

CITY OF SALINAS



ADOPTED BUDGETS

**OPERATING
and
CAPITAL IMPROVEMENT**

FY 2003 - 2005



CITY OF SALINAS
Recommended Budgets
Operating and CIP
2003 - 2005



Anna Caballero
Mayor

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Councilmember
District 1

Gloria De La Rosa
Councilmember
District 4

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Councilmember
District 2

Maria Giuriato
Councilmember
District 5

Janet Barnes
Councilmember
District 3

Jyl Lutes
Councilmember
District 6

Dave Mora
City Manager

Richard E Nosky
City Attorney

Daniel Ortega
Police Chief

Larry Bussard
Director of Redevelopment

John Fair
Deputy City Manager

Daniel Hernandez
Fire Chief

John Copeland
Director of Finance

Julia Orozco
Library Director

Jorge Rifa
Deputy City Manager

CITY OF SALINAS Organization Chart

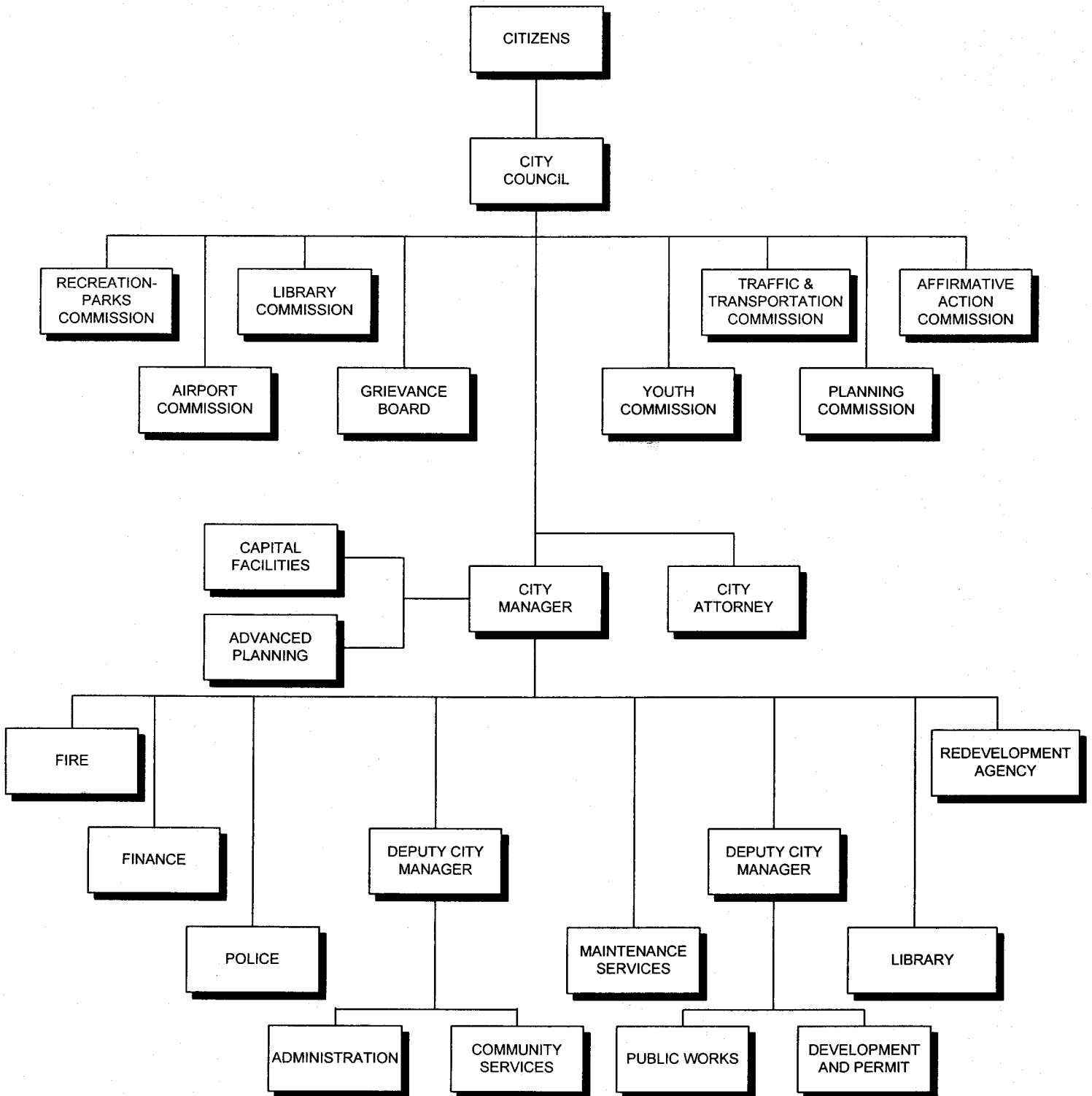


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MEMORANDUM

DATE: May 30, 2003
TO: Mayor and City Council
FROM: Dave Mora, City Manager
SUBJECT: FY 2003-2004 / 2004-2005 RECOMMENDED BUDGET

Introduction

On June 10, the City Council will review the recommended FY 2003-04 / FY 2004-05 budget for the City of Salinas and the Salinas Redevelopment Agency. This is the second two-year budget submittal in the City's history. Although the City Council focuses on the first year for purposes of formally adopting a services plan, the second year information and estimates provides a snapshot of the future that in the case of FY 04-05 is not at all positive. The two-year budget process and the information developed for the full twenty-four month period is even more critical in the current economic environment as expenditures will increase dramatically in certain key areas while current revenue sources either remain stable or grow very modestly.

The recommended budget has been under discussion for a number of months and the written document is consistent with the information previously provided to the Council and community regarding the City's finances, the significant problems facing the City, and the actions required to assure the financial integrity of the City during the next few years. The number of budget briefings provided to the full Council in the development of the budget is unprecedented in the City's history. It has been a deliberate effort to assure that there is full knowledge of the City's financial condition and the future ability of the City to maintain basic services.

The review, discussion, and FY 03-04 budget adoption will be the first step in the process as the budget adoption will be followed by efforts to prepare for further reductions in services in FY 04-05 and very likely in FY 05-06. The overall impacts associated with the economic downturn and significant increases in personnel retirement and health costs require actions that will go far beyond the impacts of the last major Salinas City budget problems of the early 1990s. However, the City's current financial condition will allow for a much less intense and divisive FY 03-04 budget review than the situation ten (10) years ago. The significant difference is that the FY 03-04 recommended budget does not require mandatory layoffs of employees in order to balance revenues and expenditures.

Unfortunately, the FY 04-05 and FY 05-06 budgets will likely not be able to be developed without a requirement for reductions that include employee layoffs. As services are reduced and the number of permanent positions becomes less, there will be fewer vacancies and the level of services provided in many areas will become basic to the point that further reductions cannot be made without impacting health and safety. There is no recourse absent significant increases in General Fund revenues during the next few years. It is highly unlikely that those increases will appear.

Budget Preparation

During the last few months, each City Council meeting has included a status report on the City's budget development, the state of the economy, and discussion of key factors impacting the budget, specifically, actions being considered by the State of California and the County of Monterey. These reports have been provided to assure a full understanding of the seriousness of the City's financial problems and to assure that the final, printed, recommended budget had no surprises. The almost constant reporting included three (3) focused General Fund briefings for the City Council.

On April 15, staff provided the first of these briefings to City Council. The April 15 report advised that staff had completed a preliminary calculation of FY 03-04 / FY 04-05 General Fund expenditure and revenue estimates, concluding that the combination of increased cost for retirement and health benefits, when combined with minimal revenue growth, resulted in deficits (projected expenditures less than projected revenues) for at least two (2) to three (3) years.

The analysis indicated that total personnel costs for currently authorized positions (FY 02-03) would increase by at least \$9.6 million over a two-year period. Base salary increases totaled \$3,063,239. This increase included the addition of 14.5 positions in FY 02-03. The two-year PERS cost increases were a minimum of \$4,622,418. The two-year increase in health insurance and cafeteria benefit costs were a minimum of \$1,036,597.

The General Fund revenue projections for the next two-years assumed a marginal increase in FY 03-04 and modest growth in FY 04-05. The loss of booking fee reimbursement and the McGraw-Hill sales tax correction represented an approximate \$700,000+ loss in FY 03-04. Major revenue sources were estimated to grow only very slightly.

Staff advised that the City would require a multi-pronged strategy to survive the next two years. The strategy would include significant service reductions, employee participation in reducing costs, increased revenue, and continued efforts to deliver services in more cost-effective manners. Staff recommended that the Council conceptually approve a framework for the FY 03-04 / FY 04-05 General Fund budget inclusive of:

- Use of the SVSWA pre-payment to absorb increased PERS costs.
- Use of Operating Reserves to cushion the economic downturn.
- March 2004 election to consider business license tax and paramedic parcel tax assessment.
- Identification of uniform and universal employee participation alternatives in expenditure reductions.
- Commitment to incumbent employees in understanding job changes may be required – cannot be guaranteed if State / County further raid Salinas revenue or increase costs.

The framework was approved, as were target FY 03-04 expenditure reductions of approximately \$4,000,000 and FY 04-05 reductions of a minimum of \$1,000,000.

On May 13, staff provided the second in the series of formal budget briefings for the City Council. The purpose of the May 13 meeting was to detail specific expenditure reductions identified for inclusion in the recommended budget.

The items presented on May 13 were consistent with the policy direction approved by City Council on April 15. The reductions in services involved the elimination of authorized positions in the city workforce. The majority of the positions identified to be eliminated were (and continue to be) vacant. Some positions were not vacant; however, staff advised that there were other vacant positions in the City workforce to which employees could transfer, be demoted to, or promote to in order to avoid mandatory layoffs.

The recommended reductions were "opportunities" based on vacancies. There was no attempt to define "across the board" reductions in all departments, nor was there any significant attempt to define priorities. Consequently, there was a disproportionate impact on maintenance service activities in the recommended reductions. This strategy was and continues to be recommended at this time because the service reductions identified for FY 03-04 will not be sufficient to meet the City's overall revenue shortfall. There will be at least one other round of significant service level reductions, including the elimination of additional positions. This second (and subsequent) round(s) would be focused on establishing priorities to maintain basic, critical city services. It is anticipated that there will be few, if any, further reductions in maintenance services and that future reductions will be in programs and services not reduced in this first round.

The impacts of the required reductions that were described on May 13 were characterized as "less revenues produce less services". City employees will be doing less with less, not more with less.

Service level reductions were described in the following areas:

Public Works Maintenance Services

- urban forestry
- parks / landscape maintenance
- custodial services
- building facility maintenance
- street maintenance

Public Works Planning & Engineering

- water resources planning