

**CITY OF SANTA BARBARA
CITY COUNCIL**

Helene Schneider
Mayor
Randy Rowse
Mayor Pro Tempore
Grant House
Ordinance Committee Chair
Dale Francisco
Finance Committee Chair
Frank Hotchkiss
Cathy Murillo
Bendy White



James L. Armstrong
City Administrator

Stephen P. Wiley
City Attorney

City Hall
735 Anacapa Street
<http://www.SantaBarbaraCA.gov>

**JULY 2, 2013
AGENDA**

ORDER OF BUSINESS: Regular meetings of the Finance Committee and the Ordinance Committee begin at 12:30 p.m. The regular City Council meeting begins at 2:00 p.m. in the Council Chamber at City Hall.

REPORTS: Copies of the reports relating to agenda items are available for review in the City Clerk's Office, at the Central Library, and <http://www.SantaBarbaraCA.gov>. In accordance with state law requirements, this agenda generally contains only a brief general description of each item of business to be transacted or discussed at the meeting. Should you wish more detailed information regarding any particular agenda item, you are encouraged to obtain a copy of the Council Agenda Report (a "CAR") for that item from either the Clerk's Office, the Reference Desk at the City's Main Library, or online at the City's website (<http://www.SantaBarbaraCA.gov>). Materials related to an item on this agenda submitted to the City Council after distribution of the agenda packet are available for public inspection in the City Clerk's Office located at City Hall, 735 Anacapa Street, Santa Barbara, CA 93101, during normal business hours.

PUBLIC COMMENT: At the beginning of the 2:00 p.m. session of each regular City Council meeting, and at the beginning of each special City Council meeting, any member of the public may address the City Council concerning any item not on the Council's agenda. Any person wishing to make such address should first complete and deliver a "Request to Speak" form prior to the time that public comment is taken up by the City Council. Should City Council business continue into the evening session of a regular City Council meeting at 6:00 p.m., the City Council will allow any member of the public who did not address them during the 2:00 p.m. session to do so. The total amount of time for public comments will be 15 minutes, and no individual speaker may speak for more than 1 minute. The City Council, upon majority vote, may decline to hear a speaker on the grounds that the subject matter is beyond their jurisdiction.

REQUEST TO SPEAK: A member of the public may address the Finance or Ordinance Committee or City Council regarding any scheduled agenda item. Any person wishing to make such address should first complete and deliver a "Request to Speak" form prior to the time that the item is taken up by the Finance or Ordinance Committee or City Council.

CONSENT CALENDAR: The Consent Calendar is comprised of items that will not usually require discussion by the City Council. A Consent Calendar item is open for discussion by the City Council upon request of a Councilmember, City staff, or member of the public. Items on the Consent Calendar may be approved by a single motion. Should you wish to comment on an item listed on the Consent Agenda, after turning in your "Request to Speak" form, you should come forward to speak at the time the Council considers the Consent Calendar.

AMERICANS WITH DISABILITIES ACT: In compliance with the Americans with Disabilities Act, if you need special assistance to gain access to, comment at, or participate in this meeting, please contact the City Administrator's Office at 564-5305 or inquire at the City Clerk's Office on the day of the meeting. If possible, notification at least 48 hours prior to the meeting will enable the City to make reasonable arrangements in most cases.

TELEVISION COVERAGE: Each regular City Council meeting is broadcast live in English and Spanish on City TV Channel 18 and rebroadcast in English on Wednesdays and Thursdays at 7:00 p.m. and Saturdays at 9:00 a.m., and in Spanish on Sundays at 4:00 p.m. Each televised Council meeting is closed captioned for the hearing impaired. Check the City TV program guide at www.citytv18.com for rebroadcasts of Finance and Ordinance Committee meetings, and for any changes to the replay schedule.

ORDER OF BUSINESS

- 12:30 p.m. - Finance Committee Meeting, David Gebhard Public Meeting Room,
630 Garden Street
2:00 p.m. - City Council Meeting

FINANCE COMMITTEE MEETING - 12:30 P.M. IN THE DAVID GEBHARD PUBLIC MEETING ROOM, 630 GARDEN STREET (120.03)

1. Subject: Funding Of Final Judgment in Ruben Barajas, et, al. v. City of Santa Barbara (SBSC Case No. 1383054) (120.03)

Recommendation: That the Finance Committee:

- A. Consider options for funding a Superior Court judgment recently entered in connection with Barajas v. City; and
- B. Develop a recommendation for City Council consideration from the funding options presented by staff.

2. Subject: Statement Of Investment Policy And Delegation Of Investment Authority For Fiscal Year 2014 (120.03)

Recommendation: That Council adopt, by reading of title only, A Resolution of the City of Santa Barbara Adopting the Investment Policy of the City and Rescinding Resolution No. 12-047.

(See Council Agenda Item No. 3)

REGULAR CITY COUNCIL MEETING – 2:00 P.M.
AFTERNOON SESSION

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL

CEREMONIAL ITEMS

1. Subject: Employee Recognition - Service Award Pins (410.01)

Recommendation: That Council authorize the City Administrator to express the City's appreciation to employees who are eligible to receive service award pins for their years of service through July 31, 2013.

CHANGES TO THE AGENDA

PUBLIC COMMENT

CONSENT CALENDAR

2. Subject: Minutes

Recommendation: That Council waive the reading and approve the minutes of the regular meeting of June 18, 2013.

3. Subject: Statement Of Investment Policy And Delegation Of Investment Authority For Fiscal Year 2014 (260.01)

Recommendation: That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Adopting the Investment Policy for the City and Rescinding Resolution No. 12-047.

CONSENT CALENDAR (CONT'D)

4. Subject: State Of California Office Of Traffic Safety - Sobriety Checkpoint And Selective Traffic Enforcement Grants (530.05)

Recommendation: That Council:

- A. Accept a grant from the State of California, Office of Traffic Safety in the amount of \$103,700 for Sobriety Checkpoints and authorize the Chief of Police to execute a grant agreement;
- B. Accept a grant from the State of California, Office of Traffic Safety in the amount of \$86,100 and authorize the Chief of Police to execute a grant agreement; and
- C. Increase appropriations and estimated revenues by \$189,800 in the Miscellaneous Grants Fund for Fiscal Year 2014 for the Sobriety Checkpoint and Selective Traffic Enforcement Programs Grants.

5. Subject: Contract With Deborah J. Aitkins For Database Consulting And Support (170.04)

Recommendation: That Council authorize the City's General Services Manager to execute a professional services contract in an annual amount of \$40,000 for three years with Deborah Aitkins to provide database consulting and support services to all City departments.

6. Subject: Replacement Of Citywide Data Storage, Backup, And Recovery System (170.04)

Recommendation: That Council increase appropriations in the Information Systems Operating Fund by \$122,000 from available reserves for the replacement of a Citywide Data Storage, Backup and Recovery System.

7. Subject: Contract With Cardno ENTRIX For Biological Services In City Parks and Beaches (570.08)

Recommendation: That Council authorize the Parks and Recreation Director to execute a professional services agreement with Cardno ENTRIX for biological services in parks and beaches in the amount of \$21,263 with options to renew in Fiscal Year 2015 for \$21,263, and in Fiscal Year 2016 for \$21,263, subject to Council appropriation of funds.

CONSENT CALENDAR (CONT'D)

8. **Subject: Purchase Of Real Property Occupied By Hydroelectric Plant (330.01)**

Recommendation: That Council:

- A. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Confirming the Negotiated Purchase Price for the Purchase of the Real Property Occupied by the City's Hydroelectric Plant Located at 1402 San Roque Road in the Amount of \$65,000, Authorizing Acquisition of the Real Property, and Approving the Funding for Such Acquisition; and
- B. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara to Accept in Fee all Right, Title and Interest in the +/-0.0997 Acres of Real Property Located at 1402 San Roque Road in the County of Santa Barbara, California, and to Authorize the Public Works Director to Execute Such Documents as Necessary for the Acquisition and Acceptance of Said Real Property Interest, and to Record Such Documents in the Official Records of the County of Santa Barbara.

9. **Subject: Introduction Of Ordinance Authorizing An Alternative Power Public Water And Wastewater Agency Agreement (540.13)**

Recommendation: That Council introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Authorizing the Execution and Delivery of a Renewable and Alternative Power Public Water and Wastewater Agency Agreement With Southern California Edison, Inc., for the Purpose of Selling Electricity Generated at the City's Conduit Hydroelectric Plant, and Authorizing Related Actions.

10. **Subject: Local Coastal Program Grant Application Resolution (650.04)**

Recommendation: Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara supporting a grant application to update the City of Santa Barbara Local Coastal Program (LCP) to address sea-level rise, coastal hazards and other climate change-related impacts.

CONSENT CALENDAR (CONT'D)

NOTICES

11. The City Clerk has on Thursday, June 27, 2013, posted this agenda in the Office of the City Clerk, on the City Hall Public Notice Board on the outside balcony of City Hall, and on the Internet.
12. Cancellation of the regular City Council meeting of July 9, 2013.
13. Receipt of communication advising of vacancy created on the Parks and Recreation Commission with the resignation of Charles Trentacosti; the vacancy will be part of the next City Advisory Groups recruitment.

This concludes the Consent Calendar.

REPORT FROM THE FINANCE COMMITTEE

CITY COUNCIL ADMINISTRATIVE AND ATTORNEY REPORTS

PUBLIC WORKS DEPARTMENT

14. **Subject: Options For Addressing The Revenue Shortfall On The Downtown Waterfront Shuttle (570.03)**

Recommendation: That Council provide direction on resolving the \$40,000 revenue shortfall for the Downtown/Waterfront Shuttle.

PUBLIC HEARINGS

15. **Subject: Implementation Of The Average Unit-Size Density (AUD) Incentive Program (640.02)**

Recommendation: That Council:

- A. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara adding Chapter 28.20 to the Santa Barbara Municipal Code to implement the City's 2011 General Plan Average Unit-Size Density Incentive Program; amending Section 28.43.040 regarding exemptions to the City's Inclusionary Ordinance; amending Sections 28.66.050, 28.69.050, 28.72.050, and 28.73.050 concerning building height standards for community benefit projects in the C-2, C-M, M-1, and OM-1 zones; and amending Section 28.87.062 concerning encroachments in open yards.

(Cont'd)

15. (CONT'D)

- B. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Adopting Environmental Findings pursuant to the California Environmental Quality Act Regarding the Implementation of the Average Unit-size Density Incentive Program.

COUNCIL AND STAFF COMMUNICATIONS

COUNCILMEMBER COMMITTEE ASSIGNMENT REPORTS

CLOSED SESSIONS

16. Subject: Conference With Legal Counsel - Pending Litigation (160.03)

Recommendation: That Council hold a closed session to consider pending litigation pursuant to subsection (a) of section 54956.9 of the Government Code and take appropriate action as needed. Pending litigation considered is: *Jose Monclus v. City of Santa Barbara*, WCAB case number ADJ7390587.

Scheduling: Duration, 10 minutes; anytime

Report: None anticipated

17. Subject: Conference with Legal Counsel - Pending Litigation (160.03)

Recommendation: That Council hold a closed session to consider pending litigation pursuant to subsection (a) of section 54956.9 of the Government Code and take appropriate action as needed. The pending litigation is *Ruben Barajas and Pamela Barajas as Trustees for the Ruben and Pamela Barajas Living Trust vs. City Of Santa Barbara; Christine Lucadello vs. City Of Santa Barbara*, SBSC Case No. 1383054 and 1401852.

Scheduling: Duration: 15 minutes; anytime

Report: None anticipated

18. Subject: Conference With Labor Negotiator (440.05)

Recommendation: That Council hold a closed session, per Government Code Section 54957.6, to consider instructions to City negotiator Kristy Schmidt, Employee Relations Manager, regarding negotiations with the Police Bargaining Unit.

Scheduling: Duration: 30 minutes; anytime

Report: None anticipated

ADJOURNMENT

CITY OF SANTA BARBARA

FINANCE COMMITTEE

MEETING AGENDA

DATE: July 2, 2013

Dale Francisco, Chair

TIME: 12:30 P.M.

Bendy White

PLACE: David Gebhard Public Meeting Room
630 Garden Street

Cathy Murillo

James L. Armstrong
City Administrator

Robert Samario
Finance Director

ITEMS TO BE CONSIDERED:

- 1. Subject: Funding Of Final Judgment in Ruben Barajas, et, al. v. City of Santa Barbara (SBSC Case No. 1383054)**

Recommendation: That the Finance Committee:

- A. Consider options for funding a Superior Court judgment recently entered in connection with Barajas v. City; and
- B. Develop a recommendation for City Council consideration from the funding options presented by staff.

- 2. Subject: Statement Of Investment Policy And Delegation Of Investment Authority For Fiscal Year 2014 (120.03)**

Recommendation: That Council adopt, by reading of title only, A Resolution of the City of Santa Barbara Adopting the Investment Policy for the City and Rescinding Resolution No. 12-047.

(See Council Agenda Item No. 3)



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Finance Committee Members

FROM: Administration Division, Finance Department

SUBJECT: Funding Of Final Judgment in Ruben Barajas, et, al. v. City of Santa Barbara (SBSC Case No. 1383054)

RECOMMENDATION: That the Finance Committee:

- A. Consider options for funding a Superior Court judgment recently entered in connection with Barajas v. City; and
- B. Develop a recommendation for City Council consideration from the funding options presented by staff.

DISCUSSION:

The City recently received jury verdict relating to an inverse condemnation case. Inverse condemnation is a constitutional principle which requires the payment of "just compensation" when the property rights of a third party are adversely impacted by the actions of a public entity. In the present case, the Court ruled that the actions of the City's decision to abandon a small portion of Ealand Place resulted in an impact on private property rights of two of the property owners on this portion of Ealand Place. A jury determined that the City owes the plaintiffs damages resulting from the action of abandoning the street, as well as attorney's fees and legal costs required to obtain the judgment. The damages awarded total \$311,500 and attorney fees and costs awarded are \$325,046.22, for a total amount of \$636,546.22. The judgment awarded to the Plaintiffs by the jury was consistent with the amount of damages supported by the City trial witnesses. Consequently, the City Attorney's office believes the damages award to be appropriate.

However, this award does not fall into the types of liability exposures typically covered by the City's self-insurance program or by the City's excess insurance for liability claims. As such, reserves are not available that have been specifically set aside for this type of award. Since this claim relates to streets maintenance, it is considered a general governmental claim and, as a result, should not be charged to a City restricted fund or enterprise fund. As such, staff has identified a few options that are available for funding this claim, each of which is discussed below.

Streets Fund

The decision to abandon Ealand Place was a public interest cost-benefit analysis made to avoid much known higher costs which would have resulted if the City was forced to repair and then permanently maintain this portion of Ealand Place to City public streets standards in the future. It was based primarily on the fact that this portion of Ealand Place now only provides access only to one existing home and one vacant lot, (vacant as a result of the 2008 Tea Fire) and on the fact that Ealand Place is located on a very active and unrepairable landslide. As a result, the most appropriate funding source for this claim would be the Streets Fund, since this fund will realize savings from not having to maintain the abandoned portion of Ealand Place.

The Streets Fund receives revenues from various sources, including Measure A, half of the utility users taxes collected from utility companies, and gas taxes. Currently, the Streets Fund does not have sufficient reserves to pay for this abandonment, and its Fiscal Year 2014 revenues have already been programmed. As a result, if the charge were made to the Streets Fund, it would require deferring some streets work, or creating a negative fund balance at the end of Fiscal Year 2014.

General Fund Reserves

The General Fund has approximately \$22 million in reserves in connection with Council-adopted reserve policies. These reserves are not 100% funded, but each year, pursuant to the same reserves policies, 50% of the year-end surplus is used to either reduce the shortfall or otherwise prevent an increase in the gap since reserve requirements go up as the budget increases each year.

One-Time Funds Received in Fiscal Year 2013

The City's General Fund has received unbudgeted, one-time, revenues in Fiscal Year 2013 totaling approximately \$4 million. Staff will be coming to Council in Fiscal Year 2014 with capital and other one-time projects that may be good candidates for funding from the one-time funds. One possible option is to allocate a portion of those one-time monies to cover the cost of this abandonment.

Self-Insurance Fund

The Self-Insurance Trust Fund provides a funding source that covers a variety of exposures to loss or damage. The types of coverage include workers' compensation; general liability; automobile liability; property, to name a few. The Risk Management Division charges each operating program a "premium" to cover the typical exposures to loss resulting from daily operations.

The Self-Insurance Fund does not collect a premium for some types of legal liability exposures to loss relating to municipal operations, including inverse condemnation. As a result, the Self-Insurance Fund annual budget does not accumulate assets in its operating accounts or its reserves specifically to pay awards or settlements resulting from these types of exposures.

However, the Self-Insurance does have monies that have been accumulated, pursuant to the bi-annual actuarial study, to pay for outstanding general liability and workers compensation claims. As of the current date, the Self-Insurance Fund has almost \$6 million in assets. Therefore, these monies could be used to cover the cost of this abandonment. If these funds are indeed used, it would be appropriate to increase premiums charged to the General Fund or Streets Fund over time to recover these monies since ultimately the Self-Insurance Fund will have to make up the loss of those funds.

PREPARED BY: Mark W. Howard, Risk Manager

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: City Administrator's Office

SUBJECT: Employee Recognition – Service Award Pins

RECOMMENDATION:

That Council authorize the City Administrator to express the City's appreciation to employees who are eligible to receive service award pins for their years of service through July 31, 2013.

DISCUSSION:

Since 1980, the City Employees' Recognition Program has recognized length of City Service. Service award pins are presented to employees for every five years of service. Those employees achieving 25 years of service or more are eligible to receive their pins in front of the City Council.

Attached is a list of those employees who will be awarded pins for their service through July 31, 2013.

ATTACHMENT: July 2013 Service Awards

PREPARED BY: Myndi Hegeman, Administrative Specialist

SUBMITTED BY: Marcelo López, Assistant City Administrator

APPROVED BY: City Administrator's Office

JULY 2013 SERVICE AWARDS

July 2, 2013 Council Meeting

5 YEARS

Kerry Hollowell, Administrative Specialist, Fire Department

Jack Heinz Jr., Public Works Inspector II, Public Works Department

Peter Leyva, Neighborhood & Outreach Services Coordinator, Parks and
Recreation Department

Donald Young, Waterfront Maintenance Worker II, Waterfront Department

15 YEARS

Cynthia Garcia, Parking Enforcement Officer, Police Department

Patrick Henry, Property Management Specialist, Waterfront Department

25 YEARS

William Marazita, Police Lieutenant, Police Department

Rafael Molina, Police Lieutenant, Police Department

30 YEARS

Cindy Goodrich, Police Records Specialist, Police Department

Gilbert Torres, Police Captain, Police Department



CITY OF SANTA BARBARA CITY COUNCIL MINUTES

REGULAR MEETING June 18, 2013 COUNCIL CHAMBER, 735 ANACAPA STREET

CALL TO ORDER

Mayor Helene Schneider called the meeting to order at 2:00 p.m. (The Finance Committee and Ordinance Committee, which ordinarily meet at 12:30 p.m., did not meet on this date).

PLEDGE OF ALLEGIANCE

Mayor Schneider.

ROLL CALL

Councilmembers present: Dale Francisco, Frank Hotchkiss, Grant House, Cathy Murillo, Randy Rowse, Bendy White, Mayor Schneider.

Councilmembers absent: None.

Staff present: City Administrator James L. Armstrong, City Attorney Stephen P. Wiley, City Clerk Services Manager Gwen Peirce.

CHANGES TO THE AGENDA

Item Removed from Agenda

City Administrator Armstrong stated that the following item was being removed from the Agenda:

21. Subject: Conference with Real Property Negotiators (330.03)

Recommendation: That Council hold a closed session pursuant to the authority of Government Code Section 54956.8 to provide direction to the City Administrator and to the City Attorney regarding the relinquishment by the State of California of a portion of State Route 225 to the City of Santa Barbara.

Real Property: A portion of State Route 225 between Post Mile 0.031 to Post Mile 4.55 (Castillo Street to Cliff Drive to Las Positas Road) within the City of Santa Barbara. (Cont'd)

21. (Cont'd)

City Negotiators: Public Works Director and the City Attorney

Negotiating Party: CALTRANS, Deputy District Director Loe (San Luis Obispo District)

Under Negotiation: Price and Terms of Transfer and Compensation

Scheduling: Duration: 30 Minutes; anytime
Report: None anticipated

PUBLIC COMMENT

Speakers: Kenneth Loch, David Williams, Claudia Bratton, Dr. Robert Johns, Robert Burke.

CONSENT CALENDAR (Item Nos. 1 – 13)

The title of the ordinance related to Item No. 2 was read.

Motion:

Councilmembers Francisco/White to approve the Consent Calendar as recommended.

Vote:

Unanimous roll call vote.

1. Subject: Minutes

Recommendation: That Council waive the reading and approve the minutes of the special meeting of June 3, 2013 and the regular meeting of June 4, 2013.

Action: Approved the recommendation.

2. Subject: Adoption Of Ordinance For Renewal Of Agreement To Use Recycled Water (540.13)

Recommendation: That Council adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Approving the Agreement Between the City of Santa Barbara and the Covenant Retirement Communities West for Purchase, Use and Delivery of the City's Recycled Water.

Action: Approved the recommendation; Ordinance No. 5622; Agreement No. 24,529.

3. Subject: Renewal Of Agreement With Major League Softball (570.06)

Recommendation: That Council authorize the Parks and Recreation Director to execute a two-year agreement with Major League Softball, Inc. (MLS), to perform adult softball league services.

Action: Approved the recommendation; Agreement No. 24,530 (June 18, 2013, report from the Parks and Recreation Director).

4. Subject: Parks And Recreation Community Foundation Contribution For The West Beach Wading Pool (570.05)

Recommendation: That Council:

- A. Accept a contribution from the Parks and Recreation Community (PARC) Foundation in the amount of \$13,000 for Parks and Recreation Department programs to operate the West Beach Wading Pool; and
- B. Increase appropriations and estimated revenues in the Fiscal Year 2013 Parks and Recreation Department Miscellaneous Grants Fund in the amount of \$13,000.

Action: Approved the recommendations (June 18, 2013, report from the Parks and Recreation Director).

5. Subject: County Of Santa Barbara Strategic Prevention Framework State Incentive Grant for Responsible Beverage Server Training (520.04)

Recommendation: That Council:

- A. Accept \$7,500 from the County of Santa Barbara and the Strategic Prevention Framework State Incentive Grant to collaborate with the County Alcohol and Drug Program in order to address underage and excessive drinking, and alcohol-related motor vehicle accidents for Fiscal Year 2013; and
- B. Increase appropriations and estimated revenues by \$7,500 in the Police Miscellaneous Grants Fund for Fiscal Year 2013.

Action: Approved the recommendations (June 18, 2013, report from the Police Chief).

6. Subject: Contract with Building Electronics Controls, Inc. for Airport Access Control System Maintenance (560.01)

Recommendation: That Council:

- A. Find it in the City's best interest to waive the formal bid process, as authorized by Municipal Code 4.52.070 L., and authorize the Airport Director to execute a two-year agreement with Building Electronics Controls, Inc. (BEC) in an amount not to exceed \$248,000 to maintain the Airport's Security System for Fiscal Years 2014 and 2015; and (Cont'd)

6. (Cont'd)

- B. Retroactively approve the payment of \$120,000 in Fiscal Year 2013 to BEC pursuant to a fifteen-month agreement ending June 30, 2013 approved by Council in April 2012 which inadvertently excluded the dollar amount to be paid in Fiscal Year 2013.

Action: Approved the recommendations; Agreement No. 24,531 (June 18, 2013, report from the Airport Director).

7. Subject: Proposed FY 2014 Airline Terminal Rates and Charges (560.01)

Recommendation: That Council approve airline rates and charges for the Airline Terminal, including annual Airline Terminal building space square footage rate of \$87; a boarding bridge fee of \$56 per turn; and landing fee of \$3.46 per thousand pounds of gross landed weight effective July 1, 2013 through June 30, 2014.

Action: Approved the recommendation (June 18, 2013, report from the Airport Director).

8. Subject: Santa Barbara South Coast Tourism Business Improvement District Annual Report (290.00)

Recommendation: That Council receive the Annual Report from the Santa Barbara South Coast Tourism Business Improvement District.

Action: Approved the recommendation (June 18, 2013, report from the Finance Director).

9. Subject: Agreement With Easy Lift Transportation For Paratransit Services (510.04)

Recommendation: That Council authorize the Public Works Director to execute a four-year Agreement with Easy Lift Transportation, Incorporated, for paratransit services for elderly and mobility-impaired people in an amount not to exceed \$229,416.73 for Fiscal Year 2014, with an annual adjustment based on the Consumer Price Index and the availability of Measure A funds.

Action: Approved the recommendation; Agreement No. 24,532 (June 18, 2013, report from the Public Works Director).

10. Subject: Animal Control Shelter Services Agreement With The County Of Santa Barbara (520.05)

Recommendation: That Council authorize the Chief of Police or his designee to execute an agreement with the County of Santa Barbara to provide animal control shelter services from July 1, 2013 to June 30, 2015.

Speakers:

Staff: City Administrator James Armstrong.

Action: Approved the recommendation; Agreement No. 24,533 (June 18, 2013, report from the Police Chief).

11. Subject: Agreement With The Santa Barbara Metropolitan Transit District For Transit Services (150.05)

Recommendation: That Council authorize the Public Works Director to execute a four-year Agreement with the Santa Barbara Metropolitan Transit District, in a form acceptable to the City Attorney, for transit services in an amount not to exceed \$1,148,180 for Fiscal Year 2014, with annual adjustments based on the Consumer Price Index and the availability of Measure A funds.

Speakers:

Staff: Transportation Manager Browning Allen.

Action: Approved the recommendation; Agreement No. 24,534 (June 18, 2013, report from the Public Works Director).

NOTICES

12. The City Clerk has on Thursday, June 13, 2013, posted this agenda in the Office of the City Clerk, on the City Hall Public Notice Board on the outside balcony of City Hall, and on the Internet.
13. Receipt of communication advising of vacancy created on the Civil Service Commission with the resignation of Gabriel Garcia; the vacancy will be part of the next City Advisory Groups recruitment.

This concluded the Consent Calendar.

CITY COUNCIL ADMINISTRATIVE AND ATTORNEY REPORTS

FINANCE DEPARTMENT

14. Subject: Adoption Of The Two-Year Financial Plan For Fiscal Years 2014 And 2015 And The Operating And Capital Budget For Fiscal Year 2014 (230.05)

Recommendation: That Council adopt, by reading of title only:

- A. A Resolution of the Council of the City of Santa Barbara Adopting the Two-Year Financial Plan for Fiscal Years 2014 and 2015;
- B. A Resolution of the Council of the City of Santa Barbara Adopting the Budget for the Fiscal Year 2014 by Appropriating Moneys for the Use and Support of Said City from the Funds and to the Purposes Herein Specified;
- C. A Resolution of the Council of the City of Santa Barbara Establishing the City's Appropriation Limitation for Fiscal Year 2014;
- D. A Resolution of the Council of the City of Santa Barbara Establishing Certain City Fees, and Rescinding Resolution No. 12-041;
- E. A Resolution of the Council of the City of Santa Barbara Establishing A Public, Education, And Government Access Fee On State Franchised Video Service Providers For Use In Providing Public, Educational, And Government Access Video Services And Rescinding Resolution No. 10-100;
- F. A Resolution of the Council of the City of Santa Barbara Authorizing Classified and Unclassified Positions in the City's Service Effective July 1, 2013, and Providing a Schedule of Classifications and Salaries for the Same in Accordance with the Operating Budget for the 2014 Fiscal Year;
- G. A Resolution of the Council of the City of Santa Barbara Authorizing the Continuation of Capital and Special Project Appropriations to Fiscal Year 2014;
- H. A Resolution of the Council of the City of Santa Barbara for Paying and Reporting the Value of Employer-Paid Member Contributions (EPMC) for Regular Miscellaneous Employees Effective June 15, 2013;
- I. A Resolution of the Council of the City of Santa Barbara for Employer-Paid Member Contributions for Hourly Employees Effective June 15, 2013; and
- J. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Extending the Terms of the 2012-2013 Memorandum of Understanding Between the City of Santa Barbara and the Santa Barbara City Supervisory Employees' Bargaining Unit (Supervisors' Unit), the 2012-2013 Salary Plan Applicable to Unrepresented Managers and Professional Attorneys (Including the City Administrator and City Attorney), and the 2012-2013 Salary Plan Applicable to Certain Unrepresented Safety Managers, Adopted By Ordinance No. 5587, Until June 30, 2015 and Providing Salary Increases Consistent with the Two-Year Financial Plan.

(Cont'd)

14. (Cont'd)

Documents:

- June 18, 2013, report from the Finance Director.
- Proposed Resolutions.
- Proposed Ordinance.
- PowerPoint presentation prepared and made by Staff.

The titles of the resolutions and ordinance were read.

Speakers:

Staff: Finance Director Robert Samario, City Administrator James Armstrong.

Motion:

Councilmembers House/White to approve recommendations A – J; Resolution Nos. 13-045 – 13-053, with the exception of the Harbor Waterfront Slip Fee portion of Resolution No. 13-048 (Recommendation D).

Vote:

Unanimous roll call vote.

Councilmembers Rowse and White stated they would abstain from voting on the approval of the Harbor Waterfront slip fee section of Resolution No. 13-048 due to conflicts of interest related to their rental of Harbor slips.

Motion:

Councilmembers House/Murillo to approve that portion of the schedule attached to Resolution No. 13-048 related to Harbor Waterfront Slip Fees.

Vote:

Unanimous roll call vote (Abstentions: Councilmembers Rowse, White).

PUBLIC HEARINGS

15. **Subject: Proposed Historic District Designation Of El Encanto Hotel Site At 800 Alvarado Place (Formerly 1900 Lasuen Road) (640.06)**

Recommendation: That Council:

- A. Introduce and subsequently adopt, by reading of title only, An Ordinance of the City Council of the City of Santa Barbara Amending Title 22 of the Santa Barbara Municipal Code With Respect to Historic Resources and the El Encanto Hotel Property and its Designation as a City Historic District; and
- B. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Designating El Encanto Hotel Site at 800 Alvarado Place (Formerly 1900 Lasuen Road) as a City Historic District.

(Cont'd)

15. (Cont'd)

Documents:

- June 18, 2013, report from the Community Development Director.
- Proposed Resolution.
- Proposed Ordinance.
- PowerPoint presentation prepared and made by Staff.
- Affidavit of Publication.

The titles of the resolution and ordinance were read.

Public Comment Opened:

2:30 p.m.

Speakers:

- Staff: Urban Historian Nicole Hernandez.
- Applicant: Laura McIver, General Manager, El Encanto Hotel.

Public Comment Closed:

2:41 p.m.

Motion:

Councilmembers White/Francisco to approve the recommendations;
Resolution No. 13-054.

Vote:

Unanimous roll call vote.

16. Subject: 2013 Citywide Zoning And General Plan Map Amendments (640.09)

Recommendation: That Council:

- A. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Adopting 2013 Citywide Amendments to the General Plan Map and Making Environmental Findings Pursuant to the California Environmental Quality Act; and
- B. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Amending All of the Zoning Sectional Maps in Chapter 28.12 of the Santa Barbara Municipal Code.

Documents:

- June 18, 2013, report from the Community Development Director.
- Proposed Resolution.
- Proposed Ordinance.
- PowerPoint presentation prepared and made by Staff.
- Affidavit of Publication.
- June 17, 2013, email from Christine Nail.

(Cont'd)

16. (Cont'd)

The titles of the resolution and ordinance were read.

Public Comment Opened:
2:48 p.m.

Speakers:
Staff: City Planner Bettie Weiss, Project Planner Beatriz Gularte, City Attorney Stephen Wiley.

Public Comment Closed:
3:25 p.m.

Motion:
Councilmembers White/House to approve Recommendation A and to introduce the proposed ordinance referred to in Recommendation B, excluding Sections 8 and 9 of the ordinance; Resolution No. 13-055.

Vote:
Unanimous roll call vote.

Mayor Schneider announced that she would abstain from voting on the approval of Sections 8 and 9 of the proposed ordinance due to a potential conflict of interest related to the proximity of her residence to the area.

Motion:
Councilmembers White/House to introduce a separate ordinance that includes only Sections 8 and 9 of the proposed ordinance.

Vote:
Unanimous voice vote (Abstention: Mayor Schneider).

COUNCILMEMBER COMMITTEE ASSIGNMENT REPORTS

Information:

- Councilmember Rowse reported on his attendance at a recent joint meeting of the Downtown Parking Committee and the Transportation and Circulation Committee, where they received a presentation on Bike Station Services.
- Councilmember Murillo reported on her attendance at:
 - Meeting of youth service providers of the South Coast Task Force on Youth Gangs where plans for an upcoming summit were discussed;
 - Housing Authority's Father's Day BBQ; and
 - A Convention of the Association of University Women.
- Councilmember Hotchkiss spoke regarding a tour he had taken of the Summer Solstice Workshop and encouraged residents to attend the Parade and Festival.

RECESS

Mayor Schneider recessed the meeting at 3:35 p.m. in order for the Council to reconvene in closed session for Agenda Item Nos. 17, 18, 19, and 20 and said that no reportable action is anticipated. Councilmember White stated that he has a potential conflict of interest related to the property under discussion in Item No. 20, and therefore he would not be participating in the discussion on that item.

CLOSED SESSIONS

17. Subject: Conference With Legal Counsel - Pending Litigation (160.03)

Recommendation: That Council hold a closed session to consider pending litigation pursuant to subsection (a) of section 54956.9 of the Government Code and take appropriate action as needed. Pending litigation considered is: *John Ornelas v. City of Santa Barbara*, WCAB case numbers ADJ7425168 & ADJ7594280.

Scheduling: Duration, 10 minutes; anytime

Report: None anticipated

Documents:

June 18, 2013, report from the Finance Director.

Time:

3:40 p.m. – 3:45 p.m.

No report made.

18. Subject: Conference With Legal Counsel - Pending Litigation (160.03)

Recommendation: That Council hold a closed session to consider pending litigation pursuant to subsection (a) of section 54956.9 of the Government Code and take appropriate action as needed. Pending litigation considered is a workers' compensation claim: *Gary Kerwood v. City of Santa Barbara*, WCAB case number Unassigned.

Scheduling: Duration, 10 minutes; anytime

Report: None anticipated

Documents:

June 18, 2013, report from the Finance Director.

Time:

3:45 p.m. – 3:50 p.m.

No report made.

19. Subject: Conference With Labor Negotiator (440.05)

Recommendation: That Council hold a closed session, per Government Code Section 54957.6, to consider instructions to City negotiator Kristy Schmidt, Employee Relations Manager, regarding negotiations with the Police Bargaining Unit, and the General Bargaining Unit, and regarding discussions with certain unrepresented employees and managers about salaries and fringe benefits.

Scheduling: Duration, 30 minutes; anytime

Report: None anticipated

Documents:

June 18, 2013, report from the Assistant City Administrator.

Time:

3:50 p.m. – 4:25 p.m.

No report made.

20. Subject: Conference with Real Property Negotiators (330.03)

Recommendation: That Council hold a closed session pursuant to Government Code Section 54956.8 to consider the possible dedication of a vehicular access easement over City-owned property on East Mountain Drive:

Real Property: A portion of East Mountain Drive commonly known as Gould Park, Santa Barbara, California, APN 011-010-002.

City Negotiators: David Thornburgh, Senior Real Property Agent; Stephen P. Wiley, City Attorney; N. Scott Vincent, Assistant City Attorney.

Negotiating Parties: Michael and Robert White, successor trustees to the Roderick White Trust.

Under Negotiation: Price and terms of transfer of an easement over City-owned real property.

Scheduling: Duration: 20 Minutes; anytime

Report: None anticipated

Documents:

June 18, 2013, report from the City Attorney.

Time:

4:25 p.m. – 5:55 p.m. Councilmember White was absent.

No report made.

RECESS

5:55 p.m. to 6:00 p.m.

Mayor Schneider presiding.

Councilmembers present: Francisco (6:03 p.m.), Hotchkiss, House (6:03 p.m.), Murillo, Rowse, White, Mayor Schneider.

Councilmembers absent: None.

Staff present: City Administrator Armstrong, City Attorney Wiley, City Clerk Services Manager Peirce.

PUBLIC COMMENT

No one wished to speak.

MAYOR AND COUNCIL REPORTS

22. Subject: Interviews For City Advisory Groups (140.05)

Recommendation: That Council hold interviews of applicants to various City Advisory Groups.

(Continued from June 4, 2013)

Documents:

June 18, 2013, report from the Assistant City Administrator.

Speakers:

The following applicants were interviewed:

Airport Commission:

- Craig Arcuri
- William Nelson

Community Events & Festivals Committee:

Brittany Heaton

Historic Landmarks Commission:

Craig Shallenberger

Neighborhood Advisory Council:

Brittany Heaton

Parks & Recreation Commission:

Megan Alley

Santa Barbara Youth Council:

- Angela Penza
- Wei-Joan Udden
- Alyse Adams
- Andrew Rodriguez
- Sarah Douglas
- Jacqueline Cabral
- Marissa Hernandez

(Cont'd)

22. (Cont'd)

Speakers (Cont'd):

Santa Barbara Youth Council (Cont'd):

- Joanna Alvarez
- Nicholas Mayner

ADJOURNMENT

Mayor Schneider adjourned the meeting at 6:55 p.m.

SANTA BARBARA CITY COUNCIL

SANTA BARBARA
CITY CLERK'S OFFICE

HELENE SCHNEIDER
MAYOR

ATTEST:

GWEN PEIRCE, CMC
CITY CLERK SERVICES MANAGER



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 02, 2013

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Statement Of Investment Policy And Delegation Of Investment Authority For Fiscal Year 2014

RECOMMENDATION:

That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Adopting the Investment Policy for the City and Rescinding Resolution No. 12-047.

DISCUSSION:

California Government Code (State Code) Section 53600 establishes legally permitted investments for local governments statewide. While not required by the State Code, each year the City Council adopts a Statement of Investment Policy, which further defines the suitable and authorized investments specifically for the City. In some cases, the City's policy is more restrictive than the State Code. Moreover, the policy serves as a guide for setting and achieving the City's own investment objectives and defines guidelines for the management of the portfolio.

Except for County governments, the State Code does not contain any provisions specifying what must be included in the investment policy of a local agency. The City has developed a comprehensive investment policy that includes all critical components recommended by various professional agencies and organizations, and the policy has been awarded several certifications. Therefore, staff recommends that the policy be updated annually to incorporate any statutory and/or internal policy changes, thereby maintaining this standard of excellence.

If a local agency's policy is submitted to the legislative body, it must be an agenda item at a public meeting and should be approved by a vote of the legislative body no later than the end of the first quarter of the year to which it applies.

Staff Recommended Changes

Revisions to the annual investment policy are made each year, as needed, to incorporate policy or statutory changes affecting the City's investment program and daily investing activities. Policy revisions are generally technical in nature, such as

process changes or language clarifications. Statutory changes are changes in state law affecting allowable investments or procedures related to investing activities.

The only change recommended relates to the elimination of the City's Redevelopment Agency as a result of State law. Specifically, the policy was updated and the reference to the Santa Barbara Redevelopment Agency has been removed.

There is sufficiently broad language in the policy to allow for any changes that may occur during the year to be accommodated on an administrative basis rather than a formal revision to the policy. The policy, as submitted, contains no administrative changes that were made since the policy was adopted by Council in June 2012.

By separate action, Council formally delegates authority to the City Treasurer to invest and reinvest funds and to sell or exchange securities for a one-year period, as specified on page 3 of the proposed Investment Policy. Management and oversight of the investment program is delegated to the Finance Director. The Treasury Manager is authorized to conduct daily investment activities under supervision of the Finance Director. All investment purchases and sales require signature approval from the Finance Director or City Administrator by the close of business on the next business day following the purchase or sale.

PREPARED BY: Genie Wilson, Treasury Manager

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF
SANTA BARBARA ADOPTING THE INVESTMENT
POLICY FOR THE CITY AND RESCINDING
RESOLUTION NO. 12-047

WHEREAS, the City Council adopted Resolution Nos. 85-065 and 85-121, establishing a policy regarding the investment of City funds;

WHEREAS, the Council last reaffirmed the policy by adopting Resolution No. 12-047; and

WHEREAS, the City of Santa Barbara has consistently maintained a policy of due diligence and the minimizing of risk in the investment of City funds.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA AS FOLLOWS:

SECTION 1. The attached Exhibit, City of Santa Barbara Statement of Investment Policy, is hereby adopted and made a part of this resolution.

SECTION 2. Resolution No. 12-047 is hereby rescinded.

Adopted: July 2, 2013



**City of Santa Barbara
Finance Department**

Statement of Investment Policy

Fiscal Year 2014

City of Santa Barbara
ANNUAL STATEMENT OF INVESTMENT POLICY
Fiscal Year 2014

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City of Santa Barbara
ANNUAL STATEMENT OF INVESTMENT POLICY
Fiscal Year 2014

I. MISSION STATEMENT

It is the policy of the City to invest public funds in a manner that will provide maximum security, adequate liquidity and sufficient yield, while meeting the daily cash flow demands of the City and conforming to all statutes and regulations governing the investment of public funds.

II. SCOPE

This investment policy applies to all the financial assets of City of Santa Barbara. These funds are accounted for in the City's audited Comprehensive Annual Financial Report. If the City invests funds on behalf of another agency and, if that agency does not have its own policy, the City's investment policy shall govern the agency's investments.

A. Pooling of Funds

Except for cash in certain restricted and special funds, the City shall consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to various funds as identified in the investment procedures manual in accordance with generally accepted accounting principles.

B. Funds Included by this Policy

General Fund

Special Revenue Funds

Capital Project Funds

Enterprise Funds

Internal Service Funds

Trust and Agency Funds

Any new fund created by City Council unless specifically exempted

C. Funds Excluded from this Policy

1. City's Service Retirement System Fund. This fund is managed separately under Article XVA of the 1926 Charter.

2. Bond Proceeds. Investment of bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this policy. Bond investment conditions and restrictions shall be reviewed by the Finance Committee and forwarded to City Council for approval.

III. GENERAL OBJECTIVES

The primary objectives, in priority order, of the City's investment activities are safety, liquidity and yield.

City of Santa Barbara
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A. Safety

Preservation of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk. To attain this objective, the City shall diversify its investments by investing funds among several financial institutions and a variety of securities offering independent returns.

1. Credit Risk

The City shall minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the safest types of securities
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business
- Diversifying the investment portfolio so as to minimize the impact any single industry/investment class can have on the portfolio

2. Interest Rate Risk

To minimize the negative impact of material changes in the market value of securities in the portfolio, the City shall:

- Structure the investment portfolio so that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity
- Invest operating funds primarily in shorter-term securities, money market mutual funds, and the State of California's Local Agency Investment Fund (LAIF)

B. Liquidity

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated without requiring a sale of securities. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or LAIF which offer same-day liquidity for short-term funds.

C. Yield (Return on Investment)

The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the liquidity characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

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IV. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by City investment officials shall be the “Prudent Investor Standard” in that a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of an enterprise of a like character and with like aims. This standard shall be applied in the context of managing the overall portfolio. City investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

B. Ethics and Conflicts of Interest

Officers and employees involved in the City investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. City employees and investment officials shall disclose any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City immediately to the City of Santa Barbara Treasurer and annually to the Fair Political Practices Commission. City employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

C. Delegation of Authority

Authority to manage the City's investment program is derived from the Charter of the City of Santa Barbara. City Council shall delegate to the Treasurer, for a 1-year period, the authority to invest or to reinvest funds, or to sell or exchange securities. The Treasurer shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires.

Management responsibility for the investment program is delegated to the Finance Director who shall establish a separate written investment procedures manual. The operation of the investment program shall be consistent with this policy and the investment procedures manual. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Treasury Manager is authorized to conduct investment related activities, under the supervision of the Director of Finance, on behalf of the City and the Redevelopment Agency. All investment purchases and sales require signature approval from the Finance Director or the Assistant Finance Director, by the close of business on the next business day following the purchase or sale.

City of Santa Barbara
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The following documents are by reference incorporated in the investment procedures manual:

1. Listing of authorized personnel
2. Relevant investment statutes and ordinances
3. Repurchase agreements and tri-party agreements
4. Listing of authorized broker/dealers and financial institutions
5. Credit ratings and/or reports for securities purchased and financial institutions used
6. Safekeeping agreements
7. Sample investment reports
8. Investment accounting documents
9. Methodology for calculating rate of return
10. Banking services contracts
11. Cash flow forecasting
12. Collateral/depository agreements

D. Internal Controls

The Finance Director is responsible for establishing and maintaining a system of written internal controls. These controls shall be reviewed annually with an independent external auditor who will notify the City Council if there is a material non-compliance with its policies and procedures. The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by City employees and officers. The internal structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points:

1. Control of collusion
2. Separation of transaction authority from accounting and record-keeping
3. Custodial safekeeping
4. Delivery versus payment (DVP)
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Wire transfer agreements

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V. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director shall establish selection criteria for pre-approval of financial institutions and security broker/dealers to do business with the City of Santa Barbara. The Finance Director shall maintain a list of City approved financial institutions and security broker/dealers who are authorized to provide investment services to the City. These may include primary dealers, or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). To qualify for consideration, a financial institution or a security broker/dealer must also have an office in California and that office must perform the transactions with the City.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following to the Finance Director as appropriate:

- Current audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA), formerly National Association of Security Dealers (NASD), certification
- Trading resolution
- Complete broker/dealer questionnaire
- Proof of State of California registration
- For banking institutions, a statement of compliance with the Federal Reserve Bank of New York's capital guideline
- Statement of having read, understood and agreeing to comply with the City's investment policy and depository contracts

The Finance Director shall annually review each of the approved financial institutions and security broker/dealers selected for current State of California registrations and financial condition.

VI. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis which will ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities shall be held by a third-party custodian designated by the Finance Director and evidenced by safekeeping receipts with a written custodial agreement. The only exception to the foregoing shall be depository accounts and securities purchases made with: LAIF, time certificates of deposit, and money market mutual funds, since the purchased securities are not deliverable. Settlement instructions sent to the safekeeping agent shall require dual authorization. The Treasurer and the Finance Director shall be bonded to protect the public against possible embezzlement and malfeasance. Safekeeping procedures shall be reviewed annually by an independent external auditor and any irregularities noted should be reported promptly to the Treasurer and City Council.

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VII. SUITABLE AND AUTHORIZED INVESTMENTS

The City shall be governed by the California Government Code, Sections 53600 et seq. If the Code is amended to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to the changes in the revised Code, provided that the changes are not specifically prohibited by the City's policy. The City shall be required to present those changes in the annual review of the policy and to incorporate the new legislation within the policy. Surplus funds are defined as funds not required for the immediate necessities of the City and include investments in individually managed portfolio(s), money market fund(s) and/or State LAIF, and all portfolio limitations and restrictions shall apply to this aggregate amount. For purposes of compliance with the California Government Code and the City's Investment Policy, the credit rating requirement for medium-term notes, deposit notes, bank notes and commercial paper shall be based on the quality ratings at the time of purchase. If the quality rating of the issuer is downgraded, subsequent to purchase, by any of the Nationally Recognized Statistical-Rating Organizations below "A", or its equivalent, it shall be reported to the Finance Committee and City Council with a recommendation, and ongoing information shall be provided if the bond is not sold. Percentage limitations of surplus funds invested are noted for the various investment instruments. Where there is a specified percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction.

The City is empowered by statute to invest in the following types of securities and are those that the investment managers are trained and competent to handle.

A. Investment Types

1. Bonds, notes, or other forms of indebtedness issued by the City, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the local agency.
2. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
3. Federal Agency or United States government-sponsored enterprise obligations (GSE), participations, or other instruments.
4. State of California and Local Agency Obligations. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state; and bonds, notes, warrants, or other evidence of indebtedness of any local agency within this state including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Notes eligible for investment, other than those issued by the City or operated by a department, board, agency, or authority of the local agency, shall be rated in a

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category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.

5. Medium-Term Notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of 5 years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases of medium-term notes may not exceed 30 percent of the City's surplus funds. Notes eligible for investment shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations. Investments in medium-term notes for any single non-government issuer shall be limited to no more than 5 percent of surplus funds for issuers rated "AA" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations, and to no more than 3 percent for issuers rated "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.
6. Bankers Acceptances otherwise known as bills of exchange or time drafts, drawn on and accepted by a commercial bank, which are eligible for purchase by the Federal Reserve System. Purchased bankers acceptances may not exceed 180 days maturity or 40 percent of the City's surplus funds, and no more than 10 percent of the City's surplus funds may be invested in the bankers' acceptances of any single commercial bank.
7. Commercial Paper of "prime" quality of the highest ranking or the highest letter and number rating as provided for by a Nationally Recognized Statistical-Rating Organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):
 - a. The entity is organized and operating in the United States as a general corporation and has total assets in excess of \$500,000,000. In addition, its debt other than commercial paper, if any, must be rated "A" or higher by a Nationally Recognized Statistical-Rating Organization.
 - b. The entity is organized within the United States as a special purpose corporation, trust, or limited liability company and has a program wide credit enhancement including, but not limited to, over collateralization, letters of credit, or surety bond. In addition, the entity has commercial paper that is rated "A-1" or higher, or the equivalent, by a Nationally Recognized Statistical-Rating Organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less. The City may not invest more than 25 percent of its surplus funds in commercial paper, and the City may purchase no more than 10 percent of the outstanding eligible commercial paper of any single issuer.

8. Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or savings association or federal association or a state or federal credit union or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 15 percent of the City's surplus money invested and shall be limited to no more than 3 percent of any single issuer.

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Deposit notes and bank notes purchased through a broker or dealer shall be included with negotiable certificates of deposit in calculating allowable maximum percentages. Negotiable certificates of deposit, deposit notes and bank notes shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.

9. Time Deposits. The City may invest in non-negotiable Certificates of Deposit at commercial banks and savings and loan associations that are collateralized in accordance with the California Government Code. To be eligible to receive City funds, the depository institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation of its record of meeting the credit needs of California's communities, including low and moderate-income neighborhoods. In selecting depositories, the credit worthiness of institutions shall be considered. Banks and Savings and Loan Associations seeking to establish an investment relationship with the City shall submit an audited financial report that shall be reviewed for compliance with the City's investment standards. Any institution not providing an audited annual financial report shall be removed from the approved list and all funds maturing will be withdrawn. A list of eligible institutions shall be maintained in the investment procedures manual. Qualification shall be determined by the following criteria:
 - a. Tangible capital must equal or exceed 1.5 percent; core capital must equal or exceed 4 percent; and, risk-based capital must equal 8 percent of assets adjusted for assigned risk-weightings.
 - b. Return on Assets of a minimum of 0.5 percent; a Return on Equity of a minimum of 8 percent; an Equity to Assets Ratio of a minimum of 5 percent; and, City investments shall be no greater than 0.5 percent of the total assets of the depository.
 - c. Independent auditor's statement must have a clean opinion.
10. Savings accounts. Savings accounts when used in conjunction with the City's checking accounts at a qualified bank where funds are collateralized in accordance with the California Government Code.
11. U. S. Government money market funds registered with the Securities and Exchange Commission and which comply with rule 2a7 of the Investment Company Act of 1940. The fund must be comprised of only U.S. Treasury bills, notes and bonds, repurchase agreements and obligations issued or guaranteed as to principal and interest by the U.S. Government or its agencies or instrumentalities. The percentage of repurchase agreements in the fund shall be reviewed and approved based on the fund's policy limits. The dollar weighted average maturity of the portfolio shall be less than 90 days and the portfolio is managed to maintain a \$1.00 share price. Also, the fund shall meet either of the following criteria: (a) attained the highest ranking or the highest letter and numerical rating provided by not less than two Nationally Recognized Statistical-Rating Organizations; (b) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years' experience managing

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money market mutual funds with assets under management in excess of \$500,000,000. Purchase of securities authorized by this section shall not exceed 20 percent of the City's surplus money invested and no more than 10 percent may be invested in any single money market fund.

12. Repurchase Agreements. Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by the Code, so long as the proceeds of the repurchase agreement are invested solely to supplement the income normally received from these securities. The City shall adopt as a standard the Bond Market Association Master Repurchase Agreement and shall maintain a list of approved counterparts and limit counter parties to primary dealers rated "A" or better by two Nationally Recognized Statistical-Rating Organizations. Reverse repurchase agreements and securities lending agreements shall require City Council authorization separate from City Council approval of this policy. Securities lending agreements shall include the following safeguard measures: terms of lending agreements, indemnification provisions, reinvestment guidelines, liquidity provisions, credit risks and monitoring requirements. Additionally, any securities lending agreement shall be reviewed by the City Attorney to ensure the City's interests are properly protected.
 - a. Investments in repurchase agreements may be made, on any authorized investment, when the term of the agreement does not exceed 1 year.
 - b. Reverse repurchase agreements or securities lending agreements may be utilized when the security to be sold on the reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the City for a minimum of 30 days prior to sale; the total of all reverse repurchase agreements on investments owned by the City does not exceed 20 percent of the base value of the portfolio; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
13. Local Agency Investment Fund (LAIF). The City may invest in LAIF, established by the California State Treasurer, up to the \$50,000,000 maximum permitted by State law, effective November 16, 2009; therefore, there is a \$50,000,000 limit for the City of Santa Barbara. The City's investment in LAIF is based on, among other criteria, the following information provided by LAIF: a written statement of portfolio management goals, objectives and policies, including a description of eligible investment securities; a disclosure of LAIF's safekeeping practices; eligible LAIF participants, the monthly transaction limit, and minimum and maximum deposit and withdrawal amounts permitted; calculation of quarterly earnings and apportionment, including gains and losses; disclosure of administrative costs and the assessment process; monthly statements of the City's

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transaction activity and balances; monthly summaries of LAIF investment data, including market valuation and accrued interest; and a description of the audit process. At least quarterly, the Finance Director shall report to the Finance Committee on the composition of the LAIF portfolio.

The California Government Code states that moneys placed for deposit in LAIF are in trust in the custody of the State Treasurer and cannot be borrowed or be withheld from the City. Further, the right of the City to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any state official or agency based upon the State's failure to adopt a budget by July 1 of each new fiscal year.

B. Collateralization

Collateralization shall be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. A collateral agreement must be current and on file before any funds can be transferred for collateralized certificates of deposit. Collateral shall be held by an independent third party with whom the City has a current written custodial agreement. A clearly marked evidence of ownership (*safekeeping receipt*) must be supplied to the City and retained. The right of collateral substitution is granted.

1. Certificates of Deposit

- a. Government Securities used as collateral require 102 percent of market value to the face amount of the deposit
- b. Promissory Notes secured by first trust deeds used as collateral require 150 percent of market value to the face amount of the deposit
- c. Irrevocable Letters of Credit issued by the Federal Home Loan Bank of San Francisco require 105 percent of market value to the face amount of the deposit

2. Repurchase and Reverse Repurchase Agreements

- a. Only U.S. Treasury securities or Federal Agency securities are acceptable collateral. All securities underlying repurchase agreements must be delivered to the City's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of the total dollar value of the money invested by the City for the term of the investment. For any repurchase agreement with a term of more than 1 day, the value of the underlying securities must be reviewed on an ongoing basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

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- b. The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to the repurchase agreement.

C. Investments Not Approved

Any security type or structure not specifically approved by this policy is hereby prohibited. Security types, which are thereby prohibited include, but are not limited to: investment pools (except State LAIF), shares of beneficial interest issued by diversified management companies (except U. S. Government money market funds), collateralized mortgage obligations (CMO's), mortgage pass-through securities, reverse repurchase agreements used as a leveraging vehicle, "exotic" derivatives structures such as range notes, dual index notes, inverse floating-rate notes, leveraged or de-leveraged floating-rate notes, interest-only strips that are derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, or any other complex variable or structured note with an unusually high degree of volatility or risk.

D. Exceptions to Prohibited and Restricted Investments

The City shall not be required to sell securities prohibited or restricted in this policy, or any future policies, or prohibited or restricted by new State regulations, if purchased prior to their prohibition and/or restriction. Insofar as these securities provide no notable credit risk to the City, holding of these securities until maturity is approved. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

VIII. INVESTING PARAMETERS

A. Diversification

The City shall diversify its investments by security type, issuer, maturity, and financial institutions. No percentage limitations are established for United States government, United States government agencies and United States government sponsored enterprises; however percentage limitations are established for other permitted investments, as noted in Section VII of this policy. The investments shall be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), limiting investment in securities that have higher credit risks, and investing in securities with varying maturities.

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. To control market price risks, volatile investment instruments shall be avoided. To control risks of illiquidity, a minimum of 10 percent of the total portfolio shall be held in

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highly marketable U.S. Treasury Bills and Notes and/or the State of California Local Agency Investment Fund and/or Money Market Funds and/or securities maturing within 90 days.

B. Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Where there is no specified maturity limitation on an investment, no investment shall be made in any security, which, at the time of the investment, has a term remaining to maturity in excess of 5 years, unless the City Council has granted express authority to make that investment no less than 3 months prior to the investment.

In addition to the 5 year limitation on investments specified in this policy, the average maturity of the City's combined portfolio shall not exceed 2.5 years without prior approval of the City Council.

IX. REPORTING

The Treasurer shall submit investment reports to the City Council that provide a clear picture of the status of the current investment portfolio and shall contain sufficient information to permit an independent organization to evaluate the performance of the investment program. Based on the discretion of Finance Committee, an independent advisor may be contracted, from time to time to perform one or more of the following functions: confirm that the portfolio is in compliance with the Government Code of the State of California and with the Statement of Investment Policy of the City of Santa Barbara; present an evaluation of the portfolio and investment strategy recommendations; and, provide any other information that may be helpful to Finance Committee in their review of the portfolio.

A. Monthly Reporting to City Council

The Treasurer shall submit to City Council, within 30 days following the end of the month, an investment report that summarizes all securities in the portfolio and a separate listing of investment transactions occurring during the month. The report shall be prepared by the Treasury Manager and approved by the Finance Director. The report shall include:

1. Investment type
2. Purchase date
3. Maturity date
4. Credit quality
5. Coupon and yield
6. Book value
7. Market value
8. Book gain/loss

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9. Market gain/loss
10. Source of valuation
11. Average days to maturity
12. Variable rate(s) or call features

B. Quarterly Reporting to City Council

In addition to the components required in the monthly investment report, a narrative shall accompany the portfolio report addressing noteworthy items, deviations from the investment policy, comments on the fixed income markets and economic conditions, possible changes in the portfolio going forward, and thoughts on investment strategies. The quarterly report shall also include a statement of compliance with the investment policy and a statement of the ability to meet expenditures for the next 6 months (or an explanation as to why sufficient money shall, or may, not be available).

C. Performance Standards

The investment portfolio shall be managed in accordance with the parameters specified within this policy and always with consistently safe and prudent treasury management. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit sold early to minimize loss of principal
- A security swap that would improve the quality, yield, or target duration in the portfolio
- Unforeseen liquidity needs of the portfolio require that the security be sold

1. Market Yield (Benchmark)

The City's overall investment strategy is passive: investments are generally held to maturity. The quarter-to-date LAIF apportionment rate, the 3-month U.S. Treasury Bill and the 2-year U.S. Treasury Note shall also be considered useful benchmarks of the City's portfolio performance.

2. Marking to Market

The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed. In defining market value, consideration shall be given to pronouncements from the Government Accounting Standards Board (GASB) that address the reporting of investment assets and investment income for all investment portfolios held by governmental entities. The fair value of all securities reported in the City's portfolio is based on currently quoted market prices.

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X. INVESTMENT POLICY COMPLIANCE AND ADOPTION

A. Policy Compliance and Changes

Any deviation from the policy shall be reported to Finance Committee at the next scheduled meeting and to City Council as part of the monthly review of the portfolio. The Treasurer shall promptly notify Finance Committee and City Council of any material change in the policy and any modifications to the policy must be approved by Finance Committee and City Council.

B. Annual Statement of Investment Policy

The Treasurer shall render a written Statement of Investment Policy that shall be reviewed at least annually by Finance Committee and City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. City Council shall consider the annual Statement of Investment Policy and any changes therein at a public meeting. The Statement of Investment Policy shall be adopted by resolution of City Council.

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GLOSSARY OF INVESTMENT TERMS

AGENCY: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government (i.e. Government National Mortgage Association). Federally sponsored agencies (FSA's) are backed by each particular agency with a market perception that there is an implicit government guarantee (i.e. Federal National Mortgage Association).

ASK: The price at which securities are offered for sale; also known as offering price.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you *ask* for a bid.)

BOND PROCEEDS: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is often acquisition cost plus/minus amortization and accretion, which may differ significantly from the security's current value in the market.

BROKER: Someone who brings buyers and sellers together and is compensated for his/her service.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual financial report for a public agency. It includes combined statements for each individual fund combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and detailed statistical section.

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by a Nationally Recognized Statistical-Rating Organization.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

CURRENT YIELD (CURRENT RETURN): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, by buying and selling for his/her own account.

DELIVERY VERSUS PAYMENT: There are 2 methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment, also referred to as "cash on delivery", is

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delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DIVERSIFICATION: Dividing investment funds among a variety of security types by sector, maturity and quality ratings offering independent returns.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FAIR VALUE: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., savings and loan associations, small-business firms, students, farmers, farm co-operatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): The federal agency that insures bank deposits up to \$250,000 per deposit at participating banking institutions. In an effort to increase consumer confidence in the banking system, the previous \$100,000 insurance limit was temporarily increased to \$250,000 in 2008, extended to 2013, and then permanently increased on July 21, 2010 with the passage of the Wall Street Reform and Consumer Protection Act.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banks services to member commercial banks, thrift institutions, credit unions and insurance companies.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of 7 members of the Federal Reserve Board and 5 of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a 7 member Board of Governors in Washington, D.C., 12 Regional Banks and approximately 5,700 commercial banks that are members of the system.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers,

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commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INTERNAL CONTROLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

- **Control of collusion** - Collusion is a situation where 2 or more employees are working in conjunction to defraud their employer.
- **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
- **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
- **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): Chapter 730, Statutes of 1976 of the State of California, established the Local Agency Investment Fund. This fund enables local governmental

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agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account. Each local governmental unit has the exclusive determination of the length of time its money will be on deposit with the State Treasurer. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained therein. Prior to the distribution, the State's costs of administering the program are deducted from the earnings.

MARK-TO-MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK: The risk that the value of a security will increase or decrease as a result of changes in market conditions.

MARKET VALUE: The current price at which a security is trading and could presumably be purchased or sold at that particular point in time.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of a financial obligation is due and payable.

MONEY MARKET MUTUAL FUND: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

MUTUAL FUND: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission (SEC) disclosure guidelines.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NATIONALLY RECOGNIZED STATISTICAL-RATING ORGANIZATION (NRSRO): Standard and Poor's, Moody's, and Fitch Financial Services are examples of such organizations.

OFFER: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask" or "Ask Price".

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

PORTFOLIO: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

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PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks and a few unregulated firms.

PRINCIPAL: (1) The face amount or par value of a debt instrument. (2) One who acts as a dealer buying and selling for his own account.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REINVESTMENT RISK: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

REVERSE REPURCHASE AGREEMENT: An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specific date.

RISK: Degree of uncertainty of return on an asset.

RULE 2A-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of \$1.00.

SAFEKEEPING SERVICE: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection and security.

SECONDARY MARKET: A market is made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES LENDING: An agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises, (FLAB, FNMA, SLMA, etc.), and Corporations that have imbedded options, (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns), into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SWAP: Trading one asset for another.

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TREASURY BILLS: Short-term U.S. government non-interest bearing discounted debt securities with maturities of no longer than 1 year and issued in minimum denominations of \$10,000. Auctions of 3- and 6-month bills are weekly, while auctions of 1-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

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TREASURY BOND: A long-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of more than 10 years and issued in minimum denominations of \$1,000.

TREASURY NOTE: A medium-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of from 1 to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission (SEC) Rule 15C3-1 outlining requirements that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF
SANTA BARBARA ADOPTING THE INVESTMENT
POLICY FOR THE CITY AND RESCINDING
RESOLUTION NO. 12-047

WHEREAS, the City Council adopted Resolution Nos. 85-065 and 85-121, establishing a policy regarding the investment of City funds;

WHEREAS, the Council last reaffirmed the policy by adopting Resolution No. 12-047; and

WHEREAS, the City of Santa Barbara has consistently maintained a policy of due diligence and the minimizing of risk in the investment of City funds.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA AS FOLLOWS:

SECTION 1. The attached Exhibit, City of Santa Barbara Statement of Investment Policy, is hereby adopted and made a part of this resolution.

SECTION 2. Resolution No. 12-047 is hereby rescinded.

Adopted: July 2, 2013



**City of Santa Barbara
Finance Department**

Statement of Investment Policy

Fiscal Year 2014

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I. MISSION STATEMENT

It is the policy of the City to invest public funds in a manner that will provide maximum security, adequate liquidity and sufficient yield, while meeting the daily cash flow demands of the City and conforming to all statutes and regulations governing the investment of public funds.

II. SCOPE

This investment policy applies to all the financial assets of City of Santa Barbara. These funds are accounted for in the City's audited Comprehensive Annual Financial Report. If the City invests funds on behalf of another agency and, if that agency does not have its own policy, the City's investment policy shall govern the agency's investments.

A. Pooling of Funds

Except for cash in certain restricted and special funds, the City shall consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to various funds as identified in the investment procedures manual in accordance with generally accepted accounting principles.

B. Funds Included by this Policy

General Fund

Special Revenue Funds

Capital Project Funds

Enterprise Funds

Internal Service Funds

Trust and Agency Funds

Any new fund created by City Council unless specifically exempted

C. Funds Excluded from this Policy

1. City's Service Retirement System Fund. This fund is managed separately under Article XVA of the 1926 Charter.

2. Bond Proceeds. Investment of bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this policy. Bond investment conditions and restrictions shall be reviewed by the Finance Committee and forwarded to City Council for approval.

III. GENERAL OBJECTIVES

The primary objectives, in priority order, of the City's investment activities are safety, liquidity and yield.

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A. Safety

Preservation of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk. To attain this objective, the City shall diversify its investments by investing funds among several financial institutions and a variety of securities offering independent returns.

1. Credit Risk

The City shall minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the safest types of securities
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business
- Diversifying the investment portfolio so as to minimize the impact any single industry/investment class can have on the portfolio

2. Interest Rate Risk

To minimize the negative impact of material changes in the market value of securities in the portfolio, the City shall:

- Structure the investment portfolio so that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity
- Invest operating funds primarily in shorter-term securities, money market mutual funds, and the State of California's Local Agency Investment Fund (LAIF)

B. Liquidity

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated without requiring a sale of securities. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or LAIF which offer same-day liquidity for short-term funds.

C. Yield (Return on Investment)

The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the liquidity characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

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IV. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by City investment officials shall be the “Prudent Investor Standard” in that a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of an enterprise of a like character and with like aims. This standard shall be applied in the context of managing the overall portfolio. City investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

B. Ethics and Conflicts of Interest

Officers and employees involved in the City investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. City employees and investment officials shall disclose any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City immediately to the City of Santa Barbara Treasurer and annually to the Fair Political Practices Commission. City employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

C. Delegation of Authority

Authority to manage the City's investment program is derived from the Charter of the City of Santa Barbara. City Council shall delegate to the Treasurer, for a 1-year period, the authority to invest or to reinvest funds, or to sell or exchange securities. The Treasurer shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires.

Management responsibility for the investment program is delegated to the Finance Director who shall establish a separate written investment procedures manual. The operation of the investment program shall be consistent with this policy and the investment procedures manual. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Treasury Manager is authorized to conduct investment related activities, under the supervision of the Director of Finance, on behalf of the City and the Redevelopment Agency. All investment purchases and sales require signature approval from the Finance Director or the Assistant Finance Director, by the close of business on the next business day following the purchase or sale.

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The following documents are by reference incorporated in the investment procedures manual:

1. Listing of authorized personnel
2. Relevant investment statutes and ordinances
3. Repurchase agreements and tri-party agreements
4. Listing of authorized broker/dealers and financial institutions
5. Credit ratings and/or reports for securities purchased and financial institutions used
6. Safekeeping agreements
7. Sample investment reports
8. Investment accounting documents
9. Methodology for calculating rate of return
10. Banking services contracts
11. Cash flow forecasting
12. Collateral/depository agreements

D. Internal Controls

The Finance Director is responsible for establishing and maintaining a system of written internal controls. These controls shall be reviewed annually with an independent external auditor who will notify the City Council if there is a material non-compliance with its policies and procedures. The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by City employees and officers. The internal structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points:

1. Control of collusion
2. Separation of transaction authority from accounting and record-keeping
3. Custodial safekeeping
4. Delivery versus payment (DVP)
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Wire transfer agreements

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V. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director shall establish selection criteria for pre-approval of financial institutions and security broker/dealers to do business with the City of Santa Barbara. The Finance Director shall maintain a list of City approved financial institutions and security broker/dealers who are authorized to provide investment services to the City. These may include primary dealers, or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). To qualify for consideration, a financial institution or a security broker/dealer must also have an office in California and that office must perform the transactions with the City.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following to the Finance Director as appropriate:

- Current audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA), formerly National Association of Security Dealers (NASD), certification
- Trading resolution
- Complete broker/dealer questionnaire
- Proof of State of California registration
- For banking institutions, a statement of compliance with the Federal Reserve Bank of New York's capital guideline
- Statement of having read, understood and agreeing to comply with the City's investment policy and depository contracts

The Finance Director shall annually review each of the approved financial institutions and security broker/dealers selected for current State of California registrations and financial condition.

VI. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis which will ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities shall be held by a third-party custodian designated by the Finance Director and evidenced by safekeeping receipts with a written custodial agreement. The only exception to the foregoing shall be depository accounts and securities purchases made with: LAIF, time certificates of deposit, and money market mutual funds, since the purchased securities are not deliverable. Settlement instructions sent to the safekeeping agent shall require dual authorization. The Treasurer and the Finance Director shall be bonded to protect the public against possible embezzlement and malfeasance. Safekeeping procedures shall be reviewed annually by an independent external auditor and any irregularities noted should be reported promptly to the Treasurer and City Council.

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VII. SUITABLE AND AUTHORIZED INVESTMENTS

The City shall be governed by the California Government Code, Sections 53600 et seq. If the Code is amended to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to the changes in the revised Code, provided that the changes are not specifically prohibited by the City's policy. The City shall be required to present those changes in the annual review of the policy and to incorporate the new legislation within the policy. Surplus funds are defined as funds not required for the immediate necessities of the City and include investments in individually managed portfolio(s), money market fund(s) and/or State LAIF, and all portfolio limitations and restrictions shall apply to this aggregate amount. For purposes of compliance with the California Government Code and the City's Investment Policy, the credit rating requirement for medium-term notes, deposit notes, bank notes and commercial paper shall be based on the quality ratings at the time of purchase. If the quality rating of the issuer is downgraded, subsequent to purchase, by any of the Nationally Recognized Statistical-Rating Organizations below "A", or its equivalent, it shall be reported to the Finance Committee and City Council with a recommendation, and ongoing information shall be provided if the bond is not sold. Percentage limitations of surplus funds invested are noted for the various investment instruments. Where there is a specified percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction.

The City is empowered by statute to invest in the following types of securities and are those that the investment managers are trained and competent to handle.

A. Investment Types

1. Bonds, notes, or other forms of indebtedness issued by the City, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the local agency.
2. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
3. Federal Agency or United States government-sponsored enterprise obligations (GSE), participations, or other instruments.
4. State of California and Local Agency Obligations. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state; and bonds, notes, warrants, or other evidence of indebtedness of any local agency within this state including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Notes eligible for investment, other than those issued by the City or operated by a department, board, agency, or authority of the local agency, shall be rated in a

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category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.

5. Medium-Term Notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of 5 years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases of medium-term notes may not exceed 30 percent of the City's surplus funds. Notes eligible for investment shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations. Investments in medium-term notes for any single non-government issuer shall be limited to no more than 5 percent of surplus funds for issuers rated "AA" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations, and to no more than 3 percent for issuers rated "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.
6. Bankers Acceptances otherwise known as bills of exchange or time drafts, drawn on and accepted by a commercial bank, which are eligible for purchase by the Federal Reserve System. Purchased bankers acceptances may not exceed 180 days maturity or 40 percent of the City's surplus funds, and no more than 10 percent of the City's surplus funds may be invested in the bankers' acceptances of any single commercial bank.
7. Commercial Paper of "prime" quality of the highest ranking or the highest letter and number rating as provided for by a Nationally Recognized Statistical-Rating Organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):
 - a. The entity is organized and operating in the United States as a general corporation and has total assets in excess of \$500,000,000. In addition, its debt other than commercial paper, if any, must be rated "A" or higher by a Nationally Recognized Statistical-Rating Organization.
 - b. The entity is organized within the United States as a special purpose corporation, trust, or limited liability company and has a program wide credit enhancement including, but not limited to, over collateralization, letters of credit, or surety bond. In addition, the entity has commercial paper that is rated "A-1" or higher, or the equivalent, by a Nationally Recognized Statistical-Rating Organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less. The City may not invest more than 25 percent of its surplus funds in commercial paper, and the City may purchase no more than 10 percent of the outstanding eligible commercial paper of any single issuer.

8. Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or savings association or federal association or a state or federal credit union or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 15 percent of the City's surplus money invested and shall be limited to no more than 3 percent of any single issuer.

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Deposit notes and bank notes purchased through a broker or dealer shall be included with negotiable certificates of deposit in calculating allowable maximum percentages. Negotiable certificates of deposit, deposit notes and bank notes shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.

9. Time Deposits. The City may invest in non-negotiable Certificates of Deposit at commercial banks and savings and loan associations that are collateralized in accordance with the California Government Code. To be eligible to receive City funds, the depository institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation of its record of meeting the credit needs of California's communities, including low and moderate-income neighborhoods. In selecting depositories, the credit worthiness of institutions shall be considered. Banks and Savings and Loan Associations seeking to establish an investment relationship with the City shall submit an audited financial report that shall be reviewed for compliance with the City's investment standards. Any institution not providing an audited annual financial report shall be removed from the approved list and all funds maturing will be withdrawn. A list of eligible institutions shall be maintained in the investment procedures manual. Qualification shall be determined by the following criteria:
 - a. Tangible capital must equal or exceed 1.5 percent; core capital must equal or exceed 4 percent; and, risk-based capital must equal 8 percent of assets adjusted for assigned risk-weightings.
 - b. Return on Assets of a minimum of 0.5 percent; a Return on Equity of a minimum of 8 percent; an Equity to Assets Ratio of a minimum of 5 percent; and, City investments shall be no greater than 0.5 percent of the total assets of the depository.
 - c. Independent auditor's statement must have a clean opinion.
10. Savings accounts. Savings accounts when used in conjunction with the City's checking accounts at a qualified bank where funds are collateralized in accordance with the California Government Code.
11. U. S. Government money market funds registered with the Securities and Exchange Commission and which comply with rule 2a7 of the Investment Company Act of 1940. The fund must be comprised of only U.S. Treasury bills, notes and bonds, repurchase agreements and obligations issued or guaranteed as to principal and interest by the U.S. Government or its agencies or instrumentalities. The percentage of repurchase agreements in the fund shall be reviewed and approved based on the fund's policy limits. The dollar weighted average maturity of the portfolio shall be less than 90 days and the portfolio is managed to maintain a \$1.00 share price. Also, the fund shall meet either of the following criteria: (a) attained the highest ranking or the highest letter and numerical rating provided by not less than two Nationally Recognized Statistical-Rating Organizations; (b) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years' experience managing

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money market mutual funds with assets under management in excess of \$500,000,000. Purchase of securities authorized by this section shall not exceed 20 percent of the City's surplus money invested and no more than 10 percent may be invested in any single money market fund.

12. Repurchase Agreements. Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by the Code, so long as the proceeds of the repurchase agreement are invested solely to supplement the income normally received from these securities. The City shall adopt as a standard the Bond Market Association Master Repurchase Agreement and shall maintain a list of approved counterparts and limit counter parties to primary dealers rated "A" or better by two Nationally Recognized Statistical-Rating Organizations. Reverse repurchase agreements and securities lending agreements shall require City Council authorization separate from City Council approval of this policy. Securities lending agreements shall include the following safeguard measures: terms of lending agreements, indemnification provisions, reinvestment guidelines, liquidity provisions, credit risks and monitoring requirements. Additionally, any securities lending agreement shall be reviewed by the City Attorney to ensure the City's interests are properly protected.
 - a. Investments in repurchase agreements may be made, on any authorized investment, when the term of the agreement does not exceed 1 year.
 - b. Reverse repurchase agreements or securities lending agreements may be utilized when the security to be sold on the reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the City for a minimum of 30 days prior to sale; the total of all reverse repurchase agreements on investments owned by the City does not exceed 20 percent of the base value of the portfolio; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
13. Local Agency Investment Fund (LAIF). The City may invest in LAIF, established by the California State Treasurer, up to the \$50,000,000 maximum permitted by State law, effective November 16, 2009; therefore, there is a \$50,000,000 limit for the City of Santa Barbara. The City's investment in LAIF is based on, among other criteria, the following information provided by LAIF: a written statement of portfolio management goals, objectives and policies, including a description of eligible investment securities; a disclosure of LAIF's safekeeping practices; eligible LAIF participants, the monthly transaction limit, and minimum and maximum deposit and withdrawal amounts permitted; calculation of quarterly earnings and apportionment, including gains and losses; disclosure of administrative costs and the assessment process; monthly statements of the City's

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transaction activity and balances; monthly summaries of LAIF investment data, including market valuation and accrued interest; and a description of the audit process. At least quarterly, the Finance Director shall report to the Finance Committee on the composition of the LAIF portfolio.

The California Government Code states that moneys placed for deposit in LAIF are in trust in the custody of the State Treasurer and cannot be borrowed or be withheld from the City. Further, the right of the City to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any state official or agency based upon the State's failure to adopt a budget by July 1 of each new fiscal year.

B. Collateralization

Collateralization shall be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. A collateral agreement must be current and on file before any funds can be transferred for collateralized certificates of deposit. Collateral shall be held by an independent third party with whom the City has a current written custodial agreement. A clearly marked evidence of ownership (*safekeeping receipt*) must be supplied to the City and retained. The right of collateral substitution is granted.

1. Certificates of Deposit

- a. Government Securities used as collateral require 102 percent of market value to the face amount of the deposit
- b. Promissory Notes secured by first trust deeds used as collateral require 150 percent of market value to the face amount of the deposit
- c. Irrevocable Letters of Credit issued by the Federal Home Loan Bank of San Francisco require 105 percent of market value to the face amount of the deposit

2. Repurchase and Reverse Repurchase Agreements

- a. Only U.S. Treasury securities or Federal Agency securities are acceptable collateral. All securities underlying repurchase agreements must be delivered to the City's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of the total dollar value of the money invested by the City for the term of the investment. For any repurchase agreement with a term of more than 1 day, the value of the underlying securities must be reviewed on an ongoing basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

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- b. The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to the repurchase agreement.

C. Investments Not Approved

Any security type or structure not specifically approved by this policy is hereby prohibited. Security types, which are thereby prohibited include, but are not limited to: investment pools (except State LAIF), shares of beneficial interest issued by diversified management companies (except U. S. Government money market funds), collateralized mortgage obligations (CMO's), mortgage pass-through securities, reverse repurchase agreements used as a leveraging vehicle, "exotic" derivatives structures such as range notes, dual index notes, inverse floating-rate notes, leveraged or de-leveraged floating-rate notes, interest-only strips that are derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, or any other complex variable or structured note with an unusually high degree of volatility or risk.

D. Exceptions to Prohibited and Restricted Investments

The City shall not be required to sell securities prohibited or restricted in this policy, or any future policies, or prohibited or restricted by new State regulations, if purchased prior to their prohibition and/or restriction. Insofar as these securities provide no notable credit risk to the City, holding of these securities until maturity is approved. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

VIII. INVESTING PARAMETERS

A. Diversification

The City shall diversify its investments by security type, issuer, maturity, and financial institutions. No percentage limitations are established for United States government, United States government agencies and United States government sponsored enterprises; however percentage limitations are established for other permitted investments, as noted in Section VII of this policy. The investments shall be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), limiting investment in securities that have higher credit risks, and investing in securities with varying maturities.

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. To control market price risks, volatile investment instruments shall be avoided. To control risks of illiquidity, a minimum of 10 percent of the total portfolio shall be held in

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highly marketable U.S. Treasury Bills and Notes and/or the State of California Local Agency Investment Fund and/or Money Market Funds and/or securities maturing within 90 days.

B. Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Where there is no specified maturity limitation on an investment, no investment shall be made in any security, which, at the time of the investment, has a term remaining to maturity in excess of 5 years, unless the City Council has granted express authority to make that investment no less than 3 months prior to the investment.

In addition to the 5 year limitation on investments specified in this policy, the average maturity of the City's combined portfolio shall not exceed 2.5 years without prior approval of the City Council.

IX. REPORTING

The Treasurer shall submit investment reports to the City Council that provide a clear picture of the status of the current investment portfolio and shall contain sufficient information to permit an independent organization to evaluate the performance of the investment program. Based on the discretion of Finance Committee, an independent advisor may be contracted, from time to time to perform one or more of the following functions: confirm that the portfolio is in compliance with the Government Code of the State of California and with the Statement of Investment Policy of the City of Santa Barbara; present an evaluation of the portfolio and investment strategy recommendations; and, provide any other information that may be helpful to Finance Committee in their review of the portfolio.

A. Monthly Reporting to City Council

The Treasurer shall submit to City Council, within 30 days following the end of the month, an investment report that summarizes all securities in the portfolio and a separate listing of investment transactions occurring during the month. The report shall be prepared by the Treasury Manager and approved by the Finance Director. The report shall include:

1. Investment type
2. Purchase date
3. Maturity date
4. Credit quality
5. Coupon and yield
6. Book value
7. Market value
8. Book gain/loss

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9. Market gain/loss
10. Source of valuation
11. Average days to maturity
12. Variable rate(s) or call features

B. Quarterly Reporting to City Council

In addition to the components required in the monthly investment report, a narrative shall accompany the portfolio report addressing noteworthy items, deviations from the investment policy, comments on the fixed income markets and economic conditions, possible changes in the portfolio going forward, and thoughts on investment strategies. The quarterly report shall also include a statement of compliance with the investment policy and a statement of the ability to meet expenditures for the next 6 months (or an explanation as to why sufficient money shall, or may, not be available).

C. Performance Standards

The investment portfolio shall be managed in accordance with the parameters specified within this policy and always with consistently safe and prudent treasury management. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit sold early to minimize loss of principal
- A security swap that would improve the quality, yield, or target duration in the portfolio
- Unforeseen liquidity needs of the portfolio require that the security be sold

1. Market Yield (Benchmark)

The City's overall investment strategy is passive: investments are generally held to maturity. The quarter-to-date LAIF apportionment rate, the 3-month U.S. Treasury Bill and the 2-year U.S. Treasury Note shall also be considered useful benchmarks of the City's portfolio performance.

2. Marking to Market

The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed. In defining market value, consideration shall be given to pronouncements from the Government Accounting Standards Board (GASB) that address the reporting of investment assets and investment income for all investment portfolios held by governmental entities. The fair value of all securities reported in the City's portfolio is based on currently quoted market prices.

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X. INVESTMENT POLICY COMPLIANCE AND ADOPTION

A. Policy Compliance and Changes

Any deviation from the policy shall be reported to Finance Committee at the next scheduled meeting and to City Council as part of the monthly review of the portfolio. The Treasurer shall promptly notify Finance Committee and City Council of any material change in the policy and any modifications to the policy must be approved by Finance Committee and City Council.

B. Annual Statement of Investment Policy

The Treasurer shall render a written Statement of Investment Policy that shall be reviewed at least annually by Finance Committee and City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. City Council shall consider the annual Statement of Investment Policy and any changes therein at a public meeting. The Statement of Investment Policy shall be adopted by resolution of City Council.

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GLOSSARY OF INVESTMENT TERMS

AGENCY: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government (i.e. Government National Mortgage Association). Federally sponsored agencies (FSA's) are backed by each particular agency with a market perception that there is an implicit government guarantee (i.e. Federal National Mortgage Association).

ASK: The price at which securities are offered for sale; also known as offering price.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you *ask* for a bid.)

BOND PROCEEDS: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is often acquisition cost plus/minus amortization and accretion, which may differ significantly from the security's current value in the market.

BROKER: Someone who brings buyers and sellers together and is compensated for his/her service.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual financial report for a public agency. It includes combined statements for each individual fund combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and detailed statistical section.

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by a Nationally Recognized Statistical-Rating Organization.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

CURRENT YIELD (CURRENT RETURN): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, by buying and selling for his/her own account.

DELIVERY VERSUS PAYMENT: There are 2 methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment, also referred to as "cash on delivery", is

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delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DIVERSIFICATION: Dividing investment funds among a variety of security types by sector, maturity and quality ratings offering independent returns.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FAIR VALUE: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., savings and loan associations, small-business firms, students, farmers, farm co-operatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): The federal agency that insures bank deposits up to \$250,000 per deposit at participating banking institutions. In an effort to increase consumer confidence in the banking system, the previous \$100,000 insurance limit was temporarily increased to \$250,000 in 2008, extended to 2013, and then permanently increased on July 21, 2010 with the passage of the Wall Street Reform and Consumer Protection Act.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banks services to member commercial banks, thrift institutions, credit unions and insurance companies.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of 7 members of the Federal Reserve Board and 5 of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a 7 member Board of Governors in Washington, D.C., 12 Regional Banks and approximately 5,700 commercial banks that are members of the system.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers,

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commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INTERNAL CONTROLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

- **Control of collusion** - Collusion is a situation where 2 or more employees are working in conjunction to defraud their employer.
- **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
- **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
- **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): Chapter 730, Statutes of 1976 of the State of California, established the Local Agency Investment Fund. This fund enables local governmental

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agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account. Each local governmental unit has the exclusive determination of the length of time its money will be on deposit with the State Treasurer. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained therein. Prior to the distribution, the State's costs of administering the program are deducted from the earnings.

MARK-TO-MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK: The risk that the value of a security will increase or decrease as a result of changes in market conditions.

MARKET VALUE: The current price at which a security is trading and could presumably be purchased or sold at that particular point in time.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of a financial obligation is due and payable.

MONEY MARKET MUTUAL FUND: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

MUTUAL FUND: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission (SEC) disclosure guidelines.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NATIONALLY RECOGNIZED STATISTICAL-RATING ORGANIZATION (NRSRO): Standard and Poor's, Moody's, and Fitch Financial Services are examples of such organizations.

OFFER: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask" or "Ask Price".

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

PORTFOLIO: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

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PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks and a few unregulated firms.

PRINCIPAL: (1) The face amount or par value of a debt instrument. (2) One who acts as a dealer buying and selling for his own account.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REINVESTMENT RISK: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

REVERSE REPURCHASE AGREEMENT: An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specific date.

RISK: Degree of uncertainty of return on an asset.

RULE 2A-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of \$1.00.

SAFEKEEPING SERVICE: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection and security.

SECONDARY MARKET: A market is made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES LENDING: An agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises, (FLAB, FNMA, SLMA, etc.), and Corporations that have imbedded options, (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns), into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SWAP: Trading one asset for another.

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TREASURY BILLS: Short-term U.S. government non-interest bearing discounted debt securities with maturities of no longer than 1 year and issued in minimum denominations of \$10,000. Auctions of 3- and 6-month bills are weekly, while auctions of 1-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

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TREASURY BOND: A long-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of more than 10 years and issued in minimum denominations of \$1,000.

TREASURY NOTE: A medium-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of from 1 to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission (SEC) Rule 15C3-1 outlining requirements that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Patrol Division, Police Department

SUBJECT: State Of California Office Of Traffic Safety – Sobriety Checkpoint And Selective Traffic Enforcement Grants

RECOMMENDATION: That Council:

- A. Accept a grant from the State of California, Office of Traffic Safety in the amount of \$103,700 for Sobriety Checkpoints and authorize the Chief of Police to execute a grant agreement; and
- B. Accept a grant from the State of California, Office of Traffic Safety in the amount of \$86,100 and authorize the Chief of Police to execute a grant agreement; and
- C. Increase appropriations and estimated revenues by \$189,800 in the Miscellaneous Grants Fund for Fiscal Year 2014 for the Sobriety Checkpoint and Selective Traffic Enforcement Programs Grants.

DISCUSSION:

The Police Department applied for and received funding from the State of California, Office of Traffic Safety, for two grants: a Sobriety Checkpoint Program grant and Selective Traffic Enforcement Program grant.

The Police Department was awarded \$103,700 for a Sobriety Checkpoint Program and \$86,100 for a Selective Traffic Enforcement Program. The goals of the Sobriety Checkpoint Program are to reduce the number of victims killed and injured in alcohol-impaired collisions. The goals of the Selective Traffic Enforcement are also focused on reducing victims killed and injured in alcohol-impaired collisions as well as collisions that result from other common vehicle code violations.

Both grants cover the period of October 1, 2013 – September 30, 2014 and the funds will be used to cover overtime and benefits for first line supervisors, officers and staff who are assigned to scheduled checkpoints.

BUDGET/FINANCIAL INFORMATION:

The funding from these grants will increase the department's Miscellaneous Grants Fund estimated revenue and related appropriations by \$189,800.

PREPARED BY: Mike McGrew, Traffic Sergeant/LSP

SUBMITTED BY: Camerino Sanchez, Chief of Police

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Information Systems Division, Administrative Services Department

SUBJECT: Contract With Deborah J. Aitkins For Database Consulting And Support

RECOMMENDATION:

That Council authorize the City's General Services Manager to execute a professional services contract in an annual amount of \$40,000 for three years with Deborah Aitkins to provide database consulting and support services to all City departments.

DISCUSSION:

Every City department uses the Microsoft Access database product to track internal projects, administer department responsibilities, and provide reports that assist with departmental operation.

Some of these databases require expansion and upgrade to meet new requirements or to offer new features for management reporting or performance monitoring. Departments do not have the expertise to accomplish this and local expert resources have been used to accomplish these requests. Deborah Aitkins has provided these update and support projects for 15+ years, has provided excellent responsive support, meeting all requirements as requested. She is intimately familiar with the various department databases and has kept her labor charges stable and the lowest known cost for these services.

In the past, each department contracted separately with Ms Aitkins. In FY 2013, Information Systems led a single City contract for her services which was successful, is being continued for FY 2014, and recommended for three additional years. Due to the large number of department requests, it is estimated that the FY 2014 total expenditures citywide will be \$40,000 which requires Council approval.

Staff recommends that Council approve the citywide database consulting and support agreement.

BUDGET/FINANCIAL INFORMATION:

Funding is budgeted by departments for this service. Information Systems will review and pay submitted invoices and debit departments for the work done. This will not draw on the Information Systems Operating Budget.

PREPARED BY: Tom Doolittle, Information Systems Manager

SUBMITTED BY: Marcelo López, Assistant City Administrator / Administrative Services Director

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Council members

FROM: Information Systems Division, Administrative Services Department

SUBJECT: Replacement Of Citywide Data Storage, Backup, And Recovery System

RECOMMENDATION:

That Council increase appropriations in the Information Systems Operating Fund by \$122,000 from available reserves for the replacement of a Citywide Data Storage, Backup and Recovery System.

DISCUSSION:

Information Systems provides data backup and recovery services to all departments except Police. This advanced technology backup system was first installed in 2009. Since technical support for the original hardware technology will no longer be available after December 2013, new hardware equipment must be acquired to continue performing these critical backup tasks. Existing software is still supported and does not need to be upgraded.

The manufacturer has offered significant hardware equipment replacement cost reduction to help customers upgrade their equipment. Their pricing structure offers full hardware equipment including three years of hardware and software maintenance for less cost than the City was paying for only software renewal. This pricing incentive is fully validated and justified.

BUDGET/FINANCIAL INFORMATION:

The Information Systems Reserve account was created to fund these types of infrastructure upgrades. Funds are available in the reserves to support this necessary equipment replacement. Council approval is required for the appropriation from reserves to the operating budget. Staff recommends that Council approve the appropriation of \$122,000 from the Information Systems Reserves to the FY 2014 Operating Budget.

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Replacement Of Citywide Data Storage, Backup, And Recovery System
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PREPARED BY: Tom Doolittle, Information Systems Manager

SUBMITTED BY: Marcelo López, Assistant City Administrator and
Administrative Services Director

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Administration Division, Parks and Recreation Department

SUBJECT: Contract With Cardno ENTRIX For Biological Services In City Parks and Beaches

RECOMMENDATION:

That Council authorize the Parks and Recreation Director to execute a professional services agreement with Cardno ENTRIX for biological services in parks and beaches in the amount of \$21,263 with options to renew in Fiscal Year 2015 for \$21,263, and in Fiscal Year 2016 for \$21,263, subject to Council appropriation of funds.

DISCUSSION:

Project Description

The Parks and Recreation Department (Department) requires biological monitoring and survey services to satisfy federal, state, and city permit requirements for the beach maintenance program, and for vegetation and defensible space management in open space parks. Parks Division beach maintenance activities involve year-round beach grooming and maintenance, installation of lifeguard towers, and may also include the removal of debris after storm events. A qualified biologist will survey beaches for western snowy plover and may also monitor other special-status species prior to mechanized beach grooming and other maintenance activities. Support for vegetative management and defensible space includes surveys for protected birds, wildlife, or habitats, as required by Federal, state, and local regulations.

Consultant Selection

A request for proposals was distributed to three local biological consulting firms. All three consulting firms submitted proposals for services including Cardno ENTRIX, SAIC, and Rincon Consultants. The Department recommends the City contract with Cardno ENTRIX, due to their lower cost proposal, expertise in aquatic and terrestrial biology, and qualifications for monitoring special-status species found along the Santa Barbara coast.

The Department has worked with Cardno ENTRIX on a number of recent projects including the Andrée Clark Bird Refuge Vegetation Management Program and the Mesa Lane Steps

Renovation Project. In that work, Cardno ENTRIX provided the most current field and research information along with expertise in federal and state permit requirements. Cardno ENTRIX's experienced staff and response time of 24 - 48 hours will provide the support needed for biological resource surveys and compliance with permit requirements.

BUDGET/FINANCIAL INFORMATION:

The cost of the annual biological support services contract is \$21,263. Funds of \$21,263 are budgeted in the Fiscal Year 2014 Parks and Recreation Department operating budget. In addition, since the Department requires ongoing services to implement beach maintenance and vegetation management programs in City parks, the Department is recommending that Council approve an option to renew the contract for up to two additional years at a cost of \$21,263 each year, subject to City Council appropriation of funds through the annual budget approval process. The total cost of the services for three years would be \$63,789.

SUSTAINABILITY IMPACT:

Monitoring and surveys of special-status species, sensitive habitats, and cultural/historical remains is critical for the protection of natural resources along the Santa Barbara coast and inland.

PREPARED BY: Jill E. Zachary, Assistant Parks and Recreation Director

SUBMITTED BY: Nancy L. Rapp, Parks and Recreation Director

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Purchase Of Real Property Occupied By Hydroelectric Plant

RECOMMENDATION: That Council:

- A. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Confirming the Negotiated Purchase Price for the Purchase of the Real Property Occupied by the City's Hydroelectric Plant Located at 1402 San Roque Road in the Amount of \$65,000, Authorizing Acquisition of the Real Property, and Approving the Funding for Such Acquisition; and
- B. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara to Accept in Fee all Right, Title and Interest in the +/- .0997 Acres of Real Property Located at 1402 San Roque Road in the County of Santa Barbara, California, and to Authorize the Public Works Director to Execute Such Documents as Necessary for the Acquisition and Acceptance of Said Real Property Interest, and to Record Such Documents in the Official Records of the County of Santa Barbara.

DISCUSSION:

The City owns the hydroelectric plant at 1402 San Roque Road, which is located on a portion of the United States of America Bureau of Reclamation (Bureau) land within the fenced enclosure around Lauro Reservoir. The hydroelectric plant receives water from the City's Gibraltar Dam and Reservoir that is delivered to Santa Barbara via the City's Mission Tunnel. In 1985, the plant began producing electrical power, which was sold to Southern California Edison. The plant was idled in 1998, when it was determined that the plant's operation and maintenance costs, along with regulatory burdens, exceeded the income from power sales. In 2010, an engineering report determined that the key to re-commissioning the hydroelectric plant and reducing regulatory costs and burdens was for the City to acquire the ownership of the land from the Bureau.

The Cachuma Operation and Maintenance Board and the US Bureau of Reclamation declared that the land beneath the hydroelectric plant was surplus to the needs of the Cachuma Project. As a result, on January 7, 2013, the U.S. General Services Administration (GSA) issued a notice that it considered the land that is occupied by the hydroelectric plant "to be Government surplus and available for disposal".

Subsequently, the GSA informed the City that it could purchase the surplus land “by negotiated sale” process.

On March 19, 2013, the City Council authorized Christine F. Andersen, Public Works Director, to negotiate purchase of the land. A City appraisal of the land by a State Certified Appraiser determined the value to be \$60,000. The GSA appraisal of the land determined the value to be \$65,000. GSA staff stated that the land could not be sold for less than \$65,000 without congressional review, a process that could take up to six months to complete.

City staff believes that a purchase price of \$65,000 for the hydroelectric plant land is fair and equitable and will allow the timely transfer of the land to the City. Once the GSA receives a cashier’s or certified check in the amount of \$65,000, the City resolution confirming the negotiated purchase price of \$65,000, an executed “Offer to Purchase Real Property and Acceptance,” and a land use plan for the property describing the direct public use/benefit of the property, the GSA will provide the City with a Quitclaim Deed suitable for recordation.

The ownership and possession of the land by the City will enable the City to apply for an exemption to the Federal Energy Regulatory Commission License and sell hydroelectric power to Southern California Edison.

BUDGET/FINANCIAL INFORMATION:

There are sufficient appropriated funds in the Water Capital Fund to cover the purchase of the land beneath the hydroelectric plant. It is estimated that the hydroelectric plant revenue will be \$210,000 per year initially, and then decline to \$188,000 per year in future years as Gibraltar reservoir fills with silt. Revenue from the sale of power to Southern California Edison will be income to the City’s Water Fund.

SUSTAINABILITY IMPACT:

Recommissioning the City’s hydroelectric plant will result in the production of clean and renewable hydroelectric power. It has been estimated by Brown & Caldwell Engineers, Inc., that, initially, the hydroelectric plant can produce 1600 megawatt hours (MWh) of power annually. Because of siltation at Gibraltar Dam, the amount of power generation will decline over time, and eventually will reach a steady annual production of 975 MWh, which is enough to meet the electrical demand of approximately 200 single-family homes. It is intended that the power produced by the hydroelectric plant be sold to Southern California Edison at the “California Renewable Energy Small Tariff” rate.

PREPARED BY: Rebecca Bjork, Water Resources Manager/RR/mh

SUBMITTED BY: Christine F. Andersen, Public Works Director

APPROVED BY: City Administrator’s Office

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA TO ACCEPT IN FEE ALL RIGHT, TITLE AND INTEREST IN THE +/-0.0997 ACRES OF REAL PROPERTY LOCATED AT 1402 SAN ROQUE ROAD IN THE COUNTY OF SANTA BARBARA, CALIFORNIA, AND TO AUTHORIZE THE PUBLIC WORKS DIRECTOR TO EXECUTE SUCH DOCUMENTS AS NECESSARY FOR THE ACQUISITION AND ACCEPTANCE OF SAID REAL PROPERTY INTEREST, AND TO RECORD SUCH DOCUMENTS IN THE OFFICIAL RECORDS OF THE COUNTY OF SANTA BARBARA

WHEREAS, this Resolution will provide authorization by the Council of the City of Santa Barbara for the Public Works Director to execute the documents necessary to accept fee title to the real property more particularly described in the Quitclaim Deed; and

WHEREAS, this Resolution will demonstrate the intent of the Council of the City of Santa Barbara to accept all right, title and interest in the real property as more particularly described in the Quitclaim Deed delivered for such purpose and without further action or subsequent resolution.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA AS FOLLOWS:

SECTION 1. The City of Santa Barbara hereby accepts all right, title and interest in the in the real property as more particularly described in the Quitclaim Deed which has been executed and delivered hereunder.

SECTION 2. The City of Santa Barbara hereby authorizes the Public Works Director to execute any documents necessary to accept such real property interest.

SECTION 3. The City of Santa Barbara hereby consents to the recordation of the Quitclaim Deed in the Official Records, County of Santa Barbara.

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA CONFIRMING THE NEGOTIATED PURCHASE PRICE FOR THE PURCHASE OF THE REAL PROPERTY OCCUPIED BY THE CITY'S HYDROELECTRIC PLANT LOCATED AT 1402 SAN ROQUE ROAD IN THE AMOUNT OF \$65,000, AUTHORIZING ACQUISITION OF THE REAL PROPERTY, AND APPROVING THE FUNDING FOR SUCH ACQUISITION

WHEREAS, on January 7, 2013, the U.S. General Services Administration (GSA), on behalf of the United States of America Bureau of Reclamation, issued a Notice to the City of Santa Barbara that it had determined the land it owned beneath the City's existing Hydroelectric Plant "to be Government surplus and available for disposal";

WHEREAS, on January 15, 2013, Christine F. Andersen, Public Works Director, sent a letter to the GSA notifying them of the City's intent to purchase the land;

WHEREAS, on March 19, 2013, the City Council authorized the Public Works Director to negotiate the purchase of the land on behalf of the City; and

WHEREAS, on June 3, 2013, the GSA informed the City that the negotiated purchase price for the land would be \$65,000, and requested a resolution of the City to confirm the negotiated purchase price of \$65,000, authorizing the acquisition of the real property and approving the funding for such acquisition.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA AS FOLLOWS:

SECTION 1. The City confirms and authorizes payment of the negotiated purchase price in the amount \$65,000 for the purchase of the 0.997 acre parcel of land located at 1402 San Roque Road in the County of Santa Barbara and more particularly described in the Quitclaim Deed to be recorded in the Santa Barbara County Recorder's Office.

SECTION 2. The Public Works Director is hereby authorized to accept the Quitclaim Deed to the real property on behalf of the City of Santa Barbara and to record the Quitclaim Deed in the Official Records of Santa Barbara County.



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Introduction Of Ordinance Authorizing An Alternative Power Public Water And Wastewater Agency Agreement

RECOMMENDATION:

That Council introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Authorizing the Execution and Delivery of a Renewable and Alternative Power Public Water and Wastewater Agency Agreement With Southern California Edison, Inc., for the Purpose of Selling Electricity Generated at the City's Conduit Hydroelectric Plant, and Authorizing Related Actions.

DISCUSSION:

The City owns a conduit hydroelectric power plant, located near the City's Cater Water Treatment Plant. The hydroelectric power plant receives water from the City's Gibraltar Dam and Reservoir that is delivered to Santa Barbara via the City's Mission Tunnel. The hydroelectric power plant is considered a conduit hydroelectric power plant because it uses the water at the end of the conduit, piping water from the Gibraltar Reservoir.

In 1985, the plant began producing electrical power, which was sold to Southern California Edison (SCE). The plant was idled in 1998, when it was determined that the project operation and maintenance costs, along with regulatory burdens, exceeded the income from power sales. Staff is currently working to bring the hydroelectric power plant back online.

The City is in the process of purchasing fee title to the land beneath the power plant.

In order for the City to sell and deliver power from the plant into SCE's power grid, the City needs to enter into a power purchase agreement. On May 7, 2013, Council authorized the Public Works Director to enter into a "California Renewable Energy Small Tariff" (CREST) Power Purchase Agreement (PPA). Since that time, SCE has been informed by the California Public Utilities Commission that the Renewable and Alternative Power Public Water And Wastewater Agency Agreement (Water Agreement)

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is the appropriate agreement for the City's project rather than the PPA. The terms of the Water Agreement are very similar to the PPA.

The California Public Utilities Commission has approved the replacement of both the Water Agreement and the CREST program with a market-based pricing mechanism (Re-MAT). The new program is intended to "capture maximum value for ratepayers", which will not offer the same sales price and term stability to the City that is offered by the CREST program or the Water Agreement. In order to enter into the Water Agreement, it must be executed by both parties no later than July 24, 2013. Staff is hopeful that the City's PPA can be approved while the Water Agreements are still being executed. The City can elect the term of the Water Agreement, and staff recommends the maximum 20-year term, with projected power sales estimated at \$210,000 per year selected.

BUDGET/FINANCIAL INFORMATION:

It is estimated that the hydroelectric plant revenue will be \$210,000 per year initially, and then decline to \$188,000 per year in future years, as Gibraltar reservoir fills with silt. Revenue from the sale of power to Southern California Edison will be income to the City's Water Fund.

Copies of the Water Agreement are available for review by the public at the City Clerk's Office and available to Councilmembers in the City Council's reading file.

PREPARED BY: Rebecca Bjork, Water Resources Manager/mh

SUBMITTED BY: Christine F. Andersen, Public Works Director

APPROVED BY: City Administrator's Office

ORDINANCE NO. _____

AN ORDINANCE OF THE COUNCIL OF THE CITY OF SANTA BARBARA AUTHORIZING THE EXECUTION AND DELIVERY OF A RENEWABLE AND ALTERNATIVE POWER PUBLIC WATER AND WASTEWATER AGENCY AGREEMENT WITH SOUTHERN CALIFORNIA EDISON, INC., FOR THE PURPOSE OF SELLING ELECTRICITY GENERATED AT THE CITY'S CONDUIT HYDROELECTRIC PLANT, AND AUTHORIZING RELATED ACTIONS

WHEREAS, the City received United States Bureau of Reclamation License and Agreement No. 20-07-20-L2148 (City Agreement No. 11,539), dated July 15, 1982, which permitted the construction, operation and maintenance of the City's Hydroelectric Plant on United States land adjacent to Lauro Reservoir;

WHEREAS, the City's hydroelectric plant produced clean, renewable power from 1985 through 1998;

WHEREAS, the City decommissioned the hydroelectric plant in 1998, when it was determined that project operation, maintenance, permit, and regulatory costs exceeded project revenues;

WHEREAS, on November 2, 2010, the City Council adopted Resolution No. 10-086 to demonstrate the City's desire to resume operations at the hydroelectric plant, and to demonstrate intent by Council to accept ownership of the underlying land, if conveyed to the City by Reclamation;

WHEREAS, on October 17, 2012, City staff filed an application for a Renewable and Alternative Power Public Water and Wastewater Agency Agreement with Southern California Edison, Inc., for the Purpose of Selling the City's Hydroelectric Conduit Plant Power;

WHEREAS, on January 7, 2013, the U.S. General Services Administration (GSA) issued a Notice that it had determined the land beneath the City's hydroelectric plant "to be Government surplus and available for disposal";

WHEREAS, on March 19, 2013, the City Council adopted Resolution No. 13-015 Authorizing Christine F. Andersen, Public Works Director, to Act on Behalf of the City in the Negotiated Purchase of the Real Property Beneath the City's Hydroelectric Plant and Verify that Funds Have Been Budgeted for the Purchase, which will be based upon an Appraisal by a State Certified Appraiser;

WHEREAS, on July 2, 2013, the City Council adopted a resolutions authorizing the purchase of the property and acceptance of a Quitclaim deed to the property; and

WHEREAS, the City Council has been presented with the form of a Renewable and Alternative Power Public Water and Wastewater Agency Agreement, and the City Council has examined and approved such documents and desires to authorize and direct the execution of such documents, subject to minor changes.

NOW, THEREFORE, THE COUNCIL OF THE CITY OF SANTA BARBARA DOES ORDAIN AS FOLLOWS:

Section 1. In accordance with the provisions of Section 521 of the Charter of the City of Santa Barbara, that certain agreement between the City of Santa Barbara and Southern California Edison, Inc., which provides for the sale of power from the City's Hydroelectric Conduit Power Plant for a period of 20 years, is hereby approved.

Section 2. The Public Works Director is hereby authorized to take all actions and execute such agreements as deemed necessary in order to consummate the agreement herein authorized and otherwise to carry out the terms and intent of this Ordinance.

Section 3. All actions heretofore taken by the officers, employees and agents of the City with respect to the agreement set forth above are hereby approved, confirmed and ratified.



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Planning Division, Community Development Department

SUBJECT: Local Coastal Program Grant Application Resolution

RECOMMENDATION: That Council:

Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara supporting a grant application to update the City of Santa Barbara Local Coastal Program (LCP) to address sea-level rise, coastal hazards and other climate change-related impacts.

DISCUSSION:

The City of Santa Barbara's existing LCP was originally certified by the California Coastal Commission in 1981. The LCP needs a comprehensive update, which will require a significant, multi-year effort and include close coordination with Coastal Commission staff. Should this grant application be successful, all funding would be applied towards this comprehensive update effort.

California's 2009 *Climate Adaptation Strategy* identified the need to support regional and local planning to address sea-level rise impacts, and specifically highlights the importance of updating Local Coastal Programs as a key adaptation strategy. The purpose of this grant is to encourage local governments and other entities responsible for planning under the California Coastal Act to develop and adopt updated plans that conserve and protect coastal resources from future impacts from sea-level rise and related climate change impacts such as extreme weather events.

BUDGET/FINANCIAL INFORMATION:

If this application is successful, the City would receive up to \$250,000 and \$100,000 is proposed in the application for pass through funding to support additional staff at the local Coastal Commission office for dedicated staff time to the City's LCP update, for a total of grant request of \$350,000.

Council Agenda Report
Subject In Title Case (Identical To Subject On Page 1)
Council Meeting Date
Page 2

PREPARED BY: John Ledbetter, Principal Planner

SUBMITTED BY: Paul Casey, Assistant City Administrator

APPROVED BY: City Administrator's Office

RESOLUTION NO _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA SUPPORTING A GRANT APPLICATION TO UPDATE THE CITY OF SANTA BARBARA LOCAL COASTAL PROGRAM (LCP) TO ADDRESS SEA-LEVEL RISE, COASTAL HAZARDS AND OTHER CLIMATE CHANGE-RELATED IMPACTS

WHEREAS, the California Ocean Protection Council, under the authority of the Ocean Protection Act, approved a competitive grant program to provide financial assistance for local and regional vulnerability assessments and updates to Local Coastal Programs (LCPs) and other Coastal Act authorized plans to address sea-level rise, coastal hazards and other climate change-related impacts;

WHEREAS, the goal of the grant program is to develop updates to LCPs or other Coastal Act authorized plans to address sea-level rise and other climate change impacts;

WHEREAS, grant proposals submitted under this grant program must address at least one certified LCP segment or other defined planning segment;

WHEREAS, the City of Santa Barbara has a certified LCP;

WHEREAS, the City of Santa Barbara, recognizing the problems and issues associated with climate change, desires to pursue a project that would result in the a complete submittal of an LCP Amendment for certification by the California Coastal Commission that would address such impacts; and

WHEREAS, the City of Santa Barbara will coordinate with the staffs of the California Coastal Commission, the State Coastal Conservancy and the Ocean Protection Council in undertaking the project, if approved;

NOW, THEREFORE, BE IT RESOLVED that the City Council, of the City of Santa Barbara hereby:

1. Directs the Community Development Department staff to submit the grant application package to the Ocean Protection Council to provide financial and planning assistance, under authority of the Ocean Protection Act, in the amount of \$350,000 to fund the project more particularly described in the grant application package.
2. Authorizes the City Administrator, or said designee, of the City of Santa Barbara to execute, in the name of the City of Santa Barbara all necessary applications, contracts and agreements and amendments thereto to implement and carry out the grant application package attached hereto and any project approved through approval of the grant application.

PASSED AND ADOPTED by the City Council, of the City of Santa Barbara, on this ____ day of _____, 2013 on the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Attest:

Signed:

(name and title of official authorized to sign resolutions of the governing body)



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Transportation Division, Public Works Department

SUBJECT: Options For Addressing The Revenue Shortfall On The Downtown Waterfront Shuttle

RECOMMENDATION:

That Council provide direction on resolving the \$40,000 revenue shortfall for the Downtown/Waterfront Shuttle.

DISCUSSION:

At the Council meeting of June 18, 2013, Council approved the renewal of the City Master Agreement with MTD for the Downtown/Waterfront Shuttle at a cost of \$1,148,180 for Fiscal Year 2014. The sources of funding are listed below.

Current Source of Funding (Fiscal Year 2014)

Measure "A" Fund	\$582,015
Downtown Parking Fund	\$393,978
Fare Box Revenue (Credit)	<u>\$172,187</u>
Total:	\$1,148,180

At that Council meeting, as well as during the Public Works Department budget presentation on May 6, 2013, staff advised the Council that they were projecting a revenue shortfall of \$40,000 for the current fiscal year and for Fiscal Year 2014.

Funding Shortfall

Prior to the dissolution of the City Redevelopment Agency (RDA), the RDA was providing \$300,000 for transit services to support the traffic mitigation requirement of the Central City Redevelopment Area. In acknowledgment that these funds are no longer available, the City and Santa Barbara Metropolitan Transit District (MTD) eliminated the shuttle service to the Carrillo Commuter Lot, reduced the midday service on the Crosstown Shuttle and increased the fare on the Downtown/Waterfront Shuttle from \$0.25 to \$0.50.

By MTD estimates, the fare increase would generate \$75,000 in additional revenue that would partially offset the loss of RDA funding. Additionally, the changes that Council approved to address the loss of RDA funding left a shortfall of \$22,000 for the Downtown Waterfront Shuttle. At the time the fare increase was proposed, City and MTD staffs were optimistic that the fare increase would not cause a significant decrease in ridership and that additional fare revenue might be realized and offset the \$22,000 shortfall. Staff reviewed the fare box revenue during the first nine months of Fiscal Year 2013, and discovered that it was less than expected, resulting in a projected revenue shortfall of \$40,000 for Fiscal Year 2013 and a projected revenue shortfall of \$40,000 for Fiscal Year 2014.

Staff has been working with MTD to develop options to address the revenue shortfall. In reviewing options for addressing the shortfall, staff focused on the Waterfront portion of the service, which has low ridership. The average ridership on the Wharf to Harbor service is 3.3 passengers per trip, and 4.8 passenger per trip for the entire Waterfront service between 10:00 and 11:00 AM. The summer ridership on the Waterfront service is 6.2 passenger per trip. In comparison, the average passenger per trip on the State Street service during the summer is 27.8.

Options to Address Funding Shortfall

Below is a list of options that the City and MTD have developed to address the revenue shortfall and presented to Council at the May 6, 2013 budget presentation.

<u>Option</u>	<u>Savings</u>
1. Funding from the Waterfront Fund to maintain current level of service	\$40,000
2. Remove Wharf to Harbor Shuttle	\$67,929
3. Remove 10 – 11 AM service for Waterfront Shuttle (Zoo to Harbor)	\$36,620
4. Increase headways on Waterfront Shuttle from 15 to 30 minutes during summer (except for 6 PM – 9 PM Friday and Saturday, which stays at 15 minutes due to the State Street “dog leg”)	\$40,000
5. Remove 9-10 AM for Downtown Shuttle (Sola St. to Cabrillo Blvd.)	\$43,400

During the budget presentation, Council expressed concern about changing the frequency of the Waterfront portion of the service, as outlined in Option 4. The State Street leg is performing well and has experienced denied boardings, where someone could not get on the shuttle. As such, staff does not recommend changing the hours on the State Street service as outlined in Option 5.

Council requested staff to determine if the increase in passengers related to cruise ship visits could offset the revenue shortfall. MTD charges the Waterfront Department the actual cost to provide additional shuttles during cruise ship visits. Federal regulations will not allow MTD to charge cruise ship visitors a different rate for the downtown shuttle than is charged to the general public. For these reasons no substantive revenue will be generated by cruise ship passengers utilizing the waterfront shuttle.

Additionally, if MTD eliminates the Wharf to Harbor service as described in Option 2, the cruise ships cannot be accommodated with shuttle service since MTD cannot provide service where there is not regular transit service.

Since the Summer 2013 service began over the Memorial Day weekend, and there was not sufficient time for MTD to make service changes, the General Manager of MTD advised the Council at the May 6, 2013 budget presentation that MTD would maintain the service for Summer 2013. MTD requested direction by the end of June to allow time to address the long term budget imbalance if the schedule changes are to go into effect in September 2013.

Council directed staff to seek input from the Transportation and Circulation Committee (TCC). On May 23, 2013, the TCC review options to address the revenue shortfall and recommended that the Council provide funding in the amount of \$40,000 from the Waterfront Department to cover a portion of the cost to operate Waterfront Shuttle service. The TCC did not select an alternative option but expressed an interest in Option 2, the elimination of the Wharf to Harbor service due to low ridership.

The MTD Board of Directors reviewed options for addressing the revenue shortfall at their June 25, 2013, Board Meeting and recommended Option 1 with the Waterfront Fund providing funding of \$40,000 to cover the service. As an alternative, the MTD Board recommended delaying the start time of the Waterfront Shuttle (Zoo to Harbor) to 11 AM. The Board did not support elimination of the Stearns Wharf to Harbor service (Option 2).

Recommendation

Staff is seeking Council direction to assist MTD on any service changes that may go into effect this fall. If MTD is given no specific direction, changes in service on the waterfront shuttle will go into effect starting on the 2014 Memorial Day weekend.

Should additional funding not be provided, staff recommends the elimination of the waterfront service between Stearns Wharf and the Harbor, due to low ridership.

PREPARED BY: Browning Allen, Transportation Manager/kts

SUBMITTED BY: Christine F. Andersen, Public Works Director

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: Planning Division, Community Development Department

SUBJECT: Implementation Of The Average Unit-Size Density (AUD) Incentive Program

RECOMMENDATION: That Council:

- A. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara adding Chapter 28.20 to the Santa Barbara Municipal Code to implement the City's 2011 General Plan Average Unit-Size Density Incentive Program; amending Section 28.43.040 regarding exemptions to the City's Inclusionary Ordinance amending Sections 28.66.050, 28.69.050, 28.72.050, and 28.73.050 concerning Building Height Standards for Community Benefit Projects in the C-2, C-M, M-1, and OM-1 Zones; and amending Section 28.87.062 concerning encroachments in open yards; and
- B. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Adopting Environmental Findings pursuant to the California Environmental Quality Act Regarding the Implementation of the Average Unit-size Density Incentive Program.

EXECUTIVE SUMMARY:

The proposed Average Unit-Size Density (AUD) Incentive Program carries out a key program directed by the 2011 General Plan. The Program facilitates the construction of smaller housing units by allowing increased density and development standard incentives. Housing types that provide housing opportunities to the City's workforce are encouraged and facilitated by the AUD Program.

The AUD Program ordinance amendments will be contained in a new Zoning Ordinance Chapter (28.20) in the Municipal Code. The ordinance amendments establish the parameters of the AUD Program, including purpose, definitions, density incentives, development incentives, and building height exception findings and process. The Program will be tested for a period of 8-years, or until 250 units are constructed in designated areas of the City, whichever occurs sooner. During this trial period the existing Variable Density Program would be suspended.

DISCUSSION:

Background

The AUD Program is designed to encourage smaller units through the application of increased densities based on average unit sizes. The smaller the average unit size, the greater the densities allowed within the three designated density tiers: Medium-High, High, and Priority Housing Overlay. Increased densities would be allowed in most multi-family and commercial zones under the Medium-High and High Density land use designations. Additional densities would be allowed for priority housing projects (i.e., rental, employer sponsored housing, and limited equity housing cooperatives) located in the Priority Housing Overlay area as shown in the Average Unit-Size Density Incentive Program Map.

The AUD Program also allows reduction and/or flexibility in parking, setback, open space, distance between buildings and number of stories within existing building height standards. These incentives are proposed to encourage development of smaller units and buildings, with particular emphasis on priority housing.

On April 10, 2012, the City Council initiated the Zoning Ordinance amendments to implement the AUD Program. Following adoption of the ordinance amendments, the AUD Program will be in effect for eight years, or once 250 units have been developed in the High Density areas and applicable Commercial Manufacturing (C-M) zoned properties, whichever occurs sooner.

The existing Variable Density Program provisions would be suspended during the AUD Program trial period. If at the end of the 8-year trial period the Program is not extended or modified, the residential density will revert back to the Variable Density standards in place prior to adoption of the 2011 General Plan Update.

To further develop the AUD Program components, Staff sought feedback and direction from the Planning Commission, Design Review Boards, a technical advisory group of community members, and the public. In addition, a community forum was held with employers, developers and lenders to identify ways to create a viable and successful Employers Sponsored Housing Program.

On July 26, 2012, the Planning Commission conceptually reviewed the main components of the AUD Program and provided feedback and direction to Staff in order to proceed with the preparation of the draft ordinance amendments. On April 11, 2013, the Planning Commission reviewed the draft AUD Program Ordinance and unanimously voted to forward the ordinance with revisions to the Council Ordinance Committee for consideration.

On May 14, 2013, the Ordinance Committee met to consider the key AUD Program components including density and maximum average unit sizes, priority housing types,

development standard incentives, and building heights. On June 11, 2013, the Ordinance Committee considered the draft AUD Program Ordinance and after hearing from the public and discussing the key components of the Program voted unanimously to forward to Council the draft ordinance amendments implementing the AUD Program with changes. The discussion below highlights the key comments and direction provided by the Ordinance Committee.

Housing Types

A primary goal of the 2011 General Plan is to encourage the construction of affordable workforce housing, with special emphasis on priority housing. This type of housing is considered a community benefit land use and is supported by numerous policies and programs in both the Land Use and Housing Elements, directing the implementation of the AUD Program. These types of multi-unit housing fall into two categories: market rate units and priority housing.

Market Rate Units

Market rate units are permitted under the AUD Program. These units would be constructed in the Medium-High and High Density designated areas, and in exchange would be required to provide smaller unit sizes to qualify for the density and development standard incentives allowed under the program. Also, market rate units, excluding employer sponsored housing, would be subject to the inclusionary housing ordinance.

Priority Housing

The primary objective of the Priority Housing Overlay is to encourage the construction of long-term affordable housing, in particular rental units, employer sponsored housing, and limited equity housing cooperatives. Under the AUD Program this type of housing would allow increased densities of up to 63 dwelling units per acre.

- **Rental Units:** Rental units developed under the AUD Program would not be price or income restricted. However, in order to qualify for the Priority Housing Overlay density incentive, the owner must agree to maintain the unit as rental for the life of the project.
- **Employer Sponsored Housing:** This type of housing would be developed by an employer or group of employers and offered to households that include at least one person employed in the south coast region of Santa Barbara County and is the primary residence for the occupants. Additionally, employer sponsored housing developed as ownership units would not be subject to the City inclusionary housing requirements.

- Limited Equity Housing Cooperatives: This type of housing is defined as shared ownership of the entire project where individuals occupy one unit and take part in the management decisions. Limited equity housing cooperatives restrict resale price, which helps maintain a specified level of affordability to subsequent shareholders. To qualify for the density incentives allowed under the AUD Program, these units must be affordable to households earning up to 250% of the Area Median Income as defined in the City's Affordable Housing Policies and Procedures.

The Ordinance Committee concurred with the parameters of the priority housing types as described above.

Unit Size

As part of the 2011 General Plan adoption, the City Council approved density ranges for the Medium-High (15-27 du/ac), and High Density (28-36 du/ac) designations, as well as the Priority Housing Overlay (37-63 du/ac). The corresponding maximum average unit sizes for each density tier were later finalized by Staff with assistance from a technical advisory group.

On April 11, 2013, the maximum average unit size ranges were found to be reasonable and appropriate by the majority of the Planning Commission. However, two Commissioners felt that the maximum average unit size range (805 SF to 1,450 SF) for the Medium-High density tier should be larger and suggested an increase to facilitate marketability of these units.

The Ordinance Committee also discussed Medium-High unit sizes and recommended larger units to improve the marketability of two-bedroom, two-bath units. The proposed sizes are approximately 235 SF per unit larger at the highest density of 27 du/ac. Accordingly, the overall habitable area would be increased from 21,735 SF to 28,080 SF (see Exhibit B in the proposed AUD Program Ordinance).

Staff continues to believe this is fundamentally a policy issue, not a matter of competing proforma estimates to predict the future marketability of smaller or larger units. Larger unit sizes translate to larger buildings and greater neighborhood compatibility challenges. In addition, increasing unit sizes will likely result in higher-end, market rate units. Therefore, Staff recommends retaining the originally proposed maximum average unit sizes as depicted on Attachment 1.

Development Standards

Policies contained in the Housing Element promote more flexibility in development standards to encourage and facilitate the construction of additional housing. In support of these policies, the AUD Program offers incentives and/or flexibility in the application of development standards related to parking, setbacks, open space, distance between

buildings and building height. On June 11, the Ordinance Committee reviewed and accepted the proposed AUD Program development incentives with revisions as described below.

Parking Requirements

As part of the 2011 General Plan adoption, the City Council established the parking requirement for AUD projects at a minimum of one parking space per unit and no guest parking. The AUD Program reflects the Council's direction. Please note that projects may choose to provide more than one parking space per residential unit, however the reduction in parking is intended to assist with unit affordability as well as help decrease building mass. In addition, AUD projects would be required to provide bicycle parking at a ratio of 1 bicycle parking space per unit.

The Ordinance Committee supported the proposed parking requirement, recognizing that reduced parking is a "tradeoff" in order to achieve priority types of workforce housing. The Committee also acknowledged that bicycle parking could serve as an amenity and be part of the solution to reduce the number of cars both on site and on the street.

Setback Requirements

The setback requirement for AUD projects is intended to provide more flexibility, especially for 100% residential projects developed in commercial zones. To help simplify the ordinance and provide uniformity in the application of setback requirements for AUD projects developed in certain commercial zones, Staff recommended a 5 foot variable front setback for the R-O, C-P, C-L, C-1, C-2, C-M and S-D-2 zones (See Attachment 2 and 3). The Ordinance Committee concurred with this recommendation. Subsequent to their meeting, concern was expressed by Planning Commissioner Lodge about applying the 5 foot variable setback to lots in the Upper State Street area subject to the S-D-2 overlay.

After further review of the 2007 Upper State Street Study, which identifies a possible transit lane as a longer-term circulation improvement in the area, the AUD Program Ordinance has been revised to reflect a 10 foot (non-variable) front setback for commercially zoned lots in the S-D-2 overlay areas, instead of the 5 foot variable front setback reviewed and accepted by the Ordinance Committee. The recommended 10 foot (non-variable) front setback would provide both an AUD Program setback incentive and preserve the option for a future transit lane.

Open Space Requirements

Projects developed under the AUD Program and electing to use the Private Outdoor Living Space Method (Method A) would be allowed to eliminate the 10% on grade open space requirement. Offering this incentive would provide flexibility in project design,

thus facilitating additional residential units as part of the project. Because the 10% open space requirement was originally intended for residential uses in the multi-family zones, rather than commercial zones, Staff believes that eliminating this requirement would be a reasonable incentive in order to gain additional affordable and workforce units.

Projects applying the Common Outdoor Living Space Method (Method B) would be allowed to provide the 15% common outdoor living space on grade or any floor of the building. Applying this method has been problematic for projects, especially those proposing at-grade parking garages. To accommodate the 15% common outdoor living space requirement on the ground projects must decrease floor area, which could result in fewer residential units. Allowing the 15% common outdoor living space at grade or any floor of the building would help make possible more units in a project.

The Ordinance Committee supported the recommendation that the 10% open space requirement be eliminated as an incentive for AUD projects developed in commercial zones. Similarly, the Ordinance Committee agreed that modifying the 15% common outdoor living space requirement to allow AUD projects to provide it on grade or any floor of the building is appropriate. However, the Ordinance Committee did not support the recommendation to reduce the 15% common outdoor living space requirement to 10% if the subject project was within ¼ mile from a park.

Building Heights/Findings/Process

Implementation Action LG12.4 of the General Plan Land Use Element requires special findings and a super majority (five affirmative votes) approval by the Planning Commission for Community Benefit projects that exceed 45 foot in height. To implement LG12.4, amendments to the C-2, C-M, M-1, and OM-1 zoning districts are proposed limiting building height to 45 foot or less unless the project is a Community Benefit project. Currently, these zones allow four stories, not to exceed 60 foot in height. This aspect of the proposed ordinance is not limited to the AUD Program and Community Benefit housing projects. It also applies to nonresidential projects that are determined to be a Community Benefit.

On April 11, 2013, the Planning Commission discussed the process for building height exceptions and expressed concern regarding the super majority vote and the inability to appeal their decision to the City Council. During an informal straw vote, the Commission was split (3/3) that a super majority vote be required to approve building heights above 45 feet. Concern was voiced that this requirement is problematic when five affirmative votes are required and only four commissioners are present making it necessary to continue the item. Additionally, a majority of the Commission (4/2) was concerned that building height decisions would not be appealable to the City Council, stating that applicants should have the right to appeal this decision.

The Ordinance Committee also discussed the process for building height exceptions and voted 2/1 to recommend to the full Council that a simple majority of the Planning

Commission be required to approve building heights that exceed 45 feet in height. The Committee also agreed with the Planning Commission that building height decisions be appealable to the City Council.

OTHER ZONING ORDINANCE AMENDMENTS

As part of the AUD Program ordinance amendment package, amendments are recommended to applicable zoning ordinance chapters to ensure consistency with the AUD Program ordinance (e.g., building height provisions in the C-2, C-M, M-1 and OM-1 zones and the inclusionary housing ordinance). In addition, minor changes to the Municipal Code are proposed in order to provide additional clarification and/or promote uniformity within the code (See Attachment 4).

CONCLUSION

The AUD Program is an essential feature of the 2011 General Plan Update. Extensive community dialogue took place during the *Plan Santa Barbara* General Plan Update process, which identified the desire to balance the goals of providing housing opportunities for the City's workforce with "living within our resources" and protecting the character of the community. Both the updated Land Use and Housing Elements reflect these goals by providing specific direction to allow increased densities and development incentives in selected areas of the City, through smaller units and buildings, in an effort to produce additional priority type housing in an effective, sustainable, and appropriate manner.

- ATTACHMENT(S):**
1. Planning Commission & Staff Recommended Average Unit-Size Density Table, April 2013
 2. Setback Standards for AUD Program
 3. List of Zone Names
 4. Other Zoning Ordinance Amendments

PREPARED BY: Irma Unzueta, Project Planner

SUBMITTED BY: Paul Casey, Assistant City Administrator/Community Development Director

APPROVED BY: City Administrator's Office

**PLANNING COMMISSION AND STAFF RECOMMENDED
AVERAGE UNIT-SIZE DENSITY (AUD) INCENTIVE PROGRAM TABLE
APRIL 2013**

Medium-High Density (15-27 du/ac)		High Density (28-36 du/ac)		Priority Housing Overlay (37-63 du/ac)	
Maximum Average Unit Size SF	Density du/ac	Maximum Average Unit Size SF	Density du/ac	Maximum Average Unit Size SF	Density du/ac
1,450	15	1,245	28	970	37
1,360	16	1,200	29	970	38
1,280	17	1,160	30	970	39
1,210	18	1,125	31	970	40
1,145	19	1,090	32	970	41
1,090	20	1,055	33	970	42
1,040	21	1,025	34	970	43
990	22	995	35	970	44
950	23	970	36	970	45
910	24			970	46
870	25			970	47
840	26			970	48
805	27			969	49
				960	50
				941	51
				935	52
				917	53
				901	54
				896	55
				880	56
				874	57
				859	58
				845	59
				840	60
				827	61
				825	62
				811	63

SETBACK STANDARDS FOR AUD PROGRAM				
Zone	Proposed AUD Setback	Existing Front Setback	Existing Interior Setback Adjacent to Residential	Existing Interior Setback Adjacent to Nonresidential
R-O	Front Setback 5' variable setback Interior (Res) 6' setback Interior (Nonres) No setback	1 & 2 story = 10' 3+ stories = 15'	All buildings = 10' or ½ building height*	1 & 2 story = 6' 3+ stories = 10'
C-P	Same as above	All buildings = 10'	All buildings = 10' or ½ building height*	Mixed use = None All Res. = R3/R4
C-L	Same as above	All buildings = 10'	All buildings = 10' or ½ building height*	Mixed Use = None All Res. = R3/ R4
C-1	Same as above	All buildings = 10'	All buildings = 10' or ½ building height*	Mixed Use = None All Res. = R3/R4
C-2	Same as above**	Mixed Use = None All Res. = R3/R4	All buildings = 10' or ½ building height*	Mixed Use = None All Res. = R-3/R-4
C-M	Same as above**	Mixed Use = None All Res. = R3/R4	All buildings = 10' or ½ building height*	Mixed Use = None All Res. = R-3/R-4
S-D-2	Front Setback 10' setback Interior (Res) 6' setback Interior (Nonres) No setback	1 story ≤ 15' = 15' 2 & 3 story > 15' = 20'	As required by base zone	As required by base zone

* Whichever distance is greater (10' or ½ building height).

** No front setback for lots on State Street between Montecito and Sola Streets and first blocks east and west crossing State Street between and including Montecito and Sola Streets.

Zone	Proposed AUD Setback	Existing Front Setback	Existing Interior Setback	Existing Rear Setback
R-3 & R-4	<p>Front Setback Ground floor = 10' 2nd story = 10' 3^{rd+} story = 20'</p> <p>Interior Setback Ground floor = 6' 2nd story = 6' 3^{rd+} story = 10'</p> <p>Rear Setback Ground floor = 6' 2nd story = 10' 3^{rd+} story = 10'</p>	<p>1 & 2 story = 10' 3+ stories = 15'* *Ground floor = 10' 2nd story = 10' 3rd story = 20'</p>	<p>1 & 2 story = 6' 3+ stories = 10'* *Ground floor = 6' 2nd story = 6' 3rd story = 10'</p>	<p>Ground floor = 6' 2 story portion = 10' 3 story portion = 10'</p>

**If net floor area of 3rd floor is less than 50% of net floor area of 1st floor, the setback is reduced.
 **Whichever distance is greater (10' or 1/2 building height).*

LIST OF ZONE NAMES

A-1, A-2, E-1, E-2, E-3 and R-1	One-Family Residence Zones
R-2	Two-Family Residence Zone
R-3	Limited Multiple-Family Residence Zone
R-4	Hotel-Motel-Multiple Residence Zone
HRC-1 and HRC-2	Hotel and Related Commerce Zones
R-H	Resort-Residential Hotel Zone
PUD	Planned Unit Development Zone
PR	Park and Recreation Zone
P-D	Planned Development Zone
S-H	Senior Housing Zone
S-D-3 Zone Designation	Coastal Overlay Zone
S-D	Special District Zone
R-O	Restricted Office Zone
C-O	Medical Office Zone
C-P	Restricted Commercial Zone
C-L	Limited Commercial Zone
C-X	Research and Development and Administrative Office Zone
C-1	Limited Commercial Zone
C-2	Commercial Zone
C-M	Commercial Manufacturing Zone
H-C	Harbor Commercial Zone
OC	Ocean-Oriented Commercial Zone
M-1	Light Manufacturing Zone
OM-1	Ocean-Oriented Light Manufacturing

OTHER ZONING ORDINANCE AMENDMENTS

As part of the AUD Program Ordinance Amendment package, the following associated and/or minor amendments are proposed:

Building Heights: Zoning Ordinance sections §28.66.050, §28.69.050, §28.72.050, and §28.73.050 are proposed to be amended to restrict building height to 45 feet unless the building is a Community Benefit project.

Inclusionary Housing Units: Amend section §28.43.040 in the Inclusionary Housing Ordinance to include an additional exception exempting Employer Sponsored Housing projects from the inclusionary housing requirements.

Open Yard Encroachment: Amend section §28.87.062.C in the General Provisions section of the Zoning Ordinance to clarify open yard encroachment requirements in the Single-Family, Two-Family (R-2), and Multi-Family (R-3/R-4) residential zones.

Uncovered Balconies: Amend §28.21.081.A.g to remove item number 1 stating, “*Uncovered balconies may encroach up to two (2) feet into any setback*”. This provision is not appropriate for this section of the code and has made its application problematic. A similar provision is currently found in the General Provisions section of the Zoning Ordinance where its application is more appropriate.

Open Space: Amend sections §28.21.081.A.2.b (10) and §28.21.081.B.5.c. to include language consistent with §28.21.081.A.1.f. as follows, “*...or other cantilevered architectural or building projections not providing additional floor area...*”.

Common Open Area: Amend §28.21.081.A.3 to clarify that the common open area requirement applies to lots developed with four or more dwelling units. Also, amend §28.21.081.A.3 and §28.21.081.B.4 to clarify that front setback (not the front yard) shall be excluded from the common open area.

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AN ORDINANCE OF THE COUNCIL OF THE CITY OF SANTA BARBARA ADDING CHAPTER 28.20 TO THE SANTA BARBARA MUNICIPAL CODE TO IMPLEMENT THE CITY'S 2011 GENERAL PLAN AVERAGE UNIT-SIZE DENSITY INCENTIVE PROGRAM; AMENDING SECTION 28.43.040 REGARDING EXEMPTIONS TO THE CITY'S INCLUSIONARY ORDINANCE; AMENDING SECTIONS 28.66.050, 28.69.050, 28.72.050, AND 28.73.050 CONCERNING BUILDING HEIGHT STANDARDS FOR COMMUNITY BENEFIT PROJECTS IN THE C-2, C-M, M-1, AND OM-1 ZONES; AND AMENDING SECTION 28.87.062 CONCERNING ENCROACHMENTS IN OPEN YARDS.

THE COUNCIL OF THE CITY OF SANTA BARBARA DOES ORDAIN AS FOLLOWS:

SECTION 1. Title 28 of the Santa Barbara Municipal Code is amended by adding a new Chapter 28.20, to read as follows:

Chapter 28.20
Average Unit-Size Density Incentive Program.

Section 28.20.010 Purpose.

The Average Unit-Size Density Incentive Program is intended to encourage the development of new and more-affordable residential units by allowing increased residential densities and reduced open space and parking requirements in selected areas of the City. The program will be in effect for a trial period of either eight years or until 250 residential units have been constructed in the areas designated for High Density residential [as defined in SBMC §28.20.060(B)] or the Priority Housing Overlay[as defined in SBMC §28.20.060(C)], as shown on the City's Average Unit-Size Density Incentive Program Map whichever occurs earlier.

Section 28.20.020 Definitions.

For purposes of this Chapter 28.20, the following words or phrases shall have the respective meanings assigned to them in

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the following definitions unless, in a given instance, the context in which they are used indicates a different meaning:

A. Affordable Housing. Residential units that are sold or rented at values defined as being affordable by the City of Santa Barbara's Affordable Housing Policies and Procedures, as such policies and procedures may be approved by the City Council from time to time.

B. Average Unit Size. The total of the net floor area of each of the residential units in a project and divided by the number of residential units in that project.

C. Community Benefit Housing. Residential development that has a public benefit including the following housing types:

1. Priority Housing;
2. Housing affordable to low, moderate, or middle income households as defined in SBMC Chapter 28.43; and
3. Transitional Housing, affordable efficiency dwelling units (as described in Section 28.87.150 of this Code), and supportive housing which supports special needs populations such as housing for seniors, the physically or mentally disabled, the homeless, or children aging out of foster care.

D. Employer-Sponsored Housing. Residential units which are developed, owned, maintained, and initially sold or rented to employees of a local Employer (or group of employers) where each residential unit is occupied as a primary residence (as defined by federal income tax law) by a household that includes at least one person who works on the south coast region of Santa Barbara County.

E. Net Floor Area. For purposes of this Average Unit-Size Density Program, net floor area is the area in square feet of all floors confined within the exterior walls of a residential unit, but not including the area of the following: exterior walls, vent shafts, courtyards, garages, carports, common areas not controlled by the occupant of an individual residential unit, and any areas with a ceiling height of less than five (5) feet above the finished floor. In addition, the area occupied by stairs or an elevator shaft within the exterior walls of a

residential unit shall be counted only on one floor of the residential unit.

F. Limited-Equity Housing Cooperative. A corporation organized on a cooperative basis that meets the requirements of state Civil Code § 817 and which restricts the resale price of the cooperative's shares in order to maintain a specified level of affordability to any new shareholder.

G. Local Employer. A person, business, company, corporation or other duly formed legal entity which employs persons whose primary place of employment is located within the South Coast region of Santa Barbara County.

H. Priority Housing. Priority Housing includes the following three categories of housing: 1. Employer-Sponsored Housing; 2. Limited-Equity Housing Cooperatives; and 3. Rental Housing.

I. Rental Housing. Housing developed and maintained as multiple dwelling units on the same lot for occupancy by separate households pursuant to a lease on other rental agreements where all dwelling units are owned exclusively by the same legal entity.

J. Supportive Housing. As defined in state Health and Safety Code Section 50675.14(b)(2).

K. Transitional Housing. That type of Supportive Housing that is re-circulated to other eligible program participants as specified and defined in state Health and Safety Code Section 50675.2(h).

Section 28.20.030 Permitted Zones for the Program.

The Average Unit-Size Density Incentive Program as established herein is a density incentive program available in the following zones of the City: R-3, R-4, HRC-2, R-O, C-P, C-L, C-1, C-2, C-M, and OC Zones, as shown on the City of Santa Barbara Average Unit-Size Density Incentive Program Map attached hereto as Exhibit A. The fact that a lot may be subject to an overlay zone, including, but not limited to, the S-D-2 or S-D-3 Overlay Zones, does not preclude the application of the Average Unit-Size Density Incentive Program on that lot if the Average Unit-Size Density Incentive Program is otherwise allowed in the base zoning of that lot. Development Projects developed in

accordance with the provisions of the Average Unit-Size Density Incentive Program shall comply with the development standards specified in this Chapter 28.20.

Section 28.20.040 Program Duration.

A. Initial Program Period. The Average Unit-Size Density Incentive Program shall have an initial duration of eight years after the effective date of the ordinance codifying this Chapter or until 250 new residential units under this program are constructed (as evidenced by the issuance of a Certificate of Occupancy) within the areas of the City designated for High Density Residential or the Priority Housing overlay (as shown on the City of Santa Barbara Average Unit-Size Density Incentive Program Map attached to this Chapter as Exhibit A) whichever occurs sooner.

B. Exclusion of Low and Very Low Housing Units. Housing projects that are affordable to low-income and very low-income households, as defined in the City's Affordable Housing Policies and Procedures, will not count towards the 250 unit Program limit established in subsection A above.

C. Pending Applications. Any application for new development that is deemed complete prior to the expiration of the Program term established in subsection A or the issuance of the certificate of occupancy for the 250th residential unit (whichever occurs sooner) may continue to be processed and potentially approved under the Average Unit-Size Density Incentive Program.

Section 28.20.050 Status of R-3 and R-4 Residential Density.

Notwithstanding the provisions of SBMC Section 28.21.080 of this Title, for the duration of the Average Unit-Size Density Incentive Program established in Section 28.20.040(A) above, the following incentive program is available regarding the residential density of new development projects in zones of the City which otherwise would apply the R-3 residential density:

A. Average Unit-Size Density Incentive Program. Projects developed in accordance with the provisions of the Average Unit-Size Density Incentive Program established in Section 28.20.060 hereof are exempt from the standard R-3 residential density

provisions specified in Subsections B through E of Section 28.21.080 of this Title.

B. Variable Density. *The variable density provisions specified in Subsection F of Section 28.21.080 of this Code shall be suspended for the period of time the Average Unit-Size Density Incentive Program established by this Chapter is available. Projects developed or approved in accordance with the terms of variable density prior to the effective date of this Chapter shall remain legal conforming land uses. During the suspension of Subsection F of SBMC Section 28.21.080, alterations and additions to variable density projects are permitted provided the alterations or additions do not add new residential units or add bedrooms to existing residential units developed under the Variable Density Program.*

C. Development of Affordable Housing. *Projects that meet the affordability criteria of the State Density Bonus Law or the City's Affordable Housing Policies and Procedures may continue to propose development pursuant to the density incentives established in Section 28.87.400 of this Title.*

Section 28.20.060 Average Unit Size Density Incentives.

The Average Unit-Size Density Incentive Program offers project applicants dwelling unit density incentives as alternatives to the base residential densities specified for the particular City zones in which the program is available. The Average Unit-Size Density Incentive Program consists of three density tiers which may apply based upon the City's General Plan land use designation for the lot and the nature of the development being proposed as follows:

A. Medium-High Density. *The Medium High density tier applies to those lots with a City General Plan land use designation of Medium High density residential. The Medium-High density tier allows the development of projects at residential densities ranging from fifteen (15) to twenty-seven (27) dwelling units per acre. The maximum average unit-size within the Medium-High density tier varies from 1,550 square feet of floor area to 1,040 square feet of floor area, depending upon the number of units per acre being developed, as specified in the Average Unit-Size Density Incentive Program Table attached to this Chapter as Exhibit B and incorporated by this reference as*

though fully set forth herein.

B. High-Density. *The High-Density tier applies to those lots with a City General Plan land use designation of High-Density residential. The High-Density tier allows the development of projects at residential densities ranging from twenty-eight (28) to thirty-six (36) dwelling units per acre. The maximum average unit-size within the high density tier varies from 1,245 square feet of floor area to 970 square feet of floor area, depending upon the number of units per acre being developed, as specified in the Average Unit-Size Density Incentive Program Table attached to this Chapter as Exhibit B.*

C. Priority Housing Overlay. *The Priority Housing Overlay applies to lots within the City with a City General Plan land use designation of High-Density residential and lots zoned C-M (regardless of the General Plan land use designation) as shown on the City of Santa Barbara Average Unit-Size Density Incentive Program Map attached to this Chapter as Exhibit A. The Priority Housing Overlay allows the development of projects at residential densities ranging from thirty-seven (37) to sixty-three (63) dwelling units per acre. The maximum average unit-size within the Priority Housing Overlay varies from 970 square feet of floor area to 811 square feet of floor area, depending upon the number of units per acre being developed, as specified in the Average Unit-Size Density Incentive Program Table attached to this Chapter as Exhibit B. The Priority Housing Overlay is only available for Rental Housing, Employer-Sponsored Housing, or Limited-Equity Cooperative Housing. A project developed under the Priority Housing Overlay may have a mixture of Priority Housing categories (i.e., a portion of the project may be Rental Housing while another portion of the project may be Employer-Sponsored housing.)*

D. Process to Establish Priority Housing. *For the purposes of this Chapter, the different forms of Priority Housing shall be established in the following manner:*

1. **Employee Sponsored Housing.** *In order to qualify for the density incentives allowed under the Average Unit-Size Density Incentive Program, the applicant for a proposed Employer Sponsored Housing project should typically propose a project which contains a range of dwelling unit sizes and which offers a range of rents or purchase prices some of which are affordable to a*

household earning 200% of the Area Median Income or less at the time of the initial occupancy of the project. The owner of an approved Employee Sponsored Housing project must record a written instrument against the real property, in a form acceptable to the City Attorney, by which the employer sponsor(s) that owns the real property agrees to limit the occupancy of each residential unit to a household who occupies the unit as their primary residence and which includes at least one person who is employed on the south coast region of Santa Barbara County for as long as the property is developed and maintained at the incentive densities.

2. **Limited Equity Housing Cooperative.** In order to qualify for the density incentives provided under the Average Unit-Size Density Program, all of the dwelling units within the limited-equity housing cooperative must be affordable to households earning up to 250% of the Area Median Income measured at the time of purchase, as affordability is defined in the City's Affordable Housing Policies and Procedures and a covenant containing this requirement (in a form acceptable to the City Attorney) shall be recorded against the real property to this effect.

3. **Rental Housing.** In order to qualify for the Priority Housing Overlay density incentives allowed under the Average Unit-Size Density Incentive Program, the owner of real property developed with rental housing must record a written covenant, in a form acceptable to the City Attorney, by which the owner agrees to maintain the rental housing use for as long as the property is developed and maintained at the incentive densities provided for in this Chapter.

E. Dwelling Unit Sizes. The unit sizes shown in the Average Unit-Size Density Incentive Program Table are the maximum average unit sizes allowed for the corresponding residential densities specified in the applicable density tier. Projects may be developed under the Average Unit-Size Density Incentive Program at a residential density that is greater than the base density for the zone in which the lot is located, but at a residential density that is less than the density range specified in the density tier assigned to the lot by its City General Plan land use designation. However, the average unit

size of any project that is developed at a residential density which exceeds the SBMC Chapter 28.21 base density for the zone in which the lot is located through the application of the Average Unit-Size Density Incentive Program may not exceed the maximum average unit size for the applicable residential density tier as specified in the Average Unit-Size Density Incentive Program Table attached to this Chapter as Exhibit B.

Section 28.20.065 Average Unit Size and Inclusionary Housing Projects.

If a project developed in accordance with the Average Unit-Size Density Incentive Program of this Chapter is required to comply with the City's Inclusionary Housing Ordinance (SBMC Chapter 28.43) and if the owner of the Project elects to provide the inclusionary units on-site as part of the project (as opposed to paying the allowed in-lieu fee allowed by SBMC Chapter 28.43), the increased number of dwelling units to which the owner is entitled under SBMC Chapter 28.43 shall also comply with the maximum average unit size for the base density of the project under the Average Unit-Size Density Incentive Program.

Section 28.20.070 Additional Development Incentives.

In order to further encourage the development of projects in accordance with the provisions of this Average Unit-Size Density Incentive Program, the development standards listed in this Section 28.20.070 are allowed for those projects developed and maintained in accordance with the Average Unit-Size Density Incentive Program. Except as otherwise specified in this Section, projects developed in accordance with the provisions of the Average Unit-Size Density Incentive Program shall otherwise comply with the development standards applicable to the base zone in which the lot is located.

A. Building Height. Projects developed and maintained in accordance with the Average Unit-Size Density Incentive Program shall conform to the building height standards specified within the zone in which the lot is located, except that Average Unit-Size Density Incentive Program projects in the R-3, R-4, HRC-2, R-O, C-P, C-L, C-1, S-D-2, and OC Zones may be built with up to four stories so long as such buildings do not exceed a maximum of 45 feet in building height.

B. Setbacks. Projects developed and maintained in accordance

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with the Average Unit-Size Density Incentive Program shall observe the following building setback standards:

1. R-O, C-P, C-L, C-1, C-2, C-M, and S-D-2 Zones. Projects developed in accordance with the Average Unit-size Density Incentive Program in the R-O, C-P, C-L, C-1, C-2, C-M, and S-D-2 Zones shall observe the following building setback standards:

a. Front Setback.

i. State Street and First Blocks of Cross Streets. Projects on lots fronting State Street between Montecito Street and Sola Street and lots fronting the first block east or west of State Street on streets that cross State Street between and including Montecito Street and Sola Street shall not be required to provide a front building setback.

ii. Commercially Zoned Lots Subject to the S-D-2 Overlay Zone. Projects developed on commercially zoned lots and subject to the S-D-2 overlay zone shall observe a front setback of ten (10) feet.

iii. All Other Lots. Project on lots that do not front on the streets specified in Section 28.20.070(B)(1)(a)(i) shall observe the following front building setback standard: A uniform front setback of five (5) feet shall be provided except where that portion of the structure which intrudes into the required five (5) foot front setback is appropriately balanced with a front building setback area that exceeds the minimum five (5) foot front setback. The additional compensating setback area shall not be located farther from the adjacent front lot line than one half of the length of the front lot line.

b. Interior Setback Adjacent to Nonresidential Zone. No setback required.

c. Interior Setback Adjacent to Residential Zone. Six (6) feet.

2. R-3 and R-4 Zones. Projects on lots developed in accordance with the Average Unit-size Density Incentive Program in the R-3 and R-4 Zones shall observe the following building setbacks:

a. Front Setback. A front setback of not less than the

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indicated distance indicated below shall be provided between the front lot line and all buildings, structures, and parking areas on the lot as follows:

- i. One or two story buildings or structures: ten (10) feet
- ii. Three or more story buildings or structures:
 - (1) Ground floor portions: ten (10) feet
 - (2) Second story portions: ten (10) feet
 - (3) Third or more story portions: twenty (20) feet
 - (4) Parking: As required by Sections 28.21.060.A.3 & 28.21.060.A.4 of this Title.

b. Interior Setback. An interior setback of not less than the distance indicated below shall be provided between the interior lot line and all buildings, structures, and parking on the lot as follows:

- i. One or two story buildings or structures: six (6) feet
- ii. Three or more story buildings or structures
 - (1) Ground floor portions: six (6) feet
 - (2) Second story portions: six (6) feet
 - (3) Third or more story portions: ten (10) feet
 - (4) Garages, carport or uncovered parking: As required by Section 28.21.060.B.3. of this Title.

c. Rear Setback. A rear setback of not less than the indicated distance shall be provided between the rear lot line and all buildings, structures, and parking on the lot as follows:

- i. Ground floor portions: six (6) feet
- ii. Second story portions: ten (10) feet
- iii. Third or more story portions: ten (10) feet
- iv. Garage, carport, or uncovered parking: three (3) feet

3. HRC-2 and O-C Zones. Lots developed in accordance with the Average Unit-Size Density Incentive Program in the HRC-2 and OC Zones shall observe the setback standards required by the applicable base zone.

C. Distance Between Buildings on the Same Lot.

No main building (as defined in SBMC section 28.04.145) shall be closer than ten feet (10) to any other main building on the same lot.

D. Parking.

As an alternative to the residential parking requirements specified in Subsections G and H of Section 28.90.100 of this Title, projects developed under the Average Unit-Size Density Incentive Program may observe the following residential parking requirements:

- 1. Residential Units.** *A minimum of one covered or uncovered parking space shall be provided for each residential unit.*
- 2. Bicycle Parking.** *A minimum of one covered and secured bicycle parking space shall be provided for each residential unit.*
- 3. Guest Parking.** *Guest parking is not required.*
- 4. Other Parking Standards.** *Other than the residential parking requirements specified in Subsections G and H of Section 28.90.100, projects developed under the Average Unit-Size Density Incentive Program shall observe the parking standards specified in Chapter 28.90 of this Title.*

E. Outdoor Living Space.

Projects developed in accordance with the Average Unit-Size Density Incentive Program shall provide outdoor living space in accordance with the provisions of the R-3/R-4 Zone as stated in Section 28.21.081 of this Title with the following exceptions:

- 1. All projects in commercial zones electing to provide outdoor living space pursuant to the Private Outdoor Living Space Method specified in Subsection A of SBMC Section 28.21.081 are required to provide both the Private Outdoor Living Space specified in SBMC Section 28.21.081(A)(1) and the Common Open Area specified in SBMC Section 28.21.081(A)(3). Projects developed under the Average Unit-Size Density Incentive Program which elect to provide outdoor living space pursuant to the Private Outdoor Living Space Method of SBMC Section 28.21.081 (A)(1) may, but are not required to, provide the Open Space specified in SBMC Section 28.21.081(A)(2).*

2. All projects in commercial zones electing to provide outdoor living space pursuant to the Common Outdoor Living Space Method specified in Subsection B of SBMC Section 28.21.081 shall provide common outdoor living space in accordance with Subsection B of that Section. In addition, for projects developed in accordance with the Average Unit-Size Density Incentive Program, the required common outdoor living space may be located at either grade or on any floor of the building(s), notwithstanding SBMC Section 28.21.081(B)(4) to the contrary.

SECTION 2. Section 28.21.081 of Chapter 28.21 of Title 28 of the Santa Barbara Municipal Code is amended to read as follows:

Section 28.21.081 Outdoor Living Space.

Every lot in this zone shall provide outdoor living space in accordance with either of the following methods:

A. Private Outdoor Living Space Method. Lots providing outdoor living space in accordance with this method shall provide each of the spaces described in paragraphs 1-3 below:

1. Private Outdoor Living Space. Private outdoor living space shall be provided for each dwelling unit as follows:

a. Minimum size. The private outdoor living space shall be not less than the size specified below based on the number of bedrooms in the dwelling unit and the location where the private outdoor living space is provided:

(1) Ground floor:

- (a) Studio unit - 100 square feet
- (b) 1 Bedroom unit - 120 square feet
- (c) 2 Bedroom unit - 140 square feet
- (d) 3 or more Bedroom unit - 160 square feet

(2) Second or higher story:

- (a) Studio unit - 60 square feet
- (b) 1 Bedroom unit - 72 square feet
- (c) 2 Bedroom unit - 84 square feet
- (d) 3 or more Bedroom unit - 96 square feet

b. Minimum Dimensions. The private outdoor living space shall have minimum dimensions as specified below, measured in

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perpendicular directions based on the location where the private outdoor living space is provided:

- (1) Ground floor: 10 feet
- (2) Second or higher story: 6 feet

c. Connectivity. Private outdoor living space shall be contiguous to and accessible from the dwelling unit for which it is provided.

d. Multi-story dwelling units. Dwelling units that occupy more than one story may provide the required private outdoor living space on any story.

e. Allowed amenities. Private outdoor living space may include planter areas totaling no more than fifty (50) square feet, patio areas, balconies, and decks.

f. Exclusions. Private outdoor living space shall not include stairs, entrance decks, or landings. In addition, private outdoor living space shall not include areas located under eaves, balconies, or other cantilevered architectural or building projections not providing additional floor area where the vertical clearance under the architectural or building projection is less than seven feet.

g. Allowed setback encroachments. Private outdoor living space may encroach into setbacks as follows:

~~(1) Uncovered balconies may encroach up to two (2) feet into any setback.~~

~~(2) Private outdoor living space~~ (1) Private outdoor living space provided on grade may encroach into interior and rear setbacks up to the property line.

~~h. On grade private outdoor living space in the front yard.~~ (2) Private outdoor living space provided on grade may be located up to ten (10) feet from the front lot line, subject to the following conditions:

~~(1)~~ (a) The area of the private outdoor living space located in the front yard may not exceed more than 50% of the front yard area, excluding driveways.

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~~(2)~~ (b) The private outdoor living space provided in the front yard shall be enclosed by a solid fence having a minimum height of five (5) feet and a maximum height of six (6) feet. The exterior of the fence shall be landscaped. However, the design review body that reviews the project may reduce or waive the requirement for a fence or landscaping in order to preserve substantial views from the unit being served by the private outdoor living space or if the area does not abut a street.

2. Open Space. In addition to all setbacks, every lot satisfying the outdoor living space requirement in accordance with this private outdoor living space method shall provide on grade open space of an area not less than ten percent (10%) of the net lot area in accordance with the provisions of this paragraph 2. The intent of this provision is to provide relief from building volume, driveways and parking beyond that afforded by setbacks.

a. The required open space may consist of landscaped or hardscaped areas unobstructed from the ground upwards, including, but not limited to:

- (1) Walks,
- (2) Patios,
- (3) Planted areas,
- (4) Decks no more than 18" above grade at all points,

and

- (5) Swimming pool areas.

b. The required open space shall not consist of the following:

- (1) Garages,
- (2) Carports,
- (3) Driveways,
- (4) Loading areas,
- (5) Parking and turnaround areas,
- (6) Balconies,
- (7) Porches,
- (8) Decks higher than 18" above grade at any point,
- (9) Roof decks, or

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(10) Areas located under trellises, arbors, eaves, balconies, bay windows, window seats, or other cantilevered architectural or building projections not providing additional floor area where the vertical clearance under the structure or architectural or building projection is less than seven feet.

3. Common Open Area. The common open area requirement specified in this Paragraph 3 shall only apply to lots developed with four (4) or more dwelling units. Every lot satisfying the outdoor living space requirement in accordance with this private outdoor living space method shall provide a common open area in accordance with this paragraph 3. The common open area shall have a minimum dimension of fifteen (15) feet measured in perpendicular directions and shall be accessible to all dwelling units on the lot. The common open area may be located on grade, on the second or higher story, or on a roof deck. The On grade common open area may include portions of the interior setback or rear setback. On grade common open area may include portions of any remaining front yard, but shall not include any portion of the front setback areas, but shall not include any portion of a front yard except a secondary front yard. No portion of a common open area provided in a secondary front yard shall be located less than ten (10) feet from the front lot line. The common open area required in this paragraph 3 may be counted as part of the open space required in paragraph 2 as long as the other conditions of paragraph 2 are satisfied.

B. Common Outdoor Living Space Method. Lots providing outdoor living space in accordance with this method shall provide common outdoor living space in accordance with the following:

1. Accessibility. The common outdoor living space shall be accessible to all dwelling units on the lot.

2. Minimum Size. The common outdoor living space shall consist of at least fifteen percent (15%) of the net lot area.

3. Minimum Dimensions. The common outdoor living space may be provided in multiple locations on the lot, but at least one location shall have a minimum dimension of twenty (20) feet measured in perpendicular directions.

4. Location. Common outdoor living space must be located on

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grade. ~~Common~~On grade common outdoor living space may be located in an interior setback or rear setback., ~~but shall not include any portion of a front yard except a secondary front yard. No portion of the common outdoor living space provided in a secondary front yard shall be located less than ten (10) feet from the front lot line~~ On grade common outdoor living space may be located in the remaining front yard but shall not include any portion of the front setback.

5. Exclusions. Common outdoor living space shall not include any of the following areas:

a. Areas designed for use by motor vehicles, including, but not limited to, driveways, parking, and turnaround areas.

~~b. Decks, patios, terraces, or similar improvements where the maximum height of the improvement above grade is greater than 36 inches.~~

~~c.~~ Areas located under trellises, arbors, eaves, balconies, bay windows, window seats, or other architectural or building projections not providing additional floor area where the vertical clearance under the structure or architectural or building projection is less than seven feet.

SECTION 3. Section 28.21.120 of Chapter 28.21 of Title 28 of the Santa Barbara Municipal Code is amended to read as follows:

Section 28.21.120 Public Street Requirements.

~~1A.~~ When any person proposes to construct one (1) or more multiple-family dwellings, wherein the number of dwelling units is controlled by Section ~~28.20.060~~28.21.080.4, on a lot or combination of lots, the size, shape, dimensions or topography of which, in relation to existing abutting public streets, require that there be an adequate access or internal circulation roadway for vehicular traffic including but not limited to emergency vehicles and equipment traffic, the City's Chief ~~Building Official~~of Building and Zoning may, prior and as a condition to the issuance of a building permit for such dwelling or dwellings, require the submission by the owner or applicant of a plot plan of such lot or combination of lots showing the location of all existing buildings and all buildings proposed to be constructed thereon and showing the location, width, and

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extent of improvements of an adequate access or internal circulation roadway thereon designed to connect with the abutting public street or streets.

The term adequate access or internal circulation roadway shall mean a dedicated public street established and improved to City standards and so located as to provide convenient and orderly traffic movement, ingress and egress and circulation upon, through and within the lot or combination of lots in relation to abutting streets, the multiple-family dwelling or dwellings, and the off-street parking areas required in connection with such dwelling or dwellings.

The plot plan and adequate access or internal circulation roadway shall be required by the Chief ~~of Building and Zoning~~ Building Official where:

a1. The lot or combination of lots which is the site of the proposed construction exceeds five (5) acres; or

b2. The maximum possible number of dwelling units which could be constructed on such lot or combination of lots, pursuant to Section ~~28.21.080.428.20.060~~ -exceeds one hundred (100); or

e3. Any portion of a multiple-family dwelling proposed to be constructed on the lot or combination of lots will be more than two hundred and fifty feet (250') from the right-of-way line of an abutting street.

When none of the three (3) foregoing categories are applicable to the lot or combination of lots, the adequate access or internal circulation roadway as defined herein shall not be required where the lot or combination of lots abut on a previously dedicated street or streets and where the private driveway access from the nearest entry to the required off-street parking area to the point of connection with such street or streets does not exceed one hundred and fifty (150) lineal feet.

2B. When the plot plan required by the Chief ~~of Building and Zoning~~ Building Official is filed, the building official shall forthwith submit the same to the ~~Division of Land Use~~

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~~Controls~~Community Development Department and the Public Works Department for investigation, report and recommendation. Such reports and recommendations shall be submitted to the Planning Commission for hearing at its earliest convenience, and such Planning Commission shall, following such hearing, approve, modify or reject such proposed adequate access or internal circulation roadway in respect to location and connection with existing abutting street or streets.

3C. The owner or applicant may appeal any decision of the Planning Commission to the City Council in the manner provided by Chapter 28.921.30 of this ~~ordinance~~Code.

4D. Following approval by the Planning Commission or the City Council, as the case may be, of the proposed adequate access or internal circulation roadway shown on the plot plan, the owner or applicant shall:

a1. By formal instrument offer to dedicate said proposed roadway as a public street; and

b2. Either complete the required improvement of such public street to the satisfaction of the City Engineer or agree to complete such improvement within a period of one (1) year, such agreement to be secured by a good and sufficient surety bond in a principal sum equivalent to the estimated cost of such public street on the basis of estimates to be provided by the Department of Public Works, and conditioned on final completion of the construction of said street.

5E. Upon completion of such public street improvement to the satisfaction of the City Engineer, or the execution and acceptance of an agreement to complete, secured by bond, a building permit shall then be issued if the requirements of other applicable ordinances have been met. The offer of dedication shall continue until and shall not be accepted until the required improvements have been completed to the satisfaction of the City Engineer.

SECTION 4. Section 28.43.040 of Title 28 of the Santa Barbara Municipal Code is amended to read as follows:

28.43.040 Exemptions.

A. **PROJECTS EXEMPTED FROM INCLUSIONARY REQUIREMENTS.** The requirements of this Chapter shall not apply to the following types of development projects:

1. **Rental Units.** A project constructing Dwelling Units which may not be separately owned, transferred, or conveyed under the state Subdivision Map Act.

2. **Casualty Reconstruction Projects.** The reconstruction of any residential units or structures which have been destroyed by fire, flood, earthquake or other act of nature, which are being reconstructed in a manner consistent with the requirements of Santa Barbara Municipal Code Section 28.87.038.

3. **Voluntarily Affordable Projects.** Residential Developments which propose that not less than thirty percent (30%) of the units of the development will be deed restricted for occupancy by families qualifying as Upper Middle Income (or lower income) households pursuant to and in accordance with the City's Affordable Housing Policies and Procedures.

4. **Employer-Sponsored Housing Projects.** Employer Sponsored Housing Projects developed in accordance with the Average Unit-Size Density Incentive Program.

SECTION 5. Sections 28.66.050, 28.69.050, 28.72.050, and 28.73.050 of Title 28 of the Santa Barbara Municipal Code are amended to read as follows:

28.66.050 Building Height.

A. Maximum Building Height. No building in this zone shall exceed a height of four (4) stories nor shall any building exceed a height of sixty feet (60'.)

B. Community Benefit Projects. Notwithstanding the maximum building height specified in subsection A above, no building constructed in this zone after the effective date of the ordinance enacting this Chapter, shall exceed a height of forty five feet (45') unless the project qualifies as a Community

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Benefit Project or a Community Benefit Housing Project and a majority of the Planning Commission expressly makes all of the following findings:

1. Demonstrated Need. The applicant has adequately demonstrated a need for the project to exceed 45 feet in building height that is related to the project's benefit to the community, or due to site constraints, or in order to achieve desired architectural qualities;

2. Architecture and Design. The project will be exemplary in its design;

3. Livability. If the project includes residential units, the project will provide amenities to its residents which ensure the livability of the project with particular attention to good interior design features; such as the amount of light and air, or ceiling plate heights;

4. Sensitivity to Context. The project design will complement the setting and the character of the neighboring properties with sensitivity to any adjacent federal, state, and City Landmarks or any nearby designated Historic Resources, including City designated Structures of Merit.

C. Buildings Adjacent to Residential Zones. The Bbuilding height of a building which will be immediately adjacent to a residential zone~~(s)~~ shall not exceed ~~that~~the height allowed in the most restrictive adjacent residential zone for that part of the structure constructed within a distance of thirty (30) feet or one-half (1/2) the height of the proposed structure, whichever is less. Provided, however, a project which qualifies as a Community Benefit Project or a Community Benefit Housing Project under Subsection B above need not comply with this requirement.

D. Theater Additions. Notwithstanding the provisions of SBMC Section 28.04.140, a stage addition to a live performance theater shall not be considered as part of the height of the building ~~provided the following conditions are satisfied~~under the following circumstances: ~~(1)~~1. the stage addition is devoted solely to rigging fly systems, ~~(2)~~2. the addition is made to a theater that existed as of December 31, 2003 and ~~(3)~~3. the stage

addition does not exceed the height of the theater as such theater existed on December 31, 2003.

E. Timing and Procedure for Projects Requiring the Planning Commission Building Height Findings.

1. Conceptual Design Review. Prior to the Planning Commission considering an application for a Community Benefit Project or a Community Benefit Housing Project pursuant to this section a project shall receive conceptual design review by the Historic Landmarks Commission or the Architectural Board of Review as required by SBMC Title 22.

2. Planning Commission Consideration of Findings.

a. Design Review Projects. If a project only requires design review by the ABR or HLC under SBMC Title 22, the Planning Commission shall review and consider the building height findings of this Section after conceptual design review and before consideration of the project by the HLC or ABR for Project Design approval.

b. Staff Hearing Officer Projects. If a project requires the review and approval of a land use permit by the Staff Hearing Officer, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for the consideration of the land use permit by the Staff Hearing Officer.

c. Planning Commission Projects. If a project requires the review and approval of land use permit by the Planning Commission, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for review by the Development Application Review Team (DART) and before the consideration of the land use permit by the Planning Commission.

d. Appeals from the Planning Commission Determination. A decision of the Planning Commission regarding the building height findings is appealable to the City Council pursuant to the provisions of Chapter 1.30 of this Code.

28.69.050 Building Height.

A. Maximum Building Height. No building in this zone shall exceed a height of four (4) stories nor shall any building exceed a height of sixty feet (60'.)

B. Community Benefit Projects. Notwithstanding the maximum building height specified in subsection A above, no building constructed in this zone after the effective date of the ordinance enacting this Chapter, shall exceed a height of forty five feet (45') unless the project qualifies as a Community Benefit Project or a Community Benefit Housing Project and a majority of the Planning Commission expressly makes all of the following findings:

1. Demonstrated Need. The applicant has adequately demonstrated a need for the project to exceed 45 feet in building height that is related to the project's benefit to the community, or due to site constraints, or in order to achieve desired architectural qualities;

2. Architecture and Design. The project will be exemplary in its design;

3. Livability. If the project includes residential units, the project will provide amenities to its residents which ensure the livability of the project with particular attention to good interior design features; such as the amount of light and air, or ceiling plate heights;

4. Sensitivity to Context. The project design will complement the setting and the character of the neighboring properties with sensitivity to any adjacent federal, state, and City Landmarks or any nearby designated Historic Resources, including City designated Structures of Merit.

C. Buildings Adjacent to Residential Zones. The Bbuilding height of a building which will be immediately adjacent to a residential zone~~(s)~~ shall not exceed thatthe height allowed in the most restrictive adjacent residential zone for that part of the structure constructed within a distance of thirty (30) feet or one-half (1/2) the height of the proposed structure, whichever is less. Provided, however, a project which qualifies

as a Community Benefit Project or a Community Benefit Housing Project under Subsection B above need not comply with this requirement.

D. Timing and Procedure for Projects Requiring the Planning Commission Building Height Findings.

1. Conceptual Design Review. Prior to the Planning Commission considering an application for a Community Benefit Project or a Community Benefit Housing Project pursuant to this section, a project shall receive conceptual design review by the Historic Landmarks Commission or the Architectural Board of Review as required by SBMC Title 22.

2. Planning Commission Consideration of Findings.

a. Design Review Projects. If a project only requires design review by the ABR or HLC under SBMC Title 22, the Planning Commission shall review and consider the building height findings of this Section after conceptual design review and before consideration of the project by the HLC or ABR for Project Design approval.

b. Staff Hearing Officer Projects. If a project requires the review and approval of a land use permit by the Staff Hearing Officer, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for the consideration of the land use permit by the Staff Hearing Officer.

c. Planning Commission Projects. If a project requires the review and approval of land use permit by the Planning Commission, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for review by the Development Application Review Team (DART) and before the consideration of the land use permit by the Planning Commission.

d. Appeals from the Planning Commission Determination. A decision of the Planning Commission regarding the building height findings is appealable to the City Council pursuant to

the provisions of Chapter 1.30 of this Code.

28.72.050 Building Height.

A. Maximum Building Height. Four (4) stories and not to exceed sixty feet (60').

B. Community Benefit Projects. Notwithstanding the maximum building height specified in subsection A above, no building constructed in this zone after the effective date of the ordinance enacting this Chapter, shall exceed a height of forty five feet (45') unless the project qualifies as a Community Benefit Project or a Community Benefit Housing Project and a majority of the Planning Commission expressly makes all of the following findings:

1. Demonstrated Need. The applicant has adequately demonstrated a need for the project to exceed 45 feet in building height that is related to the project's benefit to the community, or due to site constraints, or in order to achieve desired architectural qualities;

2. Architecture and Design. The project will be exemplary in its design;

3. Livability. If the project includes residential units, the project will provide amenities to its residents which ensure the livability of the project with particular attention to good interior design features; such as the amount of light and air, or ceiling plate heights;

4. Sensitivity to Context. The project design will complement the setting and the character of the neighboring properties with sensitivity to any adjacent federal, state, and City Landmarks or any nearby designated Historic Resources, including City designated Structures of Merit.

C. Buildings Adjacent to Residential Zones. The Bbuilding height of a building which will be immediately adjacent to a residential zone(~~s~~) shall not exceed thatthe height allowed in the most restrictive adjacent residential zone for that part of the structure constructed within a distance of thirty (30) feet

or one-half (1/2) the height of the proposed structure, whichever is less. Provided, however, a project which qualifies as a Community Benefit Project or a Community Benefit Housing Project under Subsection B above need not comply with this requirement.

D. Timing and Procedure for Projects Requiring the Planning Commission Building Height Findings.

1. Conceptual Design Review. Prior to the Planning Commission considering an application for a Community Benefit Project or a Community Benefit Housing Project pursuant to this section, a project shall receive conceptual design review by the Historic Landmarks Commission or the Architectural Board of Review as required by SBMC Title 22.

2. Planning Commission Consideration of Findings.

a. Design Review Projects. If a project only requires design review by the ABR or HLC under SBMC Title 22, the Planning Commission shall review and consider the building height findings of this Section after conceptual design review and before consideration of the project by the HLC or ABR for Project Design approval.

b. Staff Hearing Officer Projects. If a project requires the review and approval of a land use permit by the Staff Hearing Officer, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for the consideration of the land use permit by the Staff Hearing Officer.

c. Planning Commission Projects. If a project requires the review and approval of land use permit by the Planning Commission, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for review by the Development Application Review Team (DART) and before the consideration of the land use permit by the Planning Commission.

d. Appeals from the Planning Commission Determination. A

decision of the Planning Commission regarding the building height findings is appealable to the City Council pursuant to the provisions of Chapter 1.30 of this Code.

28.73.050 Building Height.

A. Maximum Building Height. No building in this zone shall exceed a height of four (4) stories nor shall any building exceed a height of sixty feet (60'.)

B. Community Benefit Projects. Notwithstanding the maximum building height specified in subsection A above, no building constructed in this zone after the effective date of the ordinance enacting this Chapter, shall exceed a height of forty five feet (45') unless the project qualifies as a Community Benefit Project or a Community Benefit Housing Project and a majority of the Planning Commission expressly makes all of the following findings:

1. **Demonstrated Need.** The applicant has adequately demonstrated a need for the project to exceed 45 feet in building height that is related to the project's benefit to the community, or due to site constraints, or in order to achieve desired architectural qualities;

2. **Architecture and Design.** The project will be exemplary in its design;

3. **Livability.** If the project includes residential units, the project will provide amenities to its residents which ensure the livability of the project with particular attention to good interior design features; such as the amount of light and air, or ceiling plate heights;

4. **Sensitivity to Context.** The project design will complement the setting and the character of the neighboring properties with sensitivity to any adjacent federal, state, and City Landmarks or any nearby designated Historic Resources, including City designated Structures of Merit.

C. Buildings Adjacent to Residential Zones. The Bbuilding height of a building which will be immediately adjacent to a residential zone(s) shall not exceed ~~that~~the height allowed in

the most restrictive adjacent residential zone for that part of the structure constructed within a distance of thirty (30) feet or one-half (1/2) the height of the proposed structure, whichever is less. Provided, however, a project which qualifies as a Community Benefit Project or, a Community Benefit Housing Project under Subsection B above need not comply with this requirement.

D. Timing and Procedure for Projects Requiring the Planning Commission Building Height Findings.

1. Conceptual Design Review. Prior to the Planning Commission considering an application for a Community Benefit Project or a Community Benefit Housing Project pursuant to this section, a project shall receive conceptual design review by the Historic Landmarks Commission or the Architectural Board of Review as required by SBMC Title 22.

2. Planning Commission Consideration of Findings.

a. Design Review Projects. If a project only requires design review by the ABR or HLC under SBMC Title 22, the Planning Commission shall review and consider the building height findings of this Section after conceptual design review and before consideration of the project by the HLC or ABR for Project Design approval.

b. Staff Hearing Officer Projects. If a project requires the review and approval of a land use permit by the Staff Hearing Officer, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for the consideration of the land use permit by the Staff Hearing Officer.

c. Planning Commission Projects. If a project requires the review and approval of land use permit by the Planning Commission, the Planning Commission shall review and consider the building height findings after conceptual design review pursuant to SBMC Title 22, but before the preparation of a full application for review by the Development Application Review Team (DART) and before the consideration of the land use permit by the Planning Commission.

d. Appeals from the Planning Commission Determination. A
decision of the Planning Commission regarding the building
height findings is appealable to the City Council pursuant to
the provisions of Chapter 1.30 of this Code.

SECTION 6. Section 28.87.062 of Chapter 28.87 of Title 28 of
the Santa Barbara Municipal Code is amended to read as follows:

**28.87.062 Setback, Open Yard, Common Outdoor Living Space, and
Distance Between Main Buildings Encroachments.**

A. Where setbacks, open yards, common outdoor living space,
and minimum distances between main buildings are required in
this title, they shall be not less in depth or width than the
minimum dimensions specified for any part, and they shall be at
every point unobstructed by structures from the ground upward,
except as follows:

1. Encroachments allowed in the specific zone.

2. Cantilevered architectural features at least three feet
(3') above adjacent grade or finished floor (whichever is
higher), and which do not provide additional floor space within
the building (such as cornices, canopies, or eaves), or chimneys
may encroach up to two feet (2'). However, no cantilevered
architectural feature or chimney shall be located closer than
three feet (3') from any property line, except roof eaves, which
may be located as close as two feet (2') from any property line.

3. Uncovered balconies not providing additional floor space
within the building may encroach up to two feet (2'). However,
an uncovered balcony shall not encroach into an interior setback
on a lot located in any single family zone.

4. Solar energy systems, as defined in subdivision (a) of
Civil Code section 801.5, that are installed roughly parallel
to, and protrude no higher than ten inches (10") above (measured
from the top of the roof perpendicularly to the highest point of
the solar energy system), a roof eave, may encroach the same

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amount as the roof eave.

B. The following structures may encroach into setbacks as specified:

1. Decks that are no more than 10 inches (10") in height above existing grade may encroach into any setback.

2. Uncovered porches, terraces and outside steps, not extending above the finished floor level of the first floor, may encroach up to three feet (3') into any interior setback.

3. Covered or uncovered entrance landings not extending above the finished floor level of the ground floor and not exceeding three feet (3') measured in perpendicular dimensions (excluding the area under any handrail required under the California Building Code as adopted and amended by the City) may encroach three feet into any setback.

4. Bay windows at least three feet (3') above adjacent grade or finished floor (whichever is higher), and which do not provide additional floor space within the building may encroach up to two feet (2') into the front setback.

5. Accessible uncovered parking spaces, access aisles, and accessibility ramps necessary to make an existing building accessible to persons with disabilities may encroach into required setbacks to the extent reasonably necessary to accommodate the existing building. This encroachment is not available for new buildings or additions to existing buildings where the addition precludes the development of a conforming accessible improvement.

C. The following types of structures may encroach into the required open yard in the One-Family Residence Zone and the Two-Family Residence Zone (SBMC Section 28.15.060.C. and 28.18.060.C.1 and 3a) or common outdoor living space in the R-3/R-4 Zones (SBMC Section 28.21.081.A.3 and 28.21.081.B.), provided the total area of all such structures on the property does not occupy more than 20% of the total required open space or common outdoor living space on the lot, that no structure or structures occupy more than 20% of any individual area of

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required open space or common outdoor living space (if provided in multiple locations), ~~and no structure is located in any front yard:~~

1. Detached, unenclosed structures (e.g., gazebos, trellises, hot tubs, spas, play equipment, or other freestanding structures).

2. Unenclosed structures which are attached to a wall or walls of a main building (e.g., patio covers, trellises, canopies, or other similar structures).

D. The following types of structures may encroach into the required minimum distance between main buildings on the same lot. However, at no time shall any structure be located closer than five (5) feet to any other structure on the lot with the exception of: planters less than ten (10) inches in height above finished grade, fences, walls, and roof eaves.

1. Detached accessory structures.
2. Uncovered parking.
3. Planters less than ten (10) inches in height from finished grade.
4. Paving.
5. Fences, hedges, and walls.
6. Uncovered bicycle parking areas including bicycle racks and posts, but excluding bicycle locker parking.
7. The following structures may encroach a maximum of three feet:

a. Balconies, decks, porches, and terraces that do not provide additional floor area. These improvements may be roofed or unroofed. If such improvements are provided above the first floor, they must be cantilevered, and the area below the structure shall not be enclosed.

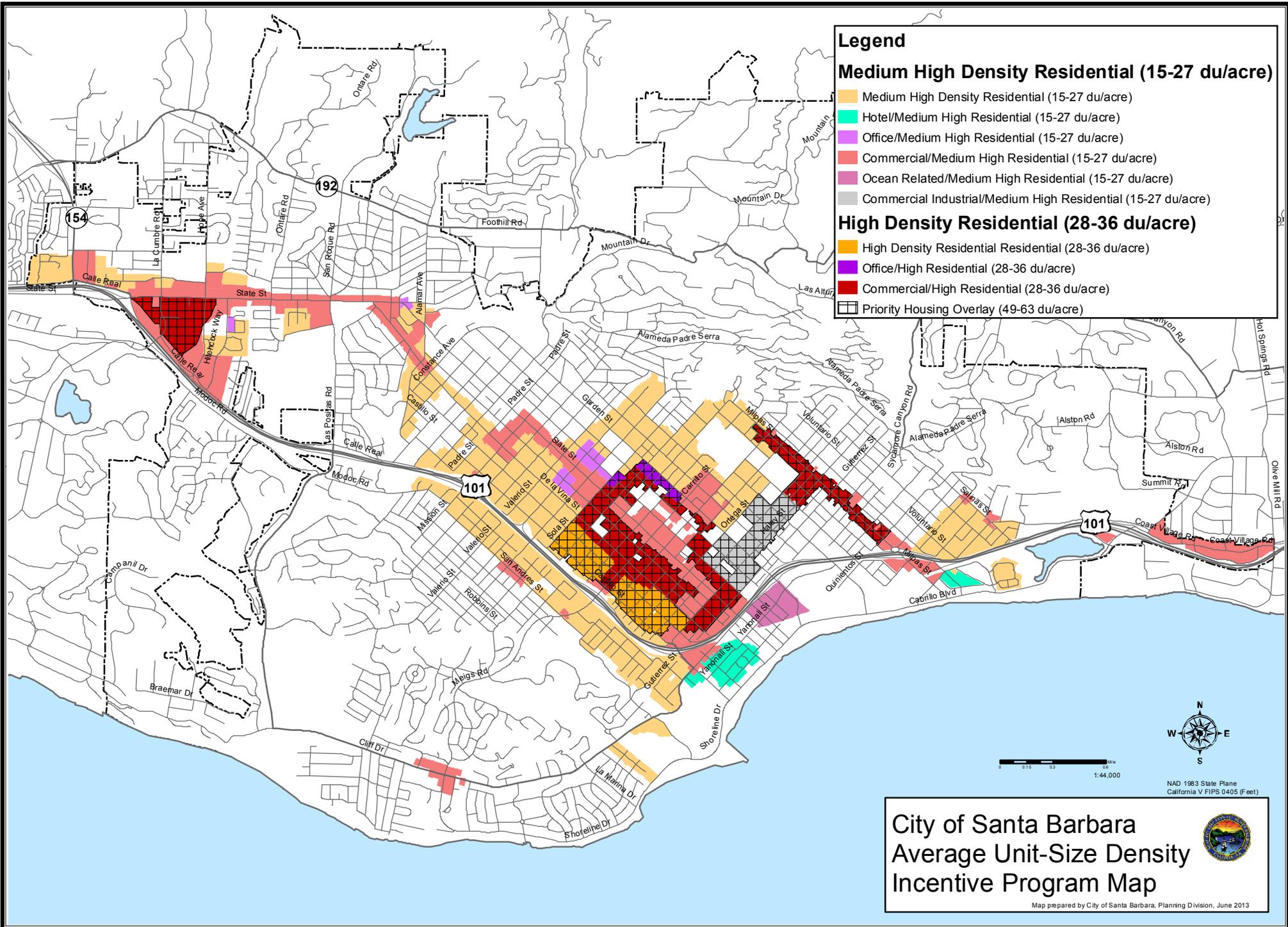
b. Structures built to enclose trash, recycling, water heaters, or water softeners.

c. Exterior stairways, as long as the stairways are not enclosed by solid walls.

SECTION 7. Applications for development submitted prior to the effective date of this ordinance which propose residential units

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in accordance with the provisions of Subsection F of Section 28.21.080 (the Variable Density Ordinance) may proceed in accordance with the Variable Density Ordinance, SBMC Chapter 28.21.



AVERAGE UNIT-SIZE DENSITY (AUD) INCENTIVE PROGRAM TABLE

Medium-High Density (15-27 du/ac)		High Density (28-36 du/ac)		Priority Housing Overlay (37-63 du/ac)	
Maximum Average Unit Size SF	Density du/ac	Maximum Average Unit Size SF	Density du/ac	Maximum Average Unit Size SF	Density du/ac
1,550	15	1,245	28	970	37
1,525	16	1,200	29	970	38
1,500	17	1,160	30	970	39
1,475	18	1,125	31	970	40
1,450	19	1,090	32	970	41
1,405	20	1,055	33	970	42
1,360	21	1,025	34	970	43
1,280	22	995	35	970	44
1,210	23	970	36	970	45
1,175	24			970	46
1,145	25			970	47
1,090	26			970	48
1,040	27			969	49
				960	50
				941	51
				935	52
				917	53
				901	54
				896	55
		880	56		
		874	57		
		859	58		
		845	59		
		840	60		
		827	61		
		825	62		
		811	63		

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA ADOPTING ENVIRONMENTAL FINDINGS PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT REGARDING THE IMPLEMENTATION OF THE AVERAGE UNIT-SIZE DENSITY INCENTIVE PROGRAM

WHEREAS, on December 1, 2011, the City Council adopted an update to the General Plan, including policies in the Land Use and Housing Elements directing the implementation of the Average Unit-Size Density Incentive Program (Council Resolution No. 11-079);

WHEREAS, during a trial period, the Average Unit-Size Density Incentive Program would replace the existing Variable Density Program, and if at the end of the a trial period the Average Unit-Size Density Incentive Program is not extended or modified by the City Council, the residential density shall revert back to the Variable Density standards in place prior to December 1, 2011;

WHEREAS, the Average Unit-Size Density Incentive Program is intended to encourage smaller, more affordable units through established unit sizes in R-3, R-4, HRC-2, S-D-2, R-O, C-P, C-L, C-1, C-2, C-M and OC zones of the City as shown on the City of Santa Barbara Average Unit-Size Density Incentive Program Map;

WHEREAS, the Average Unit-Size Density Incentive Program would allow increased residential density and development standard incentives to promote the production of rental, employer sponsored and limited equity cooperative housing units with smaller unit sizes;

WHEREAS, the Average Unit-Size Density Incentive Program would be implemented for a trial period of eight years or until the construction of 250 residential units in the High Density areas, whichever occurs sooner;

WHEREAS, the Average Unit-Size Density Incentive Program includes three residential density tiers, including Medium High Density (15-27 du/ac), High Density (28-36 du/ac) and the Priority Housing Overlay (37-63 du/ac);

WHEREAS, development standard incentives related to parking, setbacks, open space, distance between buildings, and building heights will be allowed for projects developed under the Average Unit-Size Density Incentive Program during the trial period;

WHEREAS, based on input from the Planning Commission minor technical refinements were made to the Average Unit-Size Density Incentive Program Map designation boundaries;

WHEREAS, on April 10, 2012, the City Council initiated amendments to the Zoning Ordinance to implement the Average Unit-Size Density Incentive Program;

WHEREAS, staff collaborated with a technical advisory group of community members to formulate the mechanics of the Average Unit-Size Density Incentive Program related to density and average unit size ranges, priority housing, and flexibility in development standards, including setbacks, open space, building height, and parking;

WHEREAS, on July 26, 2012, the Planning Commission held a public hearing to discuss and provide input related to the key components of the Average Unit-Size Density Incentive Program, and associated proposed zoning ordinance amendments;

WHEREAS, on August 1 and 6, 2012, staff presented to, and discussed with the Historic Landmarks Commission and Architectural Board of Review respectively, the key components and associated ordinance amendments of the Average Unit-Size Density Incentive Program;

WHEREAS, on September 12, 2012, the City held a community forum to inform local employers about the Employer Sponsored Housing Program which offers higher densities and more flexible development standards as incentives to produce workforce housing;

WHEREAS, on April 11, 2013, the Planning Commission held a public hearing to review the draft Average Unit-Size Density Incentive Program Ordinance and unanimously voted to forward the ordinance amendments with revisions to the City Council Ordinance Committee for consideration;

WHEREAS, on May 14 and June 11, 2013, the City Council Ordinance Committee considered the draft Average Unit-Size Density Incentive Program Ordinance, and after hearing from the public and discussing the key components of the Average Unit-Size Density Incentive Program unanimously voted to forward the Ordinance implementing the Program to the City Council for adoption;

WHEREAS, a Program Final Environmental Impact Report (FEIR) was certified in September 2010 and December 2011 for the General Plan. The FEIR assessed citywide impacts associated with 2,178,202 square feet of nonresidential development and 3,198 residential units, as well as general plan policies focused on prioritizing

residential development, including the Average Unit-Size Density Incentive Program policies;

WHEREAS, subsequently an Addendum to the FEIR analyzed a revised lower growth management program of 1.85 million square feet of nonresidential development. The FEIR and Addendum evaluated the potential environmental effects from citywide development under General Plan polices over the twenty-year Plan horizon;

WHEREAS, the FEIR and Addendum concluded that most environmental impacts would be less than significant, however even with identified mitigation measures, unavoidable significant impacts associated with increased traffic congestion and greenhouse gas generation would occur by 2030 as a result of potential new development under the General Plan policies;

WHEREAS, on September 18, 2012, the City Council adopted the City's Climate Action Plan. An Addendum to the FEIR was prepared to document the Climate Action's Plan updated greenhouse gas emissions analysis, which showed that citywide greenhouse gas emissions would be lower than earlier identified in the FEIR and would meet the State target, thereby constituting a less than significant impact;

WHEREAS, the FEIR identified that the increase of vehicle trips associated with the potential development under the General Plan would increase the number of intersections exceeding the City's level of service standard from 13 to up to 20 – 26;

WHEREAS, the FEIR traffic analysis completed for the General Plan also found that the Downtown area is distinguished from other development areas because land developed within this area will generate the least amount of traffic. Additionally, traffic management actions recommended in the Circulation Element are anticipated to be more effective in the Downtown development area than within the other Development Areas. The proposed ordinance amendments encourage Downtown housing, consistent with this analysis; and

WHEREAS, the City Council approved the General Plan Update and adopted a statement of overriding considerations finding the anticipated cumulative traffic impact to be acceptable given the benefits of the Plan;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA THAT:

The Council of the City of Santa Barbara makes the following findings in accordance with the California Environmental Quality Act regarding the adoption of the Average Unit-Size Density Incentive Program:

1. CEQA Section 21083.3 and Guidelines Section 15183 provides that projects which are consistent with the development density established by General Plan policies for which a FEIR was certified, and rezoning consistent with the plan, shall not require additional environmental review except under specified instances. The City Environmental Analyst determined that the proposed implementing ordinance amendments to the General Plan Average Unit-Size Density Incentive Program policies do not trigger the additional environmental review requirements for the following reasons:

- a. There are no additional site-specific or project-specific significant effects which are peculiar to the proposed zoning amendments;
- b. There are no new significant effects not addressed in the prior FEIR; and
- c. There is no new information since the FEIR that would involve more significant impacts than identified in the FEIR.

Environmental review for the proposed implementing ordinance amendments is addressed by the General Plan FEIR and Addenda, and no further environmental review is required. The zoning amendments to implement the Average Unit-Size Density Incentive Program apply to select areas of the City and any future project-specific significant effects will have environmental review.

2. The policies and standards for the Average Unit-Size Density Incentive Program have been previously analyzed in the FEIR and Addenda for the General Plan. Specifically, the environmental impacts associated with implementing the General Plan policies related to increased densities were included in the General Plan FEIR and Addendum and the potential residential development under the implementing ordinance is within in the growth assumptions analyzed.

3. The City Planner is the custodian of the record of proceedings for the General Plan Update FEIR, the Addenda, and the documents and other materials which constitute the record of proceedings for City actions related to the General Plan Update and FEIR that are located at the City of Santa Barbara Community Development Department, Planning Division, 630 Garden Street, Santa Barbara, California. Copies of these documents are available for public review during normal business hours upon request at the office of the City of Santa Barbara Community Development Department, Planning Division.

4. This Resolution shall become effective upon the effective date of the ordinance adopting the City's Average Unit-Size Density Incentive Program Ordinance (SBMC Chapter 28.20).



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2012
TO: Mayor and Councilmembers
FROM: Risk Management Division, Finance Department
SUBJECT: Conference With Legal Counsel – Pending Litigation

RECOMMENDATION:

That Council hold a closed session to consider pending litigation pursuant to subsection (a) of section 54956.9 of the Government Code and take appropriate action as needed. Pending litigation considered is: *Jose Monclus v. City of Santa Barbara, WCAB case number ADJ7390587.*

Scheduling: Duration, 10 minutes; anytime
Report: None anticipated

PREPARED BY: Mark W. Howard, Risk Manager
SUBMITTED BY: Robert Samario, Finance Director
APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013

TO: Mayor and Councilmembers

FROM: City Attorney's Office

SUBJECT: Conference with Legal Counsel – Pending Litigation

RECOMMENDATION:

That Council hold a closed session to consider pending litigation pursuant to subsection (a) of section 54956.9 of the Government Code and take appropriate action as needed.

The pending litigation is *Ruben Barajas and Pamela Barajas as Trustees for the Ruben and Pamela Barajas Living Trust vs. City Of Santa Barbara; Christine Lucadello vs. City Of Santa Barbara*, SBSC Case No. 1383054 and 1401852

SCHEDULING: Duration, 15 minutes; anytime

REPORT: None anticipated

SUBMITTED BY: Stephen P. Wiley, City Attorney

APPROVED BY: City Administrator's Office



Agenda Item No. 18

File Code No. 440.05

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 2, 2013
TO: Mayor and Councilmembers
FROM: City Administrator's Office
SUBJECT: Conference With Labor Negotiator

RECOMMENDATION:

That Council hold a closed session, per Government Code Section 54957.6, to consider instructions to City negotiator Kristy Schmidt, Employee Relations Manager, regarding negotiations with the Police Bargaining Unit.

SCHEDULING: Duration, 30 minutes; anytime
REPORT: None anticipated
PREPARED BY: Kristy Schmidt, Employee Relations Manager
SUBMITTED BY: Marcelo López, Assistant City Administrator
APPROVED BY: City Administrator's Office