

To: Mayor & City Council
From: City Manager
Date: June 3, 2005
Subject: 2005-06 Proposed Budget

FINANCIAL OVERVIEW – GENERAL FUND

The 2005-06 Proposed Operating Budget for the City of Monterey presented here is balanced, and fully implements Council’s budget reduction policies as described later in this report. There is both good news and bad news to report regarding overall General Fund budget trends:

Good: 1) some of the revenue sources such as transient occupancy tax, sales tax and charges for services have increased slightly faster than originally projected (more on this later); 2) there seems to be less uncertainty regarding State-takeaways this year, largely because of Proposition 1A.

Bad: 1) PERS retirement and health care costs continue to increase, 2) facility and infrastructure renewal and maintenance are still underfunded.

After implementation of the latest budget reduction plan, the proposed General Fund operating budget is summarized in the chart below. Note that no allocations are proposed in fiscal year 2005-06 (FY 06) to replenish the Reserve for Economic Uncertainty back to the current policy level of 15% of net operating expenditures, or to fund a Reserve for Capital Renewal for key City facilities.

**General Fund Proposed Operating Budget
FY 2005-06
(millions)**

Operating revenues	\$46.56
Operating Expenditures (net)	(46.88)
Transfers (net)	<u>0.53</u>
Net Operations	<u><u>\$0.21</u></u>

Budget Reduction Plan Status

As you know, the \$5 million budget reduction plan adopted by Council in 2003 was fully implemented in the current fiscal year (FY 05). It included expenditure reductions that required the elimination of more than 50 positions. However, during the budget process

in 2004 it was projected that FY 06 would have an additional structural imbalance of \$2 million if no changes were made. Much of the projected imbalance was due to increased costs associated with personnel benefit items such as PERS retirement rates, workers compensation and health care.

In addition, staff was also concerned that this imbalance would be even worse if the funding target for the maintenance and replacement of City facilities and infrastructure were what it should be. Funding for the maintenance of buildings, streets, trees and parks projects, for example, have been cut back significantly in order to balance the budget. In time this will take its toll and potentially create larger costs down the road.

Funding also does not currently exist for the replacement, or major repair, of City facilities. High use facilities such as the wharves, Sports Center, Library, and Conference Center continue to age and wear out. There is currently no dedicated funding mechanism to pay for major repairs of these facilities. Some funding is available for CIP projects from the loan repayment the Redevelopment Agency makes to the General Fund each year. But this funding stream is not sufficient to fund more than just the "must do" items in any particular year. In the long run, we must increase our investment in the maintenance of our existing facilities.

To address the \$2 million projected shortfall described above, in August 2004 Council directed staff to do the following:

- 1) submit at least \$500,000 in General Fund projects to the Neighborhood Improvement Program (NIP) for consideration;
- 2) put a ¼ cent sales tax on the November 2004 ballot for voter approval;
- 3) review fees and adjust where possible; and
- 4) review real estate holdings and leases.

As a result, staff submitted five projects totaling \$926,000 to the FY 06 NIP process. One of those projects was fully funded (Iris Canyon Creek Restoration) and another was almost fully funded (Franklin Street Stormdrain) by the NIP program for a total of \$500,000. Further details about these projects will be included in the NIP staff report prepared by the Public Works Department for the June 21, 2005 Council agenda.

Because the ¼ cent sales tax measure did not pass last November, staff brought to Council in December 2004 for approval new budget reduction plan guidelines to deal with the projected budget gap. All departments were once again assigned budget reduction targets and were asked to submit to the City Manager their plan for meeting their target. The results of this process was reviewed in summary form with Council on April 17, 2005.

As for fees, all departments have reviewed their fee structures and have already or will soon be bringing to Council appropriate fee adjustment requests totaling \$173,400. A breakdown of proposed fee adjustments is as follows:

▪ Recreation fees (primarily Sports Center)	\$102,200
▪ Temporary encroachment fee	40,000
▪ Sidewalk/street opening permit fees	8,000
▪ Real estate fees	7,000
▪ Library fees	6,200
▪ Dry boat storage fees	<u>10,000</u>
 Total proposed fee adjustments	 <u>\$173,400</u>

In addition, \$137,300 in street maintenance costs has been identified as a reimbursable from the Parking Fund to the General Fund for maintenance of all metered and time-limited on-street parking spaces. A review of real estate holdings and leases was given at a Council study session on January 26, 2005.

The new budget reduction plan also reduces the General Fund's operating shortfall by recommending \$710,000 in expenditure reductions, which includes the elimination of five more positions. Much more was proposed for reduction, but staff has worked very hard to minimize the impact of these reductions on core City services such as public safety and the library. As described at the April 17 Council meeting, the proposed General Fund reductions are as follows:

▪ Eliminate the following positions:	
▪ Public Works Director	\$136,300
▪ Public Works Office Assistant II	35,900
▪ Senior Planner	109,900
▪ Finance Management Analyst	78,700
▪ Youth Diversion Coordinator	70,300
▪ Other reductions:	
▪ PT Code Enforcement Officer	64,700
▪ City Clerk printing costs	35,000
▪ Public Works stand by time	29,900
▪ Planning charges to Housing, misc.	50,500
▪ Afterschool program staffing, misc.	39,000
▪ Public Facilities misc. contracts/supplies	22,000
▪ Personnel Leadership Academy	19,700
▪ Police booking fees	7,200
▪ Non-departmental, misc.	<u>11,200</u>
 Total reductions	 <u>\$710,300</u>

In addition, the plan also implements Council direction by including the \$500,000 in savings generated by the NIP funding of certain projects that would have been paid for by the General Fund.

So altogether, the budget reduction plan for FY 06 totals \$1,520,000. This amount, together with a somewhat stronger revenue picture (partially offset by larger than anticipated increases in PERS retirement costs) has enabled us to present a balanced General Fund operating budget for FY 06. However, as I will describe in this report, this balance remains tenuous due to still under-funded facilities and infrastructure maintenance.

It is also important to note that as of this writing staff is in “meet and confer” negotiations with four of the City employee groups and unions. The outcome of these negotiations could have a significant impact on the status of the General Fund operating budget.

FY 2005-06 General Fund still precariously balanced

Even with the budget reduction plan just described, it is important to note that the General Fund operating budget, unfortunately, remains precariously balanced. As with the last few years, maintenance budgets have been only minimally funded and spending for small equipment and projects have been cut back substantially. Budgets for operating supplies and services have not been adjusted for inflation for four years now, or have been cut back. This austerity has been difficult to maintain without impacting citizen services. In some cases it has eroded our high “Monterey” standard.

Given the continued tight budget just described, staff still believes strongly that this is not the time to add back programs without a clear funding source. Nor is it the time to start new programs unless there are identified new revenues, expenditure savings, or long-term efficiencies that result from the program.

State Take-aways

As already mentioned, with the passage of Proposition 1A last November (with 84% of the vote), the fiscal relationship between the State and cities, counties and special districts has stabilized to some degree. Under current law, the City of Monterey has lost \$1.2 million in General Fund dollars in the current fiscal year and will lose another \$1.2 million next fiscal year (FY 06). This is funding that could have been used for maintenance. Then, in FY 07 the City is scheduled to receive a one time repayment of the vehicle license fee dollars we lost last year (about \$514,000). After that, the City should enjoy constitutional protection of its revenue sources from further State takeaways from then on, except that the State can “borrow” additional monies from local governments subject to certain conditions.

So unfortunately we are not completely protected as the State still struggles with multi-billion dollar structural shortfalls. They have not had the fortitude to make the kind of difficult choices the Council has had to make regarding the reduction of programs and positions and the adjustment of fees. Therefore, there is still always the chance that the

State will find a way to use local government as its piggy bank once again rather than make hard decisions.

General Fund Revenues

General Fund revenues in FY 06, estimated to be \$46.6 million, would be up 3.5% or \$1.6 million over the current year's revised estimates. For all funds, operating revenues are estimated to be \$79.5 million, up 5.1% from the prior year. These figures do not reflect the \$1.2 million State take-away which is being budgeted as a "one-time" non-operating expenditure.

After two consecutive years of declines in Transient Occupancy Tax revenues (TOT) in FY 02 and 03, last year (FY 04) had positive growth (although somewhat weak at 2.4%). The current fiscal year has posted slightly stronger growth rates so far, as we reported at mid-year. Through April 2005 TOT is up 7.8% over the same period last year. This is encouraging news as it seems to indicate that at least our TOT base has stabilized to some degree. We expect TOT to be up a total of 6.2% for this fiscal year. A somewhat better economy, the shark exhibit at the Monterey Bay Aquarium (and until recently the presence of the great white shark), and additional tourism marketing dollars approved by Council for this year have all contributed to this increase.

Transient Occupancy Tax, though less than it was in 2000-01, is still the City's single largest revenue source making up 26% of the General Fund estimated revenue total for next year. As shown in the following table (which includes both General Fund and Neighborhood Improvement Program portions of TOT), FY 01 was the last year of TOT growth before tourism dropped off. TOT is projected to increase 5% next year.

TOT Growth

Fiscal Year	Total TOT (millions)	Growth Rate
1999-00	\$14.3	10.8%
2000-01	14.6	1.4%
2001-02	12.9	-11.5%
2002-03	12.5	-2.7%
2003-04	12.8	2.4%
2004-05 est	13.6	6.2%
2005-06 est	14.3	5.0%

Sales tax revenue is estimated to be \$7.3 million in FY 06, making it the second largest General Fund operating revenue source (16% of projected revenues). This figure includes both sales tax revenues and the new "Property tax in-lieu of Sales tax" revenue

source created by the passage of Proposition 57, which reduced the City's sales tax by one-quarter and replaced it with a like amount of property tax revenues.

This sales tax estimate represents a 6.5% increase from the revised projection for the current year. This estimate includes the impact of some specific projects such as the new theater at Del Monte Center, the California Pizza Kitchen and the soon-coming Infinity dealer. This projected growth is a welcome change after three years of sales tax declines. However, to put this in perspective, projections for FY 06 are only now returning to the levels of FY 01 as shown in the chart below.

Sales Tax Growth

Fiscal Year	Sales Tax (millions)	Growth Rate
1999-00	\$6.7	14.7%
2000-01	7.3	8.5%
2001-02	6.7	-7.7%
2002-03	6.3	-5.5%
2003-04	6.3	-0.7%
2004-05 est	6.9	9.5%
2005-06 est	7.3	6.5%

Property tax receipts continue to come in strong because growth in property values increases the property tax rolls whenever real estate is sold. Based on receipts so far, we anticipate property tax receipts will be \$4.8 million this fiscal year, which is 7.8% (or \$347,000) higher than last year. Property taxes are projected to increase another 7.2% next year to \$5.1 million. Property tax generates about 11% of all General Fund revenues.

General Fund Reserves

In the FY 2003-04 budget, Council authorized a draw of \$1.5 million from the Reserve for Economic Uncertainty to balance the budget. After this draw, the Reserve for Economic Uncertainty stands at about \$4.8 million which is equivalent to 10.2% of the proposed General Fund net operating expenditures. Council fiscal policies set the target reserve at 15% which would be a reserve of \$7 million. So we are currently \$2.2 million short. A mid to long-term financial goal should be to re-establish this reserve to a full 15% of the net operating budget.

This budget proposal does not include an additional allocation to the Reserve for Art Acquisitions. There is currently \$70,000 remaining in this reserve. The Artifacts Acquisition reserve has a balance of almost \$49,000.

Other General Fund reserves exist for accounting purposes such as the Reserve for Continuing CIP (approved projects not yet complete, \$2.7 million); Reserves for Encumbrances and Long-term receivables (required by accounting principles, \$778,000 and \$1.2 million respectively).

General Fund Expenditures

Overall for FY 06, proposed General Fund operating expenditures amount to \$47.9 million. This represents an increase of 1.6% from the FY 05 amended budget and a 4.2% increase over the original FY 05 budget. The total proposed FY 06 operating expenditures for all funds amount to \$78.1 million which represents an increase of 1.1% from the FY 05 amended budget and a 4.3% increase from the original FY 05 budget.

Though the budget shows a modest increase due to rising employee costs, the elimination of positions over the last three years to help balance the budget has resulted in total employee staffing decreasing significantly as shown in the following chart (total staffing shown is full-time equivalent positions for all regular employees).

Reductions in Total City Staffing

Fiscal Year	Total Staffing
2002-03	532.25
2003-04	505.00
2004-05	486.25
2005-06	479.00

City Council Budget Highlights

The following discussion highlights some of the more significant programs and budget issues that are included in the proposed budget for 2005-06.

Window on the Bay

There are two parcels remaining in the Window on the Bay "West" section and staff continues to work toward acquisition of these properties on an opportunity-buying basis. The "Window-on-the-Bay" project has for many years been one of the City's highest priorities. Staff believes the Roto-roter parcel negotiations will be finalized soon and funding has been set aside in the proposed budget for its acquisition.

Public Service Center

After transfers from the Public Service Center Fund for the reroofing of Few Memorial/Brown Underwood buildings and design costs associated with roof repairs and replacements for El Cuartel in FY 04 (\$275,000), and for the completion of the El Cuartel parking lot improvements in FY 05 (\$208,000), the balance in this fund is down to \$12.6 million. Council direction has been to pay for the construction of the Public

Service Center with cash so at this point, based on the latest total cost estimate of \$13.9 million for this project, we are about \$1.3 million short of full funding. Staff will bring to Council at a later date a funding plan when a project is approved and a clearer construction timetable is determined.

Cannery Row Hotel

Construction of the new Cannery Row hotel project, expected to begin later this Fall, remains the highest economic development priority in the City. This is because the completion of this project will provide a significant increase to the City's tax base. This will be extremely helpful with the future funding needs mentioned earlier regarding facility and infrastructure maintenance. Besides providing funds to better serve the community, this project would also rehabilitate a currently "blighted" area on Cannery Row and provide public use of McAbee Beach.

MCCVB Advertising

Included in this budget proposal is \$478,000 for the Monterey County Convention and Visitors Bureau (MCCVB) leisure advertising program. This includes \$150,000 that will be matched dollar-for-dollar by the Monterey Bay Aquarium (\$100,000) and the Cannery Row Marketing Council (\$50,000). A similar investment in tourism/leisure travel advertising was included in the current year's budget and staff believes it has helped to attract leisure travel dollars to Monterey. We believe that some of the growth in TOT this year can be attributed to this increased investment.

Police Mobile Computer Terminals

The Police Department maintains a fleet of 18 vehicles, each of which is equipped with a Mobile Computer Terminal (MCT). These MCTs were first acquired in 2000 with a federal grant. Most law enforcement agencies in Monterey County, including the County Sheriff's Department, utilize the MCT system.

The MCT system has proven to be an important advancement for local law enforcement. The MCT allows police officers in the field to send, receive and access information at the touch of a button. Future plans include wireless access to the Police Records Management System, the City's intra-net and the Internet. This remote access would dramatically expand the capabilities of the MCT system.

At this point, the current MCTs are nearing the end of their useful life-cycle and will need to be replaced soon. For reasons of standardization we are recommending that all of the units be replaced at the same time. This is important from several perspectives including installation, maintenance and training. The cost of replacing these units is \$155,000. However, we will be receiving a \$21,000 grant to help with the replacement so the net cost is \$134,000.

Code Enforcement Officer

Though the current budget reduction plan includes the retention of the current part-time Code Enforcement Officer instead of the former full-time position, it is recommended that our current code enforcement efforts be augmented by the following:

- (1) utilization of CDBG funds to hire another part time position to focus on neighborhoods targeted for revitalization; and
- (2) use of volunteers and city employees on mandatory light duty due to work related injuries, to assist the Code Enforcement Officer, and;
- (3) assignment to the Assistant City Attorney of Administrative Orders and complex code enforcement matters.

Volunteer Program

The City's Volunteer Program is a very popular program that was reduced from 1.75 to 0.75 positions during the budget reduction plan approved in 2003. Furthermore, that plan as modified included the elimination of the remaining regular part-time Community Resources Coordinator position on June 30, 2005. However, because of the tremendous assistance City volunteers provide, many departments have asked that this program be continued. Therefore, the proposed budget includes \$68,792 to continue to fund the 0.75 Community Resources Coordinator position.

Other Position Changes

As indicated earlier in this report, the City-wide number of full-time and regular part-time positions has decreased from 532.25 full-time equivalent positions (FTE) in FY 03 to the proposed 479.00 in FY 06. This reduction of positions has of course required reductions in the level of services provided and changes in the City's way of doing business. However, staff has done everything possible to mitigate the impact of these reductions on services to citizens.

Although there are no new positions being requested, three position enhancements are included in this budget proposal. The Community Development Department has proposed a minor reorganization whereby they plan to eliminate a Senior Planner position and reallocate a portion of two other planners to appropriate Housing Fund programs. This will free up enough General Fund money to not only exceed their budget reduction target, but also provide enough funding to upgrade the current Real Estate Coordinator position to a Real Estate Analyst. The cost of this upgrade is approximately \$17,600 and is more than paid for by the reorganization.

The Public Works Department has requested the upgrade of a Sr. Parks Maintenance Worker position to a Parks Maintenance Leadworker. The City's parks are divided into East and West for maintenance purposes and the East side currently has a Leadworker position but the West side does not. Due to recent staffing reductions, parks supervisors have taken on additional responsibilities and now need the assistance of a Leadworker position on the West side. The annual cost of this position upgrade is \$6,400.

The Information Services Division is requesting the upgrade of the Geographic Information Systems Coordinator position to the same level as a Management Analyst. This position plays a key role in the successful integration of GIS into the everyday business practices of the City. Over the next several years staff believes GIS will

become one of the primary tools used by all City departments to collect, store and use data. The cost of this position upgrade is \$7,800.

FINANCIAL OVERVIEW – OTHER FUNDS

The City maintains a number of funds other than the General Fund to account for the revenues and expenditures of activities that are separate from the General Fund for either legal or accounting purposes. A brief overview of the FY 06 budget picture for some of the more significant of these funds follows.

Presidio Public Works Authority Fund

The Presidio Public Works Authority Fund was established in 1998 to account for the operational activities, capital projects, and revenues associated with the municipal services contract between the City and the U.S. Army at the Presidio of Monterey. Services provided to the Army include maintenance of buildings, streets, sewers, storm drains and water systems and other special projects. The proposed operating budget for this fund for FY 06 is \$4.4 million, all of which is reimbursable by the Army. This budget also includes an estimated payment to the General Fund of \$250,000 for the overhead and administrative support the City provides to support this contract.

Storm Water Utility Fund

Projected revenues of \$1,044,000 for FY 06 in the Storm Water Utility Fund exceed the proposed operating costs of \$1,003,000 by \$41,000. However, this Fund still owes \$1.4 million to three other funds (Sewer Line Maintenance Fund, \$132,000; Sewer Main Fund, \$575,000; and General Fund, \$690,000) for past loans for storm drainage projects. Therefore, the proposed budget includes a payment to the Sewer Fund of \$50,000 on its debt. Unfortunately, no additional funding remains for storm drainage capital projects in the Storm Water Utility Fund, so necessary drainage projects are being proposed in the CIP budget using scarce General Fund dollars and in the NIP budget.

Despite the fact that the Storm Water Utility Fund now receives more than \$1 million in user fees annually, the General Fund still had to subsidize the capital program by \$400,000 in 2001-02, \$550,000 in 2002-03, \$285,000 in 2003-04, \$80,000 in 2004-05 and now \$45,000 is in the proposed FY 06 CIP budget for a portion of the Franklin Street Stormdrain. In addition, the Neighborhood Improvement Program has funded several important storm drainage projects over the last few years, including in FY 06 \$250,000 for Iris Canyon Creek Restoration and the remaining \$250,000 for the Franklin Street Stormdrain. The overall Storm Water Utility program continues to be significantly underfunded.

Sewer Line Maintenance Fund

The Sewer Line Maintenance Fund will generate an estimated \$1.3 million in FY 06 to pay for its operations and some of its capital needs. The operating budget for this fund is programmed to be \$969,000 next year. This will result in an operating surplus of

\$333,000 that can be used to fund capital projects. This surplus, along with the \$50,000 repayment from the Storm Water Utility Fund mentioned above and some remaining fund balance, will allow for \$500,000 in sewer projects to be included in the CIP budget.

Cemetery Fund

For FY 06 we project revenues of \$245,000 and an operating budget of \$273,000 resulting in a \$28,000 operating shortfall that the General Fund will subsidize. In addition, the Cemetery Fund will require an advance from the General Fund of \$78,500 to cover the debt service payments on the columbarium. This amount will be recorded as an interfund loan as it is projected that over time sales of all niches from the columbarium will far exceed the total debt service costs. However, since the columbarium loan will be paid off more quickly than all niches will be sold, there will be a need for advances from the General Fund in the meantime.

Marina Fund

The Marina Fund's proposed budget of \$1.7 million includes debt service on state loans in the amount of \$486,000. In addition, the Marina Fund will transfer \$128,750 to the General Fund next year to assist with the expense of maintaining Wharf II, and \$178,512 to the Parking Fund for parking support. Total estimated revenues for FY 06 are expected to be just over \$2 million. The net earnings, along with capital reserves in the Marina Fund, will be used to fund \$70,000 in CIP projects that will design the replacement Marina fire water system and Wharf II wood deck repairs (½ funded by Marina and ½ funded by Parking).

Parking Fund

The proposed \$5.3 million Parking Fund budget includes \$1 million in debt service, most of which is related to the Cannery Row Parking Garage. Revenues are projected to be \$5.8 million. Also, in addition to regular transfers to the General Fund for administrative, custodial and parks services, as mentioned earlier the Parking Fund will begin also reimbursing the General Fund for the cost of maintaining its on-street parking spaces. The FY 06 CIP budget includes \$35,000 for the replacement of the Waterfront Lot #1 parking equipment and \$45,000 to design the Wharf II wood deck repairs. This will be funded from Parking capital reserves.

Housing Fund

The budget of the Housing program, which was adopted by Council separately on May 3, 2005, amounts to \$5.5 million in FY 06. Funding for the Monterey Hotel mixed-use project on Alvarado Street is included in this budget in the amount of \$850,000. In addition, many existing programs continue to be funded such as Community Services (\$318,000), Rehabilitation Loans (\$500,000), Down Payment Assistance Loans (\$300,000), and Historic Preservation (\$125,000). In addition, \$1.4 million is still available for new workforce housing programs and projects such as opportunity-buying on Van Buren Street and/or housing on City-owned Ryan Ranch land. This funding could also be used to help support the Community Housing Trust of Monterey County if Council determines that is appropriate.

Worker Compensation Fund

The City received an updated actuarial report last Fall that revealed that the balance in the Workers Compensation Fund had fallen well below both the City's funding policy level and the "expected" level of funding as determined by the actuaries. The current fund balance is \$4.5 million, however, the actuarially "expected" level is \$5.7 million. This means that in order to be fully funded for all known and "IBNR" (incurred but not reported) claims, \$5.7 million in funding would provide a 50% probability that all claims are covered. The preferred level of funding is 70% and our current policy is to attempt to fund at a 90% confidence level. We have not been able to fund at the 90% level for some time now, but for the first time the reserve level has now fallen below even the 50% actuarially "expected" level.

To remedy this \$1.2 million shortfall, staff recommends a three-step program: 1) factor \$100,000 into FY 06 workers compensation rates charged out to departments, 2) fund \$800,000 in FY 06 using one-time money from the Redevelopment Agency payments to the General Fund, 3) fund the remaining \$300,000 using one-time money in FY 07. This is difficult to do but staff believes that to not fund this actuarial liability is essentially putting off to future years the responsibility to pay for employee injuries that have already occurred.

We have been experiencing a leveling off of workers compensations claims and an updated actuarial report will be prepared in the Fall. So it is possible that the reserve requirements will come down, but that won't be known for several months. If that updated report reveals that the funding requirements have diminished, staff will return to Council with an update and a new funding plan depending on what is required.

Capital Improvement and Neighborhood Improvement Program Budgets

The proposed Capital Improvement Program (CIP) budget amounts to \$2.7 million for FY 06, and an additional \$1.7 million is allocated for Neighborhood Improvement Projects (NIP). This total includes the \$500,000 in NIP storm drainage projects noted earlier that the General Fund would otherwise have had to pay for given the lack of resources in the Storm Water Utility Fund. Altogether, the proposed CIP and NIP budgets include \$1.6 million for infrastructure repairs and improvements such as streets, sewers and storm drains. Also included is \$425,000 for traffic calming (NIP); \$325,000 for the widening of the 700 block of Archer Street (NIP); \$250,000 for Pacific Street erosion control (NIP); and \$325,000 to replace the roof on El Cuartel. It is significant to note than in the five budget years starting with FY 02, the NIP Committee has approved just over \$2 million in traffic calming projects.

A fuller discussion of the entire FY 06 CIP and NIP programs is presented in a separate report to Council from the Public Works Department on the June 21, 2005 agenda.

LONG-TERM GENERAL FUND FORECAST

This FY 06 budget proposal to the Council balances the budget by reducing expenditures (\$710,300), increasing fees (\$173,400), requiring the Parking Fund to pay for street maintenance (\$137,300), and funding certain capital projects with NIP money (\$500,000). However, as I mentioned earlier, it does not adequately fund facilities and infrastructure maintenance nor does it make any progress toward building back up the Reserve for Economic Uncertainty. And as we now look to the new out-year, fiscal 2006-07, the financial picture, though better than one year ago, is still a significant concern.

Our early FY 07 projections show that if we again do not make a contribution to the Reserve for Economic Uncertainty, and do not fund facility and infrastructure reserves at all, there would be an operating shortfall of approximately \$800,000. However, if allocations are made in accordance with existing fiscal policies to begin to bring the Reserve for Economic Uncertainty back to an appropriate level, and if even modest allocations are made to new reserves for capital renewal of key facilities, the operating shortfall becomes \$1.9 million as shown below:

General Fund Operating Budget Preliminary Forecast FY 2006-07 (millions)	
Operating revenues	\$48.2
Operating Expenditures (net)	(49.5)
Transfers (net)	<u>0.5</u>
Operating shortfall	(0.8)
Reserve for Econ. Uncert.	(0.4)
Reserve for Capital Renewal	<u>(0.7)</u>
Shortfall with Reserves	<u>(\$1.9)</u>

The approximately \$400,000 shown above going to the Reserve for Economic Uncertainty in FY 07 would not bring that reserve to full funding. As mentioned earlier in this report, the total shortfall at this point is \$2.2 million. The \$400,000 funding level is based on funding 15% of the projected increase in net expenditures and would at least keep us from falling further behind. The \$700,000 funding level shown for Capital Renewal Reserves is based on 1% of the insured value of the City's "flagship" facilities including the Sports Center, Conference Center, Library and the two wharves. This

level of funding may not be adequate but it is a starting point. Further study is necessary to determine appropriate reserve funding levels.

Because of the City Council's leadership and prudence, we are once again able to balance the budget without a significant impact on services to Monterey citizens. In addition, the City has some reserves available to meet new fiscal challenges that may come up. This is good news and puts the City of Monterey in a better position than some of our neighbors. However, even though the budget picture has brightened somewhat, given the imbalance projected for FY 07, staff believes that this is still not the time to add back programs that were reduced or eliminated in past budget reduction plans unless a clear funding source can be provided. Similarly, it is not the time to be adding new programs or services unless there are new revenues, expenditure savings, or long-term efficiencies that will result. In fact, the proposed budget includes further reductions in staffing levels and other cost reductions, as previously described, in order to present a balanced budget.

Fred Meurer