

Budget-In-Brief

2003-05 Financial Plan

Approved 2003-04 Budget

The purpose of this "budget-in-brief" is to summarize the City's 2003-05 Financial Plan by highlighting the City's budget process, key budget features, major City goals and basic "budget facts." If you have any questions about the City's budget or would like a complete copy of the 2003-05 Financial Plan, please call us at 781-7127.

Purpose of the City's Two-Year Financial Plan

The fundamental purpose of the City's Financial Plan is to link what we want to accomplish for the community with the resources necessary to do so. Our Financial Plan process does this by: clearly setting major City goals and other important objectives; establishing reasonable timeframes and organizational responsibility for achieving them; and then allocating resources for programs and projects.

This process results in a two-year budget document that emphasizes long range planning, budgeting for results, effective program management and fiscal accountability. While appropriations are still made annually under this process, the Financial Plan is the foundation for preparing the budget in the second year.

Major City Goals

Linking important objectives with necessary resources requires a process that identifies key

goals at the very beginning of budget preparation. Setting goals and priorities should drive the budget process, not follow it.

For this reason, the City began the 2003-05 Financial Plan process with a series of in-depth workshops where Council members considered candidate goals presented by community groups, Council advisory bodies and interested individuals; reviewed the City's fiscal outlook for the next five years and the status of current goals; presented their individual goals to fellow Council members; and then set and prioritized goals for the next two years.

City staff then prepared the Preliminary Financial Plan based on this policy guidance from the Council. A number of budget workshops and hearings followed resulting in final Council adoption of the 2003-05 Financial Plan on June 17, 2003.



Financial Plan Policies

Formally articulated budget and fiscal policies provide the fundamental foundation for preparing and implementing the Financial Plan. Included in the Financial Plan itself, these policies cover a broad range of areas such as user fee cost recovery goals, enterprise fund rates, investments, capital improvement management, capital financing and debt management, minimum fund balance and reserve levels, human resource management, productivity and contracting for services.

city of san luis obispo

KEY BUDGET FEATURES

BUDGET OVERVIEW

We Have a Balanced Budget. This means that adequate resources are available to fund the approved appropriations while assuring that operating revenues fully cover operating expenditures, and that fund balances are maintained at minimum policy levels (20% of operating expenditures).

And It Reflects Council Goal-Setting. All of the *Major City Goals* set by the Council early in the budget process are fully funded in the Financial Plan based on the detailed work programs approved by the Council in April 2003. It also is responsive to the community input we received.

But It Was Tough to Do. As discussed below, achieving a balanced budget in our current fiscal circumstances has been a very difficult task. It has only been possible by honestly and straightforwardly identifying and confronting the problems facing us at an early stage in the process. And then making the difficult decisions necessary to balance the budget, and maintain our long-standing commitment to fiscal health and responsible stewardship of the resources that have been entrusted to us.

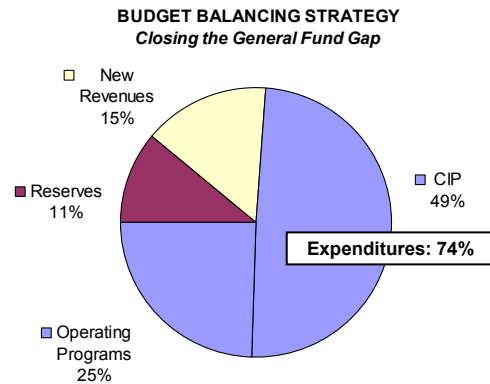
FINANCIAL CONDITION SUMMARY

Toughest Fiscal Outlook in Many Years. The City began the 2003-05 budget process facing our toughest fiscal outlook in over ten years, since the 1992-94 recession and State budget grabs at the same time. In April 2003, we projected an ongoing "budget gap" of about \$7.0 million annually in the General Fund if we did not take corrective action.

The main factors driving this gap were unprecedented increases in retirement costs largely due to investment losses by the California Public Employee Retirement System; increasing insurance costs for general liability, workers compensation and property coverage; and tepid trends in two of our three top General Fund revenues—sales tax and transient occupancy tax. The Council approved the following strategy in closing this General Fund gap:

- Using available reserves above minimum policy levels.
- Developing a **General Fund** Capital Improvement Plan (CIP) that is the lowest possible while reasonably maintaining our *existing* infrastructure and facilities.
- Reducing operating program costs and related service levels.
- Implementing selected new revenues as allowed under Proposition 218.

As shown below, expenditure reductions play the largest role in balancing the budget, accounting for about 75% of the total, with CIP reductions accounting for about 50%.



This resulted in General Fund operating budget cuts of \$1.7 million:

General Fund Operating Budget Reductions	Annual Savings		Percent Decrease
	FTE's*	Amount	
Police **	2.0	391,600	4.3%
Fire	1.0	115,300	1.8%
Transportation	1.5	209,500	9.5%
Leisure, Cultural & Social Services	4.9	274,600	5.4%
Community Development	0.4	227,600	5.0%
General Government	4.7	519,400	6.4%
Total	14.5	\$1,738,000	4.9%

* Full-time equivalent employees.

** Two sworn positions will be frozen.

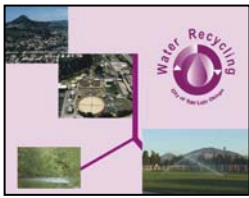
PROSPECTS FOR THE FUTURE

The New Era of Perpetual Uncertainty. As we move forward during the Financial Plan's two-year term, we will learn more about key revenue trends and how the State's budget-balancing actions will affect us. The simple fact is that uncertainty regarding our fiscal situation is going to be with us well beyond budget adoption. Effectively dealing with this means remaining vigilant in following our fiscal policies, and planning ahead as best we can. Following this course will result in the financial strength and flexibility needed in effectively navigating the unknown shoals ahead of us.

Beyond 2003-05. Based on the results of the General Fund five-year forecast, we know that our fiscal problems will not go away after 2003-05. We will continue to face challenges based on our local circumstances as well as from the continuing threat of more State takeaways from cities due to its inability to effectively manage its fiscal affairs—in both good times and bad. However, the budget-balancing strategy reflected in the Financial Plan will hold us in good stead for the next two years, and goes a long way towards improving our long-term fiscal outlook.

MAJOR CITY GOALS

The 2003-05 Financial Plan sets major City goals for the next two years and links them with the programs, projects and resources necessary to achieve them. Detailed work programs have been prepared for each of these goals, including the challenges we will face in achieving the goal, action plans and resource requirements.



Long-Term Water Supply. Continue aggressive efforts to develop permanent, reliable water sources to meet General Plan needs, including all options under current Council policy.



Neighborhood Wellness. Improve neighborhoods and neighborhood involvement by continuing to implement the neighborhood wellness program, including consideration of a rental inspection ordinance.



Street and Sidewalk Maintenance. Continue maintenance of streets and sidewalks at a moderate level.

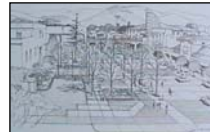


South Broad Street Corridor Plan. Adopt General Plan and zoning amendments to create a mixed-use residential neighborhood along the South Broad Street corridor from South Street to Orcutt Road and seek grant funding to create a neighborhood concept plan for the area.



One of seven options from the 2003 Project Study Report

Los Osos Valley Interchange. Continue working towards improvements at the Los Osos Valley Road/Highway 101 interchange.



Downtown Improvements: Monterey Plaza. Pursue the creation of a "Monterey Plaza" for civic gatherings and passive recreation, dependent upon the

start-up of the Copeland's Court Street retail-commercial and the Palm-Morro parking projects.



Bikeway Improvements: Railroad Safety Trail. Acquire right-of-way and property for extension of the Railroad Safety Trail from the Jennifer Street Bridge to Cal Poly.



Economic Development: Transient Occupancy Tax. Encourage and promote projects that will increase lodging and conference facilities in order to generate additional transient occupancy tax revenues.



Therapy Pool. Pursue development of a warm water therapy pool at the Swim Center through a financing program for its

construction and ongoing operation that does not use general-purpose revenues.



Economic Development: Sales Tax. Encourage and promote retail projects that will increase sales tax revenues.



Housing. Adopt a housing element that expands housing opportunities for very low, low and moderate income households, preserves and enhances residential neighborhoods

and complies with state laws including CEQA; and encourage and support Cal Poly's efforts to provide more on-campus housing consistent with their adopted master plan for housing and enrollment.



Long-Term Fiscal Health: Preservation of Essential Services. Develop a comprehensive strategy for preserving essential services, adequately maintaining existing facilities and infrastructure, and protecting the City's fiscal health.

BUDGET FACTS

Total Expenditures (In Millions)

	2003-04	% of Total
Operating Programs	\$50.0	70%
Capital Improvement Plan	15.3	21%
Debt Service	6.7	9%
TOTAL	\$72.0	100%

Funding Sources (In Millions)

	2003-04	% of Total
General Fund	\$39.2	55%
Other Governmental Funds	7.4	10%
Enterprise Funds	25.4	35%
TOTAL	\$72.0	100%

Operating Programs By Function: All Funds

	2003-04	% of Total
Public Safety	\$16.4	33%
Public Utilities	9.4	19%
Transportation	5.1	10%
Leisure, Cultural & Social Services	5.6	11%
Community Development	4.9	10%
General Government	8.6	17%
TOTAL	\$50.0	100%

Operating Programs By Function: General Fund

	2003-04	% of Total
Public Safety	\$16.4	50%
Public Utilities	--	--
Transportation	1.9	6%
Leisure, Cultural & Social Services	5.2	15%
Community Development	4.4	13%
General Government	5.4	16%
TOTAL	\$33.3	100%

Operating Programs By Type: All Funds

	2003-04	% of Total
Staffing	34.3	68%
Contract Services	8.7	17%
Supplies	6.9	14%
Minor Capital	0.1	0%
TOTAL	\$50.0	99%

Operating Programs By Type: General Fund

	2003-04	% of Total
Staffing	\$28.4	78%
Contract Services	3.5	9%
Supplies & Minor Capital	4.6	13%
Reimbursed Expenditures	(3.2)	--
TOTAL	\$33.3	100%

Major Capital Projects: All Funds

	2003-04	2004-05
Public Safety Dispatch Upgrade	\$0.8	\$0.9
Groundwater Environmental Review & Design	0.2	0.3
Water Treatment Improvements	0.2	4.4
Bishop Storage Tank Replacement	0.1	1.3
Other Water System Improvements	1.7	1.3
Tank Farm Sewer Lift Station		6.0
Reclamation Upgrade: Design		1.6
Other Wastewater Improvements	1.5	1.5
Pavement Sealing & Resurfacing	1.5	1.6
Foothill Bridge Replacement	1.9	
Bullock-Orcutt Realignment/Signal	0.3	0.8
Santa Barbara @ Broad Widening	0.1	0.3
Bikeway-Pedestrian Improvements	0.2	0.7
Palm-Nipomo Garage Study	0.2	0.3
Therapy Pool		0.2
Park Improvements	0.7	0.3
Open Space Preservation	3.6	2.3
Radio System Replacement	0.1	0.9

Top Ten General Fund Revenues

	2003-04	% of Total
Sales Tax	\$10.9	29%
Property Tax	5.9	16%
Transient Occupancy Tax	4.2	11%
Utility Users Tax	3.8	10%
Motor Vehicle In-Lieu (VLF)	2.7	7%
Business Tax	1.4	4%
Franchise Fees	1.8	5%
Development Review Fees	2.9	8%
Recreation Fees	1.1	3%
Other Service Charges	0.9	2%

These top ten revenues account for about 95% of total General Fund revenues. Other General Fund revenues include interest earnings, grants, fines and sale of surplus property.

Regular Positions By Function: All Funds

	2003-04	% of Total
Public Safety	142.0	42%
Public Utilities	56.8	16%
Transportation	25.0	7%
Leisure, Cultural & Social Services	28.0	8%
Community Development	39.6	11%
General Government	55.9	16%
TOTAL	347.3	100%

Regular Positions By Function: General Fund

	2003-04	% of Total
Public Safety	142.0	54%
Public Utilities	--	--
Transportation	16.5	6%
Leisure, Cultural & Social Services	25.0	9%
Community Development	39.6	15%
General Government	43.0	16%
TOTAL	266.1	100%