



City of
SANTA CLARITA

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July 1, 2010

Honorable Mayor and Members of the City Council:

It is my pleasure to present the City of Santa Clarita's Fiscal Year 2010-2011 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.

There is no doubt that we are facing the worst economic dilemma our country has seen during its history. The economic landscape has changed rapidly and dramatically since 2007 when the financial system tumbled. The negative effects of the global economic crisis have exceeded the expectations of most economists and financial institutions, and were more drastic than many cities were prepared to address.

The impact of soaring unemployment rates, a feeble housing market, and declining consumer spending levels has been brutal for local governments across the country. Despite being one of Southern California's fastest growing residential and business communities and a leader in conservative fiscal practices, our City has not been immune to the economic meltdown.

For Santa Clarita, the downturn in the economy resulted in a \$13.9 million, or 15%, loss in General Fund resources since 2007. However, despite the decline, Santa Clarita has stepped up to the challenge, is weathering the storm, and remains fiscally balanced.

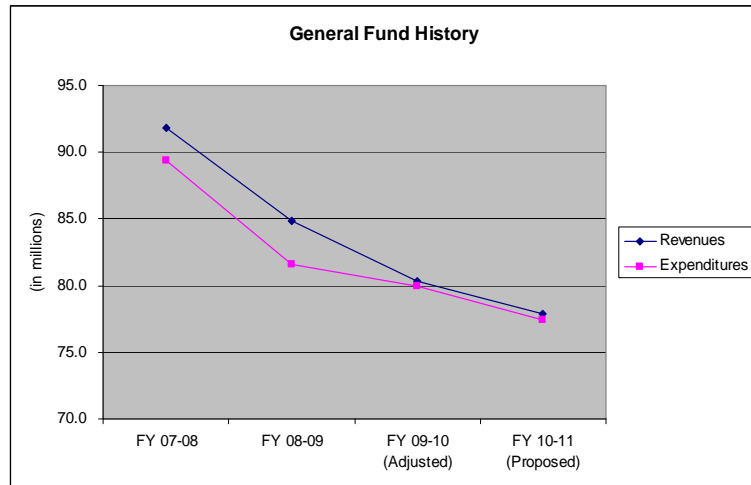
Being able to surmount the volatile economy serves as a testament to Santa Clarita's "good business" budget practices and values that make Santa Clarita a special place to do business, raise a family, and enjoy a supreme quality of life.

When it comes to budget, the City Council's mantra has always been, "The decisions made during the good times are more important than the decisions made during the bad." The City Council treated the good times as an opportunity to be proactive and strategic because history has shown that the economy will have its ups and downs. During the good years, the Council was mindful of spending levels and made decisions regarding additional amenities, while remaining cognizant of potential future economic pitfalls. This approach positively affected Santa Clarita's bottom line.

In addition to our conservative budgeting practices, Santa Clarita's commitment to being one of the best places to do business has also served us well. We are one of the few cities that did not compromise this value during difficult times. In 2008, the City was recognized by the Los Angeles County Economic Development Corporation (LAEDC) as "The Most Business Friendly City in

Los Angeles County.” Our City was not willing to wait out the recession for economic activity to spark for local businesses. Instead, the City pioneered a \$5.1 million “21-Point Business Plan for Progress.” This local stimulus program is designed to help small business. It is also aimed at strategically enhancing local business partnerships, encouraging quality job creation in the area, boosting retail spending, and attracting external dollars to the community. Through our partnerships, the City was able to attract new businesses such as Advanced Bionics, Valencia Mold Inc., and Ronan Engineering, which successfully brought over 600 new jobs to the community. Another success is Disney/ABC Studios’ plans to construct a new production studio facility that would bring an additional 3,000 jobs to the Santa Clarita region.

The City also remains dedicated to service excellence, team work and creativity. 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. Santa Clarita has experienced the opposite. 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 that will keep the City financially solvent and maintain exceptional service levels. Since the recession, we have been able to reduce General Fund spending levels by \$12 million, or 13.5%. This includes implementation of a hiring freeze, which resulted in 30.5 eliminated positions, or 8% reduction in staffing levels.



The following executive summary provides an overview of the Fiscal Year 2010-2011 Budget, which includes a summary of appropriations, revenues, department budgets, and the Capital Improvement Program.

BUDGET OVERVIEW

Total Appropriations

The Fiscal Year 2010-2011 Budget totals \$177,302,643 (including \$4,037,494 in Redevelopment Agency operating appropriations).

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 circumstances.

Total revenue resources for Fiscal Year 2010-2011 are projected at \$177,613,399. This includes Redevelopment Agency Funds.

General Fund

The General Fund is vital to the operation of the City because it is comprised of the most flexible revenue which the City Council can allocate toward any project or need within the community. The 2010-2011 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 \$1.9 million, or 3.75%.

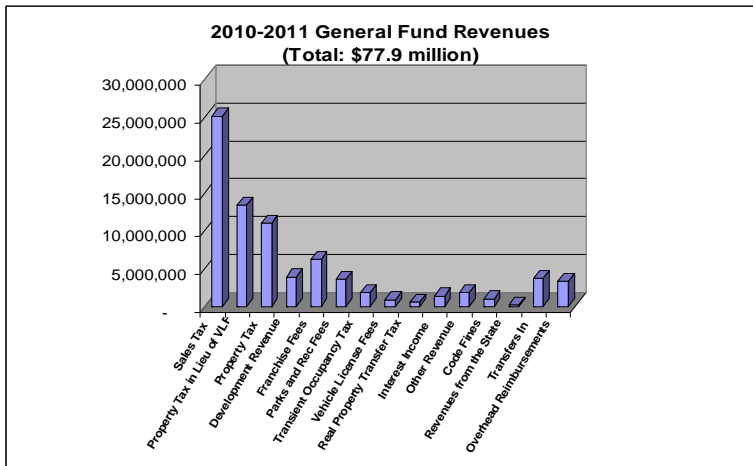
I am also pleased to note that General Fund revenues will exceed General Fund appropriations by \$465,072.

General Fund Revenues

The City’s largest fund is the General Fund, representing \$77.9 million of total revenues (*includes transfers in and overhead reimbursements*). This projection is a 3.4% decrease when compared to what we expect to generate by the end of Fiscal Year 2009-2010. This decline is mainly the result of a decrease in Sales Tax, Property Tax, Development Revenue, and Interest Income.

Sales Tax continues to be the City’s largest General Fund revenue source, accounting for 32% of the total General Fund revenue, or \$25.1 million. Sales Tax has been very susceptible to the slowing economy and has declined by 23% since 2007.

Property Tax in Lieu of VLF is estimated at \$13.4 million, and Property Tax totals \$11 million. Property Tax estimation is not an exact science. The County Assessor's office makes changes to the City's property tax rolls daily to reflect transfers in ownership, new construction, assessment



appeals, parcel splits, and other dynamic changes. When compared to before the recession, Property Tax and Property Tax in Lieu of VLF have declined by 10.5% and 2% respectively.

Development Revenue represents charges for building and safety permits and review of new developments for environmental and land use compliance. Development Revenues continue

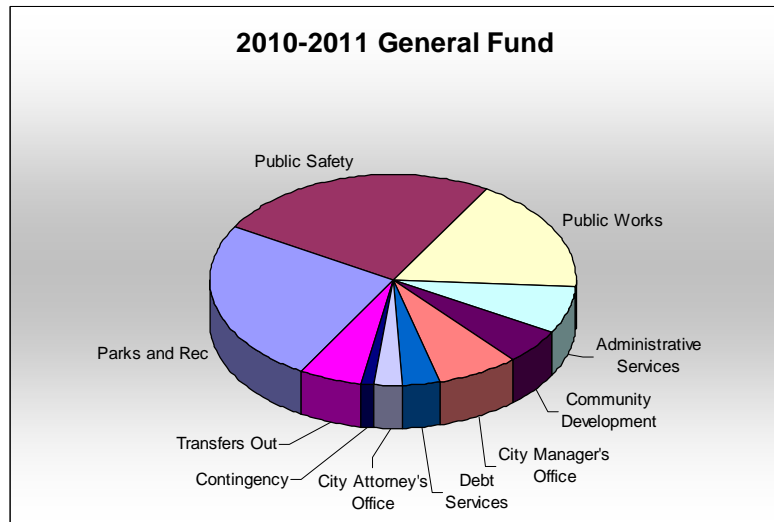
to decline. For the new fiscal year, we project a 5.8% decrease when compared to the current year. This is the result of less construction activity and permit requests. Issuance of building permits for retail, office, and industrial uses have been on a steady decrease since Fall of 2008.

Interest income is projected to decline by 15.3% when compared to the current year due to weakening market conditions and lower interest rates.

General Fund Appropriations and Reductions

Fiscal Year 2010-2011 General Fund appropriations total \$77.4 million. The total General Fund expenditures for Fiscal Year 2010-2011 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. Since the recession, General Fund spending levels have been reduced by \$12 million, or 13.5%.



For Fiscal Year 2010-2011, the General Fund was reduced by \$1.9 million, or 3.75%. 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.
- Eliminating four additional positions for a total of 30.5 eliminated positions, or an 8% reduction in staff levels.
- 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 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.
- 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 and postage.

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. The City is very fortunate to be able to maintain a healthy reserve during this difficult time. For Fiscal Year 2010-2011, the operating reserve will total \$10,970,000, or 15%, of operating expenditures.

NECESSARY ADDITIONS TO THE OPERATING BUDGET

Although the focus of the Fiscal Year 2010-2011 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 2% COLA for overhead costs: \$368,836
- Economic Development Corporation: \$200,000
- Parking Enforcement Program: \$656,572 (100% cost recovery)
- Cemex: \$100,000
- Streetlights Electric Utility Increase: \$248,000
- Santa Clarita Public Television Operating Base Budget: \$128,000
- One Valley One Vision: \$40,000
- Climate Action Plan: \$40,000

- Whittaker Bermite: \$60,000
- Redevelopment Agency: \$100,000
- Increase Base for Water Utility and Pool Chemicals: \$150,000

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 2010-2011 totals \$50,891,172.

This year's capital budget will be much greater than what was adopted for Fiscal Year 2009-2010. The reason for this increase is that we have been successful in securing a variety of grants. Since January 1, 2009, the City has been awarded \$36.5 million in grant funding.

The largest source of grant funding during this period has been the Federal American Recovery and Reinvestment Act of 2009 (ARRA). Through programs contained within this legislation, the City has been awarded \$17,045,332, via formula allocations and competitive grants, which is being used to fund 19 projects ranging from road and bridge improvements and transit system upgrades, to energy efficiency retrofits and building facade improvements.

The Fiscal Year 2010-2011 capital budget will include \$19.3 million for the construction of the Newhall Library. This new and improved state of the art library will be a focal point within Old Town Newhall.

One million dollars will be included in the capital budget to beautify the median along Soledad Canyon Road, east of Bouquet Canyon Road. The improvements will include landscaping, irrigation, and stamped concrete. Funding for this project will come entirely from Landscape Maintenance District revenues.

In an effort to improve the look of our gateway to Old Town Newhall, funding will be available to replace existing chain link fencing with a lodge pole fence along Railroad Avenue beginning near Midus Muffler and ending at Kiss Storage. The funding will also be used to plant trees from Magic Mountain Parkway to Lyons Avenue.

For the first time, \$8.7 million will be available for our annual Road Overlay Program. This is the most that we've ever been able to allocate for overlay. The reason we were able to give this program more funding is the result of increased availability of grant funding and special revenues. The annual Road Overlay Program reflects the implementation of the City's commitment to sound pavement management of the roadway infrastructure by overlaying and slurry sealing streets in need of attention. Streets would be selected based on recommendation from the City's pavement management survey and field inspections.

This effort strives to maintain the quality and viability of the City's streets. In order to meet the pavement management survey's projected five-year need, the City must commit funds to the Overlay Program. By committing funds, the City would prevent excessive roadway deterioration, which results in higher repair costs.

Funding in the amount of \$1.6 million for Phase 2 of the Landscape Water Management Program will also be available. This phase continues and concludes the irrigation controller replacement program that started during Fiscal Year 2009-2010. Three hundred controllers will be replaced. This project, combined with water savings from Phase 1, would result in a water use reduction of 150 million gallons annually.

The capital budget will include \$1.1 million for pedestrian improvements along Newhall Avenue. This project would provide for the design and construction of an ADA acceptable pedestrian pathway along Newhall Avenue across the Metrolink tracks. It would also provide for a sidewalk along Newhall Avenue, from Railroad Avenue to Carl Court.

Funding for the East Walker Ranch Open Space Trail System will be included in the capital budget. The project will provide an improved trail system on this recently purchased property. The project will also provide a trail connection linking East Walker Ranch Open Space with adjacent Golden Valley Open Space and Placerita Nature Center.

The capital budget includes \$563,418 for the Safe Routes to School Program. This will fund a number of crossings, signage, and striping enhancement in the vicinity of Leona Cox, Rio Vista, and Orchard Village Elementary Schools. Improvements would include design and construction of curb extensions at selected locations, wider sidewalks, restriping of crosswalks, enhanced signage, and pedestrian count-down signals.

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 2010-2011 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 Sarena Vivanco, Ingrid Hardy, David Koontz,

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. With the City Council's continued leadership, I am confident that we will continue our successes and achieve an even better Santa Clarita.

Sincerely,

A handwritten signature in black ink that reads "Ken Pulskamp". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Ken Pulskamp
City Manager