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Q1: Why is the City Council considering a fiscal emergency and place a sales tax on the March 2020 ballot?

A1: Additional revenue funding is needed in order for the City to avoid significant cuts to vital city services, including parks, recreation, public safety, library, and other programs.

At the October 15, 2019 City Council Regular Meeting, the City Council, staff and members of the public discussed the immediate and long-term budget challenges facing the City, and the exploration of a fiscal emergency declaration. The City Council directed staff to take the next two to four weeks to explore the possibility of, and agendize for November 19, 2019 with the appropriate documents, Council's consideration of a declaration of fiscal emergency and placement of a general transactions and use tax on the March 3, 2020 ballot.

The Sales Tax measure provides a shared basis with 62% paid by non-residents and will generate $5 million per year, which will prevent cuts to vital city services. If the sales tax is not approved, the City Council will need to eliminate $2.8 million budget deficit in May 2020, $3.8 million, and $5.2 million in future fiscal years as the projected budget deficit continues.

Since the Great Recession that started in 2008, the City’s revenue base was devastated like many other agencies. The revenue decline was exacerbated further by four other challenges including pension, tax shifts, aging infrastructure and an overall increase in operational costs. These four main reasons are expanded further:

1) CalPERS imposed significant financial requirements for local jurisdictions to backfill the pension shortfalls when CalPERS (California’s Public Employee Retirement System) lost significant investments during the Great Recession.
2) Changing consumer patterns such as the increase in online sales caused substantial loss of sales tax and reductions in gas tax due to more fuel efficient vehicles.
3) Aging infrastructure and outdated equipment require significant investments into City’s assets such as Fire Stations, Police Station, Library, Community Centers and Sport Center.
4) Costs increase due to core higher operational costs (which include services like police, fire and parks and recreation).

Q2: Has the City done anything else to address the funding shortfall -- such as optimizing other revenue sources, being innovative and managing expenses?

A2: The City has undertaken all of the steps it can to address its funding shortfall without cutting back on services that residents tell us they want. For the first time in many years, in early 2019, fees were increased for some recreation and permit services, while trying to keep them affordable and the services accessible to our residents. Since the mid-2000s as retirements occurred we re-evaluate job descriptions and compared service and program needs, often leaving positions unfilled.

Monterey’s story is a proud history of vision and dedication to excellence and quality. During 2020, the City will celebrate our 250th anniversary of the founding of Monterey on June 3, 1770. As a City, we can be proud of our continued successes.

Our revenue successes and innovations include:
• Economic Development – Conference center renovation, Downtown improvements, Cooper-Molera project, other projects
• Fee Updates – refuse, cemetery, conference center, parks & recreation
• Grants – homeless, transportation, public safety, affordable housing
• Cash Management – higher investment Income
• Revenue audits – business license, sales tax, Transient Occupancy Taxes (TOT)

Our expenditure successes and innovations include:

• Cost Recovery – overhead & direct costs for capital projects, PMSA, Tideland
• Automation & Data-Driven Decisions – DocuSign, Adastra, Simpler Systems, OnBase, Parkmobile
• Regional Partnerships – homeless HEAP grant, public safety regional solutions
• Program Augmentation & Privatization (where appropriate) – parking facility security (Condor), MCC facility security (Uretsky)
• Effective labor negotiations and hiring chills
• 2% Salary Savings in the FY20 budget – assumed staff vacancies or other program savings
• Police Hiring Incentive Program – to get police department to full staffing level

Q3: What is next? What are the alternatives if the decision is not to proceed with putting the sales tax increase on the March 2020 ballot?

A3: First and foremost, we want to hear from you, our stakeholders: residents, the business community, local agency partners in all sectors – engaging with, and learning from each other is key. Then, at the regular City Council meeting on November 19, staff will bring back to Council a summary of community stakeholder engagement, the FM3 public survey research results, and draft documents for Council consideration of a fiscal emergency declaration, 0.5% sales tax ballot, consolidated election for March 2020.

If the City Council opposes to move forward with a ballot measure, then the alternatives are to:

• Start planning to significantly cut services totaling $2.8 million effective May 2020. Then additional cuts of $3.8 million in 2021 and $5.2 million in 2022.
• Begin conversations with neighborhood groups about service priorities.
• Identify areas of service cuts (for example, library hours, community centers, park maintenance, public safety, etc.)
• Gather data and community feedback
• Build cuts into mid-year budget
• Implement service cuts and staff reductions

Q4: What is the general sales tax and why?
A4: The general tax being considered is a ½-cent sales tax that would require majority voter approval (50% +1 vote).

• Research shows that non-residents pay 62% of Monterey sales tax. A sales tax increase represents an opportunity to share the cost of services with non-residents who also use valuable City services such as police, fire, library, roads, parks, trails, beaches, and other city services.
• The ½-cent sales tax would be kept local with 100% of the revenues going to the City for our services, without any mandatory allocation to the State or County.
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<th>Q5: What is the current Monterey sales tax rate?</th>
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<td>A5: <strong>8.75% is the current Monterey sales tax rate.</strong> This includes the Statewide rate of 7.25%, City of Monterey’s Measure P &amp; S rate of 1.00%, Transportation Agency for Monterey County rate of 0.375%, and Monterey-Salinas Transit rate of 0.125%. The State of California statutorily limits sales tax at the local/county level to no more than 2.00%, except where allowed by the State legislature. A City of Monterey General Sales Tax increase of 0.50% in March 2020 would bring the City to the maximum sales tax allowed under state law. A September 2019 article in <em>The (Salinas) Californian</em> reported that the County of Monterey is considering a sales tax measure to fund the County’s park system and potentially other cities. This is a developing matter between the County and cities that may have significant implications upon the remaining 0.50% available to the City of Monterey.</td>
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<th>Q6: What is a fiscal emergency declaration?</th>
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<td>A6: <strong>A fiscal emergency is a formal declaration by resolution of the unanimous City Council.</strong> State law requires a fiscal emergency to be declared in order for a municipality to seek a general tax ballot measure during a special election (not during the Municipal General Election, which is November of even-numbered years).</td>
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<th>Q7: Under what circumstances is a fiscal emergency declaration appropriate, considered, and implemented?</th>
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<td>A7: A fiscal emergency declaration is usually done when there are negative financial conditions and waiting under the next general municipal election would have significant consequences.</td>
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<td>By May/June 2020, the Council would need to make decisions to eliminate the <strong>($2.8)</strong> million deficit for FY20/21 and that could include drastic cuts to vital city services.</td>
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<td>Having a general tax on a March 2020 ballot, if approved by a majority of the voters, would allow collection of General Fund revenues in a timely manner that avoids cuts to critical city services. With knowledge of the results of the March 2020 election, the Council will have the information needed to determine whether the City has the revenues to maintain or cut City services.</td>
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<th>Q8: Why are we considering a fiscal emergency declaration now?</th>
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<td>A8: The City is facing immediate and long-term financial challenges. A fiscal emergency declaration now would enable the City Council and residents the ability to act during the March 3, 2020 special election that could avoid cuts to City services.</td>
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<td>The general fund operating budget is forecast to have operating deficits that are increasing in magnitude. Operating deficit forecasts for FY19/20 of <strong>($0.6)</strong> million, FY20/21 of <strong>($2.8)</strong> million, FY21/22 of <strong>($3.8)</strong> million.</td>
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CoM Fiscal Emergency Declaration FAQ

million and FY22/23 of $(5.2)$ million. These are optimistic scenarios which assumes continued growth economy and revenue growths, such as TOT (hotel tax) +4%, property tax +3%, and higher fees.

- **Immediate needs** - Even with annual revenue growth projections, operating deficit exists. Operating costs are increasing due to staffing costs (such as minimum wage, pension), utility costs, contracts, insurance, fire engines, equipment and deferred maintenance.
- **Long term needs** - Long-term needs include needs to fund quality of life services, pension liability, facility repairs and updates, fire engines and technology

Q9: Why would a fiscal emergency be declared? It comes down to critical timing.

A9: Five primary timing factors exist:

- **Timing Factor 1** - A fiscal emergency declaration allows the city council to place a general tax on a special election ballot.
- **Timing Factor 2** - Specifically, findings to support a fiscal emergency are evident as significant cuts to City services will need to be made if a general sales tax measure is placed on the ballot in November 2020 rather than in March 2020.
- **Timing Factor 3** - If a general tax measure was to be submitted to and approved by the voters in the General Municipal Election held in November 2020, actual receipt of the revenue would be delayed to June 2021, which is too late.
- **Timing Factor 4** - By May/June 2020, the Council would need to make decisions to eliminate the $(2.8)$ million deficit for FY20/21 and that could include drastic service cuts.
- **Timing Factor 5** - Alternatively, having a general tax on a March 2020 ballot, if approved by a majority of the voters, would allow collection of General Fund revenues in a timely manner that avoids cuts to critical city services. With knowledge of the results of the March 2020 election, the Council will have the information needed to determine whether the City has the revenues to maintain or cut City services.

Q10: Who would need to approve the fiscal emergency declaration?

A10: The city council has the authority to declare a fiscal emergency and that is successful by a unanimous vote by city resolution.

Q11: Did the City anticipate these shortfalls early enough to take corrective action?

A11: Yes. The City launched the Fiscal Health Response Plan (FHRP) in 2018 to strategically address the financial challenges ahead and ensure that we work to maintain the quality of life of our residents and maintain long-term financial stability for the city.

Through the FHRP, city staff and elected officials continue to analyze service levels and will adjust where appropriate; look at internal processes to streamline and optimize; adjust workforce, compensation and benefit structure as well as pension obligations; and, lastly, we look at revenues. The CORE strategy is as follows:
▪ Change the way we do business to be more streamlined.
▪ Operational reductions or services provided by someone else, where appropriate.
▪ Revenue enhancements through economic development, fees, taxes, cost recoveries.
▪ Employee contracts that attract and retain talent and are financially sustainable.

Q12: When has the City engaged in public discussion about the City’s fiscal health?

A12: The City conducted many public meetings to provide information and transparency about the financial status, challenges and opportunities.

The City Council held eight (8) public meetings on:

• April 2018 - Start of Fiscal Health Response Plan (FHRP) - Study Session
• July 2018 - Budget Amendment - Council Meeting
• Feb 2019 - Fiscal Year End Report & Updated FHRP/Finance 101 - Study Session
• May 2019 - Proposed FY2019/21 Biennial Budget - Study Session
• June 2019 - Adopt FY2019/21 Biennial Budget - Study Session
• Sept 2019 - City Fee Update - Study Session
• Oct 2019 - Fiscal Health Response Plan Update - Study Session
• Oct 2019 – Explore Fiscal Emergency and 0.50% sales tax – Council Meeting

Q13: How will the City of Monterey further engage the public on this issue?

A13: City staff and elected officials cannot advocate for ballot measures. However, the City can share information about what the sales tax ballot measure would entail and what the funds would be used for.

The City will conduct a scientific public survey of Monterey voters similar to 2014 and 2018. This will enable us to learn about our residents’ priorities and incorporate them in preserving vital city services. Please participate in the survey and upcoming discussions.

Over the next several months, City stall will continue to provide information, explore and meet with the business associations, neighborhood associations and other stakeholders. The City Council directed staff to take the next two to four weeks to explore the possibility of, and agendize for November 19, 2019 with the appropriate documents, Council's consideration of a declaration of fiscal emergency and placement of a general transactions and use tax on the March 3, 2020 ballot. Residents and other groups are not prohibited in advocating for or against the ballot measure.

Q14: How do we know what services and priorities are important to Monterey residents?

A14: The City of Monterey conducted scientific surveys in 2014 and 2018 to find out residents’ priorities. We found out that residents’ priorities for the city are to:
• **Fix and maintain Monterey streets** – Thanks to your support of Measure P and Measure S, we are fixing and maintaining Monterey streets. Pavement Condition Index (PCI) demonstrate improvement from PCI of 54 to 64.

• **Reduce traffic** - Thanks to grants and regional agency collaborations, we are implementing new adaptive traffic control systems and innovating multi-model commute options, to help reduce congestion on our main streets

• **Provide long-term financial stability** - 71% (2014 poll) and 72% (2018 poll) said that long-term financial stability is "extremely important” or “very important.” A general sales tax measure on the March 2020 ballot, if successful, is a step toward achieving financial stability.

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**Q15: How does Monterey’s budget compare to other cities, and why are we in this situation?**

**A15: Monterey is a high service delivery community.**

Monterey is very unique for its size in that we provide many services of much larger cities – harbor and marina, conference center, sports center and community centers, police and fire services, parking garage services, library services, services to the local military institutions, museums, campgrounds, beaches, trails, and open space that many have come to enjoy. These services and amenities take quality, well-trained staff, equipment, and infrastructure. Monterey’s services (public safety, parks, library, trails, beaches) are not fee-based, and are heavily used by residents and non-residents alike. These services rely heavily on other revenues, such as sales tax, to cover operational costs.

In addition, Monterey has the world famous Monterey Bay Aquarium and serves as the center of civic, educational, governmental, military, and community organizations on the Monterey Peninsula. The large number of public and nonprofit institutions - the Monterey Aquarium, Presidio of Monterey, Naval Postgraduate School, Monterey Peninsula College, Middlebury Institute of International Studies, Community Hospital of the Monterey Peninsula, and many others - these community assets are exempt and do not pay property tax to the City, yet benefit from City services such as public safety, roads, etc. Therefore, Monterey is more heavily reliant on sales tax and hotel (transient occupancy) tax to serve these community assets.