

DOLLARS AND SENSE

GOLETA'S FINANCIAL REPORT CARD

Introduction

The City of Goleta is one of the State's newest cities. With the goal of local control, incorporation efforts began in the early 1960s and led to three failed ballot measures in 1987, 1990 and 1993. Finally incorporated in February 2002, the City of Goleta encompasses an area of approximately 8 square miles in Southern Santa Barbara County and has a population of approximately 30,000. On the occasion of the City's third birthday, the Civil Grand Jury decided to examine the City's financial health, long term fiscal viability, and staffing and service levels. To do this, the Jury contracted with Harvey M. Rose Accountancy Corporation to perform a management audit of the City. The public can read the audit report in its entirety on the Jury's web site at www.sbcgj.org.

Background

Government Profile

The City of Goleta is a general law city¹ with a Council-Manager form of government. Elected at large, the five City Council members serve staggered four year terms. The first municipal election after incorporation occurred in November 2004. Two of the five council seats were up for election and both incumbents were re-elected. The Council selects the Mayor and Mayor Pro Tem from among its members for one year terms. The City Council is the legislative and policy-making body of the City.

The City provides municipal services in the areas of planning and development, public safety and public works. These services include contracts for street and landscape maintenance. The City will assume park maintenance services on July 1, 2005. It contracts with the County of Santa Barbara for animal control and energy development related services and with the Santa Barbara County Sheriff's Department for law enforcement. Fire protection services are provided by the Santa Barbara County Fire Department and library services by the City of Santa Barbara.

The City Manager is employed by the City Council. The City Manager is responsible for the administration of City affairs and the implementation of policies established by the

¹ Cities can choose to be governed under the framework of the California Government Code, in which case they are known as "general law" cities, or they can adopt a charter giving them more operational latitude. The latter are known as "charter" cities.

City Council. The City Manager hires all department directors. The City Attorney serves under contract to the City Council.

Economic Condition

The City consists of single-family homes, condominiums and apartments, and a mixture of retail, light industrial, manufacturing and service entities. These comprise the City's tax base.

The City of Goleta and its immediate vicinity also provide a significant share of the County's economic activity. This activity primarily consists of educational services, intellectual services (including consulting and research and development), tourism and manufacturing. Three of these four sectors are growing. Manufacturing, while still an important segment of the economy, is decreasing both in magnitude and economic impact. While manufacturing employment is declining, service employment is increasing.

California Government Code Section 5600 et seq. requires that prior to incorporation, a Comprehensive Fiscal Analysis (CFA) be prepared. The purpose of the CFA is to provide the Local Agency Formation Commission (LAFCO)² with information to evaluate the financial feasibility of the proposed city. A consultant prepared the CFA using a set of revenue and expenditure assumptions. The Final CFA, completed in May 2001, projected revenues and expenditures for the proposed City of Goleta from the incorporation date of February 2002 through June 2011.

Also required by State law, any negative impacts on a county's General Fund must be mitigated. The County of Santa Barbara and city proponents negotiated a revenue neutrality agreement.³ Under this agreement, the city would allocate to the county:

- 50% of all property tax collected in the city, in perpetuity
- 30% of all sales tax collected in the city, in perpetuity
- An additional 20% of the sales tax collected in the city through the year 2012
- 40% of the hotel tax from existing hotels in the city through the year 2012 and an additional \$1.5 million in the year 2013

Based on its analysis as of May 2001, and taking into account the negotiated mitigation payment to the County, the CFA determined that the proposed City of Goleta was financially feasible and would provide service levels at existing levels or greater. The CFA also determined that even with significant reductions in population growth and commercial development, the city would remain viable.

² LAFCO was established by the Cortese-Knox Act and is comprised of elected officials of the county, cities, and special districts in each county. LAFCOs establish spheres of influence for all the cities and special districts within the county. These spheres of influence define areas of future urbanization or growth. LAFCO also administers incorporation and annexation proposals.

³ The California Government Code requires that any incorporation should result in a similar exchange of both revenue and responsibility for service delivery between the affected county and the proposed city.

Management Audit Summary of Results

The management audit commissioned by the Jury is divided into three sections:

- I. Comparative Analysis of Actual and Projected Revenues and Expenditures
- II. Five-Year Projections and Long-Term Viability of the City
- III. Staffing and Service Levels

I. Comparative Analysis of Actual and Projected Revenues and Expenditures

For this analysis, the Grand Jury's contracted auditor compiled actual revenue and expenditure activity and compared it to the CFA. For the first few months of incorporation, February through June 2002, there is no detailed data available as the County was still providing accounting services. However, audited fund balances as of June 30, 2002 showed a net financial position approximately \$31,000 greater than predicted.

Fiscal Year 2002-2003

For the Fiscal Year⁴ 2002-2003, the City continued to improve its financial position. General Fund revenues exceeded projections and expenditures were less than projected. Significant revenue variances included higher than expected sales and transient occupancy taxes, State motor vehicle license fees and fees charged for permits, planning, public works and engineering services.

General Fund expenditures were less than projected. This was due, at least in part, to less than expected staffing in the Administrative Services and Finance Section. Contract expenditures for engineering activities, apparently not included in the CFA, were higher than expected. The positive variance in the road fund was due to the fact that the City charged approximately \$542,000 in street maintenance to the General Fund.

The net result of activities for 2002-2003 was an increase in the General Fund of \$3.1 million over CFA projections for that year and \$4.1 million over projections since incorporation. Similarly, the Road Fund increased by \$2.2 million over CFA projections for that year with a total increase over projections since incorporation of \$1.3 million.

Fiscal Year 2003-2004

In Fiscal Year 2003-2004, revenues continued to exceed projections with sources of significant revenue variances the same as the prior year. Expenditures were more in line with projections with General Fund expenditures, slightly exceeding projections. The number of Administrative Services authorized positions were half those projected. City

⁴ The City's fiscal year begins each July 1 and ends on June 30.

Attorney expenses were 47.5% greater than projections. The net result was an increase in the General Fund balance of \$1.4 million over CFA projections for that year and an increase since incorporation of \$5.6 million over projections.

Offsetting State and Federal revenue reductions, the Road Fund realized \$516,000 in traffic development impact fees as well as unanticipated interest earnings. While there was a decrease in the Road Fund balance of \$173,000 for that year, the net result was a total increase since incorporation of \$1.1 million over projections.

The audit determined that ***"based on this analysis, relative to the CFA, the City of Goleta is in a healthy financial position."*** This strong financial position enabled the City Council to establish \$4.9 million in General Fund reserves as reported in 2003-04 financial statements.

II. Five-Year Projections and Long-Term Viability of the City

The audit developed five-year projections for revenues, expenditures and fund balance based on current financial activities and CFA projections for growth. These projections can be found in Appendix A for the General Fund and Appendix B for the Road Fund. While there is variability in both revenues and expenditures, in four out of the five years the General Fund and Road Fund should experience positive net revenues. The only year that expenditures are expected to slightly exceed revenues is Fiscal Year 2005-2006. Council Chambers construction, estimated to cost between \$300,000 and \$400,000, is scheduled in that year. While some of these revenues are restricted and not available for discretionary purposes, the audit found that ***"the City is clearly viable for the next five years."***

However, significant uncertainties and variables do exist. These include the State's current financial status which impacts the City's primary revenue sources of property taxes, sales taxes and motor vehicle fees. Also, these revenue sources and the transient occupancy tax are dependent on the region's and the State's general economic climate. Finally, the City is in the process of completing its General Plan. Development activities will impact both expenditures and future revenues and cannot be estimated until the General Plan is complete.

The audit also developed the following alternative assumptions:

- Increased staffing costs due to higher than projected cost-of-living salary increases
- Changes in property, sales and transient occupancy tax revenue growth
- Less revenue generating retail development than expected

It was determined that the impacts of the alternative assumptions were not significant enough to greatly impact the City's financial position over the five-year period. Also, the City can rely upon substantial reserves in the event of significant one-time expenditures or if revenues are less than expected.

III. Staffing and Service Levels

Staffing levels have increased gradually since incorporation, slowly approaching CFA projections. At the time of the audit, there were 37.75 positions and only three vacancies citywide. The City is considered to be fully staffed at budgeted levels. Significant staffing variances from the CFA include more positions for Community Services and fewer for Planning and Environmental Services.

In addition to analyzing staffing levels relative to the CFA, the audit conducted a benchmark survey to analyze the City's current staffing and funding levels relative to comparable cities. The comparable cities were chosen based on population, geography when possible, or recent incorporation. The survey, which excluded municipal functions contracted by the City of Goleta, determined that the City had slightly less than average staffing for the administrative function and higher than average staffing for the planning function. The survey concluded that the City is within range of other cities in terms of staffing and funding levels (see Appendix C and D). The City had slightly fewer than average unfilled positions. The auditor's five-year projections assumed full staffing and stated that ***"revenue shortfalls have not prevented and are not expected to prevent the City from maintaining the staffing levels necessary to meet reasonable service level expectations."***

The benchmark survey of comparable cities based on population shows that the City is at or near average funding for the general budget categories of General Government, Community Development (planning and building) and Culture and Leisure (typically parks and recreation). However, the funding for the Public Safety function is considerably less and the funding for Transportation (typically infrastructure) is considerably more than comparable cities.

Conclusion

The Jury finds that the positive variances from the Comprehensive Financial Analysis (CFA) projections are an indication of the City's overall financial health. However, the financial management of the City is more appropriately gauged against its annual budget which establishes the City's priorities. The budget does not necessarily mirror CFA projections. As indicated by the Fiscal Year 2004-2005 budget document, the City's priorities are Public Safety which accounts for approximately 40% of the City's General Fund budget, and Planning and Environmental Services and Community Services (engineering, design, construction and infrastructure maintenance functions) each with 19% of the budget.

Staffing levels will tend to correspond with budget allotments except in the case of contracted services. The City recently hired a Finance Director and is in the process of hiring a Redevelopment Director for the Old Town project. It has also recently added staff for park maintenance which will no longer be contracted to the County as of July 1, 2005. No staffing increases are anticipated for the Fiscal Year 2005-2006. Staffing and service levels appear to have stabilized although resources probably exist for some staffing increases in the next few years.

The audit clearly shows that the City of Goleta is managing its fiscal resources responsibly. City staff should be commended for the hard work which has allowed the City to overcome many obstacles and stabilize in a very short period of time.

Finding 1

The Jury finds that the City of Goleta is being managed on a sound financial basis and is providing an appropriate level of services.

Affected Agency**City of Goleta**

Finding 1

Table 2.1
Five-Year Projections
FY 2004-05 through FY 2008-09

General Fund

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	
General Fund Revenues						
Property Taxes	3,914,665	4,024,715	4,167,472	4,286,854	4,427,854	1, 2
Sales Taxes	3,625,780	3,734,553	3,809,244	3,885,429	4,347,211	1, 2, 3
Real Property Transfer Tax	134,000	138,288	144,193	150,033	156,634	1, 2
Franchise Fees (all)	1,004,300	944,143	972,090	1,000,864	1,030,489	1, 2, 4
Transient Occupancy Tax	2,250,000	2,295,000	2,555,520	2,606,630	2,658,763	1, 2, 5
Building and Permit Fees	1,208,000	1,232,160	1,256,803	1,281,939	1,307,578	1, 2
Planning Fees	834,500	851,190	868,214	885,578	903,290	1, 2
Public Works/Engineering Fees	56,000	57,266	58,560	59,883	61,237	1, 2
Fines and Penalties	145,000	150,206	155,598	161,184	166,970	1, 2
State Motor Vehicle License Fees	1,074,365	1,095,852	1,117,769	1,140,125	1,162,927	1, 2
Intergovernmental/Grants	1,296,130	514,641	524,934	535,432	546,141	1, 2, 6
Investment Earnings	129,500	142,333	160,396	178,745	213,278	1, 2
Other	186,930	190,669	194,482	198,372	202,339	1, 2
Total Revenues	15,859,170	15,371,016	15,985,275	16,371,068	17,184,711	
General Fund Expenditures						
City Council	107,820	109,976	112,176	114,419	116,708	1, 2
City Manager/City Clerk/Elections	849,240	836,494	804,465	870,289	836,965	1, 2, 7, 11
City Attorney	850,000	884,000	919,360	956,134	994,380	1, 2
Administrative Services/Finance	528,425	612,425	627,736	643,429	659,515	1, 2, 11
Police/Public Safety	5,467,945	5,631,983	5,800,943	5,974,971	6,154,220	1, 2
Animal Control	157,815	164,285	171,021	178,033	185,332	1, 2
Planning, Zoning Bldg, Dev. Review	2,672,700	2,840,750	2,765,679	2,834,267	2,904,557	1, 2, 8, 11
Public Works Admin (& NPDES)	1,642,130	1,813,634	1,854,717	1,896,730	1,939,695	1, 2, 11
Street Lighting	96,995	98,935	100,914	102,932	104,991	1, 2
Parks	2,057,090	1,398,904	1,429,635	1,379,088	1,006,350	1, 2, 9, 11
City Hall	628,500	1,041,070	653,891	666,969	680,309	1, 2, 10
Insurance	75,915	77,433	78,982	80,562	82,173	1
Contingency	-	-	-	-	-	
Total Expenditures	15,134,575	15,509,891	15,319,519	15,697,824	15,665,195	
Net Revenues (Expenditures)	724,595	(138,875)	665,756	673,244	1,519,517	
Cumulative Surplus (Deficit) Fund Balance	7,783,770	7,644,895	8,310,652	8,983,896	10,503,413	
CFA Projected Fund Balance (A)	1,691,895	1,918,858	2,139,753	2,395,236	3,372,098	

Notes:

(A) CFA projected fund balance has been restated in real terms using the 2.0 percent discount rate assumed in the CFA.

Key Assumptions:

- 2.0 percent discount (inflation) rate
- CFA growth assumptions
- New retail store opened in March of 2005. Increased sales taxes estimated at 1.0 percent. Assumes this retail space was not included in the CFA estimate of new retail in FY 2008-09.
- One-time revenues of \$87,300 in FY 2004-05 not included in future year estimates.
- New 98 room hotel estimated to open and transient occupancy taxes expected to increase in FY 2006-07 based on a room rate of \$100 and an occupancy rate of 60 percent.
- One-time grant revenues of \$761,580 in FY 2004-05 excluded in future year estimates.
- Restated FY 2004-05 projections from City estimates to exclude expenditures budgeted for elections costs. Election years are FY 2005-06 and FY 2007-08. One-time City Manager severance cost incurred in FY 2004-05 excluded in future years.
- The General Plan is anticipated to be completed in calendar year 2005. Per the CFA, \$125,000 in annual costs will not occur once the plan is complete. (Similar to CFA projections, the City anticipates that \$200,000-\$250,000 incurred in FY 2003-04 and FY 2004-05 to not be recurring.) Projection also includes one-time purchase of a \$17,000 vehicle in FY 2005-06.
- One-time grant revenues in FY 2004-05 of \$791,580 are not included in future year estimates. Additionally, debt service payments for Santa Barbara Shores ranging from \$396,000 to \$470,000 expire after FY 2007-08.
- The City anticipates construction of Council Chambers to cost between \$300,000 and \$400,000 in FY 2005-06. \$400,000 has been assumed in these projections.
- Salaries are annualized for new positions added in FY 2004-05 and vacant positions are projected at full cost.

Table 2.2
Five-Year Projections
FY 2004-05 through FY 2008-09

Road Fund

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	
Road Fund Revenues						
Intergovernmental/Grants	776,000	791,520	807,350	823,497	839,967	1,2
Gas Taxes	810,250	826,455	842,984	859,844	877,041	1,2
Measure D Funds	1,377,160	1,425,774	1,476,104	1,528,210	1,582,156	1,2
Building and Permit Fees	600,000	612,000	624,240	636,725	649,459	1,2
Investment Earnings	52,800	58,032	65,397	72,878	86,958	1,2
Total Revenues	3,616,210	3,713,781	3,816,075	3,921,154	4,035,581	
Road Fund Expenditures						
Road Maintenance	4,410,115	3,232,975	3,224,334	3,304,341	3,402,008	3
Total Expenditures	4,410,115	3,232,975	3,224,334	3,304,341	3,402,008	
Net Revenues (Expenditures)	(793,905)	480,806	591,741	616,813	633,573	
Cumulative Fund Balance	2,033,416	2,514,222	3,105,963	3,722,776	4,356,350	
CFA Projected Fund Balance (A)	2,167,663	2,522,082	2,912,366	3,340,632	3,809,096	

Notes:

(A) CFA projected fund balance has been restated in real terms using the 2.0 percent discount rate assumed in the CFA.

Key Assumptions:

- 1 2.0 percent discount (inflation) rate
- 2 CFA growth assumptions
- 3 Measure D expenditures projected based on schedule provided by the City, Goleta Transportation Improvement Program and Transportation special revenue funds projected to have no expenditures, and all other special revenue fund expenditures projected to equal revenues.

Table 3.3
Service Level Survey of Comparable Cities
Percentage of Funding for Municipal Function*
(in millions)

	General Government		Public Safety (1)		Transportation (2)		Community Development (3)		Culture and Leisure (4)		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Comparable By Population												
Atascadero	2.0	20%	3.7	37%	0.8	8%	1.7	17%	1.7	17%	9.9	100%
El Paso de Robles	1.1	7%	6.0	37%	1.9	12%	3.0	18%	4.4	27%	16.4	100%
Imperial Beach	2	17%	4.7	40%	3.8	32%	0.3	3%	1.0	8%	11.8	100%
La Quinta	4.1	26%	5.3	33%	2.6	16%	2.8	18%	1.2	8%	16.0	100%
Los Banos	1.3	12%	4.6	43%	1.1	10%	2.5	23%	1.3	12%	10.8	100%
Maywood	0.9	10%	4.2	47%	1.7	19%	1.1	12%	1.0	11%	8.9	100%
Monterey	5.3	14%	9.2	25%	4.7	13%	3.5	9%	14.3	39%	37.0	100%
Moorpark	2.0	16%	4.5	36%	1.4	11%	2.5	20%	2.2	17%	12.6	100%
San Pablo	1.4	11%	8.3	64%	0.6	5%	1.7	13%	0.9	7%	12.9	100%
Santa Paula	2.3	18%	5.8	46%	2.8	22%	0.9	7%	0.9	7%	12.7	100%
Seaside	2.3	17%	5.8	42%	1.4	10%	2.1	15%	2.3	17%	13.9	100%
Walnut	1.5	13%	2.9	26%	2.9	26%	1.3	12%	2.6	23%	11.2	100%
Average		15%		40%		15%		14%		16%		
Goleta (FY 2002-03)	3.3	30%	4.1	37%	0.6	5%	2.3	21%	0.8	7%	11.1	100%
Goleta (FY 2004-05)	3.0	15%	5.7	29%	6.0	31%	2.7	14%	2.1	11%	19.5	100%
Comparable By Recent Incorporations												
Aliso Viejo	3.0	33%	4.1	46%	0.5	6%	1.3	14%	0.1	1%	9.0	100%
Citrus Heights	3.0	9%	13.3	42%	7.2	23%	8.5	27%	0.0	0%	32.0	100%
Elk Grove	8.5	22%	11.6	30%	9.1	24%	9.4	24%	0.0	0%	38.6	100%
R Sta. Margarita	4.4	34%	5.0	39%	1.9	15%	1.0	8%	0.6	5%	12.9	100%
Average		25%		39%		17%		18%		1%		
Goleta (FY 2002-03)	3.3	30%	4.1	37%	0.6	5%	2.3	21%	0.8	7%	11.1	100%
Goleta (FY 2004-05)	3.0	15%	5.7	29%	6.0	31%	2.7	14%	2.1	11%	19.5	100%

Data Sources: State Controller's Office *Cities Annual Report* for FY 2002-03 and the City of Goleta's FY 2004-05 mid-year budget update.

(1) Public Safety includes police, animal regulation and street lighting services.

(2) Transportation includes streets, highways, storm drains, and landscaping.

(3) Community Development includes planning, code enforcement, housing, and community promotion.

(4) Culture and Leisure includes parks and recreation, libraries, museums, and community centers.

* Municipal functions not funded by the City of Goleta, such as fire protection, water and sewer services and public transit, were excluded from this analysis.

Table 3.2
 Staffing Survey Responses from Comparable Cities
 Staffing Level by Municipal Function
 Based on FY 04-05 Authorized Positions*

Function	Aliso Viejo		La Quinta		Los Banos		Moorpark		Paso Robles		R Sta Marg		Seaside		Average		High Low	Goleta		
	Pos	%	Pos	%	Pos	%	Pos	%	Pos	%	Pos	%	Pos	%	Pos	%		Pos	%	
City Manager/City Clerk/Elections	2	20%	14	18%	6.9	10%	14.5	26%	8	8%	7	48%	9	11%	8.8	20%	48%	8%	7	19%
Administrative Services/Finance	4	40%	8	10%	7.8	11%	8	14%	9	9%	2	14%	7	9%	6.5	15%	40%	9%	4.5	12%
Planning, Zoning, Dev. Review	2	20%	26.5	33%	7.3	10%	8	14%	14	15%	2	14%	11	14%	10.1	17%	38%	10%	14.25	38%
Public Works/Engineering		0%	23	29%	39.7	56%	9	16%	49	51%	2	14%	42	52%	23.5	31%	56%	0%	10	26%
Parks and Recreation	2	20%	8	10%	9.7	14%	16.5	29%	16	17%	1.5	10%	12	15%	9.4	16%	29%	5%	2	5%
Total Staffing	10	100%	79.5	100%	71.3	100%	56.0	100%	96	100%	14.5	100%	81	100%	58.3	100%			37.75	100%
Vacancies	2	20%			4.0	6%	6	11%	4	4%	1	7%	3	4%	9%				3	8%

* Staffing of municipal functions contracted by the City of Goleta has been excluded from comparable cities for purposes of analysis.
 Data Sources: Survey repondents augmented by budget documents.