

COUNCIL AGENDA REPORT



June 18, 2013

TO: City Council

FROM: City Manager

**SUBJECT: AMENDMENTS TO THE ADOPTED 2013-14 CITY BUDGET
(SECOND YEAR OF THE APPROVED TWO-YEAR BUDGET)**

RECOMMENDATION:

That the City Council adopt a resolution approving amendments to the 2013-14 City Budget.

SUMMARY:

The previously adopted 2013-14 Appropriations for All Operating Funds totaled \$131.6 million; the recommended Mid-Cycle 2013-14 Appropriations total is proposed to be \$136.7 million – an increase of \$5.1 million. The majority of this increase is attributed to the introduction of \$4.2 million in Measure U related appropriations for 2013-14.

In the General Fund, the previously adopted appropriations were \$56.3 million; the recommended Mid-Cycle 2013-14 Appropriations total is proposed to be \$58 million – an increase of \$1.7 million. The elimination of the former Redevelopment Agency (RDA) resulted in an additional \$1.3 million debt service expense to the General Fund and represents the primary cause for increased appropriations in 2013-14. In addition, no new full-time or part-time employees are being recommended in the General Fund in 2013-14.

Regarding the Enterprise Funds, there are no material variances being proposed.

The only other significant amendment to the previously adopted budget is related to the construction-related costs of the new Police Facility on West Betteravia Road. Staff is recommending an additional \$7.4 million in General Capital Fund appropriations to cover the costs associated with this construction project. Staff also recommends financing a portion of this project with proceeds from the Convention Center Trust Fund – which will be a policy decision for Council's consideration.

BACKGROUND:

Last year, the City Council adopted two one-year budgets covering the period July 1, 2012 to June 30, 2014. At that time, staff indicated it would be necessary to revisit the adopted 2013-14 budget plan during the mid-cycle review and to make any appropriate amendments to the budget based on unforeseen events, changes in the economy and unanticipated operational needs. Staff has assessed these variables and is bringing forward budget amendments for City Council's consideration for the 2013-14 budget year.

The proposed General Fund appropriations for 2013-14 are \$57,973,820; \$1,658,370 greater than previously adopted. The primary reason is increased debt service payments on the 2003

RDA Lease Revenue Refunding Bonds of \$1,321,000. The elimination of the City's RDA has resulted in increased debt payments as the State determined that the City's bonds were not an enforceable obligation. Consequently, the City can no longer receive \$1.3 million in property tax increment revenue, which results in this debt service obligation being borne by the General Fund. However, 2013-14 is the last year of debt payments from the General Fund as the City has a debt service reserve, established upon issuance of the bonds in 2003, which will pay the remaining two years of debt payments in 2014-15 and 2015-16.

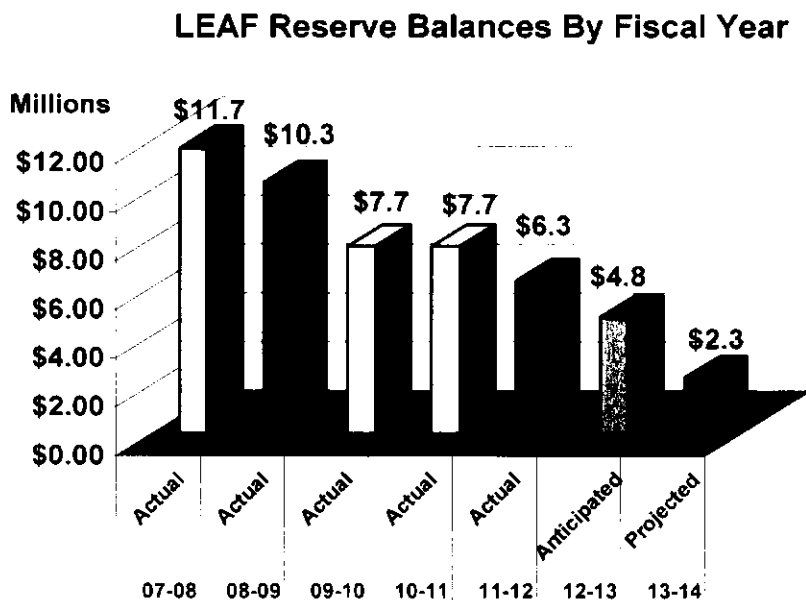
General Fund revenues are estimated at \$54,917,380 leaving a structural budget deficit of \$3,056,440 for 2013-14 as shown below:

General Fund Revenues	\$54,917,380
General Fund Appropriations	<u>57,973,820</u>
Estimated Structural Deficit	<u>(\$ 3,056,440)</u>

It should be noted that the above 2013-14 General Fund revenues include a transfer-in from the Local Economic Augmentation Fund (LEAF) of \$2.5 million. **If not for this use of one-time LEAF financing, the actual structural budget deficit would be closer to \$5.5 million.**

The balance in the LEAF Reserve at June 30, 2013 is estimated to be approximately \$4.8 million. It is recommended that the projected structural deficit of \$3.1 million be funded from General Fund reserves. The General Fund Reserve for July 1, 2013 is anticipated to be \$13.9 million. However, using \$3.1 million in reserves will result in the General Fund Reserve dropping to \$10.9 million (or 19 percent) which is six percent below the Council approved Reserve Policy of 25 percent. While the \$10.9 million is below the Council adopted fund balance reserve of 25 percent, staff does not anticipate the reserve to drop this low due to the number of vacancies still needed to be filled in the police department – which will probably result in salary savings.

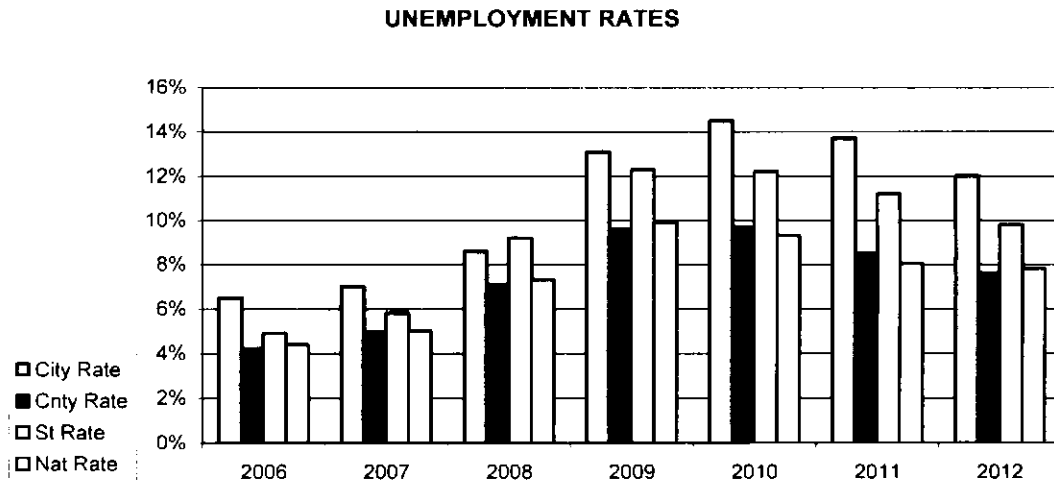
Below is a chart depicting the history of the LEAF Reserve over the last few years.



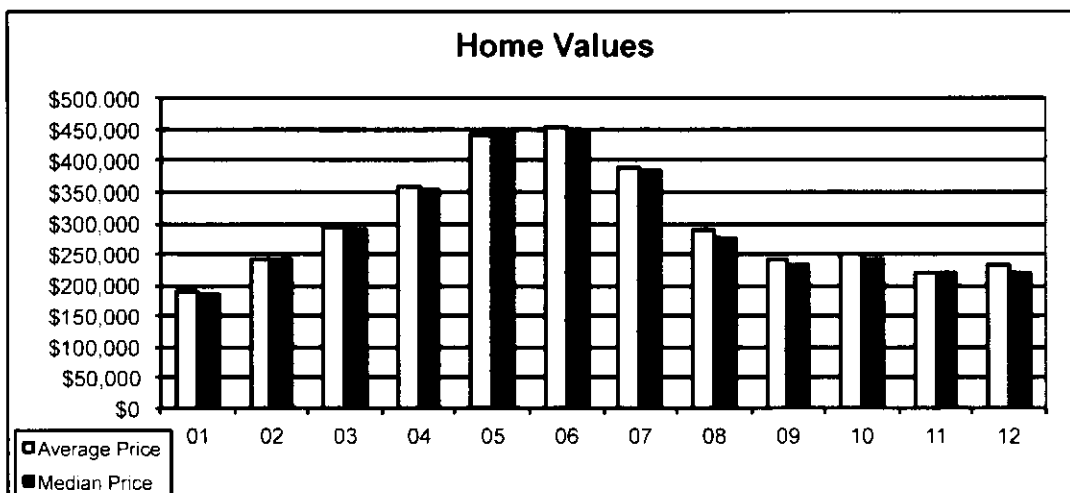
ECONOMIC OUTLOOK:

2013-14 continues to be a challenging economic environment for the City as the local economy continues to slowly recover from the recent recession. It is anticipated that the City budget will be impacted over the next few fiscal years by an ongoing real estate market that is slowly recovering, lower than anticipated non-hazardous hydrocarbon impacted soil (NHIS) revenue and retail sales activity that has finally, after six long years, returned to pre-recession levels.

Over the past year, the City experienced positive trends in some economic segments, led by consumer spending. However, the real estate market and local labor market have not shown much of a rebound and are still awaiting recovery from the long recession. Unemployment is still high. In fact, the City's unemployment rate, while almost double pre-recession levels, continue to surpass the County, State and Nation as illustrated in the below chart.



In many parts of the State, there has been an upturn in home sales. The increase in sales are due to less distressed homes on the market and buyers beginning to purchase in mid- and high-end areas. Low mortgage rates and affordable prices are also proving to be attractive for buyers. However, the upturn in the housing market has not yet occurred in the City. Median home prices in the City have only increased slightly over the past year as noted below:



On the positive side, consumer purchases, which make up 70 percent of the U.S. economy, are expected to continue to increase over the next year. Strong sales of new automobiles are a dominant factor in recent increased sales activity. With the average age of vehicles on the road higher than ever, there is substantial pent-up demand for new models. Statewide, auto sales are expected to gain 12.1 percent for calendar year 2013 slowing to 4.5 percent for calendar year 2014. Although, analysts indicate that consumer spending may start to dampen by the increase in payroll and social security taxes.

As far as the State of California is concerned, the Governor's 2013-14 Budget, adopted this past January, reflected California's most stable fiscal footing in well over a decade. With tough spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the State's budget is projected to remain balanced for the foreseeable future. The May Revision to the 2013-14 annual budget proposes a multi-year plan that is balanced, maintains a \$1.1 billion reserve, and pays down debt. Yet, the budget remains balanced by only a narrow margin. Further, the State must begin to plan now to ensure that the budget will remain balanced after the temporary Proposition 30 increase in sales tax and personal income tax rates expire.

However, actions taken by the Federal government may dampen economic growth in the State as the Federal government did not extend the two percent payroll tax deduction. This federal action was not assumed in the Governor's original budget adopted in January. As a result, forecasted income growth has been cut almost in half – from 4.3 percent to 2.2 percent. Also, beginning in 2015-16, the State will begin to pay hundreds of millions of dollars more to the California Public Employees Retirement System (CalPERS) in an effort to reduce their \$38.5 billion unfunded employees' pension liability. Those higher payments will continue for decades and could hinder the State's ability to have a balanced budget in the not-too-distant future.

At the local level, the majority of economy-driven revenues is leveling off and are no longer declining with sales tax revenue getting back to pre-recessionary levels. However, this increase is offset by declining NHIS revenues. Overall, revenues are on target with previous estimates as recommended adjustments to the 2013-14 Mid-Cycle Revenues in the General Fund reflect less than a \$30,000 increase over the previously adopted budget.

2013-14 General Fund Revenues

The recommended adjustments for all General Fund revenues, by category, are as follows:

Description	General Fund Revenues			
	Estimated Actuals 2012-13	As Originally Proposed 2013-14	Recommended Adjustments	Recommended 2013-14
Taxes	\$ 39,118,510	\$ 39,439,820	\$ 394,990	\$ 39,834,810
Licenses, Permits	971,300	990,800	13,600	1,004,400
Revenue from Use of Money	1,217,550	1,173,970	38,490	1,212,460
Intergovernmental	1,644,090	752,000	824,190	1,576,190
Charges for Services	4,633,700	5,757,570	(1,260,970)	4,496,600
Other Revenues & Transfer	6,823,550	6,773,240	19,680	6,792,920
Total	<u>\$ 54,408,700</u>	<u>\$ 54,887,400</u>	<u>\$ 29,980</u>	<u>\$ 54,917,380</u>

The increase of approximately \$395,000 in taxes is primarily due to projected increases in sales tax, which has been increasing for the past several quarters. Gains in all sales tax categories confirm that California's economy continues to mend. Continued strong demand for new autos exceeded analysts' expectations and generated about one-fourth of State-wide increases. Restaurant sales posted strong sales increasing approximately six percent over the last year. Sales tax is budgeted at \$18,242,000; \$182,000 greater than the pre-recessionary peak that occurred in 2007-08.

Property tax revenues have been relatively flat over the past few fiscal years and are anticipated to gradually grow – but at a slow pace. Property tax revenues peaked in 2007-08 at \$15,067,000. Revenues for 2013-14 are expected to generate \$14,536,000 in property taxes, \$531,000 less than pre-recessionary levels. Although the local economy is recovering on a number of different fronts, the local real estate market is still stagnant and it appears that it may be several years before real estate values start to show meaningful growth.

The increase of over \$824,000 in Intergovernmental revenues is primarily due to the \$800,000 in grant funding that the City will be receiving from the Homeland Security's Staffing for Adequate Fire and Emergency Response (SAFER) program. These grant proceeds are for two years (2012-13 and 2013-14) and provides the necessary funding to finance nine firefighters.

The significant decline in approximately \$1.3 million in Charges for Services is primarily due to the elimination of the professional services agreement between the City and Allan Hancock College for Police Chief Services (resulting in the reduction of \$205,000 in contractual services appropriations) as well as the one million dollar reduction in NHIS revenues.

The NHIS program has been active since 2003 and is an innovative program that utilizes soil, with low levels of petroleum, to achieve proper elevations for final closure at the landfill. NHIS is delivered primarily from various petroleum sites from Santa Barbara and southern San Luis Obispo Counties, with the majority of the revenue derived from the Guadalupe Dunes Restoration Project. This dramatic decline in revenue is due to permitting delays associated with the excavation of this product. And because of these delays, staff is recommending a one million dollar reduction in NHIS revenues in 2013-14.

2013-14 General Fund Appropriations

Recommended adjustments to the 2013-14 Mid-Cycle Appropriations in the General Fund reflects a \$1.7 million increase over the previously adopted budget. Additional debt service expenses of \$1.3 million are responsible for the majority of this \$1.7 million increase.

Aside from the previously mentioned debt service expenses and updated personnel costs, other significant increases in appropriations in the General Fund can be attributed to \$186,000 in increased internal service fund (liability) payments (allocated throughout General Fund departments) as well as \$80,000 in increased costs associated with animal control services.

The following table on the next page presents, by department, the originally proposed 2013-14 General Fund budget contained in the two-year financial plan (adopted in June, 2012), and the recommended 2013-14 Mid-Cycle adjustments. In all, proposed adjustments for 2013-14 total \$1,658,370.

Department	General Fund Appropriations			
	Estimated Actuals 2012-13	As Originally Proposed 2013-14	Recommended Adjustments	Recommended 2013-14
Police	\$ 21,051,720	\$ 22,555,450	\$ 252,880	\$ 22,808,330
Fire	8,694,470	8,759,010	3,380	8,762,390
Public Works	2,290,760	2,442,770	7,620	2,450,390
Recreation & Parks	7,488,620	8,368,020	96,750	8,464,770
Community Development	2,580,360	2,821,850	3,740	2,825,590
City Attorney	1,331,760	1,103,520	2,930	1,106,450
City Manager	2,179,310	2,362,930	101,680	2,464,610
Administrative Service	8,680,430	7,725,310	1,188,860	8,914,170
Mayor & Council	163,180	176,590	530	177,120
Total	\$ 54,460,610	\$ 56,315,450	\$ 1,658,370	\$ 57,973,820

Below is an explanation, by department, as to the significant adjustments being recommended in the above chart.

- *Police Department*

The increase in appropriations is primarily due to the addition of a Police Commander position authorized in the 2012-13 Third Quarter Financial Report, as well as more refined and updated personnel costs.

- *Recreation and Parks Department*

The increase in recommended appropriations is attributed to the receipt of a grant the City is receiving from the United States Department of Agriculture to work with Allan Hancock College to create a community garden agribusiness program. In addition to this grant, additional appropriations are needed to address more refined personnel costs as well as an increase in Internal Service Fund (Liability) payments.

In addition to the above, there is one proposed personnel change in the Parks Division of the Recreation and Parks Department. In 2009, due to budget reductions, staff eliminated the then-vacant Parks Services Manager position and the existing Recreation Services Manager assumed oversight over the operation of the Parks Division and Landscape Districts. Since that time, the division has grown and the manager was assigned additional program areas including the Aquatics Program. To recognize the full scope of duties, staff is proposing to reinstitute the Parks Services Manager classification and to reclassify the incumbent to recognize his current assigned duties and incorporate his current out-of-class (move-up) pay into the current salary range. This proposal can be accomplished within current target dollars.

- *City Manager's Office*

The increase in appropriations in the City Manager's Office is due to the increased contractual services costs associated with the County of Santa Barbara providing animal control services for the City. In addition to this increased contractual services expense, the

remaining increase is primarily attributed to the following two new contributions staff is recommending for Council's consideration:

1. \$12,000 toward the Central Coast Collaboration on Homelessness (C3H). The Santa Barbara County Board of Supervisors has already allocated up to \$75,000 to help support the backbone structure of C3H, while the City of Santa Barbara has also allocated \$75,000.
2. \$2,500 toward the Santa Barbara County Veterans Stand Down Event. The Stand Down Event is geared toward assisting and addressing homeless and disenfranchised veterans of all ages in the Santa Maria Valley and is held on an annual basis at the Santa Maria Fairpark.

Last month, the City Council chose to earmark \$60,000 in Community Development Block Grant (CDBG) Tenant Based Rental Assistance (TBRA) funding toward homelessness. That action, coupled with the aforementioned \$12,000 and \$2,500 General Fund contributions, would address the City's commitment toward homelessness and bring its total contribution toward homelessness in-line with that of other financial commitments from neighboring agencies.

- *Administrative Services Department*

On November 19, 2012, the California Supreme Court ruled in favor of cities regarding the property tax administration fee lawsuit, thereby, causing the County of Santa Barbara to reduce the amount they charge the City for Property Tax Administration (PTA) services. Consequently, this lower PTA amount, coupled with the additional \$1.3 million in debt service payments (as a result of the elimination of the RDA) results in the City needing to increase appropriations by approximately \$1.2 million.

Measure U:

As you'll recall, Measure U was passed by the voters on June 5, 2012, became operational on October 1, 2012, and calls for a quarter-cent transaction and use tax. The revenue generated from Measure U is expected to be approximately \$4 million in 2013-14. On October 16, 2012, the City Council approved the operational costs associated with Fire Station No. 5 be financed by Measure U proceeds, along with a Battalion Chief and a limited service employee at a cost of \$1,427,270 for 2012-13, and an anticipated cost of \$1,579,300 for 2013-14. The City Council approved the funding of seven Police Officers, five Police Sergeants, one Crime Analyst, and one Dispatcher. For 2013-14, proposed appropriations for the Police Department for these personnel-related expenses total \$1,595,110.

In addition to the above, Council also authorized restoring Library hours from 48 to 56 hours per week by hiring five limited service employees with Measure U proceeds as well as one Senior Parks Services Officer, one Code Compliance Officer, one limited service employee (to assist in the Police Activities League [PAL] Program), as well as two limited service employees designed to enhance the City's Graffiti Abatement Program.

Measure U revenues for 2012-13 are anticipated to be \$2,074,960. Measure U-related expenses in 2012-13 are anticipated to be \$1,834,280, resulting in a carry-over of \$240,680 in Measure U funds to 2013-14.

Working in concert with the City's sales and use tax consultant, Hinderliter de Llamas & Associates (HdL), staff estimates Measure U revenues to be \$4,013,000 in 2013-14. Based on updated personnel-related costs, the aforementioned Measure U-related appropriations for 2013-14 are \$3,570,550. Accordingly, approximately \$441,000 in unencumbered Measure U funding is available in 2013-14.

Two relatively large ongoing new public safety-related expenses that the City will be incurring in 2013-14 are \$106,130 in inter-fund loan payments associated with Phase III of the Santa Maria Levee Repair Project, and \$168,000 in increased utility costs associated with the new Police Department Facility on Betteravia Road. These two costs are being brought forward for Council's consideration for use of Measure U proceeds. In addition to these two expenses, staff is also recommending that the City Council appropriate \$339,000 for the procurement of 55 self-contained breathing apparatus' for the Fire Department. This \$339,000 would be a one-time expense using Measure U funding. The remaining unencumbered amount of approximately \$70,000 is recommended to be used toward the one-time construction costs of the new Police Facility and approximately \$4,000 for auditing expenses.

Below is an analysis of the recommended Measure U Fund appropriations as submitted for Council's consideration.

<u>MEASURE U FUND ANALYSIS</u>			
	<u>2012-13</u>	<u>Recommended Adjustments</u>	<u>Proposed 2013-14</u>
Beginning Fund Balance			\$ 240,680
<u>Projected Revenue</u>	<u>\$ 2,074,960</u>		<u>\$ 4,013,000</u>
<u>Projected Expenditures</u>			
Police	\$ 521,030		\$ 1,595,110
Fire	1,276,630		1,679,910
Recreation & Parks			149,070
Library	22,400		70,640
City Attorney			71,940
Admin. Services	14,220	3,880	3,880
Admin. Services - Levee Repair		106,130	106,130
F.D. Self Contained Breathing Equip		339,000	339,000
P.D. Facility - Utility Costs		168,000	168,000
P.D. Tenant Improvements		70,000	70,000
Total Expenditures	<u>\$ 1,834,280</u>		<u>\$ 4,253,680</u>
Ending Fund Balance	<u>\$ 240,680</u>		<u>\$ -</u>

Enterprise Funds:

The proposed 2013-14 budget for all enterprise operations reflects changes totaling \$114,280 or less than one-half of one percent. Accordingly, except for updated personnel-related costs

as well as revised liability costs increases, the only other change in the enterprise funds is one personnel change in the Transit Fund.

In the Transit Fund, staff is proposing to eliminate a 19-hour Public Works Aide position and replace it with a 32-hour Transit Technician. This new position, while continuing to perform ride checks on SMAT and Breeze routes, will also attend community events, assist in monthly reporting, coordinate bus stop improvements, supervise contract performance and compliance issues, and monitor concessions and bus stop janitorial/maintenance contracts.

Special Revenue Funds:

The recommended budget for 2013-14 for all Special Revenue Funds is being reduced by over \$865,000. The elimination of the RDA and its loss of \$1.3 million in property tax increment revenue, coupled with three capital projects account for this reduction.

As mentioned previously, the Successor Agency's proposed expenditure of \$1.3 million were based on the receipt of the former RDA tax increment. The revenue was scheduled to be used for payment of the RDA Lease Revenue Refunding Bonds issued in 2003. However, the State of California's Department of Finance concluded that the bonds were not an enforceable obligation of the RDA, and therefore diverted the revenue to other taxing entities throughout the County. Since this revenue is no longer available, the debt service obligation has been shifted to the General Fund, thus necessitating the need to reduce appropriations in this Special Revenue Fund.

Appropriations in the Park Acquisition & Development Fund are increasing by \$439,600 due to the following three capital projects:

- \$140,000 for the resurfacing of the Paul Nelson Aquatic Center's 50 meter pool;
- \$199,600 for the replacement of gas heaters at the Paul Nelson Aquatic Center's 50 meter and recreational pools; and
- \$100,000 to address various capital rehabilitation needs and emergency repairs throughout the City's 26 parks and 11 recreational facilities.

Landscape Services, Mitigation and Grant Funds:

The only significant increase in the Landscape Services, Mitigation and Grant Funds is a \$26,990 increase in the Stowell Parking and Lighting District. Last year, the Landscape Districts loaned \$215,000 to the Stowell Parking and Lighting District to pay to resurface the Stowell Shopping Center Parking Lot. This \$26,990 increase in appropriations is a loan payment from the Stowell Parking and Lighting District back to the Landscape District to pay for this resurfacing expense.

Capital Projects Funds:

The most significant increase in appropriations in the Capital Projects Funds is attributed to the cost of the tenant improvements of the new Police Facility on Betteravia Road. The anticipated cost of this project is \$12.2 million. The previously adopted budget called for \$4.8

million in improvements at this new facility. Staff is recommending an additional increase of \$7.4 million in appropriations to cover the costs associated with Phase I and Phase II of the tenant improvements at the Betteravia Facility (Phase I and Phase II are discussed in detail in the *Future Issues* portion of this report). In addition to this project, staff is also recommending an additional \$242,000 in appropriations be allocated for the following three Information Technology projects:

- \$185,000 toward the purchase, installation and training on 2013 Microsoft Office Suite;
- \$37,000 for the upgrade of the telecommunications equipment in the Council Chambers, to include installation of three remote controlled TV cameras and replacing the large obsolete television projector and cabinet with a flat screen television (which is being done in coordination with an ADA accessibility issues for the Council dais); and
- \$20,000 to relocate the City’s public access control room from the City Hall basement to the bell tower in order to enhance reliability for current City Council meetings, as well as provide for televised public meetings originating from Shepard Hall.

Gas Tax and Local Transportation Funds, along with Developer/Grant Street Project Funds are proposed to increase by \$340,800 and are as follows:

STOWELL ROAD IMPROVEMENTS. Provide additional street lighting between Broadway and Thornburg as well as construct pedestrian safety improvements at Entrada Way.

<i>Gas Tax Funds</i>	\$	19,000
<i>Highway Safety Improvement Funds</i>		101,300
PROJECT TOTAL	\$	120,300

IMPROVEMENTS AT DEPOT & MAIN. Modify the traffic signal and construct curb, gutter, sidewalk, pedestrian island and curb ramps at this location.

<i>Gas Tax Funds</i>	\$	27,000
<i>Highway Safety Improvement Funds</i>		168,500
PROJECT TOTAL	\$	195,500

VARIOUS BRIDGE ANALYSIS & MAINTENANCE. Provide engineering analysis for the preventative maintenance of various bridges within the City.

<i>Gas Tax Funds</i>	\$	2,870
<i>Highway Safety Improvement Funds</i>		22,130
PROJECT TOTAL	\$	25,000

Internal Service Funds:

In March, 2013, the City entered into a lease to finance the purchase of fleet vehicles valued at \$4.9 million. The lease is financing the purchase of seven, ten and twelve year equipment with interest charged at rates of 2.14, 2.46 and 2.68 percent, respectively. The purpose of the lease financing was to aid the cash flow of the Fleet Services Fund. In 2013-14, the Fleet Fund will incur a lease payment of \$686,330 that was not originally budgeted for in 2013-14. In addition, a water truck replacement was inadvertently omitted from the previously adopted 2013-14 budget and is being requested through this Mid-Cycle Budget Review.

Previously, a Laborer III was assigned to the Public Works Fleet Division to process parts ordering, inventory, shop maintenance, and to assist in the basic maintenance and repairs of the vehicles and equipment at the Landfill. However, because this position worked on Utilities-related equipment, it was funded out of Utilities, while the rest of the positions in the Fleet Division were funded in Public Works. Staff proposes to fund this Laborer III position in the Fleet Division of the Public Works Department consistent with the other positions in the Fleet Division, to allow for more efficiency in record keeping.

In the City-wide Equipment Fund, an additional \$424,050 is requested for the following equipment projects:

- \$335,000 for the replacement of the Police Department In-Car Video System. The current system reached the end of its useful life at the end of 2011-12 and multiple units are experiencing technical issues and parts are no longer available;
- \$40,000 to replace the six Motorola radio computers in Police Dispatch that are over eight years old and experiencing operational problems and need to be replaced;
- \$33,660 for technological enhancements to the City's internet connection. The current arrangement is oversubscribed, and slow speeds hinders productivity time; and
- \$15,390 toward the City-wide radio maintenance budget which will aid in the repair and replacement of batteries and magnetic tapes, allow for upgraded equipment accessories, belt clips, and battery chargers.

FUTURE ISSUES AND A POLICY ISSUE FOR COUNCIL'S CONSIDERATION:

There are two pressing issues that are being brought forward for Council's information; one deals with anticipated California Public Employees Retirement System (CalPERS) pension-related rate increases and the other deals with the costs and timeframes associated with the Police Department's relocation into the old Lockheed Martin Building located at 1111 West Betteravia. The latter also deals with a *Policy Issue* for Council's consideration.

Anticipated CalPERS Rate Increases

On April 17th, the CalPERS Board of Directors adopted policy changes as it relates to smoothing and amortization periods. These changes will 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 use a 15-year smoothing period and instead, use 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 percent rate increase over a five year period beginning in 2015-16, and the average "public safety" plan to experience an 8.5 percent increase over the same time period.

In addition to these changes, the CalPERS Board is intending to reassess their discount rate (investment rate) as well as change actuarial assumptions, especially mortality rates. The adoption of these changes are under consideration, and **CalPERS is advising employers to brace themselves for significant increases in employer rates** above and beyond the already identified 2015-16 rate increases. Changes to the mortality assumption could result in an increase of two to four percent of payroll and the discount rate change could be an

additional two to four percent increase. Together, these two changes could result in rate increases of four to eight percent and these would be in addition to the smoothing and amortization policy change rate increases mentioned above.

These combined changes in CalPERS policy and assumption calculations could result in over a one million dollar increase in pension-related expenses in the General Fund in 2015-16 with additional increases anticipated in years 2016-17 through 2020-21. And, while these impacts will not be felt for another two years, it is imperative that Council be aware of these significant financial impacts in future years.

Future Police Facility

In 2008 the City purchased the old Lockheed Martin Building located at 1111 West Betteravia for the future home of the Santa Maria Police Department. The approximate size of that facility is 70,000 square feet and the purchase price was \$13,750,000. The current facility located at 222 East Cook Street, along with an undisclosed off-site facility, is approximately 28,000 square feet. The new facility will allow for consolidation of the department's operations, leave room for expansion, as well as provide for a seismically sound Emergency Operations Center.

Over the last few years the City has rented-back this facility to Lockheed Martin and has received approximately \$2.8 million in rental income. This rental income has been set-aside to pay for the current seismic retrofit work being conducted, as well as for future tenant improvement costs.

Phase I of this project deals with the seismic retrofit of the facility. The seismic retrofit work is anticipated to cost approximately \$2.6 million, and is due to be completed in October 2013. Phase II of this project consists of tenant improvement work to accommodate the relocation of all department personnel (excluding dispatch) into this facility. Phase II is anticipated to start this Fall and be completed in late Spring or early Summer of 2014. Phase II is anticipated to cost approximately \$9.6 million. After Phase II is complete, Phase III will commence. Phase III will deal with the relocation of the dispatch operation from its current location adjacent to the City Attorney's Office, to the Betteravia Facility; however, Phase III is not anticipated to commence until 2014-15. Staff is currently developing cost estimates for Phase III; however, unlike Phase I and Phase II, the City is eligible for State and Federal grant funding to help offset costs associated with Phase III.

Phase III will consist of moving all telecommunications, radio equipment and information systems from the basement in the existing Police Department, as well as all dispatch personnel and equipment over to the new Betteravia Facility. Next year, the City will be eligible for State and Federal funding to help with Phase III. In addition, the City has been in discussions with County of Santa Barbara representatives, as well as representatives from the California Superior Court System, regarding their interest in purchasing the existing facility for expansion of the North County Court Complex.

The anticipated cost for Phase I and Phase II is being proposed in the 2013-14 budget and is being financed through General Capital Project Funds which will significantly draw down these one-time funds. In an effort to not totally exhaust this capital fund, staff recommends financing a portion of this project with proceeds from the Convention Center Trust Fund.

The Convention Center Trust Fund was originally set-up with transient occupancy tax proceeds and put into a separate account for the eventual construction of a convention center in Santa Maria. However, feasibility reports have been done over the years and have all indicated that a self-sustaining convention center is not viable. Consequently, the funding in this account has yet to be used for any purpose.

Over the years, there has been discussions (at the Council level) about using these one-time monies for ongoing operational expenses like salary increases and additional personnel, but because of the on-going financial consequences associated with those uses versus the one-time nature of these funds – no action was taken. However, Phase II would be an ideal use for these funds and would assist in not depleting the General Capital Projects Fund. Staff has been in discussions with the Chamber of Commerce and because of the importance of this project, and the reality that a self-sustaining convention center is not a viable project; they are not opposed to the use of these funds for Phase II construction costs. Consequently, this item is being brought forward as a Policy Issue for Council’s consideration.

The following is an analysis of the revenue and expenditures of the General Capital Projects Fund through next fiscal year.

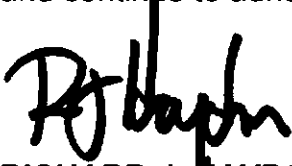
GENERAL CAPITAL PROJECTS FUND ANALYSIS		
6/30/2013 Estimated Fund Balance	\$	11,645,450
Transfer-In from Convention Center Trust Fund		1,976,390
Estimated Sources Available	\$	13,621,840
Anticipated Expenditures		
PD 1111 West Betteravia Improvements		12,200,000
Fire Protective Equipment		26,600
Parks - Youth Center & ADA Issues		76,300
Information Technology - Aerial Imaging		26,080
Additional IT Projects		242,000
Transfers		6,210
Total Expenditures		12,577,190
6/30/2014 Estimated Fund Balance	\$	1,044,650

As you can see from the above chart, with the addition of the Convention Center Trust Fund, the General Capital Projects Fund retains over a one million dollar fund balance which can be used toward Phase III of the new police facility or other capital projects slated for 2014-15. Accordingly, the question before Council is whether or not to use the Convention Center Trust Fund to help finance the costs associated with Phase II of the Police Department Tenant Improvements project.

Impact to the Community:

Adoption of the above recommended amendments to the 2013-14 City budget will allow municipal services to continue at current levels while at the same time improving the working

conditions and operations of the police department. Staff intends to continue to provide City residents and businesses with the most efficient and cost-effective municipal services possible and continue to adhere to high standards of exceptional service.



RICHARD J. HAYDON
City Manager

- ATTACHMENTS:
- A – Summary of Proposed Appropriations for Fiscal Year 2013-14
 - B – Position Allocation by Department for 2013-14
 - C – Fund Analysis for Fiscal Year 2013-14
 - D – Summary of Revenues for Fiscal Year 2013-14

ATTACHMENT A
Summary of Proposed Appropriations for Fiscal Year 2013-14

	PREVIOUSLY ADOPTED 2013-14	PROPOSED APPROPRIATIONS 2013-14	INCREASE/ (DECREASE)
GENERAL FUND:			
Police	\$ 22,555,450	\$ 22,808,330	\$ 252,880
Fire	8,759,010	8,762,390	3,380
Public Works	2,442,770	2,450,390	7,620
Recreation & Parks	8,368,020	8,464,770	96,750
Community Development	2,821,850	2,825,590	3,740
City Attorney	1,103,520	1,106,450	2,930
City Manager	2,362,930	2,464,610	101,680
Administrative Services	7,725,310	8,914,170	1,188,860
Mayor & Council	176,590	177,120	530
Sub-Total General Fund	<u>56,315,450</u>	<u>57,973,820</u>	<u>1,658,370</u>
MEASURE U FUND:			
Police		1,833,110	1,833,110
Fire		2,018,910	2,018,910
Recreation & Parks		149,070	149,070
Library		70,640	70,640
City Attorney		71,940	71,940
Administrative Services		110,010	110,010
Sub-total Measure U Fund		<u>4,253,680</u>	<u>4,253,680</u>
Total General Fund	<u>56,315,450</u>	<u>62,227,500</u>	<u>5,912,050</u>
ENTERPRISE FUNDS:			
Water Resources	37,120,160	37,146,820	26,660
Solid Waste	19,890,690	19,947,060	56,370
Public Transit	7,533,930	7,565,180	31,250
Total Enterprise Funds	<u>64,544,780</u>	<u>64,659,060</u>	<u>114,280</u>
SPECIAL REVENUE FUNDS:			
Library	2,797,650	2,808,900	11,250
Park Acq. & Dev. (Quimby)	100,000	539,600	439,600
Park Residential Development Tax	161,500	125,000	(36,500)
County Measure D/A	4,401,240	4,409,150	7,910
CDBG - Block Grant	1,397,110	1,397,110	
RDA Successor Agency	1,318,930	30,000	(1,288,930)
Public Access TV	231,960	233,400	1,440
Traffic Safety	338,750	338,750	
Total Special Revenue Funds	<u>10,747,140</u>	<u>9,881,910</u>	<u>(865,230)</u>
TOTAL OPERATING FUNDS	<u>131,607,370</u>	<u>136,768,470</u>	<u>5,161,100</u>
LANDSCAPE MAINTENANCE SERVICES, MITIGATION & GRANT FUNDS:			
Growth Mitigation	14,490	14,490	
Landscape Maintenance Services	4,465,260	4,470,060	4,800
Stowell Parking & Lighting	19,410	46,400	26,990
Grant Funds			
Total Landscape Services, Mitigation & Grant Funds	<u>4,499,160</u>	<u>4,530,950</u>	<u>31,790</u>
CAPITAL PROJECT FUNDS:			
General Capital Projects Fund	4,935,190	12,577,190	7,642,000
Gas Tax & Local Transportation	3,162,810	3,211,680	48,870
Developer/Grant Street Projects		291,930	291,930
Total Capital Project Funds	<u>8,098,000</u>	<u>16,080,800</u>	<u>7,982,800</u>

ATTACHMENT A**Summary of Proposed Appropriations for Fiscal Year 2013-14**

	<u>PREVIOUSLY ADOPTED 2013-14</u>	<u>PROPOSED APPROPRIATIONS 2013-14</u>	<u>INCREASE/ (DECREASE)</u>
INTERNAL SERVICE FUNDS:			
Fleet Services	7,394,350	8,435,770	1,041,420
Equipment	1,489,950	1,914,000	424,050
LEAF Fund	2,500,000	2,500,000	
Insurance	<u>3,042,970</u>	<u>3,042,970</u>	
Total Internal Service Funds	<u>14,427,270</u>	<u>15,892,740</u>	<u>1,465,470</u>
TRUST FUNDS:			
Convention Center Trust	<u></u>	<u>1,976,390</u>	<u>1,976,390</u>
TOTAL CITY APPROPRIATIONS	<u>\$ 158,631,800</u>	<u>\$ 175,249,350</u>	<u>\$ 16,617,550</u>

ATTACHMENT B
Position Allocation by Department for 2013-14

DEPARTMENT	STATUS	AUTHORIZE 2012-13	PROPOSED 2013-14	INCREASE/ (DECREASE)	TOTAL UNFUNDED
Police	FT	165	165	0	0
Fire	FT	60	60	0	0
Utilities	FT	86	86	0	0
	PT	2	2	0	0
		<u>88</u>	<u>88</u>	<u>0</u>	<u>0</u>
Public Works	FT	43	43	0	0
	PT	13	14	1	0
		<u>56</u>	<u>57</u>	<u>1</u>	<u>0</u>
			Add one PT Transit Technician		
Recreation & Parks	FT	37	37	0	0
	PT	37	37	0	0
		<u>74</u>	<u>74</u>	<u>0</u>	<u>0</u>
Library	FT	13	13	0	0
	PT	15	15	0	0
		<u>28</u>	<u>28</u>	<u>0</u>	<u>0</u>
Community Development	FT	22	22	0	(1)
	PT	1	1	0	0
		<u>23</u>	<u>23</u>	<u>0</u>	<u>(1)</u>
			Advance Planner position unfunded		
Attorney	FT	10	10	0	0
	PT	2	2	0	0
		<u>12</u>	<u>12</u>	<u>0</u>	<u>0</u>
City Manager	FT	11	11	0	0
	PT	3	3	0	0
		<u>14</u>	<u>14</u>	<u>0</u>	<u>0</u>
Administrative Services	FT	25	25	0	0
TOTAL FULL-TIME (FT)		472	472	0	(1)
TOTAL PART-TIME (PT)		73	74	1	0
GRAND TOTAL		545	546	1	(1)

ATTACHMENT C
Fund Analysis for Fiscal Year 2013-14

	Estimated 06/30/13 Fund Balance	Fiscal Year 2013-14 Activity				Estimated 06/30/14 Fund Balance
		Resources		Uses		
		Revenue	Transfers In	Appropriations	Transfers Out	
GENERAL FUND	\$ 13,987,510	\$ 48,209,910	\$ 6,707,470	\$ 55,583,260	\$ 2,390,560	\$ 10,931,070
MEASURE U	240,680	4,013,000		4,253,680		
Total General Fund:	<u>14,228,190</u>	<u>52,222,910</u>	<u>6,707,470</u>	<u>59,836,940</u>	<u>2,390,560</u>	<u>10,931,070</u>
ENTERPRISE FUNDS						
Water Resources	82,081,700	36,715,000		36,594,820	552,000	81,649,880
Solid Waste	68,272,240	18,579,100		19,428,760	518,300	66,904,280
Public Transit	17,672,990	6,996,680		7,451,620	113,560	17,104,490
Total Enterprise Funds:	<u>168,026,930</u>	<u>62,290,780</u>		<u>63,475,200</u>	<u>1,183,860</u>	<u>165,658,650</u>
SPECIAL REVENUE FUNDS						
Library	453,160	986,590	1,438,660	2,808,900		69,510
Park Acq. & Dev. (Quimby)	734,890	22,050		539,600		217,340
Residential Development Tax	442,920	43,000		125,000		360,920
County Measure A	1,797,050	4,270,260	210,000	3,237,290	1,171,860	1,868,160
CDBG - Block Grant	409,980	1,246,350		1,162,350	234,760	259,220
RDA Successor Agency	25,130	30,000		30,000		25,130
Public Access TV	166,710	239,910		222,260	11,140	173,220
Traffic Safety	94,420	372,250		25,250	313,500	127,920
Total Special Revenue Funds	<u>4,124,260</u>	<u>7,210,410</u>	<u>1,648,660</u>	<u>8,150,650</u>	<u>1,731,260</u>	<u>3,101,420</u>
TOTAL OPERATING FUNDS	<u>186,379,380</u>	<u>121,724,100</u>	<u>8,356,130</u>	<u>131,462,790</u>	<u>5,305,680</u>	<u>179,691,140</u>
LANDSCAPE SERVICES, MITIGATION, & GRANT FUNDS						
Growth Mitigation	(1,200,980)	1,372,950		14,490		157,480
Landscape Maintenance Services	2,974,830	2,660,100	1,380,280	3,441,160	1,028,900	2,545,150
Stowell Parking & Lighting	128,690	49,520		45,620	780	131,810
Grant Funds	495,830	66,100				561,930
Total Landscape Services, Mitigation, & Grant Funds	<u>2,398,370</u>	<u>4,148,670</u>	<u>1,380,280</u>	<u>3,501,270</u>	<u>1,029,680</u>	<u>3,396,370</u>
CAPITAL PROJECTS FUNDS						
General Capital Projects Fund	11,645,450		1,976,390	12,570,850	6,340	1,044,650
Gas Tax & Local Transportation	3,386,850	2,628,450		2,553,630	658,050	2,803,620
Developer / Grant Street Projects	1,322,860	291,930		291,930		1,322,860
Total Capital Projects Funds	<u>16,355,160</u>	<u>2,920,380</u>	<u>1,976,390</u>	<u>15,416,410</u>	<u>664,390</u>	<u>5,171,130</u>
INTERNAL SERVICE FUNDS						
Fleet Services	14,526,790	6,009,140		8,315,140	120,630	12,100,160
Equipment	5,774,510	1,616,850		1,903,190	10,810	5,477,360
LEAF Fund	4,816,400				2,500,000	2,316,400
Insurance Funds	3,929,720	2,744,870		2,937,750	105,220	3,631,620
Total Internal Service Funds	<u>29,047,420</u>	<u>10,370,860</u>		<u>13,156,080</u>	<u>2,736,660</u>	<u>23,525,540</u>
TRUST FUNDS						
Convention Center Trust	1,976,390				1,976,390	
GRAND TOTAL	<u>\$ 236,156,720</u>	<u>\$139,164,010</u>	<u>\$ 11,712,800</u>	<u>\$163,536,550</u>	<u>\$ 11,712,800</u>	<u>\$ 211,784,180</u>

ATTACHMENT D
Summary of Revenues For Fiscal Year 2013-14

	PREVIOUSLY ADOPTED 2013-14	PROPOSED 2013-14	INCREASE (DECREASE)
GENERAL FUND:			
Taxes:			
Property Tax	\$ 14,674,890	\$ 14,536,210	\$ (138,680)
Sales Tax	17,886,790	18,242,000	355,210
Transient Occupancy Tax	2,420,000	2,557,210	137,210
Other Taxes	4,458,140	4,499,390	41,250
Total Taxes	<u>39,439,820</u>	<u>39,834,810</u>	<u>394,990</u>
Revenues from Other Agencies:			
Other Subventions	752,000	1,576,190	824,190
Total Revenues from Other Agencies	<u>752,000</u>	<u>1,576,190</u>	<u>824,190</u>
Charges for Services			
Impacted Soil & Surplus Water	2,105,000	1,105,000	(1,000,000)
Other Charges for Services	3,652,570	3,391,600	(260,970)
Total Charges for Services	<u>5,757,570</u>	<u>4,496,600</u>	<u>(1,260,970)</u>
Other Revenues	99,650	85,450	(14,200)
Licenses, Permits, & Fines	990,800	1,004,400	13,600
Interest and Use of Property	1,173,970	1,212,460	38,490
Transfers	6,673,590	6,707,470	33,880
TOTAL GENERAL FUND REVENUES	<u>54,887,400</u>	<u>54,917,380</u>	<u>29,980</u>
MEASURE U FUND:			
Transactions & Use Tax	-	4,013,000	4,013,000
ENTERPRISE FUNDS:			
Water Resources:			
Charges for Services	35,709,000	36,041,000	332,000
Interest and Use of Property	241,000	260,000	19,000
Other Revenue	410,150	414,000	3,850
Total Water Resources Revenue	<u>36,360,150</u>	<u>36,715,000</u>	<u>354,850</u>
Solid Waste:			
Charges for Services	17,872,000	17,933,000	61,000
Interest and Use of Property	507,530	512,000	4,470
Other Revenue	92,500	134,100	41,600
Total Solid Waste Revenue	<u>18,472,030</u>	<u>18,579,100</u>	<u>107,070</u>
Public Transit:			
Revenue From Other Agencies	5,378,440	5,132,040	(246,400)
Passenger Fares	1,855,280	786,440	(1,068,840)
Other Revenue	797,930	1,078,200	280,270
Total Public Transit Revenue	<u>8,031,650</u>	<u>6,996,680</u>	<u>(1,034,970)</u>
TOTAL ENTERPRISE FUND REVENUES	<u>62,863,830</u>	<u>62,290,780</u>	<u>(573,050)</u>

ATTACHMENT D
Summary of Revenues For Fiscal Year 2013-14

	PREVIOUSLY ADOPTED 2013-14	PROPOSED 2013-14	INCREASE (DECREASE)
SPECIAL REVENUE FUNDS:			
Library	2,460,400	2,425,250	(35,150)
Park Acquisition & Development (Quimby)	160,050	22,050	(138,000)
Park Residential Development Tax	151,010	43,000	(108,010)
County Measure A	4,347,980	4,480,260	132,280
CDBG - Block Grant	1,397,110	1,246,350	(150,760)
RDA/Successor Agency	1,318,930	30,000	(1,288,930)
Public Access TV	239,760	239,910	150
Traffic Safety	374,000	372,250	(1,750)
TOTAL SPECIAL REVENUE FUNDS	10,449,240	8,859,070	(1,590,170)
TOTAL OPERATING FUNDS	128,200,470	130,080,230	1,879,760
LANDSCAPE SERVICES, MITIGATION & GRANT FUNDS:			
Growth Mitigation	1,799,750	1,372,950	(426,800)
Landscape Services	3,997,240	4,040,380	43,140
Stowell Parking & Lighting	49,120	49,520	400
Grant Funds	65,530	66,100	570
TOTAL ASSESSMENT, MITIGATION & GRANT FUNDS	5,911,640	5,528,950	(382,690)
CAPITAL PROJECTS FUNDS:			
General Capital Projects	-	1,976,390	1,976,390
Gas Tax & Local Transportation	2,543,430	2,628,450	85,020
Developer/Grant Street Projects	-	291,930	291,930
TOTAL CAPITAL PROJECTS FUNDS	2,543,430	4,896,770	2,353,340
INTERNAL SERVICE FUNDS:			
Fleet Services	6,009,140	6,009,140	-
Equipment	1,616,850	1,616,850	-
Insurance	2,344,400	2,744,870	400,470
TOTAL INTERNAL SERVICE FUNDS	9,970,390	10,370,860	400,470
TOTAL CITY REVENUES	\$ 146,625,930	\$ 150,876,810	\$ 4,250,880