CITY OF SALINAS

ADOPTED BUDGETS

OPERATING
and
CAPITAL IMPROVEMENT

FY 2005 - 2007

CITY OF SALINAS
Adopted Budgets
Operating and CIP
2005 - 2007

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

Vanessa W. Vallarta
City Attorney

Daniel Ortega
Police Chief

Allan Stumpf
Director of Redevelopment

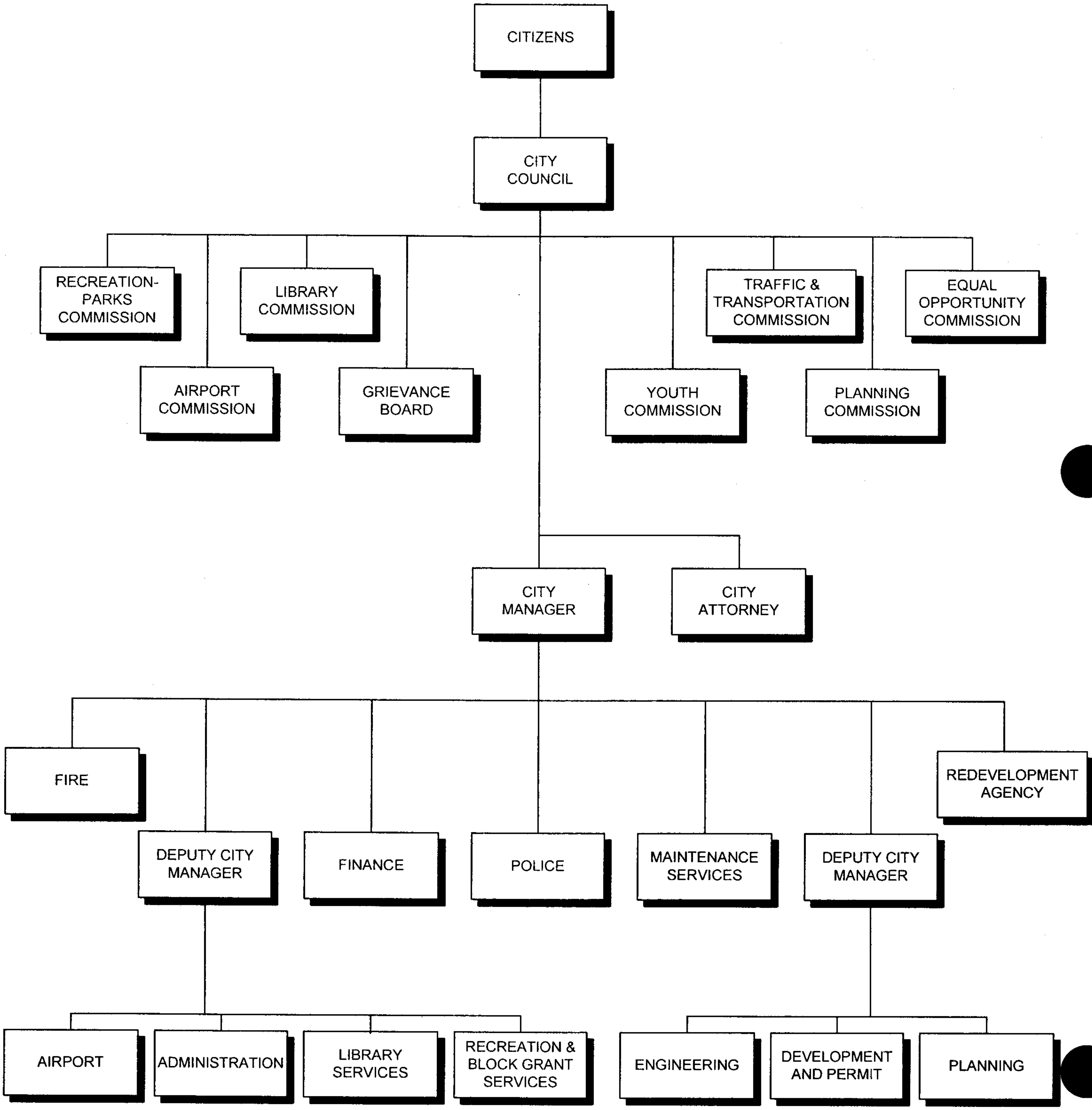
Rob Russell
Deputy City Manager

Ed Montez
Fire Chief

Tom Kever
Director of Finance

Jorge Rifa
Deputy City Manager

CITY OF SALINAS
Organization Chart



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MEMORANDUM

DATE: June 3, 2005

TO: Mayor and City Council

FROM: Dave Mora, City Manager

SUBJECT: FY 2005-06 / 2006-2007 RECOMMENDED BUDGET

Introduction

The recommended City budget for FY2005-2006 represents the end of the most difficult few years in the City's financial history. The City Council's formal adoption of a budget that was tentatively approved after the November 2004 election will firmly establish the long-term financial integrity and stability of the City's General Fund. Unfortunately, this will be accomplished at a terrible cost to residents in the reduction of services and to City employees in the loss of jobs.

The extent of the reductions in services is staggering – twenty-five (25%) percent reductions in General Fund services and the elimination of one hundred and twenty-three (123) full-time equivalent positions from the City workforce. Although there has and continues to be significant discussion regarding the closure of the City's libraries, the decision to close libraries was the last major budget balancing action that also included the elimination of management positions in all City departments, a reorganization of services that eliminated three (3) City departments, the reduction of maintenance services and programs by one-third, closing all but three (3) City recreation centers, leasing the Twin Creeks Golf Course to First Tee, the elimination of neighborhood services, graffiti abatement, support for non-profit agencies, and employee concessions ranging from two (2%) percent to seven and one-half (7.5%) percent. Although the there has been significant discussion of these reductions over the last two (2) years, the extent of the damage done to the City must be reiterated and understood as the reductions in programs and services are negatively impacting the quality of life for the residents of Salinas.

In spite of the difficulties of the past, the challenge is now to look forward and deal with the reality of City finances. Beginning on June 7, the City Council will review and consider adoption of the final, recommended FY 2005-2006 / FY 2006-2007 budget for the City of Salinas and the Salinas Redevelopment Agency. The 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 recover from the financial crisis that has rocked the City's finances for over two years. Both the FY 2005-2006 and FY 2006-2007 portions of the budget are balanced, albeit somewhat precariously in the second year.

The formal adoption of the FY 2005-2006 budget will be somewhat anticlimactic. The document submitted with this cover message is consistent with direction established after the November 2004 defeat of the sales tax and business utility users tax proposals. Prior to the November election, the City Council had identified the programs and services that would have to be eliminated if the tax measures did not pass. The defeat of the tax measures at the polls was followed by action to formally eliminate programs and services, including the closing of the City's libraries. There were no alternatives to the reductions as there is no revenue to support the programs on a continuing basis. The full list of reductions is detailed immediately following this transmittal memorandum.

There are two (2) significant differences from the previously approved reductions. First, the community response to the Rally Salinas challenge has been successful beyond the original $500,000 goal for the campaign. The recommended budget includes a $650,000 library operations budget for the first six (6) months of the fiscal year. The Rally Salinas campaign will keep libraries open on a limited basis and save not only services but also fourteen (14) employees from layoff.

Second, the City's paramedic program will be continued with only minimal General Fund support for the program. The minimum General Fund support recognizes that the paramedic personnel are also City firefighting personnel and that their employment with the City continues even without a paramedic program. Fire management staff, working in collaboration with Departmental personnel, has identified and secured alternative funding sources for the paramedic program. Although a very long-time in coming, there is now recognition that County CSA74 funds should be more aggressively used to support local jurisdictions' paramedic services in Monterey County. CSA74 funds are collected County-wide through a $12 per parcel assessment. Approximately $100,000 in CSA74 funds will be made available to Salinas through the remainder of calendar year 2005 to support the paramedic service. (As a point of reference, with over 30,000 parcels in Salinas, over $360,000 in CSA74 funds are paid by Salinas taxpayers.) Additionally, the current ambulance service provider, American Medical Response, has negotiated a contract with the City that will provide over $100,000 in revenue for paramedic services for the balance of 2005. The recommended budget assumes that those sources of revenue will be available on a continuing basis throughout the remainder of FY2005-2006 and on a continuing basis thereafter for the support of paramedic services.

The recommended FY2005-2006 budget also includes funding for three (3) new and significant items. The one (1) item with an impact on the General Fund is the one-time investment required for the recruitment and training of as many as fifteen (15) new Fire Department personnel as at least that many incumbent City Fire Department personnel retire during the next twelve months. The retirements will coincide with the implementation of the enhanced public safety retirement benefit for IAFF and FSA represented employees. The estimated cost of recruitment and one-time payment of accrued benefits for retiring personnel is $855,000

The other two (2) new items do not have a General Fund impact. FY2005-2006 will include federal funding for the joint City / County Gang Task Force efforts. The funds were awarded to the City after a concerted effort on the part of both the City and County working with Congressperson Farr and US Senators Boxer and Feinstein. The federal funds will add six (6) police officer positions to the City's Police Department.

The final new item is opening and operation of the downtown parking structure. This budget includes a recommendation to establish a Downtown Parking District Enterprise Fund that will include the full costs and revenues for the parking structure, and ultimately a program for all downtown parking. City and Redevelopment Agency staff are working with the Oldtown Association on this major initiative for downtown Salinas.

Financial Condition

The recommended budget is balanced and assumes that there will not be significant new revenues available for the General Fund. Although the previously mentioned reductions have a major impact on achieving a balanced budget, other key elements must also be recognized, as those elements are fundamental to the long-term, permanent stability of the City's General Fund. Just as the economy, increasing PERS rates, increasing health insurance costs, state raids on local revenue, and Monterey County billings came together to force service reductions in order to achieve a permanent, balanced budget, there are now positive changes in some of those same elements that help provide stability to the City's financial condition.

The General Fund revenue estimates for FY2005-2006 assume the continuation of the modest economic growth that began in FY2004-2005. The growth is long overdue; best evidenced by the fact that City sales tax revenue actually declined for two (2) consecutive years. The revenue assumptions also factor in the consequences of State Proposition 1A, passed by the voters in November 2004. This amendment to the State Constitution establishes specific rules that prohibit the State of California from continually raiding local government revenue beginning in FY2006-2007. The State will only be able to raid City resources with 2/3 votes of the legislature, a guaranteed repayment within three (3) years, and specific limitations on frequency (twice in any ten-year period) and amounts that can be taken.

Long-term financial stability also includes assumptions that PERS rates peak in FY2005-2006 and that health costs do not increase at the pace of the last couple of years. The PERS rate issue, primarily a function of the PERS investment returns, literally follows the broader national economy and the stock market, with the actual impacts trailing by as much as two (2) years. The simple equation – as the stock market goes down, PERS rates go up – as the stock market goes up, PERS rates go down. The market is up and shows signs of a continuing modest upward growth. The modest upward growth will result in PERS rates reaching a peak, followed by decreases in future years.

As of this writing, the single unknown impact is that of the County of Monterey. There are at least three (3) major issues associated with the County. First, although State legislation has specifically defined limits for booking fee charges, there will undoubtedly be a debate between the County and cities as to the application of that definition. Second, 911 costs continue to spiral far beyond growth in local government budgets, CPI, or any other customary indicator. Third, the City's work with the County to secure a fair share of CSA74 support for the City paramedic service continues and has yet be finally resolved. The recommended budget assumes $100,000 form this source of funds.

Balancing Expenditures (Programs and Services) with Revenues

Fundamental to the concept of a balanced budget is the assumption that expenditures do not exceed revenues. The recommended budget focuses on the one side of the equation that is for the most part both predictable and manageable – expenditures. The expenditure estimates for FY2005-2006 are based on historical patterns and on the known impacts of existing commitments such as labor agreements and contracts for services. There is little, if any, flexibility in the recommendations for expenditures. The recommended budget is the product of numerous public meetings and seemingly endless discussion that has taken place since early 2003. As previously stated, there are no significant surprises in the budget. Program and service level reductions have been items under discussion for over two (2) years. That being the case, the expenditure side of the budget is not constructed with options.

The revenue side of the budget is one that is significantly beyond the control of the City Council. Those revenue issues that the Council could legally review were identified, analyzed, and changed throughout the last year. All possible fees for service have been reviewed with resulting increases in fees and the institution of new fees were appropriate. However, State law prohibits the City Council from looking beyond fees for services. General Fund revenue taxes (e.g. business license tax) may only be changed by a vote of Salinas' voters.

The result of the last year's efforts to maximize fees and charges revenue has not significantly enhanced the City's revenue base. The most basic and fundamental City services are not subject to fees and charges. Public safety and quality of life library, recreation, and parks services are generally supported by General Fund tax revenue. The City of Salinas does not have a strong revenue base given its existing tax sources. This fact is evidenced in the overall City General Fund revenue per capita. The per capita revenue available is the core of the City's inability to provide the level and quality of services that are rightly due to the residents of Salinas. There are not sufficient funds to provide those services, as evidenced by the following:

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	152,677*	$447
FY 2005-06	154,500*	$428

* Estimated

The "spike" in per capita revenue for FY2004-2005 is directly attributable to the advance payment of VLF that has been credited to FY2004-2005 and to the one-time gains associated with the State implementation of VLF/sales tax/property tax shifts. The total one-time revenue in FYT2004-2005 is $3,634,700, almost $24 per capita. Without the one-time revenue (most of which has been dedicated to balance the City's remaining structural deficit for the next two years), the FY2004-2005

General Fund revenue per capita would be $423.

Recommended Budget

The recommended budget reflects programs and services that are fully funded both in FY2005-2006 and future years. Although there remain a couple of significant issues (use of VLF advance to balance remaining structural deficit) that could jeopardize financial stability, City staff is confident that other factors (improving economy) will be sufficient to avoid further reductions in City General Fund supported activities. Unfortunately, what remains does not in any way meet the basic quality of life services that should be provided to City residents. The recommended budget is all that can be provided given the City's existing revenue sources. The FY2005-2006 recommended budget finalizes over fifteen million ($15,000,000) in General Fund service reductions and the elimination of 123.25 full time equivalent positions from the City workforce. The details of the reductions have been matters of discussion for over two (2) years and need not be reiterated. The budget document adequately describes what has been lost.

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 discusses those goals and objectives. However, the scope of the service and program reductions have made full 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 again in FY 2005-2006, because of prior years' losses in the PERS investment portfolio. 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 good news about PERS rates is that the modest, national economic recovery has resulted in modest gains in the PERS investment portfolio. With net gains by PERS on its investments, it is anticipated that PERS rates are at a peak in FY2005-2006 and future years will at least be stable with eventual modest rate reductions. This is evidenced in the PERS rates for both Police and Miscellaneous noted below. The City's Fire rate has "trailed" the other contracts with its peak coming in FY2006-2007.

Category	FY 2004-2005	FY 2005-2006	FY 2006-2007
Police	24.49%	28.315%	28.60%
Fire	19.913%	26.340%	31.50%
Miscellaneous	9.186%	10.611%	10.700%

The New York Life Retirement program continues to be more costly for non-public safety personnel, reflecting the more conservative (i.e. bonds) nature of the NYL investments and the fact that it is a "closed plan". The New York Life Retirement Program rate was 15.360% in FY 2004-05, will be 22.02% in FY 2005-2006, and is estimated to be 20.00% in FY 2006-2007.

Overall Investments

The total FY 2005-2006 recommended appropriation for all funds is $114,722,300. The recommended General Government appropriations total $71,152,800 including General Fund Operating Budget appropriations of $68,100,400. The remaining recommended investments in FY 2005-2006 include:

Internal Services Funds	$ 5,797,300
Enterprise Operations	$ 8,317,400
Assessments and Maintenance Districts	$ 5,694,200
Federal Block Grant and HOME Program	$ 4,685,050
Grant Programs	$ 666,900
Deferred Compensation and Retirement	$ 71,200
Debt Service	$ 1,839,800
Redevelopment Agency	$ 4,022,300
Capital Improvement Program	$12,475,350

It is recommended that City Council adopt resolutions as required to authorize appropriations in these amounts for FY 2005-2006.

The total FY 2006-2007 recommended appropriation for all funds is $113,404,500. The recommended General Government appropriations total $74,330,300 including General Fund Operating Budget appropriations of $71,481,700. The remaining recommended investments in FY 2006-2007 include:

Internal Services Funds	$ 5,970,900
Enterprise Operations	$ 8,483,000
Assessments and Maintenance Districts	$ 4,751,300
Federal Block Grant and HOME Program	$ 3,438,100
Deferred Compensation and Retirement	$ 74,300
Debt Service	$ 1,836,400
Redevelopment Agency	$ 3,441,900
Capital Improvement Program	$11,078,300

General Fund Revenues

After a three (3) year period from FY2001-2002 to FY2003-2004 of overall "flat" or actual decreased General Fund revenue, the City is beginning to experience modest growth in overall General Fund revenue. Current estimates for FY2004-2005 include a significant one-time spike primarily associated with the advance payment to the City of previously unpaid VLF funds. There are additional one-time funds associated with the other VLF and sales tax trades imposed on the City by the State.

General Fund revenues are estimated at $66,143,300 in FY 2005-2006 with four (4) major revenue categories representing almost seventy-seven (77%) of that revenue. A review of the Financial Summaries / Revenue Estimates in the Recommended Budget, however, gives quick of evidence of the bizarre nature of local government revenue that is left to the whims of the State of California in terms of actual distribution of revenue. The operative word for local government revenue has become "in-lieu". The dictionary definition of "in-lieu" is quite simply "instead". So the City of Salinas, instead of receiving its State-promised and guaranteed Vehicle License Fee, will instead get property tax. The City, instead of receiving its full allocation of the one (1%) percent sales tax, will instead get an "in-lieu" amount of ¼ of the total amount due because the State used local government sales as a pledge to repay the State's bonds that have been issued to cover State debt.

Those major FY2005-2006 General Fund revenue categories can therefore be classified in at least two ways. The traditional (no State interference) allocation would be:

Sales Tax	$22,400,000	(33.9%)
Property Tax	$10,329,600	(15.5%)
Motor Vehicle License Fees	$10,159,500	(15.4%)
Utility Users Tax	$ 7,870,000	(11.9%)
Total of Major Revenue Sources	$50,759,100	(76.7%)

The required (State dictated) presentation is as follows:

Sales Tax – 75%	$17,400,000	(26.3%)
Sales Tax In-Lieu – 25%	$ 5,000,000	(7.6%)
Property Tax (including $8,934,500 VLF In-Lieu)	$19,264,100	(29.1%)
Utility Users Tax	$ 7,870,000	(11.9%)
Motor Vehicle License Fees	$ 1,225,000	(1.8%)
Total of Major Revenue Sources	$50,759,100	(76.7%)

Other General Fund resources for FY 2005-06 include:

Other Revenue	$15,384,200
Interfund Transfers	($ 349,000)

Operating Reserve / Pre-payment / VLF	$ 2,306,100
Capital Projects Reserve	$ 563,900

The FY 2005-2006 General Fund revenue projections reflect a slight decrease in overall revenue, primarily reflective of the already discussed significant one-time revenue in the FY2004-2005 that will obviously not reoccur in FY2005-2006.

General Fund revenues are estimated at $70,138,200 in FY 2006-2007. As described above for FY2005-2006, the second year General Fund revenues can be described in the following manner:

The traditional (no State interference) allocation would be:

Sales Tax	$23,200,000	(33.1%)
Property Tax	$12,640,000	(18.0%)
Motor Vehicle License Fees	$10,860,000	(15.5%)
Utility Users Tax	$ 7,980.000	(11.4%)
Total of Major Revenue Sources	$54,680,000	(78.0%)

The required (State dictated) presentation is as follows:

Sales Tax – 75%	$18,000,000	(25.7%)
Sales Tax In-Lieu – 25%	$ 5,200,000	(7.4%)
Property Tax (including $VLF In-Lieu)	$22,200,000	(31.7%)
Utility Users Tax	$ 7,980,000	(11.4%)
Motor Vehicle License Fees	$ 1,300,000	(1.8%)
Total of Major Revenue Sources	$54,680,000	(78.0%)

Other General Fund resources for FY 2006-07 include:

Other Revenue	$15,458,200
Interfund Transfers	($ 154,000)
Operating Reserve / Pre-payment / VLF	$ 1,497,500
Capital Projects Reserve	$ 559,900

General Fund Operating Reserve / SVSWA Pre-Payment / VLF Advance

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 an attempt to cushion the impacts of the required reductions. That strategy has been implemented and to some extent augmented.

The April 2003 assumptions that identified the City's financial problems unfortunately proved too conservative. A major change in the original forecast was the State action regarding VLF. When the State of California unilaterally reduced vehicle license fees, the State guaranteed to local government that in-lieu revenue would be provided to cities and counties. This was done in recognition that this tax reduction did not impact State government. VLF was and continues to be a local tax.

The politics associated with the continuing deficit, reinstitution of the VLF, the recall of Governor Davis, and the election of Governor Schwarzenegger resulted in local government not being paid by the State for the full VLF due in FY2003-2004. When the smoke screens cleared in Sacramento, local government was "promised" that the amount due in FY2003-2004 would be paid in FY2006-2007. Few local governments could afford this delay in payment. The League of California Cities responded with the sponsorship of advanced funding bond program in which the City of Salinas participated.

The net result was FY2004-2005 receipt of the past due funds. These VLF funds have been set aside to balance the remaining $1,000,000+ structural deficit in the City's General Fund in FY2005-2006 and FY2006-2007. This has been done in order to avoid further reductions in City services and in anticipation that the major problems associated with the General Fund deficits have been permanently addressed with the program and service level reductions already in place.

State Budget Impacts

Last November's passage of Proposition 1A has resulted in the discussion of the State impacts being significantly less than in prior years. The FY2005-2006 budget includes the increased property tax shift ($1,541,400) from the City to the State provided for in Proposition 1A. This additional shift does not continue after FY2005-2006 and the Proposition 1A limitations will make the State much less of a negative impact on City General Fund resources in the future. However, the State will continue to shift the original early 1990s ERAF amounts ($2,750,000 annually) with increased losses to the City each year.

County of Monterey Impacts

Unlike the State, there are no guarantees that the County of Monterey will attempt to control its charges to the cities of Monterey County. The initial booking fee charge delivered to cities for FY2005-2006 does not seem consistent with State legislation defining the extent of the booking fee that can be charged. Other than the booking fee limitations defined in State law, there are no other State mandated limitations. The record of the County continuing to charge cities and not looking to the residents of the unincorporated area of the County to pay any additional taxes remains intact. It is obvious that the County has taken on the State government model of passing down costs for services rather than attempting to control its own costs to any significant degree.

General Fund Expenditures

The recommended FY 2005-2006 General Fund operating budget is $68,100,400. Public Safety expenditures (Police and Fire Departments) represent 64.9% of the Operating Budget.

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

Police	$30,708,050	(45.1%)
Fire	$13,502,450	(19.8%)
Maintenance Services	$ 7,564,300	(11.1%)
Non-Departmental	$ 4,010,200	(5.9%)
Finance	$ 3,019,000	(4.4%)
Development & Permit	$ 2,868,200	(4.2%)
Recreation - Parks	$ 2,384,500	(3.5%)
Development & Engineering	$ 2,036,700	(3.0%)
Administration	$ 1,099,600	(1.6%)
City Attorney	$ 424,300	(0.6%)
City Council	$ 201,700	(0.3%)
Block Grant and Housing	$ 175,800	(0.3%)
Library	$ 105,600	(0.2%)
Total	$68,100,400	(100.0%)

Employee Services expenses in FY 2005-2006 will represent 82.93% 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	$56,475,850	(82.9%)
Supplies and Materials	$ 1,841,750	(2.7%)
Outside Services	$ 7,157,000	(10.5%)
Other Charges	$ 2,330,300	(3.4%)
Capital Outlay	$ 295,500	(0.5%)
Total	$68,100,400	(100.00%)

The recommended FY 2006-2007 General Fund operating budget is $71,481,700. This investment assumes the continuation of all FY2005-2006 programs and services. There are no new programs or services recommended in FY2006-2007, as the City's current General Fund revenue base will only be sufficient to maintain services, not enhance or add services.

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