



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: NOVEMBER 28, 2017

DEPARTMENT: CITY MANAGER'S OFFICE

FROM: ANDREW MYRICK, ECONOMIC DEVELOPMENT MANAGER

TITLE: NRN GRANT AND MULTI-YEAR PLANNING BUDGET

RECOMMENDED MOTION:

Staff Recommends that the City Council approve the proposed Resolution approving a Memorandum of Understanding between the City of Salinas and the National Resource Network.

RECOMMENDATION:

Staff recommends that the Council approve the attached Resolution.

EXECUTIVE SUMMARY:

The attached Resolution would enter into an MOU with the National Resource Network to enact practices related to establishing a Multi-Year Budget and provide sustainable funding for key operations, including development of a ten-year financial model, an organizational and operational review, and identification of objectives, goals, and actions the City can take to address issues regarding housing affordability and homelessness.

BACKGROUND:

The City of Salinas has experienced on-and-off budgetary challenges for over a decade. Much of this has been caused by circumstances beyond the City's control, including the arrival of the Great Recession and increasing retirement, healthcare, and other employee costs. During this time, the City has made repeated efforts to identify ways to reduce City expenditures, find efficiencies, and identify priorities. Past efforts have included retaining Avery & Associates to conduct an Organizational Assessment for the City, institution of Priority-Based Budgeting, and several efforts to consolidate services between Departments and other Agencies.

Despite these efforts, the City's expenses have continued to grow faster than its revenues. The City of Salinas has attempted to counter this by requesting, and receiving, additional revenues from the City's residents and businesses in the form of several tax measures, most notably the Measure V/E and Measure G transactions and use taxes, as well as an update to the Utility User's tax. These additional revenues have enabled the City to reinstate many valued, critical services and start new initiatives such as the Downtown Vibrancy Plan, the Alisal Vibrancy Plan, the development of the AgTech Ecosystem, the Economic Development Element, the restoration of sidewalk repair

services, maintaining and expanding the City's library system, park and facilities maintenance and upkeep, responsive public safety services, and development of City infrastructure, including the construction of a new Police Station.

In December 2016, CalPERS announced that they would be lowering their pension's discount rate – this action is estimated to increase the cost of CalPERS by \$14 million over the next seven years. This would be in addition to previously forecasted deficits as the expenses described above continue to increase faster than revenues. Furthermore, CalPERS is now discussing whether they should lower the discount rate yet again, which would result in even greater deficits. Barring miraculous economic growth and revenue increases over the next seven years, the City faces severe budget cuts and service reductions if it does not take action. Given the number of additional tax measures that have been recently approved by the community, it is questionable whether the community would support additional taxes in this environment.

Given the scale of these challenges, coupled with the difficulties associated with pursuing a solution on the revenue side, the City is facing the very real prospect of making significant reductions in expenditures. Fortunately, while these deficits are likely unavoidable, the City still has time to take action before the situation becomes acute. Staff has been investing in analyses to help guide the decision making process, including studies being conducted by the ICMA Center for Performance Management and Public Sector Personnel Consultants to evaluate our current job classifications and portions of the City's organizational structure.

In August, the City was informed by the National Resource Network (NRN) that the organization had received a \$4 million grant from the Laura and John Arnold Foundation to work with cities to develop and implement multi-year financial planning. The NRN indicated that it would be accepting applications to provide cities with technical assistance in developing multi-year budgetary plans. Only five cities would be selected nationally. City staff submitted an application for assistance in September.

Based on its application, a telephone interview with executive staff, and a two-day site visit including interviews with representatives from all city departments, the City of Salinas was selected as one of the five cities that the NRN offered to assist. Based upon interviews and research, the NRN identified the following Scope of Work for the City of Salinas (a more detailed Scope of Work is included in the attached MOU):

- 1) Define the Boundaries of the City's Budget Gaps (establish budget baselines and provide detailed analysis of City operations).
- 2) Identify Budget Savings and Revenue Opportunities (including development of a ten-year financial forecast model).
- 3) An Organizational and Operational Review, including identifying City priorities to inform potential modifications to the City's organizational structure.
- 4) Define the City's Role in Housing, including identification of potential resources to address the City's critical housing needs.

The NRN expects that the total project cost would be approximately \$400,000, including costs for labor, materials, travel, and any other expenses incurred. The City would contribute \$100,000,

while the NRN would contribute \$300,000 through the grant from the Laura and John Arnold Foundation. If the project costs exceed the estimate for the Scope of Work, the NRN would be responsible for any additional costs. Upon acceptance of the MOU by the City Council, the NRN would immediately begin work, with an expected completion of the project in October 2018.

ANALYSIS:

As noted above, the City has initiated a number of projects which will have positive long-term impacts on the residents of Salinas. However, the financial challenges facing the City put many of these initiatives at risk if the City does not act now to find ways to identify key initiatives and find ways to provide sustainable funding. It is not expected that this engagement will solve all the City's problems – difficult decisions will still need to be made. However, there is no alternative that does not involve difficult decisions, either now or in the future. However, by addressing these concerns early, comprehensively, and decisively, the City can find the best solutions while not under the threat of immediate budget cuts.

Staff believes that the staff chosen by the NRN are qualified to perform the proposed analysis. The NRN has done work of this type in the past, creating Multi-Year budget plans for Providence, RI; Richmond, CA; and Baltimore, MD. However, this project would go further than any of these projects, incorporating organizational analysis and exploring how the City can effectively deal with one of its most significant challenges. The City has worked with the National Resource Network, which was originally created as part of the Obama Administration's "Strong Cities, Strong Communities" program, in a previous project to identify ways to align our workforce programs with the needs of our local industry; this engagement resulted in the development of an Employment Training Partnership between Hartnell College and the five cities of the Salinas Valley that is ongoing.

It is also worth noting that the National Resource Network has an interest in the outcome of the engagement – it maintains a national network of all the cities it works with, and in this case the expectation of the grant funding from the Laura and John Arnold Foundation is that successful models for funding and operating government that can be utilized by other governments are identified. The Laura and John Arnold Foundation was created in order to identify new and innovative ways to solve complex problems. As noted on their website:

Our strategy is to systematically examine areas of society in which underperformance, inefficiency, concentrated power, lack of information, lack of accountability, lack of transparency, lack of balance among interests, or other barriers to human progress and achievement exist. We then apply a rigorous and comprehensive entrepreneurial problem-solving approach to these areas, considering all possible strategies, tactics, and resource allocations to effect solutions. Our approach is not limited to what has been tried, or even what has been proposed, in the past. Instead, we seek to incentivize bold, creative thinking and effort, with the goal of igniting a renaissance of new ideas and approaches applied to persistent problems.

This aligns with the City's past willingness to try new initiatives that will have a positive impact on the community.

CEQA CONSIDERATION:

The City Council's approval of the proposed Resolution is exempt from environmental review under the California Environmental Quality Act (CEQA) because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment. [CEQA Guidelines Section 15061(b)(3)]

STRATEGIC PLAN INITIATIVE:

The City Council's approval of the proposed Resolution would further the goal of Effective, Sustainable Government as identified in the City Council's current Strategic Plan, and would likely support other goals as well through its impacts.

FISCAL AND SUSTAINABILITY IMPACT:

The project has an estimated total cost of \$400,000, of which \$300,000 would be covered by the National Resource Network through the Laura and John Arnold Foundation. The cost to the City would be \$100,000. If this budget is insufficient to complete the Scope of Work, the National Resource Network would be responsible for covering all additional costs necessary to complete the project.

Although there are short-term costs associated with this project, it would have a positive financial impact on City finances over the medium-to-long term. The project would review City operations and provide methods through which City services could be maintained while balancing the budget. This could result in long-term efficiencies that free up resources to maintain vital City programs. Full program success would result in sustainable operations under a balanced budget.

ATTACHMENTS:

Proposed Resolution Approving an MOU between the City of Salinas and the National Resource Network

Exhibit "A" – Proposed MOU

Exhibit "B" – NRN Assessment Report dated November 15, 2017