

PROPOSED 2020-22 BUDGET IN BRIEF

CITY OFFICIALS

Mayor
Alice Patino

Mayor Pro-Tem
Mike Cordero

Councilmembers
Michael Moats
Gloria Soto
Etta Waterfield

City Manager
Jason Stilwell

CITY PROFILE

Incorporated
September 12, 1905

Charter City
December 12, 2000

Form of Government
Council-Manager
Full-Service City

Population
107,356

Full-Time Employees
550

Sworn Police Officers
140 Authorized
(134 Funded)

Fire Stations
5

Firefighting Personnel
65 Authorized
(64 Funded)

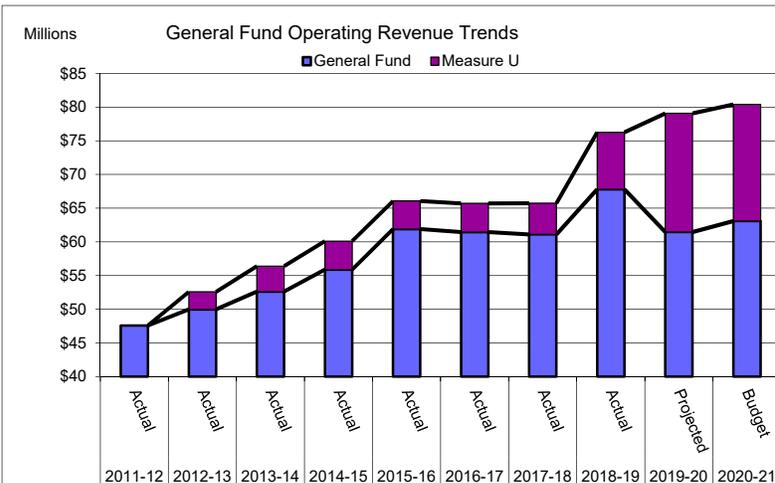
Parks
27

SUMMARY

The City of Santa Maria faces severe financial challenges to its ability to maintain services. The impact of COVID-19 is unlike anything the City has seen before. Staff acknowledges uncertainty in this budget forecast and will learn more definitive information in the coming months. For the 12th year in a row, the General Fund is facing a multimillion-dollar structural deficit – a situation exacerbated by the pandemic.

approximately \$198.7 million. Tax revenues are expected to decrease by 5.3 percent due to forecast deep losses in sales taxes, which comprise 48 percent of General Fund revenues.

Total proposed appropriations for all operating funds in 2020-21 are approximately \$217.2 million, or \$4.9 million less than in 2019-20.



This budget is balanced by using/borrowing millions of dollars from reserves, a hiring freeze, and reductions through attrition. The Public Library will be closed through September 2020, and the City pool's reopening may be postponed until January 2021.

This two-year spending plan is a balanced budget, but expenses continue to outpace revenues. Staff estimates General Fund revenue losses to be a staggering \$10.8 million in 2020-22. Before COVID-19, the 2020-21 General Fund deficit was projected at about \$929,000; with COVID-19 it swelled to \$4.35 million.

Unfortunately, there are no funds available to hire more Police Officers, and in year two the new Fire Department response unit downtown would become unfunded, among other measures.

Proposed personnel recommendations bring City-wide staffing to 573 authorized full-time positions (550.7 budgeted) and 75 authorized part-time employees, (67.2 budgeted) for a total of 648 positions.

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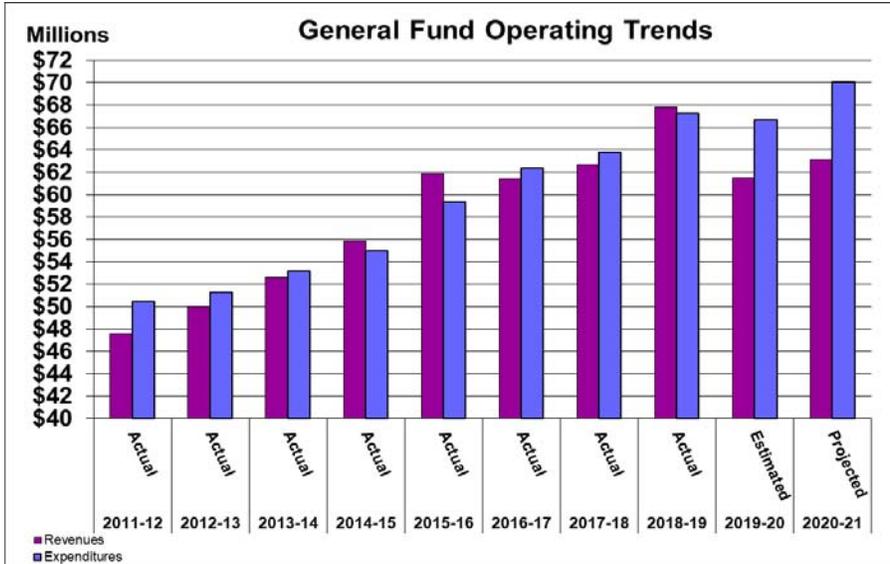
ECONOMIC OVERVIEW

The national, state, and local economies were prospering until February 2020. The COVID-19 pandemic suddenly created turmoil. The record 11-year-long national economic expansion with record-low 3.5 percent unemployment vanished. By late May the national unemployment rate skyrocketed toward 20 percent. The State entered a pandemic-induced recession and faces a budget shortfall of \$54 billion.

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 \$89.7 million (including Measure U), while proposed appropriations are \$91.1 million. The difference of \$1.4 million is from Measure U fund balance. The largest sources of General Fund revenues are sales tax and property tax (about 59 percent; and about 67 percent when including Measure U).

The City's annual payments are \$17 million for 2020-21 and \$18.1 million for 2021-22. For perspective, the City's CalPERS payment for 2006-07 was \$5.3 million. Every dollar paid to CalPERS is a dollar less available for wages and compensation to provide public services. The sudden economic downturn related to the COVID-19 pandemic led CalPERS to its largest investment losses since the Great Recession. These losses will translate into additional increases to City CalPERS contributions beginning in 2022-23. The City has so far managed the costs of its rising pension by cutting operational budgets and holding vacancies to achieve salary savings. That strategy is not sustainable with perpetual annual increases in CalPERS contributions.



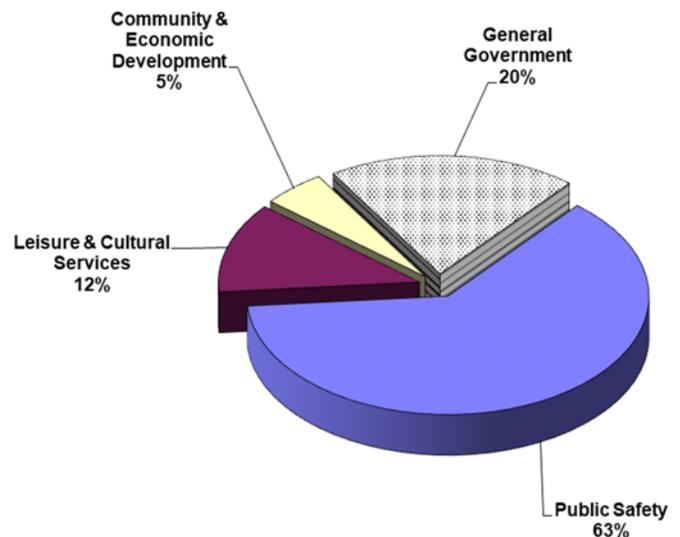
Over the last several years, because of personnel vacancies, the City has not expended 100 percent of its appropriation authority in the General Fund; thus resulting in expenditure savings. These expenditure savings have been the primary means used to finance one-time capital projects over the last several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

question the City's ability to finance General Capital Projects in the foreseeable future.

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 12 years ago, and more recent CalPERS policy changes being phased in over several years.

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Every responsible City budget discussion must begin and end by addressing ongoing California Public Employees' Retirement System (CalPERS) obligations. The City projects a \$6 million increase in its CalPERS annual contributions over the next five year period, and \$11 million over the next 10 years. The City budget is impacted significantly by contribution changes imposed by CalPERS.

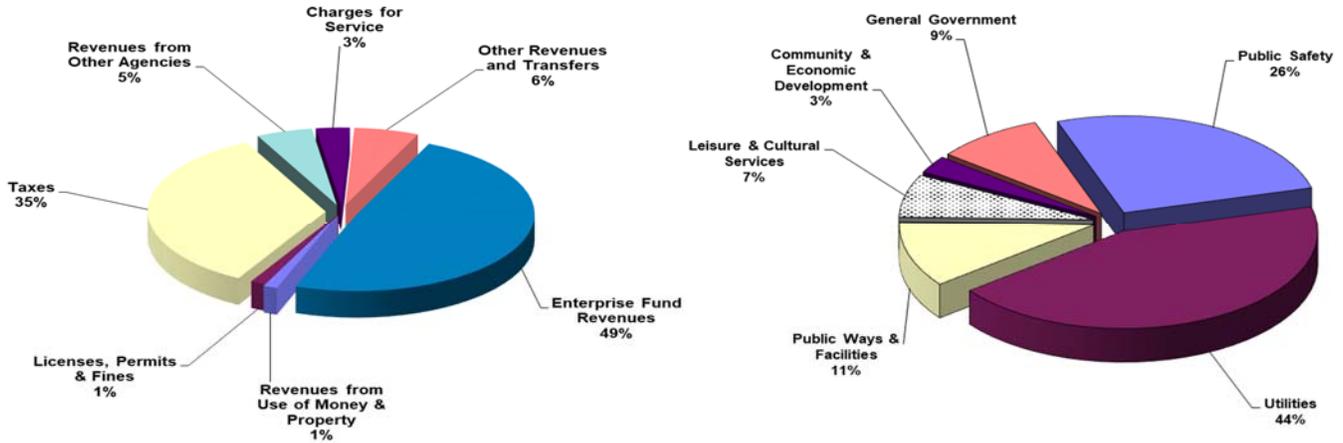


General Fund Allocations

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 costing the City is obligated to pay either through new revenue or other expenditure reductions.

ALL OPERATING FUNDS OVERVIEW

Total revenues anticipated for all operating programs in 2020-21 are estimated to be \$198.7 million, or roughly \$10 million more than in 2019-20. This represents approximately a 5.5 percent increase in total financing in 2020-21 for all operating programs when compared to 2019-20. The proposed appropriations for all operating funds in 2020-21 are approximately \$217.2 million.



Sources of Revenue - All Operating Funds

Program Expenses - All Operating Funds

Tax revenues are expected to decrease by 5.3 percent, to \$68.5 million in 2020-21 from \$72.4 million in 2019-20, due to forecast decreases in sales taxes. Sales taxes comprise about 48 percent of General Fund revenues. Sales tax revenue is projected to drop by \$1.4 million, to \$21.3 million in 2020-21. This also affects Measure U sales tax revenues, projected to drop from \$19.3 million to only \$17.3 million in 2020-21.

OVERVIEW OF CAPITAL PROJECTS

In all, the proposed Capital Projects Budget for 2020-22 consists of capital projects representing approximately \$81 million in appropriations. The vast majority of capital projects in both years – about 94 percent – are financed from non-General Fund sources. The Capital Projects section of the full budget document also looks forward to two additional fiscal years, 2022-2024.

The proposed Capital Projects Budget for 2020-22 consists of 112 capital projects representing approximately \$81 million in appropriations. 155 total projects were requested by operating departments, totaling \$97.6 million; however, 43 projects (representing approximately \$16.6 million) were not funded. The 2020-22 Budget reflects \$48.2 million in projects in the first year and \$32.8 million in the second year.

For comparison purposes, the 2018-20 Budget consisted of 108 capital projects totaling \$81.1 million in appropriations.

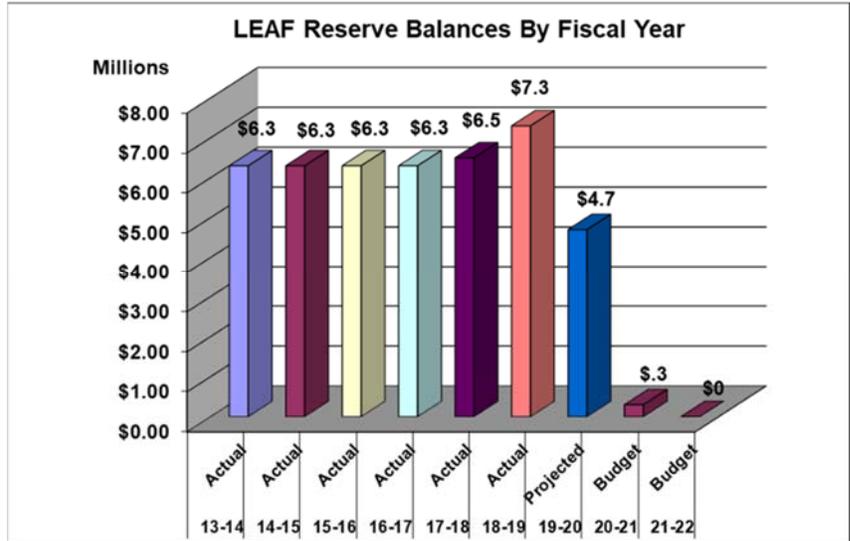
It should be noted that 23 General Fund projects were not funded due to funding limitations. This is \$12 million in the first two years of this budget.

USE OF RESERVES

This fiscal year (2020-21), the planned Local Economic Augmentation Fund (LEAF) transfers (to help achieve a balanced General Fund) are set at \$4.4 million, and the remaining \$300,000 in 2021-22, 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.

Staff also is seeking Council direction to begin borrowing from the General Fund economic stabilization reserves (presently \$19.8 million) to help balance the budget and cover General Fund departments' operational needs for 2021-22. This action would be a spending bandage for one year, but would not alleviate the City's longstanding multimillion-dollar structural deficit that has persisted since 2008-09. The City's position is urgent, therefore staff is coming to Council with this request to add another tool to its multifaceted strategy of using all remaining one-time LEAF reserves, expenditure savings by keeping vacant positions unfilled, operating reductions in department budgets, and workforce reductions.

At this juncture, given the City's unfortunate fiscal condition, there exists no reliable strategy to replenish the fund. Thus to a path to prevent further erosion of the economic stabilization reserve, save an additional disaster, is to 1) increase revenue, 2) reduce costs, and 3) reduce services. The hiring freeze is the key way to reduce staffing without layoffs or further City Council direction on the programmatic reduction or elimination.



MEASURE U OVERVIEW

Measure U is a one-cent local transaction and use tax. City voters initially approved Measure U in the June 2012 election (63.95 percent support), enacting a one-quarter-cent tax. More recently, voters in the November 2018 election (with a 74.18 percent majority) extended and enhanced Measure U at the one-cent rate. The City Council authorized that 90 percent majority of the aforementioned tax proceeds be spent on public safety-related services, then five percent on youth services, and five percent on programs for quality of life.

As you can see from the chart, Measure U-related revenues exceeded anticipated expenditures in 2019-20. But expenditures are exceeding revenues in 2020-21. Measure U is illustrative of the fiscal challenges facing the City as a whole – expenditure cost increases are expected to exceed the growth of revenue. There is no allowance for additional uses of Measure U tax proceeds other than what has already been authorized by Council.

MEASURE U FUND ANALYSIS	Year-End		
	Actual 2018-19	Estimated 2019-20	Proposed 2020-21
Beginning Fund Balance	\$ 316,640	\$ 3,134,585	\$ 4,647,054
Projected Revenue	\$ 8,450,338	\$ 17,619,432	\$ 17,315,380
Police	\$ 2,571,016	\$ 7,510,605	\$ 9,251,324
Fire	2,583,337	5,948,973	6,338,220
Recreation & Parks	185,709	1,638,315	1,876,367
Library	78,866	498,654	710,648
Community Development		40,000	
City Attorney	104,836	341,686	361,547
City Manager		20,000	20,000
Finance	108,629	108,730	108,730
Total	\$ 5,632,393	\$ 16,106,963	\$ 18,666,836
Ending Fund Balance	\$ 3,134,585	\$ 4,647,054	3,295,598