

July 1, 2004

Honorable Mayor, Mayor Pro Tem, and Members of the City Council:

It is my pleasure to present the City of Santa Clarita's Fiscal Year 2004-2005 Operating Budget and Five-Year Capital Improvement Program. One of the most important duties of the City Manager is to carefully prepare and recommend the annual operating and capital budget to you and the community.

Similar to last year, the City is faced with the uncertainties of what the State of California will do to address its projected budget shortfall of \$15 billion for next fiscal year. The voter approval of Propositions 57 and 58 helped the State to get through this year, but do not fix the longer term problems. We feel City revenues will again be a target of the State. With this in mind, the proposed budget has been developed with a very conservative approach to revenue. In normal times, the City would have anticipated receiving \$9.0 million in Vehicle License Fees (VLF). For the coming year, we've made the assumption that \$6.0 million of our VLF is in jeopardy and have taken this amount out of our revenue projections. Despite this revenue reduction, I'm pleased to say we are presenting a balanced budget.

My instructions to staff were that any proposed new programs or projects would need to include a verifiable revenue source. Staff did a great job in meeting this challenge. We've looked at ways to improve efficiencies and use our resources wiser to provide our citizens with the high level of service they have come to expect.

The following executive summary provides an overview of the 2004-2005 Fiscal Year Budget. This overview includes a summary of appropriations, revenues, department budgets, annual accomplishments, and the Capital Improvement Program.

BUDGET OVERVIEW

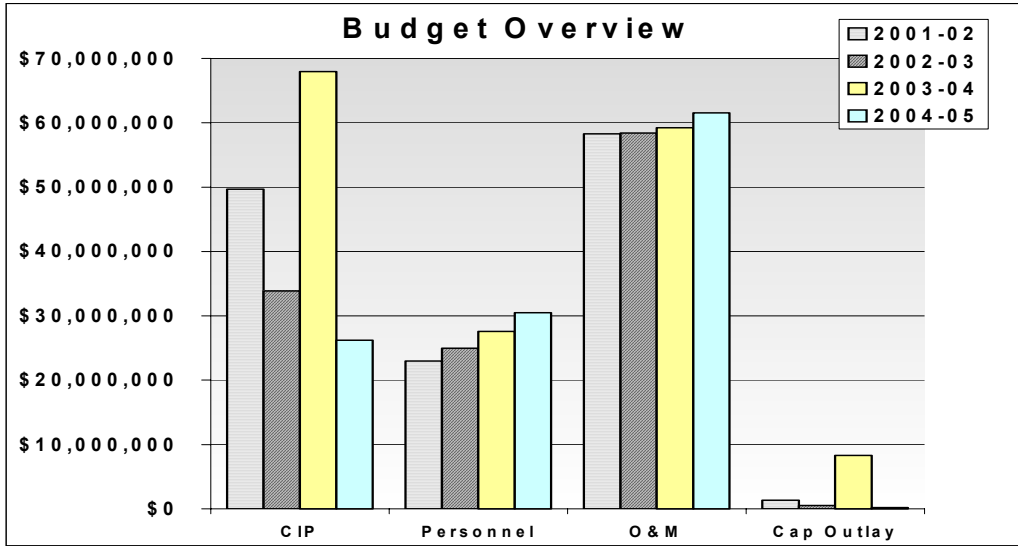
Total Appropriations

The Fiscal Year 2004-2005 Proposed Budget totals \$118,473,412, which reflects a decrease of \$46,336,900 or 28% from the Fiscal Year 2003-2004 adopted budget. This decrease is largely due to the continuing progress to begin or complete construction of several large capital projects including the Transit Maintenance Facility and the Golden Valley Road/Soledad Interchange.

Operating Budget (All Funds)

The operating budget, totaling \$92,246,368, includes personnel, operations and maintenance, debt service, and capital outlay required for delivering an array of City services.

The operating budget has decreased 3.4% or \$3.2 million over last year. This is attributed to the purchase of 16 transit buses in the prior fiscal year. Furthermore, the operating budget experienced an increase due to rising costs in personnel benefits including Public Employees Retirement System (PERS), Workers' Compensation, and health benefits.



Capital Budget

The Capital Improvement Program (CIP) budget includes 30 capital projects, financed from 15 funding sources, totaling \$26,227,044.

The capital budget is made up of \$14.4 million of new funding and \$11.8 million of rebudgeted funding. New funding is new money that is identified to fund capital projects for Fiscal Year 2004-2005. Rebudgeted funding is money that was identified (funded) in previous year(s) and is carried over to Fiscal Year 2004-2005. This occurs because the capital program is made up of multi-year projects with the funding moving from year-to-year along with the progress of the capital project.

Total Revenues

A significant step in the budget process is estimating revenues for the upcoming fiscal year. This process is critical, as appropriations are based on these projections. To ensure accuracy in our projections several factors are considered including historical trends, population projections/growth, known activities that affect revenues, and inflationary factors. With this information, the City can determine what revenues will be available for allocation. Additionally, the City utilizes long-range financial planning to ensure long-term solvency. Revenues for Fiscal Year 2004-2005 are projected at \$122,463,354.

General Fund

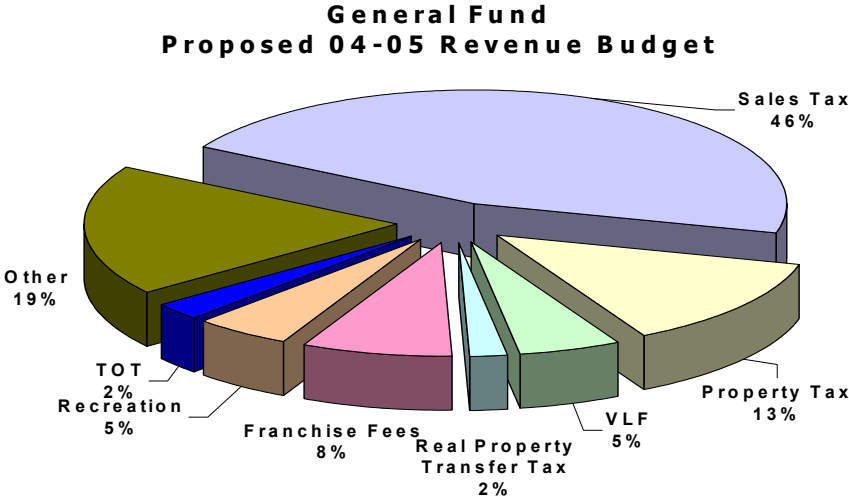
The General Fund is vital to the operation of the City because it is composed of the most flexible revenue, which the City Council can allocate toward any project or need within the community. Additionally, it is the funding source (through VLF) that is at the highest risk of impact from the State as it resolves its budget dilemma.

This proposed budget recommends an overall increase in General Fund expenditures of 5.5%. Revenues are estimated to increase approximately 1%, with the difference coming from our Unreserved Fund Balance.

General Fund Revenues

The City’s largest fund is the General Fund, representing 48% of total revenue, or \$58,738,941. The three major General Fund revenue sources are Sales Tax, Property Tax, and Franchise Fees, which comprise 67% of the total General Fund revenue.

Sales tax continues to be the City’s largest General Fund revenue source accounting for 46% of the total General Fund revenue, or \$26,860,000 compared to the budgeted revenue of \$22,500,000 for Fiscal Year 2003-2004. The projected increase of 5% in Sales Tax revenue is indicative of the contribution the citizens of Santa Clarita make by shopping Santa Clarita and keeping tax dollars in the City.



Additional projections to General Fund revenue include a 7% (\$500 k) increase in Property Tax due to the active housing market within the City and the addition of new housing within the City. The City is again reducing the amount budgeted for the Vehicle License Fee (VLF) due to the uncertainty of the States budget. The VLF is dropping from 9% of the revenue budget to 5% due to the anticipation of a \$6.0 million loss.

The remaining General Fund revenue categories are Franchise Fees, Recreation Fees, Transient Occupancy Tax (TOT), Real Property Transfer Tax, and the Other category. Recreation Fees are generated from parks and recreation classes conducted throughout the year and represent approximately 5% of the General Fund Revenues. Franchise Fees are a fee received from the cable companies, trash franchises, and other utilities, at \$4,610,000 they represent 8% of General Fund revenues. Transient Occupancy Taxes are derived from local hotels and motels and are a 10% tax on the room rate. Real Property Transfer Taxes are collected when properties are sold. The City receives \$.55 for every \$1,000. The Other category includes General Fund revenue from charges for current services, fees from developers, and a variety of other miscellaneous sources that total \$10,940,000 or 19% of the General Fund revenues.

General Fund Expenditures and Reserves

Fiscal Year 2004-2005 General Fund expenditures total \$60,991,737. Three new positions are requested for maintenance and operation of the new community center that will be coming on-line during the fiscal year; however, it is important to note that the net increase to the budget is zero, since the three positions will be funded by reallocating funds from within the current operating budget.

General Fund operating expenditures for Fiscal Year 2004-2005 are \$58.5 million, which is an increase of approximately 10% from last fiscal year. The budget includes funding the operating departments, debt service and reserves including Council Contingency, TMC, South Santa Clarita Annexation, MTA Grant Match, and Capital Projects Reserve. The General Fund contribution to capital projects is \$2.5 million, which represents 10% of the total \$26 million capital budget. In addition, we recommend increasing the operating reserve by 2%, bringing it to 12% of expenditures, or \$7.4 million. As stated earlier, the State's budget crisis continues to be a concern; as a result, we have built in an unreserved fund balance of \$8.7 million that we can turn to in the event the City loses more than \$6.0 million to the State.

Special Revenue

In addition to General Fund revenues, there are several other key revenues that fund programs, projects, and services. For Fiscal Year 2004-2005 these revenues represent 52% of the City's total revenue picture, or \$63,724,413. They are referred to as Special Revenues and include Gas Tax, Community Development Block Grants (CDBG), Federal Transit Administration (FTA) grants, Park grants, Transit funds, and Stormwater Utility revenues.

These special revenues have decreased by \$26.5 million or about 29% from last year. This decrease is directly attributable to the grants related to the funding of the Transit Maintenance Facility, Bus Purchases and Golden Valley/Soledad Interchange in fiscal year 2003-04.

DEPARTMENT HIGHLIGHTS

In developing the budget, the operating departments were given a base allocation, asked to thoroughly evaluate their current levels of funding, and to submit a fiscally responsible department budget.

The following department summaries represent the results of those efforts, as well as highlights of those items being funded for the fiscal year.

City Manager's Office

The budget represents the resources needed for the City Manager's Office to provide administrative services to the organization and the community. The City Manager's Office is a service-oriented department that provides services to the City Council, the community,

businesses, other agencies, and staff. The following areas are represented within the City Manager's Office budget: City Council, Public Information, Human Resources, Economic Development, and Intergovernmental Relations.

Additions in the City Manager's Office include \$30,000 to continue the Service Excellence program, a \$10,000 increase to the Shop Local campaign, and \$75,960 towards the establishment and operations of a farmers market in the Newhall area. The costs associated with the farmers market will be offset by revenues generated by the market.

Administrative Services

Functions of the Administrative Services Department include Finance, Technology and GIS Services, Grant Administration, Community Development Block Grants (CDBG), City Clerk, Risk Management, and Landscape Maintenance Districts. The department supports all divisions within the City, while serving as a key department in external delivery to our local merchants and vendors.

Key additions to the department include a one-time \$30,000 increase for the purchase of record management software; a \$20,000 increase in the CDBG Handyworker program; a new information technology assistant for the new Transit Maintenance Facility (funded 70% with Transit grant funds); and in the Landscape Maintenance District budget, a \$13,150 Consumer Price Index (CPI) adjustment to revenue and expenditures; and a one-time addition of \$354,000 for regular maintenance and improvement projects.

Planning & Building Services

The Planning and Building Services Department is comprised of Planning, Building and Safety, and Code Enforcement. This department continues to do an excellent job in managing the demands of growth and is actively working on the first Joint City/County General Plan, TMC, Whittaker Bermite, and the South Santa Clarita Annexation.

The budget for Planning and Building Services includes the addition of \$150,000 to fund Phase IV efforts of One Valley One Vision (joint General Plan update with Los Angeles County), \$50,000 to address the South Santa Clarita project, \$250,000 to continue the opposition to the TMC mining project, and \$50,000 to continue to support the Whittaker Bermite project.

Transportation & Engineering Services

The Transportation and Engineering Services Department contains such functions as Traffic Engineering, Development Review, Public Works Inspection, Transportation and Capital Grant Funding, Design and Construction of new roadways, Special Districts, Traffic, and Capital Improvement Projects. This department continues to work on a variety of critical capital projects while providing quality engineering services.

The budget for Transportation and Engineering Services includes additions of \$80,000 to do additional signal timing throughout the City and \$50,000 to complete a speed zone survey within the City to maintain accurate speed limits.

Parks, Recreation, & Community Services

Functions of the Parks, Recreation, and Community Services Department include Parks Maintenance, Median Maintenance, Park Development and Planning, Recreation, Emergency Preparedness, Cultural Arts, and other community services.

This department has had the challenge of bringing many new facilities on-line, including the new Aquatics Center, the expansion of Central Park, and the Newhall Community Center, which will soon be under construction.

Key allocations include \$52,000 for electric utility to utilize the four new lighted multi-purpose fields at Central Park, \$24,540 toward the addition of new Trips and Tours for youth and teens, \$44,680 for shade structures at all of the City parks, and \$57,000 in new funding for the operation of the new Community Center in Newhall that is expected to be opened by the end of fiscal year 2004-2005. All of these requests were either partially or fully offset by revenue or identified savings within the current department budget.

Field Services

The Field Services Department includes most of the field and maintenance functions within the City including Urban Forestry, Street Maintenance, Vehicle Maintenance, and Facilities Maintenance, in addition to Environmental Services and the City's Transit Services.

This budget allocates \$125,500 for the replacement of five vehicles (two are Compressed Natural Gas) per the annual Vehicle Replacement program, and \$97,000 for the one-time purchase of a replacement fire alarm system for City Hall.

The Transit Division, utilizing specific transit funding sources, reflects the addition of approximately \$225,000 toward the operations and maintenance of the new Transit Maintenance Facility, which is scheduled to be completed by the end of the fiscal year. These costs include the addition of a new maintenance specialist position for the new facility.

Public Safety

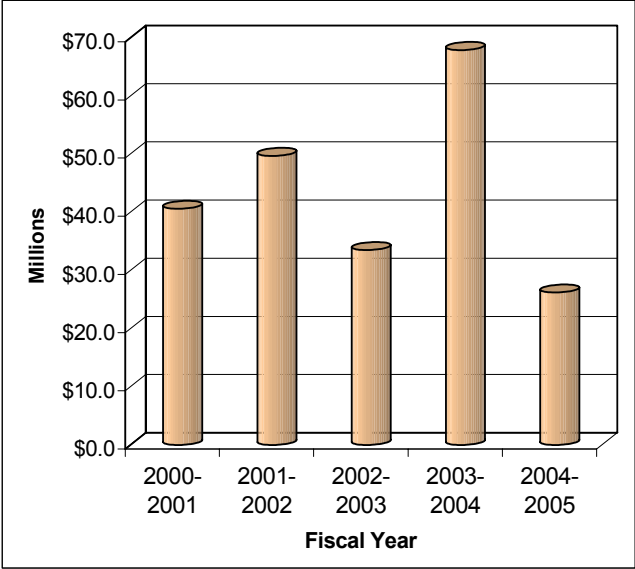
This section of the budget represents the cost of contracting for fire protection and police services with Los Angeles County Fire and Sheriff's Departments.

The total contract cost for police services for Fiscal Year 2004-2005 totals \$12,383,130 and represents an approximate increase of 4.5% over Fiscal Year 2003-2004.

Significant items proposed for this budget include adding \$30,000 for bike and off-road patrols, full-year funding of a motor deputy that was added January 2004, and the continuation of funding for the COBRA deputies and family violence investigator that had been funded through a grant. To offset these new items, it is being proposed that \$100,000 from the STAR program be reallocated to these other line items. This will result in eliminating the program for 4th graders, reducing the 5th grade by 50%, but leaving the 6th grade at current levels.

As a result of the City’s ongoing commitment to public safety, Santa Clarita has consistently ranked in the top six safest cities in the nation among cities with populations over 100,000.

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM



The Capital Improvement Program (CIP) is a key component of this document and of vital importance to the community as a whole. The CIP represents a balanced approach for meeting the community’s current and future needs. The CIP accomplishes the City’s major goals for projects, while maintaining critical ongoing maintenance.

The CIP is made up of a variety of multi-year and multi-funded capital projects. Significant in this year’s CIP is the inclusion of several large capital projects. New

funding of \$8,939,000 has been identified and budgeted for in 2004-2005 for the Cross Valley Connector. The Cross Valley Connector will provide a much needed east-west corridor and help alleviate congestion along Soledad Canyon Road. The Cross Valley Connector will also provide enhanced access to existing and planned commercial uses in the Valencia area.

Another important capital project is the Sierra Highway over the Railroad Bridge Widening project. This is a \$7.1 million project that will replace the current bridge and increase circulation on Sierra Highway by increasing the number of lanes from 4 to 6.

The proposed Capital Improvement Program for 2004-2005 totals \$26,227,044, a decrease of \$43,131,468 from the Fiscal Year 2003-2004 adopted capital budget. The decrease can be attributed to large projects that were budgeted in the previous fiscal year. (The Transit Maintenance Facility and the Golden Valley Road/Soledad Interchange projects each had budgets over \$20 million, currently both are in the construction process.) The capital program is broken down into the following eight project classifications:

Project Category	Amount
Beautification & Landscaping	\$200,000
Circulation	\$1,328,815
Facilities & Buildings	\$1,659,819
Intelligent Transportation System	\$1,486,640
Maintenance	\$2,374,655
Parks	\$853,913
Streets & Bridges	\$17,791,268
Trails & Transit	\$531,934
TOTAL	\$26,227,044

This year's program includes funding for the Cross Valley Connector (\$8.9 m), Sierra Highway Over the Railroad Bridge Widening (\$7.1 m), Transit Maintenance Facility (\$1.6 m), Placeritos Canyon Sewer Installation (\$1.1 m), and Overlay and Slurry Street Maintenance (\$2.0 m), as well as many other important projects. An impact of these projects coming on-line will be directly seen in the increase to the operating budget for the costs to maintain these new facilities, parks, trails, and roads.

The entire Capital Improvement Program represents a proactive and tangible effort toward enhancing the quality of life of our residents, while continuing to address priority issues and needs expressed by the community. A detailed description of all projects contained within the 2004-2005 CIP, as well as corresponding location maps, can be found in the Capital Projects section of this document.

Unmet Priorities List

As mentioned earlier, the budget was developed with the assumption that \$6.0 million of the City's revenues are at risk due to the State's budget problems. Through the budget process, an Unmet Priorities List was developed that reflected the items we would propose to Council to fund, once we have a better understanding of what our revenue picture will be. Items on this list include:

Sports Complex Expansion	\$ 2,476,500
Increase Annual Overlay & Slurry Program	\$ 1,000,000
Veteran's Plaza	\$ 500,000
Capital Projects Reserve	\$ 500,000
Storm Drain Transfer Program	\$ 250,000
Non-Motorized Ped., Bikeway Master Plan	\$ 150,000
Increase Vehicle Replacement	\$ 117,500
Santa Clarita Park Playground Equip. Repl.	\$ 100,000
Sports Complex Mezzanine Improvement	\$ 80,000
Valencia Glen Park Playground Equip. Repl.	\$ 75,000
Street Painting & Art Festival in Newhall	\$ 75,000
Increase Signal Timing	\$ 70,000
Park Maintenance Facility Design	\$ 65,000
Replacement of Gym Light Fixtures SCSC	\$ 60,000
Increase Annual Sidewalk Repair	\$ 50,000
Annual Median Modification	\$ 50,000
Increase Annual Curb Ramps/Handicapped Access.	\$ 50,000
Architectural Renderings for Façade Program	\$ 50,000
Increase Tree Maintenance Contract	\$ 50,000
Increase Facility Maintenance Budget	\$ 50,000
Architectural Consulting Services	\$ 40,000
Repair/Replace Reheat Coils 3 rd Floor	\$ 32,000
Public Opinion Poll	\$ 25,000
Increase Community Services Grant Program	\$ 25,000
Add Park Shade Structure	\$ 25,000
Bucket Truck Rehabilitation	\$ 18,000
Increase Litter Removal Contract	\$ 16,000
	<u>\$ 6,000,000</u>

A SUCCESSFUL YEAR

The City of Santa Clarita continues to be a growing, thriving community. We have seen many significant projects come to a close, including:

- The opening of the Aquatics Center at the Santa Clarita Sports Complex
- The expansion of Central Park, including adding lights to the sports fields
- Parking expansion at the Jan Heidt Newhall Metrolink Station
- Improvements at Whitney Canyon
- Groundbreaking of the Transit Maintenance Facility
- Completion of the Scherzinger Lane Improvements

CONCLUSION

This budget has been established to enable the City to meet a myriad of challenges over the next fiscal year. I would like to thank the City Council for its policy leadership throughout the year and especially during the preparation of the budget. I would also like to thank all the Commissioners and City staff who, every day, commit themselves to providing the highest quality services to this community.

Furthermore, I would like to recognize each of the budget officers, who worked diligently to prepare the document now before you. Specifically, thanks go to each member of the lead budget team including Darren Hernández, Jill Fosselman, Barbara Boswell, Dan Smith, and Toi Chisom for their work in preparing the budget. In addition, I would like to thank Mary Navarro for her work preparing the Capital Improvement Program section of the document and Mary Cusick for her efforts in preparing the entire budget document.

Through the City Council's continued leadership, I am confident that the City will fulfill its vision to ensure that the City of Santa Clarita's enviable quality of life both improves and endures. It is clear that strong leadership by the City Council, quality staff, and involved citizens are the key ingredients to making this community a place in which we are all proud.

I look forward to the challenges of the upcoming fiscal year and the completion of yet another successful year of Cityhood.

Respectfully submitted,

Ken Pulskamp
City Manager