BUDGET MESSAGE

City Administrator's Budget Message

INTRODUCTION

In accordance with the City Charter, I am pleased to present to the City Council the adopted budget for fiscal year 2010. Under normal circumstances, staff would be presenting a *two-year* financial plan. However, given the level of uncertainty created by the current economic crisis, developing a recommended plan for fiscal year 2011 is not practical, and would likely be subject to significant change. We have therefore decided to focus our attention on fiscal year 2010 only.

The adopted budget includes significant reductions to General Fund spending as part of a comprehensive balancing strategy to mitigate the impacts of both declining revenues and rising costs. Despite these reductions, the adopted budget is balanced and in line with the overall priorities of our community.

Budget Overview and Highlights

The fiscal year 2010 adopted budget is comprised of all City funds, including the General Fund, special revenue funds and enterprise funds. Each fund accounts for distinct and uniquely funded operations. The adopted budget includes a total combined operating budget of $252.6 million and a combined capital budget totaling $28.5 million. The table below summarizes the adopted budget by fund type.

The General Fund, the primary and largest individual fund in the City, is comprised of six operating and three administrative departments. The adopted General Fund operating budget totals approximately $104.2 million and includes an additional $857,670 for capital expenditures.

City of Santa Barbara
Summary of Fiscal Year 2010 Adopted Budget by Fund Type

	Operating Budget	Capital Program	Total	% of Total
General Fund	$ 104,164,957	$ 857,670	$ 105,022,627	37.4%
Special Revenue Funds	54,558,226	11,372,666	65,930,892	23.5%
Enterprise Funds	76,952,487	13,943,226	90,895,713	32.3%
Internal Service Funds	16,950,771	2,340,850	19,291,621	6.9%
	$ 252,626,441	$ 28,514,412	$ 281,140,853	100.0%

Special revenue funds account for restricted revenues and have a combined adopted operating budget of $54.6 million and a combined capital budget of $11.4 million. This category of funds includes the Redevelopment Agency,

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which is a separate legal entity created to eliminate blight and provide low and moderate income housing in the community.

Enterprise funds on a combined basis make up approximately one-third of the City budget. They consist of six distinct operations funded almost entirely from direct charges for services. Enterprise operations are managed and operated much like private sector businesses and, as such, they require a significant investment in plant, equipment, and infrastructure to deliver their respective services. Their operating budgets total approximately $77 million, and have an adopted capital budget of approximately $13.9 million.

Internal service funds provide services exclusively to other city operations, and include building maintenance, information systems, vehicle maintenance and replacement, and insurance operations. Their adopted budget includes an operating budget of approximately $17 million and approximately $2.3 million for capital.

IMPACTS OF ECONOMIC CRISIS ON CITY

Local Perspective on Global Recession

The United States is in the final stages of the worst economic downturns since the Great Depression. Several major American corporations have gone bankrupt or have required massive infusions of capital from the federal government to continue operations. Unemployment in the nation rose to over 10% in the fall of 2009; the housing market has suffered significant losses from a combination of a severely limited access to money and a large-scale default on home mortgages; and consumer confidence is at near-historic lows.

The City of Santa Barbara began seeing the effects of a slowing economy on its revenues in early 2008. However, the impacts became much more pronounced beginning September 2008. For example, sales taxes for the quarter ended September 30, 2008 fell 0.6% from the same quarter of the previous year, then fell by 11.7% for the December quarter. In the visitor sector of our economy, Transient Occupancy Tax (TOT) revenues dropped by 11.4% in November 2008 in relation to the same month of the prior year, 10.6% in December and 1.8% in January;

but then declined 20.8% in February and 20.7% in March. Declines of this magnitude have not been seen in the more than twenty years this data has been collected.

The greatest impact of the economic crisis has been on the General Fund, which relies heavily on tax support to finance those services typically associated with local government – public safety, library, recreation, parks, building, planning and general administration.

City Faces a $10.6 Million General Fund Deficit

Due to actual and projected declines in General Fund revenues, the fiscal year 2009 adopted budget included approximately $2.5 million of one-time measures, coupled with an equal amount in departmental cuts, to close a projected $5 million budget gap. This strategy assumed the economy would begin to recover during fiscal year 2010. If the recovery had occurred, we could have dealt with the $2.5 million structural deficit carried forward from fiscal year 2009 with minimal reductions to City services in fiscal year 2010.

Unfortunately, the economic condition worsened, and the projected $2.5 million structural deficit in fiscal year 2009 grew to $5.1 million by December 2008 and to $6.4 million by the third quarter. As a result, the City implemented a number of measures to address this projected deficit. These include implementing a hiring freeze for all but the most essential City positions, eliminating all non-essential travel and training, and severely curtailing expenditures for supplies and contractual services. With less than six months to work with in fiscal year 2009, completely offsetting the deficit was difficult; however, in the end the General Fund avoided using reserves and closed the books with revenues balanced with expenditures.

For fiscal year 2010, the projected impacts were much greater. Due to continued poor economic data and further deterioration of revenues, the projected deficit for fiscal year 2010 was $10.6 million – approximately 10% of the General Fund's total operating budget.

GENERAL FUND
Key Tax Revenues
Historical Growth Rates

Fiscal Year		TOT	Sales Taxes	Prop. Taxes
2003		0.30%	2.20%	9.00%
2004		5.10%	2.80%	7.90%
2005		6.90%	2.80%	9.70%
2006		8.60%	5.90%	12.90%
2007		5.50%	0.70%	11.90%
2008		1.90%	3.30%	6.60%
2009	Est.	-4.90%	-7.00%	3.20%
2010	Est.	-2.20%	-1.40%	3.00%

The decline in General Fund tax revenues since September 2008 represents the greatest decline in at least the past two decades. As shown in the accompanying table, growth rates from fiscal years 2003 through 2008 for the three largest revenues - transient occupancy taxes (TOT), sales taxes, and property taxes – have been positive. In fact, during this six-year period, TOT revenues have grown an average of 4.7%,

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sales taxes have grown an average of almost 3%, and property taxes have grown an average of 9.7%.

Actual revenues for fiscal year 2009 ended the year worse than was projected at mid-year. As shown in the table below, sales tax revenues ended the year almost $1.3 million under the revised budget and TOT ended the year under budget by $727,538. Property tax revenues remained flat. For fiscal year 2010, the total reduction for these three revenues is $5.3 million below original estimates (See chart below).

	Fiscal Year 2009			Fiscal Year 2010		
	Amended Budget	Actual Year-End	Projected Vaiance	Original Estimate	Revised Estimate	Change
Sales Taxes	$ 18,881,432	$ 17,600,070	$ (1,281,362)	$ 21,251,360	$ 18,142,000	$ (3,109,360)
Property Taxes	23,165,295	23,237,116	71,821	24,238,240	23,860,000	(378,240)
TOT	12,785,113	12,057,575	(727,538)	13,867,360	12,027,000	(1,840,360)
	$ 54,831,840	$ 52,894,761	$ (1,937,079)	$ 59,356,960	$ 54,029,000	$ (5,327,960)

Unfortunately, since the adoption of the budget in late June, additional revenue data was received indicating further revenue declines in fiscal year 2010 of almost $3 million. As a result, additional cost savings measures were implemented to close this revenue loss. The measures primarily included holding vacant positions unfilled and unfunded through the end of the year.

Increased Costs Put Added Pressure on General Fund Deficit

While revenue declines were the primary cause of the significant projected deficit, rising labor costs also contributed to the problem. The City's existing contracts with most labor unions provide for higher wages and benefits in fiscal year 2010, which will add approximately $3.4 million in salary and benefit costs in relation to the fiscal year 2009 adopted budget. As discussed later in this report, most labor associations agreed to concessions that lowered the impacts of the scheduled increases. These concessions included a mandatory unpaid furlough equating to a 5% salary reduction and the suspension of vacation cash-outs.

Status of General Fund Budget Reserves

In 1995, the City Council adopted a resolution establishing reserve requirements for all funds, including the General Fund. The reserve policy established three separate reserves, each designated for a specific purpose, as defined below.

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Capital Reserve – For the General Fund, this reserve is set at a fixed amount of $1 million to be available for one-time cost overruns for capital projects.

Budgetary Reserve – This reserve is set at 10% of the operating budget, to be used to respond to economic downturns and unbudgeted, unanticipated, one-time costs.

Disaster Reserve – This reserve is set at 15% of the operating budget, to be used to respond to natural disasters such as earthquakes, floods, fires, etc.

Since fiscal year 2002, nearly all of the General Fund's budgetary reserves have been consumed. In part, the use of reserves was by design, in response to economic downturns, such as the period directly after the "9-11" attack on the World Trade Center. Budgetary reserves were used at that time to provide a "soft landing" as the City reduced the size of operations and minimized the impacts on City residents. In other cases, budget reserves were used to cover the unanticipated costs of labor agreements that exceeded budgeted amounts. And over the past two years, budget reserves have been consumed when revenues declined rapidly before adjustments could be made to reduce costs.

As of June 30, 2009, General Fund reserves totaled $17,789,713. This is a slight increase to the balances as of a year ago. In addition, the 2010 adopted budget does not include the use of any of these reserves to balance the budget.

Other City Services Impacted by the Economic Downturn

In addition to the services funded in the General Fund, the City also provides *other* important services. These services are accounted for in separate enterprise funds, special revenue funds, and internal service funds. In addition to the impacts noted in the General Fund, certain of these other services have also been affected to varying degrees.

For example, the City's municipal golf course saw the number of golf rounds decline by approximately 6% in the first half of fiscal year 2009. The Airport Fund saw passenger counts drop by double digits from January through March, and projected an 8% overall decline by the end of fiscal year 2009. The Waterfront Fund, which accounts for the services provided along the waterfront, including Stearns Wharf and the harbor, has experienced a loss of revenues, primarily from a decline of slip transfer fees. The Downtown Parking Fund, which accounts for the operation and maintenance of the City's public parking facilities, has likewise seen a decline in parking transactions. Other enterprise funds include the Water and Wastewater Funds, which have not seen declines in revenues due to the current economic downturn since their revenues stem from direct service charge and are primarily affected by weather conditions and conservation efforts rather than economic swings.

City Administrator's Budget Message

Special revenue funds are used to account for monies that are restricted to a specific purpose. Examples include the Community Development Block Grant Fund, the Streets Fund, and the Water Quality/Creeks Improvement Fund. Given the current impacts to the state and federal government, these funds may be in jeopardy of losing grant funding that in some cases makes up a large portion of their funding.

Internal service funds account for services provided by one department to other City departments. Examples include motor pool, building maintenance, information systems, and risk management. These operations recover their costs through charges levied on those operating departments utilizing the services provided by the internal service funds. While not directly impacted by the economic crisis, all internal service funds' budgets include cutbacks in order to reduce costs to departments.

RESPONSE TO ECONOMIC CRISIS

A Balanced Approach Used to Balance the Budget

When staff developed the proposed strategy to address the $10.9 million projected General Fund deficit for fiscal year 2010, our main objective was to deal directly and honestly with the City's structural deficit, while minimizing service level impacts to the public, especially in public safety. This approach relied primarily on reducing ongoing costs, with a minimum use of one-time monies. Due to the depletion of most of the City's General Fund Budget reserves, no use of these reserves were proposed.

The proposed balancing strategy primarily included measures that provide on-going, long-term reductions to costs or increases to revenues. In addition, the balancing measures include a $600,000 contingency in case of future unexpected declines in revenues. If economic conditions improve more quickly than expected, the funds could be used to restore services and eliminated staff positions.

One-Time Measures:		
Labor Cost Reductions	$	1,500,000
Capital Program Reductions		795,325
		2,295,325
On-Going Measures:		
Departmental Budget Adjustments		7,400,000
Reductions to Community Organizations		228,452
Allocation of Costs to Enterprise Funds		460,983
Internal Service Fund Reductions		495,541
		8,584,976
Total	$	10,880,301

Each of these elements is discussed below.

Labor Cost Reductions ($1.5 Million)

The proposed budget included $1.5 million in anticipated General Fund savings due to labor cost reductions. When the national economic crisis first hit and it was apparent that this situation would have a negative impact on the City's budget, many employees expressed interest in reducing hours, freezing benefits, or accepting work furloughs in order to minimize service impacts on the public and reduce employee layoffs. As a result, the City's Employee Relations Manager negotiated informally or formally with most employee groups to achieve cost savings that will reduce overall expenditures and help to close the budget gap.

Leading by example have been the City's Supervisors Association and unrepresented managers. Both of these groups will be subject to mandatory work furloughs, frozen benefit packages, and a suspension of the vacation cash out option. These concessions will generate approximately $840,000 of savings to the General Fund.

The Treatment and Patrol Officer units have also agreed to similar concessions in their recently approved contracts. Most of these employees work in non-general fund operations. However, the savings generated through these agreements will avoid possible service reductions or additional fee increases in these operations as well.

Discussions or negotiations also included the Police Management Association, the Police Officer's Association, the Firefighters Association, and the Service Employees International Union (SEIU) in order to not only meet our goal of $1.5 million, but exceed it. Our intention

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was for the Council to utilize the savings above our goal to restore service cuts, assuming economic conditions permit. Just prior to budget adoption, labor concessions from SEIU generated overall savings in excess of the $1.5 million goal. The additional $134,465 in savings was in part used to avoid layoffs of staff as shown on page A-19 of this document.

Capital Program Reductions ($795,325)

The General Fund multi-year forecast originally provided for $1,898,305 in funding from operating revenues for capital projects. This funding was based on ongoing capital programs, current projects that will continue through fiscal year 2010, and the objective to provide additional funding for the backlog of capital projects that has built up over the years. In light of the budget shortfalls, we proposed reducing the funding by $795,325 to approximately $1.1 million.

In many cases, projects scheduled for funding in fiscal year 2010 have been deferred. For example, one key project put on hold is the replacement of the City's financial management system. It is a three-year project that was scheduled to begin late in fiscal year 2009; it has been delayed until the start of fiscal year 2011 – essentially a 13 to 16 month delay.

Departmental Budget Adjustments ($7.4 Million)

The largest component of the balancing strategy was direct adjustments to programs and services. All General Fund departments were asked to find savings or increased revenues totaling $7.4 million. Although public safety (police and fire) represents over 50% of the total General Fund operating budget, the allocation was made using a formula that allocated only one-third of the $7.4 million to public safety (police and fire) and the remaining two-thirds to all other General Fund departments. This formula allocated 4.7% of the overall required adjustments to Police and Fire Departments and 9.9% to non-safety departments. The accompanying table shows the final allocation.

GENERAL FUND
Allocation of $7.4 Million by Department

Department	Baseline Budget	Allocation	% of Budget
Administrative Services	$ 2,469,849	$ 243,484	9.9%
City Administrator	2,287,449	225,503	9.9%
City Attorney	2,356,052	232,265	9.9%
Community Development	10,308,373	1,016,226	9.9%
Finance	4,745,646	467,838	9.9%
Public Works	7,311,682	720,805	9.9%
Library	4,613,476	454,808	9.9%
Mayor & Council	848,160	83,614	9.9%
Parks & Recreation	15,068,158	1,485,457	9.9%
Police	33,555,791	1,562,117	4.7%
Fire	19,502,198	907,883	4.7%
TOTAL	$ 103,066,834	$ 7,400,000	7.2%

Each department developed its own strategy to meet the budgetary target. Staff placed a strong emphasis on minimizing service level impacts on City residents, and especially on preserving critical public safety services.

Another area of emphasis was to avoid employee layoffs whenever possible. Since labor costs represent approximately 76% of total General Fund costs, it was virtually impossible to generate this magnitude of cuts without eliminating positions. Fortunately, due to the hiring freeze, many of these positions were vacant.

In total, the adopted fiscal year 2010 budget included the elimination of 42.70 full-time equivalent positions, to be eliminated effective July 1, 2009. The majority of the positions deleted were either vacant or would become vacant during fiscal year 2010. Human Resources staff worked closely with all departments to minimize layoffs. Strategies included moving employees into other non-General Fund positions for which they were qualified, contracting with enterprise operations to do work formerly performed by outside service providers, and using employees on special assignments that have outside funding.

In addition to the elimination of permanent positions, the proposed budget also included the reduction in amounts budgeted for hourly salary and benefits totaling approximately $400,000. This equates to approximately ten full-time equivalent positions. Hourly employees are used by all departments, but most heavily in the Parks and Recreation and Library Departments.

Allocation of Costs to Enterprise Funds ($460,983)

Staff analyzed certain City services that are funded from the General Fund to determine if they could reasonably and legally be funded through enterprise funds. For example, several years ago, we identified that the General Fund was paying for landscape maintenance services in the Waterfront parking lots, despite the fact that the revenues from these lots remained in the Waterfront Enterprise Fund. Those costs are now being paid by the Waterfront Fund. As part of the overall balancing strategy, we identified other costs that are attributable to enterprise funds beginning in fiscal year 2010.

Beginning in fiscal year 2010, the Waterfront Department assumes responsibility for the maintenance of three restrooms in the Waterfront area: Stearns Wharf, Leadbetter Beach, and the Visitor's Center restroom on Garden Street. The Waterfront Department will also assume responsibility for the maintenance of the Dolphin Fountain at the base of Stearns Wharf. This will save $58,983 in the General Fund. In addition, the Waterfront Fund will pay the costs to provide lifeguards on the beach, totaling $147,000 (The final balancing strategy approved by the City Council reduced this amount to $72,869, a decrease of $74,131 for additional loan interest the Waterfront will pay the General Fund). Lastly, the General Fund was paying $55,000 to produce a fireworks show on the beach in celebration of 4th of July. Beginning July 4, 2009, the Waterfront Department will assume those annual costs.

The second reallocation of costs relates to the maintenance of sidewalks on State Street. The Parks and Recreation Department was paying the Downtown Organization $721,400 for the ongoing maintenance of the State Street sidewalks and landscaping. Because of the benefit the downtown area receives from the maintenance of State Street sidewalks and the impact on the sidewalks and landscaping from those utilizing the parking structure in the downtown area, a portion of the cost ($200,000) was allocated to the Downtown Parking Fund beginning in fiscal year 2010. The final balancing strategy approved by the City Council increased this amount to $312,621.

Internal Service Fund Reductions ($495,541)

Internal service funds include operations that provide services exclusively to other City operations. The internal services include centralized information systems, building maintenance, motor pool, risk management and communications. Each year, the General Fund pays approximately $9.5 million for services provided by internal service funds.

In order to contribute to the savings, most internal service funds were asked to reduce their charges to the General Fund by 7% without significantly reducing services. In effect, they would have to find a way to cut costs while maintaining essentially the same level of services – primarily through increased efficiencies. The 7% reduction in charges provided almost $500,000 in savings to the General Fund.

Reductions in Funding to Community Organizations ($228,452)

The City provides financial assistance totaling approximately $3.44 million to a number of community groups, organizations and agencies out of the General Fund. These organizations are involved in activities such as promoting the community to attract visitors and tourists, encouraging arts activities and promoting festivals, and providing grants to human services organizations in the community.

City Administrator's Budget Message

Over the past five years, the total funding for community groups has steadily increased at an average growth rate of 3.4%, a total increase of over $500,000. The largest recipients of funding increases have been the Conference & Visitors Bureau and Film Commission, the County Arts Commission, and the human services grants program. These agencies have seen an average increase in funding of 2.4%, 9%, and 5.2%, respectively, in the last five years.

In light of the magnitude of the financial impacts to the General Fund, reductions in funding to most community organizations were included in the recommended budget. In general, the reductions were commensurate with the adjustments allocated to General Fund departments. The reductions provided $228,452 in savings to the General Fund in fiscal year 2010. The final balancing strategy approved by the City Council restored funding for New Beginnings ($3,654) and the Conference & Visitors Bureau and Film Commission ($125,957).

Similar reductions were made to the contract with the Downtown Organization for cleaning of the sidewalks on State Street in the downtown area and to the Community Media Access Channel, the non-profit organization in charge of programming of the public television channel (Channel 17).

Due to the financial pressure human services organizations are under, and consistent with prior actions of the City Council, staff did not recommend any reductions to the City's Human Services Grant program.

Departmental Cuts Will Impact Service Levels to the Public

As each department put together its proposed budgets, considerable thought and analysis went into developing honest and sound financial plans that would have the least impact on services provided to the public. For the most part, these efforts have been successful. However, it is critical to understand that the level of cuts will have some impact on services. Response times may be longer, public counters will not always be staffed, and some facilities will be closed or have reduced operating hours.

A comprehensive description of the financial impacts, the balancing strategy, and the service level impacts is included for each department in the Departmental Budget section of this document. A summary of the proposed balancing strategy developed by each department is provided below. Beneath the summary are the adjustments to the recommended budget approved by the City Council.

City Administrator's Budget Message

Administrative Services

The Administrative Services Department includes Human Resources and City Clerk Divisions. Their share of the $7.4 million allocated budget adjustment was approximately $244,000, which was met primarily through workforce reductions that would save approximately $152,000.

A vacant Human Resources Assistant will be eliminated. As a result, certain tasks will be reassigned to, and absorbed by, other Human Resources staff. The impacts to services would include delays to the completion of various functions, including maintenance of the City's on-line job application system and records management function, and the discontinuance of outreach efforts tied to the City's internship program.

A vacant Deputy City Clerk position would also be eliminated, which would cause delays in the preparation of City Council minutes, responding to research requests, tracking Conflict of Interest filings, conducting outreach for boards and commissions, and tracking and follow-up on required City Council and board and commission member training.

The department also substantially cut back citywide training, including the Learning for Excellence and Achievement Program (LEAP), the City Leadership Academy (CLA) program, and the Educational Tuition Reimbursement Program. These reductions, totaling $77,282, would affect the frequency and quality of these programs to City staff.

City Administrator's Office

The City Administrator's Office was allocated a budget adjustment of approximately $226,000. This was achieved primarily through workforce reductions totaling approximately $150,000 and other cuts totaling approximately $76,000. Three positions would be eliminated, including one full-time City TV Production Assistant, one part-time Communications Specialist, and one vacant, full-time, Executive Assistant position.

The proposed workforce reductions to the City TV Program would result in fewer special televised productions; however, televised coverage of City meetings, production of the monthly episodes of *Inside Santa Barbara* and quarterly episodes of Garden Wise Guys, and limited special programming would be maintained.

As a result of the proposed elimination of the Communications Specialist position, communication products for the public and employees would be redesigned, cancelled, or distributed less frequently.

City Administrator's Budget Message

City Attorney's Office

The City Attorney's Office was required to generate savings of approximately $232,000. Virtually all of these savings were achieved through workforce reductions. A total of five full-time positions were converted from full-time to part-time – in most cases to 80% - and one hourly position would be eliminated, saving $199,957.

The elimination of positions would have a measurable but indeterminate impact on the City Attorney's level of service.

Community Development

The Community Development Department's share of the $7.4 million budget adjustment was approximately $1 million. While some additional revenues were identified, their share was achieved mostly through expenditure cuts, including the elimination of nine staff positions valued at approximately $741,000.

Although the decline in development activity lessened the workload of Community Development staff, eliminating nine positions would have measurable impacts and would affect their ability to provide a consistent level of service. Some examples include:

- Delays in processing special ordinance revision requests;
- Decreased efficiency in zoning enforcement;
- Overall slowdown in development review applications;
- Decreased staff support to the Neighborhood Improvement Task Force; and
- Decreased support to *Plan Santa Barbara* and the ability to keep on schedule.

Finance

The Finance Department's strategy to close its approximately $470,000 budget gap included both cuts in expenditures, including elimination of positions, as well as additional revenue from a newly proposed fee.

Effective July 1, a new fee of $5 would be assessed on delinquent utility accounts. The City processes thousands of delinquency notices per year, and currently no penalties are assessed to deter delinquencies or to recover the costs associated with processing them. Staff conservatively estimated revenues from this new fee at $100,000.

Workforce reductions included the elimination of two vacant full-time positions, saving $156,885. One of the positions to be eliminated was a Senior Accountant position that provides general accounting and financial reporting support in the Accounting Division. The second position to be eliminated was an Administrative Specialist position, which was one of several of these positions in the Treasury Division that performs a variety of cashiering and revenue collection duties. We also allocated an additional 12.5% of the Assistant Finance Director's salary and benefit costs ($25,306) to the Solid Waste Fund, bringing the total allocated to 50%. This would align the allocation of costs with the amount of time spent managing that operation.

As one of several administrative departments, the Finance Department's primary purpose is to provide finance-related services to other City operations. As such, the cuts in staffing would have a measurable impact on the Finance Department's level of services provided to other departments and, to a lesser extent, to external customers. Work assignments would have to be re-prioritized and some non-critical duties would receive less attention, while others may be discontinued indefinitely.

Non-personnel costs would also be reduced in total by $148,485. The most significant of these is the proposed elimination of the ongoing revenue audit program performed by contract for payments of TOT from hotels, utility users' taxes from utility companies, and sales taxes from the State Board of Equalization. The elimination of the contracted services for revenue audits, while considered a temporary measure, may result in an unquantifiable loss of revenue that may otherwise have been detected through these audit efforts. However, revenues would continue to be monitored by City staff for unusual payments or trends, and specific action would be taken as appropriate. These measures would not have any impacts to services.

Fire

The Fire Department's allocated budget cut was approximately $908,000. A portion of this ($300,000) was met through an increase in mutual aid revenues based on the revenues collected in the last three years. The remainder of the adjustments were cuts in personnel costs totaling approximately $574,000.

Two non-sworn positions would be eliminated – an Office Specialist and a Public Education Coordinator – generating savings of approximately $161,000. Other personnel cost cutting measures included:

- Reducing overtime for minimum staffing based on a three-year trend of reduced sick leave usage ($121,710);

- Maintaining the current vacancy in the relief Fire Captain rank ($25,657); eliminating five "relief" positions ($125,000);
- Implementing an interim management strategy for the first six months of the fiscal year in connection with the retirement of the Fire Chief to achieve savings of approximately $109,000; and
- Reducing funding for hourly positions in Fire Administration and the Office of Emergency Services ($31,875).

The elimination of the Office Specialist position would result in slower processing time for public records requests, and processing purchase requisitions and claims for payments to vendors. In addition, many incoming non-emergency calls would be transferred to an answering machine. The elimination of the Public Education Coordinator position would result in certain services and duties being discontinued, including public education for senior citizens and public education outreach events, Office of Emergency Services website maintenance, and staff support to the Emergency Services Manager.

The elimination of the five "relief" positions should have no impact on the services provided to the public or in any way impact the safety of the public. Due to the benefits granted to sworn fire personnel, paying overtime in lieu of filling these positions saves approximately $25,000 per position. This strategy would be implemented over time through attrition and the $125,000 savings would be achieved when the positions are not filled.

Library

The Library Department's allocated budget cut was approximately $455,000. The Library also needed to identify an additional $203,000 in cuts to offset declines in Library revenues.

All but $5,000 of the approximately $658,000 allocated adjustment was realized through expenditure reductions, including $550,372 from the elimination of eight positions, only two of which are vacant. In addition, the Library would cut back on spending for books, DVDs, music CDs, books on CD, downloadable audio books, and online databases.

Due to the elimination of eight positions, the Central and East Side Libraries staff recommended closing on Mondays. In addition, there would be a measurable reduction in services to the public in several areas. The loss of two professional Librarian positions would affect reference services provided to the public. In addition, delays would occur in the completion of tasks requiring professional attention, such as book selection, collection maintenance activities and training.

City Administrator's Budget Message

With the elimination of the Senior Librarian position in the Youth Services Program, certain programs targeted to teens would either be reduced or eliminated. Collaboration efforts and memberships in local organizations and community-wide coalitions would also be reduced or eliminated.

Mayor and Council's Office

The Mayor & Council's Office met their allocated budget cut of approximately $84,000 through reductions to several expenditure accounts, including a 75% reduction in their budget for meeting and travel and paid interns. Reductions were also proposed for dues, memberships, and other miscellaneous expenditures.

The budget reductions would not materially affect services provided to the public. However, the reduced meeting and travel budget may have reduced the City's involvement and representation in state and national discussions for local government leaders.

Parks and Recreation

The Parks and Recreation Department's share of the allocated budget cut was approximately $1.5 million. Of this total, $962,707 was achieved through the elimination of thirteen staff positions and 16,871 hours of seasonal staff. An additional $459,506 in savings was proposed from reductions to non-personnel expenditures across all divisions, including contracted work, equipment purchases, supplies, training and travel.

In the Parks Division, 4.7 full-time equivalent (FTE) positions, including hourly staff, would be eliminated. This would have a direct impact to the maintenance efforts for City parks. For example, mowing at eighteen parks will occur bi-weekly instead of weekly; there would be a 40% reduction in pruning and maintenance of park and facility trees; and the vegetative fuels reduction program will be scaled back to include defensible space only.

In the Recreation Division, 13.3 FTEs, including hourly staff, would be eliminated. This would result in the reduction or elimination of several programs and services. Examples include:

- The Lower Westside Center would be closed;
- The 1235 Teen Center would be closed Saturdays;
- The Oak Park Wading Pool would remain closed;
- Recreation Swim at Ortega Pool would be cancelled;
- The Senior Tour Program would be cancelled; and

- The Fun on the Run mobile recreation, adapted recreation programs and Summer Concerts in the Park would be suspended until fund raising could support the programs.

In the Administration Division, the loss of 1.4 FTEs would cause delays in facility improvement projects and would require closing the reception desk one hour earlier – from 6:00 p.m. to 5:00 p.m.

Police

The Police Department's share of the allocated budget cuts was approximately $1.6 million.

The Department achieved its allocated cut largely through new or enhanced revenues totaling over $1.3 million, of which $715,500 related to anticipated federal grants made available through the federal stimulus package – the American Recovery and Reinvestment Act (ARRA) - enacted in February 2009. In addition, six non-sworn positions would be eliminated which would generate savings of approximately $670,000.

Federal grants made available through ARRA included an entitlement grant of approximately $209,000, called the Ed Byrnes Justice Assistance Grant ("JAG"), that would be used to fund one sworn position for two years that would have otherwise been eliminated. An additional amount of funding would be received to administer the grant on behalf of other agencies in the County.

A second grant, the Citizen Oriented Policing (COP) grant, was a *competitive* grant and was not guaranteed. Funding for four sworn positions was being sought from this grant, totaling $451,420. If the grant was not awarded, these sworn positions would be eliminated. Since the grant funding was not eligible for supervisory level positions, two vacant positions - a Lieutenant and a Sergeant – were downgraded in rank to the police officer level.

Workforce reductions included the elimination of three non-sworn positions effective July 1, 2009 – a Network Technician, an Animal Control Officer, and a Records Specialist. Three additional non-sworn positions would be eliminated at different times during the year based on the anticipated retirements of the individuals currently filling the positions, including a Range Master, a Records Manager, and an Animal Control Supervisor.

Based on the grant funding that could avoid the elimination of any sworn personnel, the only anticipated impact to the Department and public was the downgrade of two supervisory level sworn officers.

City Administrator's Budget Message

The elimination of administrative staff would require the redistribution of work among existing staff. This work was primarily for the benefit of internal operations and, as such, should not affect the public. The elimination of the Animal Control Officer on July 1 and the Animal Control Supervisor late in fiscal year 2010 (planned retirement) would result in a 20% reduction in citation production and increases to response times. The duties of the Animal Control Supervisor would be assigned to an Administrative Services Sergeant.

The Department was also proposing the elimination of the school crossing guard program that provides hourly employees to assist children to cross streets adjacent to schools. Staff would work closely with the schools to implement other alternative arrangements such as utilizing parents, volunteers, or school personnel to assist children in getting safely to and from school. The savings from eliminating this program totals $112,000.

Public Works

The Public Works Department's allocated share of the budget cuts was approximately $721,000. This was achieved through a combination of new and enhanced revenues, reductions in workforce and cuts to non-personnel expenditures.

Revenues from engineering charges tied to capital improvement projects across all City funds were increased by $315,000. This was accomplished by moving two non-billable positions from the Land Development Program. Other engineering revenues were lowered by $85,000 due to the decreased level of activity in the Land Development function Citywide.

Workforce reductions totaling almost $300,000 included the elimination of one full-time Principal Engineer position, a downgrade of an existing administrative position, and the movement of four positions out of the General Fund to other Public Works Funds/Programs.

The balance of the expenditure reductions included:

- Reduced contract support for the Real Property Management Program for appraisals and right-of-way issues;
- Reduction to funding for the Leaking Underground Fuel Tank (LUFT) program; and
- Reduction in support to the neighborhood clean-ups from four to three per year.

City Administrator's Budget Message

APPROVED CHANGES TO RECOMMENDED BUDGET

The City Council approved a number of adjustments to the recommended General Fund budget, including changes to the proposed balancing strategy for each department discussed above. The adopted General Fund budget incorporates all of the below Council-approved adjustments:

Additional Cost Items

Cost of Avoiding Layoffs*	$ 589,503
Reduce Waterfront Lifeguard Cost Shift by loan interest amount	74,131
Increase Appropriated Reserves Due to Uncertainty	300,000
Restore 8.4% Reduction to New Beginnings	3,654
Restore 8.4% Reduction to Convention and Visitors Bureau Funding	125,957
Total Additional Cost Items	**$ 1,093,245**

Cost Savings and Increased Revenues

Additional Reductions to Employee Development Program	$ 21,722
Phase-Out of Zoo Water Purchase (Savings in each of next 3 yrs.)	52,774
Reducing General Fund Contributions to Vehicle Replacement Fund	372,424
Delay Additional Capital Projects for 1 Year	445,000
Shifting 50% of Downtown Org. Contract to Downtown Parking	112,621
Savings from Restoring Library Full-Time Staff	14,573
Charge Interest on Waterfront Loan	74,131
Total Cost Savings or Increased Revenues	**$ 1,093,245**

* Labor concessions from SEIU allowed us to exceed our goal of $1.5 million in labor cost reductions. The additional $134,465 in savings offset the cost of avoiding layoffs.

The only changes to the recommended Enterprise or Special Revenue Fund budgets are the result of the changes to the General Fund budget listed above and adjustments to recognize savings through furloughs and other labor concessions.

ENTERPRISE FUNDS

Enterprise funds account for essential programs and services, and represent approximately one-third of the City operations. Most enterprise fund operations are impacted to a certain extent by the current economic crisis primarily through a reduction in the demand for services and a corresponding loss of revenues. Each of the enterprise funds is discussed below.

Airport Fund

The current economic downturn has negatively affected the finances of the Airport Fund in two areas. First, the decline in passenger and commercial airline traffic has resulted in a decline in revenues generated from landing fees, parking revenues, and concessions. Secondly, the general decline in the economy has resulted in the loss of some major tenants and rental income is down. In total, revenues for fiscal year 2010 reflect the declining economy and real estate changes and are projected to be approximately $267,000 (2.3%) below fiscal year 2009.

In developing the recommended budget, the Airport Department's goal was to meet the operational needs of the Airport, while maintaining the cash flow necessary for the issuance of long-term debt to finance the upcoming Airline Terminal Improvement Project. In order to offset the loss of revenues, the adopted Airport Fund budget includes several measures, including raising parking fees to raise an additional $60,000 in revenues; and expenditure reductions totaling approximately $206,765, including the elimination of one position.

In an effort to keep pace with the industry and to encourage alternative transportation, Airport staff recommended adjustments to parking rates in both the short-term and long-term parking lots. Specifically, an increase from $17 to $20 to the maximum daily rate in the short-term lot was proposed. In addition, while the daily rate in the long-term lots will remain at $9, staff recommended the discontinuance of the two free days currently offered after seven days of continuous parking. With these changes, parking revenues are estimated to increase by $60,000 annually.

Expenditure reductions include the elimination of a vacant, full-time, Administrative Assistant position, which will save $77,118. The position is assigned to the Maintenance Division and is responsible for general accounting and administrative support. Other staff will absorb these duties.

All divisions were requested to reduce their fiscal year 2010 operational expenditures by a minimum of 3% in relation to the fiscal year 2009 adopted budget. With a few exceptions, all divisions met or exceeded the 3% reduction goal. Due to the fixed nature of Aircraft Rescue and Fire Fighting costs, the Certification Division could not meet the 3% reduction.

City Administrator's Budget Message

A minor service level reduction in the Patrol/Operations Division during late night and early morning hours was also proposed. In order to reduce overtime costs, the Division is incorporating the use of technology to allow a reduction in the operating hours of the Security Operations Center, which operates 24 hours per day, 7 days per week. Calls for service received during low activity periods (midnight to 4 a.m.) will be redirected to Patrol Officers in the field.

Downtown Parking Fund

The Downtown Parking Fund is responsible for the maintenance and operation of the City's parking lots and structures. The most recent addition was the Granada Garage on Anacapa Street between Anapamu and Victoria Streets.

Over the past two years, Downtown Parking revenues have not met projections. Although budgeted at $5 million, they remained close to $4.5 million for both fiscal years 2007 and 2008. For fiscal year 2009, revenues from hourly parking will decline by approximately $100,000 to $4.4 million. We are projecting an additional $100,000 decline in fiscal year 2010 to an estimated $4.3 million. These declines are based on current trends of parking transactions, which reflect the general slowdown in the economy.

Beginning in fiscal year 2010 we recommended a portion of the contract with the Downtown Organization to clean the sidewalks on State Street be allocated to the Downtown Parking Fund. The contract, lowered to $625,242 for fiscal year 2010, is currently managed by the Parks and Recreation Department and paid out of the General Fund. Because of the benefit the downtown area receives from the maintenance of State Street sidewalks, and the impact on the sidewalks and landscaping from those utilizing the parking structures in the downtown area, $200,000 of the total contract is allocated to the Downtown Parking Fund (The final balancing strategy approved by the City Council increased this amount to $312,621).

We also recommended a one-year pilot program in conjunction with the Downtown Organization to provide for additional police resources in the downtown area and parking facilities. This recommendation was pursuant to the recent recommendations from the City Council subcommittee on Homeless Issues and Community Relations. The program provides for up to a 50% match to funds provided by the Downtown Organization to employ part-time Police Officers to patrol these areas. The maximum cost to Downtown Parking is $50,000.

In response to the decline in revenue and these additional costs, we recommended several measures. The first was the reduction of costs where possible within the operation. Second, we recommended that the My Ride Program, which provides substantial discounted bus fares to downtown workers using the MTD bus system, be phased out over a two-year period, beginning in fiscal year 2010. This program currently costs $150,000. Lastly, we recommended that Downtown Parking Fund reserves above policy be used primarily to fund the capital program.

Parking rates and trends will continue to be monitored through fiscal year 2010 and, if necessary, rates will have to be increased in fiscal year 2011 to make up for continued revenue shortfalls, as well as to build up capital reserve balances as planned several years ago.

Golf Fund

The Golf Fund experienced a decline in golf rounds of 2.32% through January 2009. As a result, revenues for fiscal year 2009 are expected to fall by approximately $20,000 from fiscal year 2008 and an additional $110,000 in fiscal year 2010.

Further impacts to revenues may be caused by capital improvements planned at the golf course. Phase III of the Safety Improvement Plan is complete with irrigation improvements in place. Phase IV includes reconstruction of two greens, one tee box and installation of continuous cart paths around the entire course. These projects are expected to be completed by September 2009.

No increases to green fees were proposed for fiscal year 2010 in light of the economic environment and the pending impacts of the planned capital improvements. Instead, the projected revenue losses will be offset by expenditure reductions, primarily from a reduction in planned capital expenditures. Other savings will be generated from reductions to hourly staff and various materials and supplies.

Water and Wastewater Funds

The Water and Wastewater Funds are generally not directly impacted by economic downturns. These two utility operations are primarily affected by weather conditions and voluntary conservation efforts that affect water consumption and, therefore, revenues.

A 3.5% increase was proposed to water rates and a 4% increase was proposed to wastewater monthly service charges in fiscal year 2010. In addition, water and wastewater buy-in fees are increasing by almost 100%, which will fund increasing costs of operations, capital improvements and, in the case of the Water Fund, to fund the increased treatment costs caused by impacts to water quality from the Zaca Fire.

City Administrator's Budget Message

Waterfront Fund

The Waterfront Fund relies on revenues generated from the waterfront, including parking fees, commercial leases and slip fees. While most revenues have held steady during this economic downturn, revenues generated from slip transfer fees have declined markedly. Slip transfer fee revenues are projected to be approximately $500,000 below budget in fiscal year 2009 and the trend is expected to continue into fiscal year 2010.

In addition, beginning July 1, 2009, we proposed that the Waterfront assume responsibility for three sets of expenses that have been paid by the General Fund. The first is the cost for beach lifeguards. The proposed budget recommended that the Waterfront Fund reimburse the Parks and Recreation Department $147,000 for the cost of this program (The final balancing strategy approved by the City Council reduced this amount to $72,869, a decrease of $74,131 for additional loan interest the Waterfront will pay the General Fund). Second, we proposed that the Waterfront take over the responsibility of maintaining three restrooms located along the waterfront -- Stearns Wharf, Leadbetter Beach, and the Garden Street visitor center. Additionally, the Waterfront Department would also take over responsibility for maintaining the Dolphin Fountain at the base of Stearns Wharf. This would result in savings to the General Fund of $58,883. The third area is paying the direct costs associated with the 4th of July fireworks show on the beach. This expense is $55,000.

In total, the Waterfront Fund will need to raise revenues and cut costs to close a projected gap of approximately $500,000 caused by revenue declines, plus an additional $202,000 to cover the costs allocated from the General Fund.

The Waterfront Department's strategy to address the revenue shortfall and increased expenses is to cut operating expenses, increase user fees, and reduce funding for capital programs. Additional fee increases and capital program cuts will be needed in the next three to five years to maintain reserves at minimum required levels.

Effective July 1, the Department proposed parking rates be increased in hourly (staffed) lots, honor fee (unstaffed) lots, and on Stearns Wharf. Slip fees will be increased 4% (with a 4% increase in fiscal year 2011 and 3% in fiscal year 2012); visitor slip fees will be increased 50%; and slip transfer fees will be increased. A variety of other administrative fees will be increased such as boat charter permits, public meeting room rentals, maximum daily parking fees for vehicles and boat trailers, and temporary docking fees for visiting (non fishing) vessels. These measures are expected to generate an additional $722,000 in revenues in fiscal year 2010.

City Administrator's Budget Message

Reductions to operating costs include the elimination of several hourly positions in the Parking and Facilities Maintenance programs. Maintenance projects planned for the public deck at 217 Stearns Wharf (adjacent to the wine tasting room) and the Marine Center Building (125 Harbor Way) have been deferred indefinitely. The janitorial service contracts with UPC/Work Inc. and ServiceMaster will be reduced or cut back. In total, these measures are expected to save approximately $533,000.

With respect to the Waterfront Department's capital program, cost reductions were proposed for the Marina Annual Capital repair program, the annual Stearns Wharf pile driving program, and the replacement of the video security system. The Navy Pier timber replacement project has been eliminated. Additional capital program reductions of approximately $595,000 will be required during the next three to five years to maintain reserves at minimal required levels.

We will be carefully monitoring the impact of raising the parking fees. The increase may discourage consumers from patronizing businesses in the Harbor and on Stearns Wharf, which could have a negative effect on percentage rent revenue received from Waterfront lessees. Reductions of hourly positions in the Parking Program could result in less parking revenue due to less monitoring in the honor fee lots. Reductions in the Facilities Maintenance programs will mean that less maintenance and janitorial services will be provided.

Because of work furloughs, as well as the cost reductions noted, the Waterfront Department might not be able to meet its performance goals. The Department's ability to complete minor and major capital projects will also be adversely affected. The reduction of workforce hours will require staff to focus more on accomplishing day-to-day tasks with less time devoted to long-term planning efforts.

CONCLUSION

Producing the adopted Fiscal Year 2010 Budget was the most difficult in recent history. Managers and program owners in our organization are proud of the services they provide to the public and it is especially painful to reduce programs in which they have invested portions of their professional careers and have public constituencies. Additionally, many of the difficult decisions have a direct impact on the lives of work colleagues, and in some cases, their entire families. I am proud of the professionalism in which the organization dealt with these difficult decisions, and the strong emphasis on maintaining services, while trying to minimize employee layoffs. Many of these reductions are not popular, but they represent our best collective approach to dealing honestly and professionally with the real economic crisis we face.

I especially want to thank members of the City's Budget Policy Steering Committee, composed of department heads and senior City management, which met almost weekly during the budget process to develop a comprehensive financial and management strategy. Their advice and input was critical in the development of this financial plan.

I also want to thank the Finance Department's budget team, who did the heavy lifting in the preparation of the actual document. They include Director Bob Peirson, Assistant Director Bob Samario, Treasury Manager Jill Taura, Budget Manager Michael Pease, and Financial Analyst Jonathan Abad. For weeks, they worked late into the night and on weekends in order to produce the final budget document.