



City of
SANTA CLARITA

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July 1, 2009

Honorable Mayor and Members of the City Council:

It is my pleasure to present the City of Santa Clarita's Fiscal Year 2009-2010 Operating Budget and Five-Year Capital Improvement Program. Preparation of a balanced budget is paramount; moreover, one of the most important functions of the City Manager.

We are facing dire times due to the devastating economic climate related to the housing market, financial services, and consumer spending sectors. The economic landscape has changed rapidly and dramatically from last year's budget, and has been well beyond what most economists and financial institutions expected and beyond what the City could have prepared.

Since the start of 2008, the US economy has shed six million jobs, with nearly half of them occurring during the first five months of the year. California's unemployment rate jumped to 11.2% during the beginning of 2009, one of the highest in the country, and the highest for California in three decades.

It is also projected that almost 2.2 million subprime foreclosures will occur through the end of 2009. The impact of foreclosures has also spread to surrounding homes. It is estimated that 40.6 million homes in neighborhoods surrounding those foreclosures will suffer price declines resulting in a \$352 billion decline in property values, thus impacting property tax revenues.

The impact of the soaring unemployment rate and foreclosures has been brutal for governments. Cities and counties are laying off their employees and cutting back on critical services. Los Angeles County is facing a \$300 million deficit and the worst financial crisis since the early 1990s. The State of California is currently trying to manage a \$24 billion deficit after recently adopting their budget.

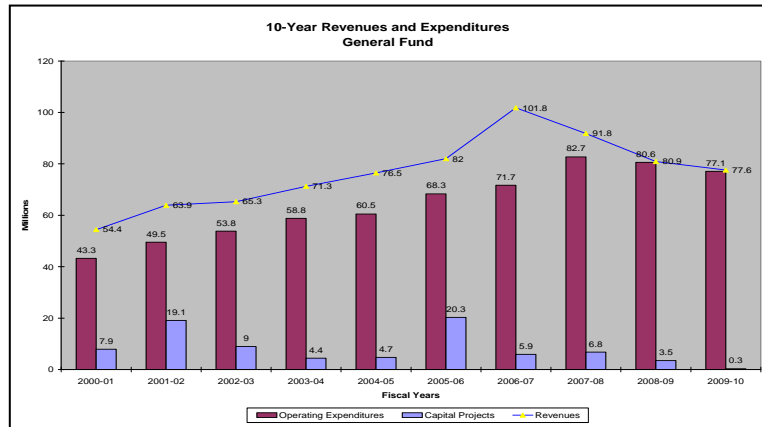
The City has not been immune to this national economic downturn and, as a result, has seen a decline in General Fund revenues, which are used to fund a variety of services. Since the start of the recession, the City has experienced a 16% decrease in General Fund revenues. As a result of this reduction, we are forced to cut back our base budgets to maintain a balanced budget and align service delivery and expectations within new and lower revenue levels. This includes delaying capital projects and implementing a hiring freeze, resulting in 20 frozen positions across all departments.



Special funds have also been impacted as a result of across the board cuts taking place at the State level. Fortunately, with the passage of Proposition 1A in 2004, there are limitations as to what the State can take from our coffers; however, this does not protect special revenues that we have counted on to provide essential services, such as transit, parks, road maintenance, etc.

Local businesses are also suffering from the slowdown in the economy. This is evident as we see businesses closing down and increased office and retail vacancy. The City’s office and retail vacancies have increased from 12% to 18.6% and 3% to 5.6% respectively.

Although we have seen impacts to our budget as a result of our revenues being at the mercy of this volatile economy, I’m pleased to say that the City’s values and commitment to service excellence continues to thrive. This is not to be taken for granted, as many cities around us have not shared the same triumph. They are currently faced with massive layoffs and brutal cutbacks in services that are likely to have a lasting and devastating impact on their organizations. The City Council should be very pleased of its sound financial decisions over the years. “The decisions we make during the good times are more important than the decisions we make during the bad.” This has been the City Council’s philosophy and we are in a good place today because of that.



This economy has made us a stronger team. Since the start of the economic recession, staff from all departments and levels has provided input on how to reduce costs and keep the City financially solvent as we fight this turbulent current. This inclusive approach resulted in an 8% savings to the General Fund base budget, which amounts to approximately \$4 million.

In addition to the base budget savings, the City Council led the way to produce the *21-Point Business Plan for Progress*, which is our local economic development stimulus strategy; thus taking a more comprehensive approach to this economy and our finances. Finally, the City assembled a team of staff across all departments to aggressively look for federal stimulus money. To date, the City has secured \$13.5 million.

The following executive summary provides an overview of the Fiscal Year 2009-2010 Budget, which includes a summary of appropriations, revenues, department budgets, and the Capital Improvement Program.

BUDGET OVERVIEW

Total Appropriations

The Fiscal Year 2009-2010 Budget totals \$171,986,091 (including \$3,926,576 in Redevelopment Agency operating appropriations), which reflects a 29% or \$68.6 million decrease when compared to Fiscal Year 2008-2009 year-end estimates. This decrease is mainly the result of base budget reductions to the General Fund and less money being spent on capital projects. For example, during Fiscal Year 2008-2009, the capital budget included funding for significant projects, such as the Overlay Program (\$11.3 million), Golden Valley Road Bridge over Santa Clara River (\$23 million), and I-5 Magic Mountain Interchange (\$18 million), to name a few.

Total Revenue Resources

A significant part of 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 the state of the economy, historical trends, population projections/growth, and inflationary factors. With this information, the City can best determine the revenues available for allocation. Additionally, the City utilizes long-range financial planning to ensure long-term solvency.

It is important to note that the state of the economy has made it extremely difficult to anticipate and project our revenues. Although we use a sophisticated process to project our revenues, as well as the help of experts, these tumultuous times have presented a challenge. It is likely that revenue projections will need to be adjusted during the fiscal year to address any unforeseen uncertainties.

Total revenue resources for Fiscal Year 2009-2010 are projected at \$171,986,091. This includes Redevelopment Agency Funds.

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. The 2009-2010 Budget is consistent with our “Good Business” practice of ensuring that on-going revenues are greater than on-going expenditures.

As mentioned above, the economic climate has forced the City to cut back base budgets to maintain a balanced budget and align service delivery and expectations within new or lower revenue levels. For this reason, the General Fund operating base budget was reduced by 8% or \$4 million.

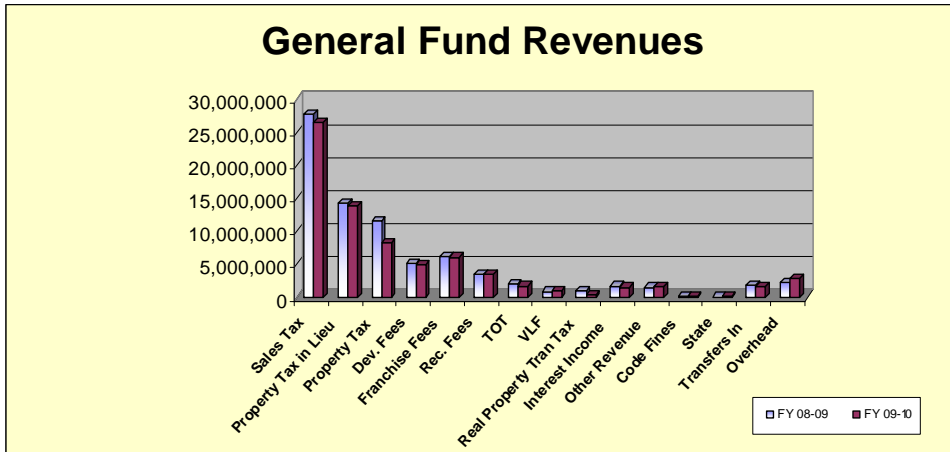
Although in previous years the City was able to maintain almost \$5 million of revenues over expenses, for Fiscal Year 2009-2010, General Fund revenues will exceed General Fund appropriations by only \$506,532.

General Fund Revenues

The City’s largest fund is the General Fund, representing \$77,612,762, of total revenues (*includes transfers in and overhead reimbursements*). This projection is a 3.9% decrease when compared to what we expect to generate by the end of Fiscal Year 2008-2009. This decline is mainly the result of a decrease in Sales Tax, Property Tax, Development Revenue, Transit Occupancy Tax, Real Property Transfer Tax, and Interest Income.

Sales Tax continues to be the City’s largest General Fund revenue source, accounting for 34% of the total General Fund revenue, or \$26,500,000. Sales Tax has been very susceptible to the slowing economy. In Fiscal Year 2008-2009, Sales Tax underperformed by 14.7% from what was

anticipated at the beginning of that fiscal year.



For Fiscal Year 2009-2010, it is projected that Sales Tax will decrease by 4.7% when compared to the previous fiscal year as a result of the slowing economy.

Second to Sales Tax is Property Tax, which accounts for \$25,110,000 of General Fund revenue. Of the total Property Tax amount, \$13,810,000 is Property Tax in Lieu of Vehicle License Fees. Property Tax will decline by 5.9%. The projection is based on assessed valuation for Fiscal Year 2008-2009. The decline is due to the County’s rising delinquency rate from 5% to 6%. In addition, Proposition 8 Property Tax appeals continue to make a significant negative impact. Median sales prices are down from the peak between 30% and 35%, suggesting an estimated loss in assessed values in 2008.

Development Revenue represents charges for building and safety permits and review of new developments for environmental and land use compliance. This accounts for 6% or \$4,966,835 of the General Fund revenue. This projection is 8.1% less than revenues anticipated during Fiscal Year 2008-2009. Again, this is due to the downturn of the national economy.

Transient Occupancy Tax is anticipated to decline by 12.5%. This decline is in response to the Film Incentive Program that is part of the *21-Point Business Plan for Progress* that will incentivize increased film production in Santa Clarita by rebating half of the Transient Occupancy Tax generated from film-related hotel stays. These benefits will be available to productions based in

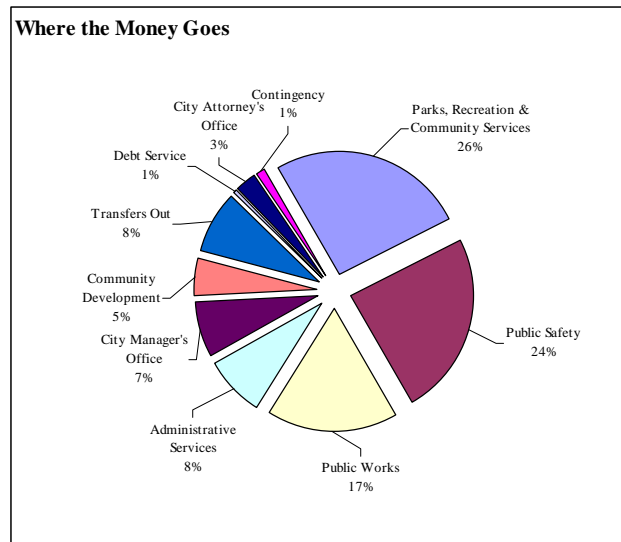
Santa Clarita, creating a demand for additional stages and support businesses, while also increasing local jobs for industry workers and Sales Tax generation.

Real Property Transfer Tax is expected to decline by almost 60% based on current housing market trends. Although the volume of real estate transactions have increased, home values have dropped significantly and are continuing to drop as a result of the housing crisis. Finally, Interest Income is projected to decline by 12.7% due to weakened market conditions and reduced fund balances.

General Fund Appropriations and Reductions

Fiscal Year 2009-2010 General Fund appropriations total \$77,106,230, which is a 4% decrease from Fiscal Year 2008-2009. The total General Fund expenditures for Fiscal Year 2009-2010 include funding for operating departments, debt services, contingency, and transfers to other funds.

As already mentioned, in light of declining General Fund revenues, it is necessary to reduce base appropriations to maintain a balanced budget. The reductions totaled over \$4 million. Each department was successful in identifying ways to reduce costs without seriously impacting City services.



To summarize, the reductions were primarily achieved by:

- Transferring expenses that have normally been funded by the General Fund to Special Revenue funds. These transfers help lessen the burden on the General Fund and allow the City to maximize the use of healthy Special Fund revenues.
- Freezing four additional positions for a total of 20 frozen positions across all departments. This includes a Community Preservation Officer, Parks and Recreation Administrator, Assistant Parks Supervisor, and a Supervising Building Inspector.
- Reducing contractual services budgets. Various contracts were either reduced or eliminated because the City can no longer sustain them. This has required an adjustment in staff workload and many projects that were once outsourced will need to be handled by full time staff. One area that will see a reduction in contractual services is the development process. Since development activity has

declined, it is no longer necessary to maintain contracts related to plan check, landscape, geotechnical and architectural review, just to name a few.

- Reducing temporary employee, overtime, and training budgets. Temporary employees are often used to help when workflows increase in lieu of hiring permanent staff members. However, in light of the economy, the City can not continue to keep this resource.
- Reducing costs for printing, postage, and electrical utility.

In addition to the cuts mentioned above, another strategy used to maintain a balanced General Fund budget was to eliminate any allocation for capital projects. For Fiscal Year 2009-2010, capital projects will be funded entirely by Special Revenues.

General Fund Operating Reserve

Reserves are a critical component of the budget because it is a funding source that can be counted on in case of an emergency or unforeseen opportunity. For Fiscal Year 2009-2010, the operating reserve will total \$10,010,000, or 15% of operating expenditures.

NECESSARY ADDITIONS TO THE OPERATING BUDGET

Although the focus of the Fiscal Year 2009-2010 was on reductions to maintain a balanced financial plan, there were some necessary additions.

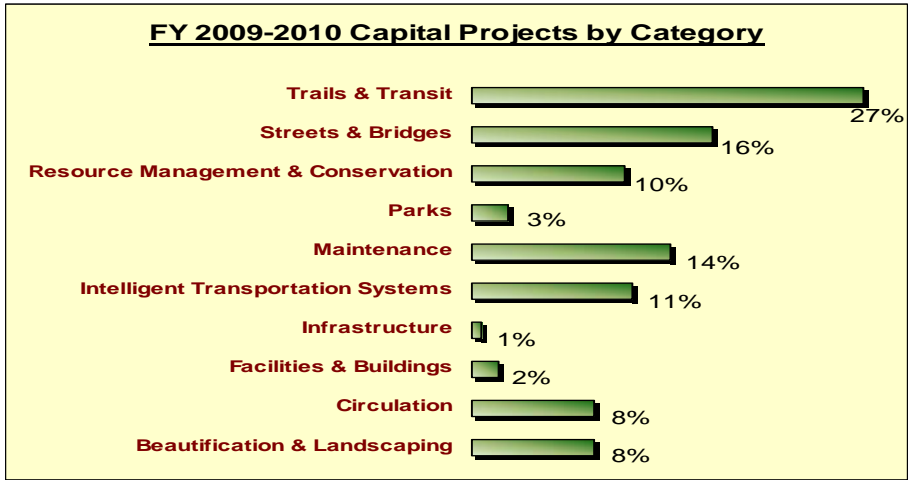
The following is a summary of these necessary additions:

- Sheriff's 3% Cost of Living Adjustment (COLA): \$532,723
- Cemex: \$196,000
- Whittaker Bermite: \$60,000
- Transit Contract Increase: \$1,257,217
- Special Districts Electric Utility: \$370,000
- One Valley One Vision Planning and Outreach: \$30,000
- Urban Design Study for Joint County and City Civic Center: \$15,000
- First Home Program: \$860,000
- Redevelopment Agency Real Estate, Marketing, and Legal Services: \$125,000
- Orange Line Development Maglev Authority: \$15,000
- Annual Vehicle and Equipment Replacement: \$224,000
- College of the Canyons MOU: \$50,000
- One-Time Contribution to the Senior Center Meals on Wheels Program: \$50,000

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM HIGHLIGHTS

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 capital improvement 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. The CIP for 2009-2010 totals \$27,958,896, which represents 16% of the total budget appropriation.

As a result of the recession, the City was forced to delay several significant capital projects that would have an ongoing operating impact, such as the Central Park expansion, the gymnasium at



the Sports Complex, and the Canyon Country Community Center. Thus, funding for these projects is not included in the Fiscal Year 2009-2010 budget.

The City has formed a team of staff members from all departments whose mission is to aggressively search and

apply for federal stimulus dollars. To date, the City has secured \$13.5 million. Several projects will utilize federal stimulus dollars. These projects include the Overlay Program, McBean Regional Transit Center Park and Ride, and Newhall Metrolink Parking Expansion.

This year’s CIP will include funding for the Valencia Industrial Center Median Improvements in the amount of \$520,000. This project involves the installation of landscaped medians in the Valencia Industrial Center on Avenue Scott and Avenue Tibbits. This will be the first project since this zone’s creation and will be funded with Landscape Maintenance District funds.

The CIP includes \$600,000 for the Advanced System Detection Project which will enhance the City’s Intelligent Transportation System by installing additional detection capabilities along Bouquet Canyon Road, Railroad Avenue, and Sierra Highway. This advanced technology gathers data on traffic and communicates the information to commuters by text message and email.

The CIP will appropriate \$680,000 of grant money to construct improvements to five acres of the 25-acre Discovery Park property. Another notable allocation is \$548,270 in grant funding for the successful Safe Routes to School project. This project will fund a number of crossings, signage, and striping enhancements in the vicinity of Peachland, Mitchell, and Rosedell Elementary Schools. Improvements will include design and construction of curb extensions at selected locations, wider sidewalks, restriping of crosswalks, enhanced signage, and pedestrian countdown

signals. As seen with past Safe Routes to School projects, this will increase student safety by reducing the speed of vehicles near school grounds and improve visibility of school crossings. The CIP also includes \$720,000 for the Landscape Water Management Program Phase 1. This phased replacement program will replace 90 of the 436 irrigation controllers in various Landscape Maintenance Districts. This project will result in usage reduction of nearly 10 million gallons of water annually. The City is working with the State and local water agencies to meet mutual goals of reducing water consumption. Replacing out of date controllers is a simple and effective method to contribute to this goal. It is estimated that the City can reduce consumption by 12% just by replacing the outdated controllers and as much as 24% by concurrently employing best water management practices.

The entire Capital Improvement Program represents a proactive and physical effort toward enhancing the quality of life for our residents, while continuing to address priority issues and needs expressed by the community. A detailed description of all projects contained within the 2009-2010 CIP, with corresponding location maps, can be found in the Capital Projects section of this document.

CONCLUSION

This budget has been established, according to our “good business budgeting” practice, to provide the necessary funding for the City to continue meeting the challenges this next fiscal year and thereafter. I would first like to take this opportunity to congratulate the City Council for its great fiscally responsible leadership and direction, resulting in significant achievements and financial stability for the City. I would also like to thank all the Commissioners and City staff who, every day, commit themselves to maintaining the quality of life enjoyed by all Santa Clarita residents.

Furthermore, I would like to recognize each of the budget officers, who worked diligently to prepare the document now before you, including Sarona Vivanco, Elena Galvez, Ingrid Hardy, Alex Hernandez, Farah Awan, and Patrick Bryant. I would also like to recognize each member of the lead budget team, including Ken Striplin, Tina Haddad, Darren Hernández, Carmen Magaña, and Mary Ann Ruprecht for their work in preparing the budget.

In addition, I would like to thank the Executive Team and Mary Navarro for their work in preparing the Capital Improvement Program section

Lastly, I would like to thank you for allowing me to play a role in realizing the goals of the City Council and the community. Through the City Council’s continued leadership, I am confident that we will continue our successes and achieve an even better Santa Clarita.

Sincerely,



Ken Pulskamp
City Manager