



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: June 20, 2017

DEPARTMENT: FINANCE

FROM: Matt N. Pressey, CPA, Finance Director

TITLE: FY 2017-18 OPERATING AND CAPITAL IMPROVEMENT BUDGETS

RECOMMENDED MOTION:

A motion to adopt a resolution to approve the proposed FY 2017-18 Operating Budget and Capital Improvement Budget for the City of Salinas.

RECOMMENDATION:

It is recommended that City Council adopt a resolution approving the proposed FY 2017-18 Operating Budget for the City of Salinas and Successor Agency to the former Salinas Redevelopment Agency and the FY 2017-18 Capital Improvement Budget for the City of Salinas.

EXECUTIVE SUMMARY:

The last two years have been geared toward restoring services to the community and making strategic investments into public facilities and infrastructure in the community. Each of the department's plans have 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 FY 2017-18 budget concentrates on maintaining operational services, deploying the significant new local and state funding for maintaining and improving the City's roads and sidewalks, and refining and implementing the financial sustainability plan to tackle and eliminate the General Fund Structural Deficit.

As shown in the table below, the City's Total Proposed FY 2017-18 General Fund/Measure V/ Measure G Operating Budget totals \$114,003,250. 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 \$36,200,893 and the Capital Improvement Budget totaling \$34,906,130. The total City Budget is \$185,110,273.

Budget Summary

Operating Budget:	
General Fund, Measure V & G	\$114,003,250
Other Operating Funds	<u>36,200,893</u>
Total Operating Budget	150,204,143
Capital Budget	<u>34,906,130</u>
Total City Budget	<u><u>\$185,110,273</u></u>

DISCUSSION:

City Council Goals and Objectives

On January 21, 2017, the City Council reviewed and updated the Strategic Plan for 2016-2019. For FY 2017-18 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
- ✓ Review, Update, and Support Human Resources Excellence
- ✓ Inventory and Determine Cost Effectiveness of Outside Consultants
- ✓ Enhance Community Input and Participation
- Well Planned City and Excellent Infrastructure
 - ✓ Increase the Rate of Planned Infrastructure Improvements
 - ✓ Design and Seek Funding for the Laurel Extension Sidewalk
 - ✓ Improve Fire Department Facilities and Equipment
 - ✓ Design/Build Police Department Building
 - ✓ 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 Process

The FY 2017-18 budget process started in February 2017 with the review of the projected revenue forecast and the compilation of the cost of service. In March 2017, 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. New requests for Measure G funding were to align with City Council goals, and fall within Priority Based Budgeting quartile A and B programs as determined by the feedback from the community meetings. Individual departmental budget meetings were conducted with the Finance Director and City Manager during April and culminated with this budget document.

Measure V

On May 4, 2017, the Measure V Committee met and received a presentation from staff on the budget proposal. The expenditure budget totals \$12.6 million. The revenue budget is estimated at \$12,318,100, which is an increase of \$613,100, or 5.2%.

Compared to the prior year adopted budget, the total budget increased by \$292,535 as shown in the table below. Most of the change related to a vacancy factor of \$563,000 included in the prior year and no vacancy factor in the new year. The budget also increased by personnel costs. The increases in personnel costs including PERS and health insurance are offset by the Library division reducing their FTE by 2.5. The number of full time authorized positions under Measure V shows a decrease of 2.5 FTE positions when compared to the previous fiscal year.

Measure V						
<u>FY 2017-18 Operating Budget</u>						
	FY 16/17	% of	FY 17/18	% of		%
	<u>Adopted</u>	<u>Total</u>	<u>Proposed</u>	<u>Total</u>	<u>Change</u>	<u>Change</u>
Code Enforcement	\$ 384,455	3.1%	\$ 403,280	3.2%	\$ 18,825	4.9%
Finance	62,000	0.5%	62,000	0.5%	-	0.0%
Fire Marshall	97,265	0.8%	108,820	0.9%	11,555	11.9%
Insurance	201,300	1.6%	191,300	1.5%	(10,000)	-5.0%
Paramedic Program	640,000	5.2%	640,000	5.1%	-	0.0%
Legal	10,000	0.1%	10,000	0.1%	-	0.0%
Library	4,972,611	40.2%	5,260,140	41.5%	287,529	5.8%
Public Works	1,147,536	9.3%	1,137,230	9.0%	(10,306)	-0.9%
Parks & CS	1,087,355	8.8%	1,072,815	8.5%	(14,540)	-1.3%
Community Safety	260,598	2.1%	272,720	2.2%	12,122	4.7%
Police	<u>3,509,651</u>	<u>28.4%</u>	<u>3,507,001</u>	<u>27.5%</u>	<u>(2,650)</u>	<u>-0.1%</u>
	<u>\$12,372,771</u>	<u>100.0%</u>	<u>\$12,665,306</u>	<u>100.0%</u>	<u>\$ 292,535</u>	<u>2.4%</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 \$140,000 for two projects: \$50,000 for the Salinas History Project and \$90,000 to upgrade computers.

Measure G Oversight Committee

On May 18, 2017, 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 2017-18 to be \$24,477,200. This represents a

\$544,500, or 2.3% increase from the most current projections for FY 2016-17 of \$23,932,700. Fuel and Service Stations are the main driver of the increase followed by Building and Construction. Autos sales are expected to slow next year and decline in the coming years. The FY 2017-18 budget includes \$10,145,493 in capital improvement projects (CIP), a \$2,411,500 transfer out to cover restoring services on Friday (furlough) and general liability insurance premium (mainly for public safety), and a \$12,383,986 operating budget. The CIP includes such projects as the new public safety facility, police and fire vehicles, General Plan update, homeless, technology, and Sherwood Tennis Center improvements. The details of the proposed capital projects are located in the capital improvement budget document for FY 2017-18.

Measure G
FY 2017-18 Operating Budget

	Adopted	% of	Proposed	% of		%
	FY 16/17	Total	FY 17/18	Total	Change	Change
Police	\$4,910,656	49.3%	\$ 6,886,486	54.2%	\$1,975,830	40.2%
Fire	1,290,370	12.9%	2,224,570	17.5%	934,200	72.4%
PW - Build / Improve / Maintain	1,525,724	15.3%	1,330,450	10.5%	(195,274)	-12.8%
Code Enforcement	380,010	3.8%	410,660	3.2%	30,650	8.1%
Recreation - Youth Prevention	794,700	8.0%	899,780	7.1%	105,080	13.2%
Community Safety - Prevention	244,990	2.5%	100,280	0.8%	(144,710)	-59.1%
Economic Development	95,710	1.0%	105,450	0.8%	9,740	10.2%
Support - Technology	264,980	2.7%	271,550	2.1%	6,570	2.5%
Support - Finance	212,080	2.1%	222,260	1.7%	10,180	4.8%
Support - Human Resources	136,183	1.4%	144,930	1.1%	8,747	6.4%
Support - Administration	111,260	1.1%	116,460	1.0%	5,200	4.7%
	<u>\$9,966,663</u>	<u>100.0%</u>	<u>\$ 12,712,876</u>	<u>100.0%</u>	<u>\$2,746,213</u>	<u>27.6%</u>

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

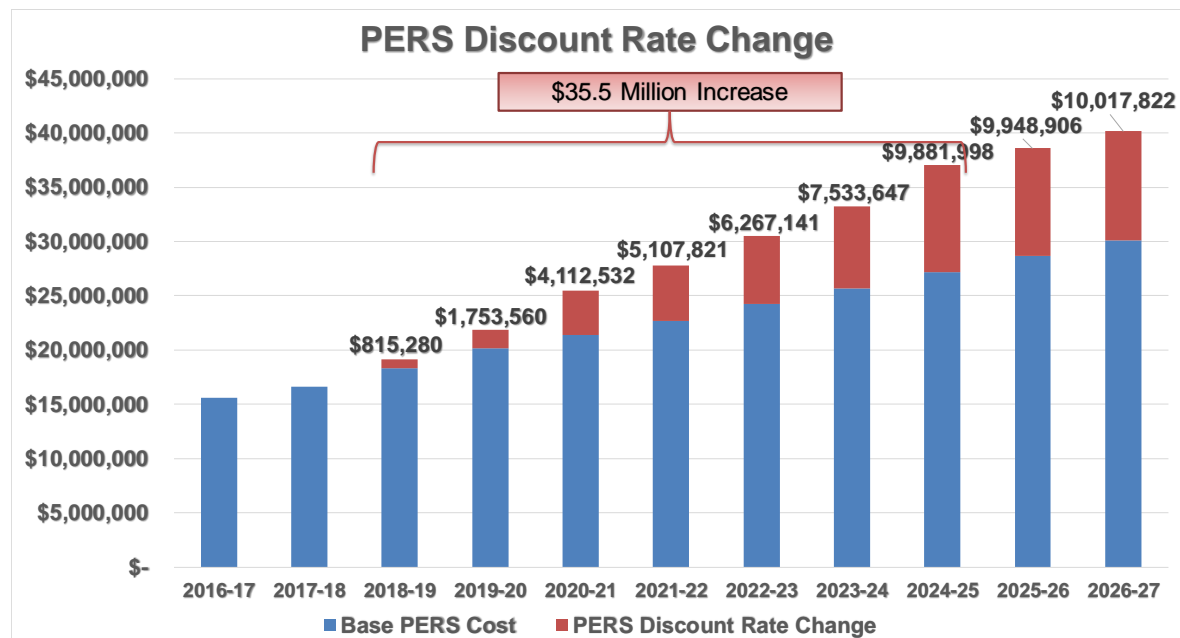
	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
1. Police - Sworn	17.0	27.0	31.0
2. Police - Non-Sworn Support	12.0	12.0	12.0
3. Fire - Sworn	-	12.0	14.0
4. Fire - Non-Sworn Support	1.0	1.0	1.0
5. Code Enforcement	4.0	4.0	4.0
6. Public Works - Clean-up	1.0	1.0	1.0
7. Public Works - Park Maint.	1.0	1.0	1.0
8. Public Works - Streets	6.0	6.0	6.0
9. Recreation - Youth Prevention	6.0	6.0	6.0
10. Community Safety - Prevention	1.0	3.0	1.0
12. Support - Technology	2.0	2.0	2.0
13. Support - Finance	2.0	2.0	2.0
15. Support - Human Resources	1.0	1.0	1.0
16. Support - Administration	1.0	1.0	1.0
Total Positions	<u>55.0</u>	<u>79.0</u>	<u>83.0</u>

A total of 55 positions were funded with Measure G funds in FY 2015-16 and 79 in FY 2016-17, as shown above. The increases between the fiscal years include 10 police officers, 12 existing SAFER grant funded fire fighters that were transitioned to Measure G funding as the grant funding expired, and 2 Street Outreach Specialist staff as part of the Community Safety program. In FY 2017-18, 4 more police officers, 2 fire fighters are added, and 2 Street Outreach Specialist staff are moved out to temporarily fund with a \$500,000 state grant. The two fire fighters were previously funded with the SAFER grant funding and now are funded with Measure G as was planned since the inception of Measure G. Two of the four officers are completely new and an increase in the total sworn police count from 172 to 174. By FY 2020-21, 8 School Resource Officers (SRO's) funded with a COPS grant will then switch to Measure G funding, bringing the total sworn police personnel funded with Measure G from 29 to 37. The total sworn count of 174 already includes 8 SRO's, which were added to the sworn count in FY 2015-16 when the grant was originally awarded.

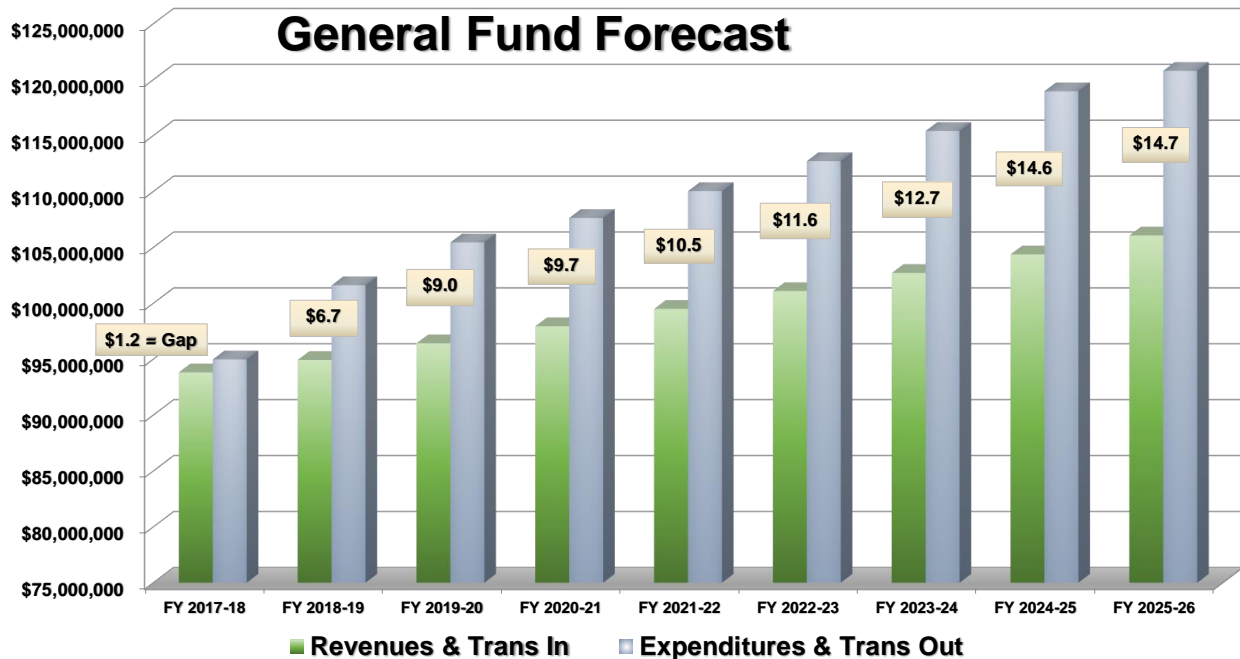
Please see the Measure G section of this Operating Budget document for more details on Measure G.

FY 2017-18 Fiscal Outlook

The City will experience challenges as the California Public Employees Retirement System (PERS) phases in significantly higher required pension contributions. Based on preliminary information from PERS, during the seven year phase-in period, the City will have contributed an extra \$35.5 million (FY 2018-19 to 2024-25), or an average of 25.2% more each year above the base, as shown below.



This will be the biggest budget impact in the history of the City of Salinas. This impact is on top of the existing General Fund structural deficit, which the City has been working hard to eliminate. The growth in this cost is more than the revenue the city would generate, causing the structural deficit to grow to \$14.6 million in FY 2024-25 before leveling out to a normal sustainable growth rate. The chart below shows the impact to the General Fund. Staff recognizes this as a significant issue that will require big decisions and will impact all departments.



State Budget and Local Impacts

Governor Jerry Brown released his revised FY 2017-18 Budget on May 12, 2017. Caution and fiscal restraint dominate the Governor’s revised budget proposal. Despite improved state revenue projections since January, Governor Brown continued to urge fiscal restraint, and cautioned that the next recession is long overdue. He warned that, “Cuts are coming”.

In response to the state’s growing unfunded pension liabilities, the Governor proposed a \$6 billion additional payment to CalPERS funded by a loan mechanism developed with the State Treasurer. Under this mechanism, the state would borrow from state funds currently earning low interest rates in the Treasurer’s Surplus Money Investment Fund, then repay the loan over time. The state projects this loan will save the state \$11 billion over 20 years.

On April 28, the Governor signed SB 1 (Beall), a historic transportation funding plan of \$54 billion over the next decade. The Governor’s May Revision included the first \$2.8 billion in FY 2017-18

appropriations for: “Fix-it-first” investments for local streets and roads, bridges, and the state highway system:

- Trade corridor investments, including funding to implement a sustainable freight strategy.
- State-local match funds for high-priority transportation projects.
- Passenger rail and public transit modernization/improvements.

Local Funds are allocated under the Road Maintenance and Rehabilitation Account as follows:

- \$445 million for local streets and roads (divided equally between cities and counties).
 - For cities, the amount in FY 2017-18 is \$222 million distributed to cities on a per capita basis (population based).
- \$330 million for the Transit and Intercity Rail Program (TIRCP).
- \$305 million for the State Transit Assistance program (STA).
- \$200 million for the State-Local Partnership Program (SLPP).
- \$100 million for the Active Transportation Program (ATP).
- \$25 million for Local Planning Grants.

Revenue Assumptions

The City’s FY 2017-18 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 2017-18: Assumes 4.5% growth based on current trends and factoring in the Monterey County Assessor estimates.
- Sales & Measure V & G Taxes
 - FY 2017-18: Assumes 3.4% growth from the prior year adopted budget largely based on current year performance and projected economic trends.
- Utility Users Tax
 - FY 2017-18: Assumes 1.0% increase to the current year actual levels.
- Franchise Fees
 - FY 2017-18: Assumes 1.0% growth based on current year performance.
- Business License Tax
 - FY 2017-18: Assumes 2.0% based on current year performance and the general economic outlook.

Major Revenue Summary

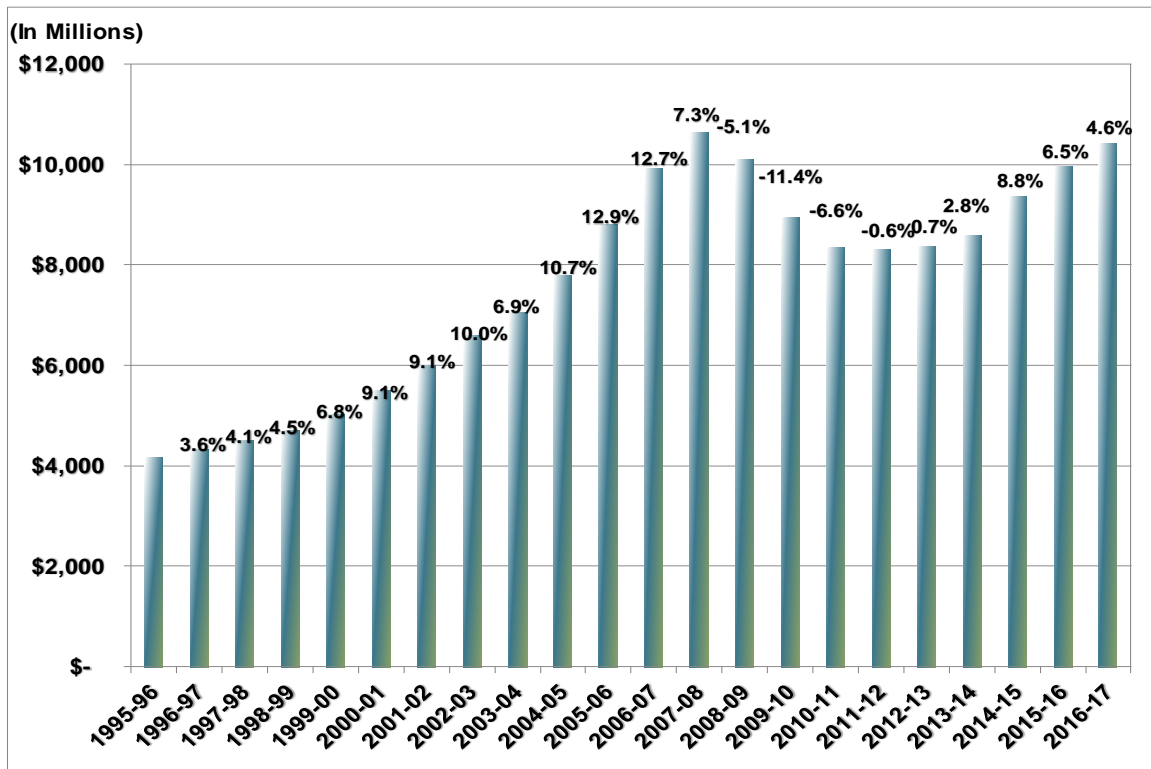
Ninety-three percent of the City’s revenue comes from the five revenue sources listed above. Of the 94%, 73% of the City of Salinas’ revenue comes from two major revenue sources: property tax and sales tax (including Measure V and Measure G). Another 20% come from utility users tax, franchise fees, and business license tax.

FY 2017-18 General Fund and Measure V & G revenue estimates total \$127,287,200 and major revenue categories are classified and discussed below:

	FY 2016-17	FY 2017-18				
	Adopted	Proposed			%	
	Budget	Budget	%	Change	Change	%
Property Tax	\$ 25,950,100	\$ 28,029,000	22%	\$ 2,078,900	8.0%	46.2%
Sales Tax	27,342,000	28,637,500	23%	1,295,500	4.7%	28.8%
Measure V Tax	11,690,000	12,285,100	10%	595,100	5.1%	13.2%
Measure G Tax	22,860,500	24,406,700	19%	1,546,200	6.8%	34.4%
Utility Users Tax	12,494,000	12,200,000	10%	(294,000)	-2.4%	-6.5%
Franchise Fees	8,580,000	8,689,000	7%	109,000	1.3%	2.4%
Business Lic Tax	4,720,000	4,900,000	4%	180,000	3.8%	4.0%
TOT	2,550,000	2,450,000	2%	(100,000)	-3.9%	-2.2%
Plan Ck / Bldg Permit	1,350,000	-	0%	(1,350,000)	-100.0%	-30.0%
Other Rev/Transfers	5,253,400	5,689,900	5%	436,500	8.3%	9.7%
Total	\$122,790,000	\$127,287,200	100%	\$ 4,497,200	3.7%	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.

Estimates for FY 2017-18 reflect a growth of \$1,207,000, or 4.5%, based on discussions with the County Assessor.

Sales Tax/Measure V/Measure G

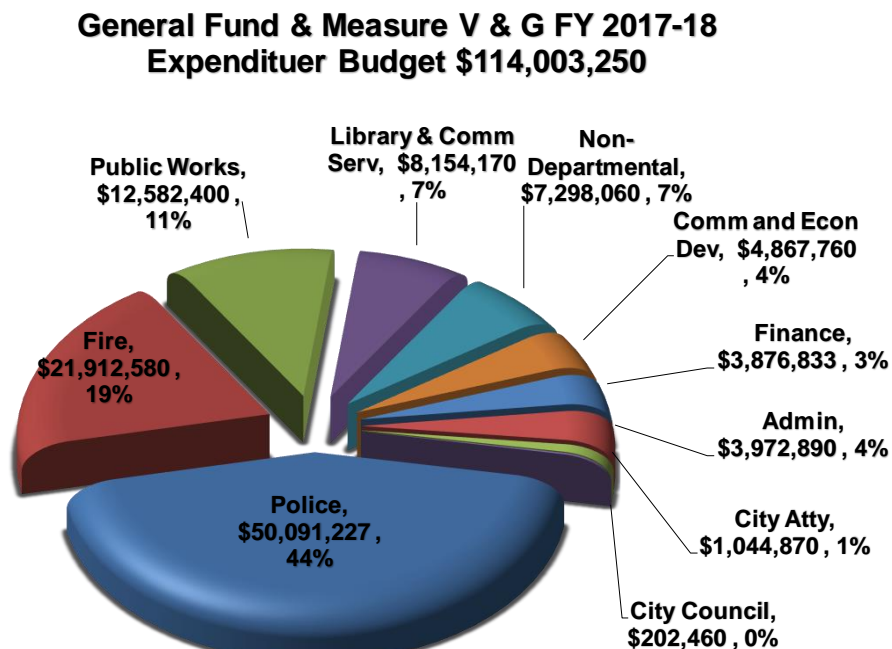
The City's share of the 7.50% sales and use tax collected on retail sales is one-percent (1%), which is credited to the General Fund. The City also receives revenues from a .5% transaction and use tax approved by Salinas's voters eleven years ago and was extended with no sunset on November 6, 2012, which 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 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 2017-18 increase of 1.7% from a revised estimate for FY 2016-17. FY 2017-18 sales tax is estimated at \$28,637,500, Measure V tax estimate of \$12,285,100, and Measure G is estimated at \$24,406,700.

General Fund and Measure V & G Expenditures

The FY 2017-18 General Fund/Measure V & G recommended operating budget totals \$114,003,250. Public Safety expenditures represent 63.0% of the operating budget. The recommended FY 2017-18 General Fund/Measure V & 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.

General Fund and Measure V & G Expenditures

Department	FY 2016-17	FY 2017-18			
	Adopted	Proposed			
	Budget	Budget	%	Change	% Change
City Council	\$ 238,310	\$ 202,460	0.2%	\$ (35,850)	-15.0%
Administration	3,676,356	3,972,890	3.5%	296,534	8.1%
City Attorney	1,004,193	1,044,870	0.9%	40,677	4.1%
Finance	4,807,400	4,867,760	4.3%	60,360	1.3%
Comm. Development	5,450,391	3,876,833	3.4%	(1,573,558)	-28.9%
Police	45,694,745	50,091,227	43.9%	4,396,482	9.6%
Fire	19,620,372	21,912,580	19.2%	2,292,208	11.7%
Public Works	12,519,634	12,582,400	11.0%	62,766	0.5%
Library and Community Serv	7,703,579	8,154,170	7.2%	450,591	5.8%
Non-Departmental	6,634,860	7,298,060	6.4%	663,200	10.0%
Total Exp. Budget	<u>\$107,349,840</u>	<u>\$114,003,250</u>	<u>100.0%</u>	<u>\$ 6,653,410</u>	6.2%

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. Moreover, between 3/31/12 and 5/22/14 and recently on 12/21/2016, CalPERS has made five major policy changes that will result in further higher pension costs for the State and CalPERS contracting employers. The most recent change, on December 21, 2016, was approved by the CalPERS Board of Administration to lower the CalPERS discount rate assumption from 7.50 percent to 7.00 percent over the next three years. The discount rate is the long-term rate of return. The recent change will increase public agency employer contribution costs beginning in Fiscal Year 2018-19. On January 19, 2017, PERS issued Circular Letter 200-004-17 that provided more information that is summarized below. The phase-in of the discount rate change approved by the Board for the next three Fiscal Years and each rate change having a 5 year phase-in period:

Valuation Date	Fiscal Year for Required Contribution	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.250%
June 30, 2018	2020-21	7.000%

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 start at \$815,000 and grow to almost \$10 million in the 7th year. 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
12/21/2016	<u>ROR Assumption Change</u> - Lowered LT assumed rate of return at from 7.50 to 7.00%	FY 2018-19	6/30/2016	10/1/2017

Under the Governor's 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 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 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 budgets \$13.3 million, to pay the cost for the Public Safety retirements (79% of the total PERS cost) and \$3.6 million for non-public safety retirements (21% of the total PERS cost).

Capital Improvement Program

The Capital Improvement Budget (FY 2017-18) and Program (FY 2018-23) 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 2017-18 through FY 2022-2023.

Guided by the City of Salinas' strategic plan 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. This is complemented with the vision of new police and library facilities that will contribute to enhance life for Salinas' residents.

The FY 2017-18 Capital Improvement Budget is \$34,906,130 (an increase of 43.8% over the previous year's Budget due mostly to the higher investment in Road and Street maintenance resulting of the passing of Measure X (TAMC) and the approval of SB1 coupled with steady investing funded by Measure G funds).

Funding Sources	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
General Fund	\$ 739,337	\$ 525,000	\$ 400,000	\$ 370,000	\$ 570,000	\$ 570,000	\$ 3,174,337
Measure V	140,000	1,180,000					1,320,000
Measure G	10,145,493	9,159,990	8,499,190	7,006,490	7,348,990	9,953,990	52,114,143
Other Funds	23,881,300	141,183,910	42,238,220	24,349,610	13,780,910	18,829,910	264,263,860
Total	\$ 34,906,130	\$ 152,048,900	\$ 51,137,410	\$ 31,726,100	\$ 21,699,900	\$ 29,353,900	\$ 320,872,340

The Capital Improvement budget includes a number of General Fund and Measure V and G funded investments. The recommended General Fund items have been significantly scaled down to

minimal levels. Measure G funded capital project items total \$10,145,493. Measure V is providing funding for the Salinas History Project (\$50,000) and computers (\$90,000).

**General Fund
CIP Budget Projects**

Department - Project	FY 17-18 Proposed
Administration	
9264 - Salinas Valley Sector-Based Interm	\$ 116,517
9684 - Copier Rental Program	80,000
Administration Total	196,517
Community Development	
9070 - 2010-Chinatown Rebound Update	31,920
9246 - Alisal Vibrancy Plan (EDE Implem)	25,700
Community Development Total	57,620
Fire	
9411 - Fire Hydrant Repairs	45,000
9527 - Fire Safety Gear & Equipment	120,000
Fire Total	165,000
Police	
9304 - Abbott St Safety Building	215,000
9344 - Safety Radio-2007 COPS (NGEN)	105,200
Police Total	320,200
Grand Total	\$ 939,337

**Measure V Fund
CIP Budget Projects**

Department - Project	FY 17-18 Proposed
Library	
9195 - Computers Upgrade LCSD	\$ 90,000
9258 - City Urbanization History	50,000
Grand Total	\$ 140,000

**Measure G Fund
CIP Budget Projects**

Department - Project	FY 17-18 Proposed
Administration	
9102 - PCs & Networking	\$ 150,000
9159 - Network Equipment Upgrades	70,000
9160 - Wireless Network Coverage	10,000
9252 - Digital NEST	50,000
Administration Total	280,000
Community Development	
9042 - Farmworker Housing Study	25,000
9701 - General Plan	300,000
Community Development Total	325,000
Engineering and Transportation	
9068 - City Cleanup Program	100,000
9103 - Geographic Information Systems	100,000
9153 - Vibrancy-Downtown Traffic/Parking Study	120,000
9205 - Chinatown Homeless Center Impvts	25,000
9206 - Homeless Warming Shelter	125,000
9217 - Facilities ADA Transition Plan	50,000
Engineering and Transportation Total	520,000
Fire	
9213 - Fire Radio Comm/Mobile Data Comp	8,000
9235 - Fire Station Renovations	900,000
9384 - Fire Hose & Nozzle Replacement	18,000
9541 - Fire Stations Repairs	75,000
9985 - Mobile Command Veh Recur Cost	18,000
9987 - Fire Sta. Alerting Sys Update	50,000
Fire Total	1,069,000
Fleet/Equipment Maintenance	
9210 - Fire Command/Staff Vehicles	155,000
9226 - Fleet Consolidation & Replacement	70,000
9525 - Fleet Replacement	150,000
9540 - Fire Apparatus Repl Leases	777,600
9579 - Police Vehicle Replacement	650,000
Fleet/Equipment Maintenance Total	1,802,600
NPDES Storm Drain Sewer	

9138 - Corp Yd Storm Drain NPDES	50,000
9436 - Storm Water Monitoring NPDES	125,000
9512 - NPDES Public Education	40,000
NPDES Storm Drain Sewer Total	215,000
Parks and Community Services	
9379 - Sherwood Tennis Center Imp	350,000
Parks and Community Services Total	350,000
Police	
9214 - PD Records Management System	756,893
9244 - New Police Facility Financing	4,677,000
Police Total	5,433,893
Street Maintenance	
9237 - Street Tree Trimming	150,000
Street Maintenance Total	150,000
Grand Total	\$ 10,145,493

The CIP is contained in a separate document and provides detailed information for each capital project included in the FY 2017-18 Capital Improvement Budget and Capital Improvement Program (FY 2017-18 through FY 2022-23).

Community Outreach

Aside from the public meetings held to discuss the budget, the City did a City-wide a paper and online survey to solicit input from the community. A total of 357 participants took the survey. The results were presented at the May 30, 2017 budget study session and the final results at the June 20, 2017 public hearing.

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 \$9.6 million. 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.

Fund Balance Reserves:	<u>General Fund</u>	<u>Measure V</u>	<u>Measure G</u>	<u>Total</u>
Operating Reserve	\$ 6,830,000	\$ 938,600	\$ 1,760,000	\$ 9,528,600
Proposed Increase	<u>-</u>	<u>23,400</u>	<u>-</u>	<u>23,400</u>
Total Reserves	<u>\$ 6,830,000</u>	<u>\$ 962,000</u>	<u>\$ 1,760,000</u>	<u>\$ 9,552,000</u>

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). In addition, CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project.

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 2017-18 General Fund, Measure V and Measure G operating budgets is shown below.

	<u>General Fund</u>	<u>Measure V</u>	<u>Measure G</u>	<u>Total</u>
Revenue	\$90,491,900	\$12,318,100	\$24,477,200	\$127,287,200
Appropriations	(89,265,068)	(12,025,306)	(12,712,876)	(114,003,250)
CIP	(739,337)	(140,000)	(10,145,493)	(11,024,830)
Sustainability Reserve	1,200,000	-	-	1,200,000
FY 16-17 Carry Over	-	-	869,569	869,569
Transfers	<u>(1,640,342)</u>	<u>(21,800)</u>	<u>(2,488,400)</u>	<u>(4,150,542)</u>
Balanced Budget	<u>\$ 47,153</u>	<u>\$ 130,994</u>	<u>\$ -</u>	<u>\$ 178,147</u>

Since the May 30, 2017 budget study session, staff has balance the \$3.8 million deficit with a combination of one-time savings and hold-the-line operating savings. The one-time savings include adding a vacancy factor of \$760,000, funding the Freight Building Improvements project (\$275,000) with a one-time source other than the General Fund, and funding the 2014 debt service payment with a one-time source other than the General Fund. To save the City from ongoing cost, departments were asked to hold-the-line. The non-personnel increases that were eliminated totaled \$877,800. The debt service on the Energy Efficiency debt was allocated to funds where the metered electricity are charged, which saved the General Fund \$218,800 and reduced the General Funds portion from 90% to 75% of the debt service each year going forward. Other than a few clean-up adjustments, the General Fund was balance with \$1.2 million from the \$1.5 million sustainability reserve.

The City has been fortunate, in the last several years, to experience a robust recovery from the recession, and to be able to fully fund City operations, provide services, fund important capital projects, and continue to build our reserves. However, PERS, National Pollutant Discharge Elimination System (NPDES), labor costs and homelessness remain challenges. The City will address, those in part, through the sustainability plan. Difficult decisions will be needed in the coming year to prepare for these challenges.

ATTACHMENTS:

FY 2017-18 Operating Budget

FY 2017-18 Capital Improvement Budget