



BUDGET MESSAGE

City Administrator's Budget Message

INTRODUCTION

Overview

I'm pleased to present the Fiscal Year (FY) 2022 and 2023 Two-Year Financial Plan including the Operating and Capital Budget for FY2023 to the City Council and community. This is a significant effort by the City organization and one we take seriously as the budget document represents the City's priorities for the upcoming year.

However, we must acknowledge the public health, economic, social, and fiscal climate of the past year and the environment we are in as we prepare this budget. The world continues to grapple with the unprecedented global event of the COVID-19 pandemic. Locally in Santa Barbara, the economic impacts on businesses related to COVID-19 have been felt deep and wide, and the City's budget has been substantially impacted. The City has experienced a significant decline in major revenue sources, including sales tax, transient occupancy tax, and various departmental revenues from reduced or cancelled programs and services. Over the past year, the City has had to reduce operating expenses, reprioritize major initiatives and capital projects, and redesign and quickly implement new and streamlined ways of serving the public while supporting public health initiatives and ensuring their safety.

Budgeting during this time has been the most challenging I've seen in my thirty year career. The need to have a plan to address substantial losses of revenues in our operating budget while maintaining critical services to the community as essential workers has become increasingly more important. The Proposed FY2022 and FY2023 Operating and Capital Budget provides such a plan, similar to the plan that was implemented in order to balance the FY2021 budget.

This is the first year of the two-year financial plan for FY2022 and FY2023. The purpose of preparing a two-year plan is to minimize changes to programs, services, and staffing in the second year. As a result, a much less detailed document is planned to be produced in the second year as compared to the first.

Organization of City Operations

The City provides a full spectrum of services to its residents, which are accounted for in a variety of funds. The City's primary and largest fund is the General Fund, which accounts for general services such as police and fire, libraries, and parks and



BUDGET MESSAGE

City Administrator's Budget Message

recreation programs that are funded primarily from general tax revenues.

Other important services are provided through enterprise funds, such as the Airport, Water, Wastewater, Waterfront, Golf, and Downtown Parking Funds. Each of the enterprise funds are self-supporting and operate independently. These funds are supported through user fees and other charges.

Overview of Citywide Budget

Staff is estimating revenue losses citywide across all funds to be \$34.9 million through FY2021 compared to FY2019 – the most recent complete year of pre-COVID revenues. Of this, the impact to the General Fund are estimated at \$24 million through FY2021. Revenue losses are estimated to continue into FY2022 compared to FY2019, but not to the same magnitude as realized in FY2020 and FY2021.

The FY2022 budget continues to face significant obstacles in addressing the impacts of COVID-19 to the community. Prior to COVID-19, the City had been in good financial condition through implementing conservative fiscal and budgetary practices, with reserves at or close to policy recommended balances. These reserves aided in the City's transition to a "new normal" during FY2021.

The Performance Plans for the City Departments show a variety of impacts on service levels to the public. With the need to reduce operational budgets, the ability to accomplish performance objectives has been challenging over the past year. The performance metrics in the coming year show a recovery of the delivery of services approaching pre-COVID-19 levels with the anticipated recovery to gradually occur at the beginning of FY2022. Departments are moving forward with original objectives, some of which have been adjusted to ensure adherence to public health directives, as staff are committed to continue to provide quality services to the community. Programming such as summer camps and library programs will continue to be brought back as soon as they are able to do so with the proper modifications.

GENERAL FUND HIGHLIGHTS

Multi-Year General Fund Forecast

The City's budget process begins in October – months prior to the public hearings. Staff prepares an initial financial forecast for the General Fund that extends for five fiscal years to better understand the long-term impacts to the City's major taxes and other revenues, as well as known and reasonably anticipated expenditure increases.



BUDGET MESSAGE

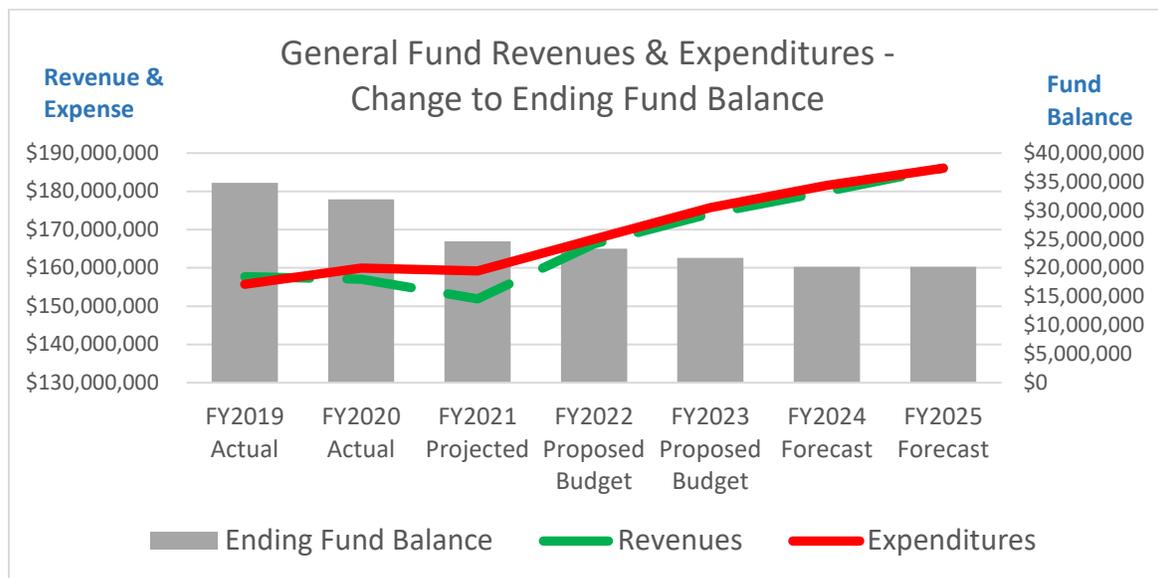
City Administrator's Budget Message

This robust forecasting process provides insight into identifying major trends, potential budget imbalances, and a reasonable assessment of General Fund reserves over time.

This multi-year forecast process is particularly important during this budget development process to understand major economic indicators and trends that will likely impact City and department-specific revenue sources. It has proven to be a critical planning tool to inform labor negotiations, public presentations, and guidance for developing the FY2022 and FY2023 budgets.

Overall, the multi-year forecast assumes a slow and steady recovery of major General Fund tax revenues, such as sales tax and department operating revenues, such as Parks and Recreation program fees. Transient occupancy taxes will likely experience a more immediate recovery late in FY2021 leading into FY2022. With nearly three quarters of the General Fund allocated to salaries and benefits, the forecast includes known increases to benefits and pension costs.

With the identification of continued operating reductions and a modest use of reserves, the proposed General Fund budget is balanced for FY2022 and FY2023. Due to the anticipated slow growth of many General Fund revenues and continued, known increases to expenditures, particularly pension costs, the FY2024 and FY2025 forecast show a continued need to rely on reserves in order to balance the budget and no ability to begin replenishing General Fund reserves.





BUDGET MESSAGE

City Administrator's Budget Message

Revenue and Expenditure Overview

The table below summarizes the total General Fund revenues and expenditures from FY2019 through the end of the FY2023 budget and the annual operating surplus or deficit.

\$ Millions	FY2019 Actuals	FY2020 Actuals	FY2021 Projection	FY2022 Budget	FY2023 Budget
Revenues	\$157.7	\$157.0	\$153.1	\$166.2	\$174.1
Expenditures	155.7	159.9	159.2	167.5	175.7
Surplus/(Deficit)	\$2.0	(\$2.9)	(\$7.0)	(\$1.3)	(\$1.6)

FY2019 realized a \$2 Million operating surplus, similar to the budget stabilizing years following the Great Recession. The budgetary impacts were realized immediately once COVID-19 and the stay-at-home orders were put in place where a \$2.9 Million operating deficit was realized in FY2020.

The FY2021 budget was adopted with the implementation of a four-pronged approach in order to balance one of the most challenging budgets in the City's history:

1. Departmental service reductions in order to achieve expenditure savings;
2. Deferral of capital projects;
3. Labor concessions; and
4. Use of reserves.

Enterprise Funds and Internal Service Funds also prepared plans based on projected revenue losses in order to control expenditures.

The FY2021 use of reserves is significant and nearly depletes the General Fund Contingency Reserve, leaving only Disaster Reserves available. The recently adopted American Rescue Plan Act (ARPA) provides relief from revenue loss, and the City Council will be discussing potential uses of these funds in the coming months. The replenishment of these reserves must be a priority as the economy rebounds and the City's budget stabilizes post-COVID-19.

The FY2022 and FY2023 budgets were produced in line with the most current economic forecasts and projects showing recovery beginning in 2021 with a slow and steady increase of City revenues to pre-COVID-19 levels over the coming years. There continues to be a great deal of uncertainty as to the timing and degree to which the local economy recovers.



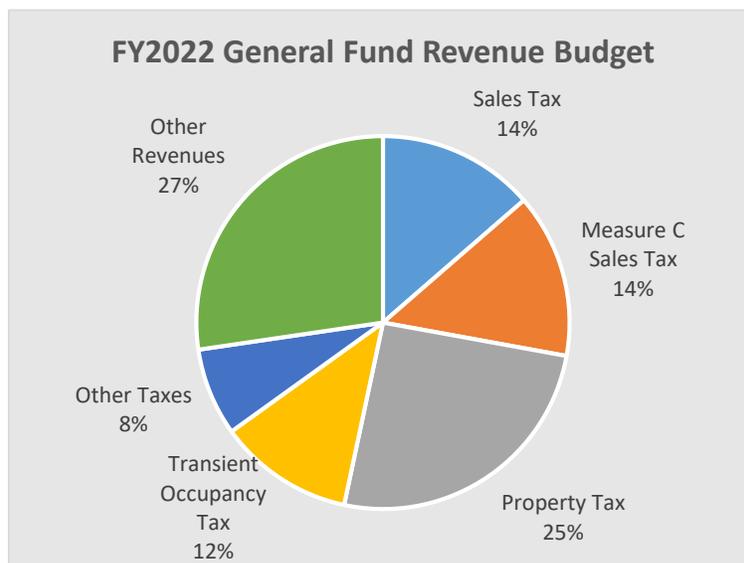
BUDGET MESSAGE

City Administrator's Budget Message

The FY2022 budget assumes a similar level of expenditure reductions in FY2021 to continue through the end of FY2022 in order to balance the budget. A modest level of the use of reserves are still required, however, in order to balance both the FY2022 and FY2023 budgets.

Sources of Funds – Where the Money Comes From

The pie chart below presents the major revenue categories for the General Fund.



Total General Fund revenues are budgeted at \$166.2 Million in FY2022. At \$120.8 Million, the largest revenue category is Taxes, making up 73% of total revenues. Taxes include property, sales, utility users (UUT), transient occupancy (TOT), cannabis, and other smaller taxes. They also include the new Measure C sales taxes that became effective on April 1, 2018.

The fact that a large portion of General Fund revenues is derived from taxes is common in local governmental agencies. Taxes are commonly used to fund services that are of broad benefit to the community, such as public safety (fire and police), libraries, parks, and recreation programs. Sales and transient occupancy taxes, in particular, experienced significant decline over the past year due to reduced economic and travel activities. Total General Fund taxes were \$7.5 Million less in FY2020 compared to the budget – a 6% decline. And taxes are projected to remain flat in FY2021 compared to FY2020.

The table below summarizes the General Fund tax revenues, showing the actual results for FY2019 and FY2020, the current FY2021 projections, and the proposed budgets for FY2022 and FY2023.



BUDGET MESSAGE

City Administrator's Budget Message

Tax	FY2019 Actual	FY2020 Actual	%	FY2021 Projected	%	FY2022 Budget	%	FY2023 Budget	%
Sales Tax	\$24,184,864	\$21,583,257	-10.8%	\$20,988,586	-2.8%	\$22,638,345	7.9%	\$23,671,899	4.6%
Measure C Sales Tax	24,417,826	22,888,713	-6.3%	22,223,468	-2.9%	23,688,418	6.6%	24,607,605	3.9%
Property Tax	35,186,688	38,148,151	8.4%	40,330,845	5.7%	42,347,386	5.0%	44,888,229	6.0%
Transient Occupancy Tax	19,534,960	15,156,761	-22.4%	14,527,401	-4.2%	19,500,000	34.2%	21,450,000	10.0%
Utility Users Tax	6,944,140	7,067,940	1.8%	7,181,497	1.6%	7,315,292	1.9%	7,463,898	2.2%
Cannabis Tax	93,749	1,051,592	1021.7%	1,741,336	65.6%	1,847,469	6.1%	1,884,418	2.0%
Business License Tax	2,698,603	2,819,237	4.5%	2,577,324	-8.6%	2,556,359	-0.8%	2,616,891	2.4%
Real Property Trans. Tax	863,472	657,612	-23.8%	896,870	36.4%	923,776	3.0%	951,490	3.0%
Total	\$113,924,303	\$109,373,263	-4.0%	\$110,467,327	1.0%	\$120,817,045	9.4%	\$127,534,430	5.6%

The largest General Fund revenue is **property taxes**. Property tax revenues have been growing at a reasonably strong rate over the last few years. Properties are assessed a 1% tax annually based on assessed value, payable in two equal installments. Pursuant to Proposition 13, increases to assessed values are limited to the lesser of the Consumer Price Index (CPI) or 2%.

Property taxes have not experienced any significant impacts due to COVID-19 and are expected to continue to show growth in FY2022. Because of the way taxable property is assessed, property tax revenues are slow to respond to changes in economic conditions. In California, and specifically Santa Barbara, many properties are already well below market value. The greater Santa Barbara area had a record year for the number of sales and median home price in 2020. This trend is likely to continue into 2021.

In recent years leading up to the COVID-19 pandemic, **sales tax** revenues saw very little growth due to a decline in “brick and mortar” store sales through the beginning of 2019. This began to change with the growth of revenues from online sales as a result of the U.S. Supreme Court’s decision in 2018, ruling that states may now compel out of state companies to collect sales and use taxes from customers. California then established regulations that became effective April 1, 2019, which taxes online sales. Since this time, growth had been higher than predicted until the impacts of COVID-19.

The impacts of the COVID-19 pandemic and related economic conditions have had a significant effect on local businesses and on sales tax revenues. Total sales tax revenues projected in FY2021 of \$21 Million are 13% lower from FY2019 – pre-COVID-19 levels. Being that a substantial portion of sales tax revenues are



BUDGET MESSAGE

City Administrator's Budget Message

generated from tourist-based activities of restaurants and other businesses, the impacts to Santa Barbara were felt more broadly and deeply compared to many other cities across California. Taxable sales on motor vehicles and fuel remained strong, contrary to initial projections early in 2019, and online retail activities grew during the pandemic.

As the negative impacts of the pandemic persist, the impacts to sales tax will continue to have negative impacts to revenues with a slow and steady recovery to pre-COVID-19 sales tax levels anticipated beyond FY2024.

Measure C sales tax revenues generally follow the same trend as regular sales tax revenues as described above. There are some differences in how sales taxes are allocated. For example, for automobile sales, the base sales taxes are allocated to the jurisdiction where the dealer is located, whereas district sales taxes (i.e., Measure C) are allocated based on where the buyer lives. Measure C became effective on April 1, 2018.

Prior to the COVID-19 pandemic, **transient occupancy tax (TOT)** revenues for FY2019 had experienced moderate growth to \$19.5 Million – an increase of 3% from the prior year. TOT revenues have been hit the hardest because of COVID-19. When the shelter-in-place orders were in effect, hotel occupancy reduced significantly resulting in very little TOT revenue for the City. Some operators completely shut down operations entirely during the shelter-in-place orders and average daily rates dropped significantly. TOT revenues declined by 22% to \$15.2 Million in FY2020 and are projected to decline further to \$14.5 Million by the end of FY2021. Recent tourist activities over the past month have increased as COVID-19 infection rates have declined and more businesses and hotels are reopening. As staff look ahead into FY2022, staff anticipate TOT to return to pre-COVID-19 levels, in line with broad economic indicators for local travel.

Utility users' tax (UUT) revenues are generated from a 6% tax applied to water, electricity, natural gas, and refuse; and a 5.75% tax applied to telecommunication services, including telephone (landline, cellular, internet-based) and video. Overall, UUT revenues over the last ten years have remained essentially flat. The changes in utility usage related to COVID-19 realized a minor shift in water, electricity, and natural gas from commercial to residential use, as consumers sheltered-in-place and worked from home. There is discussion within the California legislature regarding the taxation on streaming services, such as Netflix and Hulu, which could result in future increases to UUT in FY2022 and beyond. The impact to UUT revenues is unknown at this time, so no significant revenue changes are included in



BUDGET MESSAGE

City Administrator's Budget Message

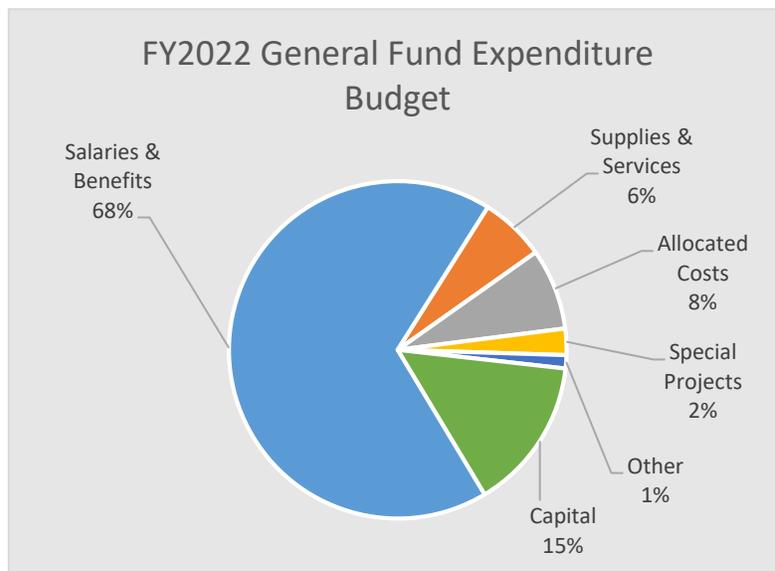
the FY2022 and FY2023 budgets at this time.

While many tax revenues are seeing a decline as a result of COVID-19, **cannabis local excise tax** is on the rise with 12 business licenses in Santa Barbara. The City began collecting cannabis tax for recreational use in FY2020, with an expectation of a modest increase to City revenues. Cannabis taxes are projected to grow from \$1 Million in FY2020 to \$1.7 Million in FY2021 and anticipated to level-off revenues into FY2022.

The City administers the **business license tax** program and has more than 16,000 registered businesses in Santa Barbara. Most business taxes are paid based on prior years' gross receipts. Local businesses have struggled to remain open and continue operations during COVID-19 with less business activities. The City is projected to realize reduced taxes in FY2021 and FY2022 compared to pre-COVID-19 levels.

Uses of Funds – What the money is spent on

The chart below presents the adopted General Fund operating expenditures by major category for FY2022. The total recommended budget is approximately \$167 Million.



At 68% of total expenditures, salaries and benefits totaling \$113.2 Million represent the largest expenditure category. Benefit costs are projected to cost \$45.5 Million, and include health insurance, retirement, and workers' compensation insurance. For most employees, salaries and benefits are negotiated and established through multi-year contracts.

Salary and benefit costs for FY2022 include any additional costs associated with previously negotiated labor contracts and known benefit cost increases. No other



BUDGET MESSAGE

City Administrator's Budget Message

salary increases have been assumed.

While the City has been successful in negotiating fair and reasonable wage and benefit agreements in recent years, the City will continue to be impacted by increases to retirement costs statewide. Now, along with the impacts to pensions from the Great Recession, which caused investment losses to the California Public Employee Retirement System (CalPERS), the pension administrator for most local government agencies in the State of California, the City now faces the uncertainty of the impacts of the pandemic on the pension fund, as well. The substantial losses from the Great Recession put upwards pressure on retirement contributions to mitigate the growing unfunded liabilities.

The City's annual payment to addressing the growing unfunded liabilities has increased by an average of 8% a year over the last six fiscal years. FY2022 is projected to increase by \$2.1 Million in the General Fund alone – by far the largest annual expenditure increase in the General Fund. City staff will continue to explore mechanisms for controlling and reducing the financial burden of ongoing pension cost increases and liabilities and is planning to review options with the City Council during FY2022.

While the City has been able to meet these financial obligations in the near term, rising costs put added pressure on revenue growth and consumes financial resources that could be used for other City programs and services, including capital.

Similar to the budget development direction I gave to departments at the onset of COVID-19 last year, I directed departments to identify continued expenditure reduction savings, targeting a total of \$6.8 Million for the General Fund for FY2022 as an important strategy in order to balance the budget. These strategies include the continuation and additional positions to remain unfilled during FY2022 along with many operational savings. These savings have been identified and prioritized in order to minimize impacts to the public for receiving City services.

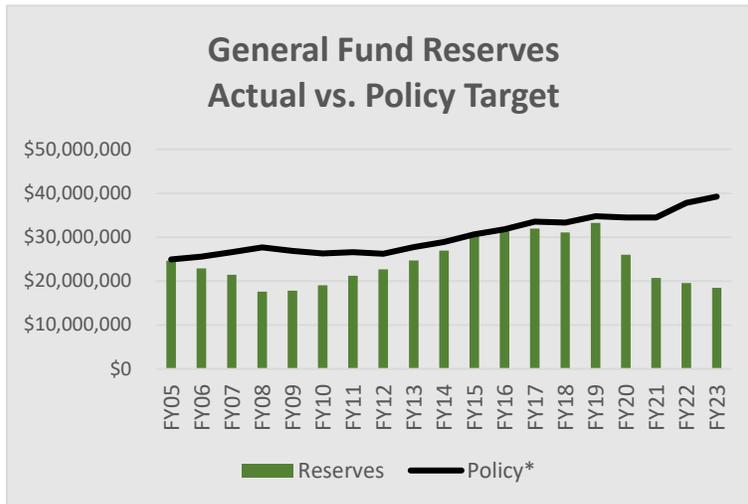
General Fund Reserves

In 1995, the City Council adopted policies establishing reserve requirements for natural disasters and economic contingencies. For enterprise funds, such as Water and Airport, a third reserve for capital is also required. The requirements are stated as a percent of the operating fund; for natural disasters it is 15% and for contingencies it is 10%. The reserve for capital is calculated as the average of the previous five years' capital program.



BUDGET MESSAGE

City Administrator's Budget Message



As shown in the graph below, the General Fund's reserves were below policy requirements for many years. In FY2009, the funding gap was almost \$9 Million following the impacts of the Great Recession. Since then, the City has committed to controlling its costs and the size of the organization. Substantial growth in certain tax revenues following the

Great Recession were realized in the years following, leading to entirely closing the gap and achieving the General Fund reserve target at the end of FY2015. Reserves fell below policy in FY2018 due to underpayments of sales taxes from the state and other extraordinary, but reimbursable, costs incurred in connection with the Thomas Fire and subsequent debris flows. Prior to the COVID-19 pandemic, reserves were approaching the policy target by the end of FY2020.

As of June 30, 2019, reserve balances in the General Fund totaled approximately \$33.3 Million. While this represented a healthy reserve level for the City at the onset of the COVID-19 pandemic, approximately \$7.3 Million of reserves were used in FY2020 due to the drastic and immediate decline of sales tax, TOT and other revenues. The City Council approved of the use of contingency reserves in order to balance the FY2021 budget. The most current General Fund projection includes depleting the contingency reserves in FY2021, leaving \$20.7 Million remaining in reserves. The General Fund reserves are projected to decline slightly in FY2022 and FY2023, with the modest use of fund balance as one of many tools being used to balance the budget in both years. At this time, staff do not anticipate needing to access disaster reserves. It continues to be the City's priority that recovery efforts include a plan to replenish reserves as the economy recovers and the City's budget stabilizes.

On March 11, 2021, President Biden approved House Resolution (HR) 1319, the American Rescue Plan Act (ARPA), signing it into law. The Act provides aid to many groups, including aid to local governments through the \$130 Billion Coronavirus



BUDGET MESSAGE

City Administrator's Budget Message

Local Fiscal Recovery (CLFR) Fund. The City is slated to receive \$22.5 Million in direct Federal relief – \$11.25 Million in May 2021 and the remaining a year later. These funds will primarily be used to address the significant reductions to revenues realized due to COVID-19. Since the pandemic began in March 2020, the total General Fund and Enterprise Fund revenue losses totals approximately \$34.9 Million through the end of FY2021, significantly more than the relief funds can address. City staff will present options to the City Council and obtain direction as to how the funds can be allocated over time. The funds will provide immediate relief, particularly if the anticipated economic recovery may not be as strong and immediate as currently projected. The relief funds have not been incorporated into the proposed FY2022 and FY2023 budgets at this time pending direction from the City Council.

Enterprise Fund Summary

Unlike the General Fund, which relies primarily on taxes to subsidize programs and services, Enterprise Fund operations are financed primarily from user fees and other non-tax revenues. Certain enterprise operations have been impacted more than others due to COVID-19. Utility revenues for water, wastewater, and solid waste have remained consistent and strong during the pandemic. Wastewater has been able to rebound from low reserve levels to meeting reserve targets in FY2021 and into FY2022.

Downtown Parking revenues have been significantly impacted by reduced parking volume as a result of COVID-19 restrictions on retail, entertainment, dining, and office buildings, and are 50% less than normal levels. Downtown Parking is planning to implement a comprehensive license plate reader (LPR) technology, which will modernize operations and likely result in sustained operations and revenue in FY2022 and beyond.

Airport operating revenue has declined significantly compared to prior years due to reduced flight volume and demand for ancillary services and concessions. FAA grant funds received through the CARES Act have provided adequate relief to continue operating over the past year and should be adequate as more normal activities are anticipated in FY2022.

Waterfront revenues have been significantly impacted due many tenants electing to enroll in a delay of rent payments, in line with City Council policy. City staff continue to work closely with tenants on receiving payments over the next year.



BUDGET MESSAGE

City Administrator's Budget Message

Golf revenues have seen growth from paid rounds being projected at 29% higher by the end of FY2021 compared to the budget and more typical levels. Golf has proven to be a safe, attractive activity for the public during the pandemic, and staff remain optimistic that golf activities will remain stable into FY2022

MAJOR PROJECTS AND INITIATIVES

Restoring Economic Vitality Citywide

Across the nation, communities have been and will continue to be challenged in addressing the impacts of a growing trend of consumers shopping online and other consumer preferences impacting the viability of retail centers and malls. The City and local stakeholders have initiated several actions, and other efforts are underway, to address this issue. Recently, the City added an Economic Development Manager to the City team, to increase efforts towards downtown revitalization and strengthening the local economy. With the impacts to our community from COVID-19, these efforts will be even more critical to the future success of the City.

City staff has initiated a public dialog and City Council is prepared to review and adopt the City's Economic Development Plan for 2021 to 2024, which aims to strengthen the City's economy and enhance downtown vibrancy while providing for social equity and environmental protection, and celebrating the City's historic character, cultural resource, and the arts.



BUDGET MESSAGE

City Administrator's Budget Message

State Street Master Planning Process



City Council has been discussing how to revive the economic vitality of Downtown for over five years. In response to the COVID-19 pandemic, the City took emergency actions to create the State Street Promenade and to allow the temporary expansion of commercial uses into streets, sidewalks, parking spaces, and other areas citywide. These temporary emergency economic recovery actions were recently extended to March 8, 2022. The temporary State Street Promenade prompted additional discussion about the need to create a Downtown State Street Area Master Plan, including a redesign of State Street itself.

On March 9, 2021, the City Council adopted vision principles to guide the master planning process for the Downtown State Street area and directed staff to form a Master Plan advisory committee to oversee the planning process. Master planning efforts have begun and will continue through FY2022.

Construction of a New Police Station



The existing police station was constructed in 1959 for a staff of 85, which has now grown to 212 sworn and unsworn officers. The station does not meet the seismic codes for essential services buildings, nor does it meet current building code and accessibility standards. A new building is required to house all the Police Department operations in one place and to ensure uninterrupted public safety services to the community. Currently, police staff are located in four separate locations. The station is in operation 24 hours a day, seven days a week serving as the main administrative office for police services and also includes a jail and shooting range. It houses chemical and special weapons, tactical equipment, criminal records, and crime scene evidence. Initiatives conducted in 2011, and again in 2018, studied retrofitting the existing station. However, it was determined that the existing station



BUDGET MESSAGE

City Administrator's Budget Message

was inadequate and the current property on Figueroa Street is too small to accommodate the needs of a new station.

Over the past three years, major work efforts have included site selection, community outreach, environmental review, and preliminary design. Funding for the police station has been prioritized using Measure C sales tax revenues, and staff will be presenting financing options for the project during FY2022.

Community Choice Energy

In FY2020, the City Council formed its Community Choice Energy (CCE) organization, Santa Barbara Clean Energy (SBCE), in support of its energy and climate goals. CCE allows local governments to determine the sources and renewable content of energy supplies, set the rates that customers pay for electricity generation, and reinvest any excess revenues realized into local programs. In March 2020, the City Council adopted an ordinance authorizing the City to join the California Choice Energy Authority Joint Powers Authority (JPA) and to execute an agreement with the JPA to provide administrative and power procurement support. Furthermore, CCE offers customer choice when it comes to energy supply – as customers may choose between SBCE's 100% Green product which is entirely carbon-free, SBCE's Green Start product offering partially carbon-free electricity at the same rates as SCE, or the customer can choose to return to SCE.

The FY2021 budget introduced a re-organization plan to include a new Sustainability and Resilience Department that incorporates the Energy & Climate Division, which will oversee the CCE implementation as well as the Energy Master Plan efforts, Sea Level Rise mitigation planning, and other City Council priorities in these environmental area. During

FY2021, the City Council confirmed its commitment to providing clean energy by authorizing a \$2 Million loan to allow CCE to initiate operations. The CCE rate-setting process will begin late in FY2021, with the program set to launch early in FY2022.





BUDGET MESSAGE

City Administrator's Budget Message

De La Guerra Plaza

De La Guerra Plaza was designated a Public Square in 1853 and has since served as Santa Barbara's center of town. In addition to serving as a civic center, it has provided the location for the original



Police and Fire Stations. It is the venue for political activism and events including Old Spanish Days. De La Guerra Plaza presents an opportunity for the City to revitalize and reactivate its center of town. A revitalized Plaza will involve expanding the available space by making structural and aesthetic improvements to better serve the community's arts and cultural events throughout the year.

A preliminary concept design has recently been completed by the Design Team working with an Advisory Committee which is made up of 2 members from City Council, 2 from Planning Commission, 2 from Historic Landmarks Commission, 2 from Parks & Recreation, and the Executive Director for the Santa Barbara Trust for Historic Preservation. This concept plan envisions a pedestrian only plaza, a single level surface from building to building, and includes a new public restroom, new landscaping and furnishings for shade and sitting, a new lighting plan, as well as many other features to draw locals and visitors to this historic place. The concept plan was recently presented to the Historic Landmarks Commission for initial concept review and will continue through the City's Development Application and public review process.



BUDGET MESSAGE

City Administrator's Budget Message

Library Plaza



The renovation of Library Plaza will serve as a center for downtown rejuvenation. Library Plaza will create a cultural campus as it is adjacent to museums, historic landmarks, theaters, and concert venues, and serves as the hub for the City's historic arts district. The renovated Library Plaza will allow the Library to maximize programmatic overlaps between the indoor and outdoor spaces,

with over 10,000 square feet of programmable space that can serve over 1,200 people. Library Plaza will not only allow for Library program expansion, but will be a safe and accessible urban green space that will allow for community events of all sizes. This renovation comes at a critical time, as open-air spaces will be a preferred venue for the foreseeable future.

Measure C Capital Priority Projects

On November 7, 2017, city residents approved a ballot measure, Measure C, which increased the local sales tax by 1% effective April 1, 2018, and began generating the revenues needed to invest in and maintain critical infrastructure. This was a major success for the community, after years of struggling with a lack of funding to address aging and deteriorating streets and facilities, and many of the infrastructure assets. The City realized \$24.4 Million in FY2019 prior to COVID-19 and revenues declined to \$22.9 Million in FY2020, and are projected to remain low at \$22.2 Million in FY2021. Slow and steady growth to more normal pre-COVID-19 levels are anticipated within the next 2-3 years.

Revenues from Measure C sales taxes are largely used to improve local streets and related infrastructure (sidewalks, storm drains, streetlights, traffic signals, etc.). Over the last decade, the condition of our local streets has deteriorated significantly due to a lack of dedicated, stable funding.

In addition to Measure C revenues, the General Fund also allocates a portion of its revenues to fund capital projects each year. The allocation for FY2021 was reduced from \$800,000 to \$400,000 due to the impacts of COVID-19 and are being proposed



BUDGET MESSAGE

City Administrator's Budget Message

to return to the \$800,000 funding level in FY2022.

In total, \$22.8 Million has been allocated to capital projects identified as “priority projects” for use of Measure C funds in FY2022. This does not include capital projects planned for the next year from Special Revenue and enterprise funds, such as the Streets Fund, Measure A Fund, Water Fund, Wastewater Fund, Airport Fund, and Waterfront Fund.

\$15.2 Million of total Measure C revenues are allocated to Streets Infrastructure and related projects in FY2022. The remaining funds are programmed for various Library, Parks and Recreation, Police, and Facilities projects. FY2023 includes an allocation for the anticipated debt service payment for the new Police facility as well. As these infrastructure projects remain a significant need, the City recognizes the importance of continuing efforts to complete these projects.

The table below summarizes the General Fund capital budget by department and project for FY2022 and FY2023.

Project	FY2022 Budget	FY2023 Budget	Total
Information Technology			
Constituent Relationship Management (CRM)		\$212,113	\$212,113
Phone and Voicemail Upgrade for Microsoft Office 365	\$135,000	\$64,500	\$199,500
Fire			
Standards of Coverage Study	\$75,000		\$75,000
Automatic Vehicle Routing and Recommendation (AVRR)	\$40,000		\$40,000
Library			
Central Library Automated Materials Handling System	\$150,000		\$150,000
Parks & Recreation			
Eastside Neighborhood Park Renovation	\$400,000		\$400,000
West Beach Splash Playground		\$150,000	\$150,000
Park Infrastructure Safety Program		\$100,000	\$100,000
Franceschi Park Renovation		\$300,000	\$300,000
Total	\$800,000	\$826,613	\$1,626,613

The table below summarizes the Measure C capital budget by department and project for FY2022 and FY2023.



BUDGET MESSAGE

City Administrator's Budget Message

Project	FY2022 Budget	FY2023 Budget	Total
Library			
Central Library Lower Level Workspace Renovation	\$913,000		\$913,000
Central Library ADA Compliant Elevator	\$500,000		\$500,000
Eastside Library Garage Construction		\$200,000	\$200,000
Parks & Recreation			
Plaza Vera Cruz Renovation		\$200,000	\$200,000
Playground Replacement Program		\$150,000	\$150,000
Dwight Murphy Field Renovation	\$200,000	\$250,000	\$450,000
Plaza del Mar Band Shell Renovation	\$175,000		\$175,000
Urban Forest Management Plan Implementation	\$250,000	\$200,000	\$450,000
Ortega Park Revitalization Project - Park Improvements		\$500,000	\$500,000
Police			
New Police Station (Debt Issuance)		\$4,168,880	\$4,168,880
New Police Station	\$2,500,000		\$2,500,000
Public Works			
Business Corridor Improvements	\$500,000	\$500,000	\$1,000,000
ADA - Transition Plan Implementation	\$250,000	\$250,000	\$500,000
ADA - Walkways and Building Pathways	\$100,000	\$100,000	\$200,000
State Street Promenade Redesign	\$500,000	\$500,000	\$1,000,000
Facilities			
Eastside Library Security Cameras	\$55,000		\$55,000
630 Garden Building Security Upgrades	\$240,000		\$240,000
Parking Lot - Public Works Corporate Yard Repave	\$100,000		\$100,000
630 Garden Building Fire Protection	\$200,000		\$200,000
Minor Renewal - La Mesa Park Restroom	\$145,000		\$145,000
Minor Renewal - Los Banos Building		\$360,000	\$360,000
Minor Renewal - 630 Garden Building	\$300,000		\$300,000
Parking Lot - Annex Yard Lot Repave	\$250,000		\$250,000
Minor Renewal - Carrillo Gym	\$295,000		\$295,000
City Hall - Fire Protection System		\$300,000	\$300,000
Minor Renewal - City Hall		\$380,000	\$380,000
Minor Renewal - Muni Tennis Building	\$160,000		\$160,000
Public Works Corporate Yard Masterplan		\$250,000	\$250,000
Minor Renewal - Fire Station 6		\$195,000	\$195,000



BUDGET MESSAGE

City Administrator's Budget Message

Project	FY2022 Budget	FY2023 Budget	Total
Streets			
Drainage: Citywide Drainage Maintenance and Improvements (Annual)	\$300,000	\$300,000	\$600,000
Drainage: Gutierrez Storm Drain Improvements	\$150,000		\$150,000
Maintenance: Pavement Maintenance (Annual)	\$11,905,418	\$9,962,725	\$21,868,143
Drainage: Citywide Drainage Assessment	\$100,000	\$100,000	\$200,000
Pedestrian Enhancement: Sidewalk Infill (Annual)	\$100,000	\$100,000	\$200,000
Maintenance: Sidewalks (Annual)	\$750,000	\$750,000	\$1,500,000
Pedestrian Enhancement: Sidewalk Access Ramps (Annual)	\$750,000	\$750,000	\$1,500,000
Streetlights: Citywide Street Light Improvements Maintenance & Repair	\$300,000	\$300,000	\$600,000
Traffic Signal Improvements	\$250,000	\$250,000	\$500,000
Traffic Signal Maintenance: Traffic Management System	\$500,000		\$500,000
Drainage: Laguna Pump Station Repairs	\$300,000	\$300,000	\$600,000
Traffic Signal Maintenance: Traffic Signal Maintenance Program	\$300,000	\$300,000	\$600,000
De La Guerra Plaza Revitalization Project	\$350,000	\$1,900,000	\$2,250,000
Total	\$23,688,418	\$24,607,605	\$48,296,023

CONCLUSION

I am pleased to present the FY2022 and FY2023 Operating and Capital Budget to the City Council. This budget, similar to last year's budget, is one of the most challenging budgets staff has developed, particularly given the continued economic uncertainty related to the COVID-19 pandemic. Over many months involving staff from all City departments, the budget in its entirety has been analyzed, reviewed and justified in order to articulate revenue changes and identify expenditure reductions in order to present a balanced budget. Similar to FY2021, the proposed budget may be impacted by continued economic uncertainty; however, the assumptions and projections are in line with economic indicators of a recovery as well as being consistent with the City's fiscal conservative budget practices.

Prior to COVID-19, the City had been in good financial condition, with reserves at or close to policy recommended balances. These reserves have been strategically leveraged in both FY2020 and FY2021 to minimize the service delivery impacts to the public, and may need to be leveraged in FY2022 and FY2023 if the economic outlook isn't as favorable as currently assumed. The federal relief funds will surely



BUDGET MESSAGE

City Administrator's Budget Message

relieve some burden on reserves in FY2022 and into the future.

As we prepared this budget document, staff recognized the substantial economic hardships ahead for local businesses, employees, and the City organization. COVID-19 has changed the way the City provides services to the public, and staff will continue to respond to changes in the coming year. While a plan has been identified, the budget will be closely monitored and regular check-ins with the City Council will be done to ensure services to the community are still being met.

Respectfully submitted,

Paul Casey
City Administrator