
From: Armstrong, Jim
Sent: Sunday, December 14, 2008 3:21 PM
To: All Email Users
Subject: Financial Crisis Impact on City of Santa Barbara Budget

Dear Fellow Employees,

Last month I wrote to you about the impact of the ongoing financial crisis on the City. The purpose of this email is to give you an update on the situation and the steps being implemented to minimize damage to our organization.

Overall Picture

Unfortunately, the situation nationally has continued to deteriorate. World wide credit markets continue to be frozen, resulting in little cash available for large purchases such as car sales and home purchases. More importantly, the seized credit markets have not allowed large companies to invest in purchases or new construction. As a result, unemployment is continuing to grow nationally with record numbers joining the unemployment rolls. The new President will be proposing a stimulus package to the Congress in January that should inject new monies into the economy, but the timing of an economic turnaround remains uncertain. At this point, most economists are predicting a long and deep financial recession.

Locally, we are hearing information from retailers that sales, especially in the automobile sector, have dropped dramatically over the past two months. Additionally, some retail stores such as Circuit City, one of our largest sales tax generators, have announced closure of their operations. This is of serious concern to us, since our largest source of revenue in the General Fund is from retail sales taxes. Unfortunately, the way that the State allocates sales tax revenue means that we won't know the full impact of this decline until March.

We are beginning to see Transient Occupancy Taxes decline slightly, with year to year declines of over 2% in both September and October. In conversations with local hotels, they have also advised us that future reservations are beginning to decline.

Another concern is a drop in building permit revenues due to the construction slowdown. Although the recent Tea Fire may result in some new construction activity, it is not likely that it will have a major impact on the overall trend.

Current Budget Shortfall

The greatest impact of the financial meltdown is being felt by the City's General Fund. The General Fund provides funding for several services including police, fire, parks, recreation, library, community development and administrative functions. Due to the weakening economy, we are currently projecting that the General Fund will experience a shortfall of approximately \$5.5 million for the current year, if no corrective actions are taken between now and June 2009. This constitutes 5% of total expenditures in the General Fund.

Budget Recommendations

To address this deficit, all Department Heads representing General Fund departments have agreed upon the following strategy to implement immediately in 2009:

- **Delaying selected Capital Improvement Projects** scheduled for construction this fiscal year.
- **Reduce General Fund Expenditures** for the remainder of Fiscal Year 2009 by \$3 million. This will be achieved by holding positions vacant, eliminating most travel and meeting expenses,

ATTACHMENT 1

delaying some capital improvement projects, and reducing supplies and special service expenses.

- **Transfer certain one time monies** to the General Fund from the City's Self Insurance Fund, Street Sweeping Fund, and the Intra-City Service Funds.

At this point, we are not recommending the use of General Fund reserves to close the deficit. This is due to the fact that we used substantial reserves in the past year to balance expenditures, and the remaining monies are only slightly above the amount the City Council has designated for major disasters. We will be discussing these recommendations with the City Council on Tuesday.

Planning for Fiscal Year 2010

The outlook for Fiscal Year 2010, which starts in July 2009, is even worse. Weak revenues combined with increased costs could result in a General Fund deficit of \$9 million, approximately 8% of the City's total General Fund. We are still finalizing our estimates, but it is clear that difficult decisions will need to be made by all departments. Since about 75% of our General Fund expenses cover personnel and benefit costs, it is anticipated that we will need to eliminate several positions. It is our intention to do everything possible to avoid employee layoffs, but in some cases there may be no alternative.

There are several personnel and financial options that are being examined to reduce costs and minimize layoffs. Some of these options will involve working with employee bargaining groups to reduce overall salary and benefit costs. Examples include salary adjustments, employees sharing in benefit costs, and eliminating or reducing the vacation cash out program. Another option is a furlough program where employees would take unpaid leave for a period of time, such as has been implemented by Santa Barbara County.

We will also be exploring potential revenue options for the City Council's consideration. However, in most cases, significant new revenues will require a vote of the electorate to be approved and would take a significant amount of time to implement.

Although our major area of concern at this point is the City's General Fund, we will also be closely monitoring Enterprise Operations such as the Airport, Waterfront, Downtown Parking and the Water Utilities. An extended recession will definitely impact revenues in several of these operations as well.

Next Steps

A presentation is scheduled for the City Council on December 16th with a more detailed update on the state of the City's revenues and proposed actions to balance the budget. We will also be scheduling Employee Briefing meetings in mid-January to discuss the budget issues we currently face and how we may address them.

If you have questions about how your department will be affected by the budget situation, I encourage you to talk with your supervisor or manager. Since budget developments are happening quickly, I plan to send you regular email messages to provide the latest information on our financial condition.

I appreciate your patience and understanding during these difficult times.

Jim Armstrong