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City of  
**Santa Monica**

July 1, 2006

Honorable Mayor, Council Members and Residents of Santa Monica:

The adopted budget for Fiscal Year 2006-07 and the budget plan for Fiscal Year 2007-08 reflect an economy that while slowing, has nonetheless improved when compared to the five previous years. This gradual improvement allows us to focus resources on strengthening our ability to deliver core services while addressing community priorities as confirmed by City Council during budget development.

### **Economic Outlook**

On the national and state levels, recent economic indicators signal a stable economy, although there is some disagreement about the long-term strength as economic data continues to give mixed signals. The biggest near-term threat to economic growth appears to be oil and gasoline prices, which recently hit record highs and may likely go higher for some time before declining. While core inflation (excluding food and energy) has remained fairly low, the extended period of high oil prices will continue to “trickle down” through the economy sending core inflation higher. Another potential problem is the recent increase in long-term interest rates, which could have a significant impact on the housing market both in terms of slowing housing sales as well as raising adjustable rate mortgages.

For Santa Monica, the economy is expected to continue to improve moderately in FY2006-07 and FY2007-08. This is largely because Santa Monica is fortunate to have a very diverse revenue base that helps to soften the negative effects of economic downturns. Continued growth is expected in economy-driven revenues, including Transient Occupancy Tax (TOT), Sales Tax, Property Tax and Business License Tax.

The single most potential threat to City revenues are legal challenges that could reduce or eliminate the telecommunication portion of the City's Utility Users Tax (UUT) revenues. As you know, in May, the Internal Revenue Service issued a notice that it intended to stop applying the Federal Excise Tax (FET) to nearly all telephone communication services, except local exchange services. Other court actions in Palo Alto and the City of Los Angeles could also potentially impact the City's UUT revenues negatively. The loss from telecommunication services could result in lower ongoing revenues of \$8 million to \$12 million annually. The timing and the outcome of these court actions are uncertain at this time. As a precautionary measure, City Council has wisely established a reserve of \$8.2 million to cushion the City in FY2006-07 from a potential loss of UUT revenues.

During the development of the budget, we keep an eye on current and projected economic indicators as we develop projected revenues and projected expenditure needs. Snapshot reviews are made in November and updated for the mid-year budget review. As we near the final preparation of the Adopted Budget, major revenues are again reviewed to ensure that the most recent economic information is incorporated into the document.

### **A Focus on Fundamentals**

The FY2006-07 budget was developed to meet planned program expansions while simultaneously strengthening our basic core operational services. Council and community priorities have continued to guide our decision making process.

#### Planned Program Expansions

The new Main Library and Virginia Avenue Park both opened in FY2005-06. For FY2006-07, funding for these facilities reflects a full year of services. The budget also provides for expanded hours of operation at The Cove Skate Park. The increase in these three areas alone totals \$1.6 million.

Two additional facilities, the Civic Center Parking Structure and Airport Park, are scheduled to come on-line in FY2006-07. The budget includes additional operating funding for the anticipated opening of these new facilities.

### Core Services

Over the past few years, fiscal conditions coupled with a desire to minimize the impact of service reductions on the public resulted in reduced levels of maintenance and deferred replacement of important facilities and equipment. The FY2006-07 budget provides additional funding to strengthen our core services. Higher budget levels support additional capacity to maintain and repair our facilities and assist in managing major construction projects. Additional funds are included in the FY2006-07 budget for Palisades Bluff clean-up, slurry seal of our streets, pothole and sidewalk repair, custodial maintenance, lighting and energy cost for Pico Neighborhood alleys, and a more aggressive citywide graffiti removal program.

In capital expenditures, additional infrastructure funding is budgeted for FY2006-07 including \$9.6 million for upgrades and renovations to existing buildings, \$5.0 million for street repaving (an increase of \$2.0 million), \$3.0 million for upgrades to the street light system and \$2.6 million for improvements to the City traffic signal system which we hope will assist in reducing much of our traffic congestion challenges.

### Responding to Community Priorities and Public Input

During budget development, Council reaffirmed the Community Priorities (a report of significant progress on the priorities in 2005-06 is included in this budget document.) We also received comments from the community on areas of specific interest to them. The public comments received generally fell within the adopted Community Priorities including Pico Neighborhood, homeless programs, active living, sustainability and customer service. In addition to the Community Priorities, other issues of concern were the arts, schools and individual neighborhood concerns. This budget addresses the general and specific concerns through both funding and interdepartmental work program objectives.

Under the Community Priority addressing the Pico Neighborhood, the budget includes installation of lights in alley ways, increased Virginia Avenue Park funding to cover a full year of operation and a higher level of base funding for the Teen Center. We have also included funding for membership in and hosting of the Westside Council of Governments to promote communication among jurisdictions to address regional issues such as transportation and homelessness. Additional hours for the very popular Skate Park,

expansion of our community gardens program at Park Drive Park and increased funding for parks facility improvements will all work to promote our active living community priority. Capital funding for improvements to the dog park in FY2007-08 is also included. Our homeless programs, both on a regional level and within Santa Monica will continue through a coordinated effort among departments. This budget also continues the services of Mr. Edelman (Santa Monica's special representative for homeless initiatives) for an additional year.

Our sustainability priority includes additional funding to revitalize our community forest and continued funding for sustainable programs. Environmental Programs Division staff will continue to work with the public to promote alternative fuel sources and included in the budget is an objective to develop recommendations on cleaner fuel options, such as bio-fuel, for vehicles and necessary fueling facilities. In response to the recent security concerns arising from an incident at one of our libraries, we are also adding additional full-time and as-needed Library Inspector positions and developing comprehensive safety plans for all city facilities. In the area of ensuring that the public receives timely and responsive customer service, the budget reflects our best efforts to meet each department's basic needs and strengthens our ability to carry out our public service mission.

In other areas of community interest, the budget includes a grant to the 18<sup>th</sup> Street Arts Center to help the group obtain a matching grant, and staff will continue to work on alternatives for developing the Center. Included in the budget is one-time funding for the Convention and Visitors Bureau project to "brand" Santa Monica. This is a key program that will greatly benefit the City's economy. The Planning and Community Development budget includes ongoing funding for Historic Preservation consultant services and we will respond to concerns regarding the condition of public restrooms in parking structures adjacent to the Third Street Promenade by providing temporary cosmetic improvements until permanent solutions are implemented.

### **FY2006-07 Adopted Budget**

While the City of Santa Monica's budget increased appropriations, the highest percentage increase is due to one-time allocations to capital budgets.

### Total City of Santa Monica Adopted Budget

The FY2006-07 budget for all funds totals \$442.8 million, an increase of \$32.4 million or 7.9% over the current year revised budget of \$410.3 million. Of the \$32.4 million increase, \$15.4 million is due to increases in capital projects (\$10.4 million in the General Fund and \$5.0 million in all other funds). Excluding capital, the total adopted City operating budget increased \$17.0 million or 5.1%. A total of 25.7 permanent full-time positions were added to the FY2006-07 budget (23.7 in the General Fund, 1.0 each in Beach Fund and Water Fund). As reflected throughout this transmittal, we have selectively added positions to meet critical needs. This would include adding appropriate staffing to respond to expanded core services in 2006-07.

Revenues to support this budget total \$454.2 million, an increase of 5.6% or \$24.3 million over the FY 2005-06 estimated actual budget. The \$11.4 million difference between the total City revenue and expenditure budgets is primarily due to a timing difference between the appropriation of capital grant expenditures and the receipt of grant revenues.

### General Fund Budget

#### *Revenues*

General Fund revenues for FY2006-07 are projected at \$233.3 million. This is a \$14.2 million increase, or 6.5%, over the FY2005-06 estimated actual revenues. Property Tax is projected to increase by \$4.2 million (15.1%), Sales Tax by \$1.6 million (5%) and Transient Occupancy Tax by \$1.7 million (6%).

In addition to the \$233.3 in projected revenue for FY2006-07 an additional \$6.3 million in one-time revenues are carried over from FY2005-06 providing the City with the ability to fund a higher level of one-time projects.

The revenues also include an increase in fee revenue of \$1.3 million above the normal CPI increase. The fee increase is a result of the periodic review of the cost of providing fee-related services to the public. The fee study calculates the cost of providing each individual service and makes recommendations regarding fee adjustments. Where City Council has indicated its desire to maintain low rates for some services (such as CCS programs), fee

increases above CPI were not recommended. Most of the fee increases are in the area of Building & Safety and City Planning services. A complete copy of the fee study, conducted every five years, is available in the City Clerk's Office.

### *Expenditures*

The General Fund operating expenditures for FY2006-07 are \$209.1 million, an increase of 6.7% or \$13.1 million over the FY2005-06 Revised Budget. The General Fund Capital Improvement Program budget includes \$14.6 million for on-going projects that maintain, improve or replace existing facilities, equipment and City infrastructure such as streets and street lights. One-time CIP projects of \$13.2 million are also budgeted. A complete listing of capital projects is provided under the Capital Improvements section of the adopted budget document. The total General Fund expenditure budget is \$236.9 million, an increase of \$23.5 million or 11.0%.

### Enterprise Funds

The Solid Waste Management Fund includes a 7% rate increase (2% above CPI) as a result of the careful review of the fund's projected revenues and expenditures and direction from Council on April 25, 2006. This will allow the fund to maintain a positive fund balance for FY2006-07 and FY2007-08 while Phase II of the Solid Waste Study is performed.

You will recall during the Mid-Year Budget update I also informed Council of the financial health of several other Enterprise Funds. Simultaneous with the review of the Solid Waste Management Fund, staff has also evaluated and projected the financial condition of the Water and Wastewater funds. At present, it appears that both funds will be able to end FY2006-07 with a positive fund balance above the designated prudent fund reserve levels. However, it is also projected that customer rate increases above CPI may be necessary as early as January 2007. In essence, unless adjustments to date are made soon, both the water and wastewater funds will reflect negative balances shortly after the next calendar year.

Additionally, the Big Blue Bus revenue continues to decline due to reductions in funding from the Los Angeles County Metropolitan Transportation Authority. For FY2006-07, one-time funds are proposed to balance the budget. A comprehensive operations and revenue

analysis of all three funds is currently underway. Once completed, it will assist us in providing long-term recommendations to Council.

In order to ensure that a full and open discussion on the financial status of these enterprise funds can take place before any final fare or rate recommendations are presented to Council, we anticipate having information available for your consideration by early fall.

Two other enterprise funds continue to be subsidized by the General Fund. This year's proposed budget will reflect a subsidy of \$130,677 to the Cemetery Fund, \$3.0 million to the Pier Fund, and \$73,721 to the Civic Auditorium Fund.

### **In Conclusion**

I believe that the budget maintains our commitment to enhance core services to the community through new programs and new facilities and also re-focuses our available resources on the fundamental need to sustain our infrastructure.

I have been very impressed with the strong commitment and high degree of professionalism of our staff throughout the organization. I want to express my sincere appreciation to the many employees at all levels of the organization who contributed to the development and production of this document.



P. Lamont Ewell  
City Manager