



CITY OF SANTA MARIA

Section A
Budget Message

June 3, 2014

TO: City Council
FROM: City Manager
SUBJECT: 2014-16 BUDGET MESSAGE

RECOMMENDATION:

It is recommended that the City Council receive the 2014-16 Proposed Budget document for the period July 1, 2014 through June 30, 2016; direct staff to distribute the document; and set the time for a public hearing on the proposed budget for June 17, 2014.

SUMMARY:

Overview of the Proposed 2014-15 Budget for All Operating Funds:

Total revenues anticipated for all operating programs in 2014-15 are estimated to be \$141.5 million or \$11.3 million more than in 2013-14. This represents approximately a nine percent increase in total financing in 2014-15 for all operating programs when compared to 2013-14 as illustrated below.

	Adopted 2013-14	Proposed 2014-15	Increase Decrease	Percent Increase (Decrease)	Percent of Total 2014-15
Taxes	\$ 43,847,810	\$ 45,508,190	\$ 1,660,380	1.3%	32.2%
Licenses, Permits & Fines	1,376,050	3,256,100	1,880,050	1.4%	2.3%
Revenue from Use of Money & Property	1,349,580	993,070	(356,510)	-0.3%	0.7%
Revenues from Other Agencies	7,862,800	8,143,110	280,310	0.2%	5.8%
Charges for Service	5,761,250	6,155,790	394,540	0.3%	4.4%
Other Revenue and Transfers	7,697,870	7,564,640	(133,230)	-0.1%	5.3%
Enterprise Fund Revenues	62,290,780	69,887,430	7,596,650	5.8%	49.4%
Total	<u>\$ 130,186,140</u>	<u>\$ 141,508,330</u>	<u>\$ 11,322,190</u>	<u>8.7%</u>	<u>100%</u>

The 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. Building permit revenue is also forecast to increase significantly due to projected greater construction activity. However, these increases are partially offset by declining Non-Hazardous Impacted Soils (NHIS) and Interest Income revenues.

BUDGET MESSAGE

Total proposed appropriations for all operating funds in 2014-15 are approximately \$150.7 million.

	Adopted 2013-14	Proposed 2014-15	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2014-15
Operating Programs	\$ 96,272,160	\$ 99,337,240	\$ 3,065,080	3.2%	65.9%
Capital & Outside Agencies	26,776,020	38,729,970	11,953,950	44.6%	25.6%
Debt Service	8,265,890	5,282,620	(2,983,270)	-36.1%	3.6%
Transfers	5,384,400	7,369,450	1,985,050	36.9%	4.9%
Total	\$ 136,698,470	\$ 150,719,280	\$ 14,020,810	10.3%	100.0%

The budget increase for all operating funds in 2014-15 is \$14,020,810 or 10.3 percent greater than in 2013-14, with the increase being primarily attributed to the increase in capital projects in the Enterprise Funds, especially the Water Resources Fund. The decrease in debt service payments is due to the payoff of the 2003 Redevelopment Agency Lease Revenue Refunding Bonds. Operating costs increased by 3.2 percent or \$3.1 million primarily because of the proposed hiring of five police officers, merit and negotiated salary increases, as well as increased CalPERS-related pension costs. Transfers-In increased because of the capital transfers from the various funds required to finance Phase III of the new Police Facility on Betteravia Road.

Overview of the 2014-15 General Fund:

Operating revenues for the General Fund are estimated at \$55.4 million while proposed appropriations are \$57.1 million; thus accounting for a **projected budget deficit of \$1,640,890 for 2014-15**. In order to balance the 2014-15 General Fund budget, staff is proposing to use \$1.7 million in one-time Local Economic Augmentation Funds (LEAF) to help bridge this financial gap. In year's past, staff has included the LEAF financing for display purposes; however, by doing so, it actually masked the true budget deficit. Accordingly, the below illustration depicts a more accurate account of ongoing operating revenues for 2014-15 (excluding Measure U2012).

	Adopted 2013-14	Proposed 2014-15	Increase Decrease	Percent Increase (Decrease)	Percent of Total 2014-15
Taxes	\$ 39,834,810	\$ 41,617,190	\$ 1,782,380	3.2%	72.9%
Licenses, Permits & Fines	1,003,800	2,336,100	1,332,300	2.4%	4.1%
Revenue from Use of Money & Property	1,212,460	871,260	(341,200)	-0.6%	1.5%
Revenues from Other Agencies	1,576,190	1,179,880	(396,310)	-0.7%	2.1%
Charges for Service	4,497,200	4,500,210	3,010	0.0%	7.9%
Other Revenue and Transfers	4,292,920	4,911,440	618,520	1.1%	8.6%
Sub-total	52,417,380	55,416,080	2,998,700	5.5%	97.0%
LEAF Transfers-In	2,500,000	1,700,000	(800,000)	-1.5%	3.0%
Total	\$ 54,917,380	\$ 57,116,080	\$ 2,198,700	4.0%	100.0%

Operating revenues are forecast to increase by \$3 million or 5.5 percent due primarily to increasing sales and property tax revenue as the local economy continues to improve from the recent recession. These tax increases are partially offset by decreasing interest income, which is due to the extremely low interest rate environment and declining cash balances in the General Fund as well as both the General Capital Projects Fund and the LEAF (as interest income from these two funds is credited to the General Fund). Revenues from Other Agencies have also declined due primarily to the expiration of the SAFER Grant which was used to hire nine entry-level firefighters.

BUDGET MESSAGE

Proposed appropriations in 2014-15 in the General Fund are \$57.1 million. This represents a decrease of 1.5 percent, or approximately \$867,000 less than the 2013-14 Budget. The most significant variance is the decrease in debt service payments as a result of the early payoff of the RDA bonds.

	Adopted 2013-14	Proposed 2014-15	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2014-15
Operating Programs	\$ 51,369,880	\$ 53,067,250	\$ 1,697,370	3.3%	93.0%
Outside Agencies	829,280	838,410	9,130	1.1%	1.5%
Debt Service	3,335,890	653,240	(2,682,650)	-80.4%	1.1%
Transfers	2,388,770	2,498,070	109,300	4.6%	4.4%
Total	\$ 57,923,820	\$ 57,056,970	\$ (866,850)	-1.5%	100.0%

The General Fund's expenditure plan for 2014-15 was based on current year allocations (2013-14) plus associated merit increases, negotiated salary increases, pension-related increases, as well as increased cost allocations for worker's compensation and business equipment. While there are some personnel changes being proposed, the majority are either revenue offset or are being accomplished within existing appropriation authority. Overall, proposed appropriations in the General Fund are decreasing by 1.5 percent.

Enterprise Funds:

The below chart summarizes the revenues and expenditures for the three Enterprise Funds for 2014-15. All three of them show that planned expenditures are exceeding revenue projections; thus requiring the fund balances in each fund to bridge the projected financial gap in 2014-15.

	Water/ Wastewater	Solid Waste	Public Transit
Revenues			
Charges for Service	\$ 38,579,100	\$ 19,379,000	\$ 804,000
Interest Income	200,000	505,000	41,200
Other Revenue	699,440	137,000	9,542,690
Total Revenues	39,478,540	20,021,000	10,387,890
Expenses			
Operating	10,956,420	19,301,950	6,028,840
Capital Expenditures	8,299,370	2,887,110	5,652,860
State Water Payments	18,961,160		
Debt Service	4,629,380		
Transfers	903,620	1,112,560	114,710
Total Expenses	43,749,950	23,301,620	11,796,410
Profit (Loss)	\$ (4,271,410)	\$ (3,280,620)	\$ (1,408,520)

Water Resources Budget

Revenues in the Water Resources Fund are projected to be \$39.5 million and reflect five percent rate increases beginning July 1 of each fiscal year. These five percent rate increases have been on-going since the early 1980's for the Water and Wastewater Funds. However, expenditures are projected to exceed revenues by \$4.2 million, due in large part to State Water obligations and a number of capital projects slated for 2014-15.

BUDGET MESSAGE

The largest expenditure is for State Water at \$19 million, which includes the Central Coast Water Authority (CCWA) at \$3.3 million. The City is projecting a decrease of \$289,000 in State Water costs for 2014-15, primarily due to decreased Department of Water Resources fixed cost projections from the CCWA. This decrease will be followed by a projected increase of \$515,000 in 2015-16 due to projected increases in fixed and variable costs from those agencies.

The majority of the capital expenditures are in the Wastewater Fund and consist primarily of the Percolation Pond Expansion Project at \$2.5 million and the Sewer Main Improvements Project at \$1.8 million. New percolation ponds will be added to provide adequate capacity at projected build-out of the City. Sewer main improvements are needed to ensure sufficient sewer capacity for continued development of the City as identified in the City's General Plan.

Solid Waste Budget

The Solid Waste Fund reports refuse collection and disposal activities, and like the Water/Wastewater Fund, the Solid Waste Fund also anticipates expenditures to exceed revenues. Revenues for 2014-15 are approximately \$20 million and collection activities reflect five percent rate increases beginning January 1 of each fiscal year.

Some of the more noteworthy capital projects in 2014-15 include; for solid waste collections, the replacement of residential containers and commercial dumpsters for \$375,000 and in landfill activities, \$1.8 million in continued planning, environmental permitting and construction-related expenses associated with the Integrated Waste Management Facility at Los Flores Ranch Park (Los Flores).

Transit Budget

Revenues in the Transit Fund are approximately \$10.4 million, \$1.4 million less than proposed appropriations. Capital expenditures account for this variance and primarily consist of the replacement of seven buses and two vans.

Capital Funds:

In all, \$48.6 million of capital and maintenance projects are projected over the next two-year period. Compared to the 2012-14 Budget, which had \$36 million of capital and maintenance-related projects, proposed capital expenditures for 2014-16 are \$12.6 million more. The General Capital Projects Fund totals \$7.4 million with the vast majority used for Phase III of the new police facility, which includes technology systems and the Project 25, 700 Megahertz radio system. Water Resources-related capital projects increased by \$14.7 million over the last budget cycle primarily due to the Percolation Pond Expansion, Sewer Main Improvements, and Wastewater Plant Capital Replacement projects.

BACKGROUND:

The 2014-16 Budget, consisting of two, one-year budgets, is a process of allocations based on competing service demands. The budget process is driven by the policies, programs, and objectives of the City Council, which are financed by revenues received by the City.

Unlike the previous budget cycle where departments were asked to reduce operational costs by one and two percent, this year's budget process is geared toward maintaining operational expenses within the prior year budget amounts, i.e., a status quo budget, with slight modifications. Departments were asked to prepare their budgets using the existing budget amounts from the mid-cycle 2013-14 Budget. Very few new positions and/or programs with the exception of minor adjustments, revenue-offset

BUDGET MESSAGE

proposals, and personnel changes in the Utilities Department were considered and are being recommended.

The second year of the two-year budget was developed from projected second year revenue levels. The 2014-16 budget is proposed as “two” one-year budgets. Consistent with past practice, should amendments to this document be necessary, they will be accomplished either through budget amendments during the next 12 month period or during the mid-cycle review a year from now.

This budget document is also a comprehensive financial document that presents historical information for previous years, current year activity, and the proposed budgets for 2014-15 and 2015-16. The budget compares 2012-13 actual expenditures and revenues, the current 2013-14 adopted budget and current year-end estimated expenditures, and the financial plan for the next two-year period. The format of this document is consistent with the guidelines set forth by the Government Finance Officers’ Association (GFOA) and the California State Municipal Finance Officers’ (CSMFO).

The remainder of this Budget Message will focus on the 2014-15 budget, with the budget summary schedules, financial tables, and graphic presentations only reflecting the proposed 2014-15 budget year.

DISCUSSION:

Economic Outlook:

The Great Recession officially began in December 2007, after two straight quarters of negative growth. The National unemployment rate at that point stood at five percent. In June 2009, the recession officially ended after 18 months, making it one of the longest downturns in postwar history. The unemployment rate peaked at 10 percent, hitting double digits for the first time in 26 years.

After a frustratingly slow recovery from the severe recession of 2007 to 2009, the National economy is expected to grow at a solid pace in 2014 and the next few years. The Congressional Budget Office (CBO) projects real gross domestic product (output adjusted for inflation) to increase by roughly three percent for calendar year 2014. Similar annual growth rates are projected through 2017. Nevertheless, the CBO estimates that the economy will continue to have considerable unused labor and capital resources (or “slack”) for the next few years. Although the unemployment rate is expected to decline, the CBO projects that it will stay above six percent until late 2016.

Beyond 2017, the CBO expects that economic growth will diminish to a pace well below the average seen over the past several decades. That projected slowdown reflects long-term trends – particularly, slower growth in the labor force because of the aging population. Inflation is expected to remain at or below two percent throughout the next decade.

At the State level, California’s budget is improving. On January 9, 2014, the Governor presented his 2014-15 Budget proposal to the Legislature. The budget projects General Fund revenue increases of \$8.3 billion over 2013-14 due to an improving economy and the impact of the Proposition 30 temporary sales and income tax increase. In addition, sharp increases in personal income tax collections – driven largely by soaring stock prices in 2013 – have significantly improved the State’s budget.

The Governor’s proposed 2014-15 Budget proposes a \$2.3 billion reserve at the end of 2014-15 – comprised of \$1.6 billion in the rainy-day reserve created by Proposition 58 in 2004 and \$693 million in the General Fund’s traditional reserve. The improving State finances indicate less likelihood the State will look to cities and counties to balance its budget.

BUDGET MESSAGE

At the local level, Santa Barbara County's (County) revenues are slowly recovering. Property values rose 4.3 percent in 2013-14, compared with several years of less than one-percent growth, and other tax revenues are increasing. Due to increasing revenues, departments are seeking to refill some of the staff positions that were cut during the recession. In the past six years, the County unfunded 580 positions and made approximately \$60 million in cuts. A significant June ballot measure that would effect budget decisions is Measure M, which would require all County infrastructure to be maintained at current levels or better, including roads, buildings and parks. The County faces more than \$300 million in deferred maintenance. If voters approve Measure M, in the June 2014 election, the Board of Supervisors will have to re-evaluate its 2014-15 Budget to redirect more money – about \$18 million per year – to maintenance funding, without an increasing revenue source. In addition to Measure M, the Board of Supervisors is trying to find the needed funds to staff and operate the future 372-bed north County Jail, which will be built immediately west of the Santa Maria city limits. The \$95.2 million jail is scheduled to open in late 2017-18, which is in line with the conditions of capital funding provided by the State. The County also continues to wrestle with escalating retirement and health care costs.

To the south of the City, the City of Santa Barbara's 2014-15 Budget reflects the City's slow and solid recovery from the deep recession, and the City's successful efforts to control costs over the past several years. The budget shows significant growth in sales and property tax revenues, and strong growth in transient occupancy tax (TOT) or bed tax, enabling small but important restorations of services to several departments and increases funding for capital improvement projects. A large portion of the City's assets, however, do not have dedicated or sufficient funding for required maintenance and replacement. Also, the City is facing increasing pension costs and is paying close attention to controlling other expenses because, in future years, it is projected that the City will not be in a position to fund additional service enhancements. Accordingly, the City has entered into negotiated labor agreements with their employee bargaining groups calling for City employees to pick-up the employees' portion of their pension-related costs.

To the north of us, the City of San Luis Obispo is experiencing a slow recovery from the recession. In recent years, the City has had to resort to reducing operational costs by eliminating positions, reducing services, instituting pension reform, and obtaining concessions from employees; namely, multi-year labor agreements calling for no cost of living adjustments, no increases to health insurance, and requiring employees to pay 100 percent of their CalPERS pension expense.

For Santa Maria, the City's General Fund operating revenue consists primarily of sales and property taxes. These two revenue sources generate approximately 60 percent of total General Fund revenues. Sales tax revenue is one of the most volatile revenue sources. Economic factors can contribute to wide swings in receipts as evidenced by the Great Recession.

The Great Recession significantly reduced local discretionary revenues. Sales tax, which accounts for 33 percent of General Fund revenues, decreased from \$18.1 million in 2007-08 to \$14.1 million in 2009-10, a 21 percent decline. Since 2009-10, sales tax has been on the mend reaching pre-recessionary levels at \$18.2 million in 2012-13.

Property tax, which accounts for 26 percent of General Fund revenues, reached \$15.3 million in 2007-08 and declined to \$13.9 million in 2009-10, a nine percent decline. Since then, property tax has not reached pre-recessionary levels with a forecast of \$15 million for 2014-15.

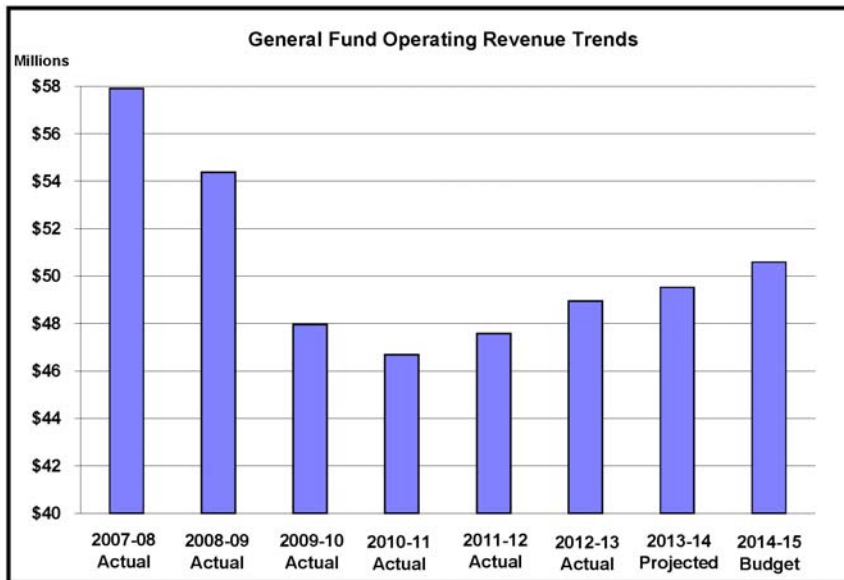
Due to the bursting of the housing bubble, building permit revenue declined dramatically from \$2.5 million in 2006-07 to a low of \$622,000 in 2011-12, a 400 percent decline. Construction activity has increased with a forecast for \$2.2 million in revenue for 2014-15, but permit revenue has not yet reached the levels during the peak in the mid-2000's.

BUDGET MESSAGE

Non-Hazardous Hydrocarbon Impacted Soils (NHIS) has been on the decline for the past several years. NHIS revenue reached a peak of \$5.5 million in 2007-08 and 2008-09. Since then, activity has declined and the forecast for 2014-2015 is only \$765,000 – \$4.8 million less than what was received prior to the recession.

Receipts from TOT represent about five percent of General Fund revenues and it has been increasing since it bottomed in 2009-10 at \$2.1 million. TOT rebounded with a healthy 12 percent increase in 2010-11 and the City is projecting an eight percent increase in 2014-15 and 2015-16.

In all, total General Fund operating revenues have declined from a peak of \$57.9 million in 2007-08 to a low of \$46.7 million in 2010-11. Operating revenues are increasing but have not reached the peak of 2007-08 as displayed in the following chart:



Proposed 2014-15 Budgets:

I. General Fund

Over the past six years, the City's General Fund has faced multi-million dollar budget deficits and has had to rely on one-time reserve finances in order to have a budget that's balanced. Although the National, State and local economies are on the uptick, from an ongoing-operational basis, forecast expenditures are still exceeding forecast revenues.

This year, the estimated budget deficit has declined from approximately \$5.5 million in 2013-14 to the current \$1,640,890 in 2014-15 as illustrated below. This deficit amount represents about three percent of the budget.

Appropriations	\$ 57,056,970
Revenues	<u>55,416,080</u>
<i>Projected Deficit</i>	<u>\$ (1,640,890)</u>

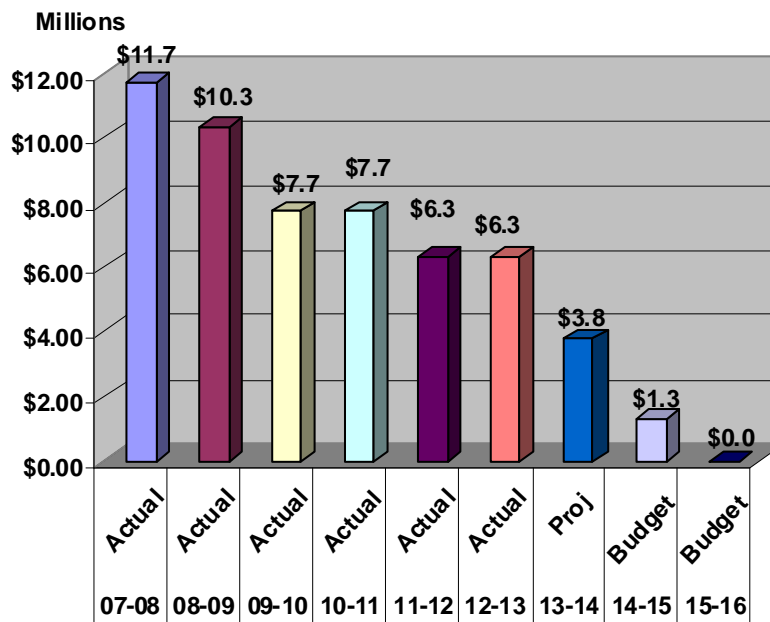
Staff is recommending that the General Fund continue to defer cost allocations to the Self Insurance Workers' Compensation Fund by \$500,000 for each year of the two year budget. During the last budget cycle, City Council approved the deferral of \$1 million in General Fund cost allocations to the Self Insurance Workers' Compensation Fund. However, expenditures in the Self Insurance Workers'

BUDGET MESSAGE

Compensation Fund are greater than the cost allocations resulting in a declining cash balance. Therefore, staff is proposing to defer \$500,000 in current cost allocations rather than the previous \$1 million for this current budget cycle.

Regarding balances, the General Fund's Fund Balance is anticipated to be \$10.6 million at June 30, 2015, which is \$3.7 million or 6.4 percent less than the Council authorized minimum balance of twenty-five percent (25%) of operating appropriations.

Because ongoing revenues are not sufficient to finance the operational costs of the General Fund, staff is proposing to bridge this financial gap with \$1.7 million in LEAF reserves. While the use of these one-time reserves has helped the City bridge the financial gap in the General Fund over the last few years, these reserves are quickly disappearing and is forecast to be completely expended at the end of this current two-year budget cycle. The following graph depicts the LEAF Fund Balance by year-end and how the use of LEAF financing since the recession has eroded it's fund balance.



Summary of Key General Fund Revenues

General Fund revenue projections for 2014-15 were estimated using 2013-14 projected receipts as the basis and then taking into consideration anticipated changes in the local economy. Overall, General Fund revenues are anticipated to be \$2,198,700 more in 2014-15 when compared to the 2013-14 Budget. The following chart shows the top revenue sources, excluding Measure U2012, and including the use of \$1.7 million in LEAF financing under the category *Other Revenue*.

	Budget 2013-2014	Proposed 2014-2015	Increase (Decrease)	Percentage Increase (Decrease)	Percentage of Total 2014-15
Sales Tax	\$ 18,242,000	\$ 18,960,500	\$ 718,500	3.94%	33.20%
Property Tax	14,536,210	15,009,790	473,580	3.26%	26.28%
Hotel/Bed Tax	2,557,210	2,808,000	250,790	9.81%	4.92%
Impacted Soils	1,105,000	765,000	(340,000)	-30.77%	1.34%
Construction Permits	908,000	2,233,000	1,325,000	145.93%	3.91%
Total Key Revenues	37,348,420	39,776,290	2,427,870	6.50%	69.64%
Other Revenues	17,568,960	17,339,790	(229,170)	-1.30%	30.36%
Total General Fund	\$ 54,917,380	\$ 57,116,080	\$ 2,198,700	4.00%	100.00%

BUDGET MESSAGE

Sales tax revenue is the General Fund's largest revenue source and is projected to increase by \$718,500 in 2014-15. Strong auto sales and leases as well as increases in business and retail activity are propelling sales tax higher. General consumer goods are experiencing strong gains and consumer spending is increasing. However, this is partially offset by increasing gas prices and more fuel efficient autos are also reducing gasoline consumption, which is reducing the service station category for sales tax.

Property tax is the second largest General Fund revenue source. As mentioned earlier, sales and property tax combined comprise approximately 60 percent of total General Fund revenues. Like sales tax, property tax is, in large part, directly tied to the economy. Therefore, staff continues to work very closely with the City's sales and property taxes consultant in compiling revenue estimates for the next two-year budget cycle.

For 2014-15, the State Assessor determined that the consumer price index factor to be used for the Proposition 13 Property Tax Inflation Factor is 0.454 percent. Normally, this factor is two percent, which is the maximum rate. Therefore, Proposition 13 value homes will be multiplied by a factor of 1.00454 rather than 1.02 to determine their assessed value. Non-Proposition 13 value changes are anticipated to provide 1.8 percent growth. Continued growth in both ownership changes and new construction is expected to generate about a one percent increase in property tax revenue.

TOT has been increasing over the past few years. Projected TOT receipts for 2014-15 are anticipated to increase almost 10 percent from 2013-14 Budget at \$2.8 million. TOT revenue makes up almost five percent of General Fund revenues.

NHIS revenue peaked in 2007-08 at \$5.5 million, but because of increased competition from other landfills and the fact that the Guadalupe Dunes Restoration Project has completed its initial phase of work, NHIS revenue has declined from \$5.5 million to an estimated \$765,000 in 2014-15. While this revenue source is not considered a long-term revenue source, it was designated to finance the cost of 16 police officers and nine firefighters when it was originated back in 2001-02. Accordingly, the City has lost over \$4 million annually because of this decline in revenue and yet the costs associated with the aforementioned personnel continue to escalate.

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 \$622,000 in 2011-12. However, over the last two fiscal years, construction activity has been increasing resulting in \$1.1 million in 2012-13 and projected at \$1.6 million in 2013-14. Accordingly, construction permit-related revenue is forecast at \$2.2 million for 2014-15.

The total of all the "other revenue sources" not mentioned above, are expected to remain flat. 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. Some of the highlighted items include LEAF transfers-in for \$1.7 million versus the \$2.5 million budgeted in 2013-14 for LEAF transfers-in contributions and an increase in transfers-in from the Traffic Safety Fund for anticipated traffic citation revenue.

BUDGET MESSAGE

Overview of 2014-15 General Fund Proposed Appropriations

Proposed 2014-15 appropriations for the General Fund are almost \$57.1 million. This represents a decrease of 1.5 percent or approximately \$867,000 less than 2013-14. Total appropriations by department are shown on the below chart:

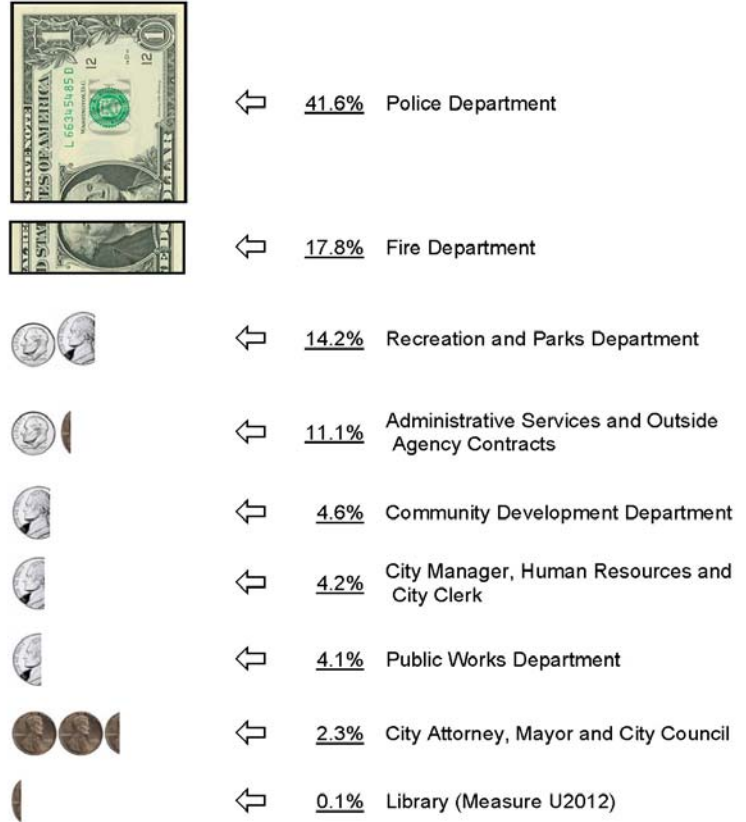
	Adopted 2013-14	Proposed 2014-15	Increase (Decrease)	Percent Increase (Decrease)
Mayor & Council	\$ 177,120	\$ 185,080	\$ 7,960	4.5%
City Attorney	1,106,450	1,126,770	20,320	1.8%
City Manager	2,464,610	2,553,940	89,330	3.6%
Administrative Services	8,914,170	6,653,590	(2,260,580)	-25.4%
Community Development	2,825,590	2,793,730	(31,860)	-1.1%
Recreation & Parks	8,464,770	8,566,260	101,490	1.2%
Fire	8,762,390	9,207,050	444,660	5.1%
Police	22,758,330	23,465,410	707,080	3.1%
Public Works	2,450,390	2,505,140	54,750	2.2%
TOTAL	\$ 57,923,820	\$ 57,056,970	\$ (866,850)	-1.5%

Proposed appropriations in all departments include anticipated merit increases, negotiated salary and benefit increases, as well as increased pension-related expenses. In addition to these increases, some of the other more noteworthy variances in the above table are as follows:

- Increases in appropriations in the City Manager's Office is primarily attributed to a \$50,000 increase to the Animal Control contract with the County.
- In the Department of Administrative Services, the decline in appropriations is primarily due to the early payoff of the Redevelopment Agency Lease Revenue Refunding Bonds on June 1, 2014. Due to the dissolving of the redevelopment agencies, the General Fund absorbed the additional \$1.3 million in debt payments over the last three years. However, with the debt paid off, this will reduce expenditures by \$2.7 million. In the Information Technology Division, business equipment charges increased due to the recently purchased computer equipment such as servers, personal computers and printers as did operating agreement increase as well.
- The Recreation and Parks Department is proposing one full-time Recreation Coordinator position for recreation management at Los Flores. The position is charged to the General Fund but will be reimbursed from the Solid Waste Fund through a rental agreement. The Department is also proposing three Senior Lifeguards to work at the various high school pools; however the cost will be reimbursed through the Santa Maria Joint Union High School (SMJUHS). In addition, one Groundskeeper and three Laborer III's were allocated to the Landscape Maintenance Districts where these employees were assigned.
- The increase in appropriations in the Fire Department is primarily attributed to an increase in operating transfers to the Mobile Equipment Fund of \$250,000 for replacement of the two fire engines purchased over the past year and to a \$50,000 increase to purchase necessary hardware to meet the County Emergency Medical Services Agency requirement to electronically submit all patient care reports.
- The Police Department is adding three Police Officer positions to backfill contracted School Resource Officer positions assigned to the SMJUHS and Santa Maria-Bonita School Districts. Reimbursements from the school districts are for about nine months of the year. In addition, two Police Officers are being added; one will be deployed to the Traffic Bureau and one to the Gang Suppression unit.

BUDGET MESSAGE

While total appropriations in the General Fund are approximately \$57 million, and are about \$61 million when Measure U2012 is included, the vast majority of General Fund expenses are spent on the two public safety departments. Combined, these two departments account for over 59 percent of all General Fund expenses. As you can see (from the illustration on the right), the Police Department alone accounts for 41.6 cents of every dollar spent in the General Fund; the Fire Department accounts for over 17 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 Administrative 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 2014-15 Measure U2012

Measure U2012 was passed by the voters on June 5, 2012, and became operational on October 1, 2012 and calls for a quarter-cent transaction and use tax. Projecting revenues for a new revenue source is somewhat problematic in that there's no track record for previous revenue receipts to use as a basis for comparison. Consequently, City staff worked with the City's sales tax consultants, Hinderliter de Llamas and Associates (HdL) to arrive at the initial Measure U2012-related revenue projections of \$4,013,000 for 2013-14. However, halfway through the fiscal year, HdL subsequently revised their projection down to \$3,774,000 for 2013-14 and \$3,891,000 for 2014-15. Below is the projected Measure U2012 Fund Analysis for 2014-16.

	Projected 2013-14	Budget 2014-15	Budget 2015-16
Beginning Fund Balance	\$ 1,020,450	\$ 384,450	\$ 183,120
Projected Revenue	3,774,000	3,891,000	4,006,930
Projected Expenditures			
Police	1,949,000	2,008,260	2,099,770
Fire	1,849,370	1,701,330	1,741,050
Recreation & Parks	50,000	148,300	154,350
Library	48,000	56,410	57,790
City Attorney	66,000	69,300	73,200
Admin. Services	2,500	2,600	2,600
Admin. Services - Levee Repair	106,130	106,130	106,130
Fire Dept. Self Contained Breathing Equip	339,000		
Total Expenditures	4,410,000	4,092,330	4,234,890
Ending Fund Balance	\$ 384,450	\$ 183,120	\$ (44,840)

BUDGET MESSAGE

If you'll recall, the City Council authorized that the vast majority of the aforementioned tax proceeds to be spent on public safety-related services, namely, Police and Fire. Accordingly, said proceeds were to finance the operational costs associated with Fire Station No. 5, along with a Battalion Chief, and a limited-service Emergency Services Coordinator in the Fire Department. City Council also approved the use of said proceeds to fund a Police Commander, seven Police Officers, five Police Sergeants, a Crime Analyst, a Dispatcher and the cost associated with purchasing four new police vehicles for the Police Department. The remaining funds were to be used toward hiring a full-time Code Compliance Officer and Senior Park Services Officer, five limited-service employees associated with increasing the hours of operation at the Main Public Library, two limited-service employees to aid in graffiti abatement and one limited-service employee to assist in the Police Activity League (PAL) program. City Council also authorized the use of Measure U2012 to be used toward purchasing self-contained breathing apparatus for Fire personnel and to account for annual independent audit costs.

As you can see from the previous chart, Measure U2012-related expenses are exceeding anticipated revenues and the Measure U2012 fund balance is bridging this financial gap. Staff anticipates vacancies in some of these positions which will allow this budget to be balanced by the end of this two-year budget cycle. Having said that, there is no allowance for additional uses of Measure U2012 tax proceeds other than what has already been authorized.

II. Enterprise Funds

Water Resources Budget

Overall, total appropriations in the Water Resources Budget are increasing by \$6.6 million in 2014-15. The primary reasons appropriations are increasing can be attributed to greater capital expenditures. A complete analysis of the Water Resources Fund as well as an analysis of the State Water cost obligations can be found in Section C of this budget document on Page C-29.

The following chart summarizes the proposed Water Resources budget for 2014-15:

	Adopted 2013-14	Proposed 2014-15	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2014-15
Operating Programs	\$ 10,966,350	\$ 10,956,420	\$ (9,930)	-0.1%	25.1%
State Water & CCWA	19,250,800	18,961,160	(289,640)	-1.5%	43.3%
Capital	1,488,500	8,299,370	6,810,870	457.6%	18.9%
Debt Service	4,900,000	4,629,380	(270,620)	-5.5%	10.6%
Transfers	541,170	903,620	362,450	67.0%	2.1%
Total	\$ 37,146,820	\$ 43,749,950	\$ 6,603,130	17.8%	100.0%

The slight decrease in operating programs is primarily due to re-allocating one-third or \$237,000 of the operating costs of the Utility Billing Division, from the Water Resources Fund to the Solid Waste Fund as staff is proposing to allocate one-third of the Division's costs to the Solid Waste Collection Fund, one-third to the Wastewater Fund, and one-third to the Water Fund as the Division bills for these three services.

State Water costs are projected to decline by \$289,000 in 2014-15 primarily due to decreased Department of Water Resources fixed cost projections from the CCWA. This will be followed by a projected increase of \$515,000 in 2015-16 due to projected increases in fixed and variable costs from those agencies.

BUDGET MESSAGE

Transfers increased by approximately \$362,000, due to Water Resource's share of the radio upgrade to a Project 25 700 megahertz system. The project is Federally mandated and the costs are allocated based on the percentage of radios used per department.

Capital projects are increasing by \$6.8 million primarily due to wastewater projects. The Department is budgeting appropriations of \$1.8 million in 2014-15 and \$5.2 million in 2015-16 for sewer main improvements pursuant to completion of the Utility Scoping Study, to ensure sufficient sewer capacity for continued development of the City as identified in the General Plan. An appropriation of \$2.5 million in 2014-15 and \$2.1 million in 2015-16 is budgeted to phase in new percolation ponds on City property across Black Road from the WWTP. This will ensure sufficient percolation pond capacity to handle the projected population at full build-out of the City. In addition, the Department is budgeting \$974,000 in 2014-15 and \$1.1 million in 2015-16 to perform significant maintenance and/or replacement of mechanical, electrical, and structural components of the WWTP to provide adequate treatment and reliability, as part of the Department's extensive capital replacement program.

Solid Waste Budget

The following summarizes the Solid Waste Budget for 2014-15:

	Adopted 2013-14	Proposed 2014-15	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2014-15
Operating Programs	\$ 17,867,250	\$ 19,301,950	\$ 1,434,700	8.0%	82.8%
Capital	1,571,680	2,887,110	1,315,430	83.7%	12.4%
Debt Service					
Transfers	508,130	1,112,560	604,430	119.0%	4.8%
Total	\$ 19,947,060	\$ 23,301,620	\$ 3,354,560	16.8%	100.0%

Operating costs are increasing \$1.4 million primarily due to the following: \$324,000 for increased street sweeping costs resulting from Senate Bill 7 concerning the use of prevailing wages as determined by the Director of the Department of Industrial Relations, \$276,000 increase in Mobile Equipment – Fleet Replacement charges, \$237,000 resulting from transferring one-third of Utility Billing Division budget from Water Resources Fund to Solid Waste Collections Fund and the remainder due to increased salaries and benefits from the departmental reorganization recommended by independent consultants.

The Department also plans on spending \$1.8 million in 2014-15 for continued progress toward planning, environmental permitting and construction of the Integrated Waste Management Facility (IWMF) at Los Flores, with the goal of being under construction as permits are required. The Conceptual Master Plan Design and environmental impact reports have been approved. Construction of the infrastructure is scheduled to begin over the next two years, with new landfill construction planned for 2016-18. The other major capital expenditures consist of residential container and commercial dumpster replacement for \$375,000 and Landfill and Rolling Closure and Post Closure Maintenance for \$532,000.

Transfers increased by \$604,000 for the Solid Waste Division's share of the radio upgrade to a Project 25 700 megahertz system. The project is Federally mandated and the costs are allocated based on the percentage of radios used per department.

BUDGET MESSAGE

Transit Budget

The SMAT system provides local and regional public transportation services, as mandated under State and Federal regulations, for the transit needs of the Santa Maria urban area. For 2014-15, the City proposes \$11.8 million in appropriations, \$4.2 million more than in 2013-14. The following chart summarizes the proposed Transit budget:

	Adopted 2013-14	Proposed 2014-15	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2014-15
Operating Programs	\$ 6,532,790	\$ 6,028,840	\$ (503,950)	-7.7%	51.1%
Capital	921,060	5,652,860	4,731,800	513.7%	47.9%
Transfers	111,330	114,710	3,380	3.0%	1.0%
Total	\$ 7,565,180	\$ 11,796,410	\$ 4,231,230	55.9%	100.0%

The proposed increase in appropriations of \$4.2 million is primarily due to the increase in anticipated capital acquisitions. For 2014-15, forecast capital expenditures are \$5.7 million versus \$921,000 in 2013-14. During the next two-year period, seven buses and two vans are proposed to be purchased, for SMAT, to replace vehicles that are past their useful life, and expansion buses to keep up with the growth and service demand for public transportation. In addition, the Transit Fund will be contributing \$500,000 to the Fiber Optic Cable Infrastructure project and \$450,000 to the radio system upgrade.

Operating costs are projected to decline primarily due to the transfer of the Clean Air Express Operations to the City of Lompoc. The 2013-14 Budget projected \$1.1 million in Clean Air Express operating costs. The decline is offset by projected increased costs in 2014-15 for fuel as well as material and supply costs associated with bus maintenance.

In 2014-15, SMAT will begin trolley services in downtown Santa Maria. The trolley service will satisfy the requirements of the Downtown Specific Plan and will contribute to economic vitalization. The trolley will circulate to promote business and economic activity. City staff will work with the Downtown Merchants' Association to develop the new service routes and times.

One express route between Orcutt and Santa Maria is planned for 2014-15. The express route will operate Monday through Friday during the morning and afternoon peak periods. The County will contribute funds from its share of the Transportation Development Act to operate the express route.

III. Measure A and Gas Tax

In November 2008, voters in the 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 \$4.6 million for 2014-15. 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 \$1 million less per year than under the Measure D formula.

Measure A also requires 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

BUDGET MESSAGE

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 2014-15, the MOE is \$2,620,316 which is double the MOE amount under Measure D. Under Measure D, the MOE was constant at \$1,384,000.

While Measure A reduces the local share that the City receives for street maintenance purposes, it does provide funding for alternative transportation-related programs that were previously not funded through Measure D. In 2014-15, the budget for alternative transportation programs is \$300,000.

During the next two-year period, over \$5.1 million in street-related capital projects are being proposed, of which, \$1.4 million is Measure A financed and \$3.7 million is gas tax financed. In 2014-15, Measure A will be financing alternative transportation-related projects such as the Safer 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 chip seal project and general street rehabilitation work: completing the Blosser Road/Main Street Right Turn Lane Project, completing a traffic safety enhancements at Depot/Fesler/Railroad, and installing a new pavement surface on North Depot Street from Main Street to Fesler. For a more, complete explanation of Measure A-related expenses, please refer to the *Section F*, the *Capital Projects* portion of this budget document.

IV. Library

In the previous budget cycle, the Library Fund was forecast to have a deficit fund balance of \$11,490 at June 30, 2014. This is primarily due to declining revenues and increasing costs. In 2012, the State eliminated their Public Library Fund program which reduced revenues by \$50,000 per year. In addition, because of the recent recession, the City reduced General Fund contributions to the Library from a high of \$1,787,000 to the current \$1,438,000 (a \$349,000 annual reduction). A bright spot in the revenue picture was the increase of County contributions. The County currently contributes \$6.90 per capita, an increase from \$5.98 in 2012-13, resulting in an increase of approximately \$130,000 per year. However, the current projected fund balance now is approximately \$165,000 at June 30, 2014, which primarily resulted from projected reduction in expenditures and the aforementioned increase in County funding.

On the appropriations side, the Library is incurring increasing operating costs similar to all operating funds such as increased labor and pension costs. In addition, costs for the Black Gold Cooperative Library System fee are projected to increase \$44,000 for 2014-15. The City also decided to establish a library branch in Los Alamos, which is projected to cost \$13,000 in on-going operating activities, albeit the funding for this operations will come out of County funding, it is an increase in appropriations.

During the budget process, staff reviewed each expenditure line-item and was able to reduce budgeted costs from the amended \$2,939,000 in 2013-14 to the forecasted \$2,868,000 for 2014-15. On the revenue side, staff is proposing to increase the General Fund contributions by \$100,000 in 2014-15 and 2015-16 to \$1,538,660. This amount is still approximately \$250,000 less than the peak contribution in 2008-09. However, even with these adjustments to both revenues and expenditures, the Library Fund is forecast to have a Fund Balance of approximately \$6,300 in June 2015 and a negative \$191,000 by the end of this two-year budget cycle.

V. Capital Funds

As with the 2012-14 Budget, 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 2016-18.

BUDGET MESSAGE

In all, the proposed Capital Projects Budget consists of 88 capital projects representing approximately \$48.6 million in appropriations. 104 total projects were requested, totaling nearly \$50.5 million; however, 17 projects were not funded, representing approximately \$1.9 million. The 2014-16 Budget reflects \$28.6 million in projects in the first year and \$20 million in the second year. For comparison purposes, the 2012-14 Budget consisted of 94 capital projects totaling \$36 million in appropriations.

The vast majority of capital projects proposed for 2014-16 are financed from non-General Fund sources. The General Capital Projects Fund has \$7.4 million in capital expenditures, about \$3 million less than last budget cycle. The primary projects are the movement of the Police Department and City-wide technology (radio and telephone) systems from the existing Police Station to the new Police Facility on Betteravia Road. Along with this move will be the addition of a new 160-foot tower at Los Flores, along with a new 65-foot tower at the new Betteravia facility in order to provide more adequate radio coverage in the Santa Maria Valley. Additional capital projects include the Underground Fiber Optic Cable Infrastructure Project and the Microwave Radio WIFI Project for the I-net in City facilities. Although these projects are technically budgeted in the General Capital Projects Fund, the majority will be funded by Police-related Growth Mitigation Fees, and the Mobile Equipment Fund with the remainder of costs allocated among City departments based on the department's proportionate share of use of radios, phones, and computers.

The Wastewater Fund is scheduled to increase capital expenditures significantly from \$2.4 million last budget cycle to the current \$17 million over the next two-year period. Sewer main improvements, proposed at \$7 million, will ensure sufficient capacity for continued development of the City as identified in the City's General Plan and to maintain public health and safety. These expenditures have been deferred due to lack of new development over last couple of years, but are now needed because of an increase in new development. To phase in new percolation ponds, \$4.6 million is proposed for installation on City property across Black Road from the Wastewater Treatment Plant. This will ensure sufficient percolation pond capacity to handle the projected population at full build-out of the City.

The proposed Mobile Equipment and Replacement budget of \$4.6 million for 2014-16 calls for 38 pieces of equipment to be replaced in the first year and 30 items the following year. For 2014-15, only \$1.2 million is proposed for vehicle replacement, which is significantly less than the \$5 million spent in 2013-14. A noteworthy equipment purchase for 2015-16 is the purchase of a Caterpillar D8 bulldozer which is estimated to cost approximately \$1 million as well as five solid waste loaders at a cost of \$1.4 million. The dozer is used extensively at the Santa Maria Regional Landfill to position and bury refuse. The existing unit is seven years old and is nearly at the end of its useful life. At the time of replacement it will have had an extended life of two years beyond the original replacement date.

VI. Contributions to Outside Agencies

Contributions to the Chamber of Commerce, the Historical Society and economic development services have historically been prescribed by the Santa Maria Municipal Code. Funding for the Museum of Flight is provided directly from General Fund revenues and is not tied to bed tax receipts or the Municipal Code as are the contributions to the above identified organizations. The City Council made a decision to fund the Museum of Flight in May 1991, and in 1997, the City Council directed that annual funding provided to the Museum of Flight be consistent with the City contribution made to the Historical Society. However, because of significant budget deficits over the last several years, since 2010-11, the City Council has reduced contributions to all outside agencies in an effort to help balance the General Fund budget. Since then, TOT revenues has been increasing consistently over the last four year.

For the 2013 calendar year, TOT revenue increased by nine percent when compared to the prior calendar year. Previously, it was indicated that economy-driven General Fund revenues are on the

BUDGET MESSAGE

uptick and the forecasted General Fund deficit has declined from \$5.6 million in 2013-14 to the current \$1.7 million anticipated for 2014-15. Accordingly, staff is proposing to incrementally increase the allocations to outside agencies by ten percent. However, with this increase in allocations, the total contribution to outside agencies comes to \$705,410 which is still \$243,700 less than the Municipal Code prescribed amount. The following is the proposed allocations to outside agencies:

	Adopted 2013-14	Proposed 2014-15	Proposed 2015-16	Percent of Total 2014-15
Chamber 8% Bed Tax	\$ 266,560	\$ 293,220	\$ 293,220	65.2%
Economic Development Contract	113,290	124,620	124,620	27.8%
Historical Society	14,100	15,510	15,510	3.5%
Museum of Flight	14,100	15,510	15,510	3.5%
Total Allocation	408,050	448,860	448,860	100.0%
Chamber 2% Bed Tax	233,230	256,550	256,550	100.0%
Total	\$ 641,280	\$ 705,410	\$ 705,410	100.0%

In addition to the above agencies, staff is also recommending to continue the allocation of \$12,000 to the Central Coast Collaborative on Homelessness (C3H). Council directed staff to allocate \$12,000 in General Fund revenues to C3H this past year (2013-14) and staff is proposing to continue this allocation.

Going forward, the Chamber of Commerce has agreed to provide economic development services to the City on the amount shown above 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 presented to the City Council for consideration and adoption on July 1, 2014.

Summary of Proposed Staffing Recommendations:

This section summarizes the personnel changes being proposed in the 2014-16 Budget for full-time, part-time and limited-services positions. Full-time employees work 40 hours per week; part-time employees work 32 hours per week; and, limited-service employees can work up to a maximum of 19 hours per week.

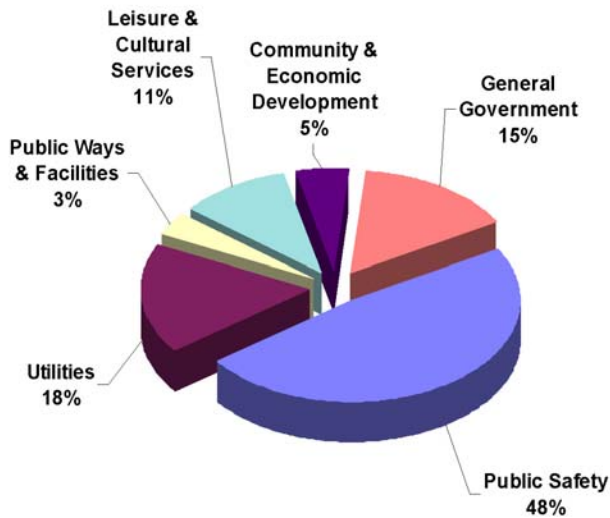
For 2014-16, proposed personnel recommendations bring City-wide staffing totals to 480 authorized full-time positions and 79 part-time employees, for a total of 559 authorized positions.

Effective the beginning of the June 28, 2014 payroll, all limited-service positions are being recommended to receive a two percent (2%) cost-of-living adjustment as well as three limited-service classifications who are recommended to receive additional adjustments due to State Minimum Wage requirements. As of July 1, 2014, the California minimum wage is mandated to increase to \$9.00 per hour. All limited-service hourly wages (that are currently below the \$9.00 per hour range) are recommended to meet the minimum mandate.

The proposed authorized staffing recommendations in 2014-16 bring the full-time employee-to-population ratio for the City to 4.75 employees per thousand residents – still far below the average 8.55 per thousand of other Central Coast cities.

BUDGET MESSAGE

For the General Fund, in 2014-15, there are 349 positions and 39 part-time positions proposed for a total of 388 positions. Of the full-time General Fund positions, the Police and Fire budgets comprise 230 positions or 66 percent. And of the 480 full-time authorized positions City-wide, the two public safety departments comprise 48 percent of all full-time positions as depicted in the below chart:



By comparison, in 2004-05 there were 198 full-time public safety related positions. Since that time, the full-time complement in the public safety departments has increased approximately 16 percent, while the population of the City during this same time has increased 18 percent.

Unlike the previous budget cycle where departments were asked to reduce operational costs by one and two percent; this year the budget was prepared as a status quo budget with the intent to maintain existing services. And with the exception of two (2) additional police officers positions, all other new full-time positions in the General Fund have either been funded within target budget dollars or are revenue offset. There are no new positions, in any fund, being recommended in the second year of the 2014-16 budget.

The City-wide impact of the proposed City-wide staffing changes is seven new full-time positions and four new part-time positions. Full-time and part-time positions by department are summarized on Attachment B of this Budget Message. Attachment B also shows the 2013-14 allocations and the proposed personnel changes for 2014-15.

The following provides a more in-depth summary, by department, of some of the more noteworthy personnel changes for 2014-15:

Police Department – The Department is continuing to transition and fill previously vacant police officer positions. The recruitment process is lengthy due to the extensive testing requirements, background checks and the subsequent completion of the Police Academy where applicable. As the City's population continues to rapidly grow, the need to hire additional police officers is reaching a critical stage in order to provide the same level of service to all areas of the community. The Department continues to seek out various funding opportunities to fund new police officer positions and the passage of Measure U2012 has helped tremendously to replenish the ranks within the Department.

Over the past few years, State and local financial constraints have impacted the Department's level of overall service resulting in the reorganization of resources, namely in specialized units. Police officers from these units had to be reassigned to the Patrol Division in an effort to stabilize staffing shortages. Consequently, the specialized service provided by these units such as the Traffic Division and the Gang Suppression Team (GST) have suffered, impacting the assignment of investigations and in the dissolving of the Narcotics Suppression Team (NST). As the police officer positions appropriated through Measure U2012 continue to stabilize patrol staffing, it is vital to address the shortages created in specialty units and to keep pace with the City's growing population; thus, the reason why staff is proposing to hire two (2) additional police officers this year.

BUDGET MESSAGE

Of the two new proposed police officer positions, one will be assigned to the Traffic Division, and one assigned to the GST. These two new police officer positions will enhance the Department's traffic enforcement and assist in Gang-related patrol and investigation and will help address the underserved and specialized areas of enforcement within the community.

In addition to the two new police officer positions, the Department is requesting to increase School Resource Officers by three additional positions. Historically, these positions have been staffed with regular police resources which caused direct overtime expenses. To address this issue, the Department is requesting to backfill police officers being hired during 2014-15 to provide supplemental law enforcement services pursuant to the Santa Maria Joint Union High School District (SMJUHS) contract. All three positions will be contracted, revenue offset positions.

The Department is also requesting to decrease the compliment of Police Records Technician/Detective positions by one and create an additional Senior Police Records Technician/Detective position to be filled based upon a promotional recruitment during 2014-15. This position will supervise the Police Records staff within the Detectives Bureau. A limited service Work Aide/Police Intern position is also requested for the clerical component of the Detective Bureau that presently supports the Detectives, GST, NST, Crime Lab, and Property/Evidence. Without the addition of more support staff, time sensitive tasks will be significantly delayed in these important areas.

Utilities – It's been ten years since the Utilities Department was formed and the proposed personnel changes being recommended in this Department is a result of a department-wide reorganization of existing personnel designed to sustain department operations for the next ten years as well as ready the department for their transition to Los Flores. The majority of the adjustments are within the Solid Waste Division and the overall staffing results in the deletion of one full-time vacant Maintenance Worker position and the conversion of a limited-service position to a part-time position.

Proposed personnel changes and equity adjustments for specific Solid Waste Division personnel are designed to more efficiently align the Division with current and projected service demands and to provide for more efficient field supervision and oversight at the supervisory and lead operator-level. Accordingly, staff is proposing the following reclassifications within Solid Waste: Landfill Heavy Equipment Lead Operator to Solid Waste Landfill Supervisor; Solid Waste Operations Supervisor to Solid Waste Collections Supervisor; and Landfill Heavy Equipment Operator II to Landfill Heavy Equipment Lead Operator. In addition, staff is also requesting parity adjustments (salary increases) with no change in title for the Solid Waste Manager and the Solid Waste Equipment Lead Operator to align the salaries with other municipalities operating landfills, refuse and recycling operations. Staff is also recommending the elimination of the vacant full-time Maintenance Work I position within the Solid Waste Division and upgrade one Solid Waste Equipment Operator to the newly created Solid Waste Equipment Crew Leader position by a promotional recruitment.

Staff is also recommending some personnel changes in the Regulatory Compliance section. This section provides assistance within the Department with regard to the coordination and management of construction projects and the build-out of the Integrated Waste Management Facility at Los Flores. Accordingly, staff is proposing the following personnel changes within the Regulatory Compliance section: reclassify the current Utilities Project Coordinator to Senior Civil Engineer and the Regulatory Compliance Assistant to a vacant Regulatory Compliance Specialist to better meet existing regulatory monitoring requirements and address business needs, and downgrade the salary of the soon-to-be vacant Regulatory Compliance Assistant position to bring it in-line with the level of duties and responsibilities.

In the Water/Wastewater Division, staff is requesting a parity adjustment for the Water Resources Manager to align the position with positions with similar responsibilities at other agencies and within the

BUDGET MESSAGE

City. The proposed upgrades of the Water Supervisor and Wastewater Supervisor positions are being submitted concurrently in that both positions affect one another and will align required certifications in the respective fields eliminating the need for dual certifications spanning both disciplines of water and wastewater.

In the Business Services Division, staff is requesting a reclassification for the Business Services Manager to Utilities Business Manager to more accurately align the position with complexity of the job assignments as it relates to budgeting, financial and accounting functions associated with the department's multi-million dollar enterprise fund operation. Staff is also recommending the reclassification of the Account Clerk I to an Account Clerk II to act as lead clerical for the division, with responsibility for scheduling and front office operations.

Currently, the Outreach Program is coordinated by a 19 hour-per-week limited-service Utilities Technician. Staff is recommending replacing the Utilities Technician with a part-time 32 hour-per-week Utilities Outreach Coordinator in an effort to address the growing demand for public outreach on the variety of programs and services offered by the Utilities Department.

Recreation and Parks – Currently, the Los Flores Ranch Park is open to the public Thursdays through Sundays. Activities at Los Flores include: a docent program, horseback riding, trail walking, family-oriented outdoor educational programs and cycling. However, there is no full-time staff at Los Flores and that has created a number of operational issues over the past few years. In an effort to address this issue, staff is recommending a new full-time Recreation Coordinator position to ensure the safety of the park users by providing a full-time on-site City staff person to monitor park activities and conditions. This position, while housed in the General Fund, will be financed from lease proceeds from the Utilities Department; making this position revenue-offset to the General Fund.

Three more revenue offset positions are being recommended in the Recreation and Parks Department in 2014-15. To more effectively facilitate, monitor and supervise lifeguard staff, three (3) part-time Senior Lifeguards are requested to be funded through a reimbursement agreement with SMJUHS to provide one Senior Lifeguard at each of three high school pools located at Pioneer Valley, Santa Maria and Righetti High Schools.

The City's Landscape Maintenance Districts contains over 116 acres of land. The fiscal resources to maintain this acreage is derived from assessment rates within the City's four Landscape Maintenance Districts and 21 Special Benefit Zones. To assist with maintaining the financial records and preparing annual calculations, statistical tables and reports for all of these assessment districts, staff is proposing to hire a part-time Account Clerk Aide that will be financed through existing assessments. In addition, two part-time Laborer III positions are proposed to be transferred from the General Fund to the Northwest Landscape Maintenance District in addition to one Groundskeeper. These positions have been assigned to work in the Districts for several years and have been financed through interdepartmental billings which have been somewhat cumbersome and an inefficient way to account for their labor; consequently, transferring them from the General Fund to the Districts will alleviate this inefficient method of accounting. In addition, one new part-time Laborer III position is being requested to meet the escalating maintenance demands associated with the Santa Maria Town Center East and West Mall including care of turf, shrubs, litter pick-up, and parking lot maintenance.

In addition to the above, the Department is requesting the following reclassifications and upgrades: convert two limited-service Parks Services Aide positions to one part-time Parks Services Officer to address increased activity at the Town Center East and West Mall areas and enhance security; upgrade an Office Assistant I position to Office Assistant II to handle the increase in volume of registrations processed, reconciling deposits, payroll responsibilities and file management in the administrative office; upgrade a Staff Assistant position to Account Clerk Aide to provide a more

BUDGET MESSAGE

appropriate skill set for keeping financial records and utilizing technology for rental of facilities; and upgrade a Recreation Coordinator position to Recreation Supervisor for increased efficiency in supervision of the front office administrative operation that processes rentals, program registrations and handling the accounting associated with rentals. The latter two requests are revenue offset by the facility rental revenues and the other upgrades can be done within target dollars.

Library – Staff is recommending the upgrade of three positions to provide increased staff coverage in specific areas of the Library including reference and technical assistance services. The promotional requests are as follows: a Library Technician position to Librarian I, to enable higher level duties for the reference unit and provide increased outreach for specialized groups such as seniors; a Library Assistant I position to Library Assistant II to provide increased staff coverage for the reference unit of the Library; and a limited-service Library Page to Assistant Clerk – Office to enable staff to check books out from the circulation desk and shelve both. All three promotional opportunities will require recruitments. Currently, the Library Page can only shelve books and when the Library is busy or short staffed an Assistant Clerk - Office will be able to help provide needed customer service assistance. In addition, one additional limited-service employee is requested to work 12-15 hours per week at the new Los Alamos Branch Library scheduled for opening in fall 2014.

City Attorney – Through its successful “*Walk and Talk*” program, the City has met with and educated thousands of households, and dozens of downtown merchants along the main retail corridors, about quality of life issues as they relate to Municipal Code violations. Code compliance officers, along with police officers, go door-to-door each month in different neighborhoods, meeting residents to discuss visible code violations (no citations are ever written), and listen to neighborhood concerns while distributing City-related informational flyers. The program has had a very positive impact in the community with widespread word-of-mouth, attracting strong media coverage, and providing City personnel with excellent outreach opportunities. In order to maintain and expand this highly successful program, staff is requesting to reclassify the Senior Code Compliance Officer to Code Compliance Supervisor to reflect current duties being performed. In addition, a new limited-service Assistant Clerk – Office position is being requested to provide additional clerical and administrative support to the Code Compliance Division. Staff is recommending an upgrade of the part-time Clerk II to a full-time Office Assistant I to provide additional staff hours to support the increased workload in the City Attorney’s Office as well as assist in ensuring that all businesses in town have appropriate business licenses. These proposed personnel changes can be accomplished within target dollars as staff is also proposing to eliminate the vacant part-time Code Compliance Coordinator.

City Manager’s Office - Staff is recommending to upgrade the part-time Account Clerk Aide to a full-time Office Assistant I to handle the increased workload the Department has been experiencing as it relates to risk management filing, City Council support, and an overall increase in customer service inquiries (over the phone, via email, and at the front counter). This upgrade can be accomplished within target dollars as staff is proposing to eliminate the vacant limited-service Investigative Officer I position.

Administrative Services - The Utility Billing Division handles all accounts receivable payments and is the central cashier for City departments. Due to the high volume of walk-in utility billing customers and the volume of incoming phone calls, the Utility Billing Division is often understaffed with competing service demands. Because of this heavy workload and the on-going commitment to providing high quality customer service, staff is requesting an additional full-time Customer Service Clerk to address this service volume. This position will not have any financial impact on the General Fund as the Utilities Department is proposing to finance this cost.

Community Development – Since 2012-13, the City has not funded a full-time Advance Planner position. It will be going on three years since this position has been vacant and staff proposes to delete this position from the personnel complement at this time.

BUDGET MESSAGE

Future Issues:

CalPERS Rate Increases

On April 17, 2013, the CalPERS Board of Administration adopted policy changes as it relates to smoothing and amortization policies. These changes will significantly increase the City's employer rates over a period of five years beginning in 2015-16. The Chief Actuary from CalPERS recommended that CalPERS no longer uses a 15 year smoothing period and instead, uses a direct smoothing method of five years along with a 30-year fixed amortization period. The result of this change will cause the average miscellaneous plan to experience a five to seven percent rate increase over a five year period beginning 2015-16, and the average "public safety" plan to experience an eight to ten percent increase over the same period.

In addition to these changes, on February 18, 2014, the CalPERS Board adopted new actuarial assumptions based on a recently complete experience study. The primary assumption effected was the mortality rate. Findings show that CalPERS employees continue to live longer; thereby, requiring increased employer contributions. The increased rates due to the change in assumptions will begin in 2016-17 with the increases phased in over a five-year period.

According to CalPERS, these combined changes in CalPERS policy and assumption changes, will result in significant pension-related expenses to the City starting in 2015-16. The current projection for 2015-16, the second year of the budget, is an increase of \$500,000 over 2014-15 and upwards of an additional \$800,000 (in addition to the aforementioned \$500,000) in pension-related expenses starting in 2016-17 with additional incremental increases through 2020-21. This is very alarming and troubling news given the fact that the City has had five years in a row of multi-million dollar budget deficits and has had to rely on one-time funding to finance the operational costs in the General Fund and those funding sources (i.e. LEAF financing) will be depleted by the end of this budget cycle.

Police Department Phase III

Police Department Phase III moves Dispatch from the current location on Cook Street to the new Police Facility at 1111 West Betteravia. However, in order to facilitate the move, a significant amount of technology and communication-related infrastructure improvements must be addressed.

Currently, Dispatch is physically tethered to a ten-year old radio system and an aging radio tower. Before Dispatch can move, a number of technologies need to be addressed. First, a radio system needs to be in place in the Betteravia facility. The Federal Government is mandating that all agencies convert to a Project 25 radio system, thereby allowing agencies to communicate on a 700 MHz frequency. The City plan on deploying a Project 25, 700 MHz shared radio system during 2014-15 to improve radio coverage, conform with latest FCC rules, comply with latest digital standards (Project 25), enhance City-wide interoperability, improve response times, and improve the safety of public safety officers and the public. Additionally, a tower at Los Flores and a tower at the new Betteravia facility will need to be constructed. In addition to the P25 project, significant technology systems need to be in place at the new Betteravia facility.

Phase III is anticipated to cost approximately \$7.4 million with almost 50 percent of the cost being financed through the Growth Mitigation Fund.

Los Flores Ranch Park & Integrated Waste Management Facility

The existing Santa Maria Regional Landfill on East Main Street has served the Santa Maria region since the late 1950s and is projected to reach capacity by 2020. In 2006, the City purchased 1,774

BUDGET MESSAGE

acres approximately eight miles south of Santa Maria and directly east of Highway 101. This property, called Los Flores, is envisioned to serve the Santa Maria Valley's solid waste disposal needs for many decades, and while the primary purpose of this land is for solid waste activities, the topography of this land provide a unique opportunity for passive recreational open space activities so long as such recreational activities do not hamper the facility's solid waste disposal operations.

Since 2006, the City has completed numerous scientific, recreation and resource studies in preparation for the new landfill. To-date, the City has certified an Environmental Impact Report, obtained a landfill permit from CalRecycling, and will present a comprehensive Open Space Management Plan to the City Council during this next fiscal year (2014-15). Ongoing discussions are underway with the U.S. Fish and Wildlife Service, the Regional Water Quality Control Board, the Santa Barbara County Air Pollution Control District, the California Department of Transportation, and the U.S. Army Corps of Engineers, with the goal of a fully permitted landfill operating at Los Flores concurrent to the closure of the existing City landfill in 2020.

Under the design scenario, only commercial vehicles will access the Los Flores facility. Trips that household customers make to the landfill for disposal generated from yard and household cleanup, etc., will continue to occur at the existing landfill by utilizing a new transfer facility which will accumulate refuse for transport to Los Flores on a daily basis.

The cost for the initial phase of the new facility at Los Flores and the new transfer facility at the existing landfill is projected at approximately \$25 million. These funds will be acquired by utilizing cash on-hand developed through a steady nominal five percent annual increase for collection and a modest annual increase to the rates charged at the entry gate to the landfill. And while the bulk of this projected project cost will not be expended until 2018-2020, over the next four years, the City does intend to spend close to \$5.6 million in solid waste disposal funds for planning, environmental, and permit-related expenses as well as some construction costs associated with opening the new facility, of which \$2.4 million will be spent over the next two-years.

Meanwhile, passive recreation continues to develop at the site. Visitors already enjoy hiking, mountain biking, equestrian activities, bird watching, photography, and nature education. There is a Visitor's Center, a domestic animal exhibit, eight miles of hiking trails, and corrals presently available. While 600 acres at Los Flores will eventually be utilized by the landfill, approximately 200 acres will be engaged in active landfill operations at any one time, leaving approximately 1,500 acres to be used for recreation activities as long as it does not encroach upon the facility's solid waste disposal activities.

Fiber-Optic Franchise Agreement and Public, Education and Government (PEG) Operations

Currently, network connectivity among the City's facilities is accomplished through an Institutional Network (I-Net) infrastructure supported at no cost to the City pursuant to a cable franchise agreement with Comcast. The I-Net utilizes a combination of Comcast-owned fiber (installed in conduit owned either by Comcast or by the City), and some City-owned fiber (installed in City-owned conduit). Comcast's cable franchise agreement with the City expires on December 31, 2014. At that time, Comcast will be eligible for a State franchise pursuant to the Digital Infrastructure and Video Competition Act (DIVCA). Comcast has indicated it will not continue to maintain the I-Net under the current terms once it obtains its State franchise under DIVCA. Instead, Comcast has offered to provide services similar to the I-Net through a managed services contract with the City. As a result, the City is pursuing other options for meeting its communications needs and constructing a City-owned underground fiber optic network.

While a City-owned underground fiber optic network will meet the increasing communication demands of the City, it also adds to the desirability of the City as a pro-business environment. Corporate firms

BUDGET MESSAGE

will enjoy locating their headquarters and professional staff on the Central Coast, appreciate the convenience of Highway 101, recognize Santa Maria's airport as a means of access to local, regional, national, and global markets, and access the City's underground fiber optic network for high-speed Internet connectivity. The expansion potential of the underground fiber optic network to serve the emerging needs of public, institutional, and commercial interests within the City will be profitable.

Policy Issue Regarding Council Action:

As mentioned previously, the City's cable franchise agreement expires on December 31, 2014 and Comcast will be transitioning to a State-issued franchise agreement. Once that transition happens, the City can only use PEG monies for capital expenses and no longer for operational expenses.

Because the majority of SMCTV's expenses are operational, this situation demands significant changes. The General Fund cannot absorb the annual operational expense of approximately \$235,000. According to industry experts, the State restrictions enacted in 2007 have forced 51 PEG centers in California to close for lack of appropriate funding. Congress may attempt to fix the rules to allow cities and counties the right to authorize PEG funding in a more flexible way, but as of this writing, the final outcome of this matter is undecided. In early 2014, the California Legislature was reviewing Assembly Joint Resolution 39 to urge Congress to remove use restrictions and allow states and municipalities to determine the best use of PEG channel support. The City officially supports this resolution and will continue to lobby that this resolution be passed. Until then, PEG operations will continue in a status quo manner up until December 31, 2014.

The City Manager's Office undertook a comprehensive evaluation in search of solutions to address these restrictions. In 2013, staff retained one of the leading PEG consultants in California to provide guidance based on the experiences of community access TV centers and cities with PEG operations. Staff then obtained an independent legal opinion, and then focused its plan with guidance from the City's contracted auditor to assure compliance with generally accepted accounting principles and generally accepted auditing standards with regard to the Capitalization of operating expenses. As a result of this evaluation, staff has determined that the Capitalization of PEG operational costs is justified by staff hours spent directly on planning, developing, and creating City-owned television productions including public service announcements and programming about City services. This capitalization of PEG operations also applies to production hours generating videos of public meetings.

Effective January 1, 2015, staff will be attempting to capitalize a percentage of their operation in compliance with generally accepted accounting principles. Consequently, current PEG staff will have to redirect a significant amount of their time to producing tangible City video assets in the form of training videos, marketing videos, and shows about City programs and services – in addition to generating videos of City government meetings. In this regard, the Transit Division of the Public Works Department and the Utilities Department will contribute some funding to help support PEG operations for City-produced marketing videos for their specific operations. PEG staff will also be required to make it a high priority to secure new additional revenue sources to support its operational expenses to include exploring the possibility of soliciting outside agencies to cablecast their meetings using SMCTV.

Moving forward, staff is generating an Action Plan to identify local public agencies that would benefit from televising their public meetings on SMCTV under a fee-for-service model to generate needed operational funding. The new audio-visual equipment at the Library's Shepard Hall will make the room an ideal choice for public meetings, and for the first time in a decade, the PEG operation will be making significant purchases of portable video equipment. Together, these upgrades should hopefully be appealing to other local organizations that presently lack the means to televise their open meetings for increased transparency.

BUDGET MESSAGE

Accordingly, a policy issue for City Council's consideration is whether or not the City Council wishes to expand cable television coverage of public meetings to other City Boards and Commissions. The two Commissions that staff recommends the City Council consider video coverage are the Planning Commission and the Recreation and Parks Commissions.

Acknowledgements:

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 movement from the Excel spreadsheet budgeting process to use of the Eden Advanced Budgeting module, 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. 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

BUDGET MESSAGE

Total proposed appropriations for all operating funds in 2014-15 are approximately \$150.7 million.

	Adopted 2013-14	Proposed 2014-15	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2014-15
Operating Programs	\$ 96,272,160	\$ 99,337,240	\$ 3,065,080	3.2%	65.9%
Capital & Outside Agencies	26,776,020	38,729,970	11,953,950	44.6%	25.6%
Debt Service	8,265,890	5,282,620	(2,983,270)	-36.1%	3.6%
Transfers	5,384,400	7,369,450	1,985,050	36.9%	4.9%
Total	\$ 136,698,470	\$ 150,719,280	\$ 14,020,810	10.3%	100.0%

The budget increase for all operating funds in 2014-15 is \$14,020,810 or 10.3 percent greater than in 2013-14, with the increase being primarily attributed to the increase in capital projects in the Enterprise Funds, especially the Water Resources Fund. The decrease in debt service payments is due to the payoff of the 2003 Redevelopment Agency Lease Revenue Refunding Bonds. Operating costs increased by 3.2 percent or \$3.1 million primarily because of the proposed hiring of five police officers, merit and negotiated salary increases, as well as increased CalPERS-related pension costs. Transfers-In increased because of the capital transfers from the various funds required to finance Phase III of the new Police Facility on Betteravia Road.

Overview of the 2014-15 General Fund:

Operating revenues for the General Fund are estimated at \$55.4 million while proposed appropriations are \$57.1 million; thus accounting for a **projected budget deficit of \$1,640,890 for 2014-15**. In order to balance the 2014-15 General Fund budget, staff is proposing to use \$1.7 million in one-time Local Economic Augmentation Funds (LEAF) to help bridge this financial gap. In year's past, staff has included the LEAF financing for display purposes; however, by doing so, it actually masked the true budget deficit. Accordingly, the below illustration depicts a more accurate account of ongoing operating revenues for 2014-15 (excluding Measure U2012).

	Adopted 2013-14	Proposed 2014-15	Increase Decrease	Percent Increase (Decrease)	Percent of Total 2014-15
Taxes	\$ 39,834,810	\$ 41,617,190	\$ 1,782,380	3.2%	72.9%
Licenses, Permits & Fines	1,003,800	2,336,100	1,332,300	2.4%	4.1%
Revenue from Use of Money & Property	1,212,460	871,260	(341,200)	-0.6%	1.5%
Revenues from Other Agencies	1,576,190	1,179,880	(396,310)	-0.7%	2.1%
Charges for Service	4,497,200	4,500,210	3,010	0.0%	7.9%
Other Revenue and Transfers	4,292,920	4,911,440	618,520	1.1%	8.6%
Sub-total	52,417,380	55,416,080	2,998,700	5.5%	97.0%
LEAF Transfers-In	2,500,000	1,700,000	(800,000)	-1.5%	3.0%
Total	\$ 54,917,380	\$ 57,116,080	\$ 2,198,700	4.0%	100.0%

Operating revenues are forecast to increase by \$3 million or 5.5 percent due primarily to increasing sales and property tax revenue as the local economy continues to improve from the recent recession. These tax increases are partially offset by decreasing interest income, which is due to the extremely low interest rate environment and declining cash balances in the General Fund as well as both the General Capital Projects Fund and the LEAF (as interest income from these two funds is credited to the General Fund). Revenues from Other Agencies have also declined due primarily to the expiration of the SAFER Grant which was used to hire nine entry-level firefighters.