

Proposed Biennial Budget For Fiscal Years 2001-03

Presented to:

The Honorable Mayor and Members of the City Council
City of Lompoc, California

June 5, 2001

Frank L. Priore, City Administrator

Introduction

Presented below is the proposed biennial budget for the City of Lompoc for Fiscal Years 2001-2003. The budget is comprised of all anticipated revenues available to the City over the course of the biennial budget period and all anticipated expenditures necessary to carry out the priorities of the City Council for the same period.

The responsibility for and preparation of the budget is clearly set forth in Section 1521 of the Lompoc City Code. This section of the Code speaks to the basic need to provide financial information. While this is certainly the primary purpose of any budgetary document, it is also necessary that the budget document accurately portray staff's best efforts at translating the priorities of the City Council as such priorities have been expressed in budget priority workshops and previous actions of the Council.

The proposed budget is also staff's effort at translating legislative priorities into a budget that constitutes the "essential services" level of operating performance required by the City Council and the laws of our state and federal governments. "Essential services" are defined as those necessary for the health, safety, and desired quality of life to the community, and for the effective functioning of City government. The proposed budget describes the resources which, in my judgment, are available and necessary for department managers to deliver the level of services, essential or desirable, that I believe the Council expects the organization to deliver over the next two fiscal years.

Throughout the process of preparing the FY 2001-03 proposed budget, the Administrative staff and City department heads have concentrated their efforts on providing the City Council with budget information that is timely and relevant to the Council's task of making policy decisions regarding services and programs. Staff analysis, review and discussions on budget and service issues have taken place prior to formulation of the proposed budget. As is always true, when available resources are limited, many departmental requests and some requests from other agencies cannot be recommended. As in the past, department heads have been given the opportunity to influence the final recommendations contained in the proposed budget.

This proposed budget has been developed using the following principles:

- # Basic services are financed at realistic levels;
- # Revenues have been estimated at realistic levels, and in conformance with the latest decennial Census count;
- # Reserve policies affording protection against unanticipated revenue shortfall or necessary expenditures are in place;
- # Productivity improvements through technology and human resources are employed in all City services;
- # One time monies have not been used for recurring expenditures;
- # Employee salaries and benefits are maintained at competitive levels and future outcomes of planned equity studies have been considered (though not represented in the proposed budget).
- # The City continues to protect its ratepayers from the effects of continued electrical industry restructuring by upgrading the local grid and positioning itself to ensure the continued reliable delivery of electricity;
- # All applicable revenues have been computed consistent with the provisions of Proposition 218;
- # The Lompoc quality of life is maintained and/or enhanced through a broad mix of service financed and paid for by its users.

As we enter this budget period, we have cause for caution. The State's electrical crisis has placed unprecedented pressure upon the State General Fund budget. Despite the Governor's best efforts to gain control over ever-increasing electrical costs and lack of capacity on the California grid (i.e., rolling blackouts), the situation continues to be foreboding. In addition, recent fluctuations in the stock market and lack of investor confidence in the dot-com and electronics industries has recently prompted the State's Legislative Analyst to portend a \$4.8 billion shortfall in anticipated State revenues.

This shortfall in anticipated revenues has prompted the Governor to begin reducing discretionary funding to local governments. As the electrical crisis continues, and worsens, the Governor and Legislature may be pressed to consider other cuts, including the capture of the Vehicle License Fee subvention. Staff continues to monitor these situations and is taking action as necessary to ensure revenue flow.

Revenues and Expenditures

The Proposed 2001-03 Biennial Budget is \$135,070,326, representing a \$32,707,243 or 32% increase over the adopted FY 1999-2001 budget. Of this total proposed budget, the City's General Fund budget is \$44,274,800, an increase of 32.6% over the previously adopted budget.

However, nearly two-thirds of this increase can be attributed to one time funding for the Aquatic Center (\$6,000,000) and furniture purchased as a result of the City Hall Space Allocation Study and Plan (\$500,000). Absent these expenditures, the General Fund budget is up 13% from the previous year.

For reasons previously stated, staff has taken a conservative approach in the preparation of this budget, similar to past years. Though Property Tax, Transient Occupancy Tax, Sales Tax, and Vehicle License Fees (the largest unrestricted General Fund revenue sources) have increased by \$2,330,013 over last year's adopted projections, increases in General Fund employee salary and benefit costs (the largest single General Fund expense) over the same period have increased expenditures by \$3,979,664.

Because of the need to provide for normal contingencies during the coming fiscal years, the budget provides for a General Fund Reserve of approximately \$4,100,000. The General Fund Reserve balance includes \$2,000,000 held in the Economic Uncertainty Fund.

Even though staff has taken a conservative approach in developing this budget, a number of requests for new programs or expanded levels of service in the General Fund have been recommended, according to the following practices:

- # All requests for additional personnel have been critically reviewed and evaluated by both the Administrative and Personnel Departments;
- # Additional staff are recommended only in those cases where offsetting revenues could be documented and/or workload clearly exceeds the department's ability to provide required services;
- # Consistent with Council direction, public safety departments receive priority consideration;
- # Encourage and support alternative work methods that are expected to result in greater productivity of efficiencies while maintaining current staffing levels.

Revenues

For the past six budgets, the City Administrator's Letter of Transmittal conveyed concern as to how an uncertain economy and State budget difficulties would impact the City's financial stability. We continue to have these same concerns. While the overall economy has improved, and local revenues reflect this to some extent, the current improved state of the economy may not last, and certainly, State-funded local programs will be cut.

Though legislation has once again been proposed to return previous General Fund revenues lost to the Education Revenue Augmentation Fund (ERAF), we are not optimistic that this proposed legislation will be passed.

The impending threat of SB 402 (final and binding arbitration) has been successfully challenged by the League of California Cities in the Superior Court, and has been declared unconstitutional. Though a run through the appellate courts is expected, we are hopeful that this legislation will no longer threaten the City's ability to make its own financial

decisions. However, if the current challenge is unsustainable through the courts, we can expect significant General Fund cost pressure driven by arbitration awards in future years.

General Fund

Revenue projections for the General Fund are based on a “best estimate” of the future growth or decline of the various General Fund revenues, and assume no new taxes, user fees and/or charges will be assessed. However, to provide sufficient revenue to balance the FY 2001-03 budget, we are recommending that Council continue to transfer funds from the Electric Fund based on the Utility Rate of Return formula. This amount is within the guidelines recommended by the Utility Commission. Transfers to the General Fund from the Water, Wastewater, and Solid Waste utilities are computed on a “cost of service” methodology. These transfers will not, of themselves, result in the need for any utility rate increases.

Nonetheless, staff is interested in reviewing the current schedule of fees for Planning’s project review and especially Fire Department plan check and inspection. The last review of fees paid to these units was in 1990. The ability of the Fire Department to hire a Fire Marshal has been hampered by the very low fees charged for plan check and inspection. As new development occurs, the timely checking of plans will be critical. Currently, the Fire Department’s ability to timely respond to plan check requests is compromised without a Fire Marshall working on a standard business hour schedule.

Assumptions incorporated in the revenue projections are as follows:

Taxes

Property Taxes are projected to increase 3% per year over FY 1999-2001. While staff anticipates a modest increase in this revenue source, it should be noted that the City will lose approximately \$1,129,300 in FY 2001-2003 due to the continued shift of property taxes through ERAF.

Staff is projecting Sales Tax to increase by 3% in FY 2001 and 4% in FY 2002, based in part on anticipated inflation and continued retail development.

Staff anticipates receiving Vehicle License Fees in the amount of \$2,292,728 in FY 2001 and 2,455,497 in FY 2002. As previously mentioned, this funding source may be in jeopardy as the State’s electrical crisis continues.

License and Permits

Revenue from this source is projected to increase primarily due to increases in construction activities and the resulting new businesses the construction will house.

Fines, Forfeitures and Penalties

Revenue from these sources is not expected to appreciably grow during the budget cycle. The State continues to take significant portions of these revenues to balance their own budget.

Investment and Property Revenues

Staff projects essentially flat growth in interest earnings primarily due to anticipated low interest rates over the next 24 months. Continued active intervention by the Federal Reserve Bank has kept interest rates at low levels. Property Revenues will increase slightly due to the availability of the Senior Center as a meeting venue. Staff also negotiated a market-rate lease with one of its long-time tenants who had enjoyed a below-market lease.

Revenues from Other Agencies

A 16.5% increase in these revenue sources is anticipated due primarily to the growth in Vehicle License Fee revenues.

Charges/Internal Services

Revenues from these sources have been increased to reflect the actual cost of City operations.

Transient Occupancy Tax

Revenues from this source are projected to reflect a modest increase during the budget period due primarily to increased business and tourist interest in the area. In addition, the Chamber will be receiving an additional allocation of advertising funds from the County of Santa Barbara during this budget period, which should attract more visitors.

Electric Fund

The State's electrical crisis has spawned a flurry of legislation aimed at paying for the exorbitant cost of electricity on the spot and contract markets while providing protection to rate payers. While this situation remains extremely fluid, the City of Lompoc Electric Division, "Lompoc City Electric", will continue to provide its customers with the same stable electrical rates and quality service they have come to expect.

However, depending on the magnitude of the crisis as it progresses through the summer, legislators may be inclined to propose that municipal power companies "share in the solution". Such a development may require the City to consider a whole host of responses that could affect the current rate structure.

The City will be required to continue charging the 1 ½¢ per kWh Deregulation Cost Adjustment (DCA), which was scheduled to sunset on December 31, 2001. The DCA will need to be kept in place for the next five years in order to avoid the more costly rate

increases being charged by the investor-owned utilities. At the end of five years, the need for the DCA should be reviewed.

Solid Waste/Landfill Fund

The City Council recently reviewed a presentation on a new rate structure for Solid Waste services. If the proposed rates are adopted, some customers could experience rate increases of up to 15% in FY 2001 and in FY 2002, while others could see a reduction or no increase in rates if they take advantage of new recycling programs. The City of Lompoc's award-winning Solid Waste, Recycling, and Landfill programs offer the citizens of Lompoc a far higher level of service than any other municipality or agency in the region.

This budget is based on the assumption that the Council will approve changes to the Solid Waste program substantially as presented at the Solid Waste Rate Study workshop. If the Council does not approve these proposed rate recommendations, then subsequent reductions to the Solid Waste budget must be made.

Water Fund

No rate increases are recommended at this time.

Wastewater Fund

Rate increases of 7.5% in FY 2001 and 10% in FY 2002 will be recommended due primarily to the anticipated issuance of a \$17.3 million bond for system redundancy at the plant, which will allow for long-overdue maintenance and upgrading of various plant systems. The annual principal and interest will be approximately \$1,000,000.

The 24-year-old plant has never had a major maintenance overall. A 1997 Master Plan study identified several areas of need maintenance and overhaul that staff would like to commence during this budget.

Summary

The proposed FY 2001-03 Biennial Budget represents the efforts and best professional judgment of City staff. Although General Fund revenues are rather limited, service levels have not been reduced; in fact, staff is able to recommend several program changes and capital projects which show a City which is able to marshal limited resources in creative and effective ways:

- # The total budget shows an increase of 17.25 full-time equivalent (FTE) employees. Most of these new positions are the result of taking long-term part-time positions

and converting them to permanent status. In most cases where this has occurred, part-time hours have been stripped from the affected department's budget to compensate for the permanent position. In the Police Department, some former grant funded positions are required to be carried on our books when the grant funds expire, thus increasing the employee count.

- # The Police Department building will be expanded to alleviate overcrowding. Carpeting will also be replaced, alleviating a safety hazard.
- # Funding for painting, office space modification, and the replacement of worn furniture has been provided for our Fire Stations.
- # The replacement of the City Hall carpeting has been fully budgeted. Staff is working with a space allocation consultant to determine if enough floor space can be freed by the use of more efficient furniture systems and other minor building modifications. Handicapped accessibility improvements to the public restrooms will be made through the use of CDBG funds. In addition, money for an expansion of City Hall has been placed in the Electric budget. If approved, the new wing would be built with the latest in energy efficient materials and architectural features, thus serving as an energy-efficiency demonstration project.
- # Funding for the replacement of chain saws and the purchase of a tilt-trailer for the Urban Forestry program will ensure that the crews have safe equipment with which to complete their work.
- # Funding for a \$6,000,000 Aquatics Center is proposed in the Recreation budget. This "place-holder" line item will only be expended when adequate funds have been identified and/or the voters have approved a bond issue.
- # Funding for portable bleachers is proposed in the Parks budget. The portable bleachers will save staff hours when preparing for events requiring seating.
- # Proposed in the Parks budget is the replacement of poorly working and inaccessible drinking fountains at all parks and the modification of inaccessible bathroom spaces at Pioneer and Ryon parks through the use of CDBG funds. These funds will also be used for play lot accessibility modifications at Westvale, Pioneer, Beattie and Ryon parks. The modifications entail the removal of sand and the installation of a rubber surface that allows for mobility impaired children to address the apparatus. Parks staff will be seeking matching funds from the State Waste Management Board.
- # Keeping our parks green and using water efficiently is sometimes a delicate balancing act. Staff is proposing to replace an inoperable irrigation control system used to monitor and control irrigation in our parks. The system will be paid for with the use of Water Retrofit Fees.

- # Funds have been budgeted for the conversion of an old and unused spa at the Anderson Recreation Center into much needed storage space.
- # The long-awaited expansion of the Lompoc Airport Runway will be initiated during FY 2001. The expansion will allow larger corporate aircraft to land and take-off from Lompoc. The expansion will also develop a road over the 16 acres of City of Lompoc airport industrial land.
- # Providing for the future water needs of Lompoc is a top priority. Budgeted for this period is \$1.7 million for Well #10. The completion of Well #9 and the new Well #10 will provide for Lompoc's water needs for many years to come.
- # Lompoc City Electric is one of Lompoc's unique and valuable resources, providing low-cost reliable power to Lompoc residents and businesses. For this budget period the Electric Division will continue to upgrade key circuits and replace older transmission resources. To improve customer service, the Division will install circuit fault indicators that will allow the line workers to quickly identify a faulty circuit, isolate it, and return power to the rest of the block. This method of identifying faults saves many worker hours and restores power to customers much faster.
- # Our award-winning landfill program is proposing a new green waste recycling program designed to divert an increasing amount of green waste from the landfill and recycle it into mulch for use on public and private properties.
- # The Lompoc Valley Community Center will be open for its first full year of operation since opening in July 2000. The General Fund will be subsidizing the operation of the Center by approximately \$130,000 during the two-year budget period.

During the Fall of 2001, as per the latest negotiated Memorandum of Understanding with Teamsters Local 381, the staff will contract with a professional management firm to perform an equity study of positions considered by both management and the union to be less than equitably paid. This study will include a review of selected management positions identified by department heads as needing adjustment. Equity studies of this scope take into account both comparable positions and salaries in other area jurisdictions and the internal relationships of positions in the City's organizational structure to ensure against inequitable compensation between supervisors and subordinates (i.e. compaction).

Funds for the equity study have been budgeted, but the equity increases themselves, if any are negotiated, have not been budgeted.

During the next two years, several issues will need to be addressed, but due to lack of available funding at this time, have *not* be budgeted:

- # Additional equity increases as a result of negotiated salary increases following the results for the upcoming equity study.
- # The addition of a Fire Marshal or some other organizational configuration that makes possible the availability of the Fire plan check and inspection staff during regular business hours.

- # Additional paramedic response personnel in the Fire Department. Questions regarding the financial stability of AMR to adequately serve Lompoc force staff to consider hiring fire personnel with paramedic training and certification when positions become vacant. Additional compensation (i.e., pro-pay) will need to be considered.

- # The effects of any residential annexations have not been taken into account with this budget. Additional public safety personnel and capital improvements will need to be considered with new residential annexation. It is anticipated that impact and mitigation fees will ameliorate the initial effects of the annexations, but long term funding for servicing the areas is of concern unless significant gains in Sales Tax and other non-Property Tax related General Fund Revenues can be generated.

- # Additional wage pressure and staff time needed to respond to SB 402 (if continued court challenges are unsuccessful) and SB 739. Both of these labor related laws have the ability to significantly drive unprecedented wage increases to the detriment of other City services. Although staff has budgeted a new position in Personnel to respond to the requirements of the new legislation, additional staff time in, or contracting through, the City Attorney's office will be necessary. Staff will be closely monitoring the implementation of these laws and their effects on the City enterprise.

- # The allocation of \$175,000 to procure consultant services to update the City's General Plan in 2002. Allocation of these funds is *not* included in the recommended budget. The Santa Barbara County Association of Governments will make the Regional Fair Share Allocation during this budget period. The allocation process must be completed by June of 2003 with adoption of the Regional Housing Needs Plan. Since update of the Housing Element should include provisions for the new Allocation, staff intends to request an extension from the State Department of Housing and Community Development (HCD) to allow the City to perform the Housing Element update after adoption of the Regional Housing Needs Plan. Based upon the extent of the changes required to provide for the new Allocation, proposals would be sought from qualified consultants or City staff would perform the work if workload conditions permit. Should HCD deny the City's request for an extension, staff will bring a request for funding to update the Housing Element to the City Council out of the budget cycle.

As has been stated in previous budget messages, and restated here, the City cannot be expected to continue providing services at present levels, meet increased service requirements and provide for necessary improvements of existing facilities in future years without an adequate revenue base. If City revenues fail to keep pace with future expenditures, the City will have but two choices: cut services or create new revenues.

Given this reality, we are somewhat encouraged by the recent upturn in the Lompoc economy and the expansions of Pactuco, Ivex, Gore Photonics, and CU Enterprises. We are also encouraged by the explosive growth of the local wine industry, including the deconstruction of the old Grefco plant and the construction of the Parker Wine Center.

The creation of new retail shopping areas has helped propel Lompoc to the position of having the largest *growth* of retail sales (not actual sales) of any city in Santa Barbara County. Lompoc's reputation as a beautiful, family-oriented, and well-run City has been brought to the public's attention through our aggressive marketing efforts to the point where brokers are now being asked specifically about investment opportunities in Lompoc. But even these gains, as impressive as they may be, are not enough to address the aforementioned issues facing this City.

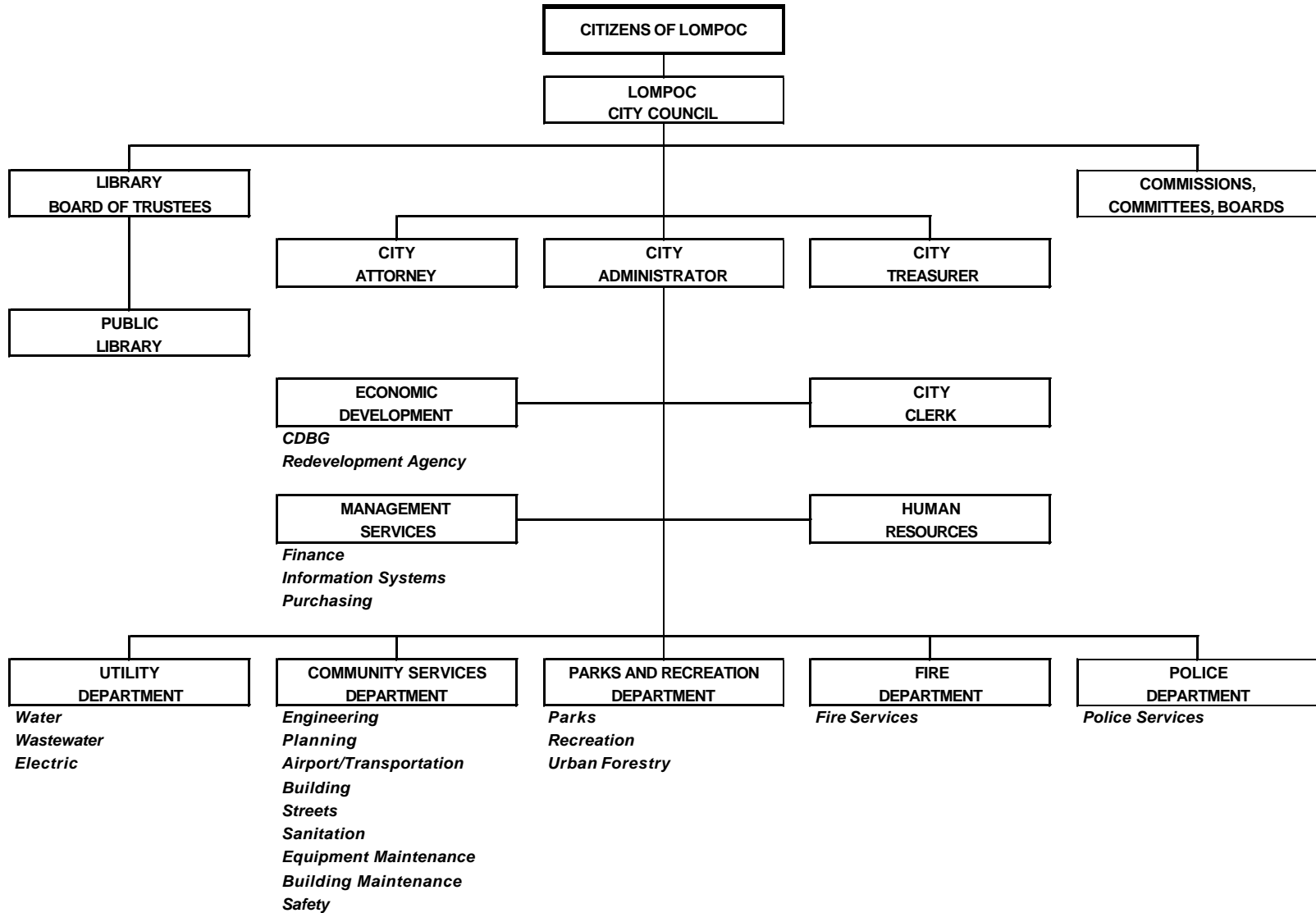
I greatly appreciate the Council's support of our staff and the commitment of the City employees who have helped plan the budget, those who have prepared it, and those who implement the adopted policies of the City Council and deliver the high quality services that the citizens of Lompoc have come to enjoy.

I would particularly like to recognize Dave Norman, Assistant to the City Administrator; John Walk, Management Services Director; Laurel Barcelona, Administrative Aide; and, Lisa Caouette, Secretary to the City Administrator, for their excellent work in coordinating the preparation of the budget.

The proposed FY 2001-03 budget as submitted is balanced and is recommended for your approval.

Frank L. Priore
City Administrator

City Of LompoC Organization Chart



Personnel Position Summary

CITY OF LOMPOC Personnel Positions Summary

