

BUDGET MESSAGE

TO: City Council
FROM: Ken Hampian, City Administrative Officer

Responding to Measure Y Priorities

When all is said and done, that’s what this budget is all about: responding to the community priorities that surfaced both before and after the Measure Y campaign.

As discussed in greater detail below, the City is facing its best fiscal outlook in many years. While there are several reasons for this, by far the most important is the passage of Measure Y in November 2006.

This ½-cent sales tax measure, which was adopted with 65% voter approval, means \$5.1 million annually in added General Fund revenues in the 2007-09 Financial Plan.

If there was ever any question about the wisdom of Measure Y, this budget fully answers that question.

Consistent with the accountability provisions included in Measure Y, this *Budget Message*, the *Financial Highlights* and the overall Financial Plan thoroughly describe how the added revenue will be used to improve services.

In summary, this added revenue supports major improvements in the key areas the community told us are municipal service concerns for them:

- Improving *public safety* service levels, with an initial emphasis in police services on neighborhood patrols and traffic safety; and in fire services on prevention and training.
- Restoring the *neighborhood street paving* program and catching-up on deferred street maintenance.
- Reducing and managing *traffic congestion*...

Measure Y Priorities
<ul style="list-style-type: none"> • Public safety, including restoring cut traffic patrol, Fire Marshal and training positions • Neighborhood street paving and pothole repair • Traffic congestion relief • Flood protection • Senior citizen services and facilities • Neighborhood code enforcement • Open space preservation

- Improving *flood protection*, including silt removal in our creeks and better maintenance of storm drains.
- Enhancing *senior services*, including remodeling the existing Senior Center and planning ahead for the future.
- Strengthening *neighborhood code enforcement* by adding a code enforcement officer and expanding the “SNAP” program.
- Restoring funding for *open space preservation*.

In addressing our needs, we start with the reality that some service holes are deeper than others, and thus require greater initial resources to fill and build upon.

This is why some service areas have received greater resource attention than others: they started with deeper holes than others based on past cuts.

AND “THINKING 8” IS ESSENTIAL

Even though the proposed 2007-09 Financial Plan fills many holes, it will not solve all service problems or meet all needs at the optimum level. Our service holes grew over many years of State takeaways and economic hits, and it will take longer than only two years to repair them.

That is why we are all urged to “Think 8” – the full Measure Y time horizon – in terms of meeting our most pressing needs. With this Financial Plan, however, we are off to a very good start.

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BETTER SERVICES, BALANCED BUDGET

We have a balanced budget. The 2007-09 Financial Plan presents a balanced budget over the next two years for all of the City's funds. Operating revenues fully cover operating expenditures, and fund balances are maintained at policy levels.

And it responds to Council priorities and community input. The 2007-09 Financial Plan is also balanced from a fiscal perspective. Along with Measure Y priorities, it reflects the results of Council goal-setting: all of the *Major City Goals* set by the Council early in the budget process are fully funded based on the detailed work programs approved by the Council in April 2007. It is also responsive to community input, as discussed in more detail later in this message.

But it was tough to do. Achieving a balanced budget in light of rising expectations presents different but equally challenging circumstances compared with the cutback mode we have been in for the past five years.

Stated simply, most cities do not get into financial trouble in bad times: the roots most often take hold in the "good times."

In preparing the 2007-09 Financial Plan, we worked hard to respond to current community priorities on one hand, while ensuring that the budget makes sense for the long run as well. In short, while it provides for better services and facilities, this budget also maintains our long-standing commitment to long-term fiscal health and responsible stewardship of the resources that have been entrusted to us.

FISCAL CONDITION SUMMARY

Best Fiscal Outlook in Many Years

As detailed in the *General Fund Five-Year Fiscal Forecast* presented to the Council in December 2006, our improved fiscal outlook is due to three key factors:

1. **Measure Y.** The passage of Measure Y will provide the City with \$5.1 million annually in new revenues for the next eight years.

2. **Structural Budget Balance.** With the expenditure cuts we have made beginning in 2002, we have achieved "structural budget balance" for the long-term. In short, this means that had Measure Y not passed, we would not have been facing another cutback mode.

However, without the added resources provided by Measure Y, restoring service cuts or launching new initiatives would have been very difficult.

3. **Stronger Beginning Financial Condition.** Based on financial results for 2005-06, we will go into the 2007-09 Financial Plan process in better fiscal shape than we had previously projected, with reserves that are \$5 million above our minimum policy levels. This is available for carryover into 2007-09. While this "one-time" resource should not be used to fund ongoing service levels, it can be appropriately used for one-time purposes.

Brighter Fiscal Future, But Tough Policy Choices

From a strictly resource perspective, preparing the Financial Plan for 2007-09 was easier than in past years. And from a work load perspective, it was the first time in five years we have not had to develop budget reduction options – and had to recommend implementing many of them.

However, tough *policy* decisions remained ahead of us.

On one hand, we certainly have more resources to address community needs; on the other hand, they are not unlimited. Placed in context, Measure Y represents an increase of about 10% in General Fund resources. Obviously, this improves our funding capacity, but we still have to identify our highest priorities and make wise resource choices accordingly.

In many ways, this makes the policy environment for making resource decisions more difficult than when times were fiscally tougher: instead of "just saying no," we were able to say "yes" to some things – but not *everything*.

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However, compared with the cutback actions we have had to make over the last five years, it is far more rewarding to make tough policy choices when the outcome will result in City services and facilities that help make our community a better place to live, work and play.

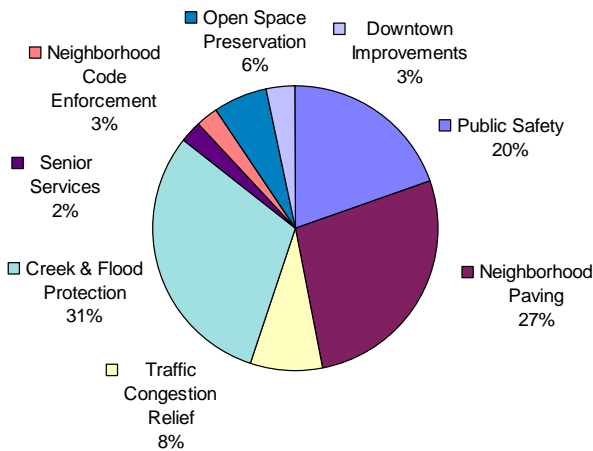
USE OF MEASURE Y REVENUES

Following the *Budget Message* is a summary of the proposed operating program changes and capital improvement plan (CIP) projects for 2007-09 in response to Measure Y priorities.

As shown in the summary, about 40% of the uses are allocated to operating programs and 60% to CIP projects. This reflects a reasonable balance between day-to-day delivery of key services like police and fire protection, and infrastructure maintenance and improvements like street paving and flood protection.

The following chart summarizes the proposed uses of added General Fund revenues due to the passage of Measure Y, projected at \$11.3 million for 2007-09 (including \$1 million in carryover from 2006-07), as allocated against Measure Y priorities.

2007-09 Use of Measure Y Revenues



As reflected above, 20% of the funds are allocated for public safety improvements; and two-thirds for infrastructure improvements to our street, traffic and flood protection systems.

PROSPECTS FOR THE FUTURE

Beyond 2007-09. Based on the results of the five-year forecast, the operating programs presented in the 2007-09 Financial Plan are sustainable for the long-term. On the other hand, the Financial Plan includes a level of capital improvements that will be difficult to maintain beyond 2007-09.

As noted above, this is because we enter 2007-09 with one-time carryover of about \$5 million from 2006-07. This has been allocated to one-time programs and projects in 2007-09, and as such, will not be available beyond then.

Nonetheless, we will be able to sustain a level of CIP funding that is far higher than the last five years.

COUNCIL GOALS

The fundamental purpose of the City's Financial Plan is to link what we want to accomplish over the next two years with the resources required to do so. The Financial Plan process approved by the Council does this by:

1. Identifying the most important, highest priority things for us to accomplish for the community.
2. Establishing a reasonable timeframe and organizational responsibility for achieving them.
3. Allocating the resources necessary to do so.

Obviously, this approach only has meaning if there is a way of identifying key goals at the beginning of the process that drive budget preparation, not follow it.

For this reason, the City begins its two-year budget process with Council goal-setting. This follows an extensive effort to involve advisory bodies and the community in this process. It also follows consideration of a number of analytical reports such as the General Fund Five-Year Fiscal Forecast and comprehensive updates on the status of long-term plans and policies, current major City goals and capital projects. While the specifics of the process vary from plan to plan, the City has used this basic approach for the past sixteen years.

2007-09 Goal-Setting Process

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For 2007-09, the Council held five workshops for this purpose on November 16, 2006, December 12, 2006, January 10, 2007, January 27, 2007 and April 10, 2007. Using the services of a professional facilitator, the Council reached agreement on twenty goals organized into the following three priority groupings at its January 27 goal-setting workshop:

1 Major City Goals. These represent the most important, highest priority goals for the City to accomplish over the next two years, and as such, resources to accomplish them should be included in the 2007-09 Financial Plan.

If the work program approved by the Council for a Major City Goal is not included in the CAO's Financial Plan, compelling reasons and justification must be provided as to why resources could not be made available to achieve this goal.

2 Other Important Goals. Goals in this category are also important for the City to accomplish, and resources should be made available in the 2007-09 Financial Plan if at all possible.

3 Address As Resources Permit. While it is desirable to achieve these goals over the next two years, doing so is subject to current resource availability.

Major City Goals

The 2007-09 Financial Plan fully funds all twelve Major City Goals set by the Council in accordance with the detailed work programs approved by the Council in April 2007. (These work programs are provided in *Section B: Policies and Objectives* of the Financial Plan.)

Close Tie to Measure Y Priorities. Of the twelve Major City Goal work programs, ten of them directly relate to the top priorities that emerged from

the community both before and during the Measure Y campaign.

2007-09 Major City Goals
<p>Major City Goals and work programs to accomplish them are set forth in detail in the <i>Policies and Objectives</i> section.</p> <ul style="list-style-type: none"> • Public Safety Service Levels • Neighborhood Paving and Deferred Street Maintenance • Traffic Congestion Relief • Bicycle Improvements • Flood Protection • Senior Citizen Facilities • Roller Hockey Rink and Skate Park Improvements • Homeless Services • Affordable Housing • Neighborhood Wellness • Downtown Improvements • Open Space Preservation

Work Program Changes from the April 10, 2007 Budget Workshop and Preliminary Financial Plan. As noted at the April 10 workshop, preparation of the Preliminary Financial Plan was still in progress when the work programs were presented to the Council for conceptual approval at that time. For this reason, changes to the work programs were likely as we took a broader and more comprehensive review of the City's financial condition in finalizing the Preliminary Financial Plan. This indeed happened.

Additionally, changes were made to the work programs after the Preliminary Financial Plan was prepared to reflect subsequent notification about the award of grants from the Office of Traffic Safety (which added resources to the Public Safety Service Levels goal) and from the State's Bicycle

Transportation Account (which added the Railroad Safety Trail Bridge/Highway 101 Crossing project to the Bicycle Improvements goal).

Combined with Council direction at the April 2007 budget workshop and as part of the Preliminary Financial Plan review process, the following summarizes changes in the Major City Goal work programs since then:

1. **Public safety service levels.** Two sworn police positions have been added to the work program in strengthening neighborhood patrols and program planning and oversight. The work program also includes added training and hazard prevention resources, including restoration of an Administrative Assistant position. As noted above, it also reflects added resources due to the award of a grant from the Office of Traffic Safety.

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2. **Neighborhood paving and deferred street maintenance.** This work program has been augmented to include an added position to the paving crew and the purchase of a street sweeper for more effective patching operations.
3. **Traffic congestion relief.** Funding an update to the traffic model, enhanced traffic signal hardware maintenance and addition of a maintenance technician for effective operation of the City's traffic signals have been added to the work program.
1. **Bicycle improvements.** The work program includes added temporary staffing to assist with program implementation. As noted above, it also reflects the addition of the Railroad Safety Trail Bridge/Highway 101 Crossing project due to the award of grant from the State's Bicycle Transportation Account.
4. **Senior citizen facilities.** As directed by the Council, the work scope for the Senior Center remodel has been expanded to include construction of an on-site parking lot and more extensive kitchen remodeling. Replacing the chairs at the Senior Center has also been added to the work program.
5. **Neighborhood wellness.** To support the added Code Enforcement Officer with needed administrative and clerical support for effective operations, 0.3 "full-time equivalent" staffing for a Permit Technician has been added to the work program.
6. **Downtown improvements.** As directed by the Council, repair and installation of Mission-style sidewalks has been scaled back to an "as needed" basis. However, the work program has been expanded to include pedestrian signals and more frequent sidewalk scrubbing.

Open space preservation. The work program has been expanded to include expanded Ranger services, natural resources program services and materials, homeless encampment cleaning and enhanced open space maintenance.

Other Council Goals

In addition to the twelve *Major City Goals* set by the Council, the following "Other Council Objectives" are reflected in the Financial Plan in some fashion:

Public Safety

Public safety facility. Continue progress toward a public safety facility by evaluating sites and developing a financing plan.

Transportation

Undergrounding Overhead Utilities at City Gateways. Pursue opportunities and funding to place overhead utilities underground on Los Osos Valley Road and other gateways.

Leisure, Cultural & Social Services

Laguna Lake Dredging. Develop options and decide future of Laguna Lake, and begin implementation of approved dredging plan.

Tree Planting and Maintenance. Boost tree planting and maintenance.

Community Partnerships. Review opportunities to expand community partnerships to achieve City goals.

Community Development

Land Use and Circulation Element Update. Prepare a detailed project plan for updating the General Plan and Circulation Element in 2009-11, including ways to address economic development goals and policies as part of that process; and update the traffic model in 2007-09.

Night Sky Ordinance. Develop and adopt a night sky ordinance.

The only "address as resources permit" goal set by the Council that is not reflected in the Financial Plan is expanding the City's role in developing the Railroad History Museum, including support for completing internal building improvements. While we will continue supporting the Railroad History Museum as we have in the past, we do not recommend *expanding* our role at this time in light of other priorities.

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However, the in conjunction with the 2007-08 mid-year budget review, the Council directed staff to evaluate the City's responsibility for additional improvements under our agreement with the San Luis Obispo Railroad History Museum, and depending on the results, identify cost estimates, phasing strategies and funding sources as appropriate.

Other Program Objectives

Along with goals set by the Council, the Financial Plan also includes objectives proposed by the staff for improving the delivery of City services. These are different from Council-initiated goals in two important ways:

1. Council goals are generally focused on objectives that can only be successfully achieved through Council leadership, support and commitment; program objectives proposed by staff are typically more internally focused on improving day-to-day operations, and can usually be achieved through staff leadership, support and commitment.
2. Achieving Council goals has a higher resource priority.

Each of the 73 operating programs presented in the Financial Plan clearly identifies major City goals, other Council goals and other program objectives.

CONCLUSION

For the first time in a long time, we are looking at a favorable fiscal outlook for 2007-09. While the Council still had to make tough resource allocation decisions in funding a number of competing priorities and needs, we will are not in the cutback mode that has characterized our budget process for the last five years.

In preparing the Preliminary Financial Plan for the Council's consideration, the staff made our best efforts in balancing a number of competing but equally important goals and in presenting them to the Council. However, these balancing decisions ultimately became the hard choices to be made by the Council when they adopted the budget on June

19, 2007—the last step in our long fiscal journey for 2007-09.

And the first step in a journey of at least eight years.

Ken Hampian
City Administrative Officer

ACKNOWLEDGMENTS

Preparing the Financial Plan at the staff level was a team effort involving the time and talents of a wide variety of City employees: department heads; staff members from Administration and Finance; special review groups such as the CIP Review Committee and Budget Review Team; department fiscal officers; and department operating staff.

It would be difficult to over-estimate the staff resources necessary to put together this budget document. The extra effort to prepare the Financial Plan necessarily coincides with the ongoing demands of day-to-day operations. Without the dedication of these City staff members, this budget would not have been possible.

Ultimately, the benefits associated with this preparation effort would not exist without the Council's support of long-term planning and modern, innovative budgeting practices as well as their willingness to devote long hours to the budget review and financial planning process.



FINANCIAL HIGHLIGHTS

OVERVIEW

Total proposed appropriations for 2007-08 are \$95.2 million summarized as follows:

	Governmental Funds	Enterprise Funds	Total
Operating Programs	46,110,200	20,011,300	66,121,500
CIP	12,424,300	7,702,500	20,126,800
Debt Service	2,078,000	6,837,800	8,915,800
Total	\$60,612,500	\$34,551,600	\$95,164,100

As discussed previously, the budget for 2007-09 is balanced for all funds.

What is a balanced budget? The City's fiscal policies define a balanced budget as one where:

1. *Operating* revenues are equal to or greater than *operating* expenditures, including debt service.
2. Ending fund balance (or working capital in the enterprise funds) meets minimum policy levels. For the general and enterprise funds, this level has been established at 20% of operating expenditures.

This means that it is allowable for total expenditures to exceed revenues in a given year, but in this situation beginning fund balance can only be used to fund capital improvement plan projects, or other "one-time," non-recurring expenditures.

FINANCIAL CONDITION SUMMARY

General Fiscal Environment

As discussed in the *Budget Message*, we are facing our best fiscal outlook in many years due to three key factors: passage of Measure Y, structural budget balance and strong financial condition.

Budget Compared with the Forecast

Generally on Target with Recent Forecast. The updated revenue and expenditure projections are generally consistent with the results of the recent five-year General Fund forecast (Forecast) presented to the Council on December 12, 2006 as part of the 2007-09 Financial Plan process.

Most Significant Change from Forecast: Accrual in 2006-07 of One Quarter of Measure Y Funds.

The most significant change for from the Forecast is the recognition of one-quarter of revenues from Measure Y funds in 2006-07, which will become effective on April 1, 2007.

We will accrue an estimate for Measure Y revenues collected from April 1, 2007 through June 30, 2007 in fiscal year 2006-07, even though we will not receive payments from the State for most of these collections until September 2007. (On a cash basis, we will receive a small advance from the State in June 2007). Based on an annual estimate of \$5.1 million, and past trends for second quarter sales tax receipts, we are estimating a \$1 million accrual for this in 2006-07.

REVENUE HIGHLIGHTS

General Fund

Sources used in preparing General Fund revenue projections include:

1. Analysis of key revenue trends for the past fifteen years compared with changes in the consumer price index, population and other demographic factors as well as legislative and other structural changes.
2. Economic trends as reported in the national media.
3. Forecast data for the State prepared by the UCLA forecasting project, and for San Luis Obispo County by the UCSB Forecasting Project (of which the City is a sponsor).
4. Economic and fiscal trends provided by the State Legislative Analyst and the State Department of Finance.
5. Revenue estimating materials prepared by the State Controller's Office and the League of California Cities.

Ultimately, however, the 2007-09 revenue projections reflect the staff's best judgment about how the local economy will perform over the next two years, and how it will affect our key revenues.

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Key General Fund Revenues

Detailed descriptions and revenue assumptions for the City's top ten revenues, which account for 95% of total General Fund revenues, are provided in *Section H: Financial and Statistical Tables* of the Financial Plan. The following is an overview of assumptions for the top three General Fund revenues, which account for about 60% of total General Fund sources:

1. **Sales Tax.** This is the City's number one General Fund revenue, accounting for 30% of General Fund sources.

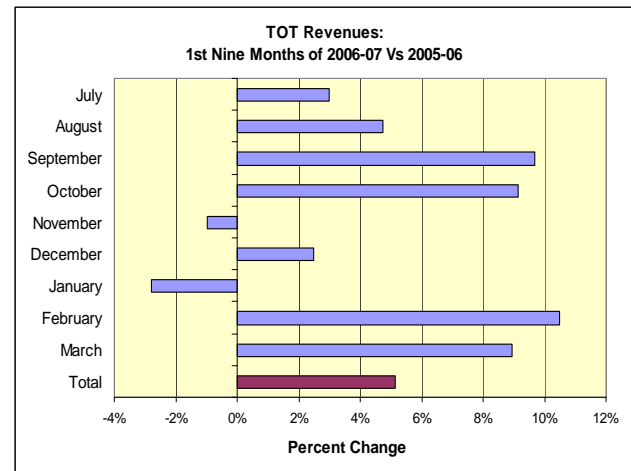
We expect 2.5% growth in "base" sales tax revenues for 2007-08 and 2008-09. This follows very strong sales tax growth in 2006-07, estimated at 8%. In addition to this, the *Measure Y* ½ cent sales tax is projected to generate an additional \$1 million in 2006-07, and \$5.1 million in 2007-08 and \$5.2 million in 2008-09.

2. **Property Tax.** Under Proposition 13, assessed value increases are generally limited to 2% annually. They can be increased to market value for improvements or upon change of ownership. Based on both long-term and recent trends and projected growth in new housing units, property tax revenues are projected to increase by 7% annually for 2007-09.
3. **Transient Occupancy Tax (TOT).** Compared to the prior year, year-to-date revenues through March are up by 5.1%; however, as shown in the chart below, there have been significant swings from month-to-month.

For example, TOT revenues were down in November and January, yet up sharply in September, October, February and March 2007 by 10.5%.

Based largely on overall year-to-date trends for the first nine months of the year, we are continuing to project underlying growth in TOT revenues of 2% annually in 2007-09, with added revenues from two new properties: Marriott Courtyard in 2007-08 (with estimated "net" added revenues of \$191,800); and Hampton Inn

in 2008-09 (with estimated "net" added revenues of \$109,500).



Other General Fund Revenues

Other General Fund revenues are consistent with the December 2007 Forecast. The following highlights some key exceptions:

1. **Investment Earnings.** An improved interest rate environment and a larger investable fund balance results in a revised estimate for 2006-07 that is \$275,000 higher than projected. Annual estimates for 2007-09 will be approximately \$300,000 higher than the Forecast.
2. **Booking Fees.** The forecast projected \$176,000 annually in booking fees reimbursements from the State as well as \$40,000 in cost recovery. Under the plans approved last year and included in the Governor's budget for 2007-08, counties will no longer assess booking fees in most cases and the State will backfill the revenue loss. This means we will no longer receive booking fee revenues; on the other hand, unless we exceed a three-year average for non-DUI misdemeanors, we will not incur any booking fees. Assuming this is approved in the State's 2007-08, this will have a positive net affect of about \$15,000 annually.
3. **Multi-Dwelling Unit Fire Inspection Fees.** The revenue estimates have been reduced by about \$110,000 annually based on Council action on to reduce these fees in April 2007.
4. **Development Review Fees.** We have continued our basic assumptions for planning, building,

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engineering and fire development review fees, largely basing them on five year averages. However, we have made a modest upward revision in construction plan check and inspection revenues in 2007-08 based on the review of infrastructure plans for the Margarita Area.

5. **Margarita Park Fee Reimbursements.** Under the facility financing plan for the Margarita Area, it is responsible for financing the park improvements needed to serve it. By building the Damon-Garcia sports fields in advance of development in this area, the City is due significant reimbursements as set forth in the adopted plan, totaling about \$5.1 million.

The forecast estimated annual reimbursements of \$650,000 beginning in 2006-07, however due to the current status of this project, as well as fee caps for the “western enclave” properties under their pre-annexation agreement, the projection has been revised downward to \$350,000 in 2008-09.

Enterprise Fund Revenues

Comprehensive rate reviews and revenue requirement projections for the next four years will be presented to the Council on May 31, 2007 for each of the City’s five enterprise funds: water, sewer, parking, transit and golf. The following is a brief overview of enterprise fund rate recommendations for 2007-09.

Water Fund. Consistent with the multi-year rate setting strategy previously approved by the Council to improve the City’s water distribution and treatment systems as well as fund participation in the Nacimiento water project, rate increases of 13% in July 2007 and 13% in July 2008 were approved.

Sewer Fund. In order to continue supporting an adequate capital improvement plan and meet high wastewater treatment standards, rate increases of 11% in July 2007 and 10% in July 2008 were approved. Additionally, consistent with its conceptual approval in May 2007, the Council also approved changing from a flat-rate to volume-based rate structure for residential sewer customers

Parking Fund. Current parking rates and revenues are adequate to support existing operations and projects. Accordingly, no rate increases are required in 2007-09.

However, funding additional parking supply projects, such as a parking structure at Palm-Nipomo, will require added revenues. Moreover, there are a number of other uncertainties – such as the Chinatown project, Garden Street Terraces project, sale of Lot 2 at Broad and Marsh, and the possible formation of a downtown residential parking district – which could have substantial impacts on parking operations and the financial capacity of the Parking Fund.

Transit Fund. No fare increases are needed at this time in funding current operations or meeting fare box recovery requirements.

Golf Fund. In accordance with City policy, the golf course is not expected to fully recover its costs due to the largely senior and youth market that it serves. General Fund subsidies of the course are likely for the foreseeable future due to several factors, including the nine-hole nature of the course and lack of driving range facilities.

However, we have successfully taken a number of actions in mitigating General Fund support, such as golf carts rentals, long-term cellular site lease and offering programs aimed at increasing the diversity of players at the course.

Given the current market golf market, no rate increases are planned for 2007-09. (In fact, rate increases might have the affect of reducing revenues by reducing rounds played). However, the “weekend” rate was extended to Fridays.

OPERATING PROGRAM HIGHLIGHTS

Appropriations for operating programs—day-to-day delivery of services—total \$66.1 million for 2007-08 summarized as follows:

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Operating Programs: 2007-08

	Governmental Funds	Enterprise Funds	Total
Public Safety	22,617,400		22,617,400
Public Utilities		11,889,800	11,889,800
Transportation	3,201,800	3,709,600	6,911,400
Leisure, Cultural & Social Services	6,578,900	517,400	7,096,300
Community Development	6,522,600		6,522,600
General Government	7,189,500	3,894,500	11,084,000
Total	\$46,110,200	\$20,011,300	\$66,121,500

A summary of significant operating program changes is provided in the *Expenditure Summaries* part of Section D. Additionally, each of the operating program narratives (also provided in Section D) discuss any significant changes. Comprehensive supporting documentation for each change—both increases and reductions—is provided in *Appendix A: Significant Operating Program Changes* to the Financial Plan.

The following summarizes the most significant of the increases (“Top Dozen”) on a program basis from a policy and service level perspective.

Public Safety

Police Services

Neighborhood Patrols and Traffic Safety. Increasing public safety service levels, with emphasis in police services on neighborhood patrols (particularly at night) and traffic safety, will cost \$900,700 in 2007-08 and \$859,700 2008-09 to restore positions eliminated in previous budgets (two police officers and one Lieutenant) and add four additional positions (three police officers and one communications technician).

These costs will be partially offset by Office of Traffic Safety grant revenues of \$179,200 in 2007-08 and \$89,400 in 2008-09.

Fire Services

Training Battalion Chief. Restoring a Training Battalion Chief to support an effective ongoing training program will cost \$134,200 in 2007-08 and \$157,500 in 2008-09.

Public Utilities

Water Services

Increased Electrical Costs. Increasing electrical utilities funding at the Water Treatment Plant and Source of Supply from Whale Rock Reservoir associated with new water treatment process equipment and increased water deliveries from Whale Rock Reservoir (2007-08 only) will cost the Water Fund \$186,000 in 2007-08 and \$31,200 in 2008-09.

Transportation

Transportation Planning

Traffic Model Update. Updating the City Traffic Model will cost \$200,000 in 2007-08.

Street & Sidewalk Maintenance

Paving Crew Productivity. Adding one full-time Maintenance Worker position to the regular staffing of the Street Maintenance program in order to continue the current productivity of the paving crew will cost an additional \$60,400 in 2007-08 and \$68,600 in 2008-09.

Traffic Signal & Street Light Maintenance

Adding a full-time regular Signal and Streetlight Technician position to the regular staffing in order to perform preventive maintenance tasks and improve system reliability and safety will cost \$64,200 in 2007-08 and \$86,900 in 2008-09.

Creek & Flood Protection

Storm Water Management Plan Implementation. Implementing the City’s Storm Water Management Plan and thereby complying with Environmental Protection Agency regulations to reduce pollutants discharged into natural waterways will cost \$498,300 in 2007-08 and \$598,400 in 2008-09.

Leisure, Cultural and Social Services

Parks & Landscape Maintenance

Damon-Garcia Fields Turf Improvements. Purchasing and installing additional irrigation equipment and seed, and evaluating methods to

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improve growing conditions for the turf at the Damon Garcia fields with the goal of optimizing field use, will cost \$60,000 in 2007-08 and \$50,000 in 2008-09.

Community Development

Development Review

Conversion of Contract Planner to Regular Status. Changing the status of the contract Associate Planner to a regular position to provide the Community Development Department with the long term resources to provide the current level of permit processing services will cost \$102,000 in 2007-08 and \$107,300.

Building & Safety

Enhanced Building & Zoning Code Enforcement. Improving neighborhood wellness through enhanced building and zoning code enforcement will cost \$120,500 in 2007-08 and 124,500 in 2008-09 to add an additional regular full time Code Enforcement Officer and a 0.25 Permit Technician.

Conversion of Contract Building Inspector to Regular Status. Converting one contract Building Inspector position to full-time regular position in order to maintain current level of service will cost \$95,100 in 2007-08 and \$100,000 in 2008-09.

General Government

Risk Management

Liability Insurance. Funding the City's liability insurance premium will cost an additional \$236,000 annually.

Regular Staffing Changes

General Fund. There are 11.8 "net" full-time equivalent (FTE) regular employee additions recommended in the General Fund, after accounting for temporary conversions and restoring past position cuts.

As reflected in the summary below, these "net additions" are in the high priority areas of:

- Public safety: Four positions
- Street and traffic signal maintenance: Two positions
- Creek & flood protection (implementing the storm water management plan): 4.5 positions
- Code enforcement 1.3 positions.

Net Changes in General Fund Regular Positions

General Fund Regular Position Additions				
	FTE	Temp Conv	Restore Cut	Net FTE
Police Protection				
Police Officer	5.0		(2.0)	3.0
Lieutenant	1.0		(1.0)	-
Communications Technician	1.0			1.0
Fire & Environmental Safety				
Training Battalion Chief	1.0		(1.0)	-
Administrative Assistant	1.0		(1.0)	-
Street & Signal Maintenance				
Maint Worker (Paving)	1.0			1.0
Signal Maintenance Tech	1.0			1.0
Creek & Flood Protection				
Creek & Flood Manager	1.0			1.0
Code Enforcement Officer	1.0			1.0
Collection System Operator	2.0			2.0
GIS Specialist	0.5			0.5
Parks & Recreation: Children Services				
Recreation Coordinator	1.0	(1.0)		-
Parks & Landscape Maintenance				
Maintenance Worker	3.0	(3.0)		-
Planning Development Review				
Associate Planner	1.0	(1.0)		-
Building & Safety				
Code Enforcement Officer	1.0			1.0
Permit Technician	0.3			0.3
Building Inspector	1.0	(1.0)		-
CIP Project Engineering				
Field Engineering Assistant	1.0	(1.0)		-
Finance & Information Technology				
Administrative Analyst	1.0	(1.0)		-
Total	24.8	(8.0)	(5.0)	11.8

Enterprise Funds. Modest additions are recommended in the enterprise funds: one position each in the Sewer and Parking Funds

Enterprise Fund Regular Position Additions		
Fund	Position	FTE
Sewer	Maintenance Technician	1.0
Parking	Administrative Assistant	1.0
Total		2.0

FINANCIAL HIGHLIGHTS

CIP HIGHLIGHTS

As summarized below, the two-year CIP for 2007-09 totals \$41.2 million:

CIP Summary: 2007-09

CIP Expenditures by Function	2007-08	2008-09
Public Safety	1,449,200	648,900
Public Utilities	5,596,400	9,958,600
Transportation	10,053,900	7,503,400
Leisure, Cultural & Social Services	1,745,600	1,922,900
Community Development	362,800	306,800
General Government	918,900	777,000
Total	\$20,126,800	\$21,117,600

CIP Expenditures by Source	2007-08	2008-09
General Fund	7,950,200	7,155,700
Parkland Development Fees	25,000	950,000
Transportation Impact Fees	2,540,300	217,200
CDBG Fund	427,200	100,000
Other Grants and Contributions	329,400	1,224,500
Fleet Replacement Fund	1,152,200	286,600
Enterprise and Agency Funds	7,702,500	11,183,600
Total	\$20,126,800	\$21,117,600

The following summarizes major CIP projects for 2007-09:

Plans, Studies and Design

We will complete a number of important studies and design efforts during 2007-09 that will set the course for the construction portion of our CIP in the following years. These include:

1. Water Reclamation Facility master plan improvements: \$4.2 million for study and design.
2. Water Reclamation Facility disinfection modifications: \$600,000 for design
3. Los Osos Valley Road Interchange: \$2.5 million for design, including construction plans and specifications
4. Mid-Higuera flood protection by-pass channel: \$500,000 for study
5. Chorro bridge rehabilitation: \$500,000 for environmental review and design
6. Senior Center needs study: \$30,000
7. Skate park and roller hockey rink needs study and design: \$40,000

Major Construction and Acquisition Projects

While planning for the future will be an important part of our work program during the next two years, we will also undertake a number of major construction and acquisition projects to maintain and improve our facilities and infrastructure, including the following “top dozen” projects:

Public Safety

1. Mobile data computer and in-car video system replacements: \$511,000

Public Utilities

2. Water distribution system improvements: \$3.9 million
3. Wastewater collection system improvements: \$3.5 million

Transportation

4. Street reconstruction and resurfacing projects: \$5.1 million
5. South Higuera Street widening from Margarita to Elks Lane: \$270,000
6. Sidewalk accessibility improvements: \$770,000
7. Bikeway improvements: Bob-Jones City-to-the-Sea Trail bridge connections (\$170,000) and Railroad Safety Trail bridge: Highway 101 crossing (\$595,000).
8. Creek and flood protection improvements, including storm drain replacements and repair, culvert repairs and creek silt removal: \$2.0 million

Leisure, Cultural & Social Services

9. Senior Center Remodel: \$210,000.
10. Stockton Baseball Field synthetic turf: \$950,000.
11. Skate park and roller hockey rink improvements: \$325,000.

Community Development

12. Open space acquisition and maintenance: \$590,000.

FINANCIAL HIGHLIGHTS

Carryover Projects from 2005-07

Along with the projects presented in the 2007-09 Financial Plan, the following major projects previously funded in prior Financial Plans will be underway during the next two years:

1. Public safety dispatch center
2. Radio system upgrade.
3. Water reuse system improvements at the Water Reclamation Facility
4. Tank Farm sewer lift station
5. Railroad safety trail: phase 4

Project Evaluation

To assist the CAO in developing the recommended CIP for 2007-09, the Budget Review Team and CIP Review Committee evaluated all departmental requests. In preparing their CIP recommendations, this joint review team considered the following evaluation factors:

1. Does it complete an existing project?
2. Does it implement a Measure Y community priority?
3. Is it mandated by the state or federal government?
4. Is there significant outside funding for the project?
5. Is it necessary to address an immediate public health or safety concern that cannot be deferred beyond 2007-09?
6. Is it necessary to adequately maintain existing facilities, infrastructure or equipment?
7. Was it previously scheduled in the 2005-07 Financial Plan?
8. Does it implement a Major City Goal for 2007-09?
9. Will it result in significant operating savings in the future that makes a compelling case for making this investment solely on a financial basis? If yes, how can we ensure that these savings will in fact occur?

DEBT FINANCINGS

We do not anticipate debt financing any new CIP projects in 2007-09. However, there will be planned debt financings in 2007-09 for projects approved in 2005-07, most notably the Tank Farm lift station; public dispatch center construction; and radio system upgrade. Debt service costs for these financings are reflected in the 2007-09 Financial Plan.

FINANCIAL PLAN POLICIES

Formally articulated Financial Plan policies provide the fundamental framework and foundation for preparing and implementing the City's budget. They are comprehensively set forth in *Section B: Policies and Objectives* of the Financial Plan.

