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CITY OF SANTA ANA

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May 19, 2008

Honorable Mayor and City Council Members:

We are pleased to present the budget for the City of Santa Ana for the 2008-2009 Fiscal Year. This budget reflects your established priorities and maintains core services while responding to the impacts of the current economic climate on the City's financial position. Combining established priorities with the annual financial plan for operations and capital improvements enables us to direct our resources toward those programs, projects and activities with the greatest potential for achieving our vision of being

"The dynamic urban center of Orange County acclaimed for our:

- Investment in children,
- Neighborhood pride,
- Enriching cultural experiences,
- Appreciation of diversity,
- Thriving economic climate,
- Quality government services, and
- Leadership among California cities."

Santa Ana's purpose statement, which describes why the organization exists, is: "To provide quality service to enhance the safety, livability and prosperity of our community."

The City continues to pursue 12 citywide goals that are essential for achieving our vision and purpose. They are:

- Ensure a safe community;
- Be a catalyst for the positive development of young people;
- Foster neighborhood pride and community understanding;
- Provide and maintain first-rate infrastructure and community facilities;
- Ensure an attractive and well-maintained city;
- Create an environment that stimulates the growth of arts and cultural opportunities;
- Recruit and retain a highly skilled and diverse workforce;
- Ensure the City's long-term financial ability to deliver quality services;
- Attract and retain a prosperous business community;
- Optimize workforce effectiveness through training, technology, equipment and facilities;

- Develop and continuously improve systems to assure high-quality services to customers; and
- Assume a leadership role in regional issues of primary importance to Santa Ana.

At a goal setting retreat held this past fall, the City Council reaffirmed these goals, and established four focused priorities for the coming year. They are to:

- Enhance public safety;
- Improve transportation infrastructure;
- Complete minor deferred maintenance projects in all parks; and
- Ensure the City's long-term financial stability.

The proposed FY 2008-2009 budget has been developed to respond to these focused priorities, as well as with the City's vision and purpose and goals, within the financial resources available.

Economic Outlook

Consistent with the condition of the national economy, California's economy is projected to experience slower growth in 2008 than for either 2007 or 2006, although there may be some improvement in 2009 and 2010. California's unemployment rate is expected to top 6% by the end of 2008 which is higher than the 5.1% U.S. rate. California continues to experience a housing slump with very slow sales and decreases in home prices that will hit double digits by the end of 2008.

The housing slump and higher energy costs have taken a significant toll on discretionary income, and consequently have affected taxable sales statewide. Sales tax growth in 2005 was 7.4% but only 4% in 2006—and for the first three quarters of 2007 it was less than one percent. Orange County's construction and financial markets are expected to be the weakest sectors of the economy for 2008 followed by trade, transportation, and utilities, all of which are indirectly affected by the housing market. Based on the declining economic condition in California, the State is estimating a \$14 to \$21 billion dollar deficit. Although Proposition 1A, approved by the voters in November 2004, appears to be successfully protecting local government sales and property tax revenues from State shifts, the Governor has authorized the delay of gas tax payments to cities and counties for five months, and state-controlled grant and revenue funds such COPS Program and Proposition 172 public safety (1/2 cent) sales tax funds, may be at risk.

Budget Overview

Not only is the State experiencing serious financial challenges, so are the majority of cities in California. Santa Ana is no exception, and is feeling the effects of much slower revenue growth, combined with rapidly escalating costs.

The total estimated revenue for all city funds for FY 2008-09 is \$509,859,815. Of this amount \$77.8 million represents the water, sewer, sanitation and refuse funds; \$22.5 million comes from

grants and other special revenues for restrictive programs; \$76.9 million from grants for capital projects; and \$209 million represents the General Fund.

Total budgeted appropriations for all city funds for 2008-2009 is \$583,029,740 which includes a capital improvement budget of \$99.4 million; a water, sewer, sanitation and refuse budget of \$81.8 million; and a General Fund budget of \$239 million.

The General Fund budget supports the functions most commonly associated with city government: police, fire, recreation, library, planning and building, street maintenance, and general city administration. These services are being provided to an increasing population. According to the State Department of Finance, Santa Ana's population in January 2008 was 353,428, a 55 percent increase over the past 20 years. The General Fund's four largest revenue sources comprise 60.7% of total General Fund revenues. Those revenue sources are sales tax (21.1%), Property Tax (14.1%), Utility Users Tax (13.0%) and Property Tax in Lieu of Motor Vehicle Fees (12.5%).

The decline in home sales, increases in energy costs and the decrease in the growth of personal discretionary income will affect the General Fund's two largest revenue sources, sales tax and property tax. Sales tax revenue is expected to remain flat at \$45.5 million and property tax revenues are expected to increase by only 3% to \$30.4 million. Utility Users Tax revenue is expected to increase 2% to \$28 million and Property Tax in Lieu of Motor Vehicle Fees is expected to increase 3% to \$27 million. Revenues received from charges for services are expected to decrease, primarily due to the slow growth in building. Overall, General Fund revenues for the coming fiscal year are expected to decrease 1.4% from FY 2007-2008.

The City of Santa Ana is subject to the same escalating costs for energy, goods, and materials that the private sector is experiencing. In addition, commitments made to Santa Ana employees through negotiated contract extensions also have increased overall costs. As a result, General Fund appropriations for FY 2008-2009 are expected to increase by 5.6%. Police and Fire services represent 56% of the City's authorized workforce and 72.6% of the General Fund budget or \$177 million. Programs associated with Parks, Recreation and Community Services will total \$16 million (6.6% of General Fund appropriations) and Planning and Building services are appropriated at \$12.3 million (5% of General Fund appropriations).

The combination of reduced revenues and increased expenditures makes Santa Ana's budget situation worse for the coming Fiscal Year. Although funds are available to balance the structural deficit, unless efforts are taken to reduce expenditures and increase revenues, the City's fund balance will be significantly reduced by the end of FY 2008-2009.

To remedy this situation, we are proposing a two to three year approach, which will allow the City to continue to provide critical, front-line services to the public while helping the City Council achieve your goals for enhanced public safety, improved transportation infrastructure, completion of minor deferred maintenance in parks, and enhanced long-term financial stability for the City.

The two to three year strategy utilizes reductions in expenditures where feasible now, implementation of enhanced retirement benefits in January 2009 to create additional vacancies that can be eliminated in future years, and careful evaluation of all business practices over the next 12 to 24 months to reduce service redundancies and improve efficiency.

For 2008-2009, several departments (City Manager's Office, Clerk of the Council, City Attorney, Library, Finance and Management Services, and Personnel Services) have reduced their ongoing operational budgets by five percent (5%), without jeopardizing any core services. These reductions are being accomplished primarily through the elimination of funded positions that have been vacant for some time.

The only General Fund allocation to the Public Works department is for maintenance of effort funding as required for the continued receipt of gas tax and Measure M dollars. The Planning and Building Agency has been allocated sufficient funds to cover negotiated increases in labor, but otherwise, funding remains at FY 2007-2008 levels.

Police, Fire, and Parks, Recreation and Community Services (PRCSA) have been allocated sufficient funds for negotiated increases in personnel, and a few supplemental budget requests, primarily related to increases in energy costs. PRCSA also received supplemental budget allocations to facilitate the reduction of minor deferred maintenance in parks, consistent with the Council's focused priority.

Although no new officer positions are proposed for the Police Department, the FY 2008-2009 budget will allow civilian employees to replace sworn officers in several administrative positions, so that the officers can be redeployed to front-line services. Funding will continue for the 11 police officer positions added to last year's budget. In addition, the City will continue to explore federal grant opportunities for adding police officer positions.

In addition to controlling expenditures by creating vacancies, restructuring work flow, and reducing organizational redundancies, efforts to identify opportunities for increased revenues will continue. A cost allocation study of all fees for service will be completed this summer; recommendations for increasing certain fees and charges to recover a greater percentage of the cost to provide services will be presented to the City Council at mid year. However, because of the estimated General Fund deficit, achieving the Council's vision for long-term financial stability will require a combination of revenue increases and expenditure reductions.

The proposed budget decreases full-time employees by 2 positions for a total workforce allocation of 1,754. This workforce figure equates to a ratio of five employees per 1,000 residents and demonstrates a significant improvement in operational efficiencies over the past several years. For example, in FY 1986-87, the ratio was 7.5 employees per 1,000 residents. Through a combination of reductions in our workforce, keeping a number of positions vacant and generating savings through systems improvements resulting from our continuous improvement efforts, the City continues to maintain its position of being the most efficient at providing services when compared to the 11 largest cities in California and the 100 largest cities in the country.

Achieving Established Council Priorities

In spite of the financial challenges Santa Ana is experiencing, we remain committed to providing responsive, high quality services to the public. This fiscal year the City's departments will continue to align their efforts toward reaching the four established City Council priorities, while maintaining all of the programs and services the community has come to expect. The following is a synopsis of the activities, programs and projects incorporated in the proposed budget to respond to these priorities.

Enhance Public Safety

The City will continue to dedicate significant resources to Police, Fire, Public Works, and Planning and Building, which have primary responsibility for enhancing public safety. The City demonstrates its commitment to this goal by providing public safety facilities that accommodate current and future needs of the City; recruiting and retaining quality public safety and code enforcement personnel; effectively and equitably enforcing construction and land use codes; and protecting the health of the community through high quality and reliable water, sewer and refuse collection systems.

Programs for FY 2008-2009 that will enhance the City's public safety include the following.

- The City Council approved the hiring of 11 additional police officers for FY 2007-2008 to enhance public safety with the intention to add more police officers based on available funding. Funding for these officers is maintained in the proposed budget. As mentioned above, with additional funding currently unavailable for FY 2008-2009, civilian employees will be replacing sworn police officers in some administrative positions so that sworn police officers can be dedicated to front-line services.
- During FY 2007-2008 major narcotic violators were identified, seized and prosecuted through three investigations; special investigations detectives made 781 misdemeanor arrests and 816 felony arrests; 222 career criminals/parolees were sent back to jail; and the Strike Force Team handled over 200 deployments and helped to remove over 676 felons from the streets, including several cases of national newsworthiness. In the coming year the Police Department will continue working with federal, state, and local law enforcement agencies to identify and prosecute mid-level and major narcotic violations, money laundering, and other career criminal and gang operations. Funding for all of these important efforts is being maintained in the proposed budget.
- Over the past few fiscal years the Police Department received grant funding for gang injunction enforcement, domestic violence enforcement and intervention, and focused gang suppression resources toward the prosecution of Tri-Agency Resource/Gang Enforcement Teams (TARGET) offenders to reduce community fear and enhance public safety. In addition to continuing this program, the Police Department will maintain a minimum of 20 Gang Recognition Specialists in training to reduce gang crime and service as a force multiplier for the Crimes Against Persons Division.

- The City’s community-oriented policing approach will continue, involving the community, private sector, other City departments and outside agencies to achieve long-term solutions to persistent crime problems.
- The City’s Emergency Operations Center (EOC) is considered one of the best, non-dedicated EOCs in California, with a state-of-the-art countywide EOC communications system using “WebEOC.” For FY 2008-2009 additional short wave radios will be procured to improve communications with the 20 designated citizen and employee shelters and the cache of survival food stored for employee use during a large disaster will be replaced.
- The Community Emergency Response Team (CERT) is a volunteer program designed to train local residents with important basic skills to help respond to a disaster. Throughout the program’s six-year history the City has trained over 500 residents—an additional 100 CERT volunteers will be trained this next fiscal year.
- The Santa Ana Fire Department will participate in a countywide effort to acquire a data switch to a centralized server to host Orange County fire services. This will provide information sharing between each fire operations center to allow seamless requests for units across city lines, thereby improving response times to an incident anywhere in the county.
- Last fiscal year, Santa Ana implemented the Graffiti Trackers Program to significantly improve our ability to apprehend and prosecute graffiti offenders by using the latest in law enforcement technology. In FY 2008-2009, the Police Department will create anti-graffiti campaign videos for use at public meetings and schools, including two anti-graffiti videos for presentations targeting middle and high school aged students. This anti-graffiti campaign will be a catalyst for the positive development of young people and contribute to the City’s goal of ensuring an attractive and well-maintained city.
- Community Preservation will continue to be highly responsive to citizen complaints, observed violations and special projects. The division will continue to partner with the grocers in Santa Ana to eliminate abandoned shopping cart blight in neighborhoods.
- Community Preservation also will be resuming neighborhood-by-neighborhood enforcement by the Special Projects Team in nine neighborhoods. Programs also will be developed to address the increasing number of vacant properties appearing due to foreclosure.
- All Building Inspectors have completed State certification as essential emergency services/damage assessment inspectors. Ongoing training of inspectors will continue to provide knowledge to address a combination of residential inspections during a single site visit, providing more efficient use of inspectors’ time and greater convenience to the property owner.
- Last year the Planning and Building Department improved its customer service measurably by the reduction in delivery time of Development Review comments from an average of 44 days in 2006 to an average of 36 days in 2007. Efforts will continue in the coming year to further reduce turn around time for development processing.

- The Capital Improvement Program for FY 2008-2009 includes a variety of infrastructure projects that will enhance public safety, including \$1.45 million in sewer improvements, \$4.6 million in water main replacements, and continued funding for the replacement of sidewalks, curbs and gutters to reduce trips and falls.

Improve Transportation Infrastructure

The City has made significant progress over the past five years in rehabilitating its arterial highways and, due to new funding resources, long awaited improvements to the local neighborhood streets will be made over the next five years. Major funding for local streets was made available through Proposition 42 revenues and Proposition 1B at the State level, and through the issuance of \$60 million in Gas Tax Revenue Certificates of Participation (COP) in December 2007.

Programs for FY 2008-2009 that will improve the City's transportation infrastructure include the following.

- Project Restore, the City's \$100 million investment in residential streets will utilize \$20 million in COP funding in FY 2008-2009. The total budget for Project Restore this next year will exceed \$25 million.
- Considerable progress has been made on the \$225 million Bristol Street Widening Project from Warner Avenue to 17th Street. In FY 2008-2009 the City will move forward with the widening between Pine and Third Streets and between Pine and McFadden.
- Additional arterial improvements identified in the proposed budget include the completion of widening along Grand Avenue between First and Fourth Streets, intersection widening at Grand Avenue and Dyer Road; the widening of the First Street bridge over the Santa Ana River, and continuation of design work for an over-crossing at Alton Road and the 55 Freeway to improve connectivity between Santa Ana and the City of Irvine. In addition, more than \$10 million is included in the budget for arterial street reconstruction and resurfacing.
- The City's "Go Local" Transit Study, which will result in the establishment of a local transit system connecting the Santa Ana Regional Transportation Center with the Civic Center and the Pacific-Electric Right of Way to Garden Grove, has been submitted to the Orange County Transportation Authority for funding approval. Efforts will continue to advocate for this important transit project in FY 2008-2009.

Complete Minor Deferred Maintenance Projects in all Parks

Because the City is built out, parks are a critical asset for our residents, providing a place for the community's youth and families to enjoy nature and the outdoors. Santa Ana's parks are extremely well used, which increases the demand for maintenance work. To ensure that our parks remain attractive and able to serve the needs of the public the Council has requested that greater effort be placed on completing minor deferred maintenance projects in all parks.

Programs for FY 2008-2009 that will address minor deferred park maintenance projects and further enhance the utility of Santa Ana's parks and open space include the following.

- Improved contract administration and inspection to enhance the effectiveness of park landscape maintenance contracts on 18 park sites, at the Santa Ana Zoo and along the City's bike trails.
- The proposed budget includes increased funding for the Parks, Recreation and Community Services Agency to facilitate the implementation innovative initiatives in the areas of deferred maintenance. PRCSA is close to completing a detailed inventory of minor deferred park maintenance projects, as a companion to the major deferred maintenance analysis completed last year.
- The proposed Capital Improvement Program includes park improvements totaling \$3.3 million, including construction of an extension to the Flower Street Bike Trail, and the Tierra de las Pampas exhibit at the Santa Ana Zoo. Funding in the FY 2008-2009 budget also will facilitate the completion of the renovation of the Jerome Recreation Center and the Memorial Park Swimming Pool.
- The proposed budget maintains funding to complete the first phase of the Youth and Family Master Plan. This first phase will focus on the lack of open space as a contributing factor to the risks associated with problem behaviors in youth, such as childhood obesity and gang involvement. Youth program expansions added to the budget last year, such as the annual Catalina trip, Pathways to Adventure program and intramural sports are also maintained in the proposed budget.
- PRCSA will continue to partner with the community to maintain and improve parks through the Adopt-A-Park Program, and park enhancement activities such as the recent KaBOOM! event at Jerome Park, which saved the City \$300,000 in labor and equipment while adding a playground, community garden and mural.

Ensure Long Term Financial Stability

To ensure Santa Ana's long term financial stability, staff will be implementing a two to three year plan to reduce the General Fund deficit, using a combination of expenditure controls while we continue to work towards improving the City's revenue base.

Programs for FY 2008-2009 that will help ensure long term financial stability include the following.

- The first phase of the two to three year plan will include examining department businesses and services to identify opportunities for improved efficiency through reorganization or restructuring of work processes, and holding positions vacant to reduce costs. While the proposed budget envisions maintenance of existing programs and services at their current levels, it will be important to resist the temptation to add new programs or services over the next two years unless new, dedicated revenue sources can be identified.

- A Citywide cost allocation and fee study will be completed this year. Recommendations for achieving a greater percentage of cost recovery for permits and other services provided will be made to the City Council at mid year.
- The City's Enterprise Zone designation was recently renewed for another 15 years, which will continue attracting new businesses to Santa Ana and provide jobs for local residents.
- Efforts will continue to facilitate the expansion and enhancement of the Santa Ana Auto Mall and the expansion of the Main Place Mall.
- Building upon the success of last year, the Community Development Agency and its WORK Center will expand opportunities with local businesses for the Youth Employment Program.
- Funding will continue for the development of a citywide Economic Development Strategic Plan, to help guide the City in developing programs and services to expand the City's revenue base, while continuing to support the needs and interests of the business community.
- In FY 2007-2008 Santa Ana purchased Enterprise Resource Planning (ERP) software which will enhance the City's ability to automate and improve the efficiency of our business processes by providing "real time" information. Implementation of the ERP system is expected to be completed in June 2009.

Additional Accomplishments Planned for 2008-2009

In addition to the programs and activities described above, several additional efforts are proposed to help the City achieve its vision, purpose and goals. These include the following.

- Funds are proposed in the FY 2008-2009 budget to improve public access to City Council meetings through webcasting and web-based archiving.
- A major emphasis of FY 2007-2008 was to enhance Library services to the community. Funding to facilitate expanded hours for three high school libraries including the continued deployment of the City's bookmobile is being maintained for FY 2008-2009.
- A generous bequest from a previous library employee has provided the seed money for design and construction of a space in the library devoted exclusively to the needs and interest of teens. The new Center at the Main Library is scheduled to open October 2008. The library has also initiated Teen Hours three afternoons a week. Teens can drop into the library's meeting room and under a mentor, do homework, relax, meet friends, play games or read. The program currently serves about 50 teens per week, and expectations are that more teenagers will participate once the Center officially opens.
- Services related to literacy skill development and enrichment programs also are maintained in the proposed budget. These activities include reading incentive programs and weekly story times. This past year, three seasonal reading programs registered more than 8,182 youth, and the 538 weekly reading/storytelling programs had an attendance of over 19,375. In addition, 4,265 youth participated in 45 school visits to the library.

In keeping with our commitment to long-term planning, we will continue to dedicate our time, energy and resources toward providing quality service to enhance the safety, livability and prosperity of our community. In spite of the fiscal challenges the City is facing, the FY 2008-2009 budget confirms our commitment to this purpose and incorporates the important programs and projects you have requested in response to the community and its needs. On behalf of our talented and dedicated workforce, I am proud to present the budget for the 2008-2009 Fiscal Year.

A handwritten signature in black ink, appearing to read "David N. Ream". The signature is fluid and cursive, with the first name "David" being the most prominent.

David N. Ream
City Manager



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Santa Ana
California**

For the Fiscal Year Beginning

July 1, 2007

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the City of Santa Ana for its annual budget for the fiscal year beginning July 1, 2007.

In order to receive this award, a governmental unit must publish a budget document that meets the program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

The above award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

*California Society of
Municipal Finance Officers*

**Certificate of Award
For
*Excellence in Operating Budgeting***

Fiscal Year 2007-2008

The California Society of Municipal Finance Officers (CSMFO) proudly presents this certificate to

City of Santa Ana

For meeting the criteria established to achieve the Excellence Award in the OPERATING BUDGET CATEGORY.

March 6, 2008



Bradley Robert

Brad Grant
CSMFO President

Cindy Guziak

Cindy Guziak, Chair
Budgeting & Financial Reporting

The above award is valid for a period of one year only. We believe our current budget continues to conform to CSFMO requirements, and we are submitting it to CSFMO to determine is eligibility for another award.