



**CITY OF SALINAS
COUNCIL STAFF REPORT**

DATE: MAY 29, 2018
DEPARTMENT: FINANCE
FROM: MATT N. PRESSEY, CPA, FINANCE DIRECTOR
TITLE: STUDY SESSION – FY 2018-19 OPERATING AND CIP BUDGETS

EXECUTIVE SUMMARY:

The FY 2018-19 budget is the first year of a series of significant challenging years ahead. The outlook shows healthy resources, however, the trajectory of forecasted expenditures far outpace the revenue growth. With this understanding of the future, the City has been working hard to resolve and address the future challenges. For this year’s budget, the City has made difficult short-term and long-term decisions to balance the budget. Strategic long-term decision making will continue.

The City had a \$7.4 million deficit going into this budget cycle and each department has taken the very difficult, but necessary, steps to do their part in the balancing effort. The departments have also been working on implementing the revenue generating and cost cutting items identified in the City’s sustainability plan to address both the short term and long term structural challenges. The \$7.4 million gap was closed with \$1.9 million in increased revenue and \$4.6 million in expenditure reductions and a draw from the sustainability reserve of \$0.9 million.

In the midst of challenging deficits, the City is deploying the significant new local and state funding. Approximately \$7 million per year will come from Measure X and SB1 for maintaining and improving the City’s roads and sidewalks. The City is also undertaking the long awaited construction of the new Police Services Headquarters and new expanded El Gabilan Branch Library.

Budget Summary

Operating Budget:	
General Fund, Measure E & G	\$113,998,213
Other Operating Funds	<u>37,250,908</u>
Total Operating Budget	151,249,121
Capital Budget	<u>127,520,434</u>
Total City Budget	<u><u>\$278,769,555</u></u>

As shown in the table above, the City's Total Proposed FY 2018-19 General Fund/Measure E/Measure G Operating Budget totals \$113,998,213. The balance of the budget includes Special Revenue Funds, Internal Services, Enterprise Operations, Assessment and Maintenance Districts, Grants, Agencies, and Debt Service operating funds totaling \$37,250,908 and the Capital Improvement Budget totaling \$127,520,434. The total City Budget is \$278,769,555.

City Council Goals and Objectives and Priority Based Budgeting

The City budget is developed in alignment with the City Council Strategic Plan for 2016-2019. The City Budget also developed using the Priority Based Budget tool to allocate resources to where it matters most.

Budget Process

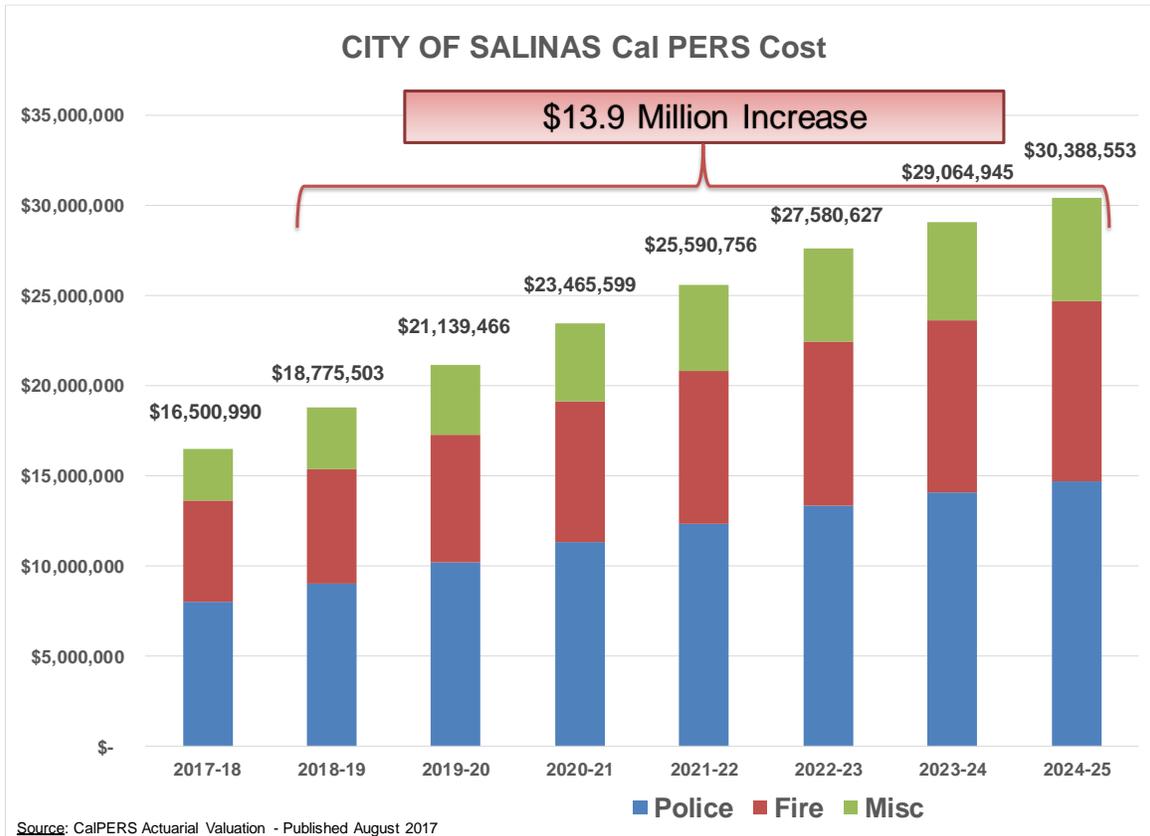
The FY 2018-19 budget process started early this year with the City Manager holding monthly budget meetings with the Department Directors. In February 2018, staff reviewed and projected the revenue forecast and the compilation of the cost of service. In March 2018, budget instructions and budget packets were distributed to each department, which included a budget calendar, organization charts, summary of benefit assumptions, prior year department budget narratives, a template for performance measures, and CIP budget worksheets. Department staff received refresher training and instruction on how to enter and use the new budget system. Individual departmental budget meetings were conducted with the City Manager and the Finance Director during April and culminated with this budget document.

General Fund Fiscal Outlook and Sustainability

One year ago in February 2017 during the mid-year review, the Salinas Financial Sustainability Plan Framework (Sustainability Plan) was presented for the first time. Staff began the Sustainability Plan in August 2016 with the goal to eliminate the structural deficit of the General Fund. The effort began with meetings held in every department to inform them of the structural deficit and the goal to resolve it. Department staff were solicited for ideas aimed at generating new revenues and cutting or saving on costs. Two significant fiscal impact items occurred between August 2016 and the February 2017 mid-year review: 1) The Salinas Police Officers Association (SPOA) three year Memorandum of Understanding (MOU) was approved (September 2016; \$11.7 million cumulative cost increase over three years) and 2) CalPERS lowered the discount rate (December 2016; \$70.9 million cumulative cost increase over 7 years, with the total annual cost almost doubling by the seventh year). The increase in cost from the CalPERS discount rate change and the SPOA MOU is likely the largest single fiscal impact in the City's history.

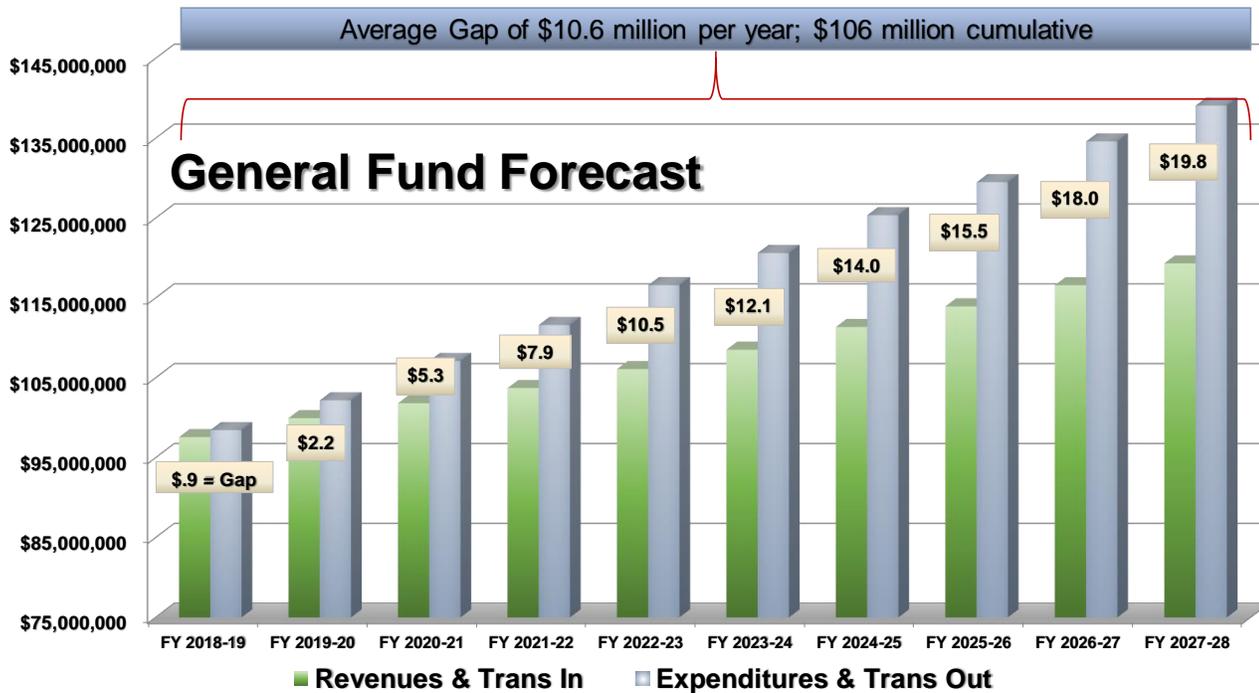
What began as a manageable effort to eliminate the General Fund Structural Deficit in August 2016 has become the most challenging task, similar the great recession, where revenues had dropped off significantly and the City eliminated 135 positions or 20% of the City's workforce. Over the next seven years, although phased in, the impact of the PERS discount rate continues to be a looming tsunami that requires serious planning and rethinking of priorities and service delivery.

The City Manager has been holding monthly budget meetings with the department heads to collaborate on the strategies, implementation of the Sustainability Plan, and on tough decisions and recommendations that need to be brought forward to City Council.



Fiscal Forecast

The General Fund Forecast has been refreshed, which takes into consideration the existing operating programs and their full cost. It also refreshes the revenue forecasts with the most recent historic trends and information on new development and improvement of property and retail establishments. With salary and benefits representing 80% of the General Fund budget, the main cost drivers are, of course, salary, retirement, and health care. The gap between revenue and expenditures over the next ten years are shown below.



Sustainability Plan

The Sustainability Plan serves as a tool to manage, primarily, the General Fund structural deficit and work toward eliminating it. The major items in the plan are listed below and are in various stages of progress:

- **115 Trust and Pay Down Cal PERS Unfunded Actuarial Liability (UAL) Options**
 - A 115 Trust will be established to fund and stabilize the future impacts of the PERS discount policy changes
 - The City has contracted with a 115 Trust service provider
 - Initial deposit is proposed at \$4,300,000 with additional amounts added each year as surplus funds become available
 - The Trust fund is completely liquid since funds can be drawn out for up to two years of pension costs
 - Initial pay down of the UAL is proposed at \$11,349,000, which will save the City \$1,897,000 in annual contributions over the next seven years and a total interest cost of \$3,713,000 million.
 - The annual deficit (gap) in the General Fund will be reduced by approximately 80% of the \$1,897,000 annual contribution savings, or \$1,517,600 each year. This would take next year’s gap of \$2.2 million down to \$682,400.

- **Center for Public Management (CPSM) Study**
 - This study focuses on police and fire deployment through the study of service calls and overtime with the goal of becoming more efficient and reducing cost
 - Public safety is the largest cost for the City and the highest priority; As the largest cost, the sustainability plan must include service delivery of public safety
 - Preliminary results have been verbally provided to the Police and Fire Chiefs and the City Manager
 - The results of the study will be presented to City Council in the next month or two along with an implementation strategy and impact to the General Fund.

- **National Resource Network (NRN) Study**
 - In November 2017, Salinas was selected as one of five cities nationally, that would receive a multi-year financial planning study by the National Resource Network. Although the City was responsible for some of the cost, the significant portion of the work is funded through an NRN grant. The progress on this important project continues including the development of a Ten-year Financial Forecast Model. Public Financial Management, Inc. (PFM) is facilitating the important effort in this area as we try to find a path toward budget sustainability in the coming decade.
 - With the City facing growing budget deficits in the coming years, caused in large part by pension cost increases, as well as significant costs in healthcare and labor, this study is timely and will greatly assist in identifying and implementing strategic solutions. Although Departments have worked hard to balance the upcoming fiscal year budget that was in a deficit by \$7.4 million, the problems continue to mount in the years ahead. PFM notes that the deficits grow each year, reaching \$20.1 million by fiscal year 2023, and total combined budget deficits of over \$170 million over the next ten years. The PFM work with the City will look to identify a sustainable budget path in the coming years. Make no mistake, this will be a very difficult task to accomplish within an organizational City structure that will need to be refined in many ways in order to provide our community with necessary services. Preliminary information from PFM is attached to this Transmittal letter. It is anticipated that a presentation to Council will occur in the Fall, following more specific details in the work between NRN and City staff.

- **Storm Water Fee Study and Fee Implementation**
 - Has the potential to generate \$2 million in revenue to fund the unfunded Federal clean water mandate that is currently paid by the General Fund
 - A draft Request For Proposal (RFP) has been prepared and is in the final review process for:
 - Developing a stormwater inspection fee: This will entail reviewing the City's current operating costs to perform stormwater inspections of construction sites, commercial/industrial facilities and create a cost-justified inspection fee for each type of inspection; and
 - Evaluating the feasibility of a City stormwater utility: This involves developing a stormwater utility, determining the stormwater capital and financial needs necessary to establish a utility, and the developing the methodology for community outreach to achieve a successful stormwater utility. The team's ability to provide a clear project plan and approach

towards the successful implementation of a stormwater utility are critical factors in the selection process; and

- Updating the City's sanitary sewer rates: This will include reviewing the City's current sanitary sewer fees, determining what the fee should be to provide a sustainable funding mechanism for the City's system, and research on funding a portion of the City's stormwater program needs, if and where a nexus exists (subject to legal review). Justifiable and equitable methodologies should be provided for appropriate user fees adequate to fully fund the expenses associated with utility system operations, including capital expenditures.

- **Bargaining Group MOU's**
 - Controlling the cost increases to MOU's will have a large impact on the structural deficit. The FY 2018-19 budget reflects a zero cost of living increase for the Police bargaining groups. The forecast reflects a 2.5% cost of living increase, but a zero cost of living increase will be what is needed.
- **Cannabis**
 - The impact to the General Fund is too uncertain and speculative at this time to rely on for budgeting purposes. Any revenue received will be used for one-time needs.
- **Future Growth Area**
 - The City is in the process of finalizing two of the three specific plans with the developers
 - The future net fiscal impact to the City is positive and significant
- **Economic Development Element**
 - Continue to promote and facilitate development of the 558 currently undeveloped acres for commercial, mixed use, and/or industrial development designated in the economic development element
 - The economic development element establishes clear policies and actions to promote development
- **Agricultural technology (AgTech)**
 - Continue to grow the local economy by promoting the joining of the Silicon Valley and Salinas Valley
 - This economic development effort has yielded over 50 new AgTech start-up companies and several new small businesses.
 - Increased exposure has resulted in positive media coverage, which helps the City attract businesses and investment by establishing it as a good location to do business.
 - Has resulted in greater collaboration between the City, industry, and educational partners, which establishes the foundation for more partnerships in the future.
 - Has resulted in new programs, such as coder dojo and Digital NEST, that help youth obtain tech-related skills that will help them obtain better-paying jobs in the future.

State Budget and Local Impacts

Governor Jerry Brown released his revised FY 2018-19 Budget Plan on May 11, 2018. FY 2018–19 marks the Governor’s 16th and final budget and he expressed a desire to leave the state’s finances in order as he completes his fourth term in office. In response to requests for additional funding to address homelessness, led by mayors of California’s 11 largest cities and supported by the League, the Governor proposes an additional \$359 million in spending to address homelessness. The Governor repeated his fiscal prudence mantra while warning of the inevitability of the next recession.

Revenue Assumptions

The City’s FY 2018-19 proposed budget is built using economic assumptions to estimate revenue. Staff uses a variety of sources to determine revenue assumptions including the Monterey County Assessor’s office and HdL Coren & Cone (the City’s property tax auditors and sales tax consultants/auditors), the State Controller’s Office, the State Board of Equalization, and other sources as appropriate. Assumptions for the major General Fund revenue sources are:

- Property Tax
 - FY 2018-19: Assumes 3.0% growth based on current trends and factoring in the Monterey County Assessor estimates.
- Sales & Measure E & G Taxes
 - FY 2018-19: Assumes 2.2% growth from the prior year adopted budget largely based on current year performance and projected economic trends.
- Utility Users Tax
 - FY 2018-19: Assumes 0.3% increase to the current year actual levels.
- Franchise Fees
 - FY 2018-19: Assumes 2.0% growth based on current year performance.
- Business License Tax
 - FY 2018-19: Assumes 1.3% based on current year performance and the general economic outlook.

Major Revenue Summary

Ninety-two percent of the City’s revenue comes from the five revenue sources listed above. Of the 92%, 79% of the City of Salinas’ revenue comes from two major revenue sources: property tax and sales tax (including Measure E and Measure G). Another 21% come from utility users tax, franchise fees, and business license tax.

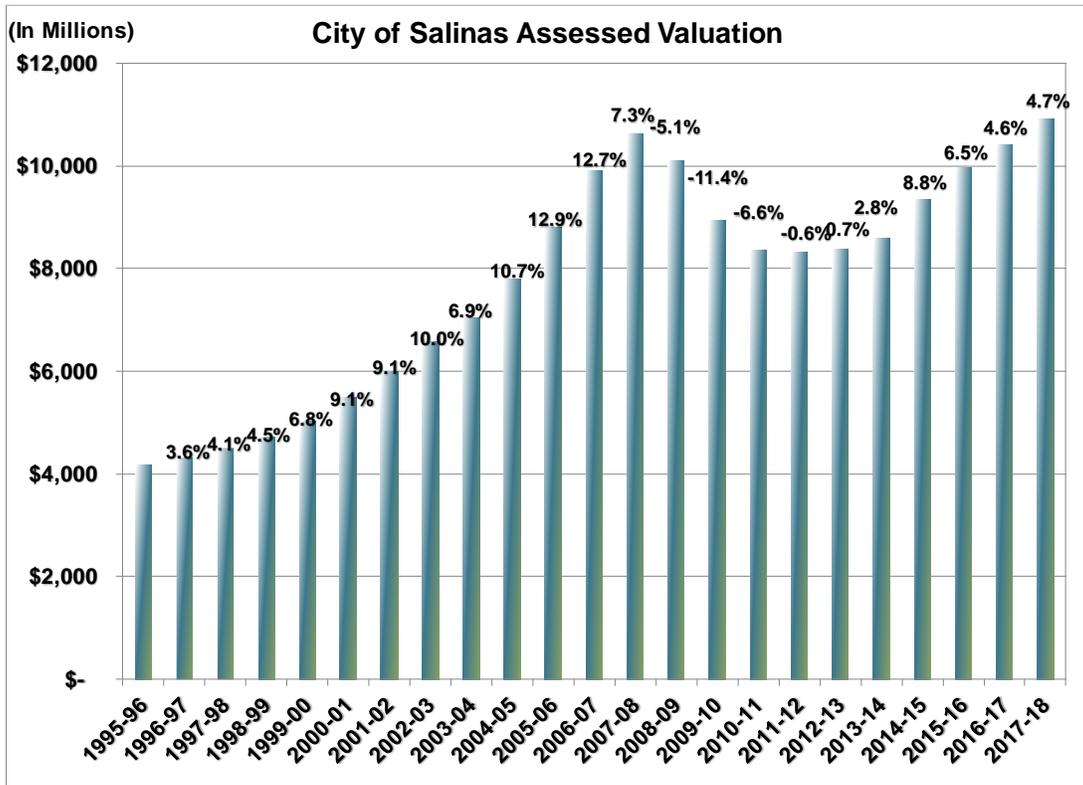
FY 2018-19 General Fund and Measure E & G revenue estimates total \$132,039,854 and major revenue categories are classified and discussed below:

**General Fund, Measure E and G
FY 2018-19 Estimated Revenue**

	FY 2017-18	FY 2018-19		% Change		
	Adopted	Proposed				
	Budget	Budget	%	Change	Change	%
Property Tax	\$ 28,029,000	\$ 28,869,660	22%	\$ 840,660	3.0%	17.4%
Sales Tax	28,637,500	29,267,000	22%	629,500	2.2%	13.0%
Measure E Tax	12,285,100	12,555,000	10%	269,900	2.2%	5.6%
Measure G Tax	24,406,700	24,943,000	19%	536,300	2.2%	11.1%
Utility Users Tax	12,200,000	12,237,000	9%	37,000	0.3%	0.8%
Franchise Fees	8,689,000	8,865,000	7%	176,000	2.0%	3.6%
Business Lic Tax	4,900,000	4,964,000	4%	64,000	1.3%	1.3%
TOT	2,450,000	2,900,000	2%	450,000	18.4%	9.3%
Other Rev/Transfers	5,606,900	7,439,194	5%	1,832,294	32.7%	37.9%
Total	\$ 127,204,200	\$ 132,039,854	100%	\$ 4,835,654	3.8%	100.0%

Property Tax

The amount of property tax the City receives is determined based on growth and declines in property values. The City’s property assessed value growth/declines for property tax collections are:



Overall, the City’s annual property tax reduced \$7.8 million (27.2%) from projections made in April 2007 (prior to the housing downturn) and now strong recovery and growth has occurred and

exceeded the 2007-08 high for the first time. Estimates for FY 2018-19 reflect a growth of \$840,660, or 3.0%, based on discussions with the County Assessor.

Sales Tax/Measure E/Measure G

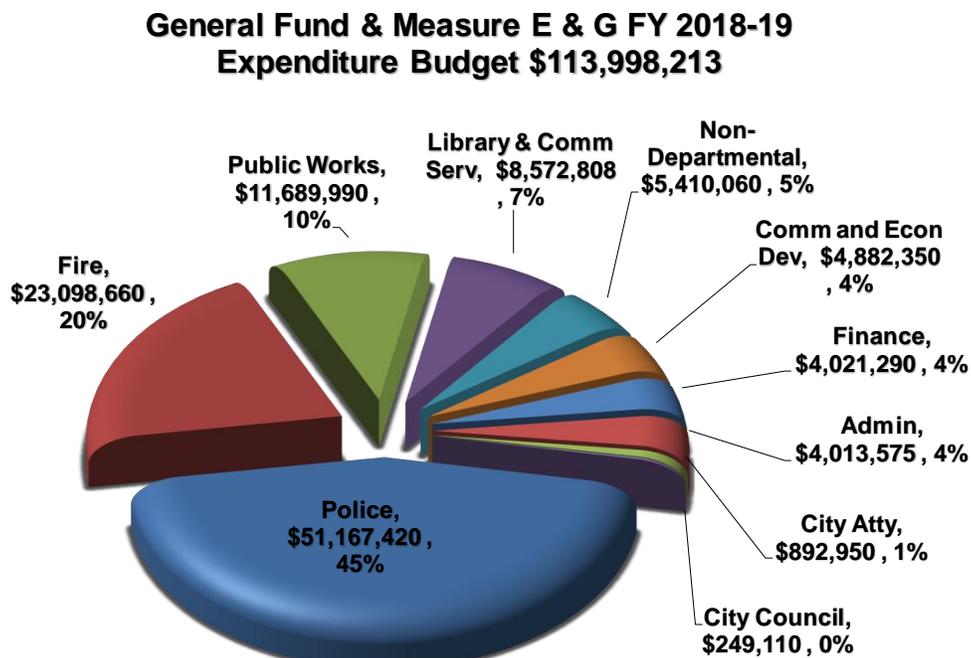
The City’s share of the 7.50% sales and use tax collected on retail sales is one-percent (1%), which is credited to the General Fund. The City also receives revenues from a .5% transaction and use tax approved by Salinas’s voters twelve years ago and was extended with no sunset on November 6, 2012, which is accounted for separately in the Measure E Fund. Similarly, on November 4, 2014, the voters approved a one cent transaction and use tax called Measure G.

After ten consecutive quarter declines that began in April 2007 and a loss of \$4.5 million by April 2009, sales tax has fully recovered and has exceeded the peak it hit in FY 2006-07. All major business categories have shown improvement with General Consumer Goods, Autos/Transportation, and Fuel/Service Stations showing the most improvement.

HdL, the City’s sales tax consultants/auditors, and their partnership with Beacon Economics, have evaluated trends in each sector and national and economic drivers. They are estimating an overall FY 2018-19 increase of 2.2%. FY 2018-19 sales tax is estimated at \$29,267,700, Measure E tax estimate of \$12,555,000, and Measure G is estimated at \$24,943,000.

General Fund and Measure E & G Expenditures

The FY 2018-19 General Fund/Measure E & G recommended operating budget totals \$113,998,213, a 0.0% change from last year of \$114,003,250. Public Safety expenditures represent 65.2% of the operating budget. The recommended FY 2018-19 General Fund/Measure E & G operating budget, by department/service activity is as follows:



Note: The Fire budget excludes \$640,000 transferred out of GF for Fire Department Paramedic Services.

Measure E

On May 17, 2018, the Measure E Committee met and received a presentation from staff on the budget proposal. The expenditure budget totals \$12.0 million. The revenue budget is estimated at \$12,555,000, which is an increase of \$269,900, or 2.2%.

Compared to the prior year adopted budget, the total budget decreased by \$1,002,733 as shown in the table below. Most of the change is related to the Paramedic specialty pay funding of \$640,000 moving out of Measure E to the General Fund, a vacancy factor of \$242,070 in Park Maintenance, and the reduction of a vacant Urban Forestry Worker position. In addition, the Library division reduced their FTE by 2.0. The budget also increased by personnel costs as a result of increases in PERS and health insurance. The number of full time authorized positions under Measure E shows a decrease of 3.5 FTE positions when compared to the previous fiscal year.

Measure E FY 2018-19 Operating Budget

	FY 17/18	% of	FY 18/19	% of		%
	Adopted	Total	Proposed	Total	Change	Change
Code Enforcement	\$ 403,280	3.1%	\$ 425,820	3.5%	\$ 22,540	5.6%
Finance	62,000	0.5%	62,000	0.5%	-	0.0%
Fire Marshall	108,820	0.8%	143,920	1.2%	35,100	32.3%
Insurance - Energy Debt Svc	255,500	2.0%	256,810	2.1%	1,310	0.5%
Paramedic Specialty Pay	640,000	4.9%	-	0.0%	(640,000)	-100.0%
Legal	10,000	0.1%	10,000	0.1%	-	0.0%
Library	5,260,140	40.3%	5,113,563	42.4%	(146,577)	-2.8%
Public Works	1,137,230	8.7%	729,700	6.1%	(407,530)	-35.8%
Parks & Recreation	1,072,815	8.2%	1,091,250	9.1%	18,435	1.7%
Youth Services & Community Engagement	272,720	2.1%	285,920	2.4%	13,200	4.8%
Police	3,831,151	29.3%	3,931,940	32.6%	100,789	2.6%
	<u>\$13,053,656</u>	<u>100.0%</u>	<u>\$12,050,923</u>	<u>100.0%</u>	<u>\$ (1,002,733)</u>	<u>-7.7%</u>

Please see the Measure E section of this Operating Budget document for more details on Measure E. Measure E is also funding \$4,005,000 for three projects: \$3,855,000 for the El Gabilan Library, \$50,000 for upgrade computers, and \$100,000 for tennis court improvements.

Measure G Oversight Committee

On May 24, 2018, the Measure G Committee met and received a presentation from staff on the budget proposal.

The City contracts with HdL Companies to monitor, audit, and estimate sales tax. They are estimating the Measure G sales tax for FY 2018-19 to be \$24,943,000. This represents a \$536,300, or 2.2% increase from the most current projections for FY 2017-18 of \$24,406,700. Fuel and Service Stations are the main driver of the increase followed by Business and Industry. Autos

sales are expected to slow next year and decline in the coming years. The FY 2018-19 budget includes \$8,157,485 in capital improvement projects (CIP), a \$2,540,040 transfer out to cover restoring services on Friday (furlough) and general liability insurance premium (mainly for public safety), and a \$13,948,640 operating budget. The CIP includes such projects as the new public safety facility, police and fire vehicles, General Plan update, technology, playground improvements, and fire station renovations. The details of the proposed capital projects are located in the capital improvement budget document for FY 2018-19.

Measure G
FY 2018-19 Operating Budget

	Adopted	% of	Proposed	% of		%
	FY 17/18	Total	FY 18/19	Total	Change	Change
Police	\$ 6,886,486	54.2%	\$ 7,940,790	56.9%	\$ 1,054,304	15.3%
Fire	2,224,570	17.5%	2,232,980	16.0%	8,410	0.4%
PW - Build / Improve / Maintain	1,320,450	10.4%	1,361,510	9.8%	41,060	3.1%
Code Enforcement	410,660	3.2%	404,510	2.9%	(6,150)	-1.5%
Recreation - Youth Prevention	899,780	7.1%	1,093,700	7.8%	193,920	21.6%
Community Safety - Prevention	100,280	0.8%	-	0.0%	(100,280)	-100.0%
Economic Development	105,450	0.8%	106,680	0.8%	1,230	1.2%
Support - Technology	271,550	2.1%	284,830	2.0%	13,280	4.9%
Support - Finance	222,260	1.7%	243,620	1.7%	21,360	9.6%
Support - Human Resources	144,930	1.1%	155,260	1.1%	10,330	7.1%
Support - Administration	116,460	0.9%	124,760	1.0%	8,300	7.1%
	<u>\$ 12,702,876</u>	<u>100.0%</u>	<u>\$ 13,948,640</u>	<u>100.0%</u>	<u>\$ 1,245,764</u>	<u>9.8%</u>

The number of positions funded by Measure E during FY 2015-16, FY 2016-17, and FY 2017-18 and proposed for 2018-19 are summarized as follows:

	<u>FY 17/18</u>	<u>FY 18/19</u>
Police - Sworn	31.0	37.0
Police - Non-Sworn Support	12.0	12.0
Fire - Sworn	14.0	14.0
Fire - Non-Sworn Support	1.0	1.0
Code Enforcement	4.0	4.0
Public Works - Clean-up	1.0	1.0
Public Works - Park Maint.	1.0	1.0
Public Works - Streets	6.0	6.0
Recreation	6.0	6.0
Youth Services & Community Engagement	1.0	1.0
Support - Technology	2.0	2.0
Support - Finance	2.0	2.0
Support - Human Resources	1.0	1.0
Support - Administration	1.0	1.0
Total Positions	<u>83.0</u>	<u>89.0</u>

A total of 83 positions were funded with Measure G funds in FY 2017-18, as shown above. In FY 2017-18, 4 more police officers and 2 fire fighters previously funded by the SAFER grant were added as was planned since the inception of Measure G, and 2 Street Outreach Specialist staff were moved out to temporarily fund with a \$500,000 state grant. In FY 18-19, 6 more police officers were added. These 6 police officers were previously going to be funded as School Resource Officers (SRO's) by the COPS grant. Out of the original 8 SRO grant funded positions, to-date, 2 police officers are operating as SRO's and funded under the COPS grant and 6 will not be funded by the COPS grant and are now funded with Measure G. The total sworn personnel count for the police department remains at 174.

Please see the Measure G section of this Operating Budget document for more details on Measure G.

Retirement Programs

Most California cities participate in the California Public Employees' Retirement System (CalPERS) retirement program. The cost of providing retirement benefits to employees remains a challenge to cities. Retirement costs represent 15% of total personnel costs. The average annual increases in CalPERS retirement costs have been 9.1% since Fiscal Year 2009-10 mainly due to the lower returns realized. CalPERS has made six major policy changes that will result in further higher pension costs for the State and CalPERS contracting employers. The latest change is a change in amortization policy. It will become effective with rates for FY 2020-21. Overall, it means our annual contribution will increase. It does not change existing UAL amortizations, only future actuarial gains and losses and UAL changes going forward. Future gains will be amortized over 20 years (vs. 30). The biggest change was made on December 21, 2016, where CalPERS Board of Administration lowered the CalPERS discount rate assumption from 7.50 percent to 7.00 percent over a seven year phase in period. The discount rate is the long-term rate of return, The change will increase public agency employer contribution costs beginning in Fiscal Year 2018-19.

The benefits of reducing the discount rate include:

- Strengthening long-term sustainability of the fund
- Reducing negative cash flows; additional contributions will help to offset the cost to pay pensions
- Reducing the long-term probability of funded ratios falling below undesirable levels
- Improving the likelihood of CalPERS investments earning our assumed rate of return
- Reducing the risk of contribution increases in the future from volatile investment markets

The four changes from 2012, 2013 and 2014 amounted to an increase of approximately \$2.0 million per year for five years and then levels off. The recent change in the discount rate will almost double the annual contribution over the next seven years.

Under the Governor's pension reform law called Public Employees' Pension Reform Act of 2013 (PEPRA), new employees began to pay 50% of the normal costs of the pension. Existing city employees or new employees that have been active members in CalPERS within the last six months continue to pay under the existing rates. City Public Safety – Police employees pay twelve (12%) percent of base salary into CalPERS, which was phased in from nine (9%) the last three years; Public Safety – Fire employees pay ten (10%) percent and it will grow to 12% over the next two years; non-public safety employees pay seven (7%) percent. The majority of cities in the City's

labor market (comparable cities) pay a portion of the entire employee share. As a member of CalPERS, the City can only charge Public Safety employees up to 9% and non-public safety employees up to 7% for the employee share of retirement premiums. The retirement formula used by the City of Salinas for non-public safety employees is 2% @ 55, at a time when many employee bargaining groups in other cities have negotiated 2.5% @ 55. The retirement formula that the City uses for sworn Public Safety employees is 3% @ 50 with the single highest year of salary. Any new sworn Public Safety employees hired between October 17, 2011 and December 31, 2012 are employed with a retirement formula of 3% @ 55 with a three-year final compensation. Under the new law, the retirement formula is 2% at 62 for non-public safety employees and 2.7% at 57 for safety employees, with the exception of new fire employees hired after March 4, 2014, which will be under the 2.5% at 57 formula as a result of City's fourth tier of pension reform.

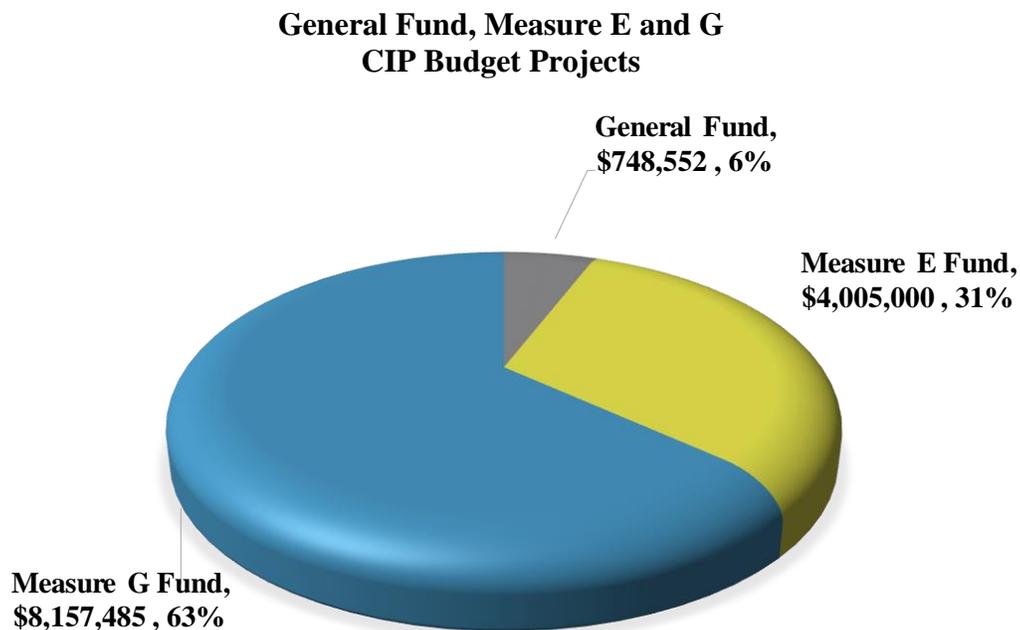
The City's plans have the following unfunded liabilities and funding status:

- Miscellaneous: \$29.6 million (70.1% funded)
- Police Safety: \$91.5 million (64.5% funded)
- Fire Safety Tier 1: \$54.9 million (64.6% funded)
- Fire Safety Tier 2: \$187.0 thousand (91.7% funded)

The City budgets \$16.7 million, to pay the cost for the Public Safety retirements (79% of the total PERS cost) and \$3.5 million for non-public safety retirements (21% of the total PERS cost).

Capital Improvement Program

The Capital Improvement budget includes a number of General Fund and Measure E and G funded investments. The recommended General Fund items have been significantly scaled down to minimal levels. Measure G funded capital project items total \$8,157,485. Measure E is providing funding for the El Gabilan Library (\$3,855,000), computers (\$50,000), and tennis court improvements (\$100,000).



**General Fund
CIP Budget Projects**

Department - Project	FY 18-19 Proposed
Administration	
9146 - Financial & HR Magmt ERP System	\$ 163,000
9264 - Salinas Valley Sector-Based Intern	120,000
Administration Total	283,000
Community Development	
9001 - Permanent Shelter Predevelopment	125,000
Community Development Total	125,000
Engineering and Transportation	
9111 - Tech & Business Process Innovation	50,000
Engineering and Transportation Total	50,000
Facilities Maintenance	
9533 - Electric Locking System	20,000
Facilities Maintenance Total	20,000
Fire	
9411 - Fire Hydrant Repairs	45,000
Fire Total	45,000
Police	
9304 - Abbott St Safety Building	225,552
Police Total	225,552
Grand Total	\$ 748,552

**Measure E Fund
CIP Budget Projects**

Department - Project	FY 18-19 Proposed
Library	
9166 - New El Gabilan Library	3,855,000
9195 - Computers Upgrade LCSD	50,000
Library Total	3,905,000
Parks and Community Services	
9022 - Tennis Court Improvements	100,000
Parks and Community Services Total	100,000
Grand Total	\$ 4,005,000

**Measure G Fund
CIP Budget Projects**

Department - Project	FY 18-19 Proposed
Administration	
9102 - PCs & Networking	100,000
9159 - Network Equipment Upgrades	50,000
9160 - Wireless Network Coverage	10,000
Administration Total	160,000
Community Development	
9042 - Farmworker Housing Study	25,000
9246 - Alisal Vibrancy Plan (EDE Implem)	25,700
9701 - General Plan	400,000
Community Development Total	450,700
Engineering and Transportation	
9060 - Playground Improvements at Parks	100,000
9068 - City Cleanup Program	100,000
Engineering and Transportation Total	200,000
Facilities Maintenance	
9718 - Reroof Public Buildings	85,000
9875 - City Facilities Repainting	50,000
Facilities Maintenance Total	135,000
Fire	
9235 - Fire Station Renovations	710,000
Fire Total	710,000
Fleet/Equipment Maintenance	
9269 - Facilities Vehicles Repl.	20,900
9270 - Parks Vehicles Replacement	26,950
9271 - Urban Forestry Equip Replacement	150,000
9273 - Fleet Vehicles Replacement	4,950
9540 - Fire Apparatus Repl Leases	786,985
9579 - Police Vehicle Replacement	650,000
Fleet/Equipment Maintenance Total	1,639,785
Parks and Community Services	
9737 - Athletic Field Repairs	35,000
Parks and Community Services Total	35,000
Police	
9214 - PD Records Management System	150,000
9244 - New Police Facility Financing	4,677,000
Police Total	4,827,000
Grand Total	\$ 8,157,485

The CIP is contained in a separate document and provides detailed information for each capital project included in the FY 2018-19 Capital Improvement Budget and Capital Improvement Program (FY 2018-19 through FY 2023-24).

General Fund, Measure E and Measure G Operating Reserves

The City’s Financial Policies provide that the City “strive” to maintain an eight (8%) percent General Fund Operating Reserve. Five (5%) percent of the reserve is required primarily for cash flow purposes. Reserves above the five (5%) percent level can be characterized more as “rainy day” funds to guard against economic uncertainties.

While a prudent reserve is certainly a worthy policy, it must be balanced with the fact that residents pay taxes for one purpose – to benefit from programs and services paid for with those taxes.

During the Great Recession, the FY 2009-10 Budget was balanced using \$9.4 million of General Fund/Measure E reserves. The use of reserves in both FY 2008-09 and FY 2009-10 was required to maintain services and were depleted to zero. Over the last seven fiscal years using carryover funds and at the mid-year budget review, the City Council has approved replenishing the reserve with amounts each time. The General Fund, Measure G and E reserves have grown and are now at \$9.6 million or 8.4% of operating expenditures. The Measure G reserve of \$1,760,000 is 8% of the 1st year estimated Measure G sales tax of \$22,000,000 and will function both as an operating reserve and a capital reserve. In addition to these reserves, the City has reserved \$2,500,000 for the New York Life Retirement Reserve and \$425,000 remaining in the deficit reduction reserve.

	<u>General Fund</u>	<u>Measure E</u>	<u>Measure G</u>	<u>Total</u>
Operating Reserve	<u>\$ 6,830,000</u>	<u>\$ 962,000</u>	<u>\$ 1,760,000</u>	<u>\$9,552,000</u>
Reserve % of FY 18-19 Appropriations	7.7%	8.2%	12.6%	8.4%

CEQA CONSIDERATION:

Not a Project. The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378).

STRATEGIC PLAN INITIATIVE:

The proposed budgets promote all five of the Council Goals: 1) Economic Diversity & Prosperity, 2) Safe Livable Community, 3) Effective Sustainable Government, 4) Well Planned City and Excellent Infrastructure, 5) Quality of Life.

FISCAL AND SUSTAINABILITY IMPACT:

A summary of the FY 2018-19 General Fund, Measure E and Measure G operating budgets is shown below.

	<u>General Fund</u>	<u>Measure E</u>	<u>Measure G</u>	<u>Total</u>
Revenue	\$94,438,354	\$12,588,000	\$25,013,000	\$132,039,354
Appropriations	(88,255,460)	(11,794,113)	(13,948,640)	(113,998,213)
CIP	(748,552)	(4,005,000)	(8,157,485)	(12,911,037)
Draw: Sustainability Reserve	875,000	-	-	875,000
Draw: Available Fund Balance	-	2,769,000	-	2,769,000
Transfers	(6,306,660)	442,650	(2,540,040)	(8,404,050)
Balanced Budget	<u>\$ 2,682</u>	<u>\$ 537</u>	<u>\$ 366,835</u>	<u>\$ 370,054</u>

ATTACHMENTS:

FY 2018-19 Operating Budget

FY 2018-19 Capital Improvement Budget

Exhibit A – FY 2018-19 Budget Detail - By Department

Exhibit B - May 2018 NRN Council Update

Exhibit C - City Council Goals and Strategic Plan

Exhibit D - Schedule of Vacant Positions Eliminated - FY 2018-19 Budget

Exhibit E - Schedule of Vacant Positions Held Vacant - FY 2018-19 Budget