

**REPORT TO THE
CITY COUNCIL**
City of Salinas, California

DATE: June 14, 2016

FROM: Ray E. Corpuz, Jr., City Manager

BY: Matt N. Pressey, CPA, Finance Director

SUBJECT: **ADOPT ANNUAL OPERATING AND CAPITAL IMPROVEMENT BUDGETS
FOR FY 2016-17**

RECOMMENDATION:

It is recommended that City Council adopt a resolution approving the proposed FY 2016-17 Annual Operating Budget for the City of Salinas and Successor Agency to the former Salinas Redevelopment Agency and the FY 2016-17 Annual Capital Budget for the City of Salinas.

DISCUSSION:

Restoring Services

With the passage of Measure G in November 2014, the City has begun the process of restoring services and making strategic investments into public facilities and infrastructure. Each of the department's plans are focused on delivering services and programs that are aligned with the City Council Strategic Plan goals and initiatives. Program services are ranked in the highest priority based budget quartiles A and B. They also reflect the main interests of the community, as determined by extensive community outreach, surveys, comments, and engagement and department needs.

The City has taken on the monumental tasks of creating historic water agreements, a new Economic Development Element implementation action plan, working with multiple stakeholders to redesign downtown, relighting the entire city to improve energy efficiency and addressing specific issues regarding homelessness. The City has implemented multiple large infrastructure and equipment projects, technology projects, successfully competed and been awarded large grants for safety services and equipment and more to service the needs and expectations of our community. The full list of major accomplishments from FY 2015-16 is included in the summaries at the beginning of each department's section of this budget document.

City Council Goals and Objectives

On January 23, 2016 and March 1, 2016, the City Council conducted strategic planning sessions and came up with their goals and initiatives for FY 2016-17. Each department has defined a specific plan to accomplish the City Council goals. For FY 2016-17 the following is a list that covers the priority initiatives by City Council Goal categories:

- Economic Diversity and Prosperity
 - ✓ Complete the Economic Development Element and Coordinate with Major Economic Development Initiatives
 - ✓ Alisal Vibrancy Plan
 - ✓ AgTech Ecosystem Development
 - ✓ Alisal Marketplace
 - ✓ Revitalize Chinatown
 - ✓ Entitle and Develop the Future Growth Area
 - ✓ Enhance Permit Center Operations
- Safe, Livable Community
 - ✓ Recruit, Hire and Retain Public Safety Officers
 - ✓ Re-establish State and Federal Partnerships to Fight Crime in the City
 - ✓ Update Technology in Public Safety
 - ✓ Prepare and Present to the Public a Community Policing Plan that Includes Support and Involvement of Neighborhoods
 - ✓ Improve Code Enforcement in the City
- Effective, Sustainable Government
 - ✓ Review the Format, Structure, Purpose, and Processes of Existing Boards, Commissions, and City Council
 - ✓ Inventory and Determine Cost Effectiveness of Outside Consultants
 - ✓ Enhance Community Input and Participation
- Excellent Infrastructure
 - ✓ Increase the Rate of Planned Infrastructure Improvements
 - ✓ Housing Element
 - ✓ Engage Deep Water Desalination
 - ✓ Begin Installation of Dark Fiber
 - ✓ Update the General Plan
- Quality of Life
 - ✓ Explore Carr Lake Opportunities
 - ✓ El Gabilan Library Expansion
 - ✓ Conduct Needs Assessment and Develop an Open Space Master Plan
 - ✓ Upgrade Community and Recreational Centers
 - ✓ Continue Collaboration with the County and Social Service Providers to Address the Needs of the Homeless

Budget Summary

As shown in the table below, the City’s Total Proposed FY 2016-17 General Fund/Measure V/ Measure G Operating Budget totals \$107,349,840. 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 \$34,093,174 and the Capital Improvement Budget totaling \$ 24,270,900. The total City Budget is \$165,713,914.

Operating Budget:

General Fund, Measure V & G	\$ 107,349,840
Other Operating Funds	<u>34,093,174</u>
Total Operating Budget	141,443,014
Capital Budget	<u>24,270,900</u>
Total City Budget	<u>\$ 165,713,914</u>

Measure V

The expenditure budget totals \$12.4 million. The revenue budget is estimated at \$11,705,000, which is an increase \$449,000, or 4.0%.

Compared to the prior year adopted budget, the total budget increased by \$490,084 as shown in the table below. Most of the change related to the increases in personnel costs including PERS and health insurance. The number of full time authorized positions under Measure V shows an increase of 0.9 FTE position when compared to the previous fiscal year. Two Recreation Coordinator positions were partially funded by Community Development Block Grant funds in the prior year and now one is fully funded with Measure V and one fully funded from the General Fund.

	Measure V					
	<u>FY 2016-17 Operating Budget</u>					
	<u>FY 15/16</u>	<u>% of</u>	<u>FY 16/17</u>	<u>% of</u>		<u>%</u>
	<u>Amended</u>	<u>Total</u>	<u>Proposed</u>	<u>Total</u>	<u>Change</u>	<u>Change</u>
Code Enforcement	359,700	3.0%	384,455	3.1%	\$ 24,755	6.9%
Finance	60,000	0.5%	62,000	0.5%	2,000	3.3%
Fire Marshall	92,600	0.8%	97,265	0.8%	4,665	5.0%
Insurance	191,300	1.6%	201,300	1.6%	10,000	5.2%
Paramedic Program	640,000	5.4%	640,000	5.2%	-	0.0%
Legal	15,000	0.1%	10,000	0.1%	(5,000)	-33.3%
Library	4,832,400	40.7%	4,972,611	40.2%	140,211	2.9%
Public Works	982,800	8.3%	1,147,536	9.3%	164,736	16.8%
Parks & CS	969,387	8.2%	1,087,355	8.8%	117,968	12.2%
Community Safety	239,400	2.0%	260,598	2.1%	21,198	8.9%
Police	<u>3,500,100</u>	<u>29.5%</u>	<u>3,509,651</u>	<u>28.3%</u>	<u>9,551</u>	<u>0.3%</u>
	<u>\$11,882,687</u>	<u>100.0%</u>	<u>\$12,372,771</u>	<u>100.0%</u>	<u>\$ 490,084</u>	<u>4.1%</u>

Included in the total of the table above is a \$640,000 transfer out to cover the Paramedic Program. Please see the Measure V section of this Operating Budget document for more details on Measure V. Measure V is also funding \$1,120,000 out of its reserve for the El Gabilan Library Expansion project and \$50,000 for the joint Salinas History Project with Cal State Monterey Bay (CSUMB).

Measure G Oversight Committee

On May 19, 2016, the Measure G Committee met and received a presentation from staff on the budget proposal and will communicate their annual report to the City Council on May 31, 2016.

The City contracts with HdL Companies to monitor, audit, and estimate sales tax. They are estimating the Measure G sales tax for FY 2016-17 to be \$22,840,000. This represents a 3.8% increase from FY 2015-16. Auto sales are the main driver of the increase followed by restaurants and hotels. The FY 2016-17 budget includes \$10,837,300 in capital improvement projects (CIP), a \$2,361,100 transfer out to cover restoring services on Friday (furlough) and general liability insurance premium (mainly for public safety), and a \$9,966,663 operating budget. The CIP includes such projects as the new public safety facility, police and fire vehicles, street improvements, sidewalk improvement, and economic development initiatives in the Alisal. The details of the proposed capital projects are located in the capital improvement budget document for FY 2016-17.

Measure G
FY 2016-17 Operating Budget

	Amended	% of	Proposed	% of		%
	FY 15/16	Total	FY 16/17	Total	Change	Change
Police	\$4,004,600	48.4%	\$ 4,910,656	49.3%	\$ 906,056	22.6%
Fire	1,132,300	13.7%	1,290,370	12.9%	158,070	14.0%
PW - Build / Improve /	1,358,000	16.4%	1,525,724	15.3%	167,724	12.4%
Code Enforcement	321,600	3.9%	380,010	3.8%	58,410	18.2%
Recreation - Youth Prevention	665,500	8.0%	794,700	8.0%	129,200	19.4%
Community Safety - Prevention	171,100	2.1%	244,990	2.5%	73,890	43.2%
Economic Development	74,700	0.9%	95,710	1.0%	21,010	28.1%
Support - Technology	180,800	2.2%	264,980	2.7%	84,180	46.6%
Support - Finance	158,100	1.9%	212,080	2.1%	53,980	34.1%
Support - Human Resources	111,200	1.3%	136,183	1.4%	24,983	22.5%
Support - Administration	100,400	1.2%	111,260	1.1%	10,860	10.8%
	<u>\$8,278,300</u>	<u>100.0%</u>	<u>\$ 9,966,663</u>	<u>100.0%</u>	<u>\$1,688,363</u>	<u>20.4%</u>

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

	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
Police - Sworn	17.0	27.0	37.0
Police - Non-Sworn Support	12.0	12.0	12.0
Fire - Sworn	-	12.0	14.0
Fire - Non-Sworn Support	1.0	1.0	1.0
Code Enforcement	4.0	4.0	4.0
Public Works - Clean-up	1.0	1.0	1.0
Public Works - Park Maint.	1.0	1.0	1.0
Public Works - Streets	6.0	6.0	6.0
Recreation - Youth Prevention	6.0	6.0	6.0
Community Safety - Prevention	1.0	3.0	3.0
Support - Technology	2.0	2.0	2.0
Support - Finance	2.0	2.0	2.0
Support - Human Resources	1.0	1.0	1.0
Support - Administration	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total Positions	<u>55.0</u>	<u>79.0</u>	<u>91.0</u>

A total of 55 positions were funded with Measure G funds in the first year, FY 2015-16, as shown above. In FY 2016-17, 79 positions are proposed. The increases between the fiscal years are for 10 police officers, 12 existing grant funded fire fighters that are transitioned to this funding, as the grant funding expires, and lastly, 2 Street Outreach Specialist staff as part of the Community Safety program. In year 3, FY 2017-18, 10 more police officers are added (8 for the SRO grant plus two new) and 2 more fire fighters will transition from the SAFER grant to Measure G.

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

State Budget and Local Impacts

Governor Jerry Brown released his revised FY 2016-17 Budget on May 13, 2016. The Governor presented reiterated his warning that California must prepare for the next inevitable downturn. The Revised FY 2016-17 Budget recognizes that California's tax revenue forecast has been reduced by \$1.9 billion since January caused by sluggish income tax and sales tax revenues. The Governor's revised FY 2016-17 budget is \$173.1 billion, which is a 1.8 percent increase over FY 2015-16. Of that total, \$122.2 billion is General Fund, which is an increase of 5.7 percent over the current budget year.

Of interest to the City is the funding of programs and project initiatives for the regional or local level, which the City will be participating in, such as:

- ✓ \$2.0 Billion in Affordable Housing Funding including Homeless
- ✓ \$1.8 Billion for Transportation (City and County portion)
 - Of this amount, \$1.01 billion would be allocated by formula for local streets and roads maintenance, \$523 million of which will go to cities each year based on population. An

additional \$100 million would be set aside for a complete streets competitive grant program.

General Fund FY 2017-18 Budget Outlook

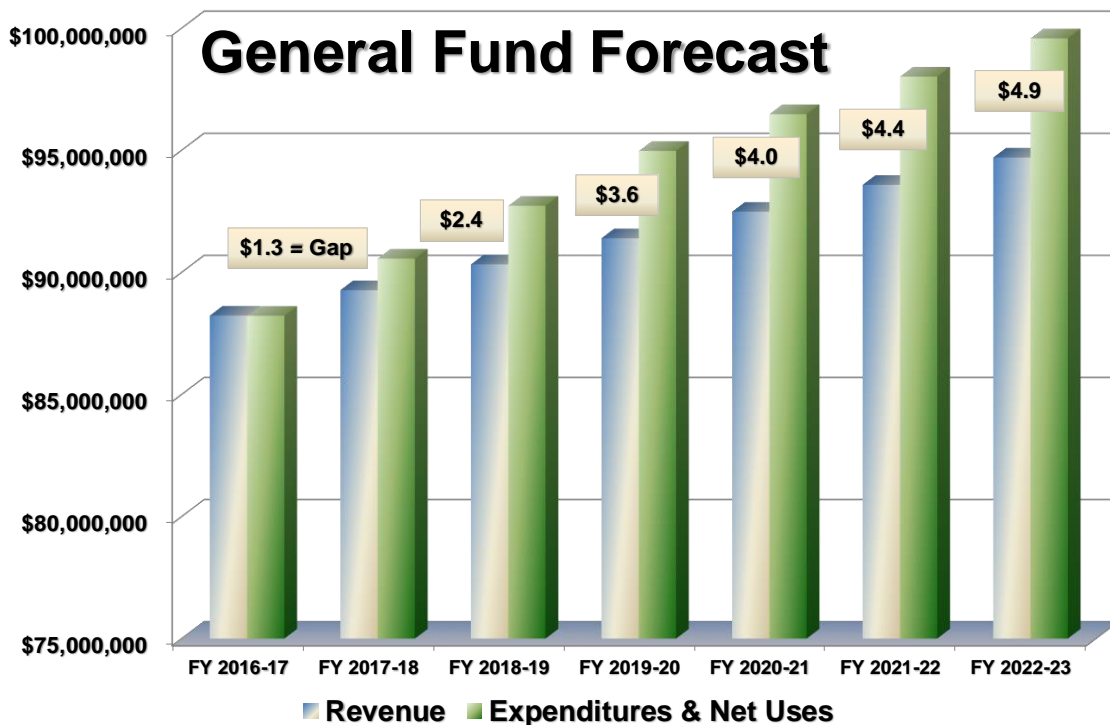
The General Fund FY 17-18 has a projected deficit of \$2.4 million, which is down about \$1.6 million from what projected last year, mainly because of the improvement of sales tax and property tax realized this fiscal year. The projected deficit amount will be difficult to manage, but with the changes made by the CalPERS Board, the projected deficit continues to grow as show below in the General Fund forecast.

General Fund Forecast

The City’s General Fund Fiscal Forecast has been updated with revised forecasting of revenues and expenditures. The fiscal projections include the fiscal impacts of CalPERS rate increases that began in fiscal year 2015-16 and will continue during the five year ramp up period before leveling off.

The major causes of increases in future expenditures are: 1) healthcare cost, 2) public safety related pension costs, and 3) public safety wages. The worker’s compensation and general liability insurance costs continue to be a large variable that will continue to present a challenge and are estimated to grow at the same pace as health costs.

The chart below includes the 2016-17 fiscal year included in this budget document and an additional six years for a total of seven years. The budget is balanced for FY 2016-17. In FY 2017-18 the gap grows to \$2.4 million, as mentioned. The years after FY 2018-19 include the ongoing capital costs, such as leases for capital, and do not reflect any additional one-time capital costs. It will cost the General Fund an average of \$1.1 million more a year for the CalPERS rate increases. In FY 20-21, the CalPERS rates will stabilize and reflect normal growth from that point forward.



Going forward, the City plans a variety of budget balancing strategies and the plan to address the deficit will be managed in a number of ways on a yearly basis. Examples of the budget balancing strategies include continuing to leverage the Priority Based Budgeting (PBB) tool to reduce and realign resources to where they matter most, implementing new cost recovery fee rates to recover more of the cost of services, such as planning services, evaluating overtime, leveraging technology, reducing solid waste costs, realizing more savings from the energy efficiency project than conservatively estimated, starting a new series of business license audits, and on a longer term basis, begin to grow the revenue and reap the efforts of a number of economic development efforts including: Economic development element action plan implementation, Downtown Vibrancy plan, Intermodal transportation center, Alisal Vibrancy Plan, AgTech Ecosystem Development, Alisal Market place, and more.

The forecast for Measure V and G is stable providing an additional \$11.7 million and \$22.8 million in resources, respectively.

Revenue Assumptions

The City's FY 2016-17 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 General Fund major revenue sources are:

- Property Tax
 - FY 2016-17: Increase of \$413,200 assumes 2% growth based on current trends and factoring in the Monterey County Assessor estimates.
- Sales & Measure V & G Taxes
 - FY 2016-17: Increase of \$2,016,500 assumes 3.4% growth from the prior year adopted budget largely based on current year performance and projected economic trends.
- Utility Users Tax
 - FY 2016-17: Increase of \$124,000 assumes 1.0% increase to the current year actual levels, which is after a significant increase from Measure H last year.
- Franchise Fees
 - FY 2016-17: Increase of \$114,900 assumes 1.4% growth based on current year performance.
- Business License Tax
 - FY 2016-17: Decrease of \$120,000 assumes 2.6% based on current year performance and the general economic outlook.

Major Revenue Summary

Ninty-three percent of the City's revenue come from the five revenue sources listed above. Of the 93%, 72% of the City of Salinas' revenue comes from two major revenue sources: property tax and sales tax (including Measure V and Measure G). Another 21% come from utility users tax, franchise fees, and business license tax.

FY 2016-17 General Fund and Measure V & G revenue estimates total \$122,790,000 and major revenue categories are classified and discussed below:

	FY 2015-16	FY 2016-17	%			
	<u>Budget</u>	<u>Budget</u>	<u>%</u>	<u>Change</u>	<u>Change</u>	<u>%</u>
Property Tax	\$ 25,536,900	\$ 25,950,100	21%	\$ 413,200	1.6%	10.8%
Sales Tax	26,467,500	27,342,000	22%	874,500	3.3%	22.9%
Measure V Tax	11,388,000	11,690,000	10%	302,000	2.7%	7.9%
Measure G Tax	22,020,500	22,860,500	19%	840,000	3.8%	22.0%
Utility Users Tax	12,370,000	12,494,000	10%	124,000	1.0%	3.2%
Franchise Fees	8,465,100	8,580,000	7%	114,900	1.4%	3.0%
Business Lic Tax	4,600,000	4,720,000	4%	120,000	2.6%	3.1%
TOT	2,000,000	2,550,000	2%	550,000	27.5%	14.4%
Plan Ck / Bldg Permit	1,250,000	1,350,000	1%	100,000	8.0%	2.6%
Other Rev/Transfers	4,870,500	5,253,400	4%	382,900	7.9%	10.1%
Total	<u>\$ 118,968,500</u>	<u>\$ 122,790,000</u>	<u>100%</u>	<u>\$ 3,821,500</u>	<u>3.2%</u>	<u>100.0%</u>

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:

- FY 2004-05 – Growth of 10.7%
- FY 2005-06 - Growth of 12.9%
- FY 2006-07 - Growth of 12.7%
- FY 2007-08 - Growth of 7.3%
- FY 2008-09 – Decline of 5.1%
- FY 2009-10 – Decline of 11.2%
- FY 2010-11 – Decline of 6.8%
- FY 2011-12 – Decline of 0.6%
- FY 2012-13 – Growth of 0.5%
- FY 2013-14 – Growth of 2.8%
- FY 2014-15 – Growth of 8.8%
- FY 2014-15 – Growth of 6.5%
- FY 2015-16 – Projected to grow 2.0%

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 signs of recovery and growth have begun. Estimates for FY 2016-17 reflect a growth of \$413,200, or 1.6%, because the current year secured tax trends and a flat successor agency residual receipt that offsets the 2% growth estimated for this next fiscal year.

Sales Tax/Measure V/Measure G

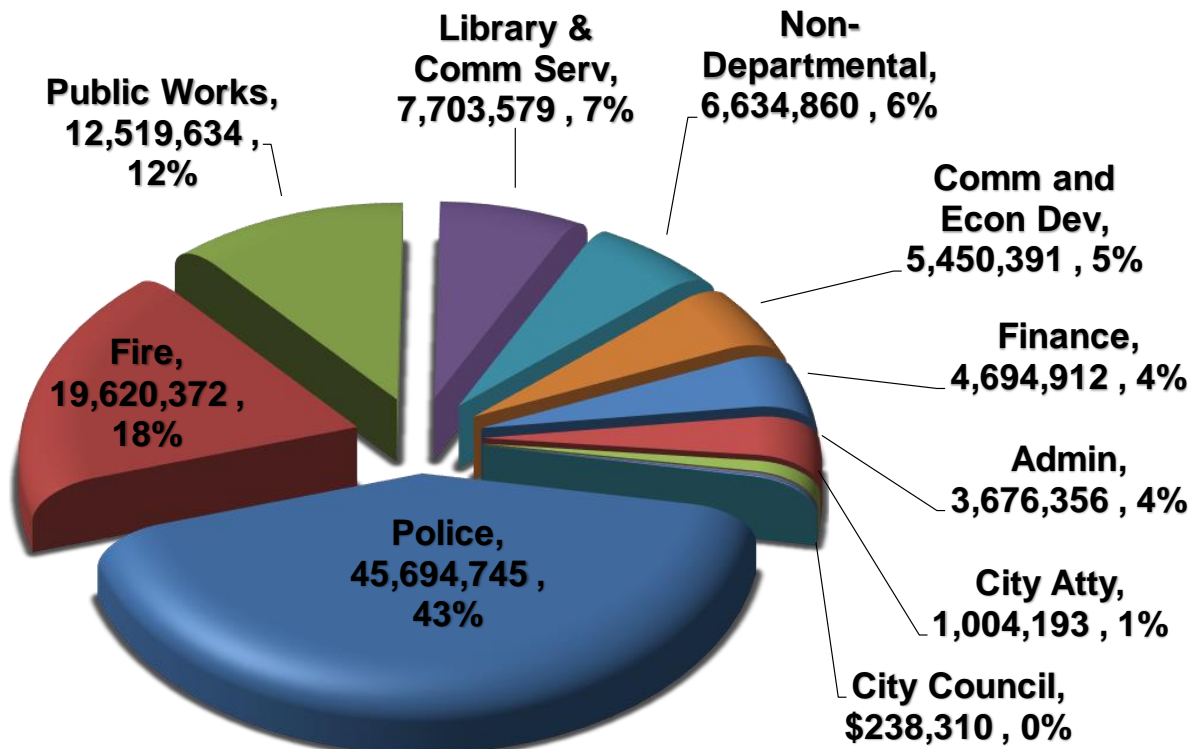
The City's share of the 7.50% sales and use tax collected on retail sales is one-percent (1%), which is credited to the General Fund. The City also receives revenues from a .5% transaction and use tax approved by Salinas's voters ten years ago and was extended with no sunset on November 6, 2012, which is accounted for separately in the Measure V 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 shown fully recovered and has regained 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 2016-17 increase of 3.3% from the FY 2015-16 adjusted budget. FY 2016-17 sales tax is estimated at \$27,342,000, Measure V tax estimate of \$11,690,000, and Measure G is estimated at \$22,840,000.

General Fund and Measure V & G Expenditures

**General Fund & Measure V & G FY 2016-17
Expendituer Budget \$107,349,840**



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

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 18% 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. Moreover, in a two-year period, CalPERS has made four major policy changes that will result in further higher pension costs for the State and CalPERS contracting employers, with three of the changes occurring two years ago with the goal to stabilize pension costs over time. The most recent change occurred on May 22, 2014. The changes amount to an increase of approximately \$2.0 million per year for five years and then level off. The costs will be spread over twenty years with the increases phased in over the first five years and ramped down over the last five years of the twenty-year amortization period. The table below reflects the changes made by CalPERS:

CalPERS Board of Administration Policy Changes

Date Adopted by CalPERS	Description of the Change	Effective Year	Actuary Report Period	Date Actuary Report Due from CalPERS
3/13/2012	<u>ROR Assumption Change</u> - Lowered LT assumed rate of return at from 7.75 to 7.50%	FY 2014-15	6/30/2012	10/1/2013
4/17/2013	<u>Amortization & Smoothing Policy Change</u> - Recognize gains and loses over a shorter period & fixed amortization vs rolling	FY 2015-16	6/30/2013	10/1/2014
2/18/2014	<u>Change in Assumptions</u> - Lengthen the mortality rate	FY 2016-17	6/30/2013	10/1/2014
5/22/2014	<u>Policy Change</u> - Change to Risk Pools	FY 2016-17	6/30/2013	10/1/2014

On March 13, 2012, the CalPERS Board of Administration voted to reduce the discount rate from 7.75 percent to 7.50 percent. The discount rate is calculated based on expected price inflation and real rate of return. According to studies conducted by CalPERS and external actuaries, inflation has been in decline for the last 25 years. As a result, CalPERS Actuarial Office recommended a reduction in the price inflation from 3 to 2.75 percent. When added to the current real return assumption of 4.75 percent, this produces a discount rate of 7.5 percent. This new economic assumption resulted in employer rate increases of about 1 percent to 2 percent of total payroll for most miscellaneous retirement plans and a 2 percent to 3 percent increase of total payroll for most safety plans beginning in FY 2013-14. On April 18, 2012, the CalPERS Board of Administration adopted a policy to phase in the impact on employers change in discount rate over a two-year period, which has now fully occurred.

On April 17, 2013, the CalPERS enacted significant changes in its actuarial policies that are aimed at returning the system to fully-funded status within 30 years. The new policies include a rate-smoothing method with a 30-year fixed amortization period for gains and losses. While it is a good decision for the long-term health and rate predictability of the system, the short term impact is that more money is required to be put into the system. Furthermore, on April 18, 2014, the CalPERS Board increased the mortality assumptions with a 20-year amortization period, which will increase contribution requirements beginning in FY 16-17.

Lastly, on May 22, 2014, the CalPERS Board approved changes to Risk Pooling, which only applies to the City's Fire Safety plan. CalPERS will combine all pools into two pools, with one for all safety plans and allocate the total unfunded liability. This Change will give the City the opportunity to refinance the Fire side fund obligation and achieve savings.

With the Governors pension reform law called Public Employees' Pension Reform Act of 2013 (PEPRA), new employees will begin 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 will continue to pay under the existing rates. City Public Safety employees pay nine (9%) percent of base salary into CalPERS; non public safety employees pay seven (7%) percent. The majority of cities in the City's labor market (comparable cities) pay a portion or 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 budgets \$13.0 million to pay the cost for the Public Safety retirements and \$3.3 million for non-public safety retirements.

General Fund, Measure V 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.

The FY 2009-10 Budget was balanced using \$9.4 million of General Fund/Measure V 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 four 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 reserves have grown and are now at \$8.4 million. As part of adopting the FY 2016-17 operating budget, staff is proposing to increase the reserves by \$144,300 and bring the reserve to a new total of \$8,528,600, which would bring the reserve up to 8.0% 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 \$1,500,000 for the New York Life Retirement Reserve and \$500,000 as a structural deficit contingency reserve.

Fund Balance Reserves:	<u>General Fund</u>	<u>Measure V</u>	<u>Measure G</u>	<u>Total</u>
Operating Reserve	\$ 5,730,000	\$ 894,300	\$ 1,760,000	\$ 8,384,300
Proposed Increase Reserves	<u>100,000</u>	<u>44,300</u>	<u>-</u>	<u>144,300</u>
Total Reserves	<u>\$ 5,830,000</u>	<u>\$ 938,600</u>	<u>\$ 1,760,000</u>	<u>\$ 8,528,600</u>

Capital Improvement Program

The Capital Improvement Budget (FY 2016-17) and Program (FY 2017-22) for the City of Salinas details the capital investments required by the community to maintain and enhance our residents' quality of life. Given the significant costs associated with capital investments, the CIP is a multi-year document. The CIP is updated annually with comprehensive revisions occurring every two years. Comprehensive revisions to the CIP that included the identification of several new projects were made this year for FY 2016-17 through FY 2021-2022.

Building on the efforts of the last several years and guided by the City of Salinas' goals and General Plan, this CIP continues targeted investments to maintain, rehabilitate, and rejuvenate a wide array of public infrastructure to improve system reliability, enhance recreational experiences, advance public safety, and in general ensure that Salinas remains well positioned for further economic growth and opportunity, all this coupled with the vision of new police and library facilities that will contribute to enhance life for Salinas' residents.

During FY 15-16, the total Capital improvement Project budget was over \$91.5 million. Of this amount an estimated \$40 million will be actually spent while the difference will carry over to the following fiscal year. After the passage of Measure G proposition and following the city's taxpayer priorities, the Council approved \$18,243,200 in different capital improvement projects that included improvements to current buildings, planning and construction of a new police facility and equipment acquisition and replacement. Among the completed list of projects in FY 15-16 we find the Industrial Waste Conveyance System Improvement; East Market Street Reconstruction and Slurry Seal; East Alisal/Skyway Boulevard Roundabout; Cesar Chavez Playground and the Sanitary Sewer Pipes Repair/Rehab. Staff continued with those projects that require annual investments like the Street Tree Planting, the Annual Street Repair and rehab, Storm Water (NPDES), Economic Development efforts and Police and Fire Vehicle Replacement. It is worth to mention the progress achieved in an ambitious program of Energy Related Improvements that required an investment of over \$26 million. This level of investment was accomplished as a result of residents self-imposed sales and transaction taxes coupled with aggressive grant writing efforts, federal assistance and well planned distribution of restricted funds. These accomplishments are important to note, because they provided the City with the opportunity to effectuate a more beautiful place to live, work and play, as well as, an attractive environment that is conducive to retaining and attracting new businesses. A sense of pride continues to develop in the city as we begin to place more of an emphasis on the esthetic, as well as the internal infrastructure of the city.

The City of Salinas defines a CIP as having; 1) a capital asset with a desired minimum dollar amount of \$5,000; and 2) an estimated useful life of three years or more. Capital assets include land, building, land and building improvements, equipment and infrastructure assets (e.g. streets, sidewalks, traffic signals, and similar items). The proposed CIP includes equipment leases, building leases, and costs associated with maintenance of capital assets that extends the useful life of those assets. Although staff has made every attempt to adhere to the definition of a CIP, there are some items included that do not meet the definition, due to their uniqueness, such as special funding, timing and multi-year nature.

The proposed CIP is addressing many of its immediate needs by using over \$10.8 million during FY 2016-17 of the newly approved Measure G funds and over \$83.1 million for the remaining planned five years. In order to meet the City's needs, it is imperative that the City continues to plan and strategize how it will allocate limited financial resources for capital project. The Capital Improvement Program should not be confused with the Capital Improvement Budget. The capital improvement budget represents the first year of the CIP and is adopted by the

City Council. The capital improvement budget authorizes specific projects and appropriates specific funding for those projects. Projects and financing sources listed in the CIP for years other than year one (commonly called “out years”) are not authorized until the annual budget for those years is adopted by the City Council. The “out years” serve only as a guide for future planning and are subject to further review and modification in subsequent years by the City Council.

Annually, the City council adopts a six-year CIP to provide a standard by which to:

- Prioritize the increased needs of the City;
- Match as appropriate, available funding to the various needs;
- Plan to meet the City’s capital needs over an extended period of time, as funding becomes available; and

Establish a strategy to secure funding for priority projects.

The CIP is organized by departments/operating divisions inclusive of the following:

- Letter of Transmittal;
- CIP Summary by Department, including a capital projects index;
- CIP Summary by Fund; and
- CIP Sections by Department, including a detailed budget for each capital project.

Potential investments of \$693,990,020 are identified for the six (6) year period from July, 1, 2016 to June 30, 2022. The required investments range from deferred maintenance needs of existing facilities (e.g. Sherwood Hall and fire station repairs) to the construction of long overdue new and expanded facilities (e.g. a new police facility and John Steinbeck and El Gabilan Libraries) necessary to continue providing basic services to the residents of Salinas. Each of the six (6) years in the CIP lists critical investments. The FY 2016-17 proposed CIP Budget is balanced to forecasted revenues. It is important to note that revenues from the Highway User’s Tax (Gas Tax) that represent a major funding source of capital improvement projects are considerably lower than in previous years. The significant downturn in revenue is largely due to falling gasoline prices and consumption as well as “true ups” under the fuel tax swap system. Under the swap, the state Board of Equalization (BOE) annually adjusts the rate to try to match what fuel tax revenues in the forecast year would have been under Proposition 42, the sales tax on gasoline, had the swap not occurred. Later, when the actual amount of gallons sold and taxable sales are known for a year, the BOE must “look back” and “true up” for any over or under collection of revenue compared to what the sales tax rate would have garnered. This true up is factored into the rate set in subsequent year(s). The result is that if taxable sales of gasoline (which are in turn a function of gas prices and gallons sold) fall more than BOE anticipated in its rate setting, then a downward true up will compound a downward trend in taxable sales in subsequent years. The result was a dramatic downturn of about 56% in the estimated Section 2103 allocations in FY 2015-16 with an impact in FY 2016-17 where staff estimated revenue of 80% of the 15-16 allocation.

ISSUE:

Shall the City Council adopt a resolution approving the proposed FY 2016-17 Annual Operating Budget for the City of Salinas and Successor Agency to the former Salinas Redevelopment Agency and the FY 2016-17 Annual Capital Budget for the City of Salinas?

FISCAL IMPACT:

The FY 2016-17 General Fund, Measure V and Measure G operating budgets are balanced.

ALTERNATIVES:

Provide further direction to staff.

CITY COUNCIL GOALS:

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

CONCLUSION:

City Council/Successor Agency Board is asked to consider the FY 2016-17 Annual Operating Budget for the City of Salinas and Successor Agency to the former Salinas Redevelopment Agency and the City of Salinas Capital Improvement Budget for FY 2016-17 at its meeting on June 14, 2016.

Back Up Pages:

*Exhibit A – FY 2016-17 Proposed Budget Detail – Narrative By Department
Proposed FY 2016-17 Operating Budget Document
Proposed FY 2016-17 Capital Improvement Budget and CIP Document*

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