



Office of the City Manager
1685 Main Street
PO Box 2200
Santa Monica, California 90407-2200

City of
Santa Monica™

July 1, 2005

Mayor and City Council:

The adopted budget for Fiscal Year 2005-06 and the budget plan for Fiscal Year 2006-07 reflect an improving economy, focus resources on community priorities confirmed by the City Council earlier this year and maintain financial flexibility critical to meeting the changing needs of the community over time.

An Improving Economy

On the national level, although there are mixed signals, most economists predict growth in the 3-3.5% range for the balance of 2005. Employment is expected to continue growing at reduced rates and unemployment to remain flat. Rising oil prices appear to be the most significant near-term challenge to economic growth. Inflation is the subject of some concern as the national rate has climbed above 3% and in Los Angeles/Orange County is even higher at 4%.

While the State economy has improved and revenues are exceeding expectations, inflation, rising oil prices and higher interest rates could affect recovery and the State has not addressed its continuing structural budget deficit. The November 2004 passage of Proposition 1A provides protections to local government revenues, but the State has taken steps to skirt such protections in the past and local revenues could again be targeted.

Within this broader context, the City's economy is expected to improve moderately in FY2005-06 and FY2006-07 from the levels of the past few years. Transient Occupancy Tax (TOT) and Sales Tax revenues appear to have returned to pre-recession levels. Additionally, voters approved a 2% increase in the TOT in November 2004, increasing tax revenue by an anticipated \$1.6 million for half of FY2004-05 and \$3.8 million for the full FY2005-06. Higher costs for fuel, utilities, retirement and health care counter in significant part the anticipated revenue expansion.

Focus on Community Priorities

In any economic climate, delivering a budget that supports the basic responsibilities of local government, the policy interests of City Council Members and the diverse concerns of residents is challenging. Organizational focus is required to address significant community issues and difficult choices must usually be made among competing priorities as the budget process advances. Santa Monica identifies key priorities of the community early in budget development, noting communications received during the year, tracking issues raised at regular City Council meetings, conducting a telephone survey to measure satisfaction with city services, and holding a public hearing early in the calendar year. The City Council formally adopts a short list of critical priorities to ensure appropriate organizational focus. Work plans are developed for each and budget resources are identified for their execution.

The two-year work plans for priorities short-listed by Council earlier this year appear in this budget document in the "Community Priorities" section. Except as noted below, the resources necessary to accomplish the work plans are incorporated in the adopted budget before you.

Address the impacts of homelessness on the community. The impact of homelessness on Santa Monica is consistently referenced as a top concern by residents. A societal problem, requiring national and regional solutions, the situation must nevertheless be addressed here at home. The work plan advances strategies developed over the last twelve months and reflects the most recent City Council discussions.

The adopted budget appropriates funding for a two year period to engage an individual of stature to address homelessness issues regionally. In addition, the budget authorizes six new staff positions to implement the work plan. They include two human services positions, two police officers and two park rangers.

Enhance the quality of life, safety and community involvement of residents of the Pico Neighborhood. The work plan for this objective reflects the outcome of two community workshops on gang violence in Santa Monica as well as addressing broader neighborhood issues. A number of the initiatives involve working with “action partners” with the City assuming a coordinating role to ensure the communication between partners necessary for success. A reallocation of resources to site a coordinating position at Virginia Avenue Park is included in the adopted budget.

Ensure that the public receives timely and responsive service from all departments and that the city’s regulatory processes are fairly, efficiently and courteously administered with a high degree of predictability. Significant advances have been made to-date in implementing recommendations of the 2004 Matrix study, including reduced processing time for plan check, permit and inspection customers and availability of service every Friday. Additional space and operating enhancements stemming from that study will be implemented through the work plan, which also addresses initiation of Wi-Fi “hot spots” at Virginia Avenue Park and the new Main Library as well as customer service training linked to a citywide effort.

Incorporate ways to achieve the goals of the Sustainable City Plan into daily activities and special projects. The City itself has made significant progress over the years in the incorporation of sustainable practices and those “internal” efforts will continue. With the assistance of the Sustainable City Task Force and a staff advisory group, broader community participation in sustainable practices and incorporation of sustainability principles in the Land Use and Circulation elements will be achieved.

Capitalize on Santa Monica's climate and community amenities to promote Active Living. Conceptualization of City programs and services and the design of capital projects will encourage fitness activity in the daily lives of residents.

A Responsive and Responsible Adopted Budget and Budget Plan

The City's practice of projecting revenues and expenditures over a five year period serves to ensure that the longer term consequences of fiscal decisions are foreseen. The projections in recent years noted the points at which the community would realize the significant benefits and operating costs of capital projects such as the new Main Library, Virginia Avenue Park and the Civic Center Parking Structure. The escalation of retirement and health insurance costs well above the general cost of living was factored in to the projections. Spending on new and existing departmental operations and services was constrained during the past three budget years so that anticipated revenue recovery would cover the expenditure projections for the five year period. Ongoing funding for capital needs, principally the maintenance of infrastructure, was significantly reduced over the period for the same purpose.

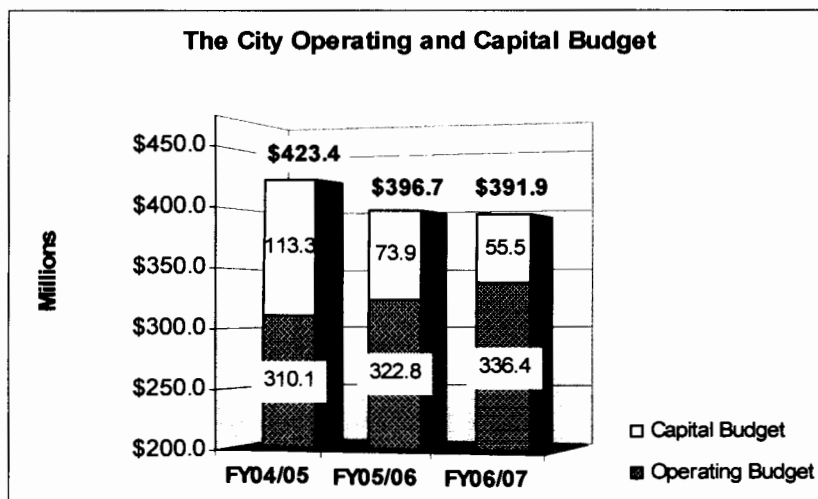
For FY2005-06, limited ongoing resources are available above the projected five year need trend line, with more significant funding available for one-time purposes. In preparing their budgets, departments were asked to "re-tool" by allocating the additional ongoing resources to areas of greatest operational and service need. For example, a cost of living increase for arts and social services grantees, enhancement of public landscape such as medians and the face of the Palisades bluffs, and support of Wi-Fi "hot zones" at the Pier and Promenade are made possible through growth of ongoing revenue. The work plans for the Community Priorities are largely funded in this manner. One-time funding can make possible a partnership with Borderline neighbors similar to that which addressed Yale Street improvements as well as development of a Cultural Arts Master Plan, replacement of the Pier restrooms and infrastructure improvements to the Bayside District, including the appearance of downtown parking structures.

Other significant obligations of the General Fund are addressed in the budget. The General Fund will repay loans from the Water and Wastewater funds for the purchase of property adjacent to Memorial Park. Costs for retaining the Access Center on the BBB campus above the project's transit funding are provided for in the General Fund.

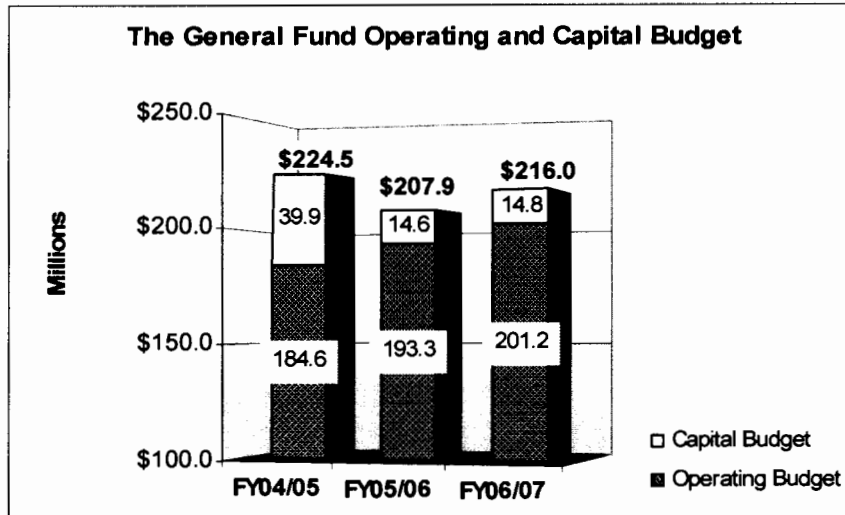
Several enterprise funds including Water and Solid Waste require rate increases to maintain a sustainable fund balance. Expenditure trends for those funds are outpacing the annual CPI adjustments currently applied to rates, and reserves are depleting. The budget reflects interim rate increases for Water and Solid Waste funds approved by Council on June 21. The Wastewater fund is also experiencing a declining fund balance and strategies to maintain compliance with bond requirements will be developed over the course of this fiscal year. As a follow-up to Council's direction on July 21, utility costs and operating efficiencies will be identified.

Budget Overview

The total City operating and capital improvement budget for FY2005-06 is \$396.7 million, a decrease of \$26.7 million or 6.3% from the revised budget for FY2004-05. The decrease primarily reflects reductions in the General (\$16.6) and Big Blue Bus Funds (\$22.7), partially offset by increases in the Charnock (\$5.6) and Wastewater Funds (\$5.6). The total City budget plan for FY2006-07 is projected to be \$391.9 million, a decrease of \$4.8 or 1.2%.



The FY2005-06 General Fund budget for operating and capital improvements is \$207.9 million, a decrease of \$16.6 or 7.4% from the revised FY2004-05 budget, reflecting a \$25.3 million drop in capital appropriations as major projects are now funded and in progress. Operating expenditures increase by \$8.8 or 4.7% over FY2004-05. The expenditure growth includes enhanced effort for the homelessness work objective and operating costs for the new Main Library and the re-opening of the Virginia Avenue Park.



For FY2006-07, the General Fund budget plan shows an increase of \$8.1 million or 3.9%. This reflects a full year of operations of the Main Library and Virginia Avenue Park in addition to preliminary operating costs for Airport Park, Euclid Park and the Civic Center Parking Structure.

Working for the Community

The budget before you directs available resources to address the community's and Council's expectations. The staff of all City departments are prepared to use these resources efficiently and to deliver service, programs and projects professionally.

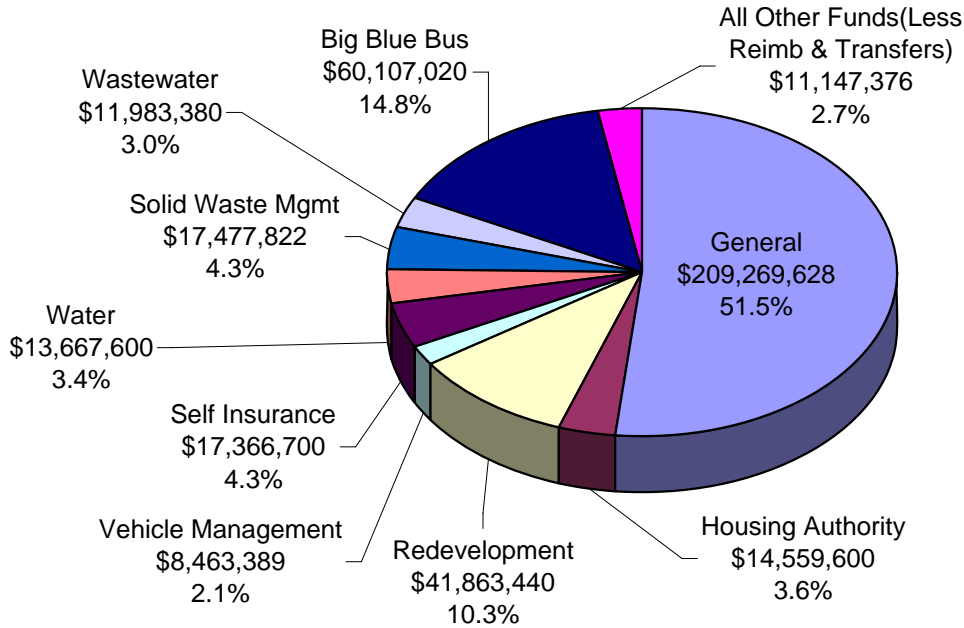


Susan E. McCarthy
City Manager

FY2005-06 REVENUE AND EXPENDITURE SUMMARY: ALL FUNDS

REVENUES: \$405,905,955

Excludes Disaster Relief Fund
(Northridge Earthquake)



EXPENDITURES/EXPENSES: \$396,675,578

Excludes Disaster Relief Fund
(Northridge Earthquake)

