

Budget-In-Brief

2005-07 Financial Plan Supplement

Approved 2006-07 Budget

The purpose of this "budget-in-brief" is to summarize the second year of the City's 2005-07 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 Financial Plan Supplement, 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 the resources required for implementation.

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, the Financial Plan is the foundation for preparing the budget in the second year. The Council adopted the 2006-07 Supplement on June 20, 2006.

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 2005-07 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 2005-07 Financial Plan on June 21, 2005.

Financial Plan Policies

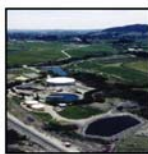
Formally articulated budget and fiscal policies provide the fundamental foundation for preparing and implementing the Financial Plan. Included in the Financial Plan itself, these policies cover a broad range of areas such as maintaining a balanced budget, financial reporting, budget administration, revenue management, 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.



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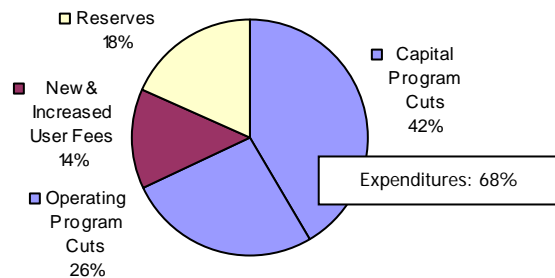
city of san luis obispo

KEY BUDGET FEATURES

Budget balancing for 2005-07: Another tough act to follow. The City continues to face a very difficult fiscal outlook. On the heels of closing a \$7 million General Fund budget gap in 2003-05 – and another \$1.4 million the following year – we were faced with a \$2.1 million gap in 2005-07, largely due to continued State takeaways.

For 2005-07, we have been successful in preparing a Financial Plan that reasonably balances the delivery of core services with the resources available to us. However, achieving this balance required service reductions in all areas of the City's operations, including public safety and basic infrastructure maintenance like street paving.

Budget balancing strategy. The following chart summarizes the strategy we have used over the last three years in closing budget gaps, which consisted of using reserves; further reducing capital and operating program costs and related service levels (including cutting over 25 positions); and implementing selected new revenues as allowed under Proposition 218.



As reflected above, expenditure reductions account for about 70% of the budget balancing strategy.

Longer-term solution needed. In the long run, we need to develop a stable new revenue source, which will require voter approval via a revenue ballot measure. The need to do so is driven by four key factors:

- 1 The State has taken \$22 million of our City revenue over the past 15 years, and continues to take \$3 million from us each year to help balance the state budget.
- 2 The City has been forced to use millions of dollars from our emergency reserves to provide essential City services such as paving streets and upgrading 100-year-old storm drains. However, we can't continue using one-time savings this way.
- 3 Calls for fire and paramedic services have increased by 65% in the last decade. Without additional funding, our emergency services are unable to keep pace with this demand.

- 4 Budget cuts have forced the City to reduce spending on infrastructure and facility upkeep by 50%, including a 67% cut in street paving. Unless we act, the City's infrastructure, including parks, roads and storm drains, will deteriorate.

Improved picture from a year ago, but fiscal challenges remain. Largely due to department efforts to further hold the line on spending, our General Fund financial condition is stronger than we initially projected in the 2005-07 Financial Plan. However, this is a one-time improvement, and as such, it does not change the underlying, long term gap between projected General Fund revenues and the community's needs and hopes for the future.

In short, our aspirations as a community are higher than simply buffering against the next fiscal crisis. Our emergency savings account won't do anything towards strengthening our ability to support needed day-to-day services, like police and fire protection, much less to enhance our community's "quality of life" goals. One-time savings won't help us to:

- Restore our suspended annual neighborhood paving program.
- Properly maintain our infrastructure like streets, storm drains and parks.
- Restore funding traffic enforcement, improve police response times or enhance fire and paramedic services.
- Have a full-time Fire Marshall (ours is half-time) and a Fire Training Officer (we don't have a permanent training officer).
- Support enhanced senior citizen programs, like a new senior center.
- Improve neighborhood services, such as enhanced code enforcement: we only have one code enforcement officer, and this is simply not adequate in addressing community needs.

In summary, while our ability to deal with future downturns has certainly improved, our ability to deliver needed services in the long-term has not. For this reason, the Council unanimously agreed to place a ½-cent sales tax measure before the voters on the November 2006 ballot.

This measure has strong fiscal accountability and citizen oversight provisions to assure that the money is spent on community priorities, including audits, annual reports to the community on how funds are being used and an 8-year sunset provision, which guarantees voters the right to determine if the City has used the money wisely. And since the City currently has the lowest sales tax rate in the State, it will still be equal to or lower than the rate paid by 85% of the State's residents if the voters approve this measure.

MAJOR CITY GOALS

The 2005-07 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.



Infrastructure Maintenance
Continue to maintain City infrastructure, such as roads, sidewalks, water, sewer, storm drainage and parks, at a moderate level.



Open Space Preservation
Continue funding open space acquisition and the natural resources program; maintain and enhance open space, creeks and riparian habitat; and continue "SLO Stewards" program and collaboration with conservation organizations.



Traffic Congestion Relief
Continue efforts to improve traffic flow, safety and reduce traffic congestion throughout the City.



Economic Development: Sales Tax and TOT Revenues
Encourage and promote projects and programs that will increase sales tax and transient occupancy tax (TOT) revenues.



Bikeway Improvements
Continue efforts to improve bicycling in the City, including completion of the Railroad Safety Trail, Bob Jones City-to-Sea Trail and the Bill Roalman Bicycle Boulevard.



Downtown
Continue the City's traditionally strong support for the downtown in multiple areas, such as maintenance, economic development, public safety, parking and tourism promotion, including progress on the installation of pedestrian lighting, and other improvements as resources allow.



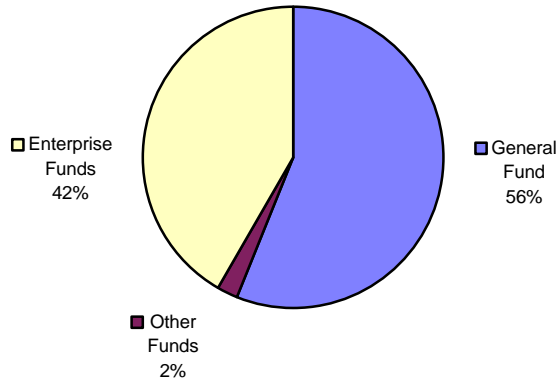
Cooperative Use of Sports Facilities
Support the Joint Use Committee in further redeveloping school district sports facilities.



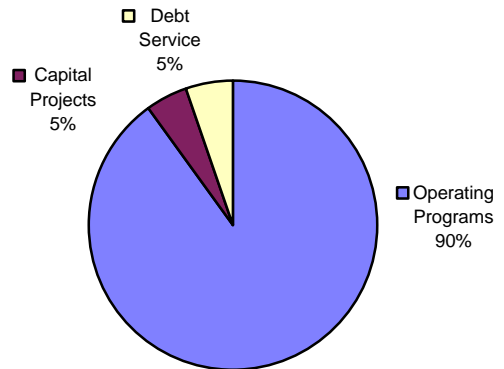
Long-Term Fiscal Health
Continue developing and implementing a long-term plan that will deliver desired service levels, adequately maintain existing infrastructure and facilities, and preserve the City's long term fiscal health.

BUDGET FACTS

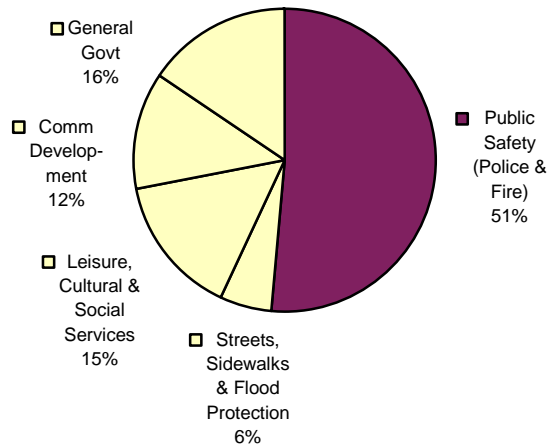
**2006-07 Budget By Funding Source:
\$80.2 Million**



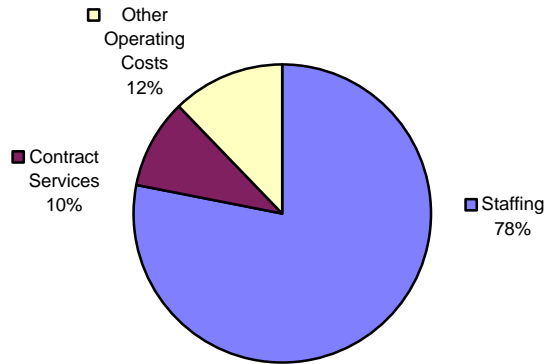
**2006-07 General Fund Budget:
\$45.0 Million**



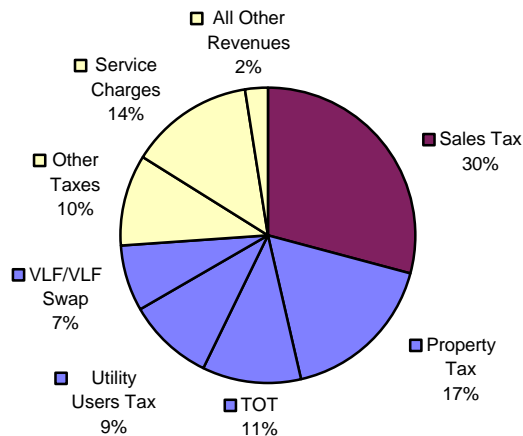
**2006-07 General Fund Operating Budget
By Function: \$39.7 Million**



**2006-07 General Fund Operating Budget
By Type: \$39.7 Million**



**2006-07 General Fund Revenues:
\$43.6 Million**



2005-07 Major Capital Projects: All Funds *

Water System Improvements	\$5.3
Wastewater System Improvements	9.8
Arterial Street Paving	1.9
Downtown Paving	0.2
Los Osos Valley Road Paving Rehabilitation	0.5
Intersection Improvements: Tank Farm/Broad	0.4
Traffic Signal Installations	0.4
Pedestrian & Bikeway Improvements	1.4

* In Millions

2006-07 Regular Staffing: All Funds

Public Safety	137.0
Public Utilities	63.8
Transportation	25.5
Leisure, Cultural & Social Services	28.0
Community Development	38.6
General Government	55.9
Total Positions	348.8