June 5, 2012

TO: City Council

FROM: City Manager

SUBJECT: **2012-14 BUDGET MESSAGE**

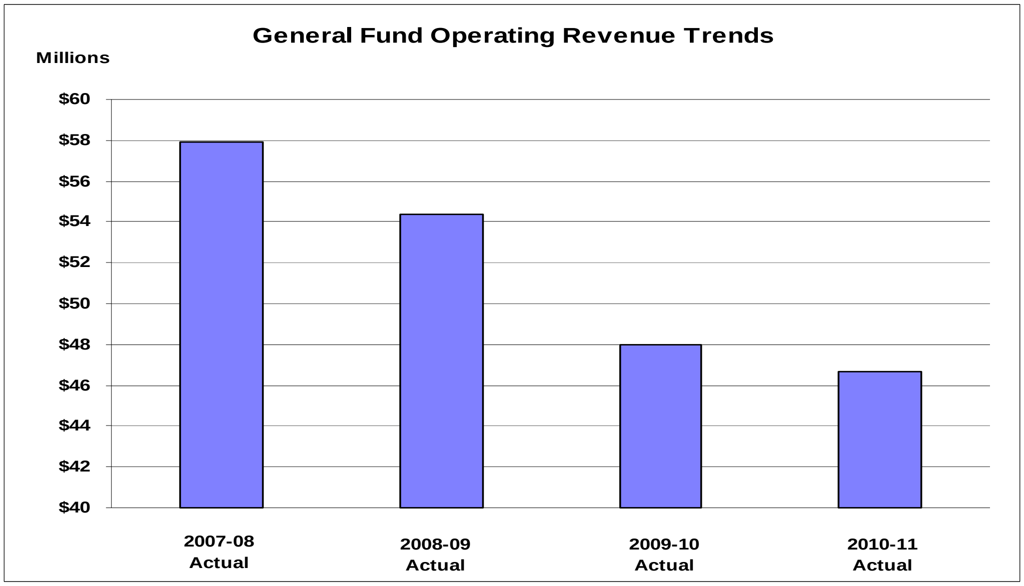
Editorial Note: *Since Measure U, the City's ¼-cent sales tax measure, is slated for the June 5, 2012 ballot, this budget document does not factor-in any sales tax proceeds associated with this ballot measure. Should Measure U be successful, staff will bring back an item for the City Council's consideration, on a spending plan for the tax measure proceeds as well as appointments to a Citizens Oversight Committee.*

RECOMMENDATION:

It is recommended that the City Council receive the 2012-14 Proposed Budget document for the period of July 1, 2012 through June 30, 2014; direct staff to distribute the document; and set the time for a public hearing on the budget to begin at 6:30 P.M., on June 19, 2012.

INTRODUCTION:

It has been slightly more than four years since the start of the National recession and after a long four years, the local economic activity and labor market appears to be slowly recovering. The City of Santa Maria's (City) General Fund has been hit hard by the decline in economic activity resulting in consecutive multi-million dollar deficits over the last four years. Total General Fund operating revenues have declined from a peak of $57.9 million in 2007-08 to $46.7 million in 2010-11, an astonishing 19 percent decline in on-going operating revenues in a three-year span as illustrated in the below chart.



The City has responded, as illustrated on the previous page, to the significant decline in revenues by aggressively reducing operational costs, deferring millions of dollars in cost allocations, postponing purchasing hundreds of pieces of equipment, eliminating dozens of full-time and part-time positions, garnering salary and benefit concessions from employee bargaining groups, reducing operational hours, furloughing employees and keeping vacant positions open for extended periods of time.

Last year, for the fourth year in a row, the City faced another staggering multi-million dollar budget deficit. Staff was able to submit a budget balancing approach to this deficit by using a combination of one-time Local Economic Augmentation Fund (LEAF) financing, various cost-reduction measures (including concessions and furloughs) as well as relying on carryover financing from the previous fiscal year.

This year, the estimated budget deficit has declined to approximately $5.6 million or nine percent of General Fund appropriations as indicated in the below illustration.

Appropriations	$ 56,869,719
Revenues	51,274,850
Unmitigated Deficit	$ (5,594,869)

Faced with another significant General Fund budget deficit, staff presented a budget preview report to the City Council at the March 6, 2012 City Council meeting and sought direction from City Council on financing options to deal with the anticipated deficit.

At the March 6th City Council meeting, the City Council received a report on the revenue and expenditure trends of the General Fund, as well as a preliminary analysis of projected revenues and anticipated expenses for 2012-13 resulting in an anticipated deficit of $6.3 million. The deficit presented to the City Council at that time included an additional $1.3 million in debt service payments due to the elimination of the Redevelopment Agency (RDA). However, since that meeting, the Oversight Board of the Successor Agency to the Redevelopment Agency of the City of Santa Maria (Oversight Board) has approved the 2003 RDA's bonded debt as an enforceable obligation; thus allowing the City to receive the maximum amount of tax increment ($1.2 million) to pay the debt service on the bonds. And while the Oversight Board's action is contingent upon review by the State Department of Finance (DOF), which has final approval authority of enforceable obligations, for purposes of this budget document, staff is assuming that the City will receive the full $1.2 million in tax increment revenue. This tax increment revenue will be distributed to the City through the Redevelopment Property Tax Trust Fund held at Santa Barbara County (County). The inclusion of these revenues, coupled with more accurate revenue projections, results in the estimated (unmitigated) deficit of approximately $5.6 million.

To help mitigate the multi-million dollar structural imbalance in the General Fund, staff presented financing options to the City Council to consider. After deliberating on these options, the City Council directed staff to reduce operating expenses in General Fund departments (one percent in public safety and two percent in non-public safety departments); continue the deferral of cost allocations; and use up to $2.5 million in one-time LEAF financing to help balance the 2012-13 General Fund budget. Based on that direction, staff started the process of compiling the 2012-14 Budget using the deferral of cost allocations and the use of one-time LEAF reserves as the two largest financing mechanism to address the deficit in the General Fund – a financing plan similar to the one used in 2011-12.

As indicated above, the use of one-time reserve financing will play a significant part in closing the $5.6 million budget deficit in 2012-13. In fact, the primary parts to the City's multi-faceted approach to balancing the 2012-13 budget includes using $2.5 million in one-time LEAF financing; reducing workers' compensation and fleet services cost allocations by $1 million and $450,000, respectively;

eliminating over $750,000 in on-going operational expenses in various General Fund departments; with the balance of $894,590 having to come from one-time General Fund reserves as illustrated in the following:

		Appropriations		
	$	56,869,719		
Mitigation Measures				
Workers' Comp Deferral	$	(1,000,000)		
Operating Reductions		(750,279)		
Fleet Services Deferral		(450,000)		
	$	54,669,440	$	54,669,440
		Revenues		
	$	51,274,850		
One-time LEAF Financing		2,500,000		
	$	53,774,850	$	53,774,850
One-time General Fund Reserves			$	(894,590)

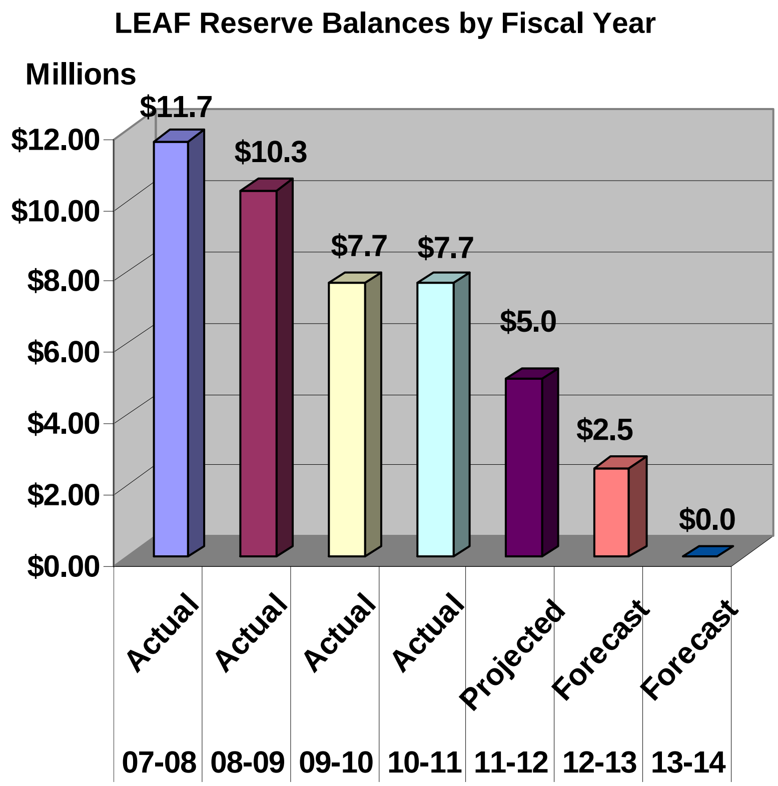
As illustrated above, the primary parts of balancing the 2012-13 budget includes:

- Reducing on-going operational expenses in the General Fund for the fifth year in a row. For 2012-13, the Police Department is reducing their overall operating expenses by approximately one percent, while the majority of all other non-public safety General Fund departments are reducing expenses by two percent. In all, these reductions have resulted in over $750,000 in on-going General Fund savings for 2012-13 and over $7.2 million in operational reductions since 2008-09;

- Reductions in the workers' compensation insurance cost allocation formula were also made in an effort to decrease costs to General Fund departments. Overall, the workers' compensation cost allocations to General Fund departments were reduced by one million dollars for each of the next two fiscal years. This will be the fifth and sixth year in a row that these costs have been deferred. In addition to workers' compensation cost allocation deferrals, staff also recommends deferring $450,000 in fleet services cost allocations in 2012-13. This will be the fifth year in a row that cost allocations in fleet services have been reduced. However, this will be the last year that staff recommends deferring fleet service allocations as 2013-14 calls for the entire cost allocations to be reinstituted; and finally,

- Supplementing General Fund revenues with $2.5 million in one-time LEAF financing with the "delta" in the budget balancing formula being $894,590 coming from one-time General Fund reserves.

While the use of one-time reserves may have helped the City bridge the financial gap in the General Fund over the last few years, this revenue source is quickly disappearing and is forecasted to be completely gone at the end of this current two-year budget cycle (as evidenced in the chart on the following page).



Back in 2007-08, the City had approximately $11.7 million in LEAF reserves. However, over the last several years, the City has had to resort to using this one-time financing source as a means to fund on-going operational expenses in the City's General Fund. This continued deficit financing arrangement appears to be continuing through the second year of this two-year budget as staff anticipates facing another $5 million structural imbalance in 2013-14, due primarily to reinstating fleet service cost allocations, and personnel-related increases associated with the discontinuation of the Mandatory Time Off (i.e. furlough) Program, anticipated employee merit increases, and increases in pension-related expenses. Consequently, for the second year of the two-year budget, staff anticipates needing to use the remaining $2.5 million in LEAF financing to help close half of the estimated $5 million budget deficit.

Since the 2012-14 Budget document is being proposed as "two" one-year budgets, staff intends to bring back, for City Council's consideration, amendments to address the projected 2013-14 budget deficit a year from now during the mid-cycle budget review. At that time, staff will be in a better position to address the projected budget deficit and provide City Council with more refined financing options to help mitigate the projected deficit.

As in previous budgets, this budget proposal is also a comprehensive financial document that presents historical information from previous years, current year activity, and the proposed budgets for 2012-13 and 2013-14. The budget also depicts 2010-11 actual expenditures and revenues, the current 2011-12 adopted budget and current year-end estimated expenditures, as well as the financial plan for the next two-year period. And for the first time, this budget document reflects a four-year Capital Improvement Program. The format of this document is consistent with the guidelines set forth by the Government Finance Officers' Association (GFOA) and the California Society of Municipal Finance Officers' (CSMFO) Association.

From this point forward, the remainder of this Budget Message will focus primarily on the 2012-13 Budget, with the budget summary schedules, financial tables, and graphic presentations reflecting the proposed 2012-13 Budget.

ECONOMIC OUTLOOK:

Over the past two and a half years, the U.S. economy has been gradually recovering from the deep recession. Gross Domestic Product (GDP) in the U.S. has shown steady increases over the last six months of 2011 with the preliminary GDP estimate for the first quarter in 2012 being 2.2 percent. Although much of the economic expansion can be attributed to the release of pent-up demand for autos and a restocking of inventories by businesses, positive signals have emerged, showing more stabilization and a fundamental strengthening of the domestic economic recovery.

While signs of tentative recovery are now occurring in the U.S. housing market, there is still a significant amount of foreclosures in the pipeline, suggesting a higher inventory of unoccupied houses. A massive downward revision to earlier existing-home sales data showed that the housing market suffered a larger loss than many previously thought. Sales from 2007 onward have had significant downward revisions of 14 percent on average. Recently, though, there have been positive trends in U.S. home sales. The inventory of unsold, existing homes declined to 6.1 months of supply at the current sales price, the lowest level since Spring 2006. Sale prices continued their decline, but more slowly. Among factors cited for these trends: pent-up demand, record-low mortgage rates, falling home prices, a better jobs picture, and rising rents.

Indicators are showing improvement in labor market conditions, but there is still much that needs to be resolved in this arena as well. The U.S. unemployment rate fell to a 2½ year low of 8.1 percent. However, because many have stopped looking for work, the latest jobless figure of 8.1 percent paints a rosier picture than exists. The recent drop in unemployment hasn't done much to boost the portion of the population participating in the labor force: 63.7 percent, the lowest level in three decades and market participants continue to wait for the abatement of excess slack in the labor market.

Consumer sentiment has increased for the past eight months, according to a leading barometer, with 29 percent of respondents nationwide saying they expected the unemployment rate to go down. The percentage of people expressing optimism about the job market was the highest since 2004, according to data recently released by Thomson Reuters/University of Michigan Survey of Consumers. But despite the more upbeat perspective, Americans reported that their personal finances were still in rough shape. For the 41st straight month, the number of households saying their income had declined from the previous month exceeded those reporting greater income. And for the 28th consecutive month, a majority of respondents said they did not anticipate their household income increasing in the next year. Still, overall consumer confidence continued to climb after bottoming out last summer amid the partisan debate in Washington over raising the debt ceiling and the subsequent downgrade of the U.S. credit rating by Standard and Poor's.

In California, the economy is clearly improving in many important ways, including employment growth. Wage and salary employment has increased at a healthy clip in recent months in the State of California (State) and the Nation as a whole. This is one of the most tangible signs that the economic recovery is picking up steam. Job growth appears to be helping business and consumer confidence, which helps retail and other sales. Despite the promising job growth news, California's unemployment levels remain stubbornly high – worse than all other states except Nevada.

High unemployment levels coupled with declining home values is having a negative effect on the Governor's revenue forecast for the upcoming 2012-13 budget year. The State is expected to face a budget gap of at least $16 billion in 2012-13. The cornerstone of the Governor's 2012-13 budget plan is its assumption that voters will approve a temporary increase in income and sales taxes through an initiative that the Governor has proposed to be on the November 2012 ballot. The administration estimates the initiative would increase revenues by $6.9 billion by the end of 2012-13, and generate billions of dollars per year until its taxes expire at the end of 2016. The taxes would be deposited to the General Fund to pay for the State's Proposition 98 school funding obligations, as increased by the initiative, and to help balance the budget by paying for other State programs. The Governor also proposes significant reductions to social services and child care programs and additional State borrowing.

The Governor's proposal requests that the Legislature approve $5.4 billion of "trigger cuts" to take effect on January 1, 2013, if voters do not approve the Governor's tax initiative. Proposition 98 funding for schools and community colleges would bear the brunt of these trigger cuts: $4.8 billion (90 percent) of the total.

The effect of California's on-going budget deficits has taken a toll on local government and its anyone's guess on how the State's upcoming budget deficit will affect the City. Last year, the State was successful in eliminating RDAs throughout the State. As of this writing, the City's Oversight Board has met and approved the 2003 RDA bonded debt as an enforceable obligation. Therefore, it is expected that the General Fund will not be required to pay the dissolved RDA's portion of approximately $1.2 million in debt service payments during this next budget cycle. However, staff is assuming that the DOF will approve the Oversight Board's recommendation and release the estimated $1.2 million in property tax proceeds so the City can apply that to the annual $2.7 million debt obligation. Should the DOF overturn actions of the Oversight Board, the City will aggressively appeal this decision as this action by the DOF would add an additional $1.2 million debt service obligation to the already strained General Fund budget.

Because of these financial uncertainties associated with the DOF and the unknown impact the State budget will have on the City, the 2012-13 budget only addresses known revenue assumptions and does not reflect or take into consideration any significant State impacts on City finances. Consequently, should the State pass a budget that has a negative financial impact on the City or if the DOF overturns the Oversight Board's actions, staff will bring back for City Council's consideration, recommendations to address and mitigate such impacts.

At the local level, the budget dominated the County's financial news as the County battled rising salaries, health insurance, and retirement costs. These increasing costs primarily contributed to the $59.3 million deficit the County faced in 2011-12. To pay for these increasing costs, over the last three years the County has had to significantly reduce the number of County positions. Retirement cost increases, due to retirement fund investment losses in 2008 and 2009, are some of the largest contributing factors. In 2006-07, the County paid $58 million for employer retirement contributions. Five years later, the 2011-12 budget includes retirement payments of $110 million, representing a $52 million increase. Health insurance costs budgeted at $25 million in 2010-11 increased $10 million over the last five years and salaries budgeted at $306 million increased $22 million over the last five years. Since salaries and benefits represent 58 percent of the County's budget, the only way to balance is to raise revenues, cut costs, or cut positions. In 2011-12, another 205 full-time equivalent (FTE) position reductions were proposed as part of the budget. And like the City, these position cuts are straining departmental workloads. The County closed its 2011-12 budget gap with employee wage concessions, departmental consolidations, the development of a new retirement tier, and staffing reductions; and since 2007-08, the County has unfunded 600 positions.

On the revenue side, the expectation is for the continuation of a slow recovery in North County. Property taxes are the County's biggest source of revenue and largest discretionary revenue source. In 2010-11, County property taxes grew .6 percent, the lowest growth rate in the last 30 years. In 2011-

12, overall County property tax growth was tepid, increasing at a rate of 1.32 percent. The property tax outlook for 2012-13 is expected to be somewhat better, increasing in the 1.5 to 2.5 percent range. The inflation factor used for those properties not affected by transfers or new construction will be two percent. Sales of properties continue to be down and many of those properties that are sold are being enrolled by the County Assessor for less than the properties' pre-sale assessed value. No significant construction activity is anticipated as well. Consequently, any significant growth in property taxes will not occur for some time and not until the housing market recovers.

For 2010-11, County-wide taxable sales were $5.5 billion, a 7.9 percent increase over the prior year. Sales tax is the second largest revenue source for the County. During 2010-11, property taxes generated $210.8 million in revenue, while sales taxes generated $59.7 million. For the last ten years, the County taxable sales growth appears to mirror the State-wide taxable sales growth. However, the County taxable sales growth is less volatile and generally lags behind State-wide increases and declines. In analyzing the current data, the County expects taxable sales to increase between four to five percent in 2011-12 and 2012-13.

In 2012-13, the County is facing an anticipated budget gap of $15 million, which includes increased pension costs of $4.6 million. The County is also projecting a $4 million to $5 million deficit in the Fire Department. The County recently received a State grant of $60 million toward building a 372 bed north County jail west of Santa Maria. The project is estimated to cost $95.2 million and the County needs to come up with the remaining $35.2 million in construction costs.

Area school districts have issued pink slip notices to selected staff, in anticipation of possible funding cuts beginning July 1st. In addition, if Governor Brown's November 2012 tax initiative fails to win voter support, that may also result in reduced funding for schools and even more pink slips.

To the south of us, in the City of Santa Barbara, strong sales tax revenues and transient occupancy tax or bed tax, have improved the budget outlook for 2012-13. Santa Barbara's anticipated deficit is $800,000, which Santa Barbara intends to address by using one-time reserves. The proposed operating budget for 2012-13 is $236 million and Santa Barbara's workforce will be at 999 full-time equivalent positions, dropping to a 14-year low, down from a peak of 1,088 in 2009.

To the north of us, the City of San Luis Obispo is facing its third straight year of declining property taxes. Last year, San Luis Obispo cut $4.4 million from its $99.3 million budget by eliminating positions, reducing services, and obtaining concessions from employees. In December 2011, the San Luis Obispo's top managers and non-union employees agreed to cuts in pay and benefits. Earlier this year, the City reached an agreement with its firefighters' union that foregoes raises for the next four years, requires firefighters to pay more toward pension costs, and reduces retirement benefits for all new hires – all in an effort to reduce operational costs.

SUMMARY OF KEY GENERAL FUND REVENUES:

General Fund revenue projections for 2012-13 were estimated using 2011-12 projected receipts as the basis and then taking into consideration anticipated changes in the local economy. Overall, General Fund revenues are anticipated to be $511,820 more in 2012-13 when compared to the 2011-12 Budget. The table, on the following page, shows the top five key historical General Fund revenue sources. These five revenue sources represent more than two-thirds of all General Fund revenues.

	Budget 2011-2012	Proposed 2012-13	Increase (Decrease)	Percentage Increase (Decrease)	Percentage of Total 2012-13
Sales Tax	$ 16,008,000	$ 17,278,700	$ 1,270,700	7.94%	32.13%
Property Tax	14,082,600	14,400,020	317,420	2.25%	26.78%
Hotel/Bed Tax	2,276,500	2,410,000	133,500	5.86%	4.48%
Impacted Soils	2,503,000	2,105,000	(398,000)	-15.90%	3.91%
Construction Permits	1,258,000	830,900	(427,100)	-33.95%	1.55%
Total Key Revenues	36,128,100	37,024,620	896,520	2.48%	68.85%
Other Revenues	17,134,930	16,750,230	(384,700)	-2.25%	31.15%
Total General Fund	$ 53,263,030	$ 53,774,850	$ 511,820	0.96%	100.0%

As you can see from the above chart, sales tax revenue is increasing. And even though receipts have declined from a high of $18.1 million in 2007-08 to $15.7 million in 2010-11, staff anticipates a relatively modest increase to $16.3 million in the current fiscal year. In spite of higher gas prices, retail sales activity has been slightly increasing due to an improving labor market and pent up demand for larger items such as autos and household appliances. Because of this trend, the City is projecting a 7.9 percent increase in sales tax revenue for 2012-13 to $17.3 million.

Next to sales tax, property tax is the second largest revenue source in the General Fund. Combined, both sales tax and property tax comprise approximately 59 percent of total General Fund revenues. Like sales tax, property tax is in large part, directly tied to the local economy. Therefore, staff worked very closely with the City's sales tax and property tax consultants in compiling revenue estimates for the next two-year budget period.

Total property tax revenue for 2011-12 is expected to remain flat at $14.1 million. This revenue source peaked in 2007-08 at $15.3 million. The property tax outlook for 2012-13 is expected to be somewhat better than in 2011-12 and is anticipated to increase to $14.4 million. The State Board of Equalization stated that the inflation factor to be used for the assessed value growth for 2012-13 is two percent. This is the first year in three years that the growth factor is at the maximum two percent threshold. Last year the inflation factor was .753 percent and the prior year was a negative (.237) percent.

Transient Occupancy Tax (TOT) has been increasing over the past year. Projected TOT receipts for 2012-13 are anticipated to increase slightly over $2.4 million in 2012-13. Total TOT revenue makes up approximately 4.5 percent of total General Fund revenues.

Impacted soil revenue peaked in 2007-08 at $5.5 million, but now because of increased competition from other landfills and the fact that the Guadalupe Dunes Restoration Project has completed its initial phase of restoration work, Impacted Soils revenue has declined from $5.5 million down to an estimated $2.1 million in 2012-13. And while this revenue stream is not considered a long-term revenue source, it was designed to finance the cost of 16 police officers and nine firefighters when it was originated back in 2001-02.

Another sector hit hard by the recent recession is the construction industry. The unemployment rate in the construction industry hit an all-time record high, around 40 percent, during the recession and the construction-related permit revenue is indicative of that statistic. During the height of the construction boom (in 2006-07) construction-related permit revenue came in at $2.5 million. Since then, construction-related revenue has declined to $814,610 in 2011-12 and staff anticipates a slight increase in 2012-13 to $830,900.

The total of all the “other revenue sources” not mentioned above, are expected to decline by $384,700 or 2.3 percent. This is the “catch-all” revenue category representing dozens of other revenue sources in the General Fund, from recreational programs to interest income to program reimbursements. The above mentioned decline is primarily due to a reduction in the transfers-in category of $191,000 and the elimination of $250,000 in motor vehicle in-lieu revenue. A full description of these revenue categories can be found on Page B-14 of this budget document.

<u>OVERVIEW OF THE 2012-13 GENERAL FUND PROPOSED APPROPRIATIONS</u>:

Recommended 2012-13 appropriations for the General Fund are almost $54.7 million. This represents an increase of less than one-half of one percent, or $217,470 more than the 2011-12 Budget. Overall, departments reduced their operating costs by $750,000, but this amount was offset by almost $360,000 in supplemental budget requests and the sunset of the mandatory time off (MTO) program, as well as anticipated employee merit increases.

The proposed 2012-13 General Fund budget is summarized as follows:

	Adopted 2011-12	Proposed 2012-13	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2012-13
Operating Programs	$ 49,747,220	$ 50,054,730	$ 307,510	0.6%	91.6%
Outside Agencies	928,590	864,290	(64,300)	-6.9%	1.6%
Debt Service	1,408,330	1,361,650	(46,680)	-3.3%	2.4%
Transfers	2,367,830	2,388,770	20,940	0.9%	4.4%
Total	$ 54,451,970	$ 54,669,440	$ 217,470	0.4%	100.0%

By comparison, total appropriations by department are shown as follows:

	Adopted 2011-12	Proposed 2012-13	Increase (Decrease)	Percent Increase (Decrease)
Mayor & Council	$ 156,860	$ 178,630	$ 21,770	13.9%
City Attorney	1,045,810	1,064,510	18,700	1.8%
City Manager	2,207,590	2,312,410	104,820	4.7%
Administrative Services	7,632,430	7,614,490	(17,940)	-0.2%
Community Development	2,768,790	2,732,080	(36,710)	-1.3%
Recreation & Parks	7,893,330	8,077,320	183,990	2.3%
Fire	8,255,500	8,465,430	209,930	2.5%
Police	21,995,060	21,850,010	(145,050)	-0.7%
Public Works	2,496,600	2,374,560	(122,040)	-4.9%
TOTAL	$ 54,451,970	$ 54,669,440	$ 217,470	0.4%

The General Fund's budget reduction plan for 2012-13 was designed to reduce operating expenses in each department, with one percent reductions in the Police Department and two percent reductions in all other non-public safety departments. However, after these reductions were made, department budgets were then adjusted based on increased cost allocations for Fleet and Business Equipment, supplemental budget requests, anticipated merit increases, revenue offset programs, and the sunset of the MTO program. The aforementioned adjustments resulted in the above variances and resulted in an overall increase in General Fund appropriations by 0.4 percent.

Highlights of some of the more noteworthy variances are as follows:

- In the Mayor & Council budget, increased appropriations are primarily attributed to the election of new City Councilmember(s), which necessitates having to budget benefits at a higher amount, plus an increase in business and travel expenses associated with new Councilmember(s) training.

- In the City Attorney's Office, the department is keeping the Code Compliance Coordinator position vacant part of the year; however, this cost reduction is being offset by increased appropriations for public nuisance abatement, as well as costs associated with employee merit increases and the sunset of the MTO program.

- Increases in appropriations in the City Manager's Office is attributed to increased contractual services associated with animal control services, election costs, as well as funds set-aside for City-wide training.

- In the Community Development Department, while staff is not funding the Advanced Planner position during 2012-13, this savings is also partially offset by employee merit increases, as well as the sunset of the MTO program.

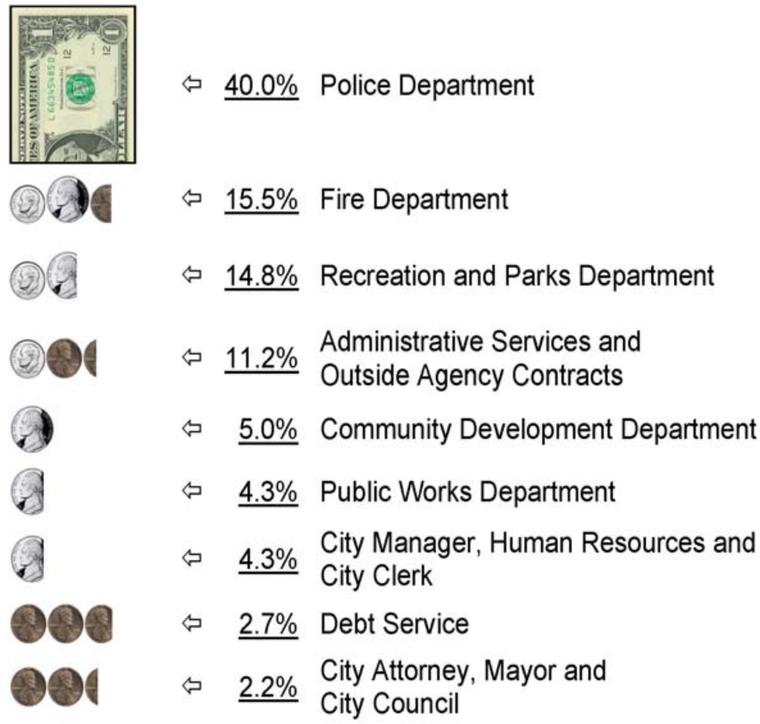
- The Recreation and Parks Department is keeping vacant the Park & Forest Supervisor and Parks Services Coordinator positions during the first half of the fiscal year in a cost-saving move. However, the savings associated with keeping these two positions vacant for six months is more than offset by not only the aforementioned personnel costs, but by the one-time cost for a leisure needs assessment of $30,000, the hiring of a revenue offset Laborer III for the new Santa Maria High School swimming pool, and hiring of two limited-service Security Aides to provide security personnel during facility rentals.

- The increase in appropriations in the Fire Department is primarily attributed to an increase in overtime appropriations, and no funding associated with Measure U has been budgeted in this program area.

- In the Police Department, staff is recommending the continued authorization, but not funding, of one Police Lieutenant position and reducing booking fee appropriations by $70,000 as part of the General Fund budget reduction plan.

- The Public Works Department shows a reduction in appropriations of $122,000, which is primarily due to the elimination of the contractual service costs of administering the School Crossing Guard Program. While the City will continue to administer the program, the Santa Maria-Bonita School District will pay the estimated $253,000 for program expenses directly to the contract service provider. Here again, this reduction is partially offset by the sunset of the MTO program and scheduled employee merit increases.

While total appropriations in the General Fund are approximately $54.7 million, the vast majority of General Fund expenses are spent on the two public safety departments. Combined, these two departments account for over 55 percent of all General Fund expenses. As you can see (from the illustration on the right), the Police Department alone accounts for 40 cents of every dollar spent in the General Fund; with the Fire Department accounting for over 15 cents of total appropriations. Operational costs in the Recreation and Parks Department account for the third highest departmental expense in the General Fund, followed by the Department of Administration Services (which includes the City's financial contributions to outside agencies). The remaining General Fund departments account for pennies on the dollar for each General Fund dollar spent.



OVERVIEW OF THE PROPOSED 2012-13 BUDGET FOR ALL OPERATING FUNDS:

Total revenues anticipated for all operating programs in 2012-13 are estimated to be $125.4 million or $3.8 million more than in 2011-12. This represents approximately a three percent increase in total financing in 2012-13 for all operating programs when compared to 2011-12.

The anticipated financing sources for all operating funds are as follows:

	Adopted 2011-12	Proposed 2012-13	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2012-13
Taxes	$ 37,818,600	$ 39,656,820	$ 1,838,220	4.9%	31.5%
Licenses, Permits & Fines	1,733,450	1,306,450	(427,000)	-24.6%	1.0%
Revenue from Use of Money & Property	1,345,370	1,124,160	(221,210)	-16.4%	0.9%
Revenues from Other Agencies	6,863,180	7,325,160	461,980	6.7%	5.9%
Charges for Service	7,664,400	7,234,180	(430,220)	-5.6%	5.9%
Other Revenue and Transfers	7,662,070	7,681,680	19,610	0.3%	6.1%
Enterprise Fund Revenues	58,507,410	61,092,330	2,584,920	4.4%	48.7%
Total	$ 121,594,480	$ 125,420,780	$ 3,826,300	3.1%	100.0%

The above increase in overall revenues is largely attributed to anticipated increases in tax revenues (namely, sales taxes and property taxes) and increases in the enterprise funds, due primarily to generating greater revenue as a result of rate increases. Revenue from Other Agencies is also increasing and this is because of an increase in Measure A revenue and an increase in passenger fare revenue generated from the operation of the Clean Air Express transit program. However, these increases are partially offset by declining Non-Hazardous Impacted Soils (NHIS) revenue and construction permit revenue.

Total proposed appropriations for all operating funds in 2012-13 are approximately $134 million. The budget for all operating funds in 2012-13 is $915,220 or 0.7 percent less than in 2011-12, with the decrease being primarily attributed to the decrease in debt service payments due to refinancing the Water and Wastewater debt.

The proposed 2012-13 budget for all operating funds is summarized as follows:

	Adopted 2011-12	Proposed 2012-13	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2012-13
Operating Programs	$ 89,417,940	$ 90,828,420	$ 1,410,480	1.6%	67.8%
Capital & Outside Agencies	30,890,330	31,776,820	886,490	2.9%	23.7%
Debt Service	9,329,580	6,110,580	(3,219,000)	-34.5%	4.6%
Transfers	5,271,460	5,278,270	6,810	0.1%	3.9%
Total	$ 134,909,310	$ 133,994,090	$ (915,220)	-0.7%	100.0%

Operating programs are proposed to increase approximately $1.4 million or 1.6 percent. This increase takes into consideration the net affect of eliminating the MTO program as of December 31, 2012, scheduled employee merit (otherwise referred to as time in service) increases, reinstating the partial funding for fleet and business equipment replacement, increased operational costs associated with providing revenue-offset programs, and slight pension-related cost increases. As you know, in recent years, pension-related costs have been escalating and that trend appears to be continuing, especially in the second year of the budget.

Currently, all full-time and part-time employees participate in the California Public Employees Retirement System (CalPERS) and have done so since the late 1960s. Since that time, the City has periodically negotiated various retirement benefit enhancements with each employee bargaining group. These benefit enhancements, coupled with a downturn in investment returns with CalPERS holdings, the recent change in demographic assumptions, as well as increased personnel costs, have all resulted in retirement-related rate increases to the City.

The table below depicts the anticipated changes to the CalPERS retirement contribution rates based on bargaining unit:

Bargaining Unit	Actual 2009-10	Actual 2010-11	Actual 2011-12	Proposed 2012-13	Proposed 2013-14
Police	31.96%	32.57%	36.36%	35.75%	36.10%
Fire	42.51%	43.42%	48.83%	50.70%	51.23%
General	21.99%	22.26%	27.16%	27.72%	28.08%

In 2011-12, the overall costs associated with CalPERS retirement benefit contributions totaled approximately $10.6 million, about $1.6 million more than the previous year. In 2012-13, CalPERS-related costs are somewhat consistent with 2011-12 levels; however, 2013-14 rates will be increasing.

Pension costs are significant and continue to be an increasing financial liability for the City. In the General Fund, the increased pension costs for employees in the two public safety departments alone, are almost $828,000 more for 2012-13 than in 2010-11. In 2012-13, CalPERS-related expenses are 15 percent of all General Fund expenses or $8.2 million.

On March 14, 2012, the CalPERS Board of Administration approved a recommendation to lower the discount rate assumption, or the rate of investment return the pension fund assumes, from 7.75 to 7.5 percent. This will increase employer rates beginning in 2013-14. The discount rate was last changed ten years ago when it was lowered to 7.75 percent from 8.25 percent. The projected effect of this change will be to increase miscellaneous rates by one to two percent and safety rates by two to four percent. On April 18, 2012, the CalPERS Board of Administration adopted a policy to phase in the impact on employers of the change in the discount rate. The Board approved phasing in the rate increases over two years beginning in 2013-14. The projected impact of the reduced discount rate is an increase in total City retirement costs of $400,000 of which, $300,000 is in the General Fund.

To help mitigate increasing retirement costs, on April 19, 2011, the City adopted a two-tier retirement program for all bargaining groups applicable to all full-time and part-time employees hired after July 1, 2011. After the first year of implementation, approximately five percent of all full-time and part-time employees are expected to fall under this new lower-level retirement system and over time, more and more employees will be hired under this new system – thus saving the City hundreds of thousands of dollars annually. But until then, as CalPERS pension-related costs continue to increase, consideration should be given to pension-related cost sharing arrangements with each employee bargaining group.

As for Capital Projects, there are a total of 94 capital projects costing approximately $36 million during the next two-year period – which are delineated in the *Capital Projects* section of this document (Section F). Three of the more noteworthy capital projects slated for 2012-13 include the $4.9 million in transit rolling stock purchases; $4 million in information technology improvements and $3.8 million in tenant improvements for the new police facility; and $3 million to retrofit low-pressure sodium street lights with energy efficient light-emitting diode (LED) units.

Overall, debt service expenses are decreasing in 2012-13, reflective of the refinancing of the 1993 and 1997 Water Bond Issues.

Like the three previous biennial budgets (2006-08, 2008-10 and 2010-12), the proposed 2012-14 Budget makes no provision for new reserves. In fact, this will mark the seventh year in a row that the City has not been able to make any provision for new reserves and has had to rely heavily on the use of LEAF reserves to balance the General Fund budget.

For your convenience, Attachment A to this Budget Message provides a summary of the proposed budget and staffing levels for all funds and compares the proposed funding amounts to current resources.

SUMMARY OF PROPOSED MAJOR PROGRAMS:

I. Public Safety Budgets

Total appropriations in the two public safety departments (Police and Fire) in 2012-13 are increasing approximately $65,000 or less than one percent when compared to 2011-12.

The proposed budgets for Public Safety are as follows:

	Adopted 2011-12	Proposed 2012-13	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total General Fund
Police	$ 21,995,060	$ 21,850,010	$ (145,050)	-0.7%	40.0%
Fire	8,255,500	8,465,430	209,930	2.5%	15.5%
TOTAL	$ 30,250,560	$ 30,315,440	$ 64,880	0.2%	55.5%

As part of the General Fund budget reduction plan to decrease operational expenditures, the public safety departments were asked to identify proposed reductions in their operating budgets. Through this process, operational expenses representing one percent were identified and were reduced in the Police Department.

Currently, six police officer positions are being kept vacant and not funded. The recommendation for 2012-13 is to keep one vacant Police Lieutenant position authorized, but not funded, bringing the total complement of “authorized but not funded” sworn officers to seven. In addition to these vacant sworn positions, three non-sworn positions continue to remain authorized, but unfunded. The positions include the Crime Analyst, Crime Prevention Technician, and one vacant dispatcher position. In addition, as part of the General Fund budget reduction plan, booking fees are also being reduced by $70,000.

With the completion of Fire Station No. 5, the Fire Department will need to staff and operate the new Fire Station No. 5 with nine new firefighters at an estimated cost of $1.6 million. Upon the successful passage of Measure U, set for the June 5th election, the City will have the necessary funding to hire this new complement of firefighters. As a contingency to financing these new hires, should Measure U not pass, the Fire Department has submitted a grant application for a SAFER grant to the Federal Government. However, should neither of these two proposals be successful, the Fire Department will resort to implementing a “brown-out” deployment of resources whereas the existing Fire Engine 4 crew (located on South College) would continue to operate in District 4 during the day but then move to District 5 (the new Station 5 at Suey and Donovan) during the evening hours. For more information regarding this scenario, please refer to the *Future Issues* portion of this Budget Message for a more comprehensive discussion on Measure U. As a cost saving measure, the Deputy Fire Chief position will continue to be vacant through this budget cycle.

II. Water Resources Budget

Overall, total appropriations in the Water Resources Budget are decreasing by over $6.3 million in 2012-13. The three primary reasons appropriations are decreasing can be attributed to lower State Water costs, a decrease in capital projects, and a decrease in future debt service obligations.

A complete analysis of the Water Resources Fund budget as well as an analysis of the State Water cost obligations can be found in Section C of this budget document on Page C-25.

The following summarizes the proposed Water Resources budget for 2012-13:

	Adopted 2011-12	Proposed 2012-13	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2012-13
Operating Programs	$ 10,687,800	$ 11,035,260	$ 347,460	3.3%	31.7%
State Water & CCWA	19,223,520	18,057,100	(1,166,420)	-6.1%	51.9%
Capital	4,082,710	1,725,250	(2,357,460)	-57.7%	4.9%
Debt Service	6,629,250	3,430,000	(3,199,250)	-48.3%	9.9%
Transfers	530,030	541,170	11,140	2.1%	1.6%
Total	$ 41,153,310	$ 34,788,780	$ (6,364,530)	-15.5%	100.0%

Operating programs are increasing by 3.3 percent primarily because of the elimination of the MTO program as well as scheduled employee merit increases. No new personnel are being proposed in this program area.

State Water costs are projected to decrease in 2012-13 due primarily to credits received from the Department of Water Resources (DWR) for prior period adjustments. Additionally, the City is currently refinancing the Water Resources Fund 1993 and 1997 Certificates of Participation debt resulting in reduced annual debt service payments.

Capital projects are reduced by $2.3 million primarily because major capital projects were identified and budgeted in the prior budget cycle, such as fixed base metering, the secondary water system from Elks Field to Adam Basin, the percolation pond expansion, the wastewater capital replacement program, and the primary clarifier rehabilitation. However, some of these projects were not entirely completed in the previous budget cycle and will be carried forward into the current budget cycle. Some of the more noteworthy capital projects slated for this upcoming budget cycle include: $720,000 in percolation pond maintenance and $210,000 in both storm drain system improvements and water distribution valve maintenance.

III. Solid Waste Budget:

The following summarizes the proposed Solid Waste budget:

	Adopted 2011-12	Proposed 2012-13	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2012-13
Operating Programs	$ 17,147,910	$ 17,682,910	$ 535,000	3.1%	91.8%
Capital	1,666,720	1,073,160	(593,560)	-35.6%	5.6%
Transfers	497,670	508,130	10,460	2.1%	2.6%
Total	$ 19,312,300	$ 19,264,200	$ (48,100)	-0.2%	100.0%

The Solid Waste budget represents the total appropriations for residential and commercial collections and landfill services. The total Solid Waste budget shows a decrease of $48,000 – making it essentially a status quo budget. Like the Water Resources Fund, the reduction in this program area is largely attributed to a decrease in capital-related projects. Of the $1,073,000 in capital-related projects in 2012-13, the majority is for container replacement and landfill post-closure costs. Staff intends on changing out all old and damaged refuse and recycling containers to the current standardized version, which are better capable of withstanding high winds and will help mitigate and reduce windblown litter in the community.

Solid Waste operating program expenses are increasing in 2012-13, due primarily to increased Financial Reassurance Deposit requirements of $186,000 as required by the State, an increase in tipping fees, and the sunset of the MTO program.

Financial assurance deposits are monies required by State and Federal laws to be used for the closure and post-closure care costs of the landfill for a period of 30 years. The Department of Resources Recycling and Recovery (CalRecycle), formerly the California Integrated Waste Management Board, annually recalculates the financial closure requirement for the landfill, accounting for inflation, changes in technology and amendments in regulations. On August 31, 2011, the calculated present dollar value of the closure requirement was $20.1 million. The City is required by State and Federal laws to provide assurance that it will complete its closure and post-closure requirements. A trust fund has been established that meets Federal and CalRecycle requirements. Sufficient funds can be found in the trust fund to meet the aforementioned closure requirements.

In addition to the above, the City Council took action in May 2012 to increase landfill gate rates to accommodate existing and future solid waste infrastructure and more adequately fund landfill expenses. Landfill rates were last increased 11 years ago. And because of the recently approved landfill gate rate increase, City refuse disposal trucks will be required to pay a higher fee; thus, attributing to the increase in operating appropriations.

IV. Capital Projects Budget

For the first time, this budget document contains a four-year Capital Improvement Plan. The first two years of this plan identifies and provides for the appropriation authority by project, with the last two years providing an indication as to the planned capital improvement projects for 2014-16.

In all, $36 million of capital and maintenance projects are proposed over the next two-year period. Compared to the 2010-12 budget, which had $26.7 million of capital and maintenance-related projects, proposed project expenditures for 2012-14 are $9.4 million more. The General Fund Capital Projects budget totals $10.4 million, $8.6 million more than 2010-12, with the vast majority of all proposed expenditures being public-safety related. Noteworthy capital projects that are General Fund-financed include: information technology improvements and tenant improvements for the new police facility, an upgrade to the public safety computer aided dispatch and records management system, and parking lot slurry seal and re-striping at the Town Center East and West parking lots.

Another noteworthy capital project, to be funded from Gas Tax monies and Grant Funded Street projects, is the City-wide Street Lighting Retrofit program. The Public Works Department will seek a one-time low interest loan from the California Energy Commission (CEC) to help fund a City-wide retrofit of over 5,200 low-pressure sodium street lights with energy efficient LED units. Low-pressure sodium street lights are no longer manufactured and cannot be adequately maintained; therefore, the Public Works Department has developed a new street lighting standard. LED bulbs cast more natural warm light and reduce light pollution. The estimated $3 million project will enhance color retention for law enforcement, as well as provide energy savings to the City and create improved night-time ambiance in neighborhoods. The loan will be designed so that the annual loan payments are offset by energy savings and reduction in street light maintenance costs, resulting in no additional costs to the City.

Several California cities have adopted this program. The City of Fairfield utilized a CEC loan, combined with one-time Federal stimulus funds, to convert from high-pressure sodium to induction lighting, and anticipates $280,000 in annual savings. The City of Watsonville obtained a nine-year

CEC loan to retrofit over 1,500 street lights to LED and is realizing nearly $100,000 in annual savings from reduced energy costs and street light maintenance. The cities of Pasadena and Chico are among other cities that also upgraded street lights with LEDs. Their staff's reported that the new lights are very reliable and welcomed by residents, and generate significant savings.

The proposed Mobile Equipment and Replacement budget for 2012-14 reflects $6.4 million in appropriations. The initial vehicle and equipment replacement schedule for 2012-14 called for 158 pieces of equipment to be replaced at an estimated capital cost of $12.6 million. Following a thorough safety and condition inspection of each unit, staff determined that only 51 of the 158 units required immediate replacement, decreasing the fiscal impact by $6.2 million. Operating appropriations include an additional $310,000 in gas and diesel costs resulting in total City-wide fuel appropriations of $1,481,000.

V. <u>Measure A and Gas Tax</u>

In November 2008, voters in Santa Barbara County approved Measure A, the half-cent sales tax dedicated to streets maintenance and transportation system improvement projects. Measure A is the reauthorization of Measure D, which was the original half-cent sales tax measure previously approved by the voters in 1989.

The City anticipates receiving approximately $4.2 million per year in Measure A local share revenues during the first few years of the 30-year program. However, because Measure A distributes funds to a wide variety of transportation-related programs that were not included in Measure D, the City will be receiving approximately one million dollars less per year than under Measure D.

This decrease in Measure A funding has been addressed by a corresponding reduction in the City's planned capital projects; namely, the annual City-wide chip seal project necessitates the need for financing now from the Gas Tax Fund rather than Measure A. Another nuance associated with Measure A deals with a new methodology to determine the City's Maintenance of Effort (MOE) requirement. Under the Measure A MOE, the City is required to maintain historic expenditure levels for street maintenance which are higher than the previous Measure D. The MOE is adjusted each year by the increase or decrease in Measure A revenues. For 2012-13, the MOE is $2,330,000, whereas under Measure D, the MOE was constant at $1,384,000.

While the new Measure A reduces the local share that the City receives for street maintenance purposes, it does provide funding for important alternative transportation-related programs that were previously not funded through Measure D. And due to increasing retail sales activity, Measure A revenue is expected to increase by approximately $576,000 over the prior year.

During the next two-year period, over $6.4 million in street-related capital projects are being proposed, of which, $1.2 million is Measure A financed and $5.2 million is Gas Tax financed. In 2012-14, Measure A will be financing alternative transportation-related projects, such as the Safe Routes to School project, Interregional Transit-related projects, bicycle and pedestrian programs, and door-to-door bus service for the elderly and disabled. Highlights of Gas Tax financed projects include, in addition to the annual street chip seal project and general street rehabilitation work, and the Central Avenue roadway rehabilitation project between Miller Street and College Drive.

VI. Contributions to Outside Agencies

Contributions to the Chamber of Commerce, the Historical Society and Economic Development Services have historically been prescribed by the Municipal Code. However, in the prior two fiscal years, City Council adopted reductions to contributions based on reduced TOT receipts and the percentage of operating expense reductions required of General Fund operating departments; namely, a six percent reduction.

Over the last two years, TOT) revenue has been increasing. For the 2011 calendar year, TOT revenue increased by seven percent when compared to the prior year. And even though TOT revenue has been increasing, because of the continued General Fund budget deficit, staff recommends allocations to outside agencies remain the same as in the 2011-12 Budget. As for the Historical Society and the Museum of Flight, rather than tie these contributions directly to a percentage of bed tax receipts, the City Council directed staff to allocate $14,100 to each agency in 2011-12. Consequently, staff recommends the same allocations for the next two-year period. Accordingly, the following is a summary of the proposed contributions to outside agencies for the next two fiscal years:

	Adopted 2011-12	Proposed 2012-13	Proposed 2013-14	Percent of Total 2012-13
Chamber 8% Bed Tax	$ 266,556	$ 266,560	$ 266,560	65.2%
Economic Development Contract	113,290	113,290	113,290	27.8%
Historical Society	14,100	14,100	14,100	3.5%
Museum of Flight	14,100	14,100	14,100	3.5%
Total Allocation	408,046	408,050	408,050	100.0%
Chamber 2% Bed Tax	233,233	233,230	233,230	100.0%
Total	$ 641,279	$ 641,280	$ 641,280	100.0%

Going forward, the Chamber of Commerce has agreed to continue to provide economic development services to the City on the above reduced amount for the duration of the next two-year budget cycle. As a result of their continued commitment, the economic development services agreement, as well as the agreements with other outside agencies, will be before the City Council for consideration and adoption on July 3, 2012.

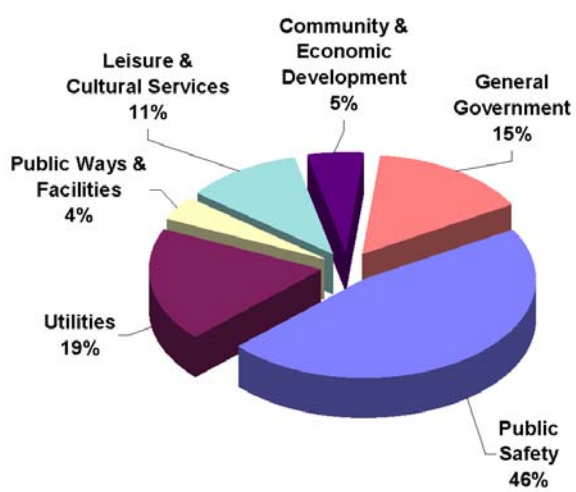
SUMMARY OF PROPOSED STAFFING RECOMMENDATIONS:

This section summarizes the personnel changes being proposed in the 2012-13 budget for full-time, part-time and limited-service positions. Full-time (FT) employees work 40 hours per week; part-time (PT) employees work 32 hours per week; limited-service (LS) employees can work up to a maximum of 19 hours per week, or under 1,000 hours in a fiscal year.

For 2012-13, proposed personnel recommendations bring City-wide staffing totals to 456 authorized full-time positions and 72 part-time positions, for a total of 528 authorized positions. However, eleven vacant public safety-related positions and one vacant non-safety related position (of the City's 456 authorized full-time positions) will be classified as authorized but not funded in 2012-13; bringing the total authorized, but not funded positions in the City to 12. In addition to these 12 positions three more non-safety positions will be partially funded for only the last six months of the fiscal year. This is in response to the City's continued need to reduce operational costs in the General Fund.

When compared to the number of full-time positions approved in 2011-12, staffing proposals for 2012-13 show an overall decrease of one full-time position. The one position is that of Librarian II-Reference. This action brings the 2012-13 full-time employee-to-population ratio of the City to 4.55 employees for every thousand residents – still far below the 8.47 average of other Central Coast cities. As a comparison, the approved staffing recommendations from ten years ago, 2002-03, included a full-time employee-to-population ratio of 4.82 per thousand (residents).

For the General Fund, in 2012-13 there are 326 full-time positions and 38 part-time positions proposed for a total of 364 positions. Of the full-time General Fund positions, the Police and Fire budgets comprise 211 positions or 65 percent. And of the 456 full-time positions City-wide, the two public safety departments comprise 46 percent of all full-time positions as depicted in the chart below.



By comparison, in 2002-03 there were 187 full-time public safety-related positions. Since that time, the full-time complement in the public safety departments has increased approximately 13 percent, while the population of the City during this same time has increased 24 percent.

As previously mentioned, one full-time position is being recommended for elimination, the Librarian II-Reference. In addition, three new part-time Laborer III positions are being recommended in 2012-13, one is revenue off-set and the other two are not in the General Fund. Full-time and part-time positions by department are summarized on Attachment B of this Budget Message. The chart shows the 2011-12 allocation and the changes proposed for 2012-13.

The following provides a more in-depth summary of some of the more noteworthy personnel changes in 2012-13:

Police Department – The Police Department will continue to absorb ongoing staffing reductions that date back to 2009-10. The 2012-13 proposed budget calls for placing one vacant Police Lieutenant position in the "authorized, but not funded" category; bringing the total previously "authorized, but not funded" positions in the Police Department to ten. These ten positions include: one Crime Analyst, one Crime Prevention Technician, one Dispatcher, six Police Officers and the proposed Police Lieutenant position.

The recommendation to authorize but not fund one vacant Police Lieutenant, will result in a redistribution of work amongst the remaining Police Lieutenants. As a result of the supervisorial redistribution of duties for full-coverage at the Police Lieutenant level, both Police Division Commanders will need to be the point of contact during the day shift for some supervisors, due to the assigned patrol Lieutenants working evening hours to continue to provide coverage for all shifts.

Utilities – No new additional full-time positions are being proposed for 2012-13. However, staff is proposing to reclassify two of the current seven full-time Maintenance Worker I positions to that of Maintenance Worker II in an effort to create a senior lead position among landfill crews. The intent is to ensure that a senior Maintenance Worker be on duty at all times during the seven-day-a-week operation at the landfill.

Public Works – In the past decade, the City's fleet has increased in size and operational needs for vehicle and equipment service, which has resulted in additional labor required to maintain parts inventory/control as well as vehicle shuttles, parts washing, shop maintenance, and clerical duties. The use of contract staffing is no longer effective, due to turnover. Therefore, staff recommends increasing the personnel complement by two part-time 32-hour per-week Laborer III positions: one Laborer III will be assigned to the Public Works corporation yard and the other to the Utilities Department shop at the landfill. Increasing this personnel complement will allow a greater level of staff coverage, reduce the backlog of parts ordering, and minimize the down time of mission critical City vehicles. In addition, neither of these positions are assigned to the General Fund so no additional General Fund expenses are anticipated with these hires.

Community Development - Due to ongoing budget constraints in the General Fund, and the need to reduce operational costs, staff is recommending that the vacant Advance Planner position continue to be authorized, but not funded during the next fiscal year. And while this will result in possible delays in processing certain projects, the need for operational savings necessitates taking this action.

Recreation and Parks – As part of a cost savings measure, staff is proposing to delay the hire of the vacant Park & Forest Supervisor position for six months. Currently, the duties of the Park & Forest Supervisor have been delegated to other positions as a cost savings measure and this will continue through the end of the current calendar year.

In addition to the above, a Joint Use Agreement between the City and the Santa Maria Joint Union High School District (High School District) was approved in March 2012 for swimming pool use, maintenance and operations. This agreement covers City costs associated with the provided contract services for performing the daily pool maintenance duties and lifeguarding. To assist in maintenance services for the Santa Maria High School pool, one part-time Laborer III position is proposed to be added to the department staffing complement. Currently, a Senior Crew Leader/Maintenance Specialist spends 50 percent of his time involved in pool maintenance, along with a part-time Laborer III and a 32-hour temporary staff person. This crew is also responsible for the entire McClelland Civic Center landscape, Lavagnino Plaza, the Library landscape, parking structures, City Hall landscape, and occasionally assists with Mall maintenance and the larger Recreation and Parks Department Civic Center events. To ensure that swimming pool water quality responsibilities are addressed while still maintaining the downtown Civic Center Complex needs, an additional part-time 32-hour per week Laborer III position is needed. Since this new Laborer III position is revenue offset by the High School District, there will be no additional General Fund expenses associated with this position.

Library - Staff is recommending the elimination of one full-time Librarian II position, due to increased expenses, and loss of Transaction Based Reimbursement (TBR) money of approximately $70,000.

The current Librarian II position is assigned to Extension Services and is funded on a 50-50 basis by the County and the City. Half-funding, by the City, provides librarian level reference services at the Main Library reference desk. Half-funding, by the County, provides supervision of the three County branch library operations. However, because there is a current vacancy in the Reference section, the current Librarian II in Extension Services will be reassigned to the Reference section on an interim basis, and be responsible for day-to-day supervision of Reference. In Youth Services, to achieve budget savings, staff is recommending under-filling the Librarian III with a Librarian II and delaying filling the position by six months. Thus, eliminating one Librarian II position and delaying the hire of an additional Librarian III position will enable the Library to meet targeted budget goals.

City Manager's Office - There were a number of retirements in the City Manager's Office, announced in advance and announced during the year. Because of the lingering effects of the recession, the City Manager's Office reviewed pending vacancies and recommends a number of proposed personnel changes in 2012-13. In all, three positions are being reduced in either job scope or salaries, and two are being reclassified.

In late 2011, the Chief Deputy City Clerk retired. Prior to filling this position, staff is proposing to downgrade this position's salary range ten percent to better reflect the market and internal equity issues. The Records Coordinator/Deputy City Clerk has been assuming this role in an acting capacity since late 2011 and staff is recommending reclassifying the Records Coordinator/Deputy City Clerk to that of Chief Deputy City Clerk. Furthermore, upon this appointment, it is recommended that the Records Coordinator/Deputy City Clerk position be downgraded 7.5 percent. On May 15, 2012, the City Council authorized a ten percent downgrade of the soon-to-be vacated Executive Assistant position to that of Secretary to the City Manager. In addition to the above personnel changes, staff is also recommending the reclassification of the Management Analyst I to Management Analyst II in recognition of the incumbent's range of assignments and job duties.

In conclusion, staff is pleased to report that the 2012-13 Budget has been balanced with no lay-offs, due in large part, to cooperation from all departments, as well as the bargaining units in working with the City to again accept salary and benefit concessions for the third year in a row.

FUTURE ISSUES:

Measure U

In January, the City Council authorized the placement of a ¼-cent sales tax measure on the June 5, 2012 ballot. Labeled Measure U, this ballot measure is a general purpose temporary sales tax measure that has a nine year sunset. In addition to the sunset language, the measure also requires annual financial audits and an oversight committee to ensure proceeds are spent appropriately.

Since Measure U is before the electorate on June 5, 2012, the same night this budget document is presented to the City Council, it would have been presumptive of staff to incorporate the anticipated sales tax proceeds from this measure into this budget document. Accordingly, should this sales tax measure be successful, staff will bring back an agenda item setting forth a spending plan for the anticipated sales tax proceeds for City Council's consideration, as well as a plan to appoint a five member Citizens Oversight Committee.

The sales tax generated by Measure U is anticipated to be approximately $4.2 million annually. However, because of the timing associated with implementing this tax measure, the new revenue, if approved on June 5th, would not become operational until October 2012 and the City would not receive any sales tax proceeds until January 2013. Therefore, the City could anticipate receiving approximately $2.1 million in additional sales tax proceeds in 2012-13.

Should Measure U not be successful, then the Fire Department will have no other alternative than to institute a rolling "brown-out" deployment in order to staff the new Fire Station No. 5. In this scenario, the existing Fire Engine 4 crew will continue to operate in District 4 (South College Fire Station No. 4) during the day and then be redeployed to District 5 (the new Fire Station No. 5 at Suey and Donovan) during the evening hours. This scenario of redeploying fire personnel is designed to place a Fire Engine Crew in a certain district during a specific time of day when the call volume is the highest (based on historical data).

Successor Agency's Enforceable Obligations

On June 28, 2011, the Governor signed into law ABX1 26 and ABX1 27 relating to RDAs. ABX1 26 immediately suspended RDA activities and eliminated RDAs effective October 1, 2011. ABX1 27 was a companion bill that would allow RDAs to continue if the city that created the RDA adopted an ordinance agreeing to comply with the "Voluntary Alternative Redevelopment Program" under which participating communities "voluntarily" would pay a portion of tax increment to the State.

On July 18, 2011, the California Redevelopment Association (CRA), the League of California Cities, along with the cities of Union City and San Jose filed a petition for Writ of Mandate with the California Supreme Court, challenging the constitutionality of ABX1 26 and ABX1 27. The petitioners argued that the bills violate recently enacted Proposition 22 as well as other provisions of the State Constitution.

The California Supreme Court agreed to hear this case and issued its ruling on December 29, 2011. The Court upheld the constitutionality of ABX1 26, but overruled ABX1 27 as unconstitutional. As a result, all of the RDAs in the State ceased to exist as of February 1, 2012. As of January 30, 2012, the City's RDA took no action, thus allowing the City to become the "Successor Agency" to the former RDA. As such, the former RDA's assets and liabilities are the responsibility of the City.

The bill also requires that each successor agency have an Oversight Board consisting of seven members representing the taxing entities in the County. The oversight board is to oversee the dissolution activities of the RDA, including payment of enforceable obligations, termination of agreements, disposal of assets, and distribution of funds.

In April 2012, the City's Oversight Board approved the Recognized Obligation Payment Schedule (ROPS) for the six-month period ending June 30, 2012. The ROPS identifies the current debt obligations of the dissolved RDA. These obligations are paid from the Redevelopment Property Tax Trust Fund maintained at the County. On May 2, 2012, the Oversight Board approved the ROPS for the six-month period ending December 31, 2012. The primary obligation listed on the ROPS is the 2003 RDA bonded debt. The final level of approval comes from the DOF, which may adopt the Oversight Board's ROPS or deny the ROPS. Should the DOF deny the Oversight Board's decision, this will add approximately $1.2 million in additional debt service obligation to the already strapped General Fund budget.

As of this writing, the final outcome of this matter is still undecided. Should the DOF override the Oversight Board's decision, staff will appeal this decision. However, should the City fail in this appeal process, the City will be faced with another unanticipated deficit scenario which will require staff to bring back additional financing options for City Council's consideration in an effort to mitigate this new unanticipated $1.2 million General Fund obligation.

New Police Headquarters

The current police headquarters was purchased in 1954 when the department had 25 officers patrolling four square miles of City with a population of 10,000. Today, the department has over 100 officers and approximately 50 non-sworn employees. In November 2008, the City purchased land and a building located at 1111 W. Betteravia Road for the City's new police headquarters at a cost of $13.8 million. The new building is approximately 72,000 square feet which will allow for future expansion of the department as the current array of police-related facilities make up approximately 34,000 square feet.

In March 2012, the City Council approved the contracts for the structural retrofit and the design of tenant improvements. The retrofit is required to meet California Uniform Building Code seismic standards. Staff began the design of structural retrofit soon after the building was acquired. The retrofit is expected to cost approximately $2.1 million. After the retrofit, work will begin on the improvements which include the construction of a crime lab, property and evidence room, interrogation rooms, communications center, offices and more. Costs associated with this project can be found in the *Capital Projects* section of this budget document.

It is anticipated that the structural retrofit portion of this project will be completed in late 2012 with the tenant improvements anticipated to be competed in late 2013, and the actual move into this new facility will occur sometime during the 2014 calendar year. Toward the end of this project, staff will be entering into discussions with either Santa Barbara County or the California Superior Court System to discuss their interest in acquiring the soon-to-be-vacated old police facility on Cook Street.

Negotiation of Fiber-Optic Franchise Agreement

The City currently has a local franchise agreement with Comcast Cable. Under the agreement, Comcast constructed and maintains an Institutional Network (I-NET) of fiber-optic cables connecting 17 City-related facilities to the hub at City Hall, at no cost to the City. These facilities include the fire stations, the corporation yard, the water reservoir, and the water treatment plant to name a few. On December 31, 2014, the City's franchise agreement with Comcast expires and will be replaced by a State-issued franchise. When the local agreement expires, so will the City's free usage of the I-NET, which is the backbone of its electronic communications to facilities outside of the Civic Center Complex. In anticipation of this, staff is currently researching two options: explore the possibility of using microwave technology for network connectivity or stay with Comcast. Should the decision be made to stay with Comcast then staff will aggressively negotiate a much more favorable multi-year I-NET lease rate with Comcast as the current lease rate is projected to be $275,000 a year.

ACKNOWLEDGMENTS:

I would be remiss if I did not sincerely thank those City employees that were instrumental with assisting in putting together this budget document. This year, the budget process was more challenging than in previous years because of key staff vacancies, operational challenges associated with unforeseen budget-related nuances, as well as having to contend with a number of other “high profile” competing projects and assignments. However, once again staff rose to the occasion, and tirelessly worked through all of these challenges and put together another award winning comprehensive budget document.

It has been said before that the employees of this City are of the highest caliber and are second to none and I would wholeheartedly agree with that statement. We should all take great pride in the fact that our employees are the most productive and most efficient of any City on the Central Coast, and perhaps, the State. If not for the dedication to public service and teamwork that this City’s employees embrace, we could not offer the professional and responsive services that we do.

A special thank you goes out to the staff of the Department of Administrative Services and my office for the important roles they played in developing this budget document. The Administrative Assistant in the Department of Administrative Services is also deserving of special recognition for the extra effort she devoted to formatting and assisting in the production of this budget document. To all of the above, my sincerest appreciation is extended.

RICHARD J. HAYDON
City Manager

Attachments: A - Summary of Proposed Budget and Staffing Levels
B - Position Allocation by Department

ATTACHMENT A

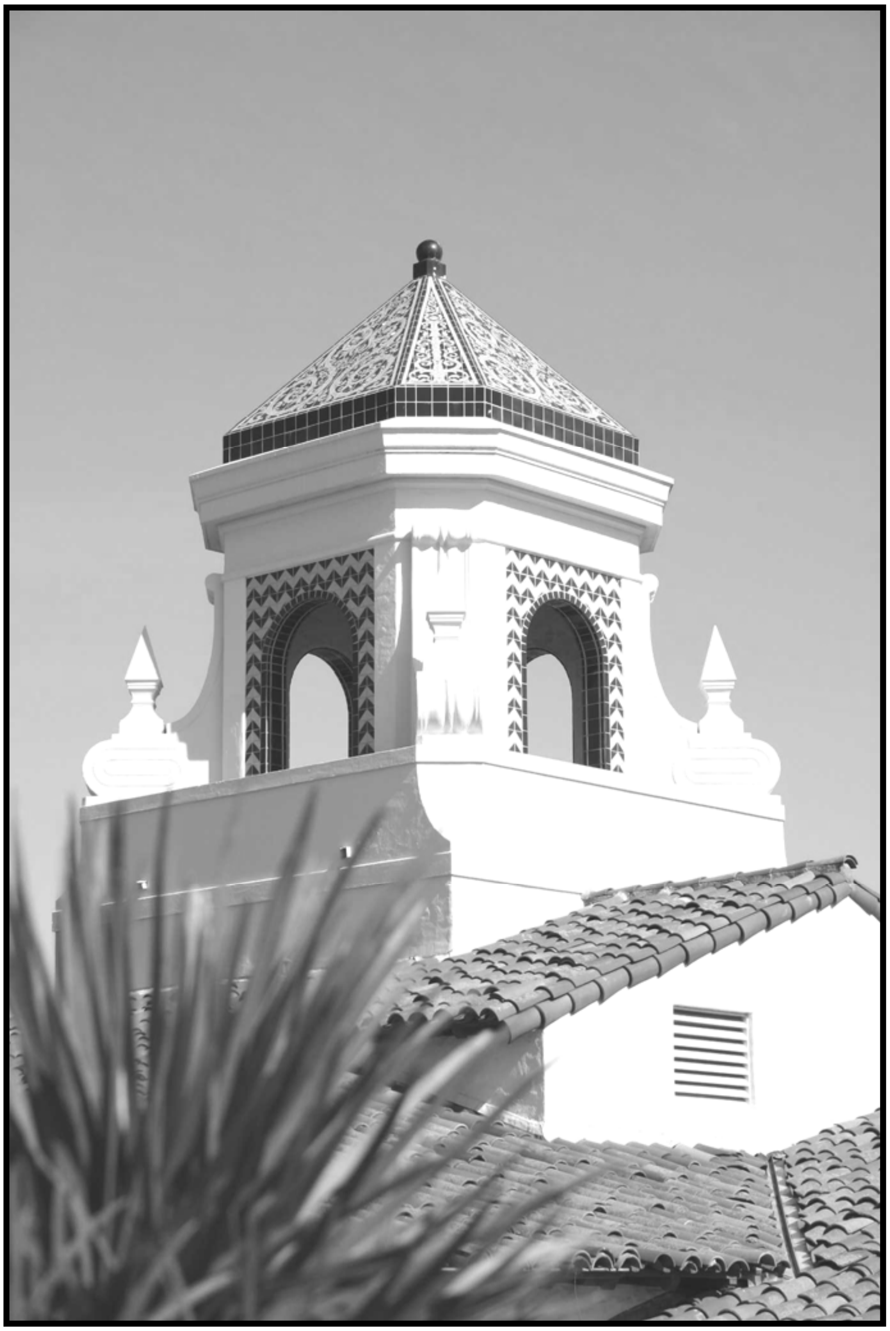
SUMMARY OF PROPOSED BUDGET & STAFFING LEVELS

	2011-12 Authorized Resources		2012-13 Proposed Resources		Increase (Decrease)	
	Budget	Full-Time Staffing	Budget	Full-Time Staffing	Budget	Staffing
GENERAL FUND						
Mayor & Council	$ 156,860		$ 178,630		$ 21,770	
City Attorney	1,045,810	9	1,064,510	9	18,700	
City Manager	2,207,590	9	2,312,410	9	104,820	
Administrative Services	7,632,430	25	7,614,490	25	(17,940)	
Community Development	2,768,790	22	2,732,080	22	(36,710)	
Recreation & Parks	7,893,330	32	8,077,320	32	183,990	
Fire	8,255,500	51	8,465,430	51	209,930	
Police	21,995,060	160	21,850,010	160	(145,050)	
Public Works	2,496,600	18	2,374,560	18	(122,040)	
TOTAL GENERAL FUND	54,451,970	326	54,669,440	326	217,470	
ENTERPRISE FUNDS						
Water Resources	41,153,310	40	34,788,780	40	(6,364,530)	
Solid Waste	19,312,300	46	19,264,200	46	(48,100)	
Public Transit	9,017,210	2	14,405,760	2	5,388,550	
SPECIAL REVENUE FUNDS						
Library	2,767,560	14	2,702,740	13	(64,820)	(1)
Park Acq & Development	600,000		100,000		(500,000)	
Res. Development Tax	75,000		360,100		285,100	
County Measure D/A	4,253,960	15	4,421,180	15	167,220	
CDBG - Block Grant	1,418,690		1,397,110		(21,580)	
Successor Agency to the RDA	1,292,000		1,318,930		26,930	
Public Access Television	228,560	1	227,100	1	(1,460)	
Traffic Safety	338,750		338,750			
TOTAL OPERATING FUNDS	**134,909,310**	**444**	**133,994,090**	**443**	**(915,220)**	**(1)**
LANDSCAPE SERVICES & MITIGATION FUNDS						
Growth Mitigation	2,205,000		15,150		(2,189,850)	
Landscape Maint. Services	4,249,110	4	4,660,590	4	411,480	
Stowell Parking & Lighting	19,310		234,400		215,090	
CAPITAL PROJECT FUNDS						
General Capital Proj.	410,260		5,492,070		5,081,810	
Gas Tax and Local Trans.	2,897,380		3,462,810		565,430	
Developer/Grant Street Proj.	138,380		3,496,330		3,357,950	
INTERNAL SERVICE FUNDS						
Fleet Services	5,495,270	8	7,335,100	8	1,839,830	
Bus, Comm, Tel Equipment	1,417,170		1,918,480		501,310	
Local Economic Aug. Fund	2,691,000		2,500,000		(191,000)	
Insurance & Wrk Comp.	2,842,740	1	2,994,050	1	151,310	
GRAND TOTAL	**$ 157,274,930**	**457**	**$ 166,103,070**	**456**	**$ 8,828,140**	**(1)**

ATTACHMENT B
Position Allocation by Department for 2012-13

DEPARTMENT	STATUS	AUTHORIZE 2011-12	PROPOSED 2012-13	INCREASE/ (DECREASE)	TOTAL UNFUNDED*
Police	FT	160	160	0	(10)
			Unfund: 1 Police Lieutenant position included above		
Fire	FT	51	51	0	(1)
Utilities	FT	86	86	0	0
	PT	2	2	0	0
		88	88	0	0
Public Works	FT	43	43	0	0
	PT	11	13	2	0
		54	56	2	0
			Add: 2 Laborer III positions in Fleet Services		
Recreation & Parks*	FT	36	36	0	0
	PT	35	36	1	0
		71	72	1	0
				Add: 1 Laborer III position	
Library*	FT	14	13	(1)	0
	PT	15	15	0	0
		29	28	(1)	0
				Eliminate: 1 Librarian II position	
Community Development	FT	22	22	0	(1)
	PT	1	1	0	0
		23	23	0	(1)
				Unfund: 1 Advance Planner	
Attorney	FT	9	9	0	0
	PT	2	2	0	0
		11	11	0	0
City Manager	FT	11	11	0	0
	PT	3	3	0	0
		14	14	0	0
Administrative Services	FT	25	25	0	0
TOTAL FULL-TIME (FT)		**457**	**456**	**(1)**	**(12)**
TOTAL PART-TIME (PT)		**69**	**72**	**3**	**0**
GRAND TOTAL		**526**	**528**	**2**	**(12)**

* Parks & Forest Supervisor, Librarian III & Park Services Coordinator positions are funded starting in January 2013.



View of City Hall from the parking structure near the new Main Library.