenues indicates a slowdown – or at least moderation – in the local economy.

The table below summarizes the General Fund's key revenue estimates and related growth rates for the next two years, including our fiscal year 2007 year-end revenue projections.

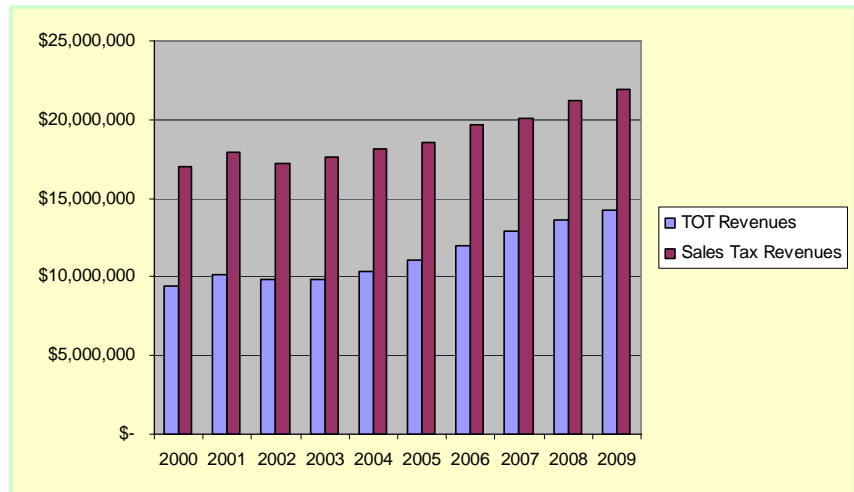
CITY OF SANTA BARBARA						
Summary of Key General Fund Revenue Estimates (and Growth Assumptions)						
	FY 2007 Projected	Est. Growth %	FY 2008 Estimate	Est. Growth %	FY 2009 Estimate	Est. Growth %
Sales Tax	\$ 20,480,507	2.1%	\$ 21,189,900	3.5%	\$ 21,920,800	3.5%
Property Tax	20,938,294	6.2%	21,985,200	5.0%	23,304,300	6.0%
Transient Occupancy Tax	12,934,800	7.5%	13,581,500	5.0%	14,260,600	5.0%
Utility Users Tax	6,583,441	6.0%	6,846,800	4.0%	7,052,200	3.0%
Franchise Fees	2,860,000	9.7%	2,968,600	3.8%	3,081,400	3.8%
	<u>\$ 63,797,042</u>		<u>\$ 66,572,000</u>		<u>\$ 69,619,300</u>	



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The real estate market, which directly affects **property tax revenues** received by the City, is showing signs of softening after a number of years of stellar growth. Between fiscal years 1999 and 2006, property taxes grew an average of 9.1%, including a 12.9% growth in fiscal year 2006 (see table). This growth was largely the result of



significant increases in supplemental tax revenues, which stem from reassessments of properties that change ownership and undergo improvements between tax levy dates. In fiscal year 2004, the City received \$479,462 in supplemental taxes; these payments grew to \$916,724 in fiscal year 2005 and to \$1,317,384 in fiscal year 2006 when overall growth reached 12.9%.

Not only has the number of sales declined, but building activity has also slowed, both of which affect overall growth in the assessed value and, correspondingly, property tax revenues. As a result, we have lowered our current fiscal year 2007 projected growth rate to only 6.2% growth, to 5% for fiscal year 2008, and 6% for fiscal year 2009. In contrast, a 7% growth rate was used in the last two years.

Because both **sales tax and transient occupancy tax (TOT)** revenues are sensitive to changes in local economic conditions, they serve as key indicators in our short-term revenue forecasts. As shown in the chart on the right, both sales tax and TOT revenues declined in fiscal year 2002, coinciding with the September 2001 terrorist attacks. After a few years of moderate growth, both revenues had a strong year in fiscal year 2006. However, beginning in fiscal year 2007, revenues, particularly sales taxes, began showing signs of weakening.

City of Santa Barbara Property Tax Growth Rates

Fiscal Year	Growth Rate
2000	8.0%
2001	7.1%
2002	9.4%
2003	9.0%
2004	7.9%
2005	9.7%
2006	12.9%
2007 (Est.)	6.2%
2008 (Est.)	5.0%
2009 (Est.)	6.0%



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In the two most recent quarters, sales tax revenues grew just 1.5%. Similarly, TOT revenues for the most recent four months (December – March) grew an average of just 4.1% following five months of 7.75% average growth. These more recent results may suggest a slowing trend, which have been factored into our revenue forecasts for the next two years. Specifically, the projected growth rate for sales tax revenues has been lowered to 3.5%, and TOT revenues to 5%, in each of the next two years.

As can be seen in the table below, **franchise fees** are expected to grow 9.7% in fiscal year 2007. Franchise fees are charged to natural gas, cable TV, electricity, and refuse service providers for the benefit of using the City's right-of-ways.

Fiscal Year	Amount	Actual Growth Rate
2002	\$1,797,590	15.9%
2003	1,769,584	-1.6%
2004	2,055,864	16.2%
2005	2,124,152	1.0%
2006	2,607,221	22.7%
2007	Est. 2,860,000	9.7%
2008	Est. 2,968,600	3.8%
2009	Est. 3,081,400	3.8%

The large growth in fiscal year 2007 is largely attributable to the electric sector, which is expected to grow by 16.6%. This increase is due to an electric rate adjustment approved by the California Public Utilities Commission (CPUC) in August, 2006. Since the 2% franchise fee is calculated on total revenues of the franchisee, rate increases have a corresponding affect on franchise fees paid to the City.

In August of 2005, the CPUC approved the City's request for a 1% electric franchise fee surcharge, which explains the 22.7% growth in fiscal year 2006. One-half of the 1% surcharge is restricted for undergrounding of electric infrastructure. These restricted funds (approximately \$375,000) are accounted for separately in the newly created Utility Undergrounding Fund.

Based upon information from the major utilities, our projections for total franchise fee revenues for the next two years assume a growth rate of just 3.8%, a marked drop from the 9.7% growth expected this year.

Utility users tax (UUT) is a 6% tax applied to water, telephone, cable TV, natural gas, and electric services. The tax is collected by the service providers and remitted to the City monthly. The revenues are divided equally between the General Fund and the Streets Fund. Pursuant to local ordinance, the portion allocated to the Streets Fund is restricted for maintenance of City streets.

Our growth assumptions over the next two years are based upon the same factors affecting franchise fee revenues. As a result, while we expect a 6% growth this year, we are predicting revenue growth of 4% and 3% in fiscal years 2008 and 2009, respectively.



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BUDGET HIGHLIGHTS

Expanded Youth Programs and Opportunities

The adopted financial plan includes \$72,100 in additional funding to create, restore, and expand youth programs and apprenticeship opportunities for the City's youth. The increased funding was approved by the City Council during their review of the proposed budget. The funding will be used by the Parks and Recreation Department to create a summer youth drop-in program at Ortega Park, restore the Lower Westside Community Center Coordinator to a full-time position, and expand the following existing youth programs: the Youth Apprenticeship Program, Junior High After School Programming, the Summer Drop-in Program at three elementary schools, and the handball program.

Facilities Maintenance Program Gets a Needed Boost in Funding

The City owns a large number of facilities that must be maintained each year. These facilities include eight fire stations, a library, a police headquarters, several administration buildings, including City Hall; community centers, tennis courts, swimming pools, and other recreation facilities; and public restrooms and park facilities. The value of these facilities is in the hundreds of millions of dollars; therefore, preserving these large investments is a high priority.

Beginning in fiscal year 2008, an additional \$500,000 in funding has been provided to the facilities maintenance program to address a backlog of deferred maintenance projects, such as carpet replacement, painting, etc. This additional funding will bring the total to approximately \$1.8 million per year.



Although the addition of \$500,000 is a significant and much needed boost in funding, it is still less than what is needed to fully fund the program. Thus, the goal over the next several years is to continue to increase the funding until it is sufficient to address both the ongoing maintenance requirements as well as the backlog of deferred maintenance projects. We estimate a total of \$2.5 to \$3 million is needed per year.

Major Technology Enhancements a Key Element in Budget

Over the next few years, three key projects will be undertaken that will either enhance or replace existing information systems. Once completed, these system improvements are expected to result in substantial gains in operational efficiencies.



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One of these projects, scheduled to begin in fiscal year 2008, is the replacement of the City's **Financial Management System (FMS)**. The FMS is used to perform a number of important tasks, such as generating purchase requisitions, processing personnel action forms, and electronically submitting departmental budgets. It is also used to process and issue payroll checks to City employees and accounts payable checks to vendors for goods and services received. More importantly, the FMS is used to account for all of the City's financial transactions totaling over \$200 million annually. The current system has more than exceeded its useful life and no longer meets the needs of the City.



The cost of the system is estimated at \$2.5 million, to be expended over a four-year period. The General Fund will pay for 50% of the total costs, with the balance paid by enterprise funds. In fiscal year 2008, a total of \$150,000 is budgeted, which will be used to hire a consultant to assist staff in completing a comprehensive needs assessment and request for proposal document. We anticipate implementation of the selected system to begin in fiscal year 2009 and completion by 2011. Although this project will have a tremendous impact on staff workloads, we are excited to be implementing a new system that will improve the efficiencies of City operations.

Another important project that has already begun is the implementation of a centralized **Geographical Information System (GIS)**. This project began this year with the completion of a needs assessment and identification of existing automated mapping systems that can be incorporated into a centralized GIS. Between fiscal year 2008 and 2010, the project will involve the acquisition of hardware and software necessary to create, operate and maintain a centralized GIS database, as well the development of core data, standards, and display formats. The total estimated project cost of \$600,000 will be spread over the next three years, shared by all benefiting funds, including the General Fund.



Lastly, this fiscal year the City Council approved a contract for the acquisition and implementation of a new **Police Records Management System (RMS)**. The new system will improve the efficiency of records management by eliminating many manual and redundant processes. For example, the system offers a dynamic means of routing reports through a supervisor for approval, distribution, electronic filing with the District Attorney's Office, and completion of the information reported to the State of California Department of Justice System with just a single data entry process.



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The total cost of the RMS is approximately \$1.9 million, to be paid over a six-year period. The fiscal year 2008 cost is \$607,802. The costs will be partially funded from ongoing operational savings in the Police Department directly related to efficiencies gained from the new system. In fact, four vacant clerical positions will be eliminated on July 1, 2007 as a result of the implementation of this system.

KEY PRIORITIES AND INITIATIVES

Santa Barbara Becoming Sustainable



A sense of urgency has emerged across the nation as the effects of global warming are becoming more understood. The effects of burning fossil fuels such as coal, oil, and gas to run cars, heat buildings, and power manufacturing plants contribute to the rise in greenhouse gases and an increase in the earth's temperature.

While we all have a responsibility to help effect a change in those things in our own lives that contribute to global warming, the City of Santa Barbara is leading by example in changing its organizational culture to one that integrates environmentally sustainable practices in its daily operations. Some of these practices are discussed below.

Waste Prevention – One of the goals is to prevent the production of waste at the front-end and thereby avoid the costly process of managing waste after it has been created. Some of what the City is doing in its own operations to minimize the production of waste includes:

- 🌱 Requiring that City events be waste-free by using materials (i.e., plates, utensils, napkins, etc.) made of organic materials that can be composted;
- 🌱 Setting all printer settings citywide to print double-sided; and,
- 🌱 Implementing better use of information systems in order to reduce the production of paper reports and documents.

Recycling – With the Tajiguas Landfill nearing its capacity, recycling has become a high priority. Many materials, such as paper, glass, plastic, metal, food waste, and green waste can be reprocessed into new products and, thus, be diverted from the local landfill.

Recycling efforts on the part of the City include: installation of recycling containers at employee workstations; use of paper with at least 30% of recycled content; and providing worm composting bins at several City facilities to allow food scrap recycling.



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At the community level, the City's Solid Waste Strategic Plan includes the goal of implementing a commercial food scrap recycling program. A pilot Food Scrap Recovery and Composting Program has been launched at a number of local businesses, including Cottage Hospital and Santa Barbara City College. Under this pilot program, Browning Ferris Industries collects the food scraps free of charge and takes them to a composting facility in Santa Maria.

The City will continue to explore other ways to increase diversion levels. A major effort in fiscal year 2008 will be working with Santa Barbara County to explore the construction of a conversion technology facility at the Tajiguas Landfill, which will transform residual solid waste energy and compost material.



Use of Renewable Energy – Renewable energy sources include solar, wind, biogas, and hydro-electricity. Unlike energy that uses fossil fuels, the use of renewable energy does not contribute to global warming.

In 2005 the City installed a fuel cell at the El Estero Wastewater Treatment Plant. The fuel cell transforms methane gas to electrical energy and provides approximately 50% of the plant's power.

In addition to the planned installation of solar panels in several City facilities, the City Council recently adopted two sets of policies to encourage the use of solar energy in the community – the Solar Design Guidelines document for the installation of solar energy systems on buildings; and the Passive Solar Guidelines to encourage more effective orientation of buildings, use of materials, construction techniques and landscaping to reduce long-term energy needs.



Use of Alternative Fuels – Examples of alternative fuels that reduce harmful pollutants include ethanol, bio-diesel, hydrogen, and solar power. Whenever possible and where practical, the City purchases vehicles for its fleet powered by alternative fuels.

Currently, the City's fleet includes twenty-four hybrid vehicles, eight compressed natural gas vehicles, two liquid petroleum vehicles, and 108 bio-diesel vehicles. In addition, 13 emergency generators are powered by bio-diesel.

Green Building Practices – Because buildings account for 48% of energy consumption and greenhouse gas emissions in the United States, increasing their energy efficiency is a critical element of any sustainability program. The City recently adopted a Green Building Policy for its own facilities that will help reduce energy consumption. These policies affect new



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construction and major renovations to City facilities, requiring that they meet Leadership in Energy and Environmental Design (LEED) standards.

In order to encourage green building practices by the community, the City implemented a Green Building Incentive Program last year, which provides an expedited plan check review program for buildings that meet green building criteria. Projects that meet either the "two-star" rating of the Santa Barbara Contractors Association Built Green program or a LEED "Silver" rating will qualify for expedited plan check review.



Flexible Work Arrangements – By allowing flexible work arrangements, including telecommuting and non-traditional work schedules, the number of vehicle trips can be lowered, which not only reduces the emission of pollutants, but also eases traffic congestion and commute times.

The City has adopted a Flex Work Policy that enables employees to pursue alternative work schedules. However, in fiscal year 2008, the City will be implementing, on a trial basis, a citywide 9-80 work schedule. The 9-80 work schedule will immediately reduce the number of vehicle trips by 10% for many City employees, reduce congestion during prime commute times, and provide an additional employee recruitment and retention tool.

Renewed Focus Placed on Emergency Preparedness

The City is taking a leadership role to ensure the City is adequately prepared to respond to a natural disaster. A new full-time Emergency Services Manager was recently hired who has been working on updating the City's emergency plans and procedures, including training of City staff and better outreach to the community.

In 2006, a new Wildland Fire Suppression Benefit District was formed after a majority vote by the affected property owners. The properties are adjacent to areas along the foothills that are considered at a higher risk of fire loss. The creation of this special benefit assessment district provides funding for services such as reducing vegetative fuels to minimize damage caused by wildland fires.





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Neighborhood Improvement Program Making a Difference

Five years ago, the City created the Neighborhood Improvement Task Force (NITF) to function as a multi-departmental effort aimed at making neighborhoods safer and cleaner. The task force also looks for opportunities to improve services to targeted neighborhoods, doing so in partnership with other agencies and community groups. An outgrowth of the NITF was the Neighborhood Improvement Program.



The Neighborhood Improvement Program has been very successful on a number of different fronts, including the repair and construction of sidewalks, curbs and gutters, and installation of street lights; establishing safer, more appealing neighborhoods through enhanced maintenance such as tree trimming, street sweeping, and shopping cart retrieval; graffiti removal from public and private properties; and the elimination of illegal trespassing and the accompanying fire hazard conditions that could spark a devastating wildland fire. An estimated 1,000 tons of refuse from City streets and residential areas have been removed since the program's inception.

Important Long-Range Planning Efforts Underway



The City is working on several major planning efforts that will shape development over the next 20 years. The first major planning effort is the Upper State Street Study (USSS), which is currently underway and expected to be completed this summer. The second effort is the update of the General Plan, called "PlanSB".

The USSS is a tightly focused study to develop improved design standards and identify improvements to traffic circulation in the State Street commercial corridor between Highway 101 and Calle Laureles.

PlanSB is currently in the community outreach phase. The overall purpose of the plan update is to guide development of the City from 2010-2030. Over the next two years, the City will engage the community to arrive at decisions on such issues as commercial development, housing, transportation, sustainability, economic development, and regional concerns based on the community's priorities and core values.



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Important Projects Completed or Underway

In addition to the day-to-day operations, the City spends a great deal of time, effort, and money making improvements to facilities and infrastructure for the enjoyment of the entire community. Examples of projects completed or underway are described below.

State Street Beautification Project – The final phase of the State Street sidewalk beautification project in the 400 and 500 blocks is nearing completion. When complete, the project will improve pedestrian circulation and safety as well as provide more amenities for pedestrian comfort and convenience. The design emphasized building visibility by highlighting significant architectural features, and will result in an enhanced diversity of the landscape.



New Teen Center – The new “Twelve35 Teen Center” officially opened on March 20, 2007. The Twelve35 Teen Center is the City of Santa Barbara's new teen facility, designed by and for teens. The teen center is located at the corner of Chapala and Victoria streets and features a snack bar, an arcade, HDTV's, a PS3 and Xbox360 gaming systems, a pool, air hockey tables, and a recording studio. The center also hosts a variety of activities including hip hop classes, healthy alternative classes, journalism classes, video game tournaments, and art receptions for local young artists.

Airport Terminal Project – The design of a new airline terminal at the City's municipal airport is now well underway. The cost of the terminal is estimated to be \$60 million. The existing terminal was built in 1942 with a mostly Spanish Colonial style consistent with the style of City's architectural theme.



When originally constructed, the terminal served approximately 5,000 airline passengers. Since then, the size of the terminal has been expanded to the current size of 20,000 square feet. The airport currently serves over 800,000 passengers and by 2010, forecasts indicate that passenger counts will reach close to 890,000.

The new airline terminal will be designed to embrace the aesthetic concepts included in the original 1942 terminal and those identified by the community. It will also provide easy access to aircraft by the disabled, and incorporate cutting edge sustainable design features.



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Sheffield Reservoir – On September 12, 2006, the City Council approved the Notice of Completion for the \$22 million Sheffield Reservoir project. The project included the construction of two buried 6.5 million gallon concrete reservoirs and conversion of the parcel to a passive open space. The project was funded through a U.S. Environmental Protection Agency (USEPA) State Revolving Fund loan. The project was recently chosen as the USEPA project of the year in California.

Key Improvements Funded by Redevelopment Agency

The Redevelopment Agency (RDA) has been instrumental in funding major capital improvements in the City. In partnership with non-profit housing agencies, it also plays a critical role in financing the construction of affordable housing projects in the City. The RDA was created almost thirty years ago for the purpose of financing projects designed to enhance the social, economic and cultural vitality of the community. Some of the projects currently underway are discussed below.



Waterfront Pedestrian Improvements – Over \$5 million has been allocated towards sidewalk and other pedestrian improvements along East Cabrillo Boulevard. The project includes the repair and replacement of existing sidewalk from Stearns Wharf to Milpas Street and will also include landscaping enhancements where appropriate and the addition of pedestrian amenities. On the west side of Cabrillo Boulevard, another project will provide sidewalk and landscaping improvements from Stearns Wharf to the Santa Barbara Harbor, and will focus on improving the pedestrian connection between the wharf and harbor.



West Downtown Neighborhood Improvements – Another major effort is the West Downtown Neighborhood Improvement Project, one of several projects funded by the Redevelopment Agency's 2003 Tax Allocation Bonds. Improvements will include upgrading pedestrian amenities, general landscaping improvements, and additional lighting where appropriate. Improvement of this area will strengthen the pedestrian connection between the west downtown and central downtown.



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Mental Health Project – Over the past two years, the Redevelopment Agency (RDA) has approved \$5.1 million in funding towards a project at 617 Garden Street for a Mental Health Association (MHA) administrative and program center, which will include 50 units of affordable housing. Currently under construction, it will include twenty-five units for very-low-income MHA



clients, and 25 units for low-income, downtown workers. The RDA also recently allocated \$2 million for future affordable housing projects, and an additional \$4 million for property acquisition, some or all of which could be used for acquiring property for housing.

St. Vincent's Affordable Housing Project – The Redevelopment Agency provided approximately \$17 million in a combination of loans and grants toward the largest 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 is also financially supported by the County of Santa Barbara as a regional response to affordable housing needs.

BUDGET CHALLENGES

Measure D Set to Expire in 2010

One of the challenges facing the community is the pending expiration of Measure D. In November of 1989, voters approved Measure D, which increased the sales tax by a ½ cent, providing a restricted funding source for transportation-related projects. With a 20-year sunset clause, Measure D is due to expire in 2010.



The City currently receives approximately \$4.9 million a year from the ½ cent sales tax provided through Measure D. These revenues are currently used to fund: (1) \$1.4 million in operating costs associated with the maintenance of City streets; (2) \$1.8 million for transit, including direct funding to the Metropolitan Transit District for the Cross-Town Shuttle and Bus Lines 1,2,3,6 and 11, and the Downtown/Waterfront Electric Shuttle; and (3) \$1.7 million in transportation capital projects, including bridge repairs and street lights.

In November 2006, a new measure was included on the ballot that would have extended the ½ cent sales tax and added another ¼ cent tax. The additional ¼ cent tax would have been used to fund additional transit in the south coast region, jumpstart commuter rail services, and



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expedite the construction of an additional lane on Highway 101 between Ventura and Santa Barbara. The measure failed to get the 2/3 voter support it needed to pass.

The Santa Barbara Association of Governments is considering various options and we expect some form of renewal of this tax will be on the November 2008 General Election ballot. In order to maintain the City's existing transportation programs and support to MTD, the renewal of this tax is critical.

Large Gap Remains in Infrastructure Replacement Funding

In conjunction with the development of the two-year financial plan, every two years the City updates its six-year capital improvement plan (CIP), which includes all projects citywide and, where appropriate, the funding sources attached to the projects.



The recently completed CIP totals over \$441 million in current dollars. Of that total, approximately \$296 million in projects have funding sources identified, including \$162 million from "City" sources and \$134 million from external sources, including federal and state grants and donations.

The remaining capital projects total \$145 million. However, these projects have no identified funding source. The list of unfunded projects includes a new Police Headquarters, a new Aquatics Facility, major rehabilitation to various parks and recreation facilities, the Ortega Water Well Treatment Facility, and \$48 million in streets and transportation projects. In reality, the list of unfunded needs is likely greater since many projects were not included within the CIP where the likelihood of funding was considered remote.

The City Council recently approved the formation of an Infrastructure Financing Taskforce, which will consist of seven members from the local business community, to make specific recommendations to the City Council regarding the City's current capital needs, budgetary practices, capital planning processes and capital financing strategies, and to identify alternative funding strategies for addressing this large unfunded capital need.

Attracting Qualified Employees Becoming More Challenging

One of the biggest challenges facing the entire South Coast is attracting and retaining qualified personnel. With the high cost of housing and increasing traffic congestion, more and more people are choosing to live and work in other areas, such as Ventura County and San Luis Obispo County, to avoid the longer commutes. The problem is amplified due to the large number of "baby boomers" nearing retirement age.



BUDGET MESSAGE

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The City recently negotiated and approved a contract with police sworn personnel, which increases salaries and benefits by 26.5% over the next 3½ years, primarily to address this very issue. In the case of police, there has been a nationwide decline in police applicants that has compounded the local challenges.

While the difficulties in attracting and retaining personnel may be more pronounced in police, the same challenges apply to non-safety personnel. The City recently adjusted various management and supervisory salaries to ensure that our salaries and benefits are comparable with other similar governmental jurisdictions. However, providing attractive salaries and benefits to maintain a qualified workforce will continue to stress the City's finances in the upcoming years.

CONCLUSION

The adopted two-year financial plan is not just a financial or accounting document. It is also the primary management and planning tool used by the City staff to guide their activities over the course of the next two years. Embodied in the various P3 goals and performance measures are specific objectives to be achieved and the levels of service that we propose to provide to the community. Developing these plans and programs represent thousands of hours of administrative work.

As a part of the two-year financial plan, we have attempted to be responsive to the goals and priorities articulated by the Council, your various advisory bodies, and the community, while being financially responsible. Although we are clearly unable to meet all the priorities of our diverse community, we believe that the projects and programs included in this plan will continue to maintain Santa Barbara's reputation as a livable and progressive community.

The two-year financial plan also represents a turning point in the General Fund's overall financial picture. After many years of projecting the use of General Fund Reserves, the financial plan is not only balanced, but also restores a portion of the reserves used in the past. Additionally, for the first time in many years, we are able to increase funding for General Fund capital projects and maintenance. If the overall economy continues to be stable, this can be the foundation of continued attention to meeting the City's many capital needs.

On behalf of the entire City staff, I would like to thank the City Council for its leadership in moving our City forward in a positive direction. Our community is fortunate that we have such talented "citizen legislators" who are willing to devote so much of their time and energies to our City.



BUDGET MESSAGE

City Administrator's Budget Message

I would also like to express my sincere appreciation to all the many employees throughout our organization who contributed towards the compilation and production of this document. They have done a wonderful job of developing an exemplary budget document that balances the need for understandable financial information along with meaningful program descriptions, objectives, and performance data. Especially instrumental this year in the production of the two-year financial plan were the following: Bob Peirson, Finance Director; Bob Samario, Assistant Finance Director; Jill Taura, Budget Manager; Cindy Odell, Treasury Manager; Rudy Livingston, Accounting Manager; Lynne Sparks, Finance Analyst; Katherine Simpson, Budget Technician; Nina Johnson, Assistant to the City Administrator; Jeff McKee, Environmental Compliance Officer; and Jenny Hopwood, Executive Assistant.