CITY OF SALINAS

ADOPTED BUDGETS

OPERATING
and
CAPITAL IMPROVEMENT

FY 2004 - 2006

CITY OF SALINAS
Adopted Budgets
Operating and CIP
2004 - 2006

Anna Caballero
Mayor

Sergio Sanchez
Councilmember
District 1

Gloria De La Rosa
Councilmember
District 4

Roberto Ocampo
Councilmember
District 2

Maria Giuriato
Councilmember
District 5

Janet Barnes
Councilmember
District 3

Jyl Lutes
Councilmember
District 6

Dave Mora
City Manager

Richard E Nosky
City Attorney

Daniel Ortega
Police Chief

Director of Redevelopment

Rob Russell
Deputy City Manager

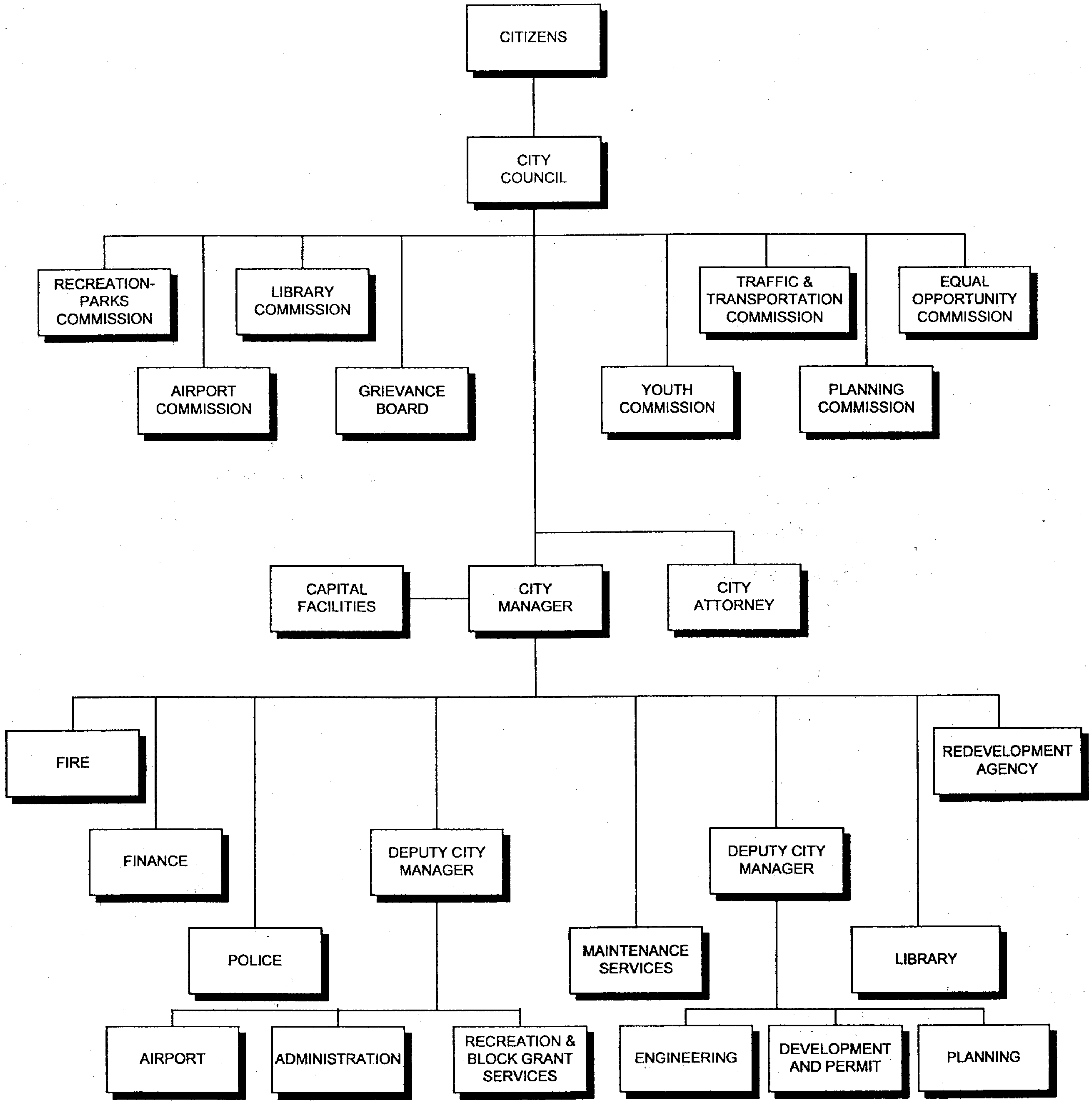
Fire Chief

Tom Kever
Director of Finance

Julia Orozco
Library Director

Jorge Rifa
Deputy City Manager

CITY OF SALINAS
Organization Chart



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MEMORANDUM

DATE: June 8, 2004

TO: Mayor and City Council

FROM: Dave Mora, City Manager

SUBJECT: FY 2004-05 / 2005-2006 RECOMMENDED BUDGET

Introduction

On June 15, the City Council will review and consider adoption of the recommended FY 2004-05/ FY 2005-06 budget for the City of Salinas and the Salinas Redevelopment Agency. This two-year budget submittal continues the City's efforts to provide longer term financial information regarding services to City residents and the revenues required to provide those services. Although the City Council will focus on the first year for purposes of formally adopting a services plan, the second year information and estimates provides a snapshot of the future that is critical as the City attempts to survive the current financial crisis impacting California local government. The FY 2005-06 portion of the budget is significantly out of balance with an estimated deficit of $8.5 million. The City Council is not being asked to consider that deficit at this time. However, it is staff's intent to ask Council to begin a review of the FY 2005-06 issues as early as September 2004.

If it seems that the City's budget has been under discussion for a number of months, it has. The City Council, beginning in April 2003, has been in an almost constant discussion of financial issues. These discussions began in earnest with the adoption of a multi-year strategy in April 2003, then continued with the adoption of an FY 2003-04 budget inclusive of $2.5+ million in service reductions, in-depth discussions in October, November, and December of last year resulting in decisions in January 2004 to reduce General Fund operations by $3.6 million, and almost weekly updates since then describing the continuing crisis in local government finance in California. Over this period of time, the overall situation has unfortunately only become worse because of the continuing economic downturn and actions taken by the State of California and the County of Monterey.

The formal adoption of the FY 2004-05 budget should actually be somewhat anticlimactic. The document submitted with this cover message is actually a description of a "status quo" level of services developed inclusive of the FY 2004-05 reductions approved by the City Council in January 2004. This document does not reflect the recommendations that will be the focus of the City Council's review and discussion during the next couple of weeks. A separate document outlines $2.4 million in required General Fund service reductions, which must be approved by City Council in order to maintain the financial integrity for the City. The combination of forces – a weak economy, increases in retirement and health costs, continued and increasing State takeaways from local government, and increasing charges for services from the County of Monterey – has resulted in the need to further reduce the City's General Fund supported services.

Following City Council action approving required reductions, the City's budget document will be amended to reflect the results of this third round of General Fund service reductions. With that in mind, the document submitted with this memorandum is not one that staff is recommending be the focus of the City Council's discussions. The programs and expenditures detailed herein are critical to the provision of services to City residents; however, the tough decisions that need to be made are in reality what will be removed from this document when it is finally published.

Financial Condition

Even after cumulative General Fund service level and budget reductions in excess of $6 million, the estimated FY 2004-05 General Fund deficit is $2.4 million and the estimated FY 2005-06 General Fund deficit is in excess of $8.5 million. The FY 2004-05 deficit requires immediate attention. The projected deficit is based on some actions still under consideration including at least $1,000,000 in additional revenue from a Business License Tax increase (part of the original financial strategy), approximately $150,000 in towing fee related revenue, and $65,000 in administration fees to the City's Deferred Compensation Trust Deed program.

This somewhat desperate financial condition is not a surprise. It was, unfortunately, well forecasted and known over one year ago. The causes are literally beyond the control of the City and its residents. Given the circumstance of outside influences (economic factors, the State, and the County), the City's ability to provide adequate levels of basic services to residents is in doubt unless additional resources are provided. Fortunately, City residents will have an opportunity to decide fundamental quality of life issues in November 2004 with three specific proposals to increase City General Fund revenue. The specifics of the Utility Tax, Business License Tax, and local sales tax were actually initiated by the City's business community. The Salinas Valley Chamber of Commerce and the Growers Shippers Association of Central California are both advocating these tax increases that will primarily impact the business community.

Without these additional revenues, the City's General Fund resources per capita will not keep pace with even minimum CPI growth much less population growth in Salinas. Current General Fund resources will grow an estimated 1.6% between FY 2002-03 and FY 2005-04. The State Department of Finance estimates that the City's population will grow at least 4.1% during that same period.

Fiscal Year	Est. Population (Dept of Finance)	General Fund Revenue/Capita
FY 2002-03	148,425	$414
FY 2003-04	149,710	$406
FY 2004-05	152,209*	$414
FY 2005-06	154,500*	$421

* Estimated

At the same time, significant portions of the General Fund revenue must first be utilized to make payments that are of no benefit to the residents of Salinas. The best example of such a payment is the booking fee paid to the County of Monterey. The actual FY 2002-03 payment was $688,968. The estimated payment for FY 2005-06 is $1,175,000, an increase of $486,032 or 70.5%. Together with the increased Police and Fire Department 911 costs of $904,517 (FY 2002-03 actual of $495,483 and FY 2005-06 estimated of $1,400,000), over thirty-two (32%) percent of the City's current General Fund revenue growth will be paid to the County of Monterey.

Recommended Budget

This recommended budget reflects a "status quo" cost for the delivery of current services based on General Fund reductions approved in June 2003 and January 2004. The reductions have significantly decreased service levels in a number of areas. Library hours have been reduced, street tree and parks maintenance curtailed, recreation programs eliminated, various city staff positions including department director, police and fire management cut back, neighborhood services emphasis programs abolished, and internal support staff positions reduced. The reductions that have already been approved and implemented are not sufficient to balance the General Fund budget. The programs and services listed in this budget document must be reduced by up to $2.4 million in FY 2004-05 and will be further reduced by over $8.5 million in FY 2005-06.

In the past, the reductions that were identified during the last two rounds could be accomplished without mandatory layoffs of City employees. The magnitude of the reductions now required will make it impossible to achieve the goal of no mandatory layoffs. The extent of the immediately required reductions will result in a somewhat manageable situation in terms of required layoffs as only $2.4 million in reductions is required. The FY 2005-06 reductions of $8.5 million will result in the layoff of a significant number of employees.

Goals and Objectives

Past budget submissions have referenced the City Council's goals and objectives as the budget was deliberately developed consistent with those goals and objectives. The current submission attempts some degree of consistency to the extent that it details current services. The scope of the required reductions in FY 2004-05 and FY 2005-06 will likely make consistency with goals and objectives impossible with the exception of public safety.

Retirement Programs Costs

Increases in retirement costs are one of the most significant impacts on the City's budget. All public safety and the majority of City non-public safety employees participate in the State CALPERS retirement program. City public safety employees pay nine (9%) percent of base salary into PERS;

non public safety employees pay seven (7%) percent. PERS rates will increase at least through FY 2005-06 because of significant losses in the PERS investment portfolio in the period 1999 to 2002. PERS has advised that at least eighty (80%) percent of the increases in PERS rates is attributable to investment losses, not to changes in employee benefits.

The City has taken action to "re-finance" its PERS obligations with a "fresh start" using a thirty (30) year amortization period. This will slightly lessen the increases that had been anticipated. The actual PERS rates for the current year, and estimated PERS rates for FY 2004-05 and FY 2005-06 are:

Category	FY 2003-2004	FY 2004-2005	FY 2005-2006
Police	14.812%	24.500%	28.888%
Fire	11.182%	19.900%	32.340%
Miscellaneous	4.386%	9.200%	9.846%

The New York Life Retirement program continues to be more costly for non-public safety personnel; however, rates will decrease slightly during the next couple of years reflecting the more conservative (i.e. bonds) nature of the NYL investments. The New York Life Retirement Program rate will be 15.360% in FY 2004-05 and an estimated 15.400% in FY 2005-06. The FY 2003-04 rate was 17.900%.

Overall Investments

The total FY 2004-05 recommended appropriation for all funds is $124,609,200. The recommended General Government appropriations total $70,903,450 including General Fund Operating Budget appropriations of $69,855,950. The remaining recommended investments in FY 2004-05 include:

Internal Services Funds	$ 5,772,700
Enterprise Operations	$ 8,605,800
Assessments and Maintenance Districts	$ 6,244,700
Federal Block Grant and HOME Program	$ 3,765,150
Grant Programs	$ 73,300
Deferred Compensation and Retirement	$ 81,500
Debt Service	$ 1,936,500
Redevelopment Agency	$ 4,097,700
Capital Improvement Program	$23,128,400

It is recommended that City Council adopt resolutions as required to authorize appropriations in these amounts for FY 2004-05 less the General Fund reductions (up to $2.4 million) to be identified as part of the City Council's budget review.

The total FY 2005-06 recommended appropriation for all funds is $124,999,300. The recommended General Government appropriations total $78,181,950 including General Fund Operating Budget appropriations of $77,094,950. This amount will eventually be reduced by the $2.4 million to be identified for FY 2004-05 and the additional $8.5 million to be reduced in FY 2004-05. The remaining recommended investments in FY 2005-06 include:

Internal Services Funds	$ 6,416,400
Enterprise Operations	$ 8,877,600
Assessments and Maintenance Districts	$ 6,005,500
Federal Block Grant and HOME Program	$ 3,823,450
Grant Programs	$ 50,000
Deferred Compensation and Retirement	$ 85,200
Debt Service	$ 1,839,800
Redevelopment Agency	$ 3,571,400
Capital Improvement Program	$16,148,000

General Fund Revenues

As has been reported and emphasized during the last year, General Fund revenues actually decreased in FY 2003-04 and are projected for only modest overall growth in FY 2004-05 and FY 2005-06 even with over $500,000 in City Council approved increased fees and charges. The estimated FY 2004-05 growth of 3.9% is inflated by the increased fees and charges so that the FY 2005-06 growth of 3.1% is more indicative of a very modest economic growth rate. The growth in revenue is not sufficient to maintain current City services.

General Fund revenues are estimated at $63,089,800 in FY 2004-05 with three (3) major revenue categories representing slightly over seventy-four (74%) of that revenue. Those major categories are:

Sales Tax	$21,400,000	(33.9%)
Property Tax	$17,308,600	(27.4%)
Utility Users Tax	$ 7,750,000	(12.3%)
Total of Major Revenue Sources	$46,458,600	(73.6%)

For those that have followed the City's financial history recently, the listing of these three (3) major sources of General Fund revenue must result in some significant questions -- What happened to Motor Vehicle in Lieu? – How did Property Tax grow so substantially? -- Why does the budget detail list two (2) sales tax entries?

The answers lie in the actions of Sacramento. As one of his first acts after last year's recall election, the newly elected Governor eliminated the increase in Motor Vehicle In-Lieu tax that restored the tax to its previous levels. This was not an uncommon Sacramento action to decrease the tax burden on California residents. It followed the time-honored tradition of eliminating local government taxes rather than State taxes with a promise that Sacramento would "backfill" the loss. The "backfill" in this case is in property tax and explains the dramatic increase in property tax from prior years (estimated $10,010,000 in FY 2003-04 and estimated $17,308,600 in FY 2004-05). As to the sales tax, true to Sacramento's tradition of not using its own resources, the Governor's $15 billion voter approved bonds to balance the State's budget required a pledge of revenue to secure the repayment. The pledge of revenue is local government (city and county) sales tax, not state sales tax. Therefore, the City of Salinas, rather than receiving a direct monthly distribution of its sales tax ($21,400,000 in FY 2004-05), will receive one-quarter of the sales tax ($5,350,000) with the property tax distribution twice a year (in equal payments of $2,675,000). This distribution will hurt the city's cash flow and may require the issuance of tax and revenue anticipation notes in order to meet cash needs. Our thanks to Sacramento!

Other General Fund resources for FY 2004-05 include:

Other Revenue	$16,631,200
Interfund Transfers	($ 379,500)
Operating Reserve / Pre-payment	$ 3,457,350
Capital Projects Reserve	$ 828,900

The FY 2005-06 General Fund revenue projections will continue well below historical growth trends and will also reflect the State's unilateral actions regarding the City's primary General Fund Revenue sources.

General Fund revenues are estimated at $65,066,100 in FY 2005-06 with three (3) major revenue categories representing almost seventy-four (74%) of that revenue. Those major categories are:

Sales Tax	$22,000,000	(33.8%)
Property Tax	$18,233,600	(28.0%)
Utility Users Tax	$ 7,850,000	(12.1%)
Total of Major Revenue Sources	$48,083,600	(73.9%)

Other General Fund resources for FY 2005-06 include:

Other Revenue	$16,982,500
Interfund Transfers	($ 727,000)
Operating Reserve / Pre-payment	$ 1,950
Capital Projects Reserve	$ 498,900

General Fund Operating Reserve / SVSWA Pre Payment

The three (3) year strategy adopted in April 2003 included the use of all City General Fund Operating Reserves and the SVSWA pre-payment in a attempt to cushion the impacts of the required reductions. That strategy has not changed and is assumed in the overall reduction plans for both FY 2004-05 and FY 2005-06. There are no alternatives to the reductions, as the City's reserves will be exhausted at the end of the three (3) year plan. It is likely and expected that the FY 2003-04 budget will end with a modest carryover. Staff is recommending the carryover be reserved, initially, to provide payment for layoff severance and health benefits with any remainder dedicated to FY 2005-06 General Fund CIP requirements.

State Budget Impacts

The true bipartisan spirit of Sacramento's treatment of California local government was again reflected this year. Both the original January proposal and the administration's May revise included significant reliance on local government revenue to bail out the State budget deficit. The new administration went further than its predecessors with the inclusion of local government sales tax as the guarantee for the $15 billion voter approved bond to partially eliminate the state deficit problem. So now the State has managed to effectively eliminate a consistently strong local government revenue (VLF), is using local government sales tax revenue to guarantee a state bond, and will increase the transfer of local property taxes to the State. The impacts on Salinas are both in total dollars and in cash flow. The FY 2004-05 impact is an additional property tax loss of $1.5 million along with the delayed payment of one quarter of the sales tax revenue to be paid with the twice-yearly distributions of property tax. The annual property tax loss for the City in now in excess of $4.25 million. Under the administration's current proposal, the City would have no chance of recovering any of that loss until FY 2006-07.

County of Monterey Impacts

The State's continued raid on local government revenue is mirrored on the expenditure side by the County of Monterey imposition of increased charges to cities for both 911 communications and booking fee costs. City of Salinas residents will invest the equivalent of at least eleven police officers ($1.1 million) in payment for booking fees to Monterey County in FY 2004-05. Payments to Monterey County for the 911 communications system will increase by approximately $250,000 in FY 2004-05. Other County charges to cities include property tax administration fees and fines and forfeitures collection fees. All of the charges imposed by the County accrue to the benefit of the County General Fund. With the exception of the 911 communications system costs, none of the charges made by the County accrue any benefit to the residents of Salinas.

The cities in Monterey County have all considered various strategies to balance their respective budgets. Most importantly, individual cities have gone to their residents / voters and asked for additional revenues in elections for special purposes (parcel taxes) and general fund taxes (e.g. utility users tax). The County of Monterey has yet to ask residents of the unincorporated areas to increase their taxes for County General Fund purposes. Quite simply, this does seem to be an inequity given the County actions to increase costs paid by city residents who represent seventy-five (75%) percent of the residents of Monterey County.

General Fund Expenditures

The recommended FY 2004-05 General Fund operating budget is $69,855,950. Public Safety expenditures (Police and Fire Departments) represent 59.2% of the Operating Budget.

The recommended General Fund operating budget by department/service activity is as follows:

Police	$29,299,600	(41.9%)
Fire	$12,066,750	(17.3%)
Maintenance Services	$ 8,542,200	(12.2%)
Non-Departmental	$ 3,593,500	(5.1%)
Finance	$ 3,162,700	(4.5%)
Library	$ 3,134,700	(4.5%)
Recreation - Parks	$ 2,939,900	(4.2%)
Development & Permit	$ 2,937,600	(4.2%)
Development & Engineering	$ 1,908,700	(2.7%)
Administration	$ 1,412,500	(2.0%)
City Attorney	$ 543,700	(0.8%)
City Council	$ 199,100	(0.4%)
Block Grant and Housing	$ 115,000	(0.2%)
Total	$69,855,950	(100.0%)

Employee Services expenses in FY 2004-05 will represent 82.38% of the General Fund budget. This percentage has remained relatively stable since it was first tracked in FY 1997-98 when 82.6% of the General Fund budget was dedicated to Employee Services.

Employee Services	$57,545,700	(82.38%)
Supplies and Materials	$ 2,046,700	(2.93%)
Outside Services	$ 8,064,950	(11.55%)
Other Charges	$ 2,098,600	(3.00%)
Capital Outlay	$ 100,000	(0.14%)
Total	$69,855,950	(100.00%)

The final adoption of a balanced FY 2004-05 General Fund budget will require the reduction of up to $2.4 million from the recommended "status quo" budget of $69,855,950. Assuming the Police and Fire Departments have no reductions, the overall General Fund investment in public safety will increase from 59.2% to 61.3%.

The recommended FY 2005-06 "status quo" General Fund operating budget is $77,094,950. Without any new General Fund revenue sources and assuming that the base is actually $2.4 million less with reductions to be made in the FY 2004-05 budget, the remaining FY 2005-06 must be reduced by approximately $8.5 million. The final FY 2005-06 General Fund budget would total $66,194,950.

The recommended General Fund "status quo" operating budget by department/service activity is as follows:

Police	$32,952,500	(42.7%)
Fire	$14,125,650	(18.3%)
Maintenance Services	$ 8,884,600	(11.5%)
Non-Departmental	$ 3,797,500	(4.9%)
Finance	$ 3,289,700	(4.3%)
Library	$ 3,246,500	(4.2%)
Development & Permit	$ 3,110,100	(4.0%)
Recreation - Parks	$ 3,032,800	(3.9%)
Development & Engineering	$ 2,290,500	(3.0%)
Administration	$ 1,471,100	(1.9%)
City Attorney	$ 563,300	(0.7%)
City Council	$ 210,000	(0.4%)
Block Grant and Housing	$ 120,700	(0.2%)
Total	$77,094,950	(100.0%)

The severity of the City's financial condition, which will result in the inability to maintain essential quality of life services for residents, is dramatically evidenced in the FY 2005-06 department budget totals. Imagine reducing the $77,094,950 by $10.9 million. Assuming no reductions in public safety, the elimination of all library and recreation-park services would not be sufficient to balance the budget. Elimination of all library and recreation-park services, together with a further reduction by one-half in all maintenance services would balance the City's General Fund budget. The City's investment in public safety would rise to 71.1% of the General Fund budget. There really is only one solution to the problem of maintaining basic quality of life services for City residents – new General Fund revenue.

Without any new General Fund revenue sources and assuming that the base is actually $2.4 million less with reductions to be made in the FY 2004-05 budget, the remaining FY 2005-06 must be reduced by approximately $8.5 million. The final FY 2005-06 General Fund budget would total $66,194,950.

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Finance	$ 3,289,700	(4.3%)
Library	$ 3,246,500	(4.2%)
Development & Permit	$ 3,110,100	(4.0%)
Recreation - Parks	$ 3,032,800	(3.9%)
Development & Engineering	$ 2,290,500	(3.0%)
Administration	$ 1,471,100	(1.9%)
City Attorney	$ 563,300	(0.7%)
City Council	$ 210,000	(0.4%)
Block Grant and Housing	$ 120,700	(0.2%)
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Required Reductions

The severity of the City's financial condition is such that the City Council must act decisively to maintain both the City's financial integrity and to maintain basic levels of services. The City Council must act to adopt a FY 2004-05 General Fund budget inclusive of the $1.9 to $2.4 million in service level reductions. A separate report has been provided to City Council detailing recommendations for those reductions. Once adopted, those reductions will be incorporated into a final budget document that will be used as the framework for the next round of reductions required to balance the FY 2005-06 General Fund budget.

Other Funds

In addition to the General Fund status and highlights already discussed, the recommended budget provides expenditure plans for all other City financial activities.

Internal Services

The three (3) Salinas Internal Service funds include all City expenditures related to insurance activities. The Internal Service Programs are four (4) in number including administration. The recommended FY 2004-05 and FY 2005-06 expenditures by program are as follows:

	FY 2004-05	FY 2005-06
Administration	$ 295,300	$ 312,000
General Insurances	$ 600,400	$ 610,400
Workers Compensation	$ 4,182,000	$ 4,774,000
General Liability	$ 695,000	$ 720,000
Total	$ 5,772,700	$ 6,416,400

Enterprise Operations

The recommended budget includes five (5) separate enterprise fund operations. The Golf Course Enterprise Fund has been separated into the Fairways and Twin Creeks operations to deal with the potential transfer of the Twin Creeks operations. The Enterprise Fund operations exist to assure that expenditures are fully funded from revenues generated by the activity so that no City General Fund subsidy is required. An exception to this policy is the General Fund advance (loan) to the Golf Course Fund that was anticipated for the first few years of operation with the new courses. The final amount of the FY 2004-05 and FY 2005-06 advance will depend on the City's success in negotiations to transfer operations of the Twin Creeks Golf Course to the First Tee sponsors.