

July 1, 2001

Honorable Mayor and City Council:

On behalf of the City staff, I am pleased to submit the adopted operating and capital budget for Santa Monica in Fiscal Year 2001/02.

A Remarkable Decade

The last decade of economic expansion, a period of unprecedented duration, has made possible a significant reinvestment in the City. Park acquisition and renovation, initiation of a new Main Library and Public Safety building, enhancement of a major commercial boulevard, replacement of an aging Fire Station, acquisition of 11 acres in the Civic Center, expansion and modernization of the Transportation Yards, upgrade of traffic signals and crosswalks, aggressive construction, acquisition and rehabilitation of affordable housing, and replacement of most of the City's sewer system are among the projects that have prepared Santa Monica's infrastructure to meet the challenges of the 21st Century.

During this period, the demand for City services also increased and the growth of the local economy has made it possible to respond to many community priorities without compromising basic services. Support for public schools, quality after-school recreation programming, library hours, support for social services reaching youth, the disabled, the elderly and the homeless, co-mingled recycling, green-waste collection, sustainability outreach and enhanced information flow to the public have been initiated and/or expanded over the decade.

We have cause as a community to celebrate these achievements.

Transition and Commitment

Now Santa Monica, like the rest of the state and nation, is faced with greater uncertainty regarding the economy than has been the case in recent years. Nationally, key economic indicators are signaling a slowing of growth. There is real concern that a recession will ensue although there are differences of opinion regarding its probable duration and depth.

In California, the energy crisis is unresolved resulting in erosion of financial market confidence and consumer trust. Dedication of state General Fund reserves to energy purchases may impede progress on other important State priorities, particularly education and infrastructure.

Santa Monica's diverse revenue base was a key factor in the City's rapid recovery from the recession of the early 1990's and the destruction caused by the 1994 earthquake. Preserving the City's flexibility to respond to changing economic conditions is essential.

So, to a greater degree than in recent years, the adopted budget represents a balancing of considerations. While sensitive to the economic transition, the expenditure plan seeks to respond to the expressed concerns and priorities of Santa Monicans. This community expects and deserves high quality services, delivered efficiently by a responsive work force. The City actively seeks input on customer satisfaction levels and emerging concerns in order to fulfill its commitment to serving the needs of residents and others who enjoy the City. Described briefly below, are initiatives that confirm for the public that their City government is listening.

We Are Listening

The City Council, in concert with the community, has reaffirmed the following priorities for 2001/02:

- ◆ Education
- ◆ Affordable Housing
- ◆ Quality of Life/Neighborhood Livability
- ◆ Mobility
- ◆ Sustainability/Environment

A work program consistent with these priorities is included in the complete City budget document and staff is committed to achieving it. In addition, other initiatives have also been included that enhance customer service and strengthen the internal services that improve the efficiency of operating departments. The reader of this summary is encouraged to review these matters in detail. Copies of the complete budget are available in all City libraries and can be obtained for free from the Finance Department.

Parking and traffic remain key dis-satisfiers for residents. A task force made up of Council members, a Planning Commissioner and local business people is completing an assessment of parking dynamics and needs in the downtown area. Resources will be available immediately to commence the resulting plan of action. Positions are added for parking enforcement to ensure that the purposes of time-limited and preferential zones are achieved. Lessons learned during the summer of 2000 are incorporated in an enhancement of the Police Department budget that will deploy specialized traffic control and sworn enforcement in the Downtown/Transit Mall area. (Details of this enhancement are still under review at this writing.) An EIR will be conducted for widening of the pier bridge and incorporating a ramp to the parking lot just north of the Pier. Funds are also provided to continue enhancing crosswalks and signalization. The City will track the effectiveness of these efforts both in regard to circulation improvement and public perception, adjusting strategies as necessary.

The City is committed to assisting residents and businesses with strategies to lessen the financial burdens imposed by the energy crisis. The City Council authorized a rebate to customers of half the estimated \$2.8m that would result from taxation at the higher energy prices. Because the greatest savings will be realized from conservation (and only aggressive conservation has the potential to avert summer blackouts) an ambitious educational campaign is being formulated. The City hosted an energy conservation conference for small businesses to introduce them to measures they can take and services they can access. Council also created an energy conservation fund with the remaining half of the estimated \$2.8m. This fund will assist residents and local institutions in undertaking more substantive conservation measures than would otherwise be possible with priority given to the conservation needs of the Santa Monica-Malibu Unified School District.

Compatibility and safety are concerns of the airport community. The City Council, Airport Commissioners and staff are working with airport neighbors and users to enhance educational outreach and enforcement of Airport noise regulations. New registration procedures, ordinance modifications and fine increases may be among the outcomes of studies and hearings now underway.

A mutually beneficial partnership between the Santa Monica-Malibu Unified School District and the City will formalize and expand community access to school sites for recreational purposes while increasing on-going financial support to the District. Enhanced aquatic programming will be provided at the new municipal pool located on the Santa Monica College Campus. Park appearance should benefit from staffing changes and the implementation of standards developed by Open Space Management Division staff and progress will be made toward realizing three new open space areas.

The process for obtaining permits for home improvements has been reengineered by an interdepartmental team. Their goal was to deliver a readily understandable approval sequence that reduces the time involved and the potential for costly surprises. Simple new over-the-counter approvals are already in place. By this fall, on more complex

projects, a single City staff member will be the customer's point of contact and will move a project through the various levels of review. Reinforcing a substantial enhancement to the Code enforcement function made in Fiscal Year 1999/2000, two additional positions will be dedicated to reducing a backlog of complaints and advancing proactive inspections.

The evolution of the City's personnel function into a true Human Resources department will benefit both employees and the community. Organizational changes will provide for strategic planning to meet the City's changing workforce needs. A significant investment in staff development and training will enhance both employee job skills and customer service.

Capital Choices

The infrastructure gains of the last decade have been impressive, yet important projects remain to be funded, scheduled and realized. Among them are development of the expanded Civic Center, transformation of 415 PCH, realization of the plans and priorities of the Downtown Parking Task Force, seismic strengthening and modernization of essential City facilities including the City Hall, reconfiguration and modernization of the City Yards and revitalization of commercial streetscapes. In addition, Santa Monica College has requested the City's assistance with two earthquake recovery projects, a parking structure and a classroom building. The City Council was presented with the likely scope, timing and financing challenges presented by these pending capital projects during the budget study sessions and further discussion will take place this Fall and Winter when the City's Redevelopment Plan is updated.

Budget Overview

The total operating and capital budget for 2001/02 is \$364.9m, a decrease of \$54.1m or 12.9% from 2000/01. The total operating budget for 2001/02 is \$7.7m or 3.1% greater than the current year, while the 2001/02 capital budget is \$61.8m or 36.0% less than the current year. The significant decrease in the capital budget is due to the timing and

dollar amount of difference in the General Fund between the Public Safety Building (budgeted in 2000/01) and the Civic Center Parking Structure (budgeted in 2001/02).

The General Fund operating and capital budget is \$193.2m, a decrease of \$11.9m or 5.8% from 2000/01. The General Fund operating budget for 2001/02 is \$7.6m or 5.4% greater than the current year, while the General Fund capital budget is \$19.5m or 29.8% less than the current year, again due to the effects of the two major capital projects noted above. Excluding these two projects, the total General Fund is increasing 4.9% for 2001/02: a 5.4% increase in the operating budget and a 1.4% increase in the capital budget.

In accordance with Council fiscal policy, the budget provides for a reserve in the General Fund of 10.0% for emergencies, disaster or unanticipated economic reversal.

Community Priorities

One of the great advantages of living and working in Santa Monica is its scale. Local government is very local indeed. Residents and business people encounter staff and elected officials on a daily basis. Through chance meetings and casual interactions as well as through more formal channels such as surveys, public forums and website response opportunities, the community makes its interests and concerns known.

In response, the City Council has confirmed the continuing relevance of the following priorities. A number will be realized over a period of years, as indicated. For each goal, performance measures that will gauge and communicate progress are being developed. More specific work plans can be found at the corresponding department tab in the complete City budget document.

Education – Encourage a lifelong learning environment that fosters the intellectual, physical and social well being of residents of all ages and invites participation and involvement in neighborhood and community life.

- Continue to partner with the Santa Monica-Malibu Unified School District, providing ongoing financial support of \$3 million (an increase of \$500,000) in return for community access to school facilities.
- Collaborate with community based agencies and SMMUSD to secure up to \$1 million in non-city funding for early childhood education programs and supporting services.
- Introduce enrichment classes and enhance homework assistance for CREST after-school programs.
- Complete design process for construction of a new state-of-the-art Main Library including advanced lifelong learning technologies and resources.

Affordable Housing – Develop strategies to create and preserve affordable housing in Santa Monica and assist low-income residents with their housing needs.

- As called for in the Housing Element of the General Plan, provide 626 units of very low, low and moderate income housing by 2005, averaging 156 units each year.
- Increase public awareness of the tenant harassment law, landlord responsibilities and tenant rights through a public educational campaign including mailings, workshops and enhanced enforcement.
- Provide energy efficiency assistance to 1,000 low-income households in the City's affordable housing stock.
- Place 1,000 homeless people in transitional or permanent housing.

Quality of Life – Contribute to the livability of the community and its neighborhoods by enhancing the appearance, safety and usability of the community's parks, beaches and public open spaces.

- Develop 10.4 acres of new parkland including 6.4 acres at the Santa Monica Airport, .3 acres for a new neighborhood park on Euclid and 3.7 acres to expand Virginia Avenue Park.
- Develop a community wide pathway master plan that focuses on pedestrian circulation and the recreational aspects of walking, biking, and skating.
- Complete the Civic Center planning process prioritizing the location of open space, affordable housing, childcare, community and cultural uses.
- Produce the City's first temporary visual art in public places program.
- With participation of the Airport community, change Airport noise monitoring enforcement procedures to enhance neighborhood compatibility.

Mobility – Develop and implement measures to improve pedestrian access, regional transit service and vehicular circulation and parking.

- Add 290 parking spaces in the downtown.
- Reduce traffic collisions by 3%.
- Increase transit usage in downtown Santa Monica by 10%.
- Reduce downtown traffic congestion by encouraging auto users to park (once) and take transit to the downtown using smartcard technology for both parking and transit.
- Conduct demonstration of signal priority for rapid buses on Lincoln Boulevard.
- Install 98 new marked crosswalks throughout the City.
- Install operating system for central control of the traffic signal system and coordinate signal timing at 50 intersections to improve traffic flow and reduce congestion.

Sustainability – Advance the goals of the Sustainable City program through resource conservation policies, programs and activities.

- Using Calendar Year 2000 as a baseline, reduce electricity use by 10% citywide.
- Using Calendar Year 2000 as a baseline, reduce potable water consumption by 2.5% citywide.
- Install 100 kilowatts of new photovoltaic generating capacity in public and private projects.

Background Information About the City Budget

The annual budget preparation process starts in November when staff review the status of the local economy and start preparing five-year forecasts of the General and other key funds' revenues and expenditures. A summary of this information is presented to the City Council at which time a public hearing is also held to receive input on budget priorities for the next fiscal year. From February through May, staff prepares the Proposed Budget, which is provided to the City Council and the public during May. Early in June, the City Council holds study sessions with staff on the Proposed Budget. Before the end of June, the Council holds a public hearing and adopts the Budget for the next fiscal year which begins on July 1.

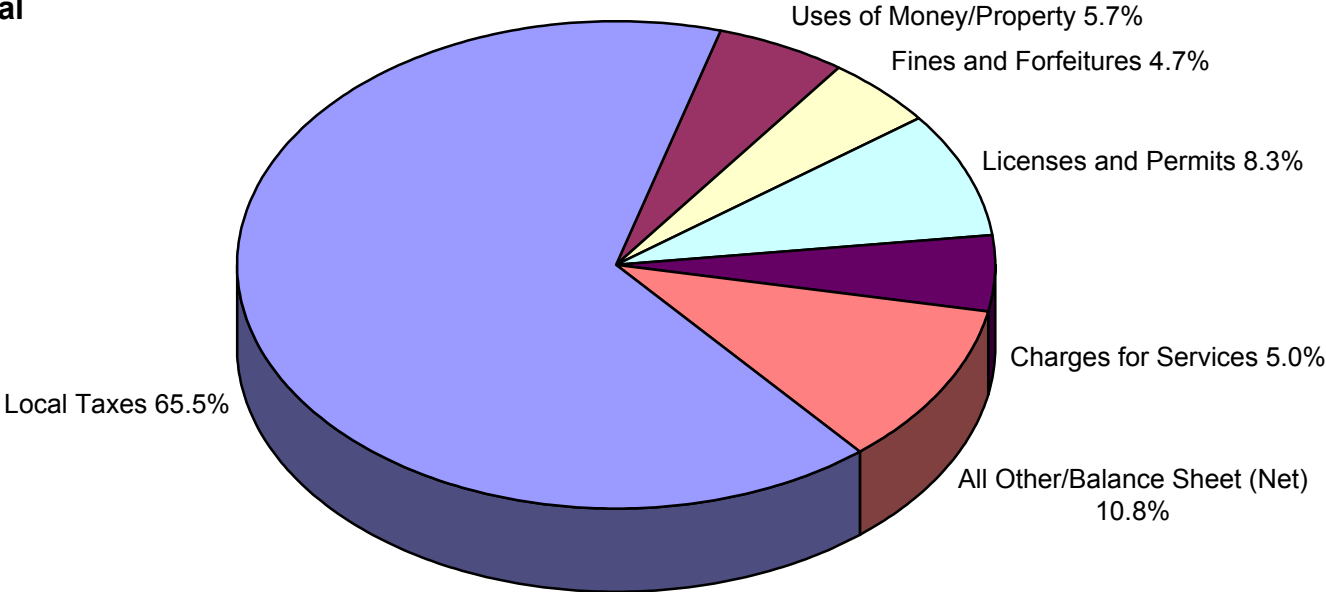
The financial operations of the City are organized into funds for which budgets are prepared. These funds are grouped into three major categories: The General Fund, which is the largest fund which constitutes a little more than one-half of all City revenue, provides basic City services such as Police, Fire, and Library. About 73% of the General Fund is financed from tax revenues such as the Sales Tax, Utility User's Tax, Property Taxes, Business License Tax, Transient Occupancy Tax (also known as the bed tax) from hotels and motels and the Parking Facilities Tax on all paid parking in the City. Remaining revenues primarily come from other governmental agencies, various fines and cost offsetting fees and charges. Enterprise and Internal Service Funds operate much like private businesses where the services provided are financed primarily from fees. Examples are the Water Fund, Solid Waste Management Fund, and the City self-insurance funds. Special Revenue Funds keep track of specialized revenues and expenditures that can legally only be made for specific uses. Examples are the Community Development Block Grant Fund and Beach Fund.

The following pie charts show where the FY 2001/02 General Fund money comes from and where it goes:

ANALYSIS OF THE ADOPTED FY 2001- 02 BUDGET: GENERAL FUND

WHERE THE MONEY COMES FROM

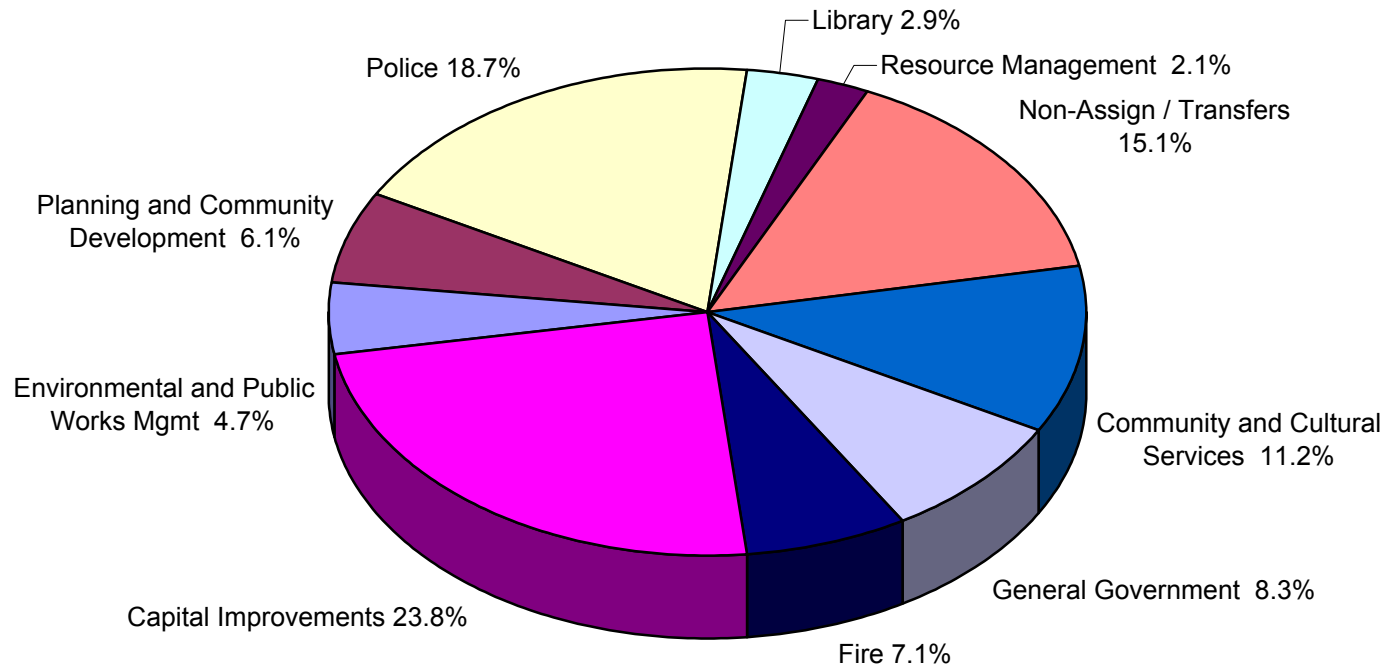
\$174,188,153 - Revenues
19,622,801 - Balance Sheet (Net)
\$193,810,954 - Total



* Includes Bus., Prof., and Occup. Licenses

ANALYSIS OF THE ADOPTED FY 2001- 02 BUDGET: GENERAL FUND

WHERE THE MONEY GOES



\$193,220,854 - Expenditures

Conclusion

If the recent extraordinary period of economic expansion is indeed at a close, Santa Monica will realize the considerable benefits of prudent financial policies and practices observed by past and current City Councils. Those policies, including careful observation of the differences between ongoing and short-term (one-time) revenues, position the City to weather a downturn, if it comes, with minimal disruption of services. More challenging will be realizing the short and long-term community benefits in infrastructure improvements that have not yet been funded.

The community expects us to employ its resources effectively and efficiently for a better Santa Monica. The City staff, with your policy guidance, is committed to doing so.

Susan E. McCarthy
City Manager