JUNE 1, 2010

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: BUDGET MESSAGE

RECOMMENDATION:

It is recommended that Council receive the 2010-12 Proposed Budget document for the period July 1, 2010, through June 30, 2012; direct staff to distribute the document; and set the time for public hearing on the budget to begin at 6:30 P.M., on June 15, 2010.

INTRODUCTION:

The City enters the 2010-12 budget process in the same manner it did in 2009-10, facing a multi-million dollar budget deficit and the need to significantly reduce General Fund operating expenses. And, like the 2009-10 budget, the 2010-12 General Fund Budget is also a product of deficit financing, reductions in departmental operating budgets, deferral of cost allocations, the postponement of numerous equipment purchases and for the first time since the early 1990's - full-time General Fund employees are subject to layoffs. Coined by some economists as the Great Recession, our recent recession has not only taken a toll on our local economy and significantly reduced our economy-driven revenues, but has also bred a new frugality into the minds and spending habits of our local consumers. So while the worst of the economic downturn has passed, the recovery appears to be slow and sluggish and it's not looking like there will be any vast turnaround in General Fund revenues anytime soon.

Like the generation that survived the Great Depression, today's consumers are becoming extremely frugal and are not spending like they used to. Rather than using their discretionary spending on taxable goods, they're rebuilding savings accounts, replenishing retirement accounts and shopping more prudently than they ever have before – which is reflected in our dismal sales tax receipts. In fact, all of the City's major economy-driven revenue sources are significantly down for the third consecutive year and the only way to put forward a balanced budget for the General Fund is to use one-time reserve funds to finance on-going operational expenses.

At the start of the 2009-10 budget process, the City faced a projected $5.5 million budget deficit. With the use of one-time Local Economic Augmentation Fund (LEAF) financing and various cost-reduction measures, staff was able to close that financial gap and submit a balanced budget for Council's consideration. At the beginning of this year's budget process, the estimated budget deficit has ballooned to an astonishing $8 million or fifteen percent of the General Fund budget. Faced with this large General Fund budget deficit, staff presented a budget preview report to the City Council at the March 16, 2010 City Council meeting and sought direction from Council on financing options to deal with this massive deficit.

At the March 16th City Council meeting, the City Council received a report on the revenue and expenditure trends of the General Fund, as well as a preliminary analysis of projected revenues and anticipated expenses for 2010-11. The analysis revealed an $8 million structural deficit. To help mitigate this multi-million dollar structural imbalance, staff presented financing options to the City Council to consider. After deliberating on these options, the City Council directed staff to reduce operating expenses in General Fund departments (three percent in public safety departments and six percent in non-public safety departments); continue to engage employee groups in discussing salary and benefit-related concessions; explore new revenue sources; reduce the financial contributions made to outside agencies by six percent; and use up to three million dollars in one-time LEAF financing to help balance the 2010-11 General Fund budget. Based on that direction, staff started the process of compiling the 2010-12 budget using the deferral of cost allocations and the use of one-time LEAF reserves as the primary financing mechanism to plug the $8 million hole in the General Fund – a financing plan similar to the one used in 2009-10.

In 2009-10, the City deferred cost allocations to General Fund departments and used over $2.5 million in one-time LEAF financing to help balance the General Fund budget. For 2010-11, staff recommends using $3,034,090 in one-time LEAF financing to once again help balance the General Fund budget. However, this deficit financing situation cannot continue to be sustained over the long-term.

As indicated above, the use of one-time reserve financing plays a significant part in closing the 2010-11 budget deficit. The other four parts to the City's multi-faceted approach include:

- All General Fund departments have reduced on-going operating expenses. Public safety departments reduced their overall departmental operating expenses by at least three percent, while the vast majority of all other General Fund operating departments reduced their total departmental expenses by six percent. In all, these reductions resulted in over $2.5 million in on-going General Fund savings in 2010-11;

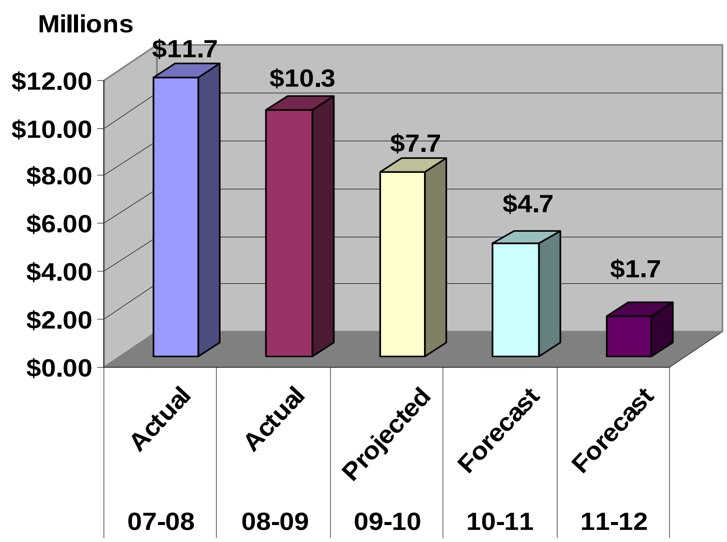
- Significant reductions in the fleet services' cost allocation formula were made to all General Fund departments in an effort to keep expenses down and help balance the budget. This will be the third and fourth year in a row that these cost allocations have been deferred. Overall, the cost allocations to General Fund departments were reduced by $1,026,400 in 2010-11 and $958,400 in 2011-12. While the reduced allocations consisted of deferring replacement and depreciation costs, it still includes charging departments for maintenance and operational expenses;

- Similar adjustments were made to the workers' compensation insurance cost allocation formula, also resulting in decreased costs to General Fund departments. Overall, the workers' compensation cost allocations to General Fund departments were reduced by one million dollars for each of the next two fiscal years. In comparison, during the 2008-10 biennial budget, the workers' compensation cost allocations were reduced over $1.6 million. Consequently, this will be the third and fourth year in a row that these costs have been deferred; and finally,

- Staff is recommending the continuation and the extension of salary and benefit-related concessions to all employee bargaining groups during this next budget cycle. In 2009-10, the City was successful in garnering salary and benefit concessions from elected and appointed officials, as well as all other City employees, both full-time and part-time. Staff recommends the continuation and possible extension of salary and benefit-related concessions to all employees as part of the comprehensive budget balancing plan for 2010-11 and intends to engage employee bargaining groups in these discussions in the late summer/early fall timeframe.

While the use of one-time reserves may have helped the City plug the financial gap in the General Fund over the last few years, this revenue source is quickly disappearing (as evidenced in the chart below).

LEAF Reserve Balances By Fiscal Year



If you'll recall, back in 2007-08, the City had approximately $11.7 million in LEAF reserves. However, over the last several years, the City has had to resort to using millions of dollars from this one-time revenue source to finance on-going operational expenses in the City's General Fund. This continued deficit financing arrangement appears to be continuing through the second year of this two-year budget as staff anticipates facing another $8 million structural imbalance in 2011-12, due primarily to relatively flat revenues and significant increases in pension-related expenses. Consequently, for the second year of the two-year budget, staff anticipates needing to use at least another $3 million to help close a portion of the estimated $8 million budget deficit. And another $3 million in LEAF financing will all but eliminate any available LEAF financing after the 2011-12 fiscal year. Furthermore, unless the economy picks-up and General Fund revenues increase substantially, more cost-reduction measures (in the $2 million range) will also be needed to balance the 2011-12 General Fund budget.

Since the 2010-12 budget document is being proposed as "two" one-year budgets, staff intends to bring back for Council's consideration amendments to address the projected 2011-12 budget deficit a year from now during the mid-cycle budget review. At that time, staff will be in a better position to address the projected budget deficit and provide the City Council with financing options.

Like previous budgets, this budget proposal is also a comprehensive financial document that presents historical information from previous years, current year activity, and the proposed budgets for 2010-11 and 2011-12. The budget compares 2008-09 actual expenditures and revenues, the current 2009-10 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 Society of Municipal Finance Officers' (CSMFO) Association.

From this point on, the remainder of this Budget Message will focus primarily on 2010-11, with the budget summary schedules, financial tables, and graphic presentations reflecting the proposed 2010-11 budget year.

ECONOMIC OUTLOOK:

The output of the National economy shrank 2.4 percent in the past year, the worst single-year decline since 1946. On a National level, the economy lost 8.4 million jobs since the recession began in December 2007, the most of any slowdown in the post-World War II era – and it will take years for the economy to reverse this decline in jobs. The weak U.S. labor market remains the single-biggest risk to economic growth for the coming years.

However, signs of an economic recovery arose in the fourth quarter in 2009. Fourth quarter profits, reported by the Commerce Department, increased by $108.7 billion to $1.47 trillion. Earnings jumped 31 percent from the same period in 2008, the biggest increase since 1984. Growing demand means retailers may be able to sustain some gains in profits even as Americans face rising foreclosures and a jobless rate that economists anticipate will be slow to retreat from the 26-year high reached last year.

Total industry auto sales exceeded 780,000 units in February, up 13 percent from February 2009. New auto sales are up about 10 percent through the first two months of the year compared to 2009. However, despite the increase in auto sales during the first two months of the calendar year, there is still a huge oversupply of auto factories in the U.S., and more plants will likely close. For example, California's sole auto manufacturing plant in Fremont closed in March laying off some 4,700 workers.

On the housing side, a new wave of foreclosures are expected to impact the housing market by the end of 2010. About 4 million U.S. homeowners are 90 days or more delinquent on their loans or in foreclosure proceedings. The large numbers of foreclosures are likely to push home prices back down in the fourth quarter of the calendar year. A majority of foreclosures will occur in California where home prices have dropped the most and the unemployment rate is 12.5 percent compared to 9.7 percent nationwide.

In California, the State is slowly emerging from the recession. While the recovery has begun, economic growth is very modest and high unemployment persists. Baseline revenue fell by more than 20 percent from their peak, and is expected to remain approximately 30 percent below 2007-08 levels. The State's major three revenue sources - the personal income tax, sales and use tax and corporation tax – will continue to be hampered during the upcoming budget year. Without corrective action, the State is projected to face a budget gap of $19.1 billion in 2010-11.

The Governor's Budget proposes a combination of spending reductions, alternative funding, fund shifts and additional Federal funds to close the $19.1 billion budget gap. Spending reductions account for $12.4 billion to help the budget. Proposed reductions include program eliminations such as the State's welfare-to-work (CalWORKS) program, further reductions to various health and human services programs, a freeze to Proposition 98 funding, and five percent salary concessions to State employees and requiring State employees to pick-up five percent of increasing pension costs.

However, the effect of California's budget crisis on local government remains uncertain. The State's $19.1 billion deficit is a moving target and it's anyone's guess on how this will finally play out and what financial impact it will have on Santa Maria. Because of these financial uncertainties and the unknown impact the State budget will have on the City, the 2010-11 budget only addresses known revenue assumptions and does not reflect or take into consideration any significant State impacts on City finances. Consequently, should the State pass a budget that has a negative financial impact on the City, staff would bring back for Council's consideration, recommendations to address and mitigate such impacts. Until then, staff will continue to hold off and not fill future vacancies, unless the vacancies are mission critical or essential to City operations. Staff also intends, as part of the continued fiscal stabilization plan of last year, to continue to hold off on filling vacant positions (even mission critical ones), until salary savings can be realized.

The forces that shaped the recent downturn at the National and State level are the same forces that brought the downturn to Santa Barbara County. The primary culprits were the bursting of the housing bubble and the reduction in consumer spending that followed. In 2000, the median home prices in Santa Barbara County were lower than in Ventura or San Luis Obispo Counties. Then, beginning in 2001, prices in Santa Barbara County began to grow at a faster pace than in the other two counties. Therefore, it's not surprising that of the Tri-Counties, Santa Barbara has the largest share of upside-down mortgages, where more properties are worth less than the amount owed. Nearly 28 percent of the County's mortgages are in a negative equity status compared to 25.8 percent in Ventura County and only 16.6 percent in San Luis Obispo County.

Starting in 2008, home sales began to pick up in the region, resulting in increased prices; but prices have now returned to mid-1990's levels. Despite these recent price gains, it is projected that there will be negative price pressure in 2010 due to rising foreclosures.

Santa Barbara County taxable sales declined dramatically in 2006 – consistent with the increase in unemployment. Total taxable sales fell by 25.8 percent from the fall of 2006 to the second quarter of 2009 when the taxable sales hit bottom. Since-then, taxable sales have grown, regaining five percent from the previous low point. And, despite the recent taxable sales gains, 2010 will remain very flat for Santa Barbara County. Consumers have curbed their debt driven spending tendencies of the last twenty years and savings rates have moved upward. But the gains in savings are primarily due to the record low taxation consumers have been enjoying. When tax cuts end, there will be another decline in spending. This means that after we see a slight return to growth in 2010, the economy will slow again in 2011. Expectations are that the County should return to more historically normal growth in 2012.

On the local level, Santa Maria is not alone in having to deal with proposed deficit financing, as other agencies all along the Central Coast are in similar situations. The economic slump is forcing numerous California public agencies, including those on the Central Coast, to implement cost-savings plans, reduce appropriations, consider tax increases, or resort to furloughing and laying-off employees. Area school districts have issued pink slip notices to selected staff, in anticipation of possible funding cuts beginning July 1. Santa Barbara County, which faces an estimated $40 million General Fund budget deficit for 2010-11, is exploring budget cuts, eliminating positions and revenue enhancement measures. In San Luis Obispo County, County officials anticipate a $17 million General Fund budget deficit and intend to address it by service reductions and eliminating about fifty vacant positions. And, the City of Santa Barbara is reportedly making close to $9 million in spending reductions for 2010-11, resulting in the elimination of over 40 full-time positions and necessitating over $2.6 million in salary and benefit-related compensation concessions with employee groups.

OVERVIEW OF THE PROPOSED 2010-11 BUDGET FOR ALL OPERATING FUNDS:

Total revenues anticipated for all operating programs in 2010-11 are estimated to be $120.9 million or $7.1 million less than in 2009-10. This represents a 5.6 percent reduction in total financing in 2010-11 for all operating programs when compared to 2009-10.

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

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2010-11
Taxes	$ 36,965,890	$ 35,838,090	$ (1,127,800)	-3.1%	29.6%
Licenses, Permits & Fines	1,453,550	1,810,200	356,650	24.5%	1.5%
Revenue from Use of Money & Property	1,401,770	1,233,530	(168,240)	-12.0%	1.0%
Revenues from Other Agencies	8,644,980	7,414,080	(1,230,900)	-14.2%	6.1%
Charges for Service	9,821,930	8,729,530	(1,092,400)	-11.1%	7.2%
Other Revenue and Transfers	7,333,260	8,053,210	719,950	9.8%	6.7%
Enterprise Fund Revenues	62,468,780	57,885,560	(4,583,220)	-7.3%	47.9%
Total	$ 128,090,160	$ 120,964,200	$ (7,125,960)	-5.6%	100.0%

The above reduction in overall revenues is largely attributed to a decrease in capital projects-related financing in 2010-11 as well as the lingering effects that the recent recession is having on City revenues. And, since a vast majority of City revenues are, in large measure, directly tied to the local economy, economy-driven revenue sources like sales taxes, transient occupancy taxes and charges for certain services are all significantly down in 2010-11.

From an appropriation standpoint, total proposed appropriations for all operating programs in 2010-11 are almost $8 million less than in 2009-10, the majority of which is attributed to a decrease in one-time capital-related projects. The proposed budget for all operating funds in 2010-11 is approximately $128.9 million. This represents almost a six percent decrease when compared to the 2009-10 adopted budget.

The proposed 2010-11 budget for all operating funds is summarized as follows:

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2010-11
Operating Programs	$ 85,069,830	$ 86,334,320	$ 1,264,490	1.5%	67.0%
Capital & Outside Agencies	37,729,140	27,999,180	(9,729,960)	-25.8%	21.7%
Debt Service	8,682,900	9,348,550	665,650	7.7%	7.2%
Transfers	5,393,820	5,247,650	(146,170)	-2.7%	4.1%
Total	$ 136,875,690	$ 128,929,700	$ (7,945,990)	-5.8%	100.0%

Operating programs are proposed to increase approximately $1.2 million. This increase takes into consideration the net affect of not funding or eliminating a total of twelve full-time positions, cost savings associated with the mandatory time off program, scheduled employee merit (otherwise referred to as time in service) increases, operational costs associated with providing revenue-offset services, and slight pension-related cost increases. As you know, in recent years, pension-related costs have been escalating and that trend appears to be continuing over the next two-year period.

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

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

Bargaining Unit	Actual 2007-08	Actual 2008-09	Actual 2009-10	Proposed 2010-11	Proposed 2011-12
Police	31.62%	31.81%	31.96%	32.57%	34.50%
Fire	28.20%	38.77%	42.51%	43.42%	46.22%
General	20.87%	22.39%	21.99%	22.26%	24.08%

In 2009-10, the overall costs associated with CalPERS retirement benefit contributions totaled approximately $9.2 million, over $497,000 more than the previous year. In 2011-12, CalPERS-related costs are skyrocketing to over $10.4 million or almost $1.2 million more than 2009-10. These ever-increasing pension rate increases are significant and continue to be an increasing financial liability for the City. In the General Fund, the increased pension rates for employees in the two public safety departments alone, total almost $650,000 more for 2010-11 – that's the cost equivalent of five police officers. For 2010-11, 14 percent of the entire General Fund's operating expenses will be CalPERS-related ($7.4 million). In 2011-12, CalPERS-related expenses increase to 15 percent of all General Fund expenses or $8.3 million. Recently, there have been several discussions at the County level regarding their insurmountable pension costs, now hovering around 22 percent of their General Fund budget. Left unchecked, these escalating pension costs will become a financial liability to all governmental agencies, so the need to gain some control over these pension costs is paramount – before it's too late. Options that the City Council should start considering include pension cost sharing arrangements with employee groups and/or a second lower tiered level of pension benefits for new hires.

In 2009-10, the City completed the $18 million Wastewater Treatment Plant Expansion Project. And since there are no significant capital projects of that magnitude being proposed in 2010-11, the capital-related appropriations are $9.7 million lower. However, there are a total of 85 capital projects costing approximately $26.6 million slated for the next two-year period – which are delineated in the Capital Projects portion of this document (Section F). The largest capital projects proposed for 2010-11 include: purchasing two 35' transit busses ($1.2 million); costs associated with the start-up expenses of the Green Waste Recycling Program ($1.2 million); upgrading the City's public safety computer aided dispatching (CAD) system ($1 million);

alternative transportation-related enhancements ($590,000); preliminary engineering and design of the Highway 101/135 interchange ($500,000); and the installation of more fixed based-reading water meters ($450,000).

Overall, debt service expenses are increasing in 2010-11, reflective of increased payments on the 1997 Water Bond Issue debt associated with the State Water Project.

Like the two previous biennial budgets (2006-08 and 2008-10), the proposed 2010-12 budget makes no provision for new reserves. This will mark the fifth year in a row that the City has not been able to make any provision for new reserves.

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

SUMMARY OF KEY GENERAL FUND REVENUES:

General Fund revenue projections for 2010-11 were estimated using 2009-10 projected receipts as the basis. Overall, General Fund revenues are anticipated to be $462,400 less in 2010-11 when compared to 2009-10. The following table shows the key General Fund revenue sources, with the top five representing approximately two-thirds of all General Fund revenues.

	Budget 2009-2010	Proposed 2010-11	Increase (Decrease)	Percentage Increase (Decrease)	Percentage of Total 2010-11
Sales Tax	$ 15,400,030	$ 14,744,000	$ (656,030)	-4.26%	27.8%
Property Tax	13,692,180	13,791,400	99,220	0.72%	26.0%
Hotel/Bed Tax	2,300,000	2,020,500	(279,500)	-12.15%	3.8%
Impacted Soils	4,026,600	3,750,000	(276,600)	-6.87%	7.1%
Construction Permits	1,008,120	1,338,000	329,880	32.72%	2.5%
Total Key Revenues	36,426,930	35,643,900	(783,030)	-2.15%	67.3%
Other Revenues	16,995,140	17,315,770	320,630	1.89%	32.7%
Total General Fund	$ 53,422,070	$ 52,959,670	$ (462,400)	-0.87%	100.0%

As you can see from the above chart, sales tax revenue is significantly down. In fact, sales tax continues to be in a three-year decline. Projected sales tax receipts for 2010-11 are estimated to be $14.7 million, approximately the same amount of sales tax the City received back in 2003-04. High unemployment, low consumer confidence, lack of consumer spending and a more frugal approach to shopping by consumers have all contributed to this significant decrease in revenue – revenue that is the life-blood of General Fund financing.

Next to sales tax, property tax is the second largest revenue source in the General Fund. Combined, both sales tax and property tax comprise approximately 54 percent of total General Fund revenues. Like sales tax, property tax is in large part, directly tied to the local economy. Therefore, staff worked very closely with our sales tax and property tax consultants in compiling revenue estimates for the next two-year budget period. In addition, staff used a conservative approach in projecting revenues since the City is in the midst of a very sluggish and prolonged economic recovery.

With regard to property taxes, the recent housing collapse, the high foreclosure rates and the high number of property owners' requesting reassessments of their properties have all resulted in a decrease in the assessed valuation of properties throughout the City. Like sales tax, property tax is also in a three-year decline. This decline in property tax also takes into consideration a decline in property tax in-lieu of vehicle license fee revenues. In total, property tax revenues in 2010-11 are estimated to be approximately $13.8 million – an amount equivalent to the property tax amount the City received back in 2006-07.

The other two key General Fund revenue sources, Hotel/Bed Tax (otherwise known as Transient Occupancy Tax) and Impacted Soils are also showing projected declines of twelve and seven percent, respectively. The decrease in Hotel/Bed Tax is consistent with the downturn in the local tourism industry and the decrease in Impacted Soils revenue is more of a correction given the current market conditions.

During 2010-11 construction-related permit revenue is anticipated to increase almost $330,000. However, this increase is tempered somewhat by the fact that the projected $1.3 million revenue estimate is still $1.5 million less than the City received during the height of the construction boom.

OVERVIEW OF THE 2010-11 GENERAL FUND PROPOSED APPROPRIATIONS:

Recommended appropriations for the General Fund for 2010-11 are almost $53 million. This represents a 1.7 percent, or a $915,360 decrease from 2009-10. Operating costs are being reduced by $644,650. This reduction is primarily due to not funding or eliminating a total of twelve full-time positions and salary and benefit-related savings associated with the implementation of the mandatory time off (otherwise known as a furlough) program.

The below decrease in appropriations in outside agencies are reflective of decreased transient occupancy tax returns (which correlates into a corresponding reduction in the amount the City contributes to outside agencies) as well as Council's direction from March 16th to reduce the City's contributions to outside agencies by an additional six percent.

The proposed 2010-11 General Fund budget is summarized as follows:

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2010-11
Operating Programs	$ 48,627,880	$ 47,983,230	$ (644,650)	-1.3%	90.6%
Outside Agencies	1,074,910	967,720	(107,190)	-10.0%	1.8%
Debt Service	1,464,100	1,535,450	71,350	4.9%	2.9%
Transfers	2,708,140	2,473,270	(234,870)	-8.7%	4.7%
Total	$ 53,875,030	$ 52,959,670	$ (915,360)	-1.7%	100.0%

Debt service for 2010-11 is slightly more than in 2009-10. The debt service requirement is for debt obligation for the parking structures and parking lots at the Town Center Mall. The debt service is an obligation of the Redevelopment Agency (RDA) and represents approximately $2.7 million per year. The RDA pays approximately $1.2 million per year from property tax increment income. The remaining balance (almost $1.5 million) is a contractual obligation of the City's General Fund.

On May 4, 2010, the City received notification that the ruling came in regarding the California Redevelopment Association's (CRA's) lawsuit, filed in Sacramento Superior Court seeking to invalidate provisions of Assembly Bill X4-26, passed in July 2009 as part of the 2009-10 State budget. The bill authorized a total of $2.05 billion in RDA funding to be used to fund the State's obligation to schools. The ruling went against CRA and authorized the State to seize RDA funds from cities. Under the terms of the bill, the City of Santa Maria was required to pay $460,000 to the County Assessor on May 10, 2010. The second installment of $96,000 is due in 2010-11 and another installment in 2011-12. While CRA is planning on appealing the Court's decision, the above amounts are incorporated into the 2010-12 budget with payments being made by the General Fund, since no money exists within the RDA budget for the payment.

And finally, the above decrease in transfers is largely attributed to a reduction in the amount the General Fund is transferring to the Library Fund for 2010-11. As part of the Citywide budget reduction plan, staff is proposing that the General Fund reduce its contribution to the Library Fund and that reserves in the Library's fund balance be used to finance a portion of the Library's operational expenses in 2010-11.

From a department perspective, with the exception of the Police Department, all General Fund departments show a decrease in appropriations in 2010-11 (as shown in the table below):

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent Increase (Decrease)
Mayor & Council	$ 170,890	$ 155,360	$ (15,530)	-9.1%
City Attorney	1,078,540	1,011,630	(66,910)	-6.2%
City Manager	2,243,870	2,110,840	(133,030)	-5.9%
Administrative Services	7,773,530	7,476,420	(297,110)	-3.8%
Community Development	3,024,000	2,851,250	(172,750)	-5.7%
Recreation & Parks	7,992,020	7,916,160	(75,860)	-0.9%
Fire	8,121,900	7,954,750	(167,150)	-2.1%
Police	20,851,660	21,032,300	180,640	0.9%
Public Works	2,618,620	2,450,960	(167,660)	-6.4%
TOTAL	$ 53,875,030	$ 52,959,670	$ (915,360)	-1.7%

The above reductions are all part of the General Fund's budget reduction plan that reduced staffing costs and decreased operational expenses in each departmental budget. Initially, appropriations were reduced in each department (three percent in public safety departments and six percent in non public safety departments); then departmental budgets were adjusted based on cost allocations, anticipated merit increases and revenue offset programs.

In the Mayor & Council budget, while operational expenses were reduced by six percent (primarily in travel and business expense reductions), staff also redistributed the Citywide audit expense to other funds - resulting in the Mayor & Council budget being reduced by a total of nine percent.

The Department of Administrative Services accounts for all of the transfers-out, debt service payments, contributions to outside agencies and contractual obligations of the General Fund.

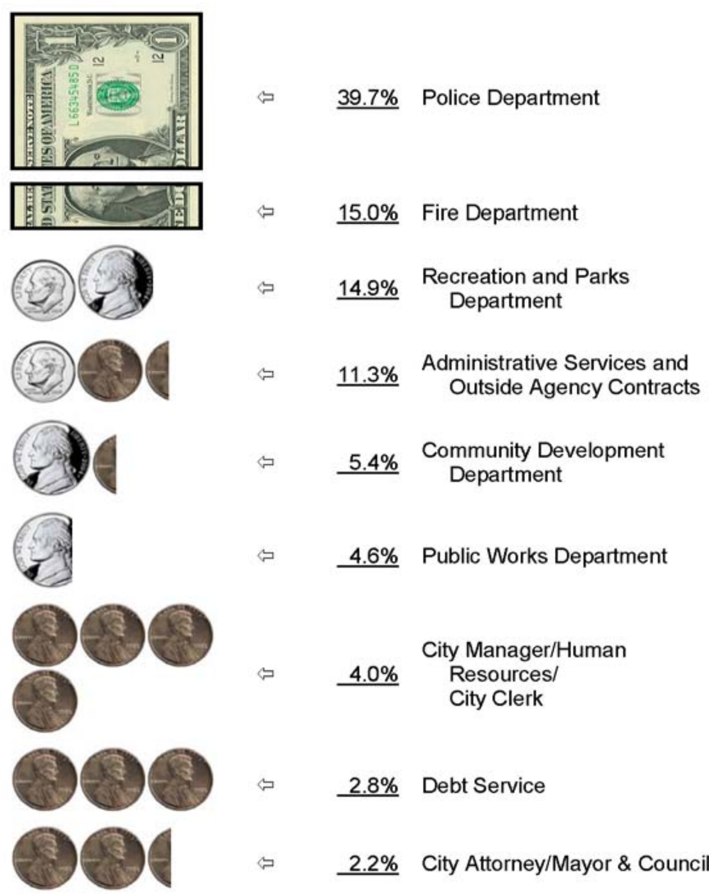
Because the majority of these expenses are fixed and cannot be reduced, the six percent reduction in departmental expenses was based on a portion of the department's total appropriations; resulting in an overall "net" reduction of 3.8 percent. And, while the reduction in total appropriations in the Department of Recreation and Parks appears to be less than one percent, the department actually reduced operating expenses by six percent. However, revenue offset programs and scheduled employee merit (time in service) increases, necessitated the need to increase appropriations, which resulted in an overall reduction of $75,860.

The Fire Department shows a 2.1 percent reduction in appropriations, and while the department did reduce their operating expenses by three percent, an increase in revenue offset grant-related expenses resulted in the overall reduction in departmental appropriations being closer to two percent rather than three percent.

And finally, in the Police Department, while five positions will be kept vacant and not funded in 2010-11, any salary savings was mitigated by increased business and communication expenses, scheduled merit increases for existing staff, and anticipated increases in overtime. In all, total appropriations in the Police Department are $180,640 more than in 2009-10.

In total, 2010-11 General Fund appropriations are $915,360 less than in 2009-10, and for comparison purposes, the 2009-10 appropriations were more than $1.1 million less than 2008-09. Consequently, General Fund expenses have been reduced approximately two percent each year for the last two years.

While total appropriations in the General Fund are $52.9 million, the vast majority of General Fund expenses are spent on the two public safety departments. Combined, these two departments account for almost 55 percent of all General Fund expenses. As you can see (from the illustration on the right), the Police Department alone accounts for almost 40 cents of every dollar spent in the General Fund; with the Fire Department accounting for 15 cents of every dollar spent in the General Fund. Expenses in the Recreation and Parks Department account for the third highest departmental expense in the General Fund, followed by the Department of Administration Services (which includes the City's financial contributions to outside agencies). The remaining General Fund departments account for pennies on the dollar for each General Fund dollar spent.



SUMMARY OF PROPOSED MAJOR PROGRAMS:

I. Public Safety Budgets

The proposed budgets for Public Safety are as follows:

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total General Fund
Police Department	$ 20,851,660	$ 21,032,300	$ 180,640	0.9%	39.7%
Fire Department	8,121,900	7,954,750	(167,150)	-2.1%	15.0%
Total	$ 28,973,560	$ 28,987,050	$ 13,490	0.0%	54.7%

As part of the General Fund budget reduction plan to decrease operational expenditures, the public safety departments were asked to identify proposed reductions in their operating budgets. Through this process, operational expenses representing three percent and four percent were identified and reduced in the Police Department and Fire Department, respectively. In the Police Department, five positions are being kept vacant and not funded; however, increased business and communication expenses and scheduled merit increases negate any salary savings in the department and have resulted in the department actually increasing appropriations by $180,640. As for the Fire Department, the above decrease in appropriations is due to keeping a management level position vacant and not funded in 2010-11.

In total, six vacant public safety-related positions (five in Police and one in Fire) have been identified to be left vacant and unfunded (but not eliminated) during the 2010-12. In the Police Department, a vacant Crime Analyst, a Dispatcher and three Police Officer positions will be kept vacant; and in the Fire Department, the vacant Deputy Fire Chief position will be kept vacant through this budget cycle or until there are sufficient revenues to finance these positions. Not filling the three vacant Police Officer positions will result in the discontinuance of the DARE Program and reassignment of a Beat Coordinator and School Resource Officer from the Community Services Unit back to patrol.

II. Water Resources Budget

The following summarizes the proposed Water Resources budget for 2010-11:

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2010-11
Operating Programs	$ 10,089,030	$ 10,278,880	$ 189,850	1.9%	26.8%
State Water & CCWA	18,562,390	18,493,390	(69,000)	-0.4%	48.3%
Capital	4,918,900	2,446,110	(2,472,790)	-50.3%	6.4%
Debt Service	6,000,400	6,626,800	626,400	10.4%	17.3%
Transfers	418,870	441,200	22,330	5.3%	1.2%
Total	$ 39,989,590	$ 38,286,380	$ (1,703,210)	-4.3%	100.0%

Appropriation increases in the operating program area are attributed to hauling costs associated with the need to contain and transport contaminated storm water to an out-of-town facility, a portion of the Connect CTY community alert system operating contract expense that is being shifted to this program area, costs associated with the groundwater management plan, and retention basin irrigation expenses. Regarding the latter expense, the capital projects portion of the budget document contains a proposal to finance a secondary system for watering large open spaces using groundwater. Once this project is completed, it should reduce operational expenses in this fund.

The overall $1.7 million decrease in this program area is largely attributed to a $2.4 million decrease in capital-related projects slated for 2010-11. The slight decrease in State Water and the Central Coast Water Authority (CCWA) costs can be attributed to a reduction in State Water variable costs due to the lower allocation of State Water Project deliveries. The decrease in State Water Project deliveries is a direct result of a Federal Court Judge's decision to protect the Delta Smelt and limit the delivery of State Water. An analysis of the State Water and Central Coast Water Authority costs, as well as the debt service obligation in this fund, can be found in Section C of this document. And, the increase in debt service is primarily due to increased debt service payment on the City's 1997 Water Revenue Bonds.

III. Solid Waste Budget:

The following summarizes the proposed Solid Waste budget:

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2010-11
Operating Programs	$ 16,063,870	$ 16,343,580	$ 279,710	1.7%	86.4%
Capital	7,585,020	2,056,310	(5,528,710)	-72.9%	10.9%
Transfers	491,900	515,090	23,190	4.7%	2.7%
Total	$ 24,140,790	$ 18,914,980	$ (5,225,810)	-21.6%	100.0%

The Solid Waste budgets represent the total appropriations for residential and commercial collections and landfill services. The total Solid Waste budget shows a decrease of over $5.2 million. Like the Water Resources Fund, the reduction in this program area is also largely attributed to a decrease in capital-related projects. Of the two million dollars in capital-related projects in 2010-11, the majority of it ($1.2 million) is attributed to the start-up costs associated with the Green Waste Recycling Program - a recycling program that was successfully initiated in 2009-10 on a trial basis.

In 2010-11, staff recommends expanding the Green Waste Recycling Program throughout the City after the appropriate Proposition 218 proceedings are conducted. Contingent upon City Council approval and the successful Proposition 218 proceedings, containers, collection vehicles, and two solid waste equipment operators (one in 2010-11 and one in 2011-12) will be needed for the Citywide implementation, which could occur as early as the summer of 2011. If approved, the program would extend the life of the existing landfill and defer capital costs to build the new landfill. As a result of participating in the proposed Green Waste Recycling Program, residents would have an ability to downsize from their standard 90-gallon refuse container to a 60-gallon refuse container and under this scenario, would make their participation in this recycling program cost-neutral.

Solid Waste operating program expenses are increasing in 2010-11, due primarily to recycling-related operating costs associated with hauling expenses of the Landfill's Recycling Park and the proposed new Food Waste Recycling Pilot Program. The Recycling Park has been a very successful program in diverting approximately 1,000 tons of recyclable material from being buried at the landfill on a monthly basis. Because of the success of this program and the increase in recyclables, additional funds are needed to cover hauling-related expenses. Also, staff proposes to embark upon a new Food Waste Recycling Pilot Program for large commercial users. The proposed program would involve receiving food waste from large scale food waste producers, such as restaurants and schools. However, these additional appropriations will be more than offset by the cost savings associated with saved landfill capacity and extending the life of the existing landfill.

The Department of Resources Recycling and Recovery (CalRecycle), formerly the California Integrated Waste Management Board, annually recalculates the financial closure requirement for the landfill, accounting for inflation, changes in technology and amendments in regulations. In August 31, 2009, the calculated present dollar value of the closure requirement was $19.2 million. The City is required by State and Federal laws to provide assurance that it will complete its closure and post-closure requirements. A trust fund has been established that meets Federal and CalRecycle requirements. Sufficient funds can be found in the trust fund to meet the aforementioned closure requirements.

IV. <u>Capital Projects Budget</u>

In all, $26.7 million of capital and maintenance projects are proposed over the next two years. This includes approximately $12.5 million for new projects in 2010-11, and an additional $14.2 million in new projects for 2011-12. Compared to the 2008-10 budget, which had over $82.2 million of capital and maintenance-related projects, proposed project expenditures for 2010-12 are significantly down. The General Fund Capital Projects budget totals $1.8 million, $11.8 million less than 2008-10, with the vast majority of all proposed expenditures being public-safety related. Noteworthy capital projects that are General Fund-financed include: the public safety computer aided dispatch and records management system upgrade ($1 million); computer and technology-related upgrades ($480,560); the annual park restroom project ($200,000); and furnishings and equipment for both new fire stations ($136,380).

Other noteworthy non-General Fund capital projects in 2010-11 include: the Green Waste Recycling Program ($1.2 million); two new 35' transit busses ($1.2 million); alternative transportation-related enhancements ($590,000); preliminary engineering and design of the Highway 101/135 interchange ($500,000); the installation of more fixed based-reading water meters ($450,000); as well as various streets and road-related projects. A comprehensive list of all proposed capital projects can be found in Section F of this document.

The proposed mobile equipment and replacement budget for 2010-12 reflects $3.7 million in appropriations. Fleet procurement and replacement methods have been modified, resulting in a decrease in annual capital expenditures. The initial list of vehicles and equipment set to be replaced in 2010-11 was 124 units at an estimated replacement cost of $9 million. Following a thorough safety and condition inspection of each unit, staff determined that only 46 of the 124 units required replacement, thus saving the City over $5.3 million in capital expenses and over $100,000 in operating expenses.

V. Measure A and Gas Tax

In November 2008, voters in Santa Barbara County approved Measure A, the half-cent sales tax dedicated to streets maintenance and transportation system improvement projects, and 2010-12 will be the first budget cycle since this Measure was approved. Measure A is the reauthorization of Measure D which was the original half-cent sales tax measure previously approved by the voters back in 1989.

The City anticipates receiving approximately $4 million per year in Measure A local share revenues during the first few years of the thirty-year program. However, because Measure A distributes funds to a wide variety of transportation-related programs that were not included in Measure D, the City will be receiving approximately one million dollars less per year than under Measure D. To exasperate this decrease in available financing even more, the estimated revenues from Measure A will be less than anticipated due to the sluggish economy and lack of consumer spending.

This decrease in Measure A financing will be addressed by a corresponding reduction in the City's planned capital projects; namely, the annual Citywide chip seal project which may necessitate the need for additional financing from the Gas Tax Fund. Another nuance associated with Measure A deals with a new methodology to determine the City's Maintenance of Effort (MOE) requirement. Under the new Measure A MOE, the City is required to maintain historic expenditure levels for street maintenance which are higher than the previous Measure D. Currently, staff is working with regional and other local government agencies to better define the MOE threshold.

While the new Measure A reduces the local share that the City receives for street maintenance purposes, it does provide funding for important alternative transportation-related programs that were previously not funded through Measure D. During the next two-year period, over $13.2 million in street-related capital projects are being proposed, of which, $1.2 million is Measure A financed and $4.8 million is Gas Tax financed. In 2010-12, Measure A will be financing alternative transportation-related projects, such as the Safe Routes to School project, Interregional Transit-related projects, bicycle and pedestrian programs and door-to-door bus service for the elderly and disabled. Highlighting some of the Gas Tax financed projects in 2010-12 are road widening improvements on West Stowell and West Battles, the Hermosa Street reconstruction project, the engineering and design of the Highway 101/135 Interchange, and various street reconstruction, chip seal and street overlay projects.

VI. Contributions to Outside Agencies

During last calendar year (January 1, 2009 through December 31, 2009) the transient occupancy tax (bed tax) revenue decreased slightly more than ten percent when compared to the same period one year earlier. Contributions to outside agencies, such as the Chamber of Commerce and the Historical Society are tied to the bed tax and allocation amounts are prescribed by the Municipal Code, as are contributions toward economic development services. However, on March 16, 2010, during the Budget Preview City Council Agenda

Report, the City Council directed staff to reduce the City's contributions to outside agencies (excluding the Historical Society and the Museum of Flight) based on the aforementioned decrease in bed tax revenue and taking into consideration the City's budget reduction plan of six percent (to all non-public safety General Fund operating departments). As for the Historical Society and the Museum of Flight, rather than tie these contributions directly to a percentage of bed tax receipts, the City Council directed staff to allocate $15,000 to each agency in 2010-11. Accordingly, the following is a summary of the 2010-11 proposed contributions to outside agencies using bed tax revenues pursuant to previous City Council direction:

	Adopted 2009-10	Proposed 2010-11	Increase (Decrease)	Percent of Total 2010-11
Chamber 8% Bed Tax	$ 319,490	$ 283,570	$ (35,920)	67.6%
Economic Development Contract	142,930	120,520	(22,410)	28.8%
Historical Society	23,960	15,000	(8,960)	3.6%
Total 8% Allocation	486,380	419,090	(67,290)	100.0%
Chamber 2% Bed Tax	279,560	248,120	(31,440)	100.0%
Total	$ 765,940	$ 667,210	$ (98,730)	100.0%

Funding for the Santa Maria Museum of Flight is provided directly from General Fund reserves and is not tied to bed tax receipts or the Municipal Code as are the contributions to the aforementioned organizations. The City Council initially made a decision to fund the Santa Maria Museum of Flight in May of 1991, and has provided funding for the past eighteen fiscal years. The proposed budget calls for contributions to the Santa Maria Museum of Flight to be consistent with that of the Santa Maria Historical Society at $15,000.

Going forward, the Chamber of Commerce has agreed to continue to provide economic development services to the City on the above reduced amount for the duration of this two-year budget cycle. As a result of their continued commitment, the economic development services contract as well as the contracts with the other outside agencies will be before the City Council for consideration and adoption in July 2010.

FUTURE ISSUES:

New Fire Station #5 and Relocation of Fire Station #3

As part of the American Reinvestment and Recovery Act of 2009, the City of Santa Maria was awarded $4.3 million in Federal Stimulus Funding to construct a new northwest and northeast fire station.

Pursuant to the Fire Department's Standards of Cover Report, the need for a fifth fire station in the northeast portion of the City and the relocation of Fire Station #3 to the northwest portion of the City is warranted. The planning and design of these two facilities is currently underway and proposed sites have been identified. Land has already been identified for the relocation of Fire Station #3 at the southern portion of Preisker Park and property has already been secured at 1670 East Donovan Road for Fire Station #5.

Architectural renderings, design work and construction plans for these two stations have already been completed. Staff is awaiting final environmental review approval before this project can advance to the next phase – the construction/bidding phase. According to the Federal guidelines, construction of these two stations will need to be completed and all monies disbursed by September 2012.

As planned, once the new Preisker Park Fire Station is completed, staff from the existing Fire Station #3 will be reassigned to the new Preisker Park location. This new northwest location will provide an enhanced public safety element in the City by way of providing shorter response times for emergency fire fighting personnel to the northwest quadrant of the City. Emergency medical response will also be enhanced as Fire Administration is currently in discussions with American Medical Response (AMR) regarding the possibility of AMR sub-leasing the soon-to-be-vacant Fire Station #3 at Donovan and College.

However, because of dwindling revenues in the General Fund, a new dedicated revenue source will need to be identified in order to finance a new complement of fire personnel to staff the new Fire Station #5 at Suey and Donovan. Staff estimates that the total annual cost to staff and operate a new fire station is $1.5 million: $1.2 million in personnel-related expenses and approximately $300,000 in operational-related expenses. Consequently, without an identified new revenue source (such as a utility users' tax, a sales tax over-ride, or a parcel tax assessment) it will be difficult, if not impossible, to finance an additional nine new fire fighters without significantly decreasing the level of service in other General Fund departments. Therefore, staff intends to bring back for Council's consideration, alternative funding methods to finance the ongoing operational costs associated with staffing a new fire station in the northeastern portion of the City.

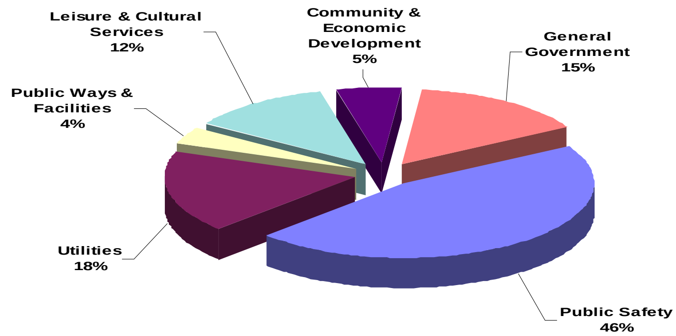
SUMMARY OF PROPOSED STAFFING RECOMMENDATIONS:

This section summarizes the personnel changes being proposed in the 2010-11 budget for full-time and part-time positions. Full-time (FT) employees work 40 hours per week; part-time (PT) employees work 32 hours per week; limited service (LS) employees can work up to a maximum of 19 hours per week.

For 2010-11, proposed personnel recommendations bring Citywide staffing totals to 460 authorized full-time positions and 72 part-time employees, for a total of 532 authorized positions. However, six public safety-related positions of the City's 460 authorized full-time positions will remain vacant during 2010-11; this is in response to the City's need to reduce operational costs as a result of the Citywide budget reduction plan.

When compared to the number of positions approved in 2009-10, staffing proposals for 2010-11 show a net decrease of six full-time authorized positions and twelve overall funded positions. The proposed authorized staffing recommendations in 2010-11 bring the full-time employee-to-population ratio for the City to 4.93 employees per thousand residents – still far below the average (8.83 per thousand) of other Central Coast cities. As a comparison, the approved staffing recommendations from ten years ago, in 2000-01, included a full-time employee-to-population ratio of 4.81 employees per thousand (residents).

For the General Fund, in 2010-11 there are 332 full-time positions and 37 part-time positions proposed for a total of 369 positions. Of the 332 full-time General Fund positions, the Police and Fire budgets comprise 212 positions, or 64 percent of all full-time General Fund related positions and 46 percent of all allocated Citywide full-time positions as depicted in the chart below.



By comparison, in 2000-01 there were only 161 full-time public safety-related positions. Since that time, the full-time complement in the public safety departments has increased 32 percent while the population of the City during this same time period has increased 28 percent. In the Police Department alone, the sworn complement of officers represents one out of every four full-time employees (Citywide).

The overall proposed decrease in personnel in the General Fund for 2010-11 consists of the elimination of six full-time positions and not funding an additional six full-time public safety-related positions. Of these six full-time positions that are recommended for elimination, three are currently filled positions that would be subject to the layoff procedures. One of the positions is a Code Compliance Officer in the City Attorney's Office, one is a Human Resource Assistant in the City Manager's Office, and the other position identified to be laid-off is an Office Assistant in the Department of Administrative Services.

In addition to the above, there are also two full-time positions that are being reduced to part-time in the Library, two part-time maintenance-related positions that are being increased to full-time in the Utilities Department, an additional solid waste equipment operator is proposed in each of the next two fiscal years (to assist with the green waste recycling program), and one management-level position that is being eliminated in the Department of Public Works. The latter is part of a proposed reorganization in the Department of Public Works that is discussed in more detail later on in this budget document.

To summarize, a total of six full-time positions are being eliminated and six full-time public safety-related positions are proposed to be authorized, but not funded, during 2010-12. One additional solid waste equipment operator is being proposed in 2010-11 to assist with the green waste recycling program.

A chart summarizing the full-time and part-time positions by department (Attachment B) is attached to this Budget Message. The chart shows the 2009-10 allocation and the changes proposed for 2010-11.

The following provides a more in-depth summary of the proposed personnel changes:

Police Department – As a result of funding constraints and part of the budget reduction plan, no new positions are being proposed in the Police Department over the next two year period. Rather, the proposed budget calls for five currently vacant positions to be authorized, but not funded. These five vacant positions are a Crime Analyst, a Dispatcher I and three police officers.

The Crime Analyst position, vacant since August 2009, assists the department in conducting special studies and statistical data analysis - analysis that helps document, track, and possibly predict criminal activity within the community. The Dispatcher I position is one of 15 authorized full-time Dispatchers and four Senior Dispatchers that cover four existing watches (the AM shift, the day shift, a cover shift, and the night shift). Staff is proposing to continue to keep vacant and not fund one full-time Dispatcher I position and address any unforeseen coverage issues within the Communications Center, with overtime or by using limited service Certified Dispatcher Aides.

Not filling the three vacant police officer positions will result in the discontinuance of the DARE Program and reassignment of a Beat Coordinator and School Resource Officer from the Community Services Unit back to patrol. In late 2009, the DARE Officer retired and since then the department has not reassigned anyone to the full-time DARE Officer position. In order to leave two Police Officer positions authorized, but not funded, the department would most likely reassign one Beat Coordinator and one School Resource Officer from the Community Services Unit back to patrol. Currently, one Beat Coordinator has been temporarily assigned to work with the Gang Suppression Team, so this redeployment of another Beat Coordinator would impact the delivery of service in the Community Services Unit.

Fire Department – In early 2009, the Deputy Fire Chief retired, and since then the department has not filled this vacancy. The Deputy Fire Chief provided supervision for shift Fire Battalion Chiefs, supervised the Fire and Life Safety Division and coordinated the department's internal administrative operations. Since his departure, these functions have been disseminated amongst the Fire Battalion Chiefs and the Fire Chief. As part of the department's budget reduction plan, staff recommends keeping the Deputy Fire Chief position vacant, and not funded, throughout this budget cycle. This vacant position, along with the five police department positions, constitutes the six vacant public safety-related positions that staff is recommending be authorized but not funded during 2010-12.

Utilities – Because of the loss of the Sheriff's Work Alternative Program and coupled with the increased recycling programs at the landfill and increased customer service demands, a number of part-time staff have been working in excess of their assigned hours. Because of the need for additional resources, staff recommends decreasing the part-time complement in the Solid Waste Division by two Laborer III positions and increasing the full-time complement by two Maintenance Worker I positions. This adjustment should allow staff the ability to ensure that daily landfill regulatory compliance is achieved, safety issues are minimized and the demand for customer service is maximized. Also, due to the introduction of the new green waste recycling program, staff is requesting an additional solid waste equipment operator in each of the next two fiscal years to properly and systematically service recycling customers.

Public Works – As a result of the retirement of the Streets & Facilities Manager, the Public Works Department is proposing a reorganization within the department to maximize operational efficiencies, as well as reduce personnel expenses. The proposed reorganization calls for the elimination of the Streets & Facilities Manager and a redistribution of duties amongst several other existing positions.

Under the proposed reorganization, the existing Streets & Facilities Supervisor would assume a larger portion of the supervisory oversight of the Streets and Facilities Division and the incumbent would report directly to the department head. Also, reporting directly to the department head will be the Fleet Services Supervisor, who will now play a more active role in the overall administration of the Citywide Fleet Services Program. The Streets Maintenance Supervisor will also see a change in reporting assignments as well as be responsible for overseeing the preventive maintenance activities associated with traffic signals, streetlights and the pavement marking program. To assist in this latter area, staff recommends decreasing the full-time complement by one Traffic Signal Technician position and increasing the personnel complement by one Traffic Operations Coordinator in order to more effectively coordinate the traffic signal and pavement marking efforts of the department.

In addition to the elimination of the Streets & Facilities Manager position, the department is also proposing the elimination of the soon-to-be-vacant Engineering Technician III position.

Recreation and Parks – With the retirement of a full-time Senior Crew Leader/Maintenance Specialist and a full-time Maintenance Worker II, the department is recommending eliminating these two vacant positions in order to reduce operational costs. The department is also proposing to shift the cost of six part-time Laborer III positions from the General Fund to the Landscape Maintenance Districts and thereby make a corresponding reduction in the Landscape Districts' contractual services account. While this recommendation will save six part-time positions from being eliminated, it will result in the redistribution of workload amongst existing staff. While reassignment of these employees may result in some delays in routine park maintenance operations, these employees will continue to assist in general maintenance-related activities associated with irrigation, construction, renovation, graffiti abatement and tree-related service calls.

Library – During this past year, two full-time Library I's retired. Because of the need to garner salary savings, these two positions were replaced with two-part time Library Technical Assistants. As part of the 2010-12 budget, staff recommends the elimination of these two full-time Librarian I positions and replacing them with part-time positions, thereby necessitating the need to increase the personnel complement by two part-time positions and decrease the full-time complement by two full-time positions. Also, in August 2010, the current City Librarian plans to retire. This pending retirement provides the City with an opportunity to garner additional salary savings by leaving this position vacant until early 2011-12.

City Attorney's Office – Currently, the City Attorney's Office has six Code Compliance-related officers and a Code Compliance Technician that deal exclusively in addressing code enforcement and compliance issues; ten years ago, there were two Code Compliance-related officers and no Code Compliance Technician. As part of the department's budget reduction plan, the department is recommending the elimination of one Code Compliance Officer. Since all positions are currently occupied, this recommendation will result in one full-time employee being the subject of a layoff.

City Manager's Office – During 2009-10, in an effort to reduce operational costs throughout General Fund departments, the City initiated a hiring chill. This hiring chill will be carried forward into 2010-12 and has resulted in a significant decrease in recruitment-related activities and duties in the Human Resources Division. Because of this decrease in workload, coupled with the need to reduce operational expenses in the City Manager's Office, staff is recommending the elimination of one Human Resources Assistant in the Human Resources Division. Since this position is currently occupied, this recommendation will result in the identified employee being the subject of a layoff.

Administrative Services – As part of the budget reduction plan, staff is recommending the elimination of the Office Assistant I position in the department. The incumbent currently provides staff support to the Risk Manager (which is now assigned to the City Manager's Office), the Utility Billing operation and the general administrative office. The elimination of this position will result in a redistribution of the incumbent's duties amongst other staff, as well as the transfer of some duties to the City Manager's Office. And like the two other previously mentioned positions being recommended for layoff, this position is also occupied and will result in the incumbent being subject to the layoff process.

To summarize the above, for the first time since the mid-1990's, full-time City employees will be the subject of layoffs. In all, three full-time General Fund positions will be laid-off, three full-time vacant General Fund positions will be eliminated and six full-time public safety-related positions will be kept vacant, and not funded, during 2010-11.

ACKNOWLEDGMENTS:

As I have mentioned before, and I will say it again, the employees of this City are of the highest quality and are second to none. 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 thanks goes out to the staff of the Department of Administrative Services and my office for the important roles they played in developing this budget. The Administrative Assistant in Department of Administrative Services is also deserving of special recognition for the extra effort she devoted to formatting and assisting in the production of this budget document. To all of the above, my sincerest appreciation is extended.

TIM S. NESS
City Manager

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