

PROPOSED 2018-20 BUDGET IN BRIEF

CITY OFFICIALS

Mayor
Alice Patino

Mayor Pro-Tem
Etta Waterfield

Councilmembers
Jack Boysen
Mike Cordero
Michael Moats

City Manager
Jason Stilwell

CITY PROFILE

Incorporated
September 12, 1905

Charter City
December 12, 2000

Form of Government
Council-Manager
Full-Service City

Population
108,470

Full-Time Employees
517

Sworn Police Officers
129

Fire Stations
5

Firefighting Personnel
58

Parks
27

SUMMARY

The City of Santa Maria continues to face very significant financial challenges to its ability to maintain services. For the 10th year in a row, the General Fund is facing a multimillion-dollar structural deficit. This two-year spending plan is a balanced budget, but expenses continue to outpace revenues.

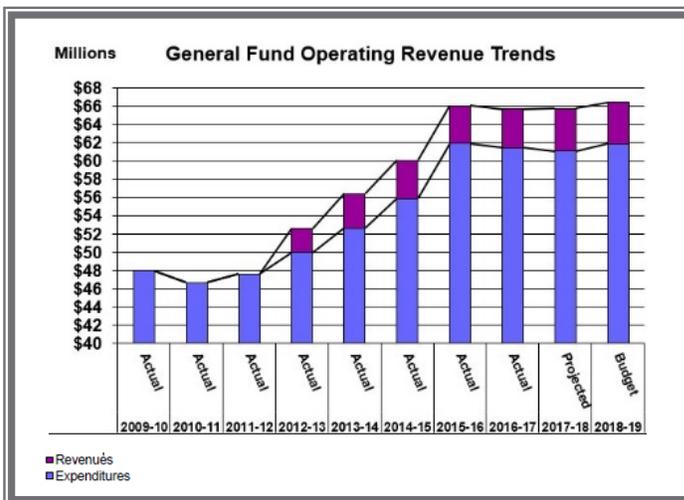
The total proposed budget for all operating funds in 2018-20 is approximately \$180 million, \$17.1 million or 10.5 percent more than 2017-18. Total operating revenues being recommended for the General Fund in 2018-19 are \$71.6 million, while proposed appropriations are \$80 million, thus accounting for a projected financial gap of \$8.46 million.

The City's multi-faceted budget balancing strategy for 2018-20 uses a combination of exhausting certain one-

time reserves, drawing upon economic stabilization reserves for the first time outside of a recession, expenditure savings by keeping vacant positions unfilled, operating reductions in department budgets, and unfunding seven full-time positions and one part-time position.

This 2018-20 balanced budget focuses resources on City Council goals and core front-line City services that reflect the priorities of the community. This document is the result of a thorough development process involving participation from all departments and adherence to budget policies. Continued fiscal stewardship of limited resources is compulsory to maintain municipal programs and quality of life services, and is consistent with the City Council's principle of maintaining financial health, a balanced budget, strong reserves, and address rising pension costs.

All 28 positions are retained that are funded by supplemental revenue from Measure U – the voter-approved sales tax from 2012 set to expire on December 31, 2021. The City's overall employee count rises by seven full-time positions and decreases by two part-time positions in 2018-19 to a combined 592 full-time and part-time employees. However, due to rising costs, General Fund dollars are required to sustain the Measure U services.



ECONOMIC OVERVIEW

The national, state, and local economies are doing well. At this writing, the national economy is nine years into a sustained recovery and unemployment is at a record low. Federal tax cuts may be boosting the economy. Job growth in California is robust, with unemployment at all-time record lows in early 2018. Santa Maria's economy was seeing increases in retail growth, with strong sales tax revenues.

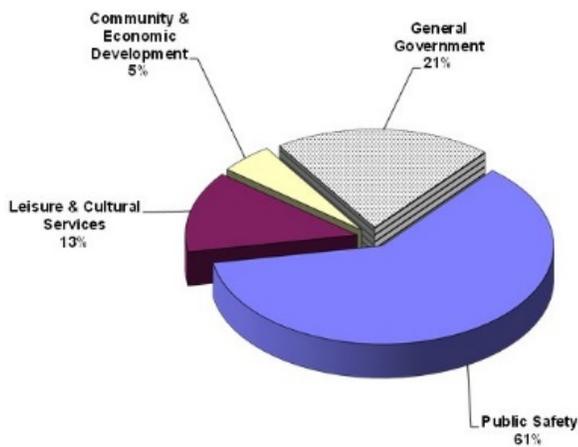
GENERAL FUND OVERVIEW

The General Fund is the primary operating fund of the City, supporting nearly all departments. Proposed revenues for the General Fund are estimated at \$74.2 million (including Measure U), while proposed appropriations are \$80 million. The largest sources of General Fund revenues are sales tax and property tax.

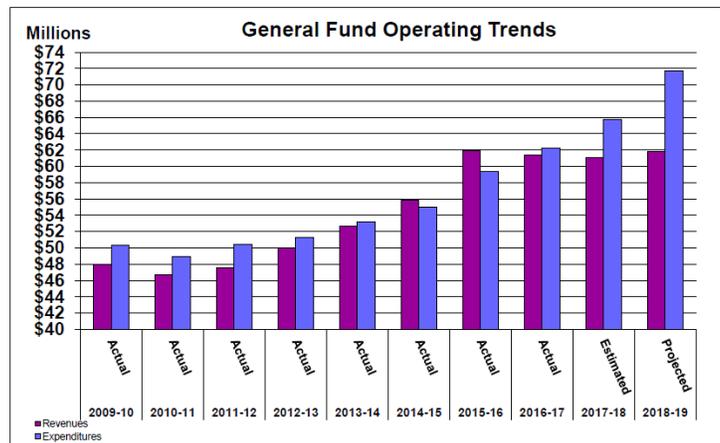
Like hundreds of other public agencies across California, the biggest challenge facing the General Fund is soaring pension costs, partly created by investment losses sustained by CalPERS during the Great Recession of almost 10 years ago, and more recent CalPERS policy changes being phased in over several years. Under the best case scenario, the General Fund's pension-related expenses will escalate by more than \$4.8 million more in the next four years – an average of \$1.2 million annually compounded. Earlier in 2018, the City and its labor groups achieved negotiated cost-sharing agreements whereby employees pay more toward their retirement. The City is addressing pension costs in three ways: (1) new and future employees are in reformed, less expensive pension tiers, (2) current employees are increasing their contributions to pension costs, and (3) the costs of past employees are costs the City is obligated to pay either through new revenue or other expenditure reductions.

To balance the \$8.46 million gap, staff is recommending that it be mitigated using a 5-pronged approach: 1) use LEAF reserves of \$2.6 million in year one, and the entire remaining amount of \$1.08 million in year two, 2) anticipated expenditure savings, as a result of projected vacancies, of approximately \$3.0 million, 3) operating departments absorb retirement cost increases, 4) operating departments recommended reductions, and 5) Council authorize the use of the General Fund's economic reserves. Those "rainy day" emergency reserves are rarely tapped; they were used in 2004-05 and in 2009-10 (during the recession), but that was before the City formally committed these resources as the emergency reserve in 2011-12.

Over the last several years, because of personnel vacancies, the City has not expended 100 percent of its appropriation authority in the General Fund; thus resulting in an expenditure savings. These expenditure savings have been the primary means used to finance one-time capital projects over the last several years. Consequently, now utilizing this anticipated savings brings into question the City's ability to finance General Capital Projects in the foreseeable future.

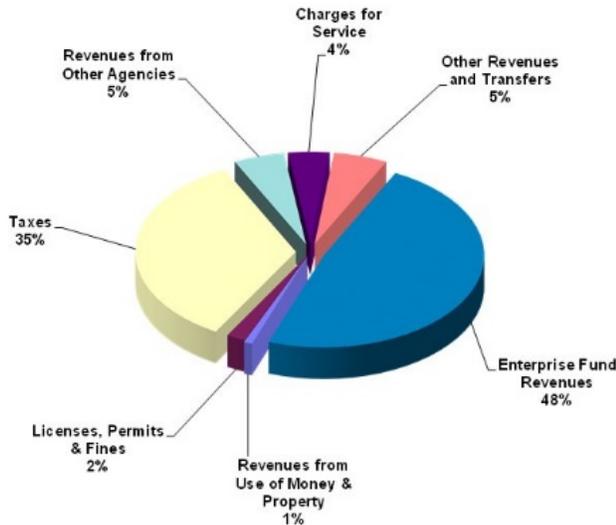


General Fund Allocations

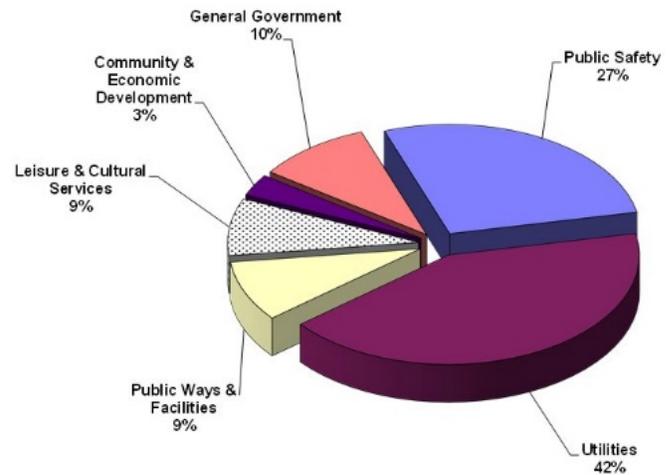


ALL OPERATING FUNDS OVERVIEW

Total revenues anticipated for all operating programs in 2018-19 are estimated to be \$167 million, or roughly \$9 million more than in 2017-18. This represents approximately a 5.7 percent increase in total financing in 2018-19 for all operating programs when compared to 2017-18. The proposed appropriations for all operating funds in 2018-19 are approximately \$179.8 million.



Sources of Revenue - All Operating Funds



Program Expenses - All Operating Funds

Tax revenues are expected to increase due to forecast increases in sales and property taxes. Charges for services are expected to decline due to the forecast reduction in Non-Hazardous Hydrocarbon Soils (NHIS) revenue by \$55,000, down from a projected \$465,000 in 2017-18 to \$410,000 for both of the next fiscal years.

OVERVIEW OF CAPITAL PROJECTS

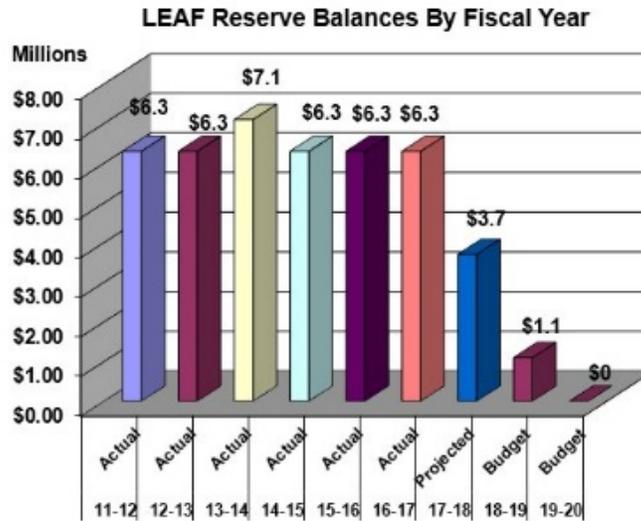
In all, the proposed Capital Projects Budget for 2018-20 consists of 109 capital projects representing approximately \$81.1 million in appropriations. There were 118 total projects requested by operating departments, totaling just over \$84.4 million; however, nine projects (representing approximately \$2.9 million) were not funded due to lack of available financing. The 2018-20 Budget reflects \$39 million in projects in the first year and \$42 million in the second year. For comparison purposes, the 2016-18 Budget consisted of 78 capital projects totaling \$42.8 million in appropriations.

The vast majority of capital projects proposed for 2018-20 - about 97 percent - are financed from non-General Fund sources. The Capital Projects General Fund has \$2.9 million in capital expenditures for 2018-20, about \$510,000 less than in 2016-18. The primary capital projects are the development of the future Los Flores Integrated Management Facility, totaling more than \$25 million over the next two years. This includes \$8.1 million to develop the new landfill, plus \$14.25 million to build the first landfill cell and supporting facilities. Additionally, \$3.5 million will be invested in engineering the design and in construction services of a solid waste transfer station at the Santa Maria Regional Landfill. The existing landfill will be full in about five years. The plan is to open the new landfill within two years. The new landfill is projected to last about 100 years.

Another major project includes operational improvements, based on increased vehicle and truck traffic, at the Betteravia/Highway 101 Interchange, the Main Street/Highway 101 Interchange, and the Broadway/Highway 101 Interchange. An important and high-profile project that the public is following, is the establishment of a new park within the Enos Ranch development. This seven-acre park will be within the 113-acre development.

LEAF RESERVES

This fiscal year (2018-19), the planned Local Economic Augmentation Fund (LEAF) transfers (to help achieve a balanced General Fund) are set at \$2.6 million, followed by all remaining LEAF assets of \$1.08 million in 2019-20, at which point the LEAF will be exhausted. The City has been drawing from its LEAF since 2008-09; at its peak this “rainy day” fund contained \$11.7 million.



MEASURE U OVERVIEW

Measure U2012 was passed by the voters on June 5, 2012, and became operational on October 1, 2012, for a quarter-cent transaction and use tax. The City has used Measure U for five full years of revenue, and 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 \$4,779,000 for 2018-19. Measure U Transaction Tax is tracking at about 21 percent of General Fund sales tax receipts.

The City Council authorized that the vast majority of the aforementioned tax proceeds be spent on public safety-related services. Accordingly, Measure U proceeds were used to finance the operational costs associated with Fire Station No. 5, along with a Battalion Chief, and an Emergency Services Specialist in the Fire Department. City Council also approved the use of said proceeds to fund seven Police Officers, five Police Sergeants, one Police Commander, one Crime Analyst, one Dispatcher, and the cost associated with capital equipment in the two public safety departments. The remaining funds were used toward hiring one full-time Code Compliance Officer and one 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.

As you can see from the chart, Measure U2012-related expenses are exceeding anticipated revenues and the Measure U2012 fund balance is bridging this financial gap. Measure U is illustrative of the fiscal challenges facing the City as a whole – expenditure cost increases are exceeding the growth of revenue. General Fund reserves are allocated in this budget to maintain the Measure U levels of service. There is no allowance for additional uses of Measure U2012 tax proceeds other than what has already been authorized by Council.

	Actual 2016-17	Year-End Estimated 2017-18	Proposed Budget 2018-19
Beginning Fund Balance	\$ 419,005	\$ 317,490	\$ 319,328
Projected Revenue	\$ 4,259,597	\$ 4,621,000	\$ 4,976,333
Projected Expenditures			
Police	\$ 2,257,885	\$ 2,393,179	\$ 2,997,083
Fire	1,698,216	1,787,859	1,790,850
Recreation & Parks	156,020	167,661	225,538
Library	64,926	81,226	83,176
City Attorney	75,836	80,807	90,284
Finance	108,229	108,430	108,730
Total Expenditures	\$ 4,361,112	\$ 4,619,162	\$ 5,295,661
Ending Fund Balance	\$ 317,490	\$ 319,328	\$