Atascadero City Council
City Manager's Office

Operating and Capital Budget 2007 - 2009

RECOMMENDATIONS:

City Council:

1. Adopt Draft Resolution adopting budgets for the 2007-2008 and 2008-2009 fiscal years and delegate to the City Manager the authority to implement same; and

DISCUSSION:

I am pleased to submit to you the 2007-09 Operating and Capital Budget. I believe the budget is responsive to Council and community needs, makes strategic investments, takes advantage of opportunities, protects critical service levels, and builds on the present for a better future. Specifically, this Draft Two-Year Operating and Capital Expenditure Budget for Fiscal Years 2007-2008 and 2008-2009 implements the Council strategic initiatives, provides funding for new community facilities, maintains existing operations and programs, and invests in employee retention. The proposed budget continues to respect the Council’s conservative fiscal policies as developed through the Strategic Planning effort, the Comprehensive Financial Plan, the Financial Strengths, Weaknesses, Opportunities, Threats (SWOT) Analysis, and the Financial Reserve Policy. Solid financial planning using these policies has kept the City in a stable financial condition in the face of a weakening economy. While this budget contemplates using reserves to balance operating and capital expenditures, this is a planned strategy. The City has specifically set aside funds to maintain the City’s organization and to capitalize on opportunities, even during the possibility of challenging economic times. This philosophy is consistent with the City’s mission. Despite the use of reserves, City reserves will continue to be strong.
The City has implemented a variety of mechanisms to ensure diversified revenues and keep pace with development and the economy. One of the relatively new programs is the Community Facilities District, which requires new development to pay for increased operating service levels so as not to reduce or dilute the services available to current residents. Basically, this ensures that new development pays its fair share. Also, the Fire Department has entered into a contract with the United States Forest Service to provide additional fire protection to the national forest during major fires. This entrepreneurial revenue source is bringing in hundreds of thousands annually. Consistent with Council direction, staff is committed to continuing to look for new revenue opportunities and outside funding to further enhance and diversify the City’s economic base.

Since instituting the strategic planning approach, the City has successfully tackled many significant community initiatives including repairing roads, constructing major projects such as the Colony Park Community Center and Lewis Avenue Bridge, downtown revitalization and improving the City’s financial condition. Atascadero has been able to chart a conservative fiscal course that provides for growth in essential services and prepares the community for potential opportunities that lie ahead. The City’s fiscal policy is summed up in the chart at the left which depicts economic funding cycles that raise and lower with regional, state, national and even world market issues. The straight line depicts the Atascadero organization. The goal is to monitor, anticipate and plan for changes in the economy and then use this information to create a framework within which the City operates. Managing the organization and services to avoid organizational growth when the economy is good and shrinking the organization in tough times, helps stabilize service delivery to the community and reduces stress on the organization. Council and staff work together to determine appropriate services levels within the local financial context. These service levels are maintained in the long term, so in times where the economy is robust, the City sets aside reserves in anticipation for the times of a troubled economy. When the economy is slower, the City uses those reserves to continue funding service levels previously established. Of course, during the high economy times, the City is able to accomplish improvements that require one-time expenditures. Likewise, in times of a tight economy, the City reduces spending on non-essential services and one-time expenditures to a level that would not affect service to the community.

**Building on the Successes of the 2005-07 Budget.** The 2007-09 Budget builds on the successes of the current budget. For the past two years, the City Council established five strategic initiatives: Enhance Public Safety, Improve the City’s Financial Condition, Construct the Youth/Community Center, Continue the Emphasis on Road Maintenance, and Repair the Historic City Hall. The City has made significant progress implementing the Council Strategic Initiatives and other community goals. Several of these initiatives have been long term Council priorities and will continue to be significant issues facing the community. The following paragraphs outline the progress on the five strategic initiatives.
Enhance Public Safety. The addition of four Police and Fire personnel was the major staffing emphasis during the current budget. The addition of these new staff members strengthened our service levels and allowed for new programs. Specifically, we were able to move forward with two new motorcycles for traffic enforcement, a special enforcement detail to tackle drug use and other criminal activity, a new program making our apartment communities safer and relationships have been solidified with several community groups including the school district. The added fire staffing allowed for stronger response and better training. The Fire Department was also able to assemble and manage a major county-wide training exercise that has resulted in significant improvements to the City's emergency planning and evacuation system. New equipment, including two new fire engines, was purchased to make the City more effective in our response, therefore providing greater service to the community. Citywide, public safety has been a priority and cooperative efforts with all City departments have resulted in safer projects, effective programs and a better connection with the community and neighborhoods through the distribution of information and participation in events. The City has made stronger alliances with partner agencies and surrounding cities.

Improve the City’s Financial Condition. The City explored a range of potential options to improve City revenues. Assessment districts and a community facility district were implemented to offset increased costs of new development and the fees were updated to ensure they accurately reflected costs. Employees engaged in a program to identify cost saving measures, which resulted in additional budget savings. An educational program regarding City finances was developed and department heads presented the program to many community groups and organizations. Several grants were obtained to assist in paying for new programs and capital projects, and economic development efforts resulted in positive changes to the Mission Oaks Shopping Center, new restaurants and two new hotels now in the construction process.

Construct the Youth/Community Center. The new Colony Park Community Center is progressing on schedule. Concrete tilt-up walls, concrete slabs and the steel frame were put in place earlier this year and site work has moved along as scheduled. The Community Services Department has developed an operations plan for the Center and opening is anticipated late in 2007.

Continue the Emphasis on Road Maintenance. Roads have been a top priority of the community for several years. The Council has initiated several programs including the Atascadero Road Program, the Local Paving Program, the Cold Mix Program, the Road Loan Program and most recently, the Adopt-a-Road Program, to assist in improving Atascadero’s road system. This initiative is again a priority of the City Council and this budget will continue the effort.

Repair the Historic City Hall. The necessary damage assessment, engineering and architectural reports have been submitted to the State Office of Emergency Services and the Federal Emergency Management Agency. Those documents are being reviewed and staff anticipates that FEMA will issue a Project Worksheet which is the document describing approved repair work for the building. There is an appeal period which staff anticipates needing, followed by plans, bidding and repair of City Hall. This initiative is again a priority of the City Council and this budget will continue the effort.

Other significant improvements in the 2005-2007 Budget included enhancements to the skate park, expansion of the affordable/workforce housing program and other programs, and upgrades to the drainage and wastewater systems.
The Budget Process

The City has a comprehensive approach to budget development. As indicated above, the City has developed a Comprehensive Financial Plan, a Financial Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis, and the Financial Reserve Policy. This information is used as a foundation for the Council in their policy-making role. The City Council then conducts an annual assessment of the organization and prior goals in a Strategic Planning Workshop, where the product is a new set of goals and priorities for the coming year or years. The Community has the ability to share their thoughts about the City’s goals at the goal-setting session and at a regularly scheduled council meeting.

The City’s Executive Management Team and Operating Departments analyze the Council’s goals and priorities, and develop action plans to provide for their implementation. These action plans, combined with the Council’s Strategic Plan, the Comprehensive Financial Plan, the Financial Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis, and the Financial Reserve Policy, become the guidelines and outline for the City’s operating and capital budgets. Departments are asked to prepare and submit financial plans that continue successful programs, improve deficiencies identified by Council, and implement the Council’s goals and priorities.

The Administrative Services Department, using the City’s financial policies, develops revenue estimates, budget goals and reserve programs. They assimilate the department financial plans into one cohesive document in which all of the organization works to implement the Council’s vision in harmony. In the final preparation, key members of every operating department come together in a cooperative fashion and work with the Director of Administrative Services to ensure the Council’s priorities are implemented, as well as the most essential City functions. This “team effort” assists the operating departments to understand the roles and responsibilities of other departments, and to find joint solutions to the dilemma of providing a high level of municipal service with limited revenues. This budget that is now submitted to Council has Council direction as its foundation and is supported by all departments.

Amendments to the 2005-07 Budget

The significant planning that goes into forming a two-year budget gives substantial confidence to Council, staff, and citizens that the document is a solid path to future goals. However, Council may exercise sufficient flexibility so the budget can be a true living document which responds to the needs of the community through time. The 2005-07 Budget is a prime example of just that. Revenues are coming in better than expected for fiscal year 2007. Following the financial strategy set forth by Council, the additional revenue provides an opportunity for the City to take care of some one-time expenditures. Capital expenditures such as putting in some funding for the rehabilitation of the Historic City Hall, contributing to the purchase of the Aerial Fire Truck, and Paloma Park Improvements are just a few of the proposed projects that can be accomplished using the revenue that was received over the budgeted amount. Approximately $1.3 million dollars of additional appropriations are proposed for the General Fund, and another $30,000 is anticipated for other funds.

Cash reserves are also being amended in the 2005-07 Budget. In April of 2007, Council adopted a Reserve Policy and recommended increasing the City’s cash flow reserves to a prudent level. Evaluating the future cash needs of the City, it was determined that the cash flow reserves should be increased by $3.5 million. The General Fund has an inherent gap in operational cash flow as the majority of its revenues come from taxes. This tax income arrives in two large infusions during the year, one in December and one in April. The bulk of the City’s expenditures, however, occur
primarily during the late summer and fall. The operating cash flow gap has been exacerbated in recent years by the State’s reallocation of cities’ funds in times of economic hardship. The increase in cash flow reserves will bridge the gap and provide a stable base for the coming years.

Economic Trends Impacting the 2007-09 Budget

While the City has experienced economic growth in recent years, it appears that the next two years could be slower and perhaps flat. The City’s major revenue sources are primarily property and sales taxes. Property tax revenues have been increasing in recent years as the real estate market has been strong. Now, as the real estate market is turning downward, property tax revenue growth will slow. Property tax revenues lag behind changes in the market, meaning property tax revenue should continue to be strong in the next two years. However, in future years, these taxes will likely flatten. Sales tax revenues have generally remained flat. The City has seen growth in new businesses and a diversification of the tax base, but sales tax is flat because a few of the City’s top sales tax producers have had a tough year. Development fees have fallen with the downturn in the economy. Transient Operating Taxes are expected to increase modestly as new hotels come on line. We have also seen revenue from fines increase as the two motorcycle officers have been emphasizing traffic enforcement. We expect this level of enforcement to continue. The State continues to have fiscal problems and this situation looms as a potential threat. Recent Constitutional amendments have helped to protect City revenues from State takeaways; however it is not certain whether the reforms will hold up. The State continues to struggle as it spends more than it brings in.

General Fund Revenues

Most traditional government services, such as police services, fire services and parks maintenance services, are funded by the General Fund. Sixty-two percent of the City’s General Fund revenues come from sales and property taxes. In prior years, the Vehicle License Fees were a major contributor to City revenues. As a portion of the State’s recent fiscal reparations, the Vehicle License Fees were shifted away from the City, and the Property Tax was increased by a like amount to offset the loss. Historically, the Vehicle License Fee has represented more than 10% of General Fund revenues. The remaining General Fund revenue is derived from a number of sources, including fees for services (such as building services or fingerprinting), fines, interest, and other federal and state revenues.

General fund revenues are anticipated at $19,012,170 in the first year and $19,958,480 in the second. The chart at the left depicts City revenues in the last ten years, plus the two budgeted years. The continued increase in revenues is primarily due to a steady growth in property tax (which includes motor vehicle in lieu fees).

General Fund Expenses

This two-year budget is designed to implement the Council’s top priorities. The budget includes programs and focused efforts in Economic Development, Public Safety and Natural Resource Protection. The City will continue its efforts with respect to improving the roads and repairing the Historic City Hall building. The Council has taken significant steps in this budget to improve retention of public safety staff, which increases...
effectiveness and provides a higher service level to the community. Specific programs targeting the City’s environment, including a contract arborist, contract biologist and the planting of 3,000 trees, will enhance the environment for those who live and work here as well as attract tourists to the area. The budget includes investing in existing infrastructure, including major road repairs, repairs to Atascadero Lake Park, repairs to Paloma Park and work in downtown.

Budgeted General Fund expenses are $19,454,460 and $20,333,280 in fiscal years 2007-2008 and 2008-2009, respectively. The largest expenditure for the General Fund is employee services, making up 69% of the budget, which is normal for a service organization. Public Safety represents 51% of the total budget.

Each of the strategic initiatives identified by the Council receives significant attention in this document. Roads will continue to be a high priority, as Council has made a real commitment to improving the quality of the City’s streets and roads; the Atascadero Roads Program is included in the budget. The Colony Park Community Center is scheduled to be open in late 2007. Also, within this budget cycle, Lewis Avenue Bridge will be completed and significant progress is expected on the repair of the Historic City Hall.

Other Funds

This two-year budget comprises expenditures for all other funds totaling $18.5 million and $27.8 million, for 2007-2008 and 2008-2009 respectively. This includes over $5.7 million in road and bridge rehabilitation and improvement projects. Also incorporated in this is $4.7 million for completion of the new Colony Park Community Center, $14.6 million for Historic City Hall repairs, $2.3 in park projects and $2.8 for downtown streetscape improvements. Additionally, this budget contains the replacement of 15 vehicles and a new aerial ladder truck.

Key Goals Driving Development of the 2007-09 Budget

As previously mentioned, the budget is driven by the Strategic Initiatives established by the City Council during the strategic planning process. This year, Council established six major initiatives. City departments use these goals in formulating their operating and capital budgets, integrating these goals into the City’s operations. The City Council goals incorporated into this budget are:

**Improve the City’s Economic Base.** Develop and continue programs to provide for commercial development in the City. The program will include planning for future commercial development consistent with the General Plan as well as business retention and attraction programs.
Continue the Emphasis on Road Maintenance. Roads have been a top priority of the community for several years. Council will continue to improve roads and implement new programs through this budget.

Repair the Historic City Hall. Staff will continue to work with the Federal Emergency Management Agency to rehabilitate the building. Staff anticipates funding and construction for the Historic City Hall within the next several years.

Enhance Public Safety. Assure appropriate staffing and service levels that will adjust with the growing community. Specifically, target personnel issues to ensure the City attracts and retains high quality public safety employees. Create a strategy that includes a plan to target specific community issues such as traffic, neighborhood speeding and vegetation management.

Campaign Finance Reform. The City Council directed the City Attorney to provide information and options on potential reform measures for campaign finance.

Natural Resources Protection Program. Develop programs to enhance and preserve the City’s open space and environment. The program will cover a broad range of issues, from the continued implementation of Atascadero’s commitment to tree preservation, to the Climate Control Initiative, to providing arborist services and public information.

New Initiatives Included in the 2007-09 Budget

While there is new revenue for investing in programs, the amount is diminished from the rise in gasoline prices and the cost of fees for services provided by others. These costs have hit the City just as they have other entities. Nonetheless, there is some additional funding available, and in addition to placing funding towards support of Council goals, this budget makes several other investments to bolster certain operations and assist the organization in operating more effectively.

Initiatives include:

Police Department

- Salaries for Police Officers have failed to keep up with the market and our salaries are below average. The result has been significant turnover in the Police Department. Retaining experienced officers is critical in ensuring adequate police protection and almost $700,000 is being invested to bring salaries back within the market average.
- Mobile Data Computers have been placed in all Police patrol cars. These computers are equipped with GPS and allow officers to get to their calls quicker, particularly if they are unfamiliar with an area of the City. Officers can also fill out reports and perform research on the computers, thus keeping them in the field and out of the police station. Keeping the officer out on the street bolsters our public safety efforts.

Fire Department

- Several multi-story hotels and commercial building are either built or are in the construction process. The construction of these higher buildings calls for the purchase of a ladder truck to ensure public safety. A ladder truck is being purchased in this budget, primarily by funds provided by developers of these projects. Because of the elevated angle of attack such a truck provides, the truck will benefit the entire community, particularly homes with multiple stories.
• A Technical Rescue Team (TRT) will be deployed during this budget cycle. The team will be comprised of specially trained firefighters who will be able to perform rescues in tight spots and a variety of dangerous situations.
• The chipping program, a popular program in the past is being reestablished.
• Effective emergency management of disaster situations such as wilderness fires and earthquakes is critical. This budget invests in better communications and training for the City’s disaster services.

Public Works Department

• Additional resources are being placed into the street maintenance program so more neighborhood roads can be paved.
• With the renovation of the Sunken Gardens, additional trails and parks, improvements to Atascadero Lake Park, and maintenance of Stadium Park, the level of service to our parks has deteriorated. An additional parks maintenance worker is added as part of this budget to facilitate a return to adequate service levels and to reduce the maintenance backlog.

Community Development Department

• To better protect the City’s environment and natural habitat, resources are being directed towards hiring a consulting arborist and a consulting biologist to assist with development projects.
• A Natural Resources brochure is being created to highlight the natural treasures within the City and how they can best be protected and appreciated.
• New permit software will be initiated. The software will facilitate and streamline the development permit process and will help the staff be more effective.

Community Services Department

• The operation of the 19,000 square foot Colony Park Community Center is included in the budget. The center will be fully staffed and will be available during a wide range of hours.
• A new recreation software suite is going on-line. The software will make class registrations easier and will allow staff to better track the rental and use of City facilities.
• An Administrative Assistant has been added to Community Services, due to increased demands on Central Reception combined with the addition of the Colony Park Community Center.

Administrative Services

• In the last four years, the Administrative Services department has taken responsibility for the reconstruction of City Hall and litigation management functions. Additionally, the City is going through an unprecedented period of capital projects and we have been very successful in obtaining grants, both of which require significant administrative support. The department has reached a breaking point. A Finance Technician has been added in order to keep pace with the increased demands of the organization.
Information Technology

- Long-term funding is established to televise council meetings over cable television and over the Internet. The meetings will also be archived.
- Upgrades to the City’s GIS system will allow staff to utilize this resource even more for City planning. The new system will also allow GIS maps to be available via the City’s web page.
- The City’s network system will move to a virtualized network environment, using blade (modular) servers, during this budget cycle. This new system will allow the City’s rapidly expanding data storage to be scalable. The new system will also be fully redundant in case of disaster and new servers will be able to be provisioned quickly.

Summary

This two-year budget focuses significant resources on City Council priorities. The budget provides the organization with the direction and tools necessary to maintain a consistent level of City services and continue the internal transformation needed to take advantage of our strengths and improve on our weaknesses.

I would like to thank the departments and department directors for their work on this year’s budget. Atascadero continues to have a solid foundation; this is due in large part to a common understanding of our financial policies all through the organization, and it is the department managers that carry the information throughout the organization. This two-year document makes strategic investments in our future, maintains services to follow the community’s growth, and anticipates financial uncertainties. The operating departments came together under the guidance of Rachelle Rickard and made choices that were difficult, as they put the good of the organization over the interests of specific departments. Special recognition is due to the members of the Administrative Services Department, who have sacrificed personally to assemble this document. Mrs. Rickard has led this project and has again created a solid budget.

Wade G. McKinney
City Manager