



# FUND OVERVIEWS

## General Fund

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Operating Budget:					
Revenue	\$ 92,813,258	\$ 100,747,692	\$ 98,982,705	\$ 105,185,375	\$ 109,641,326
Expenditures	91,566,585	103,219,930	98,409,946	103,378,493	108,475,256
Operating surplus	1,246,673	(2,472,238)	572,759	1,806,882	1,166,070
Capital budget:					
Capital revenue	113,269	2,234,721	-	65,000	756,000
Capital budget	(2,444,956)	(6,154,551)	(2,130,832)	(1,662,802)	(1,922,070)
Net addition to (use of) reserves	\$ (1,085,014)	\$ (6,392,068)	\$ (1,558,073)	\$ 209,080	\$ -

## BACKGROUND

The General Fund is used to account for the traditional services associated with local government, including public safety (fire and police), parks, recreation, streets maintenance and library services. As a full-service city, the General Fund also accounts for community development-related services, such as building, planning, and land development services; engineering services; maintenance of street lights; and environmental programs. Also included in the General Fund are the administrative departments and programs, including the City Attorney's and City Administrator's Offices, the Finance Department, the City Clerk's Office and Human Resources.

Some of the costs associated with providing these services are recovered through fees and service charges, or through inter-fund charges (i.e., charges to other funds for services provided by General Fund departments). However, the large majority of these costs are funded from general tax revenues. For example, the three largest tax revenues in the General Fund - sales taxes, property taxes, and transient occupancy taxes – account for \$56,373,000 (54%) of the total \$105,185,375 fiscal year 2008 budgeted operating revenues. Only \$10,611,708 (10%) of total revenues is from fees, and \$14,572,510 (14%) is from inter-fund charges.

The revenue composition of the City's General Fund, which heavily relies on general tax revenues as the primary funding source for its programs and services, is fairly common in local government. General taxes, such as property taxes, sales taxes, utility users' taxes, transient occupancy ("bed") taxes, are the traditional revenue sources of a local government's general fund operations.

In the case of the City of Santa Barbara, tax revenues (\$66,399,400) comprise 64% of total budgeted revenues in the General Fund. Although not unusual, the specific composition of taxes in the City has proven to be not only a strength, but at times a weakness. With sales tax and transient occupancy tax revenues being two of the top three revenues, both of which are fairly elastic to economic swings, the General Fund is susceptible to financial boons and setbacks. This was the case during the recession of the early 1990's and, more recently, in the aftermath of



# FUND OVERVIEWS

## General Fund

September 11, 2001 terrorist attacks and the ensuing economic downturn. As a tourist destination for local, domestic and international visitors, the events of September 11, 2001, had an immediate and significant downward impact on sales tax and transient occupancy tax revenues.

Expenditures, on the other hand, are generally less volatile and thus more predictable. Because General Fund services are labor-intensive, salary and related benefit costs (\$78,267,683) comprise approximately three-quarters of the total General Fund operating budget. As a result, during economic downturns when revenues flatten or decline, cutting expenditures without reducing staffing levels is very difficult. For example, during the economic downturn several years ago, the General Fund eliminated (through attrition) a number of positions to offset revenue losses and other cost increases.

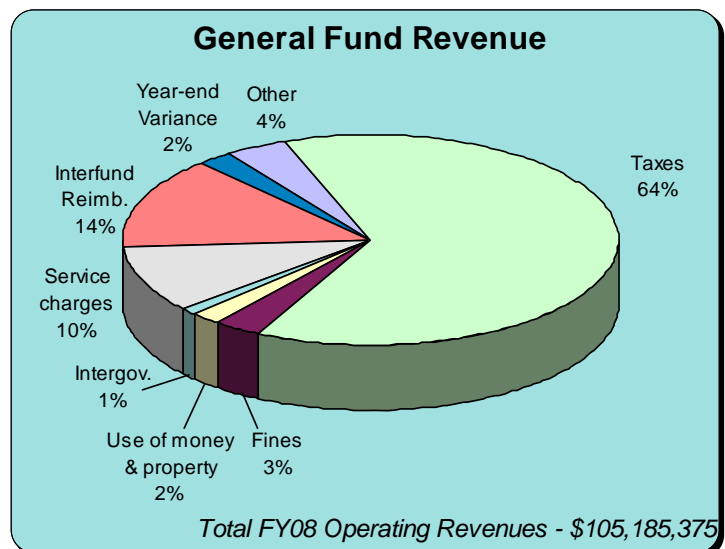
## SUMMARY OF ADOPTED FY 2008 BUDGET

As shown in the table at the top of the previous page, the adopted fiscal year 2008 General Fund operating budget projects total revenue of \$105.2 million to fund an operating budget of \$103.4 million. The operating surplus (\$1.8 million), along with budgeted capital revenue (gift trust funds) of \$65,000, is sufficient to fund the entire planned capital program for fiscal year 2008 and still generate a small surplus (\$209,000). This is the first time in many years that the General Fund is expected to generate operating revenues sufficient to fund both the operating budget and the capital program. During the economic recession, the General Fund relied on the use of reserves to balance both the operating and capital budgets. In the fiscal years before the recession, General Fund reserves were typically used to fund all or a portion of the capital program each year, consistent with the 1995 City Council budget policy allowing the use non-recurring revenue (reserves) to fund non-recurring costs (capital).

## Operating Revenues

The chart on the right displays the General Fund's major revenue sources. Taxes, budgeted at \$66,399,400, still constitute the largest source of General Fund revenue (64% of total revenues). Interfund Charges and Reimbursements, which represent payments to the General Fund from other City funds for various services provided to those funds, is the second largest category at 14%.

Within the taxes category, sales and use taxes make up 19.7% of total





# FUND OVERVIEWS

## General Fund

revenue, followed by property tax revenues at 20.3%, and then transient occupancy tax revenues at 12.9%. Over the past several years, the General Fund's property tax revenue base has been modified by State action changing the way in which vehicle license fees (VLF) are allocated. In connection with the adoption of its fiscal year 2005 budget, the State implemented what is termed the "VLF for Property Tax Swap of 2004", and also referred to as the "triple flip", which eliminates approximately 90% of VLF revenues and replaces them with an equal amount of property taxes. In fiscal year 2006, the swap became a permanent adjustment to the receipt of VLF and property tax revenues, resulting in approximately \$5 million in additional property taxes in fiscal year 2006 and a corresponding reduction in VLF revenues. Given the growth rates realized over the last ten years in the city's property tax revenues, this swap actually provides not only greater growth potential in these revenues, but a more stable revenue base given the volatile nature of VLF payments over the last several years.

Overall, staff is projecting moderate growth in the General Fund's major tax revenues. Additional detail is presented on the following page, but growth rates are projected to be between 3.5% and 5%, depending on the particular revenue.

The other factor affecting overall revenue projections are fee increases proposed by the various General Fund departments. Through a combination of anticipated growth in activity levels and the projected impact of fee increases contained in the adopted budget, total service charge revenue is expected to be approximately 10%, or \$10.6 million, of total General Fund revenue in fiscal year 2008.

### Taxes

Overall, the adopted fiscal year 2008 tax revenue estimate is 4.3% above the projected fiscal year 2007 year-end amounts. The table below details the City's tax revenues with amounts presented for the adopted budget and projected fiscal year 2007 year-end actual amounts, and the fiscal year 2008 adopted budget. The "percentage growth" amounts compare the fiscal year 2007 projected year-end amounts to the adopted fiscal year 2008 budget. This comparison presents a clearer picture of the growth rates staff projected for fiscal year 2008 and is consistent with the way staff develops the revenue estimates. Staff begins by evaluating fiscal year 2007 year-to-date amounts and projects estimated year-end balances. Then projections for the budget year are developed based upon the prior year-end estimates, less any adjustments for any structural

	Fiscal 2007 Budget	Fiscal 2007 Projected	Fiscal 2008 Adopted	Percent Growth
Sales and use	\$ 20,875,200	\$ 20,480,507	\$ 21,189,900	3.5%
Utility users	6,334,800	6,583,441	6,846,800	4.0%
Property	20,589,200	20,938,294	21,985,200	5.0%
Transient occupancy	12,630,600	12,934,800	13,581,500	5.0%
Business license	2,124,800	2,200,000	2,296,000	4.4%
Real property transfer	650,000	550,000	500,000	-9.1%
<b>Total taxes</b>	<b>\$ 63,204,600</b>	<b>\$ 63,687,042</b>	<b>\$ 66,399,400</b>	<b>4.3%</b>



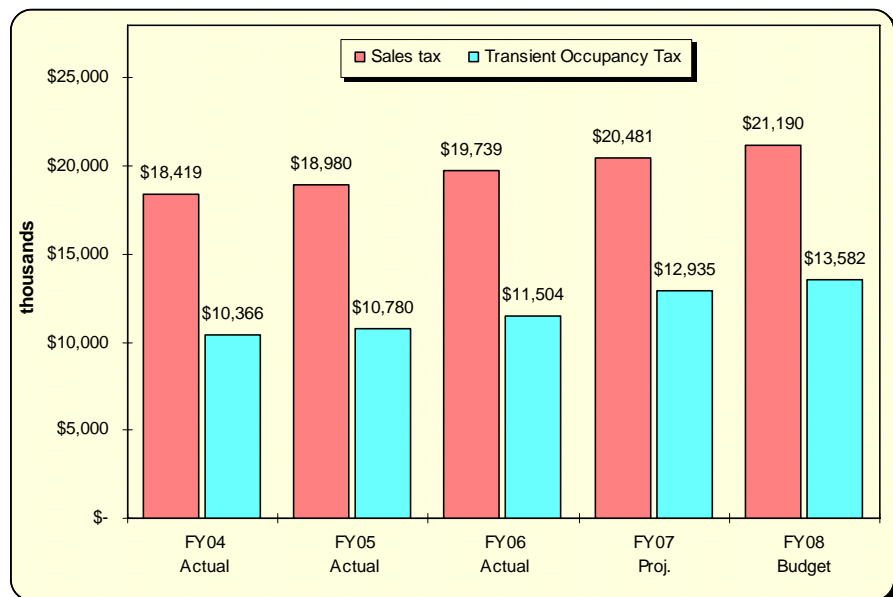
# FUND OVERVIEWS

## General Fund

changes.

As the table on the previous page indicates, the City is projecting 3.5% growth in sales tax revenue. As the City's largest and most economically sensitive revenue source, staff tends to be somewhat conservative with sales tax projections. A negative variance of only 1% in the sales tax projection translates into a revenue loss of almost \$212,000. In addition, sales tax is more difficult to project because of the significant delay in the state's reporting of actual results. In projecting sales tax growth rates, staff also considers projections developed by the State Franchise Tax Board and the City's sales tax consultant.

As the chart on the right indicates, both sales tax and transient occupancy tax have grown steadily since fiscal year 2004. Using fiscal year 2004 as the base, both finally returned to fiscal year 1991 levels in that year. Transient Occupancy Tax (TOT) revenues are budgeted to grow 5% in fiscal year 2008. Unlike sales tax, the City receives TOT on a monthly basis and, therefore, it is somewhat more predictable.



Property tax continues to show strong growth, proving to be the City's most stable and reliable tax revenue. Between 1997 and 2006, even in the midst of the recession, property tax revenues grew an average of 8.5% per year. Staff is projecting 5% growth for next fiscal year, primarily because of the slow down in the housing market. As can be seen in the tax table on the preceding page, the projected revenues for fiscal year 2007 of \$20.9 million are approximately \$400,000 above the \$20.6 million budget because the supplemental portion of the property tax revenue was higher than anticipated. Supplemental property tax is assessed when property undergoes a change in ownership or substantial improvements. Additional tax is due on the difference between the old and new assessed property values. Supplemental property tax revenue wraps into the city's property tax base the following year.

Revenue from the City's 6% utility users tax (UUT) is split between the General Fund and the Streets Fund. Pursuant to City ordinance, 50% of the City's UUT is restricted to streets and roads and is budgeted in the Streets Fund. The other 50% is unrestricted and is budgeted in the General Fund. UUT is projected to increase 4% next year. The City's utility users tax revenue is volatile from year to year as commodity prices for energy increase and decrease over time. While



# FUND OVERVIEWS

---

## General Fund

averaging 5.5%, historical growth percentages in UUT over the past 10 years have ranged from a low of -3.1% in 1999 to a high, just two years later, of 9.3% in 2001. Given the volatility in this particular revenue, staff feels that the 4% growth estimate is realistic for fiscal year 2008.

### *Fines and Forfeitures*

This revenue category is projected to provide approximately \$3.3 million in General Fund revenue (3%). By far, the largest item in this group is parking fines, which are anticipated to generate almost \$2.9 million of the \$3.3 million total. Parking fines are budgeted almost \$535,000 higher than the fiscal year 2007 adopted budget due to a \$6 increase in most city parking fines.

### *Use of Money and Property*

This category, totaling almost \$1.98 million (2% of total General Fund revenue) is comprised of two items. The first, and smaller, is the rents and leases earned on General Fund properties, primarily the three Community Centers in the City. This provides approximately \$427,000.

The more significant revenue in this category is investment income. The fiscal year 2008 budget for investment income is \$1.55 million. This is up from the fiscal year 2007 budget of \$1.15 million and the fiscal year-end projection of \$1.4 million. Staff expects that the rate of return and interest earnings on the city's cash balances and the investment portfolio will continue to grow in fiscal year 2008.

### *Intergovernmental*

Intergovernmental revenues are projected to contribute approximately \$1.25 million (1%) to the General Fund budget. This is substantially below the amount projected for the fiscal year 2007 year-end amount of \$2.8 million. The decrease is due primarily to fire mutual aid revenue, which represents the reimbursements from the Forest Service and other agencies when the City's fire department responds to incidents outside the city boundaries. The fiscal year 2007 year-end estimate for fire mutual aid revenue is over \$1.4 million and, in fiscal year 2008, is budgeted conservatively at \$384,000 because it is difficult to predict exactly how many incidents the City fire department will be called to assist in a given year.

### *Service Charges*

After taxes and inter-fund charges, service charges are the third largest revenue category in the General Fund. In total, service charges are projected to provide just over \$10.6 million (10%) of General Fund revenue. As the table below indicates, the adopted fiscal year 2008 amount is approximately \$644,300 (6.5%) above the amended fiscal year 2007 amount. In most cases, the total projected growth in revenue is due to a combination of increases in fees and anticipated activity levels.



# FUND OVERVIEWS

## General Fund

	Fiscal 2006 Actual	Fiscal 2007 Amended	Fiscal 2008 Adopted	Percent Change
Administrative Services	\$ 810	\$ -	\$ 1,250	1250%
City Administrator	79,017	114,200	137,368	20.3%
Community Development	4,664,880	4,849,286	5,143,673	6.1%
Finance	816,816	832,000	845,358	1.6%
Fire	179,006	197,311	204,196	3.5%
Library	657,005	739,200	703,233	-4.9%
Parks and Recreation	2,015,306	2,168,600	2,298,775	6.0%
Police	535,446	522,204	553,563	6.0%
Public Works	847,064	544,570	724,292	33.0%
<b>Total</b>	<b>\$ 9,795,350</b>	<b>\$ 9,967,371</b>	<b>\$ 10,611,708</b>	<b>6.5%</b>

While there is always sensitivity to increased fees for government services, staff believes it is important that the City establish fee levels to recover a reasonable portion of the costs of providing those services. Service costs not recovered through program fees must be subsidized with tax revenue. While this may be appropriate in some cases, as a rule, staff believes that the users of the services ought to bear the costs of providing them. However, in most cases, the City's current fee levels still recover only a fraction of the cost of providing the services.

### *Inter-Fund Charges and Reimbursements*

This category of revenue represents reimbursements to the General Fund for services provided to the City's Enterprise and Special Revenue funds. The adopted fiscal year 2008 budget contains over \$15.1 million from this revenue source, representing 14% of total General Fund revenue. Five items, as discussed below, account for over \$13.1 million of the total.

The General Fund's overhead allocation represents just almost \$6.1 million. These are charges to the City's Enterprise and Special Revenue funds for administrative services provided by the General Fund. Examples of the services provided include payroll, accounts payable, accounting, human resources, legal, City Clerk and City Administrator support. Each administrative service is individually allocated based upon usage. For example, payroll costs are allocated based upon the number of paychecks issued for each fund.

The Public Works department generates almost \$3.1 million from engineering charges to City projects. Virtually all of these charges are for engineering support of capital projects. When the General Fund-paid engineering staff works on a capital project, the cost of their time is charged to that project.

The Airport pays approximately \$1.5 million to the General Fund for Fire Department staffing of the Airport Rescue and Firefighting (ARFF) program. This is the fire station at the Airport that provides specialized and FAA-mandated fire and rescue services. The Airport pays for the direct





# FUND OVERVIEWS

## General Fund

costs of the firefighters as well as all associated costs of maintaining the station and equipment and an allocated overhead.

The General Fund is also reimbursed by the Streets Fund for street-related administrative and direct costs that are budgeted in the General Fund. This includes activities in Public Works and the reimbursement of a portion of the Forestry Program in the Parks and Recreation department to maintain the city's street trees. The Streets reimbursement to the General Fund is budgeted at almost \$1.2 million in fiscal year 2008.

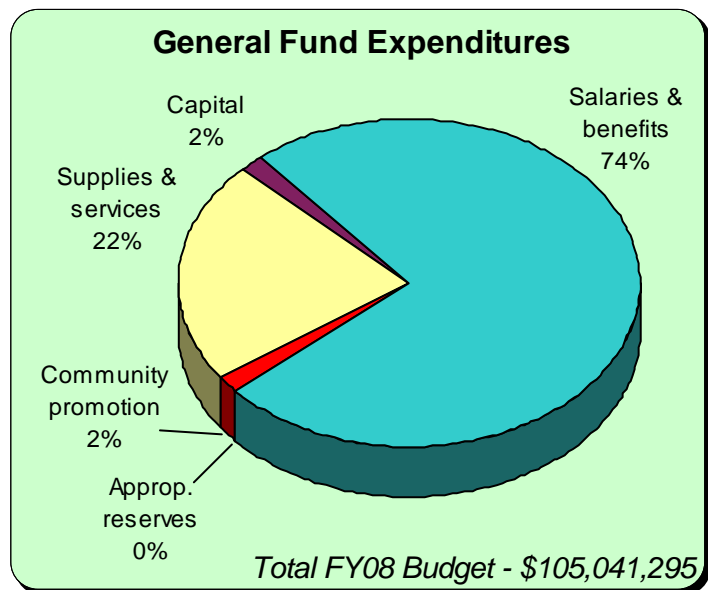
The final notable item in this revenue category is payment from the City's Redevelopment Agency (RDA) for staffing of the Agency. The RDA has no staff. Under a contract between the City and the RDA, the City commits to providing staffing to the Agency, including legal services. This reimbursement totals approximately \$1.2 million.

## EXPENDITURES

As mentioned at the beginning of this section, overall General Fund operating expenditures in the adopted fiscal year 2008 budget are approximately \$103.4 million. Including a capital program of almost \$1.7 million, the total adopted General Fund budget is just over \$105 million.

The chart to the right displays the adopted budget, including capital, by object of expenditure. As is always the case, salaries and benefits (74%) represent the largest portion of the General Fund budget. Expenditures for supplies and services make up 22% of the total adopted budget.

Capital expenditures represent 2% of the General Fund budget. As indicated in the chart, the Community Promotion budget comprises 2% of the budget. The Community Promotion program accounts for City contributions to various civic events such as the 4th of July celebration, Old Spanish Days and Summer Solstice, as well as to organizations such as the Chamber of Commerce and the Conference and Visitors Bureau.



The table on the next page summarizes General Fund operating expenditures by department for the adopted fiscal year 2007 budget, the fiscal 2007 amended budget, and the adopted fiscal year 2008 budget. The percentage change column is based on the change from fiscal year 2007 amended budget to the adopted fiscal year 2008 budget.



# FUND OVERVIEWS

## General Fund

<b>General Fund Departments</b>	Fiscal 2007		Fiscal 2008	FY07
	Adopted	Amended	Adopted	Amended to FY2008
Administrative Services	\$ 1,964,977	\$ 2,241,052	\$ 2,365,566	5.6%
City Administrator	2,078,496	2,216,148	2,185,157	-1.4%
City Attorney	2,107,759	2,137,698	2,175,121	1.8%
Community Development	10,630,969	12,354,586	11,060,730	-10.5%
Finance	4,876,350	5,023,579	5,017,295	-0.1%
Fire	17,856,144	19,295,375	18,886,215	-2.1%
Library	4,367,587	4,526,744	4,561,679	0.8%
Mayor and Council	803,038	807,048	861,972	6.8%
Non-Departmental	2,193,394	2,193,394	2,480,649	13.1%
Parks and Recreation	14,023,654	14,497,740	14,805,450	2.1%
Police	30,155,407	30,966,222	32,206,702	4.0%
Public Works	6,472,723	6,960,344	6,771,958	-2.7%
<b>Total expenditures</b>	<b>\$ 97,530,498</b>	<b>\$103,219,930</b>	<b>\$103,378,494</b>	<b>0.2%</b>

As the table indicates, while the General Fund operating budget is only 0.2% above the fiscal year 2007 amended budget, the individual General Fund departmental budgets are, in some cases, significantly above or below the fiscal year 2007 amended budget. All department budgets contain increases in salaries and benefit costs in fiscal year 2008 because of the impact of negotiated salary contracts as well as the rising cost of health insurance premiums; however, some department budgets will actually be lower than the fiscal year 2007 amended budget because of cost savings in other expenditure categories. The Community Development Department's budget is 10.5% below the fiscal year 2007 primarily because significant funding for "Plan Santa Barbara" was included in the fiscal year 2007 amended budget. For fiscal year 2008, unspent funds will be carried over to fiscal year 2008 and are sufficient to fund the "Plan Santa Barbara" work plan over the next year. The "Non-Departmental" department is budgeted 13.1% above the fiscal year 2007 amended budget to provide funding for the General Fund's share of two Information Systems projects scheduled to begin in fiscal year 2008: \$155,000 for a GIS project and \$75,000 for the preliminary phase for the replacement of the city's financial management system.





# FUND OVERVIEWS

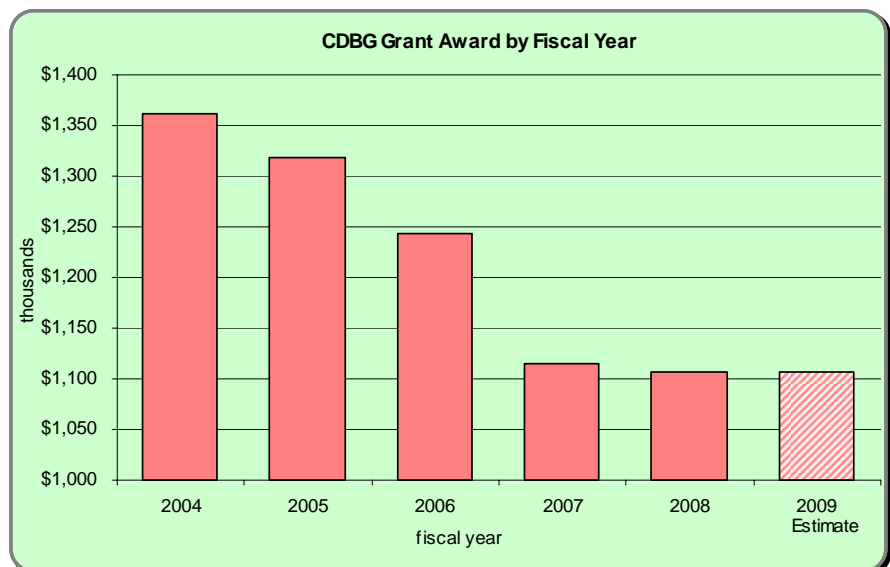
## Special Revenue Funds

### COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue					
CDBG revenue	\$ 1,930,595	\$ 2,762,482	\$ 1,947,179	\$ 1,106,707	\$ 1,106,707
Program income	347,815	450,000	376,000	350,000	350,000
Total revenue	2,278,410	3,212,482	2,323,179	1,456,707	1,456,707
Operating expenditures	2,278,409	3,035,926	1,947,178	1,456,707	1,456,707
Net addition to (use of) reserves	\$ 1	\$ 176,556	\$ 376,001	\$ -	\$ -

The City's Community Development Block Grant (CDBG) Fund is used to account for the annual federal block grant received by the City from the U.S. Department of Housing and Urban Development. This annual grant supports programs including the City's Rental Housing Mediation Task Force, human service and community capital grants, and a low and moderate-income housing rehabilitation loan program.

Over the last several years, federal budget actions have adversely impacted the City's annual CDBG award. The chart below indicates that since fiscal year 2004 the City's grant award has declined over \$255,000 (18.7%) to a projected grant amount of just over \$1.1 million for fiscal year 2008. Although the City's grant award has declined since the peak award of \$1.471 million in fiscal year 2002, the City is still enjoying substantially greater CDBG funding than in the early 1990s when grant amounts were approximately \$800,000. The City remains concerned that federal budget actions may continue to adversely affect the programs supported by the CDBG grant program.



Besides the annual federal grant award, the other major source of revenue in



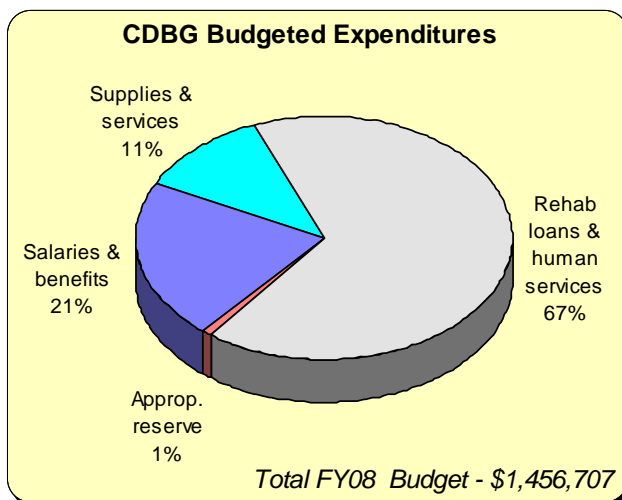
# FUND OVERVIEWS

## Special Revenue Funds

this fund comes from repayments of the housing loans issued under the housing rehabilitation program.

As of June 30, 2007, the City had almost \$6.76 million in outstanding CDBG funded housing rehabilitation loans. The City maintains a “revolving” loan fund so that as loan repayments are received the funds are re-appropriated and loaned again. As in past years, the adopted fiscal year 2008 budget includes an estimated amount for loan repayments (also known as “program income”). The estimate is based upon an analysis of the scheduled monthly payments for all outstanding loans. Because the routine repayments are quite predictable, they are included in the budget. As indicated in the table at the top of the previous page, loan repayments for fiscal year 2008 are projected to be \$350,000. In some years, loan repayments significantly exceed expectations. For example, in fiscal year 2004 loan repayments were approximately \$750,000, \$350,000 ahead of budget. The additional amounts represent unscheduled pre-payments of loan balances due to property sales or re-financings. Due to the indeterminate nature of these prepayments, no attempt is made to include them in the budget. In the event significant prepayments are received during the year, a supplemental appropriation will be requested from the City Council.

The chart below displays the CDBG budget by category of expenditure. Human service grants (including community capital grants) and housing rehabilitation loans represent 67% of the budget.



The CDBG human services grants are allocated, along with the General Fund human services funding, based upon recommendations submitted to the City Council by the City’s Community Development and Human Services Committee. The Committee’s recommendations for fiscal year 2008 grant awards, to be funded from the adopted fiscal year 2008 budget, were recently submitted to and approved by the City Council.

All requests for housing rehabilitation loans are evaluated by program staff and are submitted to the City’s Loan Committee for approval. The Loan Committee is comprised of the Assistant City Administrator, the Community Development Director, and the Finance Director. The Loan Committee can approve loans up to \$60,000. Loans of more than \$60,000 require approval of City Council.



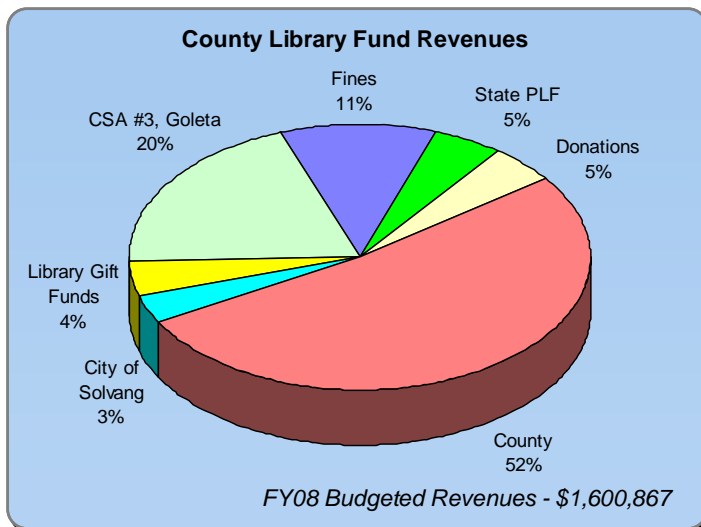
# FUND OVERVIEWS

## Special Revenue Funds

### COUNTY LIBRARY FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 1,432,801	\$ 1,640,583	\$ 1,595,070	\$ 1,600,867	\$ 1,628,898
Operating expenditures	1,744,641	1,829,106	1,680,957	1,813,246	1,869,929
Net addition to (use of) reserves	\$ (311,840)	\$ (188,523)	\$ (85,887)	\$ (212,379)	\$ (241,031)

The County Library Fund accounts for the costs of providing a full range of library services to the residents of Solvang, Santa Ynez, Los Olivos, Carpinteria, Montecito, and Goleta, under contract with the County of Santa Barbara. The chart below indicates that revenue to support these services comes from a variety of sources including the County, State Public Library Fund (PLF) Grant, the cities of Solvang and Carpinteria, fines, fees and donations. Additional funds for the Goleta library are provided by a special assessment (CSA #3). Although additional contributions from various "Friends of the Library" community groups are received occasionally, they are generally not budgeted because of the unpredictable nature of the donations. The budget does, however, include the use of \$65,000 in gift funds from the Friends of Montecito and Carpinteria libraries used to support some program staffing at those libraries. No City of Santa Barbara funds are included in the County Library Fund budget.



Under the terms of the agreement between the City and the County, the City is compensated for managing these County library services. The City's General Fund receives an administration fee amounting to 9% of the annual County appropriation for County (non-City) resident library services.

The adopted fiscal year 2008 budget is based upon staff's best estimates of next year's funding levels from both the County and the State. Changes in the level of either of these revenue sources will require corresponding program and

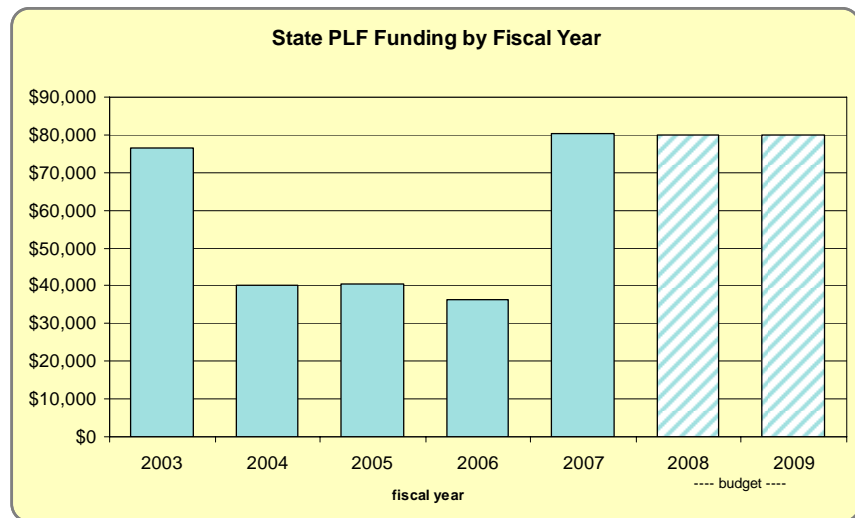


# FUND OVERVIEWS

## Special Revenue Funds

expenditure adjustments. Since neither the State nor the County generally adopt a budget prior to the July 1<sup>st</sup> start of the fiscal year, such adjustments are usually brought before the Council in the fall of each fiscal year.

After several years of reductions in funding for libraries statewide, the State Public Library Fund (PLF) funding for the County Library System was restored to more recent levels in fiscal year 2007. The City received \$80,324 from the State in fiscal year 2007, representing a 5% growth over the fiscal year 2003 level. While this is less than the historical high of \$151,600 in fiscal year 2000, the City expects the recent level of funding to continue over the next two fiscal years, budgeted at \$79,995.



The adopted budget also contains the use of approximately \$65,000 in Library gift funds to offset the continuing impacts of fiscal pressures. The gift funds will be used to supplement funding for the acquisition of collection materials.



# FUND OVERVIEWS

## Special Revenue Funds

### CREEKS RESTORATION & WATER QUALITY IMPROVEMENT (MEASURE B) FUND

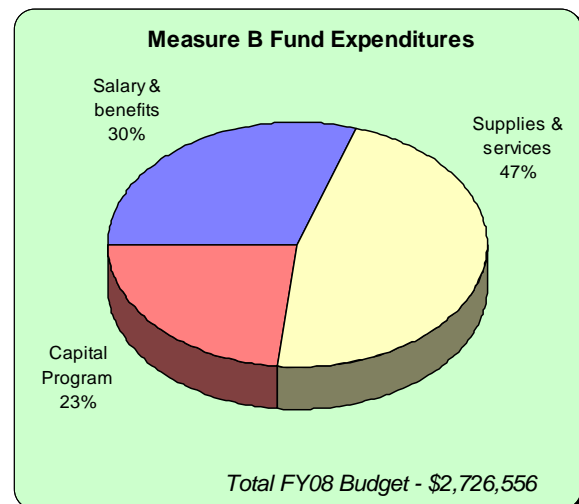
	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 2,564,158	\$ 2,675,409	\$ 2,800,655	\$ 2,917,387	\$ 3,053,187
Operating expenses	1,669,147	2,340,115	1,967,605	2,091,556	2,042,479
Operating surplus	895,011	335,294	833,050	825,831	1,010,708
Capital budget	875,899	4,458,579	2,200,000	635,000	725,000
Net addition to (use of) reserves	\$ 19,112	\$ (4,123,285)	\$ (1,366,950)	\$ 190,831	\$ 285,708

In November 2000, the City's voters overwhelmingly approved Measure B, which increased the City's transient occupancy tax from 10% to 12% effective January 1, 2001. Under the terms of the measure, all proceeds from the additional 2% are restricted for use in the City's Creeks Restoration and Water Quality Improvement Program. In order to meet the intent of the measure, the City opened a Special Revenue Fund to account solely for all revenues and expenditures associated with this program.

The Creeks Restoration and Water Quality Improvement Program is managed by the City's Parks and Recreation Department. Under the direction of the Parks and Recreation Director, the Creeks Restoration and Water Quality Improvement Manager manages the program.

The adopted revenues for fiscal year 2008 are over \$2.9 million. Approximately \$201,000 of the budgeted revenue is projected to come from investment income. The balance, just over \$2.7 million, is projected to come from the two-percent transient occupancy tax (TOT). The \$2.7 million TOT estimate for fiscal year 2008 is consistent with the assumptions used to budget the General Fund's TOT.

The chart on the right displays the expenditure budget by major category. As the chart indicates, 23% of the budget is dedicated to capital (\$635,000). Fiscal year 2008 capital projects include design phase of new water quality treatment projects (\$100,000), installation of catch basin debris screens (\$110,000), the final design phase of a storm water management project for





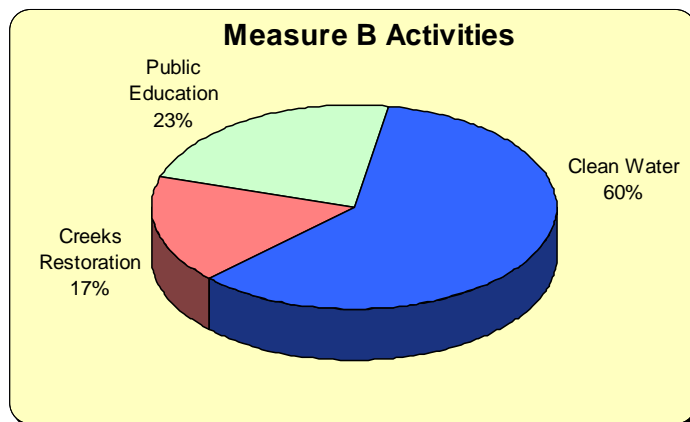
# FUND OVERVIEWS

## Special Revenue Funds

Las Positas Creek (\$100,000), the permitting phase for the enhancement of the wetland function of Old Mission Creek in the West Figueroa area (\$150,000), design of fish passage and watershed restoration projects for Mission Creek (\$75,000), implementation of a Invasive Plant Removal/Re-vegetation Program (\$75,000), and capital replacement funds (\$25,000).

With salary and benefit costs representing only 30% of the operating budget, the Measure B Fund more closely resembles one of the City's Enterprise Funds rather than the General Fund. The fiscal year 2008 includes the addition of new Senior Planner position to supervise the Fund's extensive and on-going creeks restoration and water quality capital projects throughout the City. In addition to the seven full-time and two part-time positions, there is funding in the operating budget for program support from the City's Public Works Department. These services include the in-school youth watershed education program and catch basin filter maintenance. These funds (approximately \$53,000) are budgeted in the supplies and services category.

The chart below displays the adopted budget (operating and capital) by activity. Clean Water activities comprise approximately \$1.64 million (60%) of the budget with specific focus on creek clean-ups (\$75,000), water quality testing (\$80,000), water quality and habitat research (\$100,000), and residential street sweeping (\$167,100). Two full-time Water Resources Specialist positions provide storm water code enforcement, technical business assistance and storm drain monitoring.



Creeks Restoration activities comprise 17% of the budget and include a full-time Restoration Planner position, maintenance of a native plant nursery and the restoration of Old Mission Creek at Bohnett Park (\$30,000), management of four neighborhood creek re-vegetation projects (\$25,000), and management of three creek restoration projects, including the Arroyo Burro Estuary and Mesa Creek, Old Mission Creek at Bohnett Park, and Mission Creek Fish

Passage. Public Education activities comprise approximately \$627,100 (23%) of the budget and include a full-time Outreach Coordinator position, youth education programs (\$50,000), clean water business and neighborhood enrichment programs (\$50,000), as well as \$128,000 for production and airing of bilingual radio and television educational campaigns and print advertising. The adopted budget also includes public outreach activities through the monthly meetings of the Creeks Advisory Committee, community creek restoration and water quality events, collaborative projects with community organizations and other public agencies, and the development of educational materials.





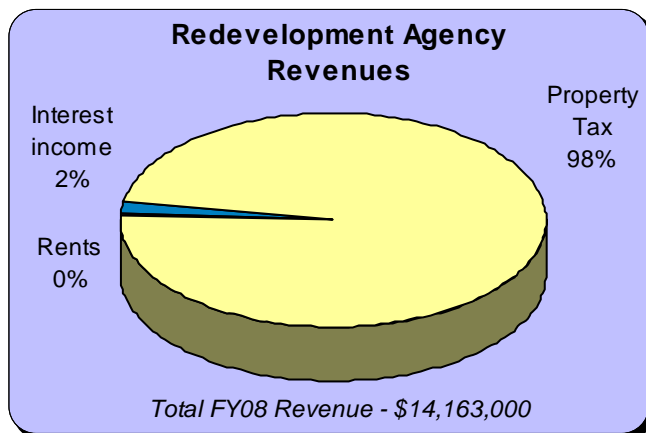
# FUND OVERVIEWS

## Special Revenue Funds

### REDEVELOPMENT AGENCY (GENERAL) FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Total revenue	\$ 14,678,867	\$ 12,543,000	\$ 13,293,000	\$ 14,163,000	\$ 14,856,000
Operating expenditures	11,719,428	15,317,235	15,295,572	10,844,446	9,978,996
Operating surplus	2,959,439	(2,774,235)	(2,002,572)	3,318,554	4,877,004
Capital budget	26,287,750	45,072,653	14,928,175	5,700,000	-
Net addition to (use of) reserves	\$ (23,328,311)	\$ (47,846,888)	\$ (16,930,747)	\$ (2,381,446)	\$ 4,877,004

The adopted fiscal year 2008 Redevelopment Agency (RDA) General Fund budget includes almost \$14.2 million budgeted revenue, \$13.86 million (98%) of which is from the incremental property tax (“tax increment”) generated from within the Agency’s one project area. Under State law, all redevelopment agencies are required to dedicate a minimum of twenty percent of total tax increment revenue to low and moderate housing programs. The remaining 80% of the tax increment may be used for any legally qualifying redevelopment activity, and represents the \$13.86 million of tax increment budgeted in the RDA General Fund. The twenty percent of tax



increment restricted to low and moderate housing programs is budgeted separately in the RDA Housing Fund. The balance of the RDA General Fund’s budgeted revenue is from interest income (\$255,000) and rental income on an Agency-owned property (\$48,000).

The RDA has no staff; the City provides staffing for the Agency and bills the Agency for the costs under a contract between the two legally separate entities. These costs are budgeted by the Agency as contractual

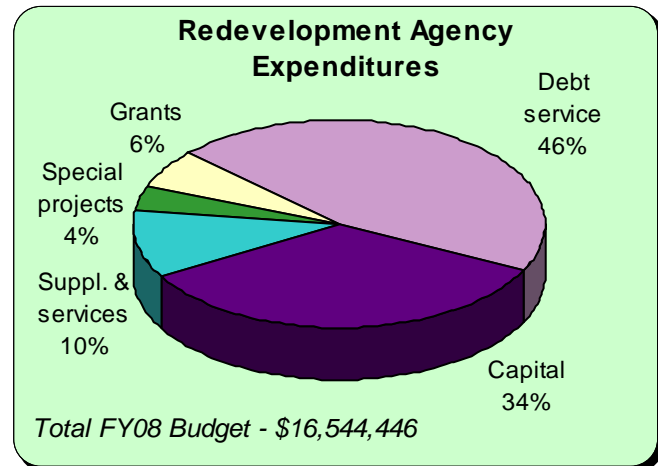
services within the “supplies and services” category. As shown in the chart on the next page, the total supplies and services budget is approximately \$1.73 million (10%). Of that amount, reimbursement to the City for direct administrative and legal services totals \$714,000. In addition, pursuant to the results of a recently completed City cost allocation plan, the Agency reimburses the General Fund approximately \$543,000 for administrative and management services provided by General Fund administrative divisions: Payroll, Human Resources, Purchasing, etc.



# FUND OVERVIEWS

## Special Revenue Funds

The fiscal year 2008 budget also includes \$1,000,000 for community grants. The grants are awarded to local community groups to undertake projects that benefit the RDA project area. Requests are evaluated primarily on the three following criteria: reducing blight; promoting economic development and financial return to the city in the form of increased bed tax, jobs or capital improvements; and, financial return to the agency by increasing property value and, therefore, tax increment revenue.



The budget contains \$608,500 (4%) for special projects. Of this total, \$300,000 is for the annual contribution to the operation of the Downtown and Commuter Lot electric shuttle buses. The contribution is a mitigation measure for the impacts of the downtown improvements financed by the Agency. The remaining special project appropriations will fund hazardous waste studies and mitigation in the project area, as well as property management costs for Agency-owned properties.

As displayed in the table below, debt service represents almost \$8.2 million (46%) of the budget. The RDA has four outstanding tax allocation bonds. In December 2003, the Agency issued what is likely to be its final (non-housing) bond. The Agency's only project area, the Central City Redevelopment Project Area, expires in 2012 and the Agency has already bonded against its projected future tax increment receipts.

Issue	Original Amount	Outstanding at 30-Jun-06	FY 2008 Debt Service	Final Maturity
1995 Tax Allocation Bonds	\$ 35,015,000	\$ 5,980,000	\$ 3,460,900	3/1/2008
2001 Tax Allocation Bonds	38,855,000	38,305,000	1,764,854	3/1/2019
2003 Tax Allocation Bonds	34,810,000	28,495,000	2,286,130	3/1/2019
2004 Tax Allocation Bonds	7,150,000	6,680,000	635,075	7/1/2018
<b>Totals</b>	<b>\$ 115,830,000</b>	<b>\$ 79,460,000</b>	<b>\$ 8,146,959</b>	

Budgeted capital for fiscal year 2008 is \$5,700,000 (34%) and will be used solely as contingency funding for cost overruns on existing RDA capital projects. Of the \$5,700,000, roughly \$3.3 million will come from fiscal year 2008 property tax revenues and the remainder will be come from the use of previously accumulated RDA fund reserves.



# FUND OVERVIEWS

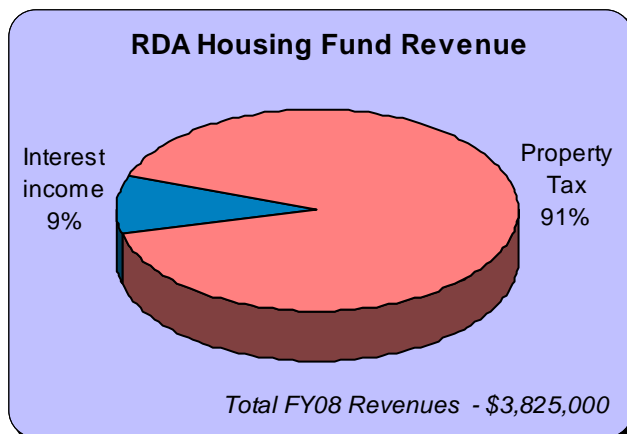
## Special Revenue Funds

### REDEVELOPMENT AGENCY HOUSING FUND

	Fiscal Year				
	2006	2007	2007	2008	2009
	Actual	Amended Budget	Projected Actual	Adopted Budget	Proposed Budget
Total revenue	\$ 3,919,928	\$ 5,515,000	\$ 5,613,000	\$ 3,825,000	\$ 3,756,000
Operating expenditures	7,017,025	6,459,167	6,190,863	1,505,546	1,555,122
Net addition to (use of) reserves	\$ (3,097,097)	\$ (944,167)	\$ (577,863)	\$ 2,319,454	\$ 2,200,878

The adopted fiscal year 2008 Redevelopment Agency (RDA) Housing Fund budget includes approximately \$3.8 million in estimated revenue, and an operating budget of approximately \$1.5 million. The difference represents a budgeted surplus of over \$2.3 million, which combined with available reserves and bond proceeds, will be used for housing grants and loans over the next several years. Because the projects have not fully matured and final costs usually are not known at the time of budget adoption, housing grants and loans are typically appropriated during the fiscal year.

Of the \$3.8 million budgeted revenue, \$3.5 million (91%) is from the incremental property tax ("tax increment") generated from within the Agency's one project area. Under State law, all redevelopment agencies are required to dedicate a minimum of twenty percent of total tax increment revenue to low and moderate housing programs. The remaining 80% of the tax increment may be used for any legally qualifying redevelopment activity. The \$3.5 million of tax increment budgeted in the RDA Housing Fund meets the twenty percent state requirement.



The balance of the RDA Housing Fund's budgeted revenue is interest income on investments (\$200,000) and on housing loans (\$160,000). As of June 30, 2007, the Housing Fund had approximately \$32.6 million of outstanding low and moderate-income housing loans.

The Agency's 20% tax increment that is restricted to low and moderate-income housing is not affected by the State's Educational Revenue Augmentation Fund (ERAF) property tax shift. In the past, the State has always

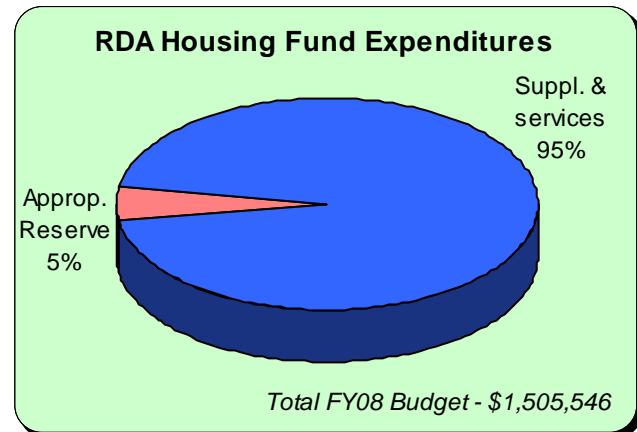
prohibited redevelopment agencies from using any of their 20% housing set-aside funds to meet their ERAF obligation. That is unlikely to change in the future.



# FUND OVERVIEWS

## Special Revenue Funds

The chart on the right summarizes the Housing Fund's expenditures. The Housing Fund has no staff. Under a contract between the two legally separate entities, the City provides staffing for the Agency's Housing Fund and bills the Agency for the costs. These costs are budgeted in the Housing Fund as contractual services within the "supplies and services" category. The total supplies and services budget is approximately \$1.4 million (95%). Of that amount, reimbursement to the City for direct administrative and legal services totals approximately \$628,000. In addition, pursuant to the results of a recently completed City cost allocation plan, the Agency Housing Fund reimburses the General Fund approximately \$95,900 for administrative and management services provided by General Fund personnel (purchasing, accounting, auditing, etc.). An appropriated reserve is also budgeted at \$80,000.



The fund has a budgeted operating surplus of over \$2.3 million for fiscal year 2008, as mentioned previously, that will be available for housing grants and loans in fiscal year 2008 and future years. The Redevelopment Agency's Housing Fund is able to direct significant resources towards what many consider to be the most pressing need facing the Santa Barbara area - developing and maintaining affordable housing.



# FUND OVERVIEWS

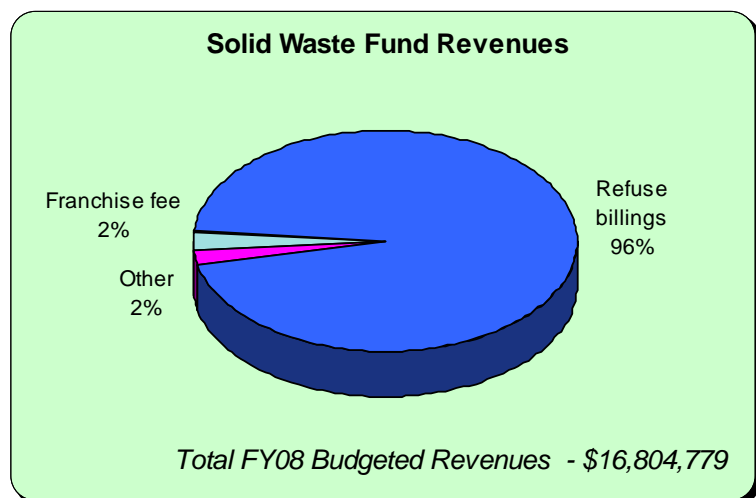
## Special Revenue Funds

### SOLID WASTE FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Total revenue	15,476,246	15,950,962	16,084,232	16,804,779	17,202,799
Operating expenditures	13,167,411	16,265,038	16,035,498	16,869,945	17,234,893
Net addition to (use of) reserves	\$ 2,308,835	\$ (314,076)	\$ 48,734	\$ (65,166)	\$ (32,094)

The City's Solid Waste Fund was first established in fiscal year 2003. Prior to that time, solid waste activities were accounted for within the General Fund. Given the importance of the City's solid waste activities and the increasing and dedicated revenue sources supporting the solid waste activities, a separate special revenue fund was created with the adoption of the fiscal year 2003 budget. During the first three years of this new fund, billings to City customers for residential trash service (billed and collected by the City's Finance department) continued to be accounted for in a separate trust fund for benefit of the two contract refuse haulers. However, beginning in fiscal year 2006, the refuse billing revenue is recorded in and paid out to the contract haulers directly from the Solid Waste Fund, thus more accurately reflecting the true magnitude of the City's solid waste operations and accounting for the growth of this fund since its inception.

Funding for solid waste activities comes from several sources. The chart to the right details the estimated solid waste revenue for fiscal year 2008. The largest source of revenue is refuse billings revenue category. The refuse billings category includes trash collection fees (\$14,725,695), fees for County solid waste activities (\$556,335), and a recycling fee (\$686,833), generated from a 4% fee included in the trash collection rates. The franchise fee revenue (\$419,916) is from a 2% franchise fee paid to the City by the two contracted trash haulers. The balance of the revenue, as shown in other revenue, is from the sale of recyclable materials generated in the City (\$200,000), grants (\$26,000), and donations and public education funding from the two haulers





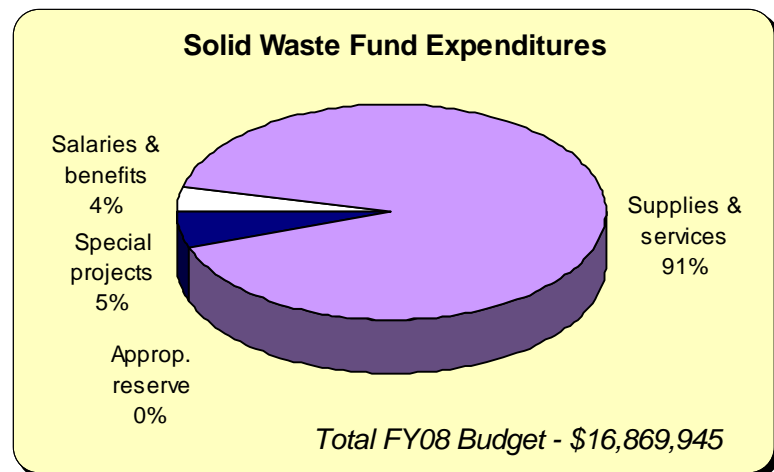
# FUND OVERVIEWS

## Special Revenue Funds

(\$190,000). The donations are used for the Looking Good Santa Barbara program, dedicated to assisting the City with recycling outreach, beautification, and graffiti abatement activities. The \$26,000 grant is from the State of California Department of Conservation to support a public information campaign on refuse strategies and for the purchase of recycling containers for parks and other public spaces.

The City has already made significant progress in meeting its recycling goals. The state-mandated goal of 50% diversion has been met. However, the City has established a goal to be the recycling leader in the state and achieve 70% diversion by 2010. The adopted fiscal year 2008 budget will further that goal by working towards higher recycling levels in the commercial and food-waste areas.

The chart to the right summarizes the adopted budget by object of expenditure. Included in the adopted budget is \$876,500 that will be used for special projects to further enhance the City's solid waste diversion efforts. As indicated in the chart, 91% of the budget is supplies and services, which include the \$14.73 million in trash collection billings collected by the City and then paid to the contract haulers. The only other component of the budget is an appropriated reserve (\$10,000).







# FUND OVERVIEWS

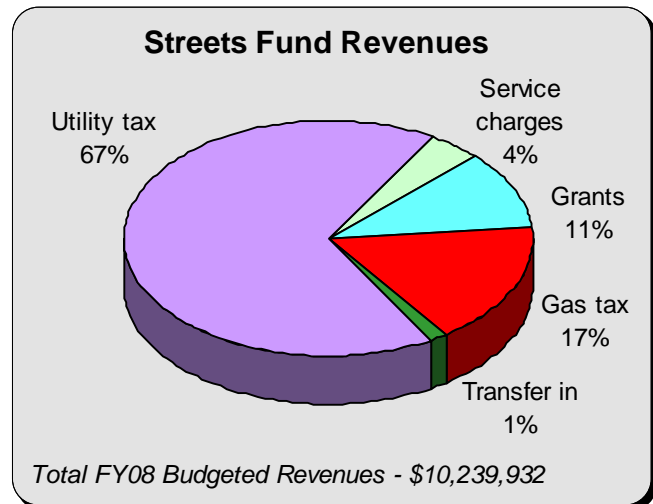
## Special Revenue Funds

### STREETS FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 10,567,292	\$ 25,089,992	\$ 11,745,419	\$ 10,239,932	\$ 19,962,176
Expenses:					
Operating	6,074,373	6,527,648	6,170,516	6,838,715	7,089,745
Capital	4,115,402	22,325,579	9,825,235	3,350,000	13,218,000
Total expenses	10,189,775	28,853,227	15,995,751	10,188,715	20,307,745
Net addition to (use of) reserves	\$ 377,517	\$ (3,763,235)	\$ (4,250,332)	\$ 51,217	\$ (345,569)

The Streets Fund accounts for all City-funded streets operations, maintenance and capital. Until fiscal year 2004, the Streets Fund was strictly a capital fund used to budget and account for streets capital projects. Prior to that time, all City-funded streets operations and maintenance activities were budgeted in the General Fund. However, because the streets operations and maintenance activities are funded almost entirely from restricted revenue, beginning with fiscal year 2004 they were moved out of the General Fund and into the Streets Fund.

The chart to the right summarizes the Streets Fund revenue sources. The single largest revenue source is utility users' tax (\$6.85 million). As required by City ordinance, fifty percent of the City's 6% utility users' tax revenue is restricted to use for streets operations, maintenance, and capital. Gas tax (\$1.725 million) is the other significant revenue source. The gas tax revenue received by the City is a portion of the state's 18 cents per gallon tax on fuel used to propel a motor vehicle or aircraft. Article XIX of the California Constitution restricts the use of gas tax revenue to research, planning, construction, improvement, maintenance, and operation of public streets and highways or public mass transit. The funds are distributed by the state on a per capita basis, and each year, the City is audited by the State Controller's Office to ensure that the funds are used in accordance with state law.



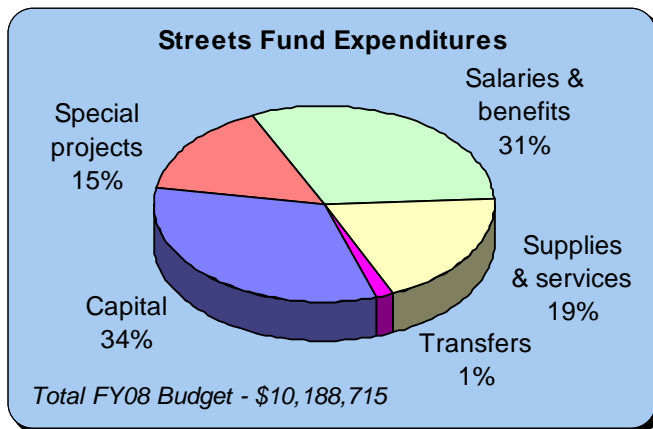
The Streets Fund is also projecting the receipt of \$1.1 million in federal and state grants. Of this total, \$750,000 represents Federal Highway Bridge Replacement and Rehabilitation (HBRR) funds, which will be combined with \$155,000 in Utility Users Tax revenues and \$380,000 in Measure D transportation sales tax funds, to continue work on the replacement of the Cabrillo



# FUND OVERVIEWS

## Special Revenue Funds

Boulevard vehicular and pedestrian bridge at Mission Creek. The other grant budgeted next year is \$350,000 for a State Transportation Improvement Project (STIP) grant which will be used to provide on-going improvements to the City's bicycle lanes from Garden Street through the U.S. Highway 101 interchange.

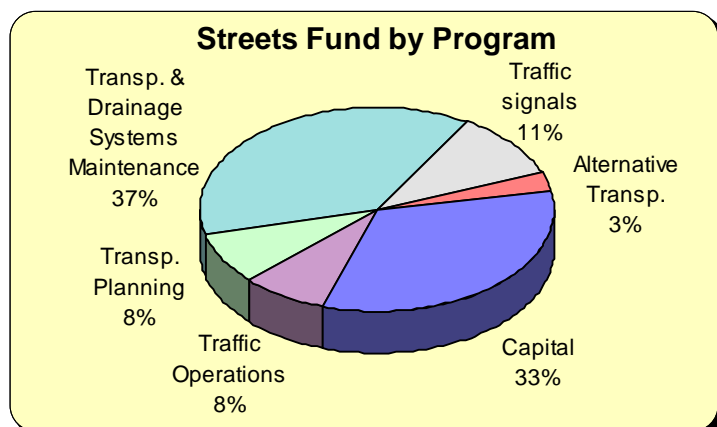


The final Streets Fund revenue source is service charges. This includes revenue associated with the City's downtown shuttles, which are operated for the City by the Metropolitan Transit District (MTD) and represents the reimbursement from the City's Redevelopment Agency (RDA) for support of the commuter lot and Downtown/Waterfront shuttles (\$300,000). The RDA's support of the shuttles is a mitigation obligation of the RDA as a result of the downtown projects funded by the

Agency. This revenue is used entirely and solely to pay for the costs of the shuttle operations.

The chart above summarizes the Street Fund expenditures by object. In addition to the capital projects funded primarily from grants, as previously discussed, the capital program of \$3.35 million, \$1.6 million for the annual streets resurfacing program and \$450,000 for the annual traffic safety and capacity improvement program which replaces streetlights and signage and improves safety of intersections in the City.

The chart to the right summarizes the Streets Fund expenditure budget by program activity. By far the largest activity is the Transportation and Drainage Systems Maintenance (\$3.8 million). This activity includes maintenance and repair of streets, sidewalks, storm drains, traffic signage and markings and other infrastructure within the public right-of-way. The Alternative Transportation Program is the shuttle bus activity discussed above.





# FUND OVERVIEWS

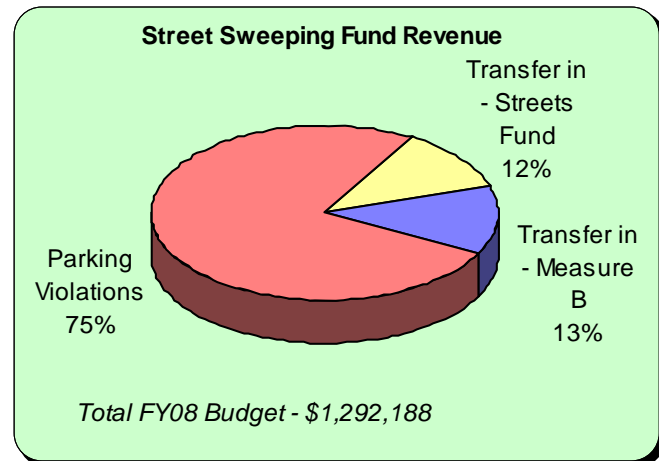
## Special Revenue Funds

### STREET SWEEPING FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Total revenue	1,431,882	1,232,329	1,423,532	1,292,188	1,297,203
Operating expenditures	839,963	1,407,351	1,000,961	1,260,327	1,303,092
Net addition to (use of) reserves	\$ 591,919	\$ (175,022)	\$ 422,571	\$ 31,861	\$ (5,889)

The Street Sweeping Fund was first established in fiscal year 2005. It consolidates all of the City's street sweeping operations into one dedicated fund. The City's street sweeping operation was previously accounted for in the Streets Fund.

As displayed in the chart below, there are two sources of street sweeping revenue. The largest revenue source is parking violations (\$975,000). Parking tickets are issued to vehicles that are not moved off the streets during posted street sweeping times. The police department's parking enforcement officers have been issuing an average of 600 parking citation each week in support of the program. All revenue generated from these parking citations is returned to the Street Sweeping Fund. The balance of revenue is transferred from other City funds. The transfers are from the Streets Fund (\$150,000) and the Creeks Restoration/Water Quality ("Measure B") Fund (\$167,188). The Measure B contribution is used to fund a portion of the expanded residential street sweeping program.



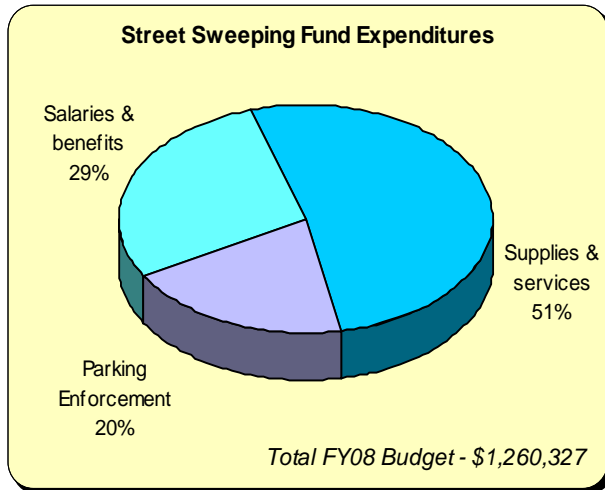
In fiscal year 2000, the City's street sweeping program was limited to the downtown commercial area. In October 2001, the residential street sweeping program began as a pilot program on the Westside and was expanded to the Eastside on October 2003. In October 2004, expansion continued to the Upper Eastside, Westside, West Beach and Samarkand areas, and in October 2006, street sweeping began in the Braemar, Sea Ranch, Alan Road, Hidden Valley and Lower and East Mesa areas. A total of 1,600 residential and commercial curb miles are swept each month with a steady average of 545 cubic yards or 141 tons of debris removed monthly.



# FUND OVERVIEWS

## Special Revenue Funds

For the city to reach its goal of sweeping 70% of the entire city, there are two areas remaining for expansion: first, the Bel Air and the Upper Mesa areas, planned for July 2008, and second to the San Roque area, planned for fiscal year 2009. The remaining 30% of the city will be excluded



from the street sweeping program, namely the Riviera and Foothill areas where roads are steep and narrow and there are no curbs or gutters; these areas pose a risk to the street sweeping vehicles.

The chart to left summarizes the fund's expenditures. Salaries and benefits constitute 29% of the fund's total budget. Currently, street sweeping is handled through a combination of contract and in-house resources. The supplies and services category includes funds for the contract sweeping portion of the program (\$402,137). The other expenditure category is

for parking enforcement. Approximately \$249,887 is reimbursed to the City's Police Department (General Fund) for the costs of enforcing the street sweeping-related parking restrictions. With anticipated parking citation revenue of \$975,000, the net revenue to the Street Sweeping Fund in fiscal year 2008 will be approximately \$31,861.



# FUND OVERVIEWS

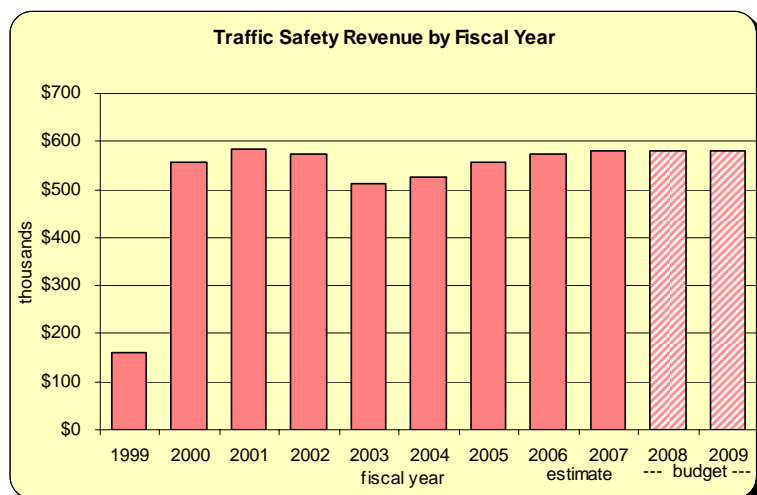
## Special Revenue Funds

### TRAFFIC SAFETY FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 572,516	\$ 580,000	\$ 580,000	\$ 580,000	\$ 580,000
Expenditures					
Operating	30,485	30,000	30,000	30,000	30,000
Transfers out	541,576	550,000	550,000	550,000	550,000
Total expenditures	572,061	580,000	580,000	580,000	580,000
Net addition to (use of) reserves	\$ 455	\$ -	\$ -	\$ -	\$ -

Pursuant to state law, the City must deposit all fines and forfeitures received as a result of citations issued by City police officers for Vehicle Code violations into a special "Traffic Safety Fund." These funds may be used solely for traffic control devices, maintenance of equipment and supplies for traffic law enforcement, traffic accident prevention, the maintenance, improvement or construction of public streets, bridges or culverts, and the compensation of school crossing guards who are not regular, full-time employees of the City's Police Department. The County pays these funds to the City. After being recorded in the City's Traffic Safety Fund as required by law, virtually the entire amount received is transferred to the General Fund and is expended by the Police Department for traffic law enforcement and school crossing guards. The small amount of operating expenditures recorded within the Traffic Safety Fund (\$30,000) is payment for blood testing on individuals suspected of driving while intoxicated.

As the chart indicates, there was a substantial increase in the City's Traffic Safety revenue in fiscal year 2000. Effective with fiscal year 1999, State legislation changed the Vehicle Code to allocate to cities fees paid for "court supervised programs" (i.e., traffic schools) in lieu of base fines. The City began receiving this additional revenue in fiscal year 2000. Since this change in State law, the amounts received by the City have been fairly stable at around \$500,000 or more. The fiscal year 2008 estimate is \$580,000.





# FUND OVERVIEWS

## Special Revenue Funds

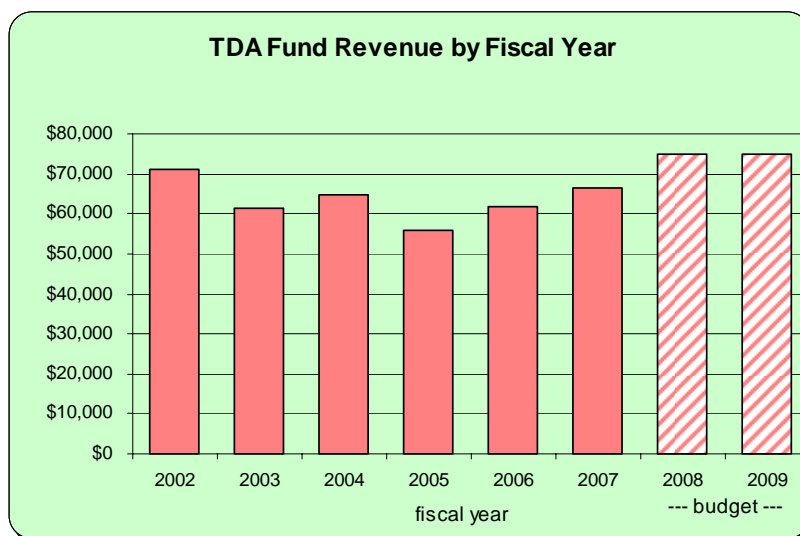
### TRANSPORTATION DEVELOPMENT FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 70,461	\$ 55,000	\$ 89,153	\$ 88,300	\$ 88,300
Capital expenditures	-	165,000	55,000	150,000	150,000
Net addition to (use of) reserves	\$ 70,461	\$ (110,000)	\$ 34,153	\$ (61,700)	\$ (61,700)

The Transportation Development Act of 1971 established a local 0.25% gasoline sales tax designated for countywide transportation purposes. The City's share of funds, disbursed by the County, is restricted for capital expenditures in support of alternative transportation, including sidewalks and bikeways. Each year, the City receives approximately \$75,000 of TDA revenues. This revenue along with annual interest income earned on accumulated balances is appropriated each year to the Street Capital Program.

Because of the relatively small amount of TDA revenue received annually, the proceeds are often accumulated over multiple years in order to fund specific projects. For example, in fiscal year 2007, the amended budget for the TDA fund included the use of \$110,000 of accumulated prior

year balances for the Streets Capital Program. Total expenditures of \$165,000 represented over two years of accumulated TDA revenues. In fiscal year 2008, the TDA revenue will be fully appropriated and accumulated reserves of \$61,700 will be used to supplement the Sidewalk In-Fill Program.



As the chart to the left indicates, the fund's revenue dipped in 2003 through 2005 due reduced interest earnings

because of the recession. However, TDA funding itself has remained relatively constant since 2002, averaging approximately \$63,500 per year. In fiscal year 2008, \$75,000 is budgeted, with the balance of revenue (\$13,300) attributable to interest income.





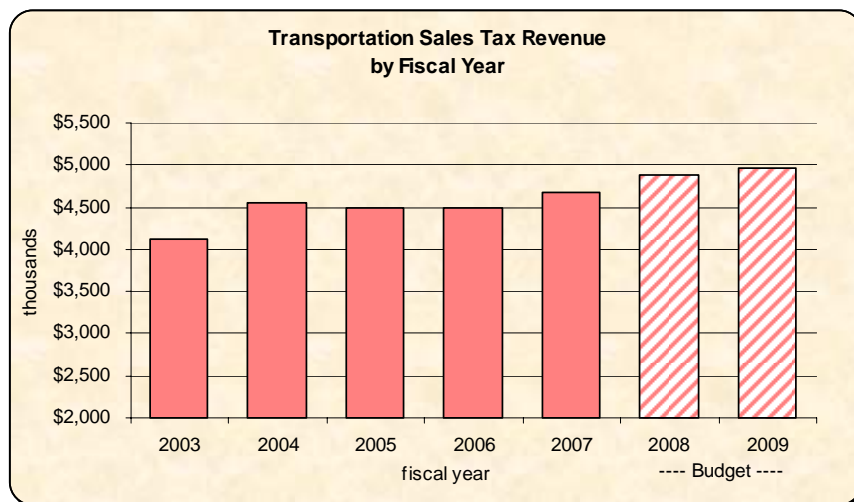
# FUND OVERVIEWS

## Special Revenue Funds

### TRANSPORTATION SALES TAX (MEASURE D) FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenues					
Transportation sales tax	\$ 4,569,790	\$ 4,680,000	\$ 4,750,000	\$ 4,875,000	\$ 4,975,000
Interest income	141,360	152,000	205,000	195,000	195,000
Total revenue	4,711,150	4,832,000	4,955,000	5,070,000	5,170,000
Operating expenditures	2,638,120	3,928,491	3,504,720	3,487,500	3,643,906
Operating surplus	2,073,030	903,509	1,450,280	1,582,500	1,526,094
Capital budget	1,749,927	5,772,769	4,093,810	1,738,000	1,525,000
Net addition to (use of) reserves	\$ 323,103	\$ (4,869,260)	\$ (2,643,530)	\$ (155,500)	\$ 1,094

The Transportation Sales Tax fund is also known as the “Measure D” Fund after the designation of the ballot proposition approved by Santa Barbara County voters in November 1989. The ballot measure enacted a twenty-year, one-half cent sales tax, the proceeds of which are restricted for use in the City’s streets and transportation programs. The revenue generated by this tax is subject to an annual “maintenance of effort” requirement to ensure that the proceeds of the sales tax will be used to supplement - not supplant - the City’s existing streets programs. For any year in which the City fails to maintain its discretionary Streets program (operating and capital) at or above the base year (fiscal 1987) level of \$2.7 million, the City is not entitled to the Measure D revenues. The City is audited each year to verify that the maintenance of effort has been met.



The adopted fiscal year 2008 estimated revenues of nearly \$5.1 million are adequate to cover operating costs and most of the \$1.74 million capital budget. Prior to 2003, the City’s Measure D sales tax revenue grew steadily through fiscal year 2002, but came in lower in fiscal year 2003 because of lower sales tax receipts and allocation adjustments.

Although revenues picked up again in fiscal year 2004, they were flat in fiscal years 2005 and 2006. A slight increase was realized in 2007.



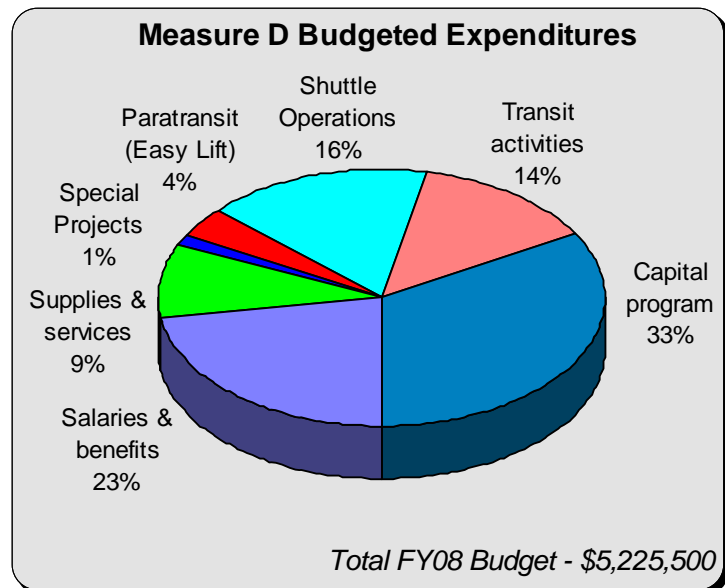
# FUND OVERVIEWS

## Special Revenue Funds

A 2.3% growth in transportation sales tax is expected in fiscal year 2008. As in the past, the revenue estimate, and therefore the budget, is based upon an estimate provided by the Santa Barbara County Association of Governments (SBCAG). SBCAG is the agency that oversees the Measure D program on a countywide basis.

The Measure D Fund budget is developed based upon annual and five-year program of projects that is prepared by the City and submitted to SBCAG for approval. The adopted fiscal year 2008 budget is consistent with those plans.

As mentioned earlier, almost \$1.74 million, or 33%, of the adopted fiscal year 2008 budget is dedicated to the Streets Capital Program, including \$600,000 for bridge replacements, \$405,000 for the streets resurfacing program, \$283,000 for traffic safety improvements in Goleta and school zones in the city, \$250,000 for sidewalk repairs and infill, \$100,000 for traffic signals and intersection improvements, and \$100,000 for drainage system improvements. The budget also includes over \$850,000 (16%) for the Downtown and Crosstown Shuttle programs and over \$210,000 (4%) for a grant to EasyLift



for paratransit services. Almost \$706,000 (14%) of the operating budget is designated for various transit activities. The balance of the budget, approximately \$1.76 million supports street maintenance activities.

With an adopted fiscal year 2008 budget totaling just over \$5.2 million, Measure D has been, and continues to be, a critical component of the City's street operations and capital programs. In fact, with Measure D expiring in 2009, efforts are underway to re-authorize the ½ cent sales tax to extend this essential funding source through a ballot measure in November 2008, which will require a majority vote of the electorate.



# FUND OVERVIEWS

## Enterprise Funds

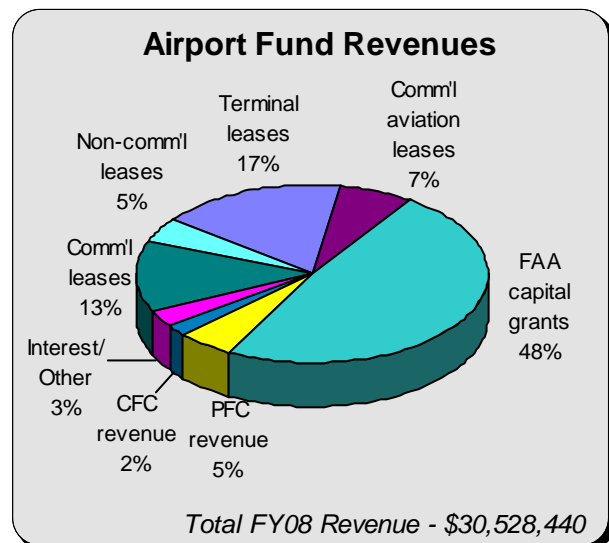
### AIRPORT FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
<b>Operating budget</b>					
Revenue	\$ 12,586,818	\$ 12,390,986	\$ 13,830,508	\$ 13,506,829	\$ 13,248,731
Expenses	10,318,035	12,108,704	11,430,377	12,331,587	12,759,829
Operating surplus	\$ 2,268,783	\$ 282,282	\$ 2,400,131	\$ 1,175,242	\$ 488,902
<b>Capital budget</b>					
FAA grants	\$ 12,328,745	\$ 25,583,312	\$ 14,423,297	\$ 14,821,611	\$ -
PFC revenue	1,613,429	1,724,391	1,600,000	1,600,000	1,600,000
Customer Facility Charges	294,580	650,000	630,000	600,000	600,000
Capital expenses	13,642,248	37,746,873	26,200,835	18,551,611	3,891,360
Net addition to (use of) reserves	\$ 2,863,289	\$ (9,506,888)	\$ (7,147,407)	\$ (354,758)	\$ (1,202,458)

The adopted fiscal year 2008 Airport Fund budget reflects an operating budget of \$12.3 million and a capital program of nearly \$18.6 million.

The chart on the right displays total fiscal 2008 operating and capital revenues as contained in the adopted budget. As the chart indicates, virtually all of the Airport's operating revenue is derived from leases at Airport-owned commercial, non-commercial and aviation-related properties. Lease revenue comprises 93% of operating revenue and 42% of total Airport revenues.

As indicated in the table on the following page, capital-related revenues are expected to total over \$18.6 million. Of this total, \$14.8 million is expected in Federal Aviation Administration (FAA) grant revenues, which will fund airfield safety projects (\$13.8 million) and upgrades to the Airport's noise monitoring system (\$1 million). With adoption of FAA legislation beginning with the 2004 federal grant, the Airport's matching share has been reduced from 10% to 5% and the City may use Passenger Facility Charge (PFC) revenue to meet the matching funds requirement.





# FUND OVERVIEWS

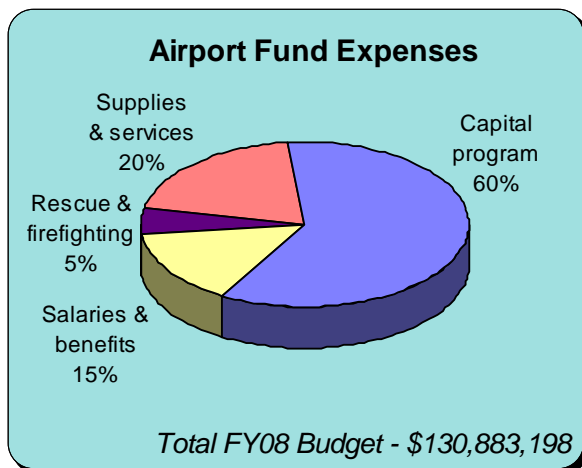
## Enterprise Funds

A second source of capital-related revenue is expected from PFC revenue for \$1.6 million. With the approval of the FAA, on January 1, 1998, the Airport began to levy and collect a \$3 PFC. Again with FAA approval, on November 1, 2003, the Airport's PFC was raised to \$4. The PFC is a fee per airline passenger ticket with the proceeds restricted by federal law to FAA-approved capital improvements. It is estimated that the PFC will generate approximately \$1.6 million in fiscal year 2008, all of which will be used for the airline terminal expansion capital project.

Customer facility charges (CFCs) are expected to generate \$600,000 in revenue in fiscal year 2008 and are another source of capital-related funding. Customer facility charges, charged at a rate of \$10 per rental car contract, will fund construction of a vehicle storage and light maintenance facility for the rental car companies. This on-going, multi-year project is budgeted at \$600,000 in the Airport's capital program in fiscal year 2008.

Other sources of funding for the \$18.6 million capital program come from the Airport Fund operating surplus (operating revenue in excess of operating expenses) and from Airport Fund reserves. For fiscal year 2008, an operating surplus is expected to contribute almost \$1.2 million to the capital program. In addition, approximately \$355,000 of accumulated Airport reserves will be used for capital. The table on the right summarizes the funding for the adopted capital budget.

FY 2008 Capital Funding Sources	
Operating Revenue	\$ 1,175,242
FAA Capital Grants	14,821,611
PFC Revenue	1,600,000
CFC Revenue	600,000
Airport Fund Reserves	354,758
<b>Total</b>	<b>\$ 18,551,611</b>



The chart below displays expenses in the adopted fiscal year 2008 Airport Fund budget by category. As discussed above, the capital program represents 60% of the total budget. In the operating budget, supplies and services (20%) represent a significant portion of the budget. Salaries and benefits comprise 15% of the total budget. The cost of Airport Rescue and Firefighting (ARFF) services represents 5% of the budget. ARFF services are provided to the Airport by the City's Fire Department with the Airport Fund reimbursing the City's General Fund for these services. For fiscal year 2008, the Airport

Fund budget contains almost \$1.6 million for this FAA-required service.



# FUND OVERVIEWS

## Enterprise Funds

### DOWNTOWN PARKING FUND

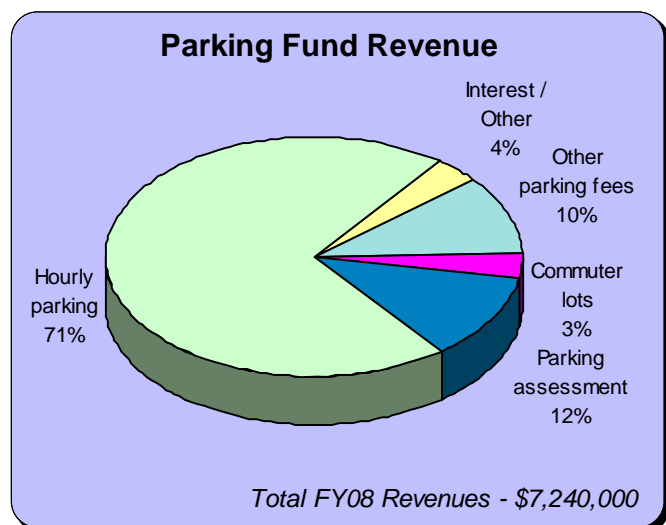
	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 6,077,821	\$ 7,220,000	\$ 6,913,000	\$ 7,240,000	\$ 7,330,000
Operating expenses	5,067,794	5,886,941	5,628,167	6,192,139	6,452,245
Operating surplus	1,010,027	1,333,059	1,284,833	1,047,861	877,755
Capital budget	2,748,883	2,790,653	1,814,823	1,675,000	1,900,000
Net addition to (use of) reserves	\$ (1,738,856)	\$ (1,457,594)	\$ (529,990)	\$ (627,139)	\$ (1,022,245)

The adopted fiscal year 2008 Parking Fund operating budget is nearly \$6.2 million with a capital program of almost \$1.7 million. The budget relies on \$627,139 of reserves to fund a portion of the capital program.

As the chart below indicates, the various parking user fees provide the bulk of the Parking Fund revenue. Combined, these fees totaling approximately \$6.1 million represent 84% of total revenue. Hourly parking revenues are estimated at \$5.1 million in fiscal year 2008 and there are no increases to hourly parking rates. The last rate increase took effect in January 2006 and was implemented in order to fund a number of capital improvements over several years to address the Fund's aging facilities and structures and to generate an additional \$500,000 each year to build up the Fund's capital reserves.

The commercial parking assessment (PBIA) paid by downtown businesses supports a portion of the seventy-five minute free parking period in the City's downtown lots is budgeted to provide \$850,000 (12%) of total revenues. The only other Parking Fund revenue is interest income, budgeted at \$250,000, and \$15,000 budgeted in miscellaneous revenue, and together comprise 4% of total revenue.

As the chart on the following page indicates, the largest segment of the Parking Fund's expense budget is salaries and benefits (44%). Approximately 43% (\$1.46 million) of





# FUND OVERVIEWS

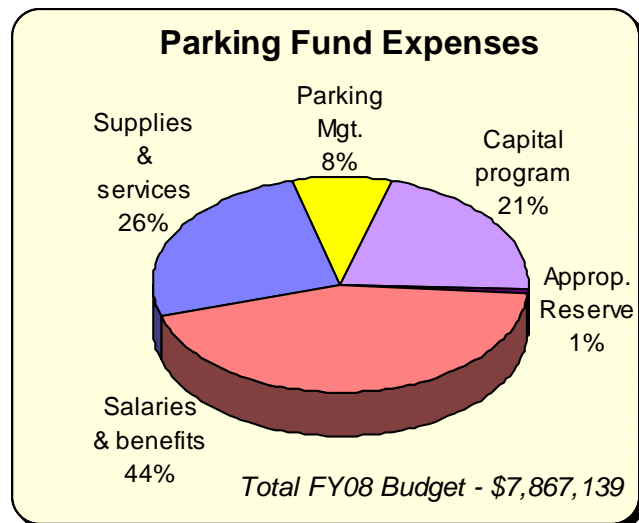
## Enterprise Funds

the total \$3.5 million in salaries and benefits is for hourly wages paid to staff the City's various lots.

Several years ago, a new program, Parking Management, was added to the Parking Fund. The Parking Management Program is intended to reduce the demand for commuter parking in the downtown area by encouraging the use of alternative transportation. The program funds educational efforts and incentives to encourage commuters to choose alternative means of transportation. It also supports downtown transit services. The programs provide particular incentives to downtown workers to make use of alternative transportation. The adopted budget provides over \$660,400 for the Parking

Management Program alternative transportation programs and incentives, including \$240,000 for the downtown employee bus pass program to encourage downtown workers to use local bus MTD service to commute to their jobs in the downtown area.

The adopted capital program of \$1,675,000 includes several projects, including annual repairs and maintenance to parking facilities (\$1,250,000) and continuation of the replacement of the parking revenue control and ticketing system (\$425,000) at the City's downtown lots.





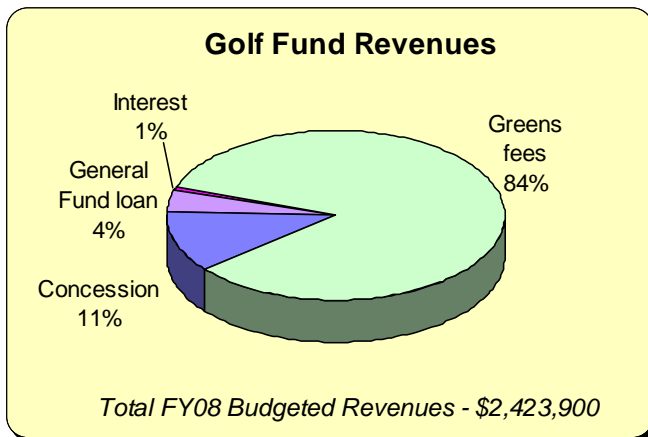
# FUND OVERVIEWS

## Enterprise Funds

### GOLF FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 2,094,556	\$ 2,370,500	\$ 2,370,678	\$ 2,423,900	\$ 2,765,111
Operating expenses	1,733,656	2,067,702	2,008,920	2,045,378	2,163,577
Operating surplus	360,900	302,798	361,758	378,522	601,534
Capital budget	518,307	520,064	520,164	755,000	560,000
Net addition to (use of) reserves	\$ (157,407)	\$ (217,266)	\$ (158,406)	\$ (376,478)	\$ 41,534

The Golf Fund adopted fiscal year 2008 budget contains operating revenue sufficient to support a nearly \$2.05 million operating budget and a portion of the planned capital program of \$755,000. Operating revenue in the adopted budget reflects a 1.8% growth over the fiscal year 2007 amended budget. The revenue estimate reflects 2% growth over the fiscal year 2007 year end revenue and includes the impact of increases to many of the Golf Fund's fees. While some of the fee categories have been restructured, most of the green fees will increase by only \$1 to \$2.



Greens fees of various types comprise 84% (\$2.03 million) of the revenue budget. The Golf Fund's fee structure currently offers discounts to residents of Santa Barbara and Ventura counties. Residents may purchase a resident card for a nominal \$25 annual fee. The card entitles the holder to discounts ranging from \$8 per round (weekday play) to \$14 per round (weekend play). Additional frequent user discount programs also are available to residents.

Revenue from concession agreements with the golf professional and the clubhouse restaurant comprise 11% of the fund's revenue. Revenue from these agreements is budgeted flat at \$277,000. Golf Fund staff perform all course maintenance, but the golf professional provides management of course play, golf lessons, and operation of the pro shop under a agreement with the City. Food services are provided by a separate concession agreement.

Budgeted revenues also include a nominal amount of interest income (\$20,000) and a loan from the General Fund (\$100,000) to accelerate implementation of the Golf Course Safety Improvements Master Plan as discussed below.



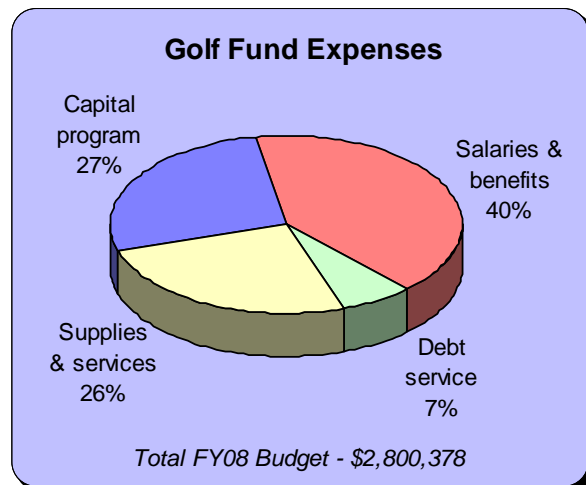


# FUND OVERVIEWS

## Enterprise Funds

Expenses in the adopted budget, including capital, total just over \$2.8 million. The chart below summarizes the distribution of expenses. Salaries and benefits comprise 40% of the budget. Other than personnel costs, water is the Fund's single largest cost (\$187,200). In terms of acre-feet consumed, the golf course is one of the largest water customers in the City's municipal water system.

The capital program of \$755,000 includes continued and accelerated implementation of the Golf Course Safety Improvements Master Plan (\$645,000) and the purchase of replacement power turf equipment (\$110,000). The Golf Course Safety Improvements Master Plan depicts hole-by-hole strategies and golf course upgrades to improve the safety and playability of the City's golf course. The capital program includes funding, including the loan from the General fund as mentioned previously, to accelerate implementation of the master plan in order to shorten the construction schedule and minimize the impact on golfers.



Debt service, at just over \$183,500, consists of principal and interest on the Golf Fund's share of the 2002 Municipal Refunding Certificates of Participation (COP). The 2002 certificates were issued to refund certificates originally sold in 1986 and previously refunded in 1993. The original proceeds were used to expand and renovate the clubhouse and to install a new irrigation system for the entire course. The 2002 refunding lowered the Fund's annual debt service by approximately \$15,000. The current outstanding principal balance is approximately \$1.7 million. Final maturity of the certificates is in 2017.



# FUND OVERVIEWS

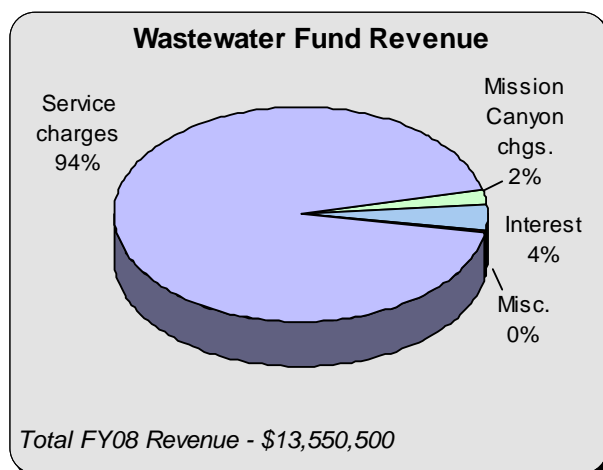
## Enterprise Funds

### WASTEWATER FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 12,465,956	\$ 13,122,748	\$ 12,861,748	\$ 13,550,500	\$ 14,319,015
Operating expenses	9,899,402	12,077,754	11,036,659	12,018,916	12,409,130
Operating surplus	2,566,554	1,044,994	1,825,089	1,531,584	1,909,885
Capital budget	7,732,288	20,003,399	15,500,000	1,976,000	2,145,000
Net addition to (use of) reserves	\$ (5,165,734)	\$ (18,958,405)	\$ (13,674,911)	\$ (444,416)	\$ (235,115)

The adopted fiscal year 2008 Wastewater Fund budget projects enough revenue to fund all operating costs and a significant portion of the \$1.98 million capital program. The remaining portion of the capital program is funded from the fund's reserves (\$444,416).

The budget reflects a 6% wastewater service rate increase, effective July 1, 2007, as recommended by the City's Water Commission and adopted by City Council. The previously planned rate increase of 4% was increased to 6% to fund a program of rebates for property owners who replace the lateral lines connecting homes to the City sewer system. The remaining 4% of the increased rate is needed primarily to fund future capital costs. This increase continues the strategy to implement regular and relatively modest annual increases, after almost a decade of no changes in wastewater rates prior to fiscal year 2004. Despite the financial pressures of increasing capital needs, the fund continues to maintain a solid financial position.



Wastewater Fund revenue is much more stable than revenue in the Water Fund. Wastewater revenues are comprised almost entirely of the regular, monthly service charges. Because these are based upon the customer's water usage in the lower rate blocks, they are more stable and less susceptible to variations than metered water sales. Service charges are projected to provide \$12.7 million (94%) of the nearly \$13.6 million revenue total. Investment income, the second largest source of revenue for the fund, is budgeted at \$525,000. The other significant revenue is \$300,500 representing charges to

Mission Canyon (non-city) residents.

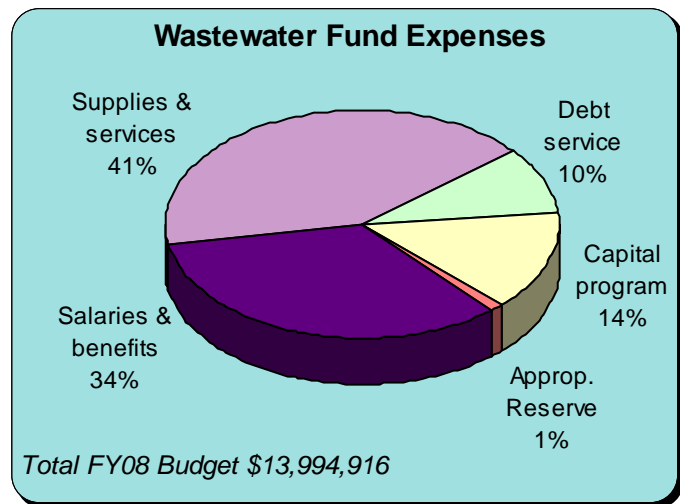


# FUND OVERVIEWS

## Enterprise Funds

Wastewater Fund operating expenses are budgeted at almost \$13.6 million and the adopted capital program is nearly \$1.98 million. As the chart below indicates, capital represents 14% the overall budget.

Debt service, at \$1.35 million, represents 10% of the budget. In July 2004, only two weeks after the start of fiscal year 2005, the Wastewater Fund issued 25-year bonds for \$20.41 million. The bond proceeds generated \$18.5 million of project funds. \$2 million of the proceeds was spent to improve wastewater collection system capacity during wet weather. The remaining \$16.5 million is being used for major renovations at the El Estero Treatment Plant. The plant is now 30 years old. An independent evaluation of the facility identified a ten-year capital improvement program necessary to protect the City's massive investment and to ensure compliance with the more stringent federal and state treatment standards. A total of \$26.5 million in adopted capital improvements was identified over the ten-year horizon of the study. The proceeds of the debt issuance have allowed those improvements to be constructed over the last several years.



improvement program necessary to protect the City's massive investment and to ensure compliance with the more stringent federal and state treatment standards. A total of \$26.5 million in adopted capital improvements was identified over the ten-year horizon of the study. The proceeds of the debt issuance have allowed those improvements to be constructed over the last several years.

In the period from fiscal year 2005 to fiscal year 2009, the capital program will exceed \$30 million. Managing the projects, especially those at the El Estero Treatment Plant, will be a major focus of the Wastewater Fund (Public Works) staff. The current year capital program of \$1,976,000 includes just over \$1 million for continued implementation of the El Estero Treatment Plant Strategic Plan which is a program of work to replace and rehabilitate major plant processes such as the odor control systems, headworks screening, and aeration blowers. An additional \$857,000 is allocated to the El Estero Treatment Plant Maintenance Program to ensure critical capital equipment is functional and the Plant remains fully operational.



# FUND OVERVIEWS

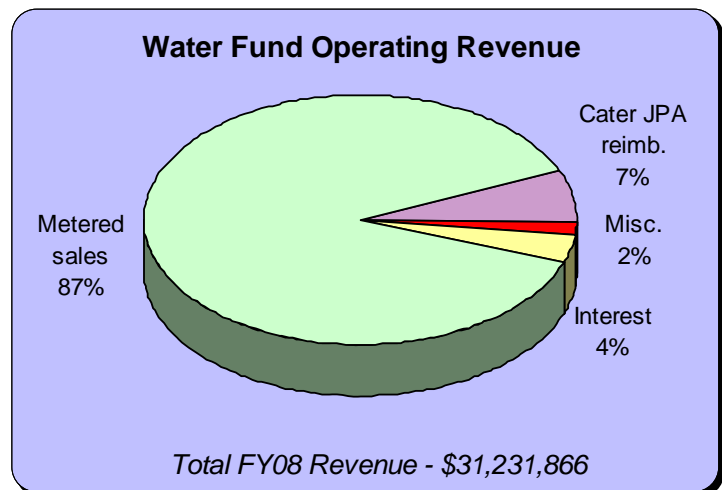
## Enterprise Funds

### WATER FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 28,274,073	\$ 30,240,604	\$ 3,991,200	\$ 31,231,866	\$ 32,254,158
Operating expenses	22,052,278	26,961,862	24,981,127	27,037,593	27,701,931
Operating surplus	\$ 6,221,795	\$ 3,278,742	\$ (20,989,927)	\$ 4,194,273	\$ 4,552,227
Capital budget	6,122,415	15,334,060	6,860,000	6,322,250	6,201,444
Net addition to (use of) reserves	\$ 99,380	\$ (12,055,318)	\$ (27,849,927)	\$ (2,127,977)	\$ (1,649,217)

The adopted fiscal year 2008 Water Fund budget contains operating revenues sufficient to fund a \$27 million operating budget and a significant portion of the \$6.3 million capital program. The adopted budget reflects a 3.5% rate increase for metered water sales, effective July 1, 2007, as recommended by the City's Water Commission and adopted by City Council.

As the chart on the right indicates, the vast majority of estimated Water Fund revenue is provided by metered water sales (\$27.5 million, or 87%). Interest income, budgeted at almost \$1.1 million, is derived from the investment of the Water Fund's capital and operating reserves. The other notable Water Fund revenue is a reimbursement from the Carpinteria and Montecito water districts. Under a joint powers authority agreement (JPA), the City treats all water for both districts at the City's Cater water treatment plant. Under the terms of the JPA, the districts pay their pro-rata share of the operating and capital costs of the Cater treatment facility as well as their share of the debt service associated with the low-interest State loan to fund capital improvements to the Cater facility over the past two years, as part of the implementation of the Cater Strategic Plan. The districts' approximate 40% share (combined) is based upon an allocation of the Cater treatment capacity and is projected to result in over \$2.1 million of revenue in fiscal year 2008.



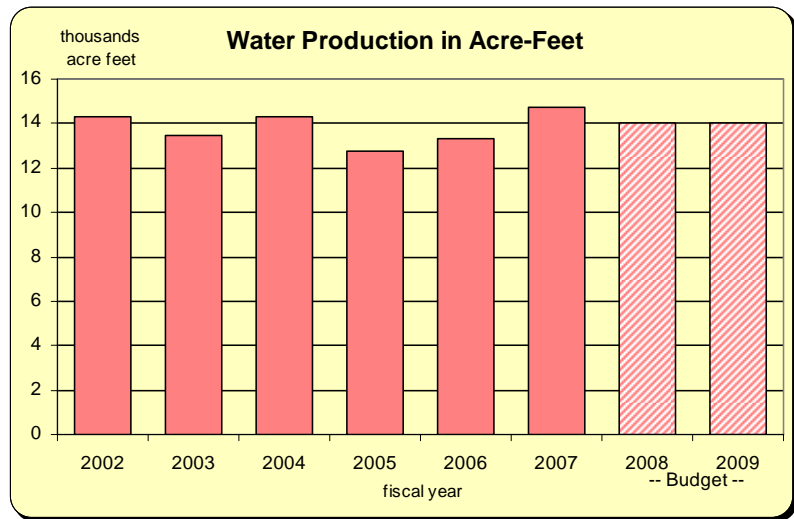
With 87% of Water Fund revenue generated by metered water sales, the most important component of the revenue projection is the water sales estimate in acre-feet. As the chart to the right indicates, water production varies from year to year based on weather and



# FUND OVERVIEWS

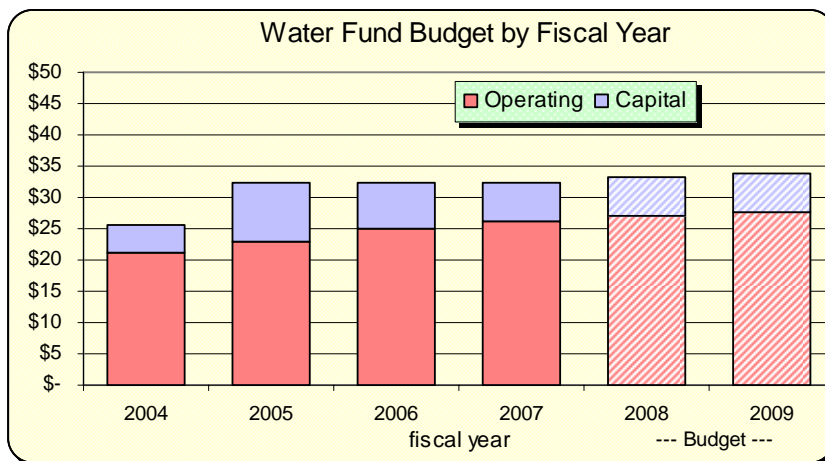
## Enterprise Funds

seasonal factors. Metered sales revenue for the adopted 2008 budget is based upon a production estimate of 14,000 acre-feet. This is above the 2005 actual levels, a low over the past 5 years, when a substantial amount of rain reduced the demand below the expected levels last year. Because a large portion of the Water Fund's costs are fixed, declining or stagnant sales levels can have a significant impact on the overall financial health of the fund. City staff believes the fiscal year 2008 estimate is reasonably conservative.



However, even if actual production and sales fall somewhat below the budgeted target, the Water Fund expenditure budget will be controlled to ensure that a balance is maintained.

As shown in chart below, the operating budget has been growing since fiscal year 2004 as a result of increasing costs for water purchases, energy, and treatment supplies. Over that time the operating budget has grown almost \$5.9 million (28%). The increasing trend in operating costs combined with significant capital needs and stagnant sales has led to the rate increases over the last several years.



The adopted capital program is approximately \$6.3 million. This is substantially below the fiscal year 2005 amended budget capital program of \$26.2 million, which included the appropriations carried forward from fiscal year 2004 for two large projects: the Sheffield Reservoir Project (\$20 million) that replaced the existing open reservoir with underground reservoir tanks;

and the Cater Strategic Plan Implementation Project (\$17.9 million), which renovated a number of major components at the Cater Treatment Plant, protecting the City's investment in that facility and enabling the plant to continue to meet more stringent water quality standards. Both projects were funded with very low interest loans from the State Department of Water Resources. The cost



# FUND OVERVIEWS

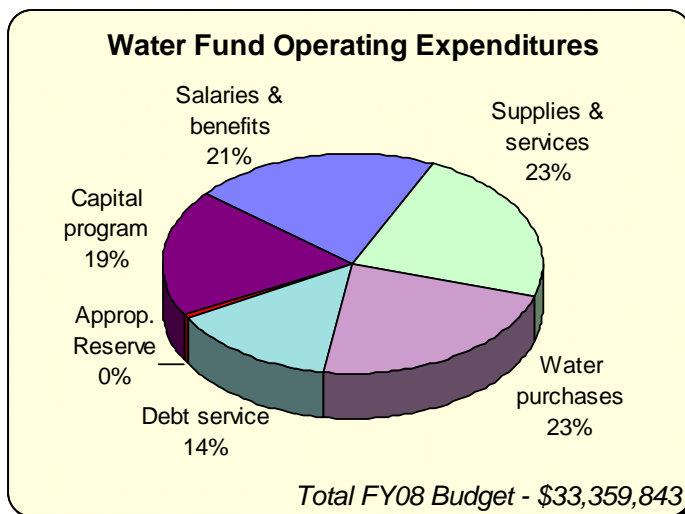
## Enterprise Funds

of the Cater project is being shared with the Montecito and Carpinteria water districts. Under the joint powers agreement discussed above, the two water districts are responsible for their pro-rata share of the project. Each district will pay its share of the debt service on the 20-year low interest state loan.

Budgeted at \$6.3 million, over three-quarters of the capital program is for improvements to the City's water treatment facilities and distribution systems, including \$1.7 million for water main replacements, \$1.3 million for annual maintenance and sedimentation basin improvements at the Cater Plant, \$1.2 million for annual maintenance of the water reclamation system, and \$715,800 for pump station maintenance.

The adopted operating budget is \$33.4 million. As always, one of the largest individual cost items in the operating budget is water purchases (23%). Water is purchased from both the federal Cachuma Project (\$3.1 million) and the State Water Project (\$4.5 million).

As the chart below indicates, fixed costs, including water purchases and debt service, comprise 37% of Water Fund operating expenses. Because of the magnitude of these fixed costs, unlike most other City funds, salaries and benefits comprise only 21% of the Water Fund budget. Of the \$7.6 million of supplies and services, \$962,000 is for electricity, approximately \$1.1 million is for



facilities maintenance, and an additional \$1.25 million is paid to the General Fund for overhead allocation. Other significant items include almost \$516,000 for vehicle replacement and maintenance charges, and \$251,000 for insurance. These items combined amount to just over \$4 million or almost 54% of the supplies and services budget.

The Water Fund has six outstanding debt obligations. As of June 30, 2007, the combined principal outstanding on the two bond issues and four State loans totaled \$56.1 million. The bond issues

include a 1994 revenue bond (\$4.9 million outstanding), a 2002 Refunding Certificate of Participation (\$13.4 million outstanding); two loans from the State to construct and expand the City's water reclamation system (\$1.7 million outstanding), a State loan for the Cater Plant Improvements (\$16.5 million outstanding), and a separate State loan for the Sheffield Reservoir Project (\$19.6 million outstanding).



# FUND OVERVIEWS

## Enterprise Funds

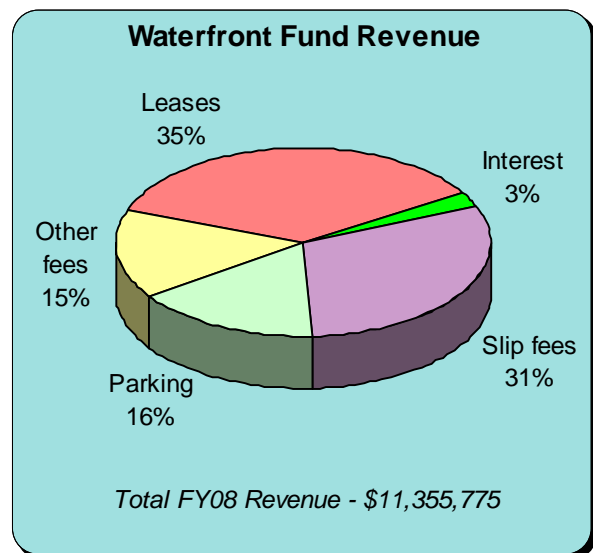
### WATERFRONT FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 10,585,496	\$ 10,738,673	\$ 11,160,786	\$ 11,355,775	\$ 11,594,153
Operating expenses	8,881,678	10,095,341	9,169,029	10,670,520	11,222,669
Operating surplus	1,703,818	643,332	1,991,757	685,255	371,484
Capital budget	1,188,435	3,917,113	1,815,000	3,025,000	863,000
Net addition to (use of) reserves	\$ 515,383	\$ (3,273,781)	\$ 176,757	\$ (2,339,745)	\$ (491,516)

The adopted Waterfront Fund budget for fiscal year 2008 contains sufficient operating revenue to fund all operating expenses and \$685,300 of a \$3 million capital program. The balance of the capital program (\$2,339,745) will be funded from reserves.

As the chart below indicates, leases of waterfront property provide over \$4 million (35%) of total revenue. Most of the Waterfront leases are long-term agreements on a “percent of gross basis” under which the Waterfront receives a minimum base rent, or up to 11% of the tenant’s gross receipts, whichever is greater. The specific percent of gross receipts paid by the tenant varies from lease to lease. The Waterfront has a lease audit program to ensure that the City is receiving the percentage rent to which it is entitled. The Waterfront has realized substantial additional revenues as a result of this lease audit program. Because virtually all of the significant leases are long-term in nature, the Waterfront has little control over lease revenue in the short run.

Parking fees collected at the 10 waterfront lots, including Stearns Wharf, generate approximately \$1.83 million, or 16% of total revenue. Included in this revenue category is approximately \$365,000 generated from the issuance of annual parking permits at the Waterfront parking lots. The adopted budget contains no increase in waterfront parking rates.



Slip fees are estimated to generate almost \$3.47 million (31%) of total revenue in fiscal year 2008. Other fees include visitor fees (\$485,434), slip transfer fees (\$650,000) and live-aboard



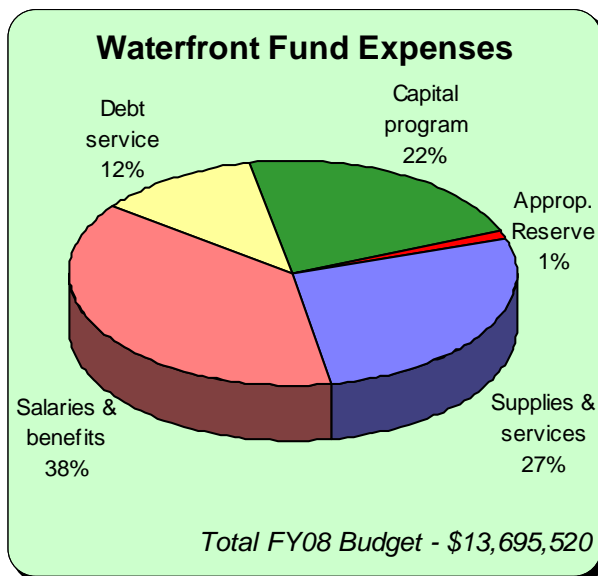


# FUND OVERVIEWS

## Enterprise Funds

fees (\$172,000). The adopted budget includes increases in both the slip rental fee (by 2%) and the slip transfer fee (increase of \$25 per foot).

Because the lease revenues are generally fixed in the short-term, the only revenue sources over which management can exercise near-term control are the parking and harbor-related fees.



The chart to the left displays the Waterfront Fund's expenses by category for fiscal 2008. The capital program (22%) and debt service (12%) combined represent over one-third of the total adopted budget.

The Waterfront Fund currently has three outstanding debt obligations. As of June 30, 2007, the total outstanding balance for these three obligations totaled \$19.8 million. The 2002 Refunding Waterfront Certificates of Participation (\$16.7 million) represent a refinancing of debt originally issued in 1984 to fund repairs and capital improvements to Stearns Wharf and the harbor. The other obligations are two loans from the City's General Fund for \$1.74 million and \$1.70 million. The

proceeds of the \$1.74 million loan were used in the 1980s to make major repairs to Stearns Wharf. The Waterfront Fund is repaying the General Fund, without interest, at the rate of \$100,000 per year and the loan will be fully repaid in 15 years. The second General Fund loan for \$1.70 million was issued in January 2006 and helped pay for the Chandlery Remodel/Administrative Offices project, completed in September 2005. This second loan is repaid to the General Fund, with 6% interest at the rate of \$123,503 per year.

Total operating expenses in the adopted budget are approximately \$336,700 (9.9%) more than in the fiscal year 2007 amended budget. The majority of the increase is in overhead allocation (\$110,000) charged to Waterfront by the General Fund for administrative services (purchasing, payroll, accounting, etc.); property and liability insurance premiums paid to the City's Risk Management fund (\$84,500); utilities and vehicle fuel (\$66,800); and small equipment purchases (\$35,800). The remainder of the budgeted increase in this expenditure category is due to nominal increases in other supplies and services expected next fiscal year.

The adopted \$3.02 million capital program includes annual capital maintenance of Stearns Wharf (\$350,000) and the Marina (\$250,000). Also included is funding for replacement of the Marina 1 walkway (\$1,660,000), reconfiguration of Marina 4-B (\$400,000), and replacement of the sewer lines for several wharf buildings (\$120,000). These five projects comprise \$2.78 million of the total \$3.02 million capital program.



# FUND OVERVIEWS

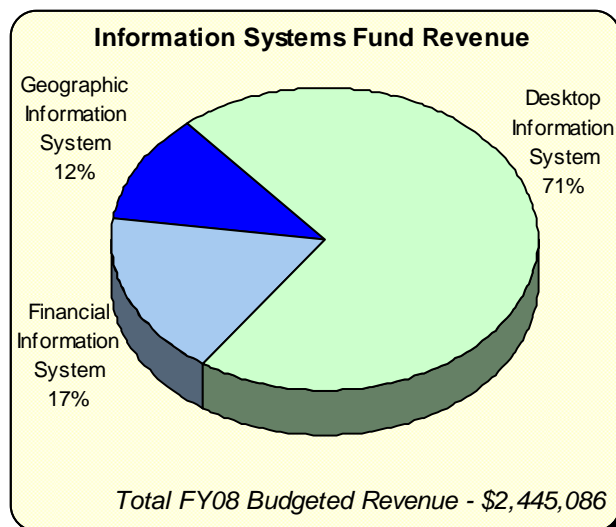
## Internal Service Funds

### INFORMATION SYSTEMS FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 2,068,339	\$ 2,287,366	\$ 2,287,366	\$ 2,445,086	\$ 2,612,837
Operating expenses	2,025,777	2,360,039	2,204,205	2,579,682	2,639,294
Operating surplus	42,562	(72,673)	83,161	(134,596)	(26,457)
Capital transfers in	34,000	-	-	450,000	1,050,000
Capital budget	35,696	299,905	239,905	450,000	1,050,000
Net addition to (use of) reserves	\$ 40,866	\$ (372,578)	\$ (156,744)	\$ (134,596)	\$ (26,457)

Information Systems was first established as an internal service fund in fiscal year 2004. Prior to that time, it was part of the General Fund. The adopted fiscal year 2008 budget includes a use of reserves for operations and capital of \$134,596. As an internal service fund, all of the revenue is generated from charges to other City funds and departments, allocated in proportion to services provided.

Information Systems is comprised of three programs. The Desktop Information Systems Program provides technical leadership, maintenance and user training and support for the City's 17 local area networks and over 680 desktop computers. The Financial Information Systems Program provides programming, support, and training for the City's software applications comprising the City's in-house developed financial management system. The Geographic information Systems Program, newly established in fiscal year 2008, provides oversight and support for the City's centralized geographical information system database, including maps and reports.

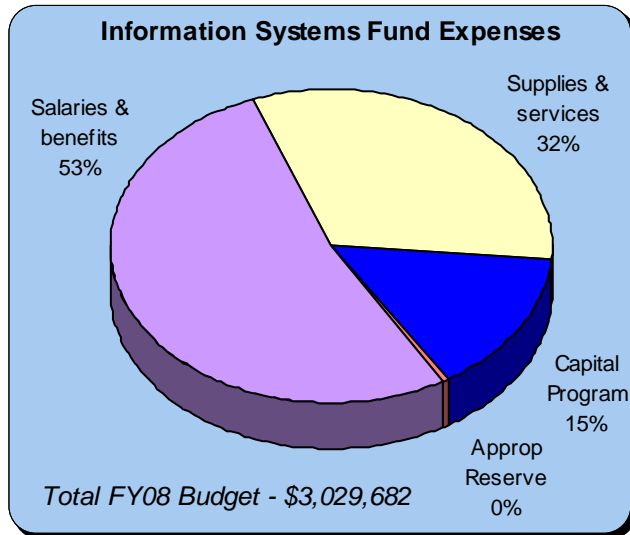


The Desktop Systems Program revenue is over \$1.7 million (71%), the Financial Information Systems Program revenue is approximately \$425,000 (17%), and the Geographic Information Systems Program revenue is almost \$286,000 (12%). As mentioned above, all revenue is derived from direct charges to other City funds and departments.



# FUND OVERVIEWS

## Internal Service Funds



As the chart to the left indicates, expenditures for fiscal year 2008 total \$3,029,682, including salaries and benefits for the 15 full-time equivalent positions (53%) and supplies and services (32%).

The capital program (15%) for fiscal year 2008 totals \$450,000 and, like operating costs, is funded through charges to other City funds and departments. Two key projects are budgeted for fiscal year 2008. The first is a four-year project to replace the City's financial management system (FMS). The total project cost is estimated at \$2.45 million with \$150,000 budgeted in fiscal year 2008.

Activities in the first year include conducting a needs assessment, researching existing products, developing a request for proposal document, and possible vendor selection and project scheduling. The second capital project scheduled for fiscal year 2008 is implementation of a centralized geographic information system (\$300,000) which includes development of core data and standards for the data map layers, as well as citywide formats across the common platform.



# FUND OVERVIEWS

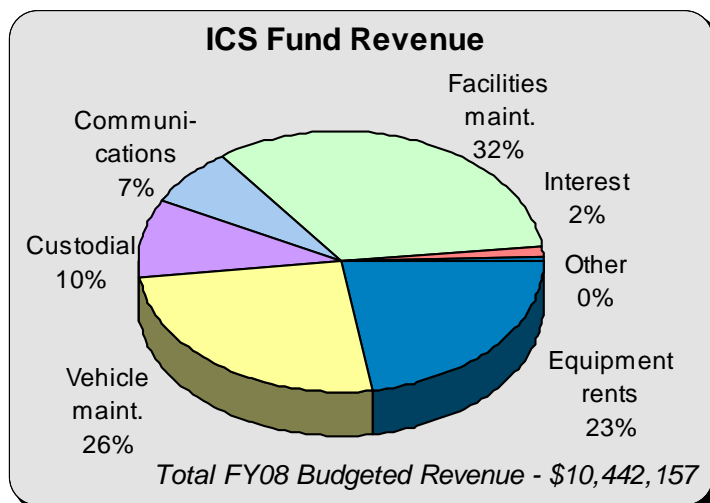
## Internal Service Funds

### INTRA-CITY SERVICE FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 9,025,048	\$ 9,614,045	\$ 9,423,543	\$ 10,442,157	\$ 10,712,743
Operating expenses	7,016,478	7,970,258	7,323,312	7,981,789	8,519,087
Operating surplus	2,008,570	1,643,787	2,100,231	2,460,368	2,193,656
Capital budget	1,698,698	2,263,424	1,670,372	2,269,906	1,398,810
Net addition to (use of) reserves	\$ 309,872	\$ (619,637)	\$ 429,859	\$ 190,462	\$ 794,846

Part of the City's Public Works Department, the Intra-City Service (ICS) Fund is an internal service fund providing services to other City funds and departments. Revenue in the adopted fiscal year 2008 budget is sufficient to fund all operating costs and the \$1.68 million capital program. The surpluses generated in both 2008 and 2009 will be accumulated for the future replacement of vehicles and equipment maintained by the Motor Pool.

Beginning in fiscal year 2004, two operational areas that were previously part of the City's General Fund were moved into the ICS Fund. These two areas, Custodial Services and Communications Systems, were added to the Motor Pool and Facilities Maintenance functions that are already budgeted in the ICS Fund. Like the Motor Pool and Building Maintenance functions, both the Custodial Services and Communications Systems operations provide services exclusively to other City departments. Including these two operations in the ICS Fund ensures that the costs of providing the related services are properly borne by the other City operations benefiting from the services.



The Facilities Maintenance function provides on-call response for repairs and maintenance of facilities throughout the City, as well as managing the General Fund's annual planned maintenance program. The facilities maintenance program also provides management of small and medium-sized improvements to various City facilities. The Motor Pool program provides vehicle and equipment maintenance as well as managing the City's vehicle replacement program.



# FUND OVERVIEWS

## Internal Service Funds

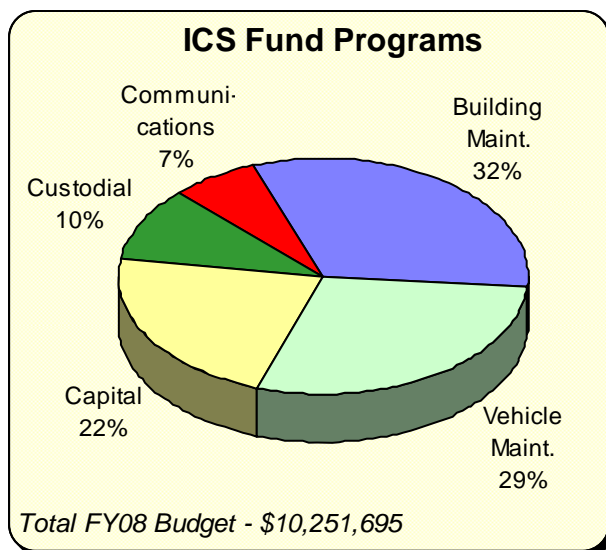
The Communications Systems function provides management and maintenance of the City’s radio, telephone and related communications systems. The Custodial Services function provides custodial services to various City facilities.

Nearly the entire amount of planned capital in fiscal year 2008 is for the citywide vehicle replacement program (\$2.07 million). Building Maintenance has one capital project budgeted for \$200,000 to renovate the second floor of the Garden Street facility.

The chart on the previous page displays the various ICS Fund revenues for fiscal year 2008. Even with the Custodial Services and Communications Systems operations, almost 50% of revenue is attributable to Motor Pool vehicle maintenance allocations and equipment rental charges, and 32% of the revenue is attributable to facilities maintenance charges.

The facility maintenance function operates on a work order system. Each job is tracked and billed to the customer department. Building maintenance staff handles repairs and call-out response. The planned maintenance program is handled almost exclusively by contract.

The Motor Pool charges an annual rental for each City vehicle in service. These rental payments are accumulated in a separate capital account and used to replace vehicles in accordance with the City’s vehicle replacement schedule. Each vehicle is also charged an annual maintenance fee, which covers all required maintenance and all repairs as needed. While the maintenance charge is a flat annual fee, actual costs to maintain and repair individual vehicles varies from year to year. On the whole however, sufficient funds are raised to keep the City’s vehicles and equipment operating.



In fiscal year 2008, for the first time, Motor Pool equipment rent allocations include charges to departments for the future replacement of generators at City facilities (\$174,000). The City has 11 large generators in service at various City buildings and the total replacement cost is nearly \$3 million. By charging an annual allocation, the City is able to ensure that funds will be properly accumulated to replace each generator as their useful lives expire.

The chart to the left displays the ICS Fund expenses by program.



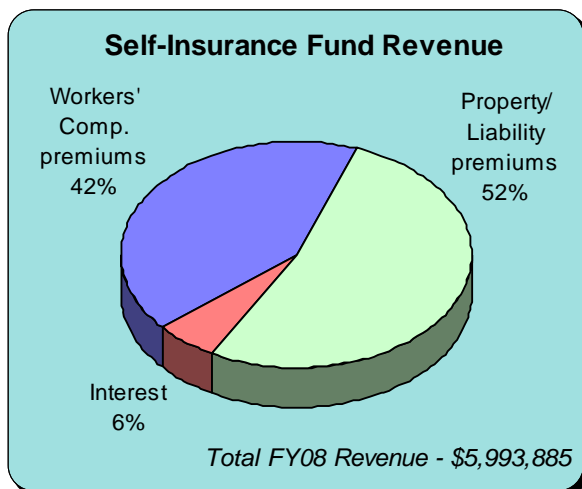
# FUND OVERVIEWS

## Internal Service Funds

### SELF-INSURANCE FUND

	Fiscal Year				
	2006 Actual	2007 Amended Budget	2007 Projected Actual	2008 Adopted Budget	2009 Proposed Budget
Revenue	\$ 6,966,982	\$ 6,567,872	\$ 6,567,872	\$ 5,993,885	\$ 6,207,996
Operating expenses	5,648,318	6,688,875	6,149,695	6,743,885	6,957,996
Net addition to (use of) reserves	\$ 1,318,664	\$ (121,003)	\$ 418,177	\$ (750,000)	\$ (750,000)

The City is partially self-insured for both workers' compensation and liability. The City's self-insured retention (deductible) for workers' compensation is \$750,000 per occurrence. A commercial excess workers' compensation policy provides additional coverage above the City's self-insured retention. For liability, the City is a member of the Authority of California Cities Excess Liability (ACCEL), a joint powers authority created to pool common municipal liability exposures such as general, automobile and public officials errors and omissions liability. There are currently a total of 11 California cities in ACCEL. Member entities share the cost of losses from \$1 million to \$4 million and purchase commercial excess liability insurance with limits of \$40 million above the self-insured retention of \$1 million per occurrence. Because ACCEL is effectively a mutual insurance company, if the premiums the City pays are not needed to pay claims, they are returned to the City with interest, instead of becoming insurance company profits. Since the City has been in ACCEL, over \$6 million in premium rebates have been returned to the City. This is an excellent indication that, to date, ACCEL has been a major success.



Insurable property is covered for all risks by commercial policies with a pooled aggregate limit of \$750 million. Deductibles vary depending on peril and apply on a per occurrence basis. The City has separate limits of \$50 million per occurrence for both flood and earthquake. The City's property insurance is purchased through a consortium of over 4,000 public entities that pool their purchasing power in order to better manage costs. The City currently has declared insured property values totaling \$332 million.

The Self Insurance Fund acts as the City's own insurance company. As displayed in the chart above, the nearly \$6 million of total revenue contained in the adopted fiscal year 2008 budget is divided between workers' compensation premiums (42%), property and liability premiums (44%),



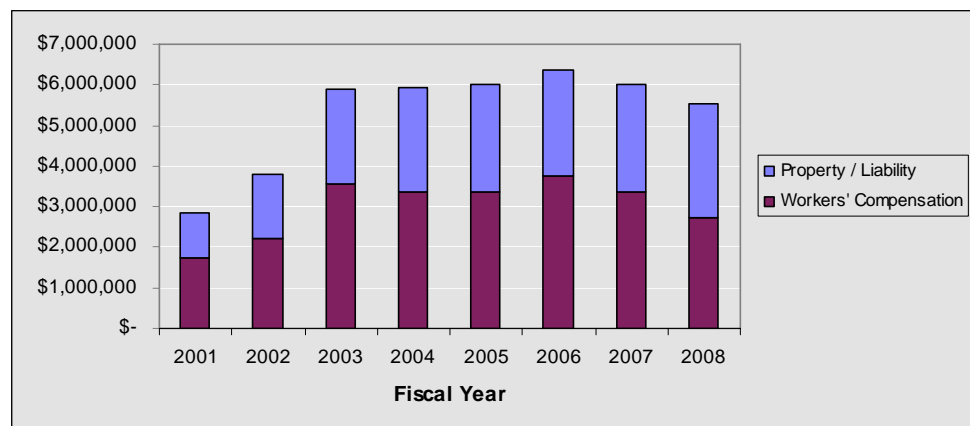
# FUND OVERVIEWS

## Internal Service Funds

and interest income (4%). As an internal service fund, the fund's revenue comes entirely from "premiums" charged to the City's other funds and departments for the coverage provided.

Like many entities, both public and private, the City experienced dramatic increases in the cost for all lines of insurance beginning in 2003. In particular, both workers' compensation and property insurance costs grew rapidly. As the table below indicates, as recently as fiscal year 2001, the total Self Insurance Fund "premiums" paid by the other City funds and departments totaled almost \$2.9 million.

By fiscal year 2006, the premiums grew to a high of almost \$6.4 million. This is an increase of over \$3.5 million, or 121%, over the five year period and represented over \$3 million that was



diverted from the actual programs and services provided by the City's departments to pay for increased insurance costs. And the premium increase only tells half the story. Over that same period, the City had to accept significantly higher deductibles or premium increases would have been much larger. Since 2002, the City's deductible for workers' compensation has increased from \$300,000 to \$750,000 per occurrence and the property insurance deductible has increased from \$100,000 to \$2 million.

However, since the premium high in fiscal year 2006, city departments have experienced a slight reduction in the total premiums charged by the Self-Insurance Fund. In fiscal year 2007, property and liability expenses grew only 1.4%, while the cost of workers' compensation claims went down. Accordingly, the Risk Fund issued a "rebate" to departments in the form of reduced workers' compensation premiums that year. The fiscal year 2008 budget again contains another "rebate" to departments for workers' compensation premiums because of cost containment efforts coupled with the favorable trend in workers' compensation claims, which is expected to continue. Property and liability premiums costs for fiscal year 2008 are budgeted at 6.5% over the 2007 costs in line with expected cost increases.

Every two years, in conjunction with the budget development process, the City contracts for an actuarial study on its self-insurance programs. The actuarial study recommends both how much the City should have in its self-insurance reserves and how much the City should budget for claims expense for each of the next two years. The actuarial study is based upon a combination of the City's specific loss history and certain industry standards. It has been the City's experience over the years that the actuarial study, because of its conservative assumptions, generally over-

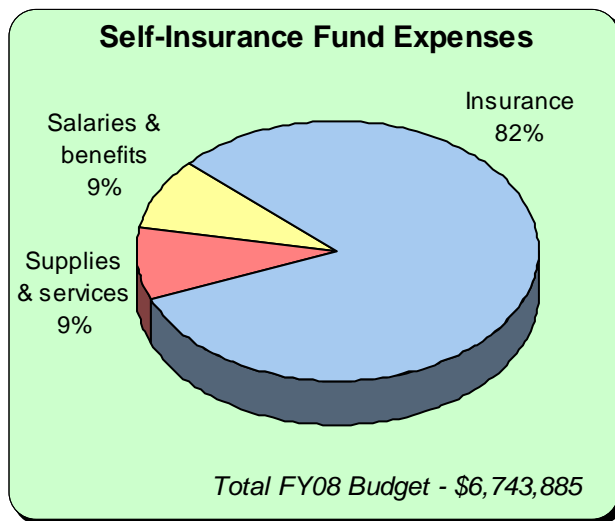




# FUND OVERVIEWS

## Internal Service Funds

estimates the amount needed by the City for annual claims expense. This is due to the generally conservative nature of the study and the fact that the City's loss experience continues to be better than public agency industry standards. Based upon this experience, the City has traditionally set the premiums charged to the City's various funds significantly lower than the actuarial study recommends. This is once again true with the most recent actuarial study and the adopted fiscal year 2008 budget, containing the workers' compensation "rebate" to departments as discussed previously.



The chart on the left displays the Self-Insurance Fund's expense budget by category. Insurance costs represent a full 85% of the budget. Insurance costs include premiums paid for commercial insurance (property insurance, for example), as well as the claims budget for the City's self-insured exposures such as liability and workers' compensation.

In addition to managing the City's insurance portfolio, staff from the Self-Insurance Fund also provides occupational safety services to the City's operating departments. This includes a significant training program, as well as accident investigation and working with

departments to minimize the City's exposure to liability. The fact that the City's claims experience consistently runs below the actuarial projections is a testament to the effectiveness of the City's risk management program.