

Budget-In-Brief

2003-05 Financial Plan Supplement

Approved 2004-05 Budget

The purpose of this "budget-in-brief" is to summarize the second year of the City's 2003-05 Financial Plan by highlighting the City's budget process, key budget features, major City goals and basic "budget facts." If you have any questions about the City's budget or would like a complete copy of the 2003-05 Financial Plan or the Supplement, please call us at 781-7127.

Purpose of the City's Two-Year Financial Plan

The fundamental purpose of the City's Financial Plan is to link what we want to accomplish for the community with the resources necessary to do so. Our Financial Plan process does this by: clearly setting major City goals and other important objectives; establishing reasonable timeframes and organizational responsibility for achieving them; and then allocating resources for programs and projects.

This process results in a two-year budget document that emphasizes long range planning, budgeting for results, effective program management and fiscal accountability. While appropriations are still made annually under this process, the Financial Plan is the foundation for preparing the budget in the second year. The Council adopted the 2004-05 Supplement on June 15, 2004.

Major City Goals

Linking important objectives with necessary resources requires a process that identifies key

goals at the very beginning of budget preparation. Setting goals and priorities should drive the budget process, not follow it.

For this reason, the City began the 2003-05 Financial Plan process with a series of in-depth workshops where Council members considered candidate goals presented by community groups, Council advisory bodies and interested individuals; reviewed the City's fiscal outlook for the next five years and the status of current goals; presented their individual goals to fellow Council members; and then set and prioritized goals for the next two years.

City staff then prepared the Preliminary Financial Plan based on this policy guidance from the Council. A number of budget workshops and hearings followed resulting in final Council adoption of the 2003-05 Financial Plan on June 17, 2003.



Cornerstone: Budget and Fiscal Policies

Formally articulated budget and fiscal policies provide the fundamental foundation for preparing and implementing the Financial Plan. Included in the Financial Plan itself, these policies cover a broad range of areas such as revenue management, user fee cost recovery goals, enterprise fund rates, investments, capital improvement management, capital financing and debt management, minimum fund balance and reserve levels, investments, human resource management, productivity and contracting for services.

city of san luis obispo

BUDGET HIGHLIGHTS

OVERVIEW

Our community continues to face two significant and distinct threats to our fiscal health in both the short and long-run:

- 1 State budget impacts on the City as the State deals with its very real (and very large) budget deficits.
- 2 And our own local challenges based on the performance of our local economy and added operating cost pressures.

State Budget Cuts Still the Greatest Threat. Of these two, State budget cuts present the greatest threat, since—without a fundamental change in State-local fiscal “ground rules”—there is no conceptual limit to the amount that the State can take away from us: the use of local sources as a State piggyback in tough fiscal times is simply, from their perspective, all too easy and expedient.

For this reason, no matter how successful we are at a local level in managing our own finances, and navigating responsibly through tough fiscal times, this can be undone arbitrarily and capriciously by the State at the drop of a hat “in the midnight hour.” As a detailed look at State takeaways shows over the last 15 years, they are never based a rational realignment of State-city revenues, but a blatant self-serving desire to avoid making hard decisions about State programs and service levels, based on State revenues.

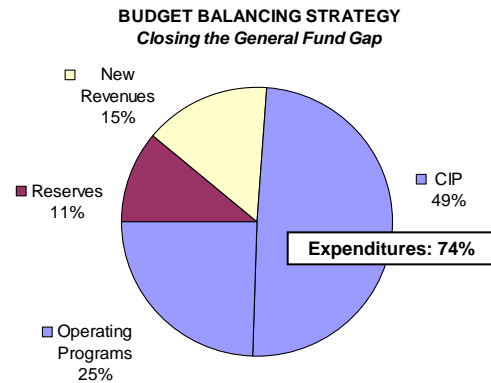
“Two-Year State Budget Deal:” Short-Term Gain for Long-Term Gain. Since real protection against State raids is so critical, the City has joined with other local governments in supporting the Governor’s “two year budget deal.” In exchange for \$2.6 billion in takeaways from local government over the next two years (of which the City’s two-year share is \$1.4 million), the State has agreed to place a ballot measure providing strong constitutional protection from further State budget grabs on the November 2004 for voter approval (Proposition 1A). Passage of this measure is essential for the City’s long-term fiscal health.

FINANCIAL CONDITION SUMMARY

Tough Fiscal Past, Tough Fiscal Future. We began the 2003-05 budget process facing our toughest fiscal outlook in over ten years, since the 1992-94 recession and State budget grabs at the same time. In April 2003, we projected an ongoing “budget gap” of about \$7.0 million annually in the General Fund if we did not take corrective action. The 2003-05 Financial Plan reflects the following strategy in closing this gap: using available reserves

above minimum policy levels; developing a General Fund capital improvement plan (CIP) that is the lowest possible while reasonably maintaining our *existing* infrastructure and facilities; reducing operating program costs and related service levels; and implementing selected new revenues as allowed under Proposition 218.

As shown below, expenditure reductions played the largest role in balancing the 2003-05 budget, accounting for about 75% of the total, with CIP reductions accounting for about 50%.



Even Further Cuts Needed in 2004-05. The 2003-05 Financial Plan did not assume further State cuts over this two-year period. However, State budget raids actually totaled \$1.5 million. To accommodate this, we made further expenditure cuts in 2004-05 (most notably in our paving program); and for the first time since we adopted our minimum reserve policy fifteen years ago of 20% of operating expenditures, we are going below this level to 17%.

While this is significant in signaling the tough fiscal times facing us, it is also consistent with the strategy adopted as part of the 2003-05 Financial: to maintain reserves at policy levels as our first line of defense against even more State budget grabs.

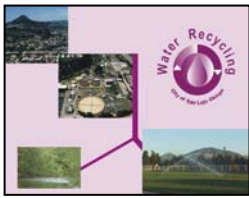
PROSPECTS FOR THE FUTURE

The budget for 2004-05 builds on the foundation and strategy used in preparing the 2003-05 Financial Plan. Notably, it achieves the major goals and objectives set forth in the Plan, while preparing us for the difficult decisions we will need to make as part of the 2005-07 Financial Plan.

Based solely on local circumstances, we should be able to weather the fiscal storm ahead of us this year and prudently position ourselves for 2005-07. However, without the kind of protection against future State raids offered by Proposition 1A, we may need to again—as we did for the 2003-05 Financial Plan—fundamentally revisit our General fund resources and related service levels.

MAJOR CITY GOALS

The 2003-05 Financial Plan sets major City goals for the next two years and links them with the programs, projects and resources necessary to achieve them. Detailed work programs have been prepared for each of these goals, including the challenges we will face in achieving the goal, action plans and resource requirements.



Long-Term Water Supply. Continue aggressive efforts to develop permanent, reliable water sources to meet General Plan needs, including all options under current Council policy.



Neighborhood Wellness. Improve neighborhoods and neighborhood involvement by continuing to implement the neighborhood wellness program, including consideration of a rental inspection ordinance.



Street and Sidewalk Maintenance. Continue maintenance of streets and sidewalks at a moderate level.



South Broad Street Corridor Plan. Adopt General Plan and zoning amendments to create a mixed-use residential neighborhood along the South Broad Street corridor from South Street to Orcutt Road and seek grant funding to create a neighborhood concept plan for the area.



One of seven options from the 2003 Project Study Report

Los Osos Valley Interchange. Continue working towards improvements at the Los Osos Valley Road/Highway 101 interchange.



Downtown Improvements: Monterey Plaza. Pursue the creation of a "Monterey Plaza" for civic gatherings and passive recreation, dependent upon the start-up of the Copeland's Court Street retail-commercial and the Palm-Morro parking projects.



Bikeway Improvements: Railroad Safety Trail. Acquire right-of-way and property for extension of the Railroad Safety Trail from the Jennifer Street Bridge to Cal Poly.



Economic Development: Transient Occupancy Tax. Encourage and promote projects that will increase lodging and conference facilities in order to generate additional transient occupancy tax (TOT) revenues.



construction and ongoing operation that does not use general-purpose revenues.

Therapy Pool. Pursue development of a warm water therapy pool at the Swim Center through a financing program for its



Economic Development: Sales Tax. Encourage and promote retail projects that will increase sales tax revenues.



and complies with state laws including CEQA; and encourage and support Cal Poly's efforts to provide more on-campus housing consistent with their adopted master plan for housing and enrollment.

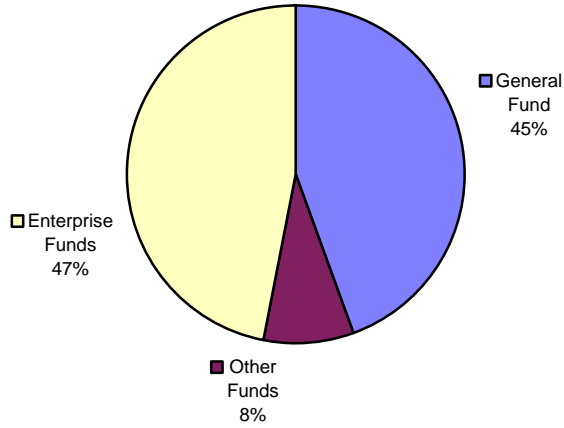
Housing. Adopt a housing element that expands housing opportunities for very low, low and moderate income households, preserves and enhances residential neighborhoods



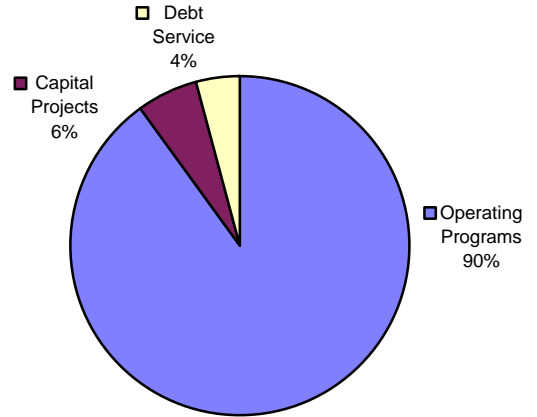
Long-Term Fiscal Health: Preservation of Essential Services. Develop a comprehensive strategy for preserving essential services, adequately maintaining existing facilities and infrastructure, and protecting the City's fiscal health.

BUDGET SUMMARY

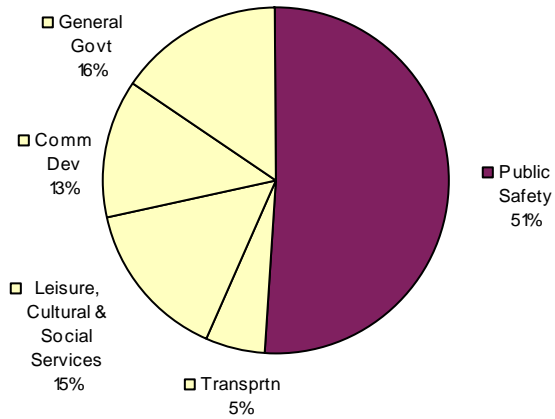
**2004-05 Budget By Funding Source:
\$91.0 Million**



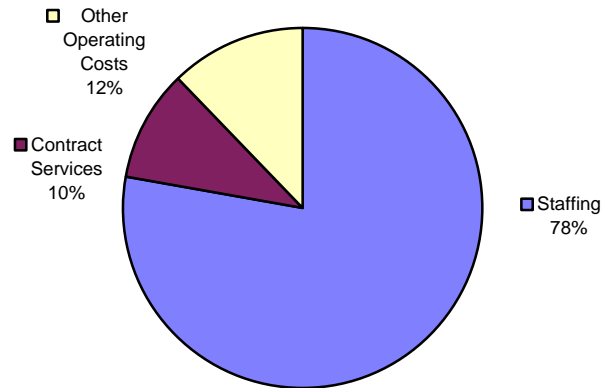
**2004-05 General Fund Budget:
\$40.5 Million**



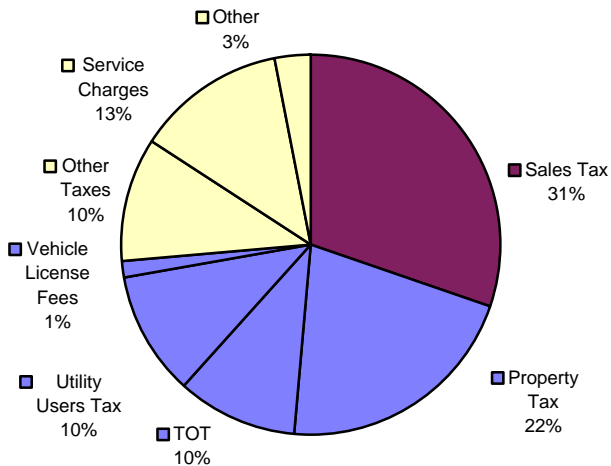
**2004-05 General Fund Operating Budget
By Function: \$36.0 Million**



**2004-05 General Fund Operating Budget
By Type: \$36.0 Million**



**2004-05 General Fund Revenues:
\$37.9 Million**



Major Capital Projects: All Funds (In Millions)

Water System Improvements	\$6.5
Wastewater System Improvements	10.6
Street Paving	2.9
Foothill Bridge Replacement	6.4
Bikeway & Pedestrian Improvements	0.9
Therapy Pool at Swim Center	0.2
Park Improvements	1.0
Open Space Preservation	5.9

2004-05 Regular Staffing: All Funds

Public Safety	142.0
Public Utilities	56.8
Transportation	25.0
Leisure, Cultural & Social Services	28.0
Community Development	39.6
General Government	55.9
Total Positions	347.3