

**REPORT TO THE
CITY COUNCIL**
City of Salinas, California

Agenda Item Number

Department Director Approval

Finance Review

Attorney Review

City Manager Approval

DATE: February 5, 2008
FROM: Dave Mora, City Manager
BY: Tom Keever, Finance Director
All City Departments

SUBJECT: FY 2007/2008 MID-YEAR BUDGET REVIEW

BACKGROUND

The 2007-08 mid-year budget report provides a detailed review of the City's finances as of December 31, 2007. The review provides an evaluation of current revenues, expenditures and reserves for all funds.

The mid-year budget report provides narrative updates of programs and activities from each City department, documents City finances from a historical perspective, evaluates current finances and the local economy and discusses outstanding budget issues, including state and county budget impacts.

The mid-year budget report includes recommended adjustments to estimated revenues, budget appropriations and reserves for all funds. As is customary, the focus of the mid-year budget review is on the City's General Fund.

Highlights of staff comments and recommendations include:

The General Fund ended 2006-07 with a \$2.9 million carryover. Staff recommends that \$2.0 million be allocated to the operating reserve and \$0.9 million be allocated to match the \$2.9 million COPs public safety radio system grant.

After the allocation of the 2006-07 carryover, the General Fund operating reserve is \$7.2 million to begin 2007-08. The City's three-year (2007-08 through 2009-10) prepared in April 2007, assumes the operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

The combination of declining home sales and prices, foreclosures and tightening credit has created an economic slowdown and the beginning of a recession.

While the overall General Fund revenue estimate for 2007-08 of \$77.4 million may be achieved, sales tax, property tax and other General Fund revenue estimates for 2008-09 are being decreased \$1.1 million to \$78.7 million.

The April 2007 multi-year forecast projected a General Fund operating reserve of \$4.2 million at June 30, 2009, the end of the City's two-year budget cycle. At this 2007-08 mid-year point, the June 30, 2009 operating reserve is projected at \$3.2 million or \$1.0 million less than the April 2007 projection. The decline is due to the economic slowdown and revised General Fund revenue estimates for 2008-09.

The General Fund must end 2007-08 with a \$2.0 million carryover to keep the multi-year projection intact. General Fund 2007-08 revenues will not exceed estimates. The 2007-08 carryover will have to be achieved by expenditure savings. If General Fund operating budget savings of \$2.0 million are not achieved this year, a variety of budgeted capital projects will have to be delayed or cancelled to achieve this savings.

General Fund 2007-08 mid-year budget adjustments include; a reduction in the General Fund advance to

Fairways golf course from \$750,000 to \$700,000; an increase of \$20,000 to the Fire Department training budget per the approved MOU with IAFF; an appropriation of \$31,102 to match the FEMA Fire Department wellness grant; an appropriation of \$35,000 to operate the Firehouse Recreation Center through the end of this fiscal year; an appropriation of \$1,523,600 to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget; and an appropriation of \$890,000 to match the \$2.9 million COPs public safety radio system grant.

On January 25, 2008, the City was notified that the Packard Foundation awarded a grant in the amount of \$1,480,000 for construction of the new Municipal Pool facility. A mid-year appropriation of this grant is required. The Packard grant, along other budgeted funds, provides \$8.6 million for pool construction.

During September 2007, a \$2,989,125 Federal 2007COPs Technology grant was awarded to the City of Salinas, providing partial funding of the City's share of this Federally mandated project (NGEN) to change public safety radio frequencies. The grant requires (25%) matching funds. A General Fund appropriation of \$890,000 is recommended to cover the City's share of matching funds.

The City expects to receive \$1.5 million in State Proposition 42 funding and \$2.4 million in State Proposition 1B bond funds in 2008-09. These funds in conjunction with the annual gas tax allocation of \$575,000 and Measure V allocation of \$212,500 will provide \$4.7 million for street rehabilitation projects in 2008-09. An appropriation of Proposition 1B funds of \$2,405,200 is recommended in this mid-year report.

Facing an estimated \$14.5 billion deficit, the State Governor's proposed budget includes a 10% reduction in funding across all state agencies. Under this proposal, the direct dollar impacts to the City are modest.

While Proposition 1A protects the City from State takes of property tax, sales tax and vehicle license fees, the real issue are sources of funds not covered by Proposition 1A and statutory relationships between the State and Monterey County. Impacts to the City's budget that are controlled by the State and Monterey County include property tax administration fees, booking fees, 911 fees and the SB 172 allocation. Potential losses to the City's General Fund exceed \$1.0 million annually.

It is expected that by February 23, 2008, the Legislature will act on some of the Governor's proposals. The next expected milestone for published information from the Governor is the May 2008 Budget Revision.

A number of other significant events have occurred during the first six months of fiscal year 2007-08 and are highlighted as follows:

REDEVELOPMENT AGENCY

Redevelopment Project Area Expansions

A major goal identified in the Agency's Implementation Plan is to expand both the Central City and Sunset Avenue Redevelopment Project Areas. Staff has initiated work on the expansions, but the 18 to 24 month long process will require additional staff resources and specialized consultant services. It is expected that a full-time Redevelopment Project Manager position will be needed to coordinate this very extensive process, as well as take on other additional duties required in the Agency, and this will be proposed for the 2008-2009 Agency budget. In the short-term to get the expansion and recruitment processes rapidly moving forward, it is proposed for mid-year to immediately hire an experienced redevelopment analyst on a temporary, part-time basis, employed and compensated as a Redevelopment Project Manager (hourly wages with no benefits). For the remainder of the 2007-2008 budget year, the average 20-hour per week position would require approximately \$22,000, using funding from both the Central City and Sunset Avenue Project funds. **A mid-year budget adjustment of \$22,000 to hire a temporary project manager is included in the SRA mid-year budget report.**

Central City Project Area

Oldtown Multiplex Theater

Since it's opening in July 2005, the Maya Cinemas, 14-screen multiplex has been a major draw of visitors to the downtown, particularly in the evenings and on weekends. Under a Disposition and Development Agreement (DDA) between the Agency and Maya Cinemas, the Agency provided land and developed the Monterey Street Parking Garage at Monterey and Market Streets to serve the multiplex and surrounding

development. The DDA's requirements for the development have been completed and the land purchase loan owed by Maya to the Agency was repaid, with interest. One of the two commercial retail spaces at the front of Maya was recently opened as a frozen yogurt/smoothie shop and the other space is anticipated to be occupied by Summer 2008.

City/Agency COP-Monterey Street Parking Structure

The Monterey Street Parking Structure is a 5-level, 435-space parking garage adjacent to the Steinbeck Center and Maya Multiplex Theater. The parking structure provides parking for Maya Cinemas, National Steinbeck Center, surrounding business and future development on the 100 Block (i.e. the Agency's Hotel Site). The project also included realignment of Central Avenue/Main Street, the conversion of the 100 Block of Main to 2-way and access to the structure from Market Street.

The project was funded with Certificates of Participation (COP) financing and a \$2.0 million Federal EDA grant. On December 17, 2003, the City sold COPs in the amount of \$16,630,000 at 4.68% interest for a term of thirty (30) years. Maximum annual debt service payments are \$1,091,950. Pursuant to a reimbursement agreement the Salinas Redevelopment Agency (Central City Project) is responsible for debt service. The Agency's budget includes funds to make these debt service payments in both 2007-08 and 2008-09.

The City's General Fund is ultimately responsible for the parking structure debt (subject to repayment by the Agency) if the Agency is financially unable to make the bond payments.

Downtown Parking Management Plan

In FY 04-05, acting on the recommendation of the OSA Parking Committee, the Redevelopment Agency retained the services of DKS and Associates to develop a comprehensive parking plan for the Downtown. The County (\$50,000) and Agency (\$72,360) shared the cost of consultant services estimated at \$112,360. The scope of work involves a short term strategy to address the immediate needs created by the opening of Maya Theater, new County offices and other ongoing issues, as well as a long term plan for paid parking throughout the Downtown. With downtown businesses still unreceptive to managing parking resources through paid parking, the draft Parking Management Plan was put on hold and further discussions between the City and downtown businesses resulted in an alternative short-term parking strategy, presented to City Council in September 2007. With Council approval on September 11, 2007, implementation of the strategy commenced on January 2, 2008. Results of the strategy will be evaluated after 6-months and reported to Council for consideration.

Downtown Hotel Site

Under an Exclusive Negotiating Rights Agreement (ENRA), the Agency continues to work with the Salinas City Center Company (SCCC) for development of the Agency's 1.7-acre property currently in use as City Parking Lot 13 (across the street from Maya Cinemas and the National Steinbeck Center). The original SCCC proposal was to develop a hotel with 140 rooms, with restaurant, ballroom and business conference center, 175 residential condominiums, 30,000 square feet of offices, and 30,000 square feet of retail uses, along with onsite parking. The ENRA was recently extended to March 31, 2008.

Salinas Intermodal Transportation Center

As part of an overall planning effort to bring commuter rail service to Monterey County, staff is assisting the Transportation Agency for Monterey County (TAMC) with specific plans for an expanded Intermodal Transportation Center (ITC) at the Salinas Train Station. In addition to commuter rail facilities and a parking structure, proposals include a variety of bus services (Greyhound, MST, AMTRAK, Air porter, etc.), including plans by MST to relocate and expand its downtown transit hub operation to the ITC. TAMC completed the project's planning and environmental review processes, and is now assembling funding for the project.

In collaboration with various stakeholders, grant funding has been secured by the City and Agency that will improve the existing historic buildings at the ITC, including the AMTRAK passenger depot, the freight building (both owned by the Agency), and the First Mayor's House. Work on these buildings is anticipated to commence in 2008, and with the improvements to the AMTRAK passenger depot, the Agency will also be working to accommodate Greyhound intercity bus service within the building. A third building owned by the Agency, the REA Building, is leased to a non-profit model railroad club, which has made significant interior and exterior improvements to the building. The wood-shingled roof of this building continues to deteriorate and

major leaks now threaten the building improvements. **A mid-year budget adjustment of \$30,000 to re-roof the building is included in the SRA mid-year budget report.**

Chinatown Revitalization Program

The Salinas Downtown Community Board continues to be a focal point for addressing community needs, which have been expressed in a draft Chinatown Revitalization Plan. Funding for the Plan was provided by an \$85,400 Caltrans grant secured by the Agency. The Plan and its elements have been presented to the City Council, business groups, and others for consideration, and the Board has also broken down important elements of the Plan for refinement and implementation. In particular, with assistance of major grants to CSUMB from HUD, and to the Agency from Caltrans, it is hoped that strategies to address social services functions, development and circulation issues, community safety and cultural heritage can be implemented.

Sunset Avenue Project Area

Façade Improvement Grants

This popular program for businesses and commercial property owners provides an Agency matching grant of between \$4,500 and \$9,000 for exterior improvements that enhance commercial buildings. It is anticipated that approximately 8 grants will be provided this fiscal year.

Jazz-up Program

Through combined CDBG and Agency funding, and coordination by Second Chance, the Jazz-up Program provides targeted improvements of new paint and other exterior enhancements for both residential and commercial buildings. Staff continues to work with Second Chance to leverage Jazz-up with other job and training programs for youth.

Community Safety Initiative

During May 2004, the Salinas Redevelopment Agency amended its implementation plan adding a policy providing for redevelopment-funded community safety initiatives within the Sunset Avenue Redevelopment project area. In order to provide a positive force for economic development in the Sunset Avenue (and SUBA) area, during 2007-08 the Agency contributed \$296,200 to fund the cost of two police officers assigned to the project area. With this extra police presence and involvement, not only criminal activity can be addressed, but also other lesser City Code violations within the Project Area.

Salinas United Business Association

The Salinas United Business Association (SUBA) continues its activities to support businesses and economic development in "The Alisal", supported by an annual business assessment of the SUBA Business Improvement Area, and by a \$50,000 annual grant from the Redevelopment Agency. Redevelopment staff also provides close support for SUBA and its programs and initiatives.

Division Street

In December 2007, the Agency completed acquisition of approximately 2 acres of vacant land at the end of unimproved City right-of-way known as Division Street. Additional acquisitions by the Agency along Division Street would be intended to comprise a large enough site for a major redevelopment project. The Agency has set aside \$2.0 million of Sunset Avenue Low and Moderate Income Housing Funds and \$2.2 million in Sunset Avenue Project Funds to assemble land (approximately 5 acres) at Division Street for a future residential and multi-use development. A development, design, and property acquisition process is anticipated to result in a mix-use development project by 2009.

Alisal Marketplace Development

The Alisal Marketplace, proposed by Sean Cooley, straddles both sides of East Alisal Street, roughly from the railroad tracks to the west and the 101 freeway to the east. Redevelopment of this 30+ acre area could be a major catalyst for transforming East Salinas. Staff continues to assist with the preliminary planning and design efforts of Mr. Cooley.

East Market Street Enhancements

Financial commitments from PG&E, the City of Salinas, and the Redevelopment Agency will be used to

reconstruct East Market Street, from Sherwood Drive to Sanborn Road, to also include under grounding utilities, streetscape enhancements, and pedestrian-friendly improvements. The City hired a design firm and a community advisory group has been meeting to determine the desirable design elements. Council will consider final designs in the summer of 2008.

ADMINISTRATION

City Council Goals / Initiatives -- Economic Development, Community Safety, Image and Community Connection

During the December 2006 City Council goals sessions, four (4) broad areas / themes were identified for follow-up. The four (4) areas are economic development, community safety, image and community connection. Beginning early in 2007, City Councilmembers began conducting community meetings to discuss these broad areas with residents. Additionally, the Mayor and members of the City Council are working with community representatives in these areas (economic development, community safety, image and communications) to identify potential strategies. As part of a National League of Cities initiative, the City is engaged in partnership with twelve (12) other California communities focusing on strategies and partnerships to promote community safety.

Given the breadth of discussion and consensus of the City Council regarding the broad themes, City Council set-aside \$1,000,000 as part of the FY2006-2007 mid year budget review for use in the implementation of specific work programs associated with the overall goals. To minimize the permanent impact on the City's General Fund, two ground rules were established; 1) the funds would be primarily used for one-time or "fixed-term" uses tied to performance objectives; and 2) no more than twenty five (25%) percent of the funds should be used for on-going programs requiring yearly appropriations.

In assessing the reality of City finances, concerns regarding employment losses in the City, the variety of economic development related (e.g. annexations) activities currently underway, and the growing focus on the need for overall economic development investments, Council approved a three-year Economic Development program. This investment is tied to concepts of partnership, expectations of "return" on the investment, and specific accomplishments within the defined time periods.

Funding (\$750,000) for a three-year Economic Development program was appropriated. In addition to recruitment and hiring of a full-time Economic Development Director, initial expenditures include funding (\$33,000) one-third of a Chamber of Commerce sponsored economic development plan, support for one Action Summit (\$25,000) and \$125,750 to complete and submit an Enterprise Zone application. Recognizing that successful economic development requires a regional, partnership strategy, the City's economic development activities will be "spun off" to a non-profit Economic Development Corporation no later than June 30, 2008.

A Community Safety initiative is included in the City's 2007-08 General Fund operating budget with annual appropriation of about \$250,000. The Community Safety program includes a Police Commander responsible for the development of an action plan to implement a community safety initiative focused on prevention, intervention and suppression strategies.

The level of investment included in the City's budget is significant in the short-term. However, the majority of funds are being used for one-time or limited type investments that are geared to some level of payoff or return. In reviewing the four (4) broad areas identified by the City Council, the City has and continues to make investments in community safety, image, and community connection. Prior to fiscal year 2006-07, there was no specific investment in economic development.

Economic Development

The City has employed an Economic Development Director with the expected outcome of the creation of a public/private partnership economic development corporation providing professional services to the Salinas Valley communities of Salinas, Gonzales, Soledad, Greenfield and King City. Initially all of the five communities and Monterey County have joined together in the preparation and submission for designation as an Enterprise Zone (EZ) on a proposed regional area identified as the Salinas Valley Enterprise Zone (SVEZ). The SVEZ application has much strength based on a regional approach; clearly stated common goals and hurdles; shared

transportation infrastructure (US Highway 101), continued access to potable water concerns, environmental considerations and a high unemployment rate as compared to the state and nation.

The City has led by example in providing the primary funding and human capital for the preparation of the EZ application. Additionally, the newly employed Economic Development Director has established contact with the Monterey County Conventions & Visitors Bureau (MCCVB), MBEST, Monterey County staff, Salinas Valley Chamber of Commerce, Central Coast Marketing Team, CALED and other organizations focusing on expanding the commitment to regionalism and improved relationships.

The City cosponsored two meaningful action seminars, Downtown Retail Viability and Agriculture Technology. Both action seminars were well-attended and new ideas concerning future development emphasis and opportunities were discussed. It is clear that the emphasis on regional cooperation and planning are dead on target. The City provided leadership in working with a qualified consultant, at no cost to the city, in applying for consideration of a department of Energy planning grant to identify and overcome barriers to installing solar systems throughout the city and the region. Salinas acted as the lead qualifying entity in submitting the Solar America Initiative Market Transformation grant but did so in partnership with the City's of Santa Cruz and Watsonville.

The commitment to first plan and then act was again acted upon when the Council authorized the contract with the Buxton Company to provide an in depth analysis of the retail sales potential in the Salinas Market area. The area boundaries are determined by drive time in lieu of the more traditional mile markers, which reflects Salinas's position as a regional center for services and retail shopping. Once the data is acquired and assimilated a retail expansion plan will be enacted with the intent of expansion of the city's retail sale tax base.

A major effort to expand job opportunities, both in numbers of jobs as well as in the quality of jobs, will be at the core of the new Economic Development Strategic Plan (EDSP). The EDSP will provide the direction and emphasis for the formation of a Salinas Marketing Plan. Adding to the new marketing plan will be input from the recently formed Communication Committee. This committee has a bevy of local talented individuals whom will assist in imagining and creative products that reflect the "real Salinas".

Additionally, City economic development efforts are committed to assist all existing businesses to achieve economic viability and to that end will, in partnership with the Salinas Valley Chamber of Commerce, initiate a Business Retention & Expansion program designed to provide input from the business sector as well as serving as an early warning system for existing businesses whom may need some form of help.

A number of separate economic revitalization initiatives have been brought forward by the private sector including the Alisal Marketplace concept, the Salinas City Center Company 100 block plans, SPARC downtown development concepts, and the continued revitalization activities along the Abbot Street corridor. Thought and planning needs to be given to how these various activities might be integrated.

Other economic development activities include:

Affordable housing -- the Tynan Village Mixed Use development broke ground and is fully under construction. The project will provide 170 units of housing for all income levels, is located within walking distance of downtown Salinas and is approximately 50% complete at this point in time. In addition, the Monte Bella development continued housing construction (single family homes), although at a slower pace than historically.

Transportation system improvements -- staff continues working to upgrade/improve arterial streets that serve the business community in order to enhance economic vitality. During the past year the North Main Street Improvement Project (from John Street to Abbott Street and its extension as Blanco Road from Abbott Street to the south City limits) was reconstructed, and the North Main Street Improvement Project (from Boronda Road to Alvin Drive) was reconstructed/resurfaced. The former street serves our main industrial area, while the latter street serves our primary retail area. The Sanborn Road Street Improvement Project (Laurel to Del Monte) is currently under construction, should be completed by March 2008, and will reconstruct/rehabilitate that street to serve this mixed use commercial/residential area.

Code Enforcement -- staffing was increased to four full-time Code Enforcement Officers in the field, a Senior Code Enforcement Officer, and Administrative Clerk. During 2007, over 1200 cases were opened, and 758 were completed (or resolved). An administrative report regarding Code Enforcement was provided at the January 8 Council meeting.

Two shopping centers were essentially completed in the past year, increasing our standing as the regional shopping center for Monterey County. The Boronda Crossing Shopping Center was completed and included the addition of Kohl's into Salinas, the relocation of Home Depot and Circuit City, and added Baby's R Us. Three auto dealerships in the Salinas Auto Center/Boronda Crossing area were also approved and are currently under construction.

Staff continues to work with Caltrans to finalize the design of the US 101/Aiport Boulevard Interchange project, which is on schedule to commence construction in 2009/10.

City staff worked with Monterey County Planning/Public Works staff and the Nestech Development team to continue the processing of this mixed-use development proposal. Over the past year, several infrastructure issues were defined, design issues are getting resolved, and the project scope is nearing completion for formal consideration by both City and County staff. Under the terms of the Greater Salinas Area Memorandum of Understanding (GSA-MOU), this project's land use entitlements will be processed through Monterey County before being annexed into the City for building permits.

The Future Growth Area Sphere of Influence (SOE) and Supplemental Environmental Impact Report (SEIR) was completed, and processed through the Salinas Traffic and Transportation Commission, Planning Commission and City Council. The LAFCO application was submitted to Agency staff on December 31 and is expected to be considered in the first quarter of 2008.

The Fresh Express Expansion EIR has re-started, and staff will be working with AMBAG to secure the transportation model to commence the traffic analyses. Staff anticipates this EIR and Specific Plan being completed in the first half of 2008.

Staff has met with the Uni-Kool development team and expects to receive an application for this development in the next 2-4 months. The proposed annexation and development will significantly expand the City's agricultural related production and support land inventory.

Medical Facility development continued along the Abbott Street corridor, with the completion of an MRI facility on Brunken Avenue, and Salinas Valley Memorial Hospital's groundbreaking at the corner site at Abbott/Malarin. This latter site was a former Code Enforcement case, resulting in demolition of a former motel and redeveloping the site with a medical/office building with support parking for an adjacent medical facility.

Community Safety

A Community Safety Director has been appointed. Initial activities have included organization of a Town Hall Summit regarding community safety, identification of a policy team to provide oversight to the Community Safety initiative, organization of a policymakers dialogue to define priorities, initial planning for an investment strategy for City's use of up to \$1,000,000 per year for community safety priorities, follow-up work with the National League of Cities California Cities Gang Prevention Collaborative and responding to the State of California Gang Prevention funding solicitation.

Priority areas identified for Community Safety investment include literacy, parenting skills, after school programs, and outreach/communication. Work continues on developing proposals for focusing on these identified priorities.

Related City activities include lobbying efforts to secure continued federal funding for the Gang Task Force initiative, reviewing the role of all City departments in a Community Safety initiative (e.g. Library Department literacy programs), review and assessment of Measure V investments with school districts in after-school programming, identification of a neighborhood specific police department / code enforcement initiative, focusing on safety initiatives for public areas / facilities (Closter Park and Natividad Creek Park), expanding utilization of the Police Department Mobile Command vehicle and partnering with County Silver Star Program to focus on prevention / intervention strategies.

The City continues to utilize Community Development-Block Grant funds for the installation of new streetlights throughout the City. Most of these areas are located in the New Alisal section of Salinas, where lighting was formerly provided to County standards. This upgrading of streetlights has been an ongoing project, with the three phases under construction adding roughly 135 new lights to residential streets. The project is expected to be completed in February 2008, with the next phase scheduled for early next fiscal year.

Traffic staff has developed Suggested Routes to School maps for all public elementary schools throughout the

City, and is working on an educational program for implementation for next school year (August/September 2008). Staff continues addressing traffic issues brought to our attention and addressing pedestrian/school safety issues as a priority.

Secured two (2) federal grants during the year to aid in overall public safety activities. A COPS technology grant of almost \$3,000,000 with almost \$2,000,000 to support Salinas' share of the regional NGEN upgrade requirements and almost \$1,000,000 for Salinas Police Department equipment. An "earmark" of almost \$1,500,000 for the Monterey County Gang Task Force was secured late in the year through the efforts of Congressman Farr and Senators Boxer and Feinstein.

City Attorney increased prosecution of city code violations for underage drinking, hosting parties for minors where alcohol is served and drinking alcohol in public parks. Increased prosecution of city code violations including panhandling, trespassing in posted areas, vendors in prohibited areas and building code violations.

Weed and Seed Grant activities have been implemented.

Image of the Community

Activities to enhance the City's overall image have included; re-landscaping at four median/greenbelt areas -- Market Underpass, Davis Road median, John/Work Street and Davis Road/Westridge greenbelt; approximately 500 trees have been replanted throughout the City; replacement decorative garbage/recycling containers have been purchased for damaged containers for the Old Town area; conceptual plans for the East Market Street Streetscape Improvements area have been developed with the input of SUBA and other area residents. Project proposes to plant shrubs and 170 trees along a 1.3-mile stretch of this arterial; increased Park Maintenance Worker staffing levels have allowed the City to begin improving the overall condition of City parks (this includes the installation of four new modular restrooms that are ADA accessible; the Recreation Park Commission initiated a City Flower Contest on January 2, 2008; the Graffiti Abatement program received funding for a baseline program (with the program's limited resources, public property graffiti is removed; the Arts Group has planned an Arts Summit for the evening of February 7, 2008; the City Attorney's Office and the Street Maintenance Division are working on a strategy for removal of illegal signage in the public right-of-way; the City Attorney's office has prepared an Informational Report to Council on potential revisions to the Shopping Cart Ordinance; Council is considering support of an entry mural on the Union Pacific train trestle at North Main Street, which will enhance this gateway to Salinas; Code Enforcement staff has been increased and now is able to address increased levels of health and safety related code violations; and increased prosecution of city code violations including panhandling, trespassing in posted areas, vendors in prohibited areas and building code violations.

Community Outreach and Engagement

At least one (1) Town Hall meeting has been held in each City Council district. Neighborhood clean-up events have been held in each district. Neighborhood Services Coordinators primarily supported these activities.

Two (2) community-wide town hall meetings were held focusing on community safety and Image.

An ad-hoc community based committee has and continues to meet to develop a comprehensive City outreach and communications strategy. The Committee is reviewing the City's current strengths and weakness in the areas of communications and image, working to develop a City marketing strategy including a "brand image" and working on communication tactics such as a developing a City logo, initiating a public relations and advertising campaign, revamping the City web-page and re-establishing the City's newsletter.

A City Web Master was hired August 2007 with funding provided by Measure V. Initial revisions / updates have been accomplished on the City's website. The City's internal website and the Library's website has been redesigned and are online. City Council agenda information and reports have been fully restored to the City website.

The Web Master position along with \$75,000 of Measure V funds approved by Council, as recommended by the Measure V Committee, will allow for a complete redesign of the City Web page, including Spanish language translation, e-Government commerce application and technology development. In combination with the new Web Master position, contractual public relations and community input, the City's outdated web page will be redesigned to reflect Salinas' new image.

The City hosted an Imaging Consultant whom made a presentation on the core issues with creating an "Image".

The Communications Committee will use "locally available creative talent" to bring forth recommendations for a new City of Salinas Image.

Additionally, funding for the City's newsletter is included in the City's General Fund budget at \$45,000 annually.

Next Generation Radio System (NGEN)

The Next Generation (NGEN) radio system is based upon a federal mandate to narrowband radio channels used by public safety, local governments and special districts throughout the County by the year 2011. The "NGEN Task Force" that includes County and City public safety and information systems personnel is addressing this countywide project. Project costs for all agencies are estimated at over \$20 million. The task force continues to seek State and Federal funding for this project. The cost of the project is to be shared by agencies countywide based upon the agreed cost allocation method (based on the number of Mobile/Portable radio equipment used by each agency). During 2006-07, a detailed Engineering Design of the project was undertaken at a cost of approximately \$650,000. The City's share of design phase was included in the 2006-07 General Fund budget at \$110,800 (17% of the total costs). The City's share of the total project cost is estimated at \$3.8 million including infrastructure costs of \$2.1 million and the cost to replace police, fire and maintenance services radios at \$1.7 million.

The Salinas Fire Department has replaced its 87 radios with a combination of FEMA grants and City matching funds.

During September 2007, a \$2,989,125 Federal 2007COPs Technology grant was awarded to the City of Salinas, providing partial funding of the City's share of this project. The grant requires (25%) matching funds totaling \$996,375, providing a project budget totaling \$3,985,500. Grant and matching funds provide: \$1,070,000 to purchase 320 City Police radios; \$120,000 to purchase City Police Repeaters; \$425,500 to purchase 37 mobile data terminals for participating Fire agencies; \$2,341,500 to purchase shared infrastructure equipment; and \$28,500 for grant services and training.

The City's share of matching funds totals \$890,000 (plus the to be negotiated share of Fire Mobile Data Terminal match).

In addition to the \$890,000 COPs grant match, the remaining City General Fund costs (about \$350,000) include the replacement of about 100 maintenance services radios.

At this mid-year, staff recommends that \$890,000 be appropriation for the City's share of the COPs grant match.

Capital Facilities

Capital facilities previously identified for planning and development include a Police Department Building, a North Salinas Library, a Municipal Pool complex, a multipurpose recreation facility at Natividad Creek Park, expansion of the Chavez and Gabilan libraries, and a Senior Center project. These projects will require a capital program budget of more than \$50,000,000. The City's current resources are insufficient to fund these essential community facilities. Staff continues to pursue important tasks relating to these necessary capital facilities.

Municipal Pool

Since 2000, the City has considered several conceptual alterations to renovate and then replace its 50-year old Municipal Pool facility with a new Aquatic Center at Sherwood Park. In partnership with the Salinas Valley Aquatics (2002-2005), the City undertook an extensive analysis of a new facility that would have two pools, a

competition pool and a separate recreation pool. During the design process, estimated total project costs for the new facility escalated to \$15,000,000. Salinas Valley Aquatics subsequently withdrew from the project citing the escalating costs. On April 11th, 2006 City Council approved the revised project with a single pool design, replacing the two-pool concept. On January 16, 2007 Council approved a professional services agreement with Glass Architects for the conceptual design of the Municipal Aquatic Center for \$717,000.

As a result of the construction of the new pool facility, restroom, maintenance building, playground and picnic facilities need to be demolished and reconstructed elsewhere in the park. This project is underway using a combination of Block grant funds (\$65,000), General funds (\$130,000) and State Bond Act Funds transferred from the pool project (\$392,200) for a total budget of \$577,200.

Current funding for the new Municipal Pool facility totals \$8,171,301 including; General Funds \$14,581, proceeds from the sale of Crazy Horse landfill \$3,200,000, Federal grants \$1,290,500, State grants \$1,055,000, Developer Annexation Fees \$593,800, State Housing Grants \$417,420 and Salinas Pool Foundation fund raising \$1,600,000. Expenditures through June 30, 2007 totaled \$1,090,669, including costs associated with planning, engineering and design. To begin fiscal year 2007-08, available funds total \$7,080,632. The architects project estimate totals \$9,553,917 including; construction \$7,953,917, construction (10%) contingency \$800,000 and City fees of \$800,000.

The estimated shortfall to complete the pool is \$2,473,285.

During September 2007, the City applied to the Packard Foundation for a grant in the amount of \$1,480,000. **On January 25, 2008, the City was notified that the Packard Foundation awarded a grant in the amount of \$1,480,000 for construction of the new Municipal Pool facility.**

Additionally, depending on bid results, staff will recommend Council commit \$800,000 of 2008-09 block grant funds to the pool project. This action would use the total block grant funds available for capital projects in 2008-09 and delay streetlight installations.

Including the Packard Foundation Grant (\$1,480,000) and if Council allocates all of 2008-09 block grant funds available for capital projects (\$800,000) the estimated project shortfall is \$193,285.

If necessary, this project shortfall could be made up using Recreation Fees collected from Rodeo ticket sales (\$200,000).

Staff anticipates the construction bids to go out in February 2008 with bids opened in March 2008. Groundbreaking will take place in early spring with completion of this new facility in late 2009. The current pool will remain open during construction of the new complex.

Police Facility

The current City of Salinas Police facility is located at 222 Lincoln Avenue, was built in 1958 when the City employed 40 staff in the Department with 10 vehicles. Recent budgets have authorized staffing levels in excess of 250 staff members for the Salinas Police Department, who are served by nearly 100 vehicles. The bottom line is that the Department has outgrown the current building.

The proposed "new" Police Facility required the City's acquisition of the Armory Building on Howard Street, across the street from the current Police Station. City staff and the California Department of General Services finalized a transfer agreement and the escrow on the property transfer was completed in July 2005. The purchase of the Armory building from the State (\$450,000) is conditioned that it be used as a future police facility. The purchase contract further conditions that the police facility be substantially complete within ten years after September 12, 2005. Otherwise, title to the Armory site will revert back to the State. Funding of the purchase included bond issuance fees from the Twin Creek/1997 Landfill bond refund.

Staff hired a consultant to provide a preliminary analysis of the historical relevance of the buildings located within this block (Armory Building, Fire Station No. 1, and the Women's Club). Police and Engineering staff will be meeting with stakeholders, historic preservation folks, and other interested groups during the first quarter of 2008 to obtain public input before moving the project forward.

Natividad Creek Park Multipurpose Facility

A multipurpose recreation facility at Natividad Creek Park is needed in order to accommodate various sports and recreation activities, including after-school sports leagues and youth meetings. The facility will be modeled after the Boys & Girls Club located at the Salinas Sports Complex site at the Rodeo Grounds. This facility will enhance recreation opportunities in northeast Salinas. The approximate cost estimate for this building is \$8,000,000. With much of the housing growth in Salinas taking place in this area, a gym/recreational facility would provide much-needed recreation opportunities for our residents. Upon completion, the annual operation costs for running this new facility would total approximately \$400,000 to \$500,000.

City Libraries

Plans for a North Salinas Library have not yet materialized. However, it is staff's intention to include library site alternatives in the Future Growth Area (north of Boronda) plans as well as recommending the imposition of library construction fees on development in the Future Growth Area. The precedent for fees has already been established in the Williams Ranch area.

The El Gabilan and Chavez libraries require expansion in order to meet community needs for services. The City acquired land adjacent to the Gabilan Library years ago in order to expand that facility. The City has collected library impact fees from development in the Williams Ranch area for the specific purpose of expanding the Chavez Library. The planning and completion of all these facilities is dependent on either dedicated, separate source of funds (e.g. library impact fees) or the use of one-time General Fund revenue best invested in one-time costs such as construction.

Community Programs

The City's General Fund budget continues to provide in-kind police, fire and maintenance support to the Rodeo (\$42,500) and Carnival (\$42,500). Fifty (50%) percent of the cost of the Parade of Lights (\$6,200) is provided.

In 2007-08, the Airport Enterprise provided \$15,000 in support of the Airshow.

Block Grant funding (\$369,000) provides support for Sunrise House, Second Chance Youth Program, Community Human Services, Partners for Peace, Suicide Prevention Center and over twenty other non-profit organizations.

With the downturn in the economy and its effects on the City's General Fund budget, funding of new non-profit organizations or community events is not recommended at this time.

Recreation-Parks

Weed and Seed Program

The City of Salinas completed its second year of "Official Recognition" eligibility and its first year for federal funding on September 30, 2007, for the Weed and Seed Initiative in Census Tract 05. We continue to sustain a presence in Census Tract 07 with the continued vehicle abatement Community Service Officer working at least one day per week in this old target area while working four days per week in the new Census Tract 05 target area. Salinas is "Officially Recognized" as a Weed & Seed site for a 5-year period, 2005 to 2010. This 5-year period for Official Recognition is in Census Tract 05.

We continue to operate our Safehaven program at the Hebbron Recreation Center at 683 Fremont Street, within Census Tract 05. We have received funding from the Community Capacity Development Office in Washington D.C. (Department of Justice) in the amount of \$175,000 for year two and \$200,000 for this current year three of October 1, 2007 to September 30, 2008. Year one was not funded, October 1, 2005 to September 30, 2006. The additional \$25,000 is for a special emphasis program of Code Enforcement in the building and land use code and ordinance areas. This temporary ½ time Code Enforcement Officer works in Census Tract 05 approximately 20 hours per week to provide aggressive and proactive building code enforcement.

Submission for funding is required each year during the 5-year Official Recognition period. On January 9, 2008, a request for funding (\$200,000) was submitted for our fourth year of official recognition for 2008-2009. On January 15, 2008, the City received notice that all Weed and Seed funding was being reduced about 25%

for 2008-09. The application will be resubmitted for the reduced funding amount of \$150,000.

Recreation Centers

El Dorado, Bread Box, Hebbbron, Central Park and the downtown Recreation Center continue to be open for recreation and after school programs. Closter and the Firehouse Recreation Centers are operated by private organizations that offer special programs to their users. El Dorado Recreation Center, Hebbbron Recreation Center and the Downtown Recreation Center all had some much needed painting done inside and outside the buildings during October of 2007 through January of 2008.

Fairways Golf Course

The Fairways Golf Course continues to be challenged in terms of the number of rounds played and the revenue collected. The "special rates" that have been in place have lead to increases in the number of rounds played fiscal year-to-date and therefore in additional revenue.

Green fee revenue at Fairways was \$862,859 in FY02-03, \$780,714 in FY03-04, \$690,523 in FY04-05, \$672,586 in FY05-06 and \$766,664 in FY 06-07. The estimated Green fee revenue for this fiscal year of 2007-2008 is increased to \$800,000 and as of the beginning of January 2008, \$435,945 has been collected.

Sierra Golf Management was contracted to do the Fairways Golf Course grounds maintenance and has been doing this maintenance since May of 2007. Staff will review and present additional cost savings alternatives to the City Council within the next few months. A couple of the outlying restrooms on the golf course have been renovated recently to make them more modern and usable.

Municipal Pool Aquatics Center

The new Municipal Pool Aquatics Center is about to become a reality. Construction bid proposals will go out in February and the bids will be opened and awarded in March. Groundbreaking will take place in early spring with completion of this new facility in late 2009. The current pool will remain open during construction of the new complex.

Firehouse Recreation Center

On January 14, 2008 City staff was notified by Ernest Velasquez, the Executive Director of La Union Del Pueblo Entero or LUPE, that they have decided to terminate all program operations at the Firehouse Recreation Center effective January 31, 2008. LUPE began operating at the center in October of 2004 following the City Council decision to close the Firehouse and reduce general fund expenditures as part of the FY2004/2005 budget process.

LUPE has maintained the existing programs and services, including the senior lunch program and youth after school activities. Following their departure, City Recreation and Park Division staff will regain oversight of the facility and the programs beginning February 1. This interim staffing effort will work with existing budget resources at other facilities in order to maintain the program. Additionally, there is the potential for Community Development Block Grant funding for program services between March 1 and the end of the fiscal year in June, with a CDBG Action plan change that would go to Council at the end of February.

On another note, the potential for identifying additional third-party providers to assist with the program offerings at the Firehouse will be explored to discover what agencies, if any, might have an interest in youth and adult programs at the site.

With the reestablishment of the Firehouse Recreation Center under the Recreation & Park Division, there will be ongoing budget needs from February 1 thru the end of the fiscal year. With the hours of operation for senior and youth programs, it is estimated that City operations will require \$15,000 for temporary staffing, \$7,000 for supplies and materials, and approximately \$13,000 for maintenance and capital project investments at the Firehouse location. Existing regular staff will be reassigned to coordinate City efforts in providing a smooth transition from LUPE to City operation. **A mid-year budget appropriation of \$35,000 is required and requested in this report.**

Airport

Federal Aviation Administration Airport Grant 14 Project Design Work

The City of Salinas has accepted a federal grant totaling \$315,000 to design airport projects. Projects to be designed include the taxiway into the Airport Core Area to facilitate development of the Jet Center and up grades to gates and fences to improve security. The Capital Project associated with this grant will be adjusted to reflect the grant amount. Recent meetings with the FAA have indicated that funding for construction of the designed projects totaling \$1.2 million will be available as early as May of 2008, but no later than October.

Revenues and Expenditures

In 2006-07 costs for operating the Airport were 3.2% lower than expected (savings \$26,341) while revenues were 3.2% above projections (additional revenue \$33,035). Combined the result is a net increase for the Airport Enterprise fund of \$59,376. **At this mid-year, staff recommends \$20,000 of the 2006-07 increase be used to replace an outdated airport vehicle and \$19,000 to fund an extra help position (temporary) to provide increased staff coverage at the airport.** The remaining funds will be held in the Aviation Fund to pay for construction of future airport projects and to provide matching funds for federal grants.

Block Grant Programs

The City receives three federal block grants through the US Department of Housing and Urban Development (HUD). The largest grant is CDBG, which is used for a variety of programs, both housing and non-housing; each activity serves lower income households. The second largest grant is the HOME Investment Partnerships program (HOME), which is used solely for housing activities focusing upon lower income households. The third is the Emergency Shelter Grant (ESG), which must be used for activities to serve the homeless (including homeless prevention).

This section covers our HUD-funded non-housing activities; housing is discussed in the following section. During FY07-08 approximately 40% of CDBG funds were allocated to non-housing activities: two-thirds for capital improvements and one third for public services. No ESG funds are used for 'housing' as defined by HUD, however, some assist agencies with the provision of temporary shelter. The administration of the 3 grants is primarily funded from CDBG (\$565,000) and HOME (\$160,500) grant funds; the City's General Fund absorbs the remaining cost: \$64,000.

The CDBG funds budgeted for 2007-08 fall into 3 categories: new grant funds (\$2,537,808), re-allocated funds from prior years (\$912,692), and program income (\$100,000). The amount of program income is difficult to predict because income comes primarily from clients who pay off loans (housing rehab or down payment assistance) early. So far this fiscal year, program income has been running very far below projections: with half the year past, only 12% of the estimated amount has been received. As the overall CDBG budget was approved based upon receiving the income projected, staff will be monitoring receipts closely the remainder of the year. Funds held for contingencies will not be allocated until we are certain sufficient funding is available for all activities allocated funds in the 2007-08 ACTION PLAN.

Five Capital Improvement Projects (CIP) were allocated new funds in the 07-08 ACTION PLAN: traffic signal for East Alisal at Towt; Phase 9 of the East Salinas Streetlight Improvement project; funds for the engineering of the Sherwood Park picnic/bar-b-que area replacement; \$100,000 for critically-needed repairs to the existing Municipal Pool building; and finally, funds to design Phase 11 of the E. Salinas street lighting activity. Except for the final one, all these projects are proceeding; the Phase 11 design work should be accomplished during the second half of the fiscal year. CDBG funds for CIPs were also carried forward from the previous year for ongoing projects. The "timely" expenditure of CDBG funds is a staff goal each year due to the particular attention HUD pays to this factor when evaluating local programs. As of December 31, the City's rate of expenditure was ahead of schedule, and, staff anticipates no problem meeting the HUD quota by the end of the fiscal period.

Public Services: A total of 24 area agencies (including two City activities) share \$415,000 in CDBG public services funding this year. Public services activities have been proceeding as anticipated except for the \$10,000 allocation to the Women's Crisis Center. Due to the shortfall in program income (see above), staff is not yet recommending reallocating their funding to another agency. As Congress has just approved appropriations for HUD programs for 2008-09, staff does not yet know the amount that will be available for public services activities in the coming fiscal year. Staff plans to have the final public services funding amount by late February in order to meet with the Council's Public Services Funding Subcommittee.

ESG: Emergency Shelter Grant funds (totaling \$110,004) are allocated to four non-profit agencies that seek to reduce homelessness through the provision of shelter, counseling, community education, and other supportive services. These programs are underway and proceeding according to budget; we anticipate all 2007-08 funds will be expended by year-end.

Housing- Block Grant and HOME Funds

As noted above some 60% of 2007-08 CDBG funds were allocated for housing activities, as well as 100% of the HOME funding. The Housing and Community Development (HCD) Division is almost completely funded by the HUD grants. Of the ten authorized staff positions, 9¼ are funded by HUD, as well as all other administrative expenses. One Community Improvement Assistant position is not being filled at this time. The Rehabilitation Specialist position became vacant in December 2006; it was filled at the beginning of this fiscal year.

One existing project received additional funding and 2 new major housing projects were allocated funds this fiscal year: First Community Housing, a non-profit housing developer, received an additional \$760,000 (HOME) for the Gateway Apartments project planned for Lincoln Avenue; CHISPA's planned "Wesley Oaks" was allotted \$500,000 and INTERIM's 18 unit replacement project on Sun Street was earmarked for \$500,000 (CDBG).

Housing rehabilitation loan and grant programs continued to operate this year. During the first half of the year, work was completed on eight housing projects (3 single family rehabs and 5 accessibility assistance grants) where construction began during the prior fiscal year; seven additional projects are under construction now.

Five housing projects had loan/grant signing before the end of December. In addition, five projects are out to bid; two projects are in process at this time (i.e., inspections, work write-ups, building plans). Staff is also processing seven loan/grant applications (i.e., employment/deposit/mortgage verifications, credit reports, title inquiries) prior to moving on to the inspection/bidding process.

Other activities include administration of inclusionary housing and second dwelling units. The process to increase inclusionary percentages and expand unit targeting should be completed late this spring with Council adoption of necessary fee schedules for the inclusionary program. Two tests of the new process will occur over the next several years: the development of the Future Growth Area and the reaction of the lending community to equity sharing in light of tightening credit standards resulting from the sub-prime mortgage fiasco.

For the second year in a row, the City successfully applied for the State's Workforce Housing Reward Grant program; the \$247,000 will be used to assist in the development of the new Aquatic Center at Sherwood Park. It is anticipated that this will be the final year for the Workforce Housing grant program, as the State will no longer have money to fund it. The passage of Proposition 1C in November 2006 is providing additional funding for housing in California, however, the State's guidelines for the "transit oriented development" portion of that money restrict its use to only 25 areas in California, and Salinas was not included. Draft Guidelines for a separate, larger portion of Prop 1C funds were released December 26. Staff is reviewing these to see if projects in Salinas may be eligible.

Housing-Redevelopment Agency

Low and Moderate Income Housing Funds

The estimated Low and Moderate Income Housing unappropriated fund balance at the end of the Agency's two-year budget cycle, June 30, 2009, is estimated at \$2,378,100, with Central City reporting \$1,277,600 and Sunset Avenue reporting \$1,100,500. In FY 06-07, the Agency committed \$2,029,900 for acquisition of property for the Division Street development. In addition, the Agency has set aside Low and Moderate Income Housing funds for Soledad Street Housing (\$1,409,800), and set aside \$191,400 to support potential property transfers at the 50-unit, single family, owner occupied Farm workers Housing Program in Williams Ranch.

Tynan Village

The Housing Authority of the County of Monterey has initiated construction of the largest infill residential/mixed use project in the history of the Central City Redevelopment Area. The 175-unit, multi-family apartment project is anticipated to be partially completed in 2008, and at least one-half of the units will be affordable to low and very-low income families. Approximately 10,000 square feet of commercial retail space will also be provided in the development, offering residents conveniently located neighborhood retail services. The

Housing Authority indicates that additional local housing funds from the Agency will be necessary to complete construction and the request will be brought to the Agency for consideration in this budget year.

Lincoln and Market Street Housing (Gateway Apartments)

During August 2005, the Agency approved a \$910,000 loan from the Central City Low and Moderate Income Housing Fund to First Community Housing to acquire property prominently situated at the intersection of Lincoln Avenue and West Market Street, for a future affordable housing development. With the new Zoning Code approved the "Gateway Apartments" project, which would provide 50 affordable housing units for the developmentally disabled, has been approved and its building permit application has been submitted. . It is expected that First Community Housing will make additional requests from City HOME and Redevelopment Housing funds of approximately \$2,000,000 as local match funding, with project construction anticipated to start in early 2008.

Soledad Street Affordable Housing

The Agency has set aside \$1,596,400 of Central City Low and Moderate Income Housing Funds to assemble land to provide a location for a low-income senior housing development in the Soledad Street area. The Agency has completed acquisition of several more properties on Soledad Street, which now offer a potential development site of approximately one acre, located at the southeastern corner of the Lake/Soledad Street intersection.

LIBRARY

Measure V

The Salinas Public Library is funded by \$3.7 million of Measure V funds. This provides a total of 117 hours of public service Tuesday through Saturday at the John Steinbeck, Cesar Chavez and El Gabilan libraries. In addition, about \$825,000 of one-time Measure V funds is allocated for library improvements (roofs, bathrooms and computers), along with \$50,000 for community planning, and \$250,000 for library improvements with a commitment of an additional \$750,000 for library improvements over the next three-years, if funding is available.

Other Funding

Library developer fees totaling \$1.2 million have been collected and are available for the expansion of Cesar Chavez Library. Additional funds available in the Library budget include \$220,100 of Rally Salinas funds, and donations of \$20,400 for literacy, and \$60,535 for general programs. The State allocates public library funds annually for library operating and capital requirements with \$110,600 currently available. The Friends of the Salinas Public Library have \$21,100 collected, and an addition \$9,000 committed for 2008.

Grants

The Library received \$16,700 from the Harden Foundation and the Community Foundation of Monterey County for a Homework Center at the Cesar Chavez Library. Two grant applications are being submitted in January 2008: \$60,000 to the Community Foundation of Monterey County for literacy programs, and about \$500,000 to the Institute for Museum and Library Services for a Library Centennial program in collaboration with the National Steinbeck Center.

Reorganization

A review of the organization and positions has been completed. The following adjustments are required:

1. Add two Deputy Librarians and eliminate one Administrative Manager position and one Senior Librarian position. Cost is \$8,000 for FY 2007/2008. Annual cost is \$19,100.
2. Convert one Grant writer position to Senior Librarian (Program Manager for all libraries). Cost is \$5,550 for FY 2007/2008. Annual cost is \$13,300.
3. Convert one Part-Time Temporary Librarian position to Part-Time Permanent Librarian. Cost is \$4,750

for FY 2007/2008. Annual cost is \$11,400.

These budget requests can be absorbed for the five months remaining in FY2007/2008 (cost \$18,300) with allocated Library contingency funds (\$54,600). Annual cost of \$43,800 will be included in the Library's 2008-09 Measure V Budget.

Sunday & Monday Hours Open

Learning takes place every day. The Library is requesting funding to open Sundays and Mondays in order to offer literacy and reading programs every day to the residents of Salinas to support the City goals of a City of Peace and a Culture of Literacy.

Improving literacy and reading is directly related to the development of a safe and peaceful community. Low literacy is strongly related to crime, unemployment, poverty, and, of course, educational achievement.

"Investing in literacy is an effective crime prevention strategy" states Burt Galaway in his article titled Without Literacy There Can be No Justice (1997). Studies show that early prevention strategies that include literacy can help to reduce risk factors such as poverty, unemployment and isolation that can lead to crime. Early literacy and family literacy programs are an integral part of any crime prevention and safer community strategy.

The Home Safety Council released the results of a National Assessment of Adult Literacy in 2005 that found that "adult low literacy is a barrier to public safety." Everything from disaster preparedness, prescription dosages, using smoke alarms, warning labels on poisonous products, and road signs depends on the ability to read.

The annual cost of two additional days at the three public libraries is \$557,000. This includes the addition of two full-time clerks, three part-time clerks; two full-time librarians, three part-time librarians, and utilities, maintenance, supplies and materials. To implement a seven-day schedule, the Library requires 3 months lead time to recruit, hire, and train new personnel.

Staff presents this information for consideration with the development of the 2008-09 Measure V budget.

POLICE DEPARTMENT

Federal Anti-Gang Grant

Original federal funding of \$3.1 million was approved beginning March 27, 2005. The funding supported a Countywide task force comprised of a commander, sergeant and four officers from the Salinas Police Department, a sergeant and four deputies from the Monterey County Sheriff's office, two Probation Officers, a Deputy District Attorney and a position to provide administrative support and a Crime Analyst. The funding provided for required equipment, such as vehicles and computers. In January 07, the California Highway Patrol assigned two officers to the task force, fully funded by the State budget.

The federal funding (\$3.1 million) for the Gang Task Force was exhausted by the end of 2006.

The second year federal funding of the countywide task force was approved at \$500,000. The city's portion of the grant was \$209,604. These funds were used in 2006-07.

The City Council (based on the recommendation of the Measure V Committee) approved \$1.1 million to fund the City's portion of the Joint Gang Task Force in 2006-07. The Measure V Committee recommended and Council approved \$1.2 million to fund year three of the City's portion of the Joint Gang Task Force in 2007-08.

On January 18, 2007 the County Budget Committee approved up to \$1.0 million to fund their portion of the Joint Gang Task Force to June 30, 2007.

An "earmark" of almost \$1.7 million in federal funding (year three) for the local gang initiative was secured late in 2007 through the efforts of Congressman Farr and Senators Boxer and Feinstein. Funding is not officially approved, although it is estimate that the Monterey County Task Force will receive \$1.3 million (Monterey

County \$700,000 & City \$400,000). Additional funding includes Juvenile Justice Challenge (\$267,900) and the Silver Star program (\$430,000).

Community Safety Program (SUBA COPS)

During May 2004, the Salinas Redevelopment Agency amended its Implementation Plan adding a policy providing for redevelopment-funded community safety initiatives within the Sunset Avenue Redevelopment project area. In order to provide a continuing positive force for economic development in the project area, the Agency's 2007-08 budget provides \$296,200 to fund fifty percent of the costs of four police officers. An additional \$145,400 comes from measure V funds, used to fund Community Service Officers (CSO's) to staff the mobile command vehicle.

The first two officers were assigned full-time duties in the redevelopment area on October 25, 2004. The third and fourth officers will not be assigned until staffing levels allow for their transfers.

Mobile Command Station (Vehicle)

The mobile command station was delivered in June of 2006. The vehicle is being utilized in the SUBA district and various other locations throughout the City. As officers and CSOs have been trained in its deployment, usage of the vehicle has increased. The vehicle is currently being used approximately four days a week.

Traffic Safety Program

The State Office of Traffic Safety funded overtime and equipment for a DUI program again this year. The Monterey County Avoid the 18 Campaign received \$119,700 for 2007-08. The overtime is to provide traffic patrols and checkpoints aimed at DUI drivers and to encourage the use of passenger restraint devices.

Towing Franchise Fee

The Tow Franchise Service Agreement (TFSA) was adopted by Council in April 2005 and took effect on July 1, 2005. The ordinance regulated the maximum number of allowable tow companies to 7; however, it stipulated that the 10 companies on the rotation list could remain until the number reached 7 through attrition. The City receives \$150,000 annually adjusted by the CPI each year. Revenue for towing franchise fees in 2005-06 was \$150,000. Revenue for towing franchise fees in 2006-07 was \$153,000. Revenue for towing franchise fees in 2007-08 is \$157,896. Each of the 9 remaining tow companies paid \$17,544 in 2007-08 (\$157,896 divided by 9).

Police False Alarm Fee

The fee for false alarms was raised in FY 05-06. False alarm fees collected in 2004-05 totaled \$20,754, fees collected in 2005-06 totaled \$214,319 and fees collected in 2006-07 totaled \$329,323. In reference to 2007-08, false alarm fees collected as of November 30, 2007 are \$80,100, an 83% decrease as compared to this time last year. The intended purpose of the false alarm fee is to reduce false alarm responses by police officers. This has been accomplished as the false responses totaled 4,532 in 2005, 4,072 in 2006 and approximately 3,500 in 2007.

Other Police Grants

The California Department of Alcohol and Beverage Control awarded a grant in the amount of \$38,740 to conduct a series of minor decoy operations, shoulder tap operations, impact inspections, and bar identification checks. The grant funded overtime to run the operations. Six operations have been run to date with ten more operations pending. 54 establishments and people have been contacted and have resulted in seven citations and two arrests.

The Bureau of Justice Assistance awarded \$22,676 to support teaching of Gang Resistance Education and Training (GREAT). This was 90% federal money and a 10% local match. This curriculum is taught by the School Resource Officers to approximately 1,500 6th grade students. The funds were carried over from FY 06-07 and approximately \$15,000 has been expended. The department has applied for another grant in 2008 for a total request of \$25,000.

The Bureau of Justice Assistance Edward Byrne Memorial Justice Assistance Grant awarded \$95,438 to the City of Salinas and Monterey County to fund frontline law enforcement services. 70% of the funds were distributed to the City of Salinas and 30% went to Monterey County. The funds distributed to the City of

Salinas were allocated for the purchase of patrol vehicles and associated required emergency equipment. Revenue from this grant has not yet been received.

The US Department of Justice funded the COPS 2005 Technology Grant in the amount of \$197,239. The funds are designated for a digital mug shot system and facial recognition upgrade. The contract with the vendor has been secured and the project is scheduled to begin in January.

The State Office of Emergency Services extended the NIBIN Project Expansion grant through May 8, 2008. This grant (\$94,000) provides for an IBIS Entry Technician and a ballistic trap box to improve ballistic identification.

Police Warehouse Lease

The Salinas Police Department formerly rented two warehouses at the former Tynan Lumber Yard property since 2001. The warehouses provide secure storage for evidence, seized property, undercover vehicles, found property, police vehicle supplies, office furniture and a variety of other property. Redevelopment of the Tynan property required an alternate site. Warehouse space on Dayton Street has been used at an annual cost of \$48,600. Costs include base rent of \$43,200 and insurance and property tax of \$6,000.

Funds are included in the City's current capital improvement program to have a police warehouse built on City property next to the Salinas Animal Shelter so that rental charges can be avoided in the future.

On-line Auction Services

The City has contracted with an on-line auctioning service to liquidate unclaimed and excess property.

Police Cadet Program

Last mid-year, Council approved establishing a Police Cadet Program. The Salinas Police Department faces a significant problem attracting an appreciable number of qualified police officer applicants. This problem is not only faced by the City of Salinas, but by many law enforcement agencies through out the State of California. An effective measure to potentially increase the number of qualified police officer applicants is through the implementation of a Police Cadet Program. A Police Cadet Program allows young men and women from the community the opportunity to work in an "apprenticeship" position that prepares them for a career as a police officer. In addition, a Cadet Program allows the department to develop and evaluate the Cadet's potential to become a full-time police officer. The idea of introducing such a program in the City of Salinas is that it will be a continuous resource pool from which full-time officers may be drawn.

The General Fund 2007-08 budget for the Cadet program is \$113,600 and includes salary and uniforms for eight Cadets. Four Cadets have been hired and background investigations are in progress for several more.

Purchase of a Crime Scene Investigation Vehicle

Last mid-year, the Measure V Committee recommended and Council approved that \$225,000 of Measure V one-time carryover funds be allocated to purchase a Crime Scene Investigation Vehicle.

Equipment used by the CSI investigators was divided among several vehicles, with most of the heavy equipment stored and used in the 1985 Suburban (109,000 miles) recycled several years ago from the Fire Department. Court mandates and developing technology continually add to the type and amount of equipment utilized by the CSI investigators. The dedicated CSI vehicle allows for all the technical equipment needed to process crime scenes in the most professional manner to be accessible in one vehicle, along with lighting and other technical support. The vehicle was completed in October and is currently in use.

Replace Two (2) Animal Control Trucks and Cage Units

Last mid-year, the Measure V Committee recommended and Council approved that \$65,000 of Measure V one-time carryover funds be allocated to replace two (2) Animal Control Trucks and Cage Units.

The three animal control vehicles had over 200,000, 130,000 and 100,000 miles. The two highest, mile vehicles were in extremely poor condition. The department has taken delivery of the two new vehicles. Future requests for replacement of the one remaining vehicle will follow in coming budget cycles.

FIRE DEPARTMENT

Fire Prevention / Disaster Preparedness

The new Battalion Chief / Fire Marshal position, funded by Measure V, has been filled. The new City Fire Code has been adopted, and became effective January 1, to coincide with the new State Fire Code. The Fire Marshal has commenced fire investigation training for suppression and prevention staff. Engine company inspections will commence in 2008, with personnel identifying and organizing the target hazard properties within the City.

The new Battalion Chief / Fire Marshal position also acts as the City Disaster Preparedness Officer. The City has completed and adopted the Monterey County Multi-Jurisdictional Hazard Mitigation Plan. This Plan, in concert with the recently adopted City of Salinas Multi-Hazard Functional Plan, identified six priority hazards to the City. The Disaster Preparedness Officer will begin the process of developing mitigation measures for hazards from flood, dam failure, tsunami, earthquake, wind, and Hazardous Materials transportation. Having the mitigation measures identified and the project costs estimated in advance of a declared emergency will provide better opportunity for accomplishing the projects with State and Federal funds. The City of Salinas Emergency Operations Center (EOC) equipment, the alternate EOC location and staffing have been identified. Refresher EOC training will be given in 2008.

False Fire Alarm Fees

The False Fire Alarm Ordinance change initiated in 2005-06 is accomplishing the goals established by the Fire Chief. However, some property owners with malfunctioning alarm systems are opting to pay the fine instead of repairing the fire alarm system. The department is researching options to address non-compliant property owners.

False alarm fees collected in 2005-06 totaled \$45,500 and fees collected in 2006-07 totaled \$30,260. In reference to 2007-08, false alarm fees collected as of November 30, 2007 are \$9,740, a 77% decrease as compared to this time last year. The intended purpose of the false alarm fee is to reduce false alarm responses by fire personnel.

Hazardous Materials Program Fees

The Fire Department's Hazardous Materials Control Program operates to effectively control and initiate mitigation of hazardous materials emergencies to protect life, property and the environment. In 2007 the department's Haz-Mat Team was increased from 15 to 18 team members. Team members received specialist level training, which was funded by State OHS grants along with RS-1 (Rescue Systems I) training that was funded by Homeland Security Grant funds. This additional training allows the Hazmat Team to assist the Operational Area Urban Search and Rescue Teams and enhance the team's capabilities.

The 2007-2008 program budget of \$125,300 previously funded by the City's General Fund, is now fully funded by a surcharge levied on Monterey County's Hazardous Materials permit fees and disbursed pursuant to a MOU dated July 7, 2004 between the County of Monterey, City of Seaside, and City of Salinas. Staff anticipates that the program costs will continue to be adequately funded by the surcharge. All Hazmat responses that met the criteria for cost recovery were collected and returned back to the City of Salinas. Fire Department staff met with San Benito County to consider commencing an agreement of response and training. San Benito County has agreed in concept, however we are waiting for a response from San Benito County as to the funding amount that will be provided from their County Hazardous Materials permit fees and surcharges.

Homeland Security Grant Program

In 2007, the Salinas Fire Department received several grants through Homeland Security, OHS and OES totaling \$ 412,877.47. \$1,300,000 has been awarded over a three-year period: \$375,000.00 (2007); \$480,000.00 (2008); \$480,000.00 (2009) for the purchase and completion of a Mobile Communication/Command Vehicle that will serve as a back-up system to the 911 Emergency Communications Center with reverse 911 capabilities. This vehicle will be critical resource to the City of Salinas, tri-county area as well as the state in a time of emergency. This unit will provide the most current and advanced communication capabilities available.

Grant Funding has significantly reduced the City's cost of attending training programs in the amount of \$37,877.47 for 2007.

Emergency Operations Center Communications System

Specifications are complete for a portable satellite communications system that will enable the City's Emergency Operations Center to maintain basic radio and telephone communications if necessary. This system can also be deployed in remote locations if necessary, depending on the operational status of the primary EOC. Staff expects acquisition and delivery of this equipment in the spring of 2008, which a large-scale multi-discipline EOC drill to follow. Currently this project is within the allocated budget.

Office of Traffic Safety (OTS) Grant

In 2007, the department received a fully funded grant of over \$55,00.00 from the California Office of Traffic Safety (OTS), through the National Highway Traffic Safety Administration for vehicle extrication rescue equipment (Jaws of Life). This grant will replace aging rescue equipment as well as equip two additional fire department units. The department will have five units equipped with rescue equipment.

Portable Radio Grant

In June 2006, the Salinas Rural Fire District in conjunction with 23 other Monterey County fire agencies including the City of Salinas Fire Department, collaboratively applied to the U.S. Department of Homeland Security for funding from the Assistance to Firefighters Grant program (AFG) for the purchase of federal mandated narrow-band/P-25 compliant digital portable radios.

The department has received the portable radios from this grant and has assigned a radio to each firefighter as part of their assigned safety gear; this is a new recommended safety practice for the fire service. The new portable radios have the ability to identify personnel working in hazardous environments as well as identify incapacitated firefighters that may be in need of assistance. The incident commander as well as the dispatcher seated in the 911 Center could receive distress calls, pertinent I.D. information, and location data of a trapped or injured firefighter displayed on a console right in front of them.

Assistance to Firefighter Grants (AFG)

The Salinas Fire Department applied for and received an AFG Health and Wellness Grant through the Department of Homeland Security. The grant will allow the department to implement a comprehensive wellness/fitness program that will improve the health of fire department personnel. This grant is an 80/20 percent grant that totals \$155,508.00, Federal share \$124,406.00 (80%), City of Salinas share \$31,102.00 (20%).

This grant will allow the department to establish a wellness/fitness program (International Association of Fire Chiefs and Firefighters approved) to reduce firefighter injuries and deaths through health strategies that will minimize potential risk factors associated with firefighting. The wellness/fitness program will cover immunizations, baseline physical exams, the purchase of exercise equipment and the development of a formal fitness and injury prevention program.

Training

The Fire Training Division is responsible for providing initial and ongoing training to members of the Salinas Fire Department. This is a requirement of the State Fire Marshals Office and Cal-OSHA. We are currently in compliance. Calendar year 2007 was a very active and progressive year in the Division of Training.

The Division of Training in 2006-2007 completed two 14-week Fire Academies for 27 recruits. All recruits have completed their training and are active full-time Firefighters. The training hours and manipulative exercises in hours to accommodate this finalization of a recruit to Firefighter are in the thousands.

The Division of Training logged 25,580 hours of training for department personnel in the calendar year 2007. In addition the Training Division hosted three State Fire Marshal approved classes, two countywide fire safety/operational tactical classes, two forty-hour regional truck academies, and three major multi-discipline exercises under Homeland Security Grant Funding for Chemical, Biological, Radiological, Nuclear, Explosive (CBRNE) Task Force program. All associated costs were recovered through Homeland Security Training and Exercise funding (re-imbusement) or tuition fee's collected.

The Division of Training continues to provide public education "pro bono". This year over 3,000 hours were provided to: Dole, Fresh Express, Ammonia Safety Generators, Taylor Farms, Salinas Valley Hospital, Natividad Hospital, American Red Cross, Private Citizen Groups (AED, CPR training), League of Churches, Presbyterian, Baptist and Catholic Churches, YMCA, and WestMed Ambulance Company.

The Division of Training also provided City, County, State and Federal agencies with over 2,000 hrs of mandated training in EMS, Hazardous Materials, CBRNE Disciplines, Communications, SIMS, NIMS, AWR 160, ICS, Fire and Wildland training. Recipients of this training include: Salinas Police Department, Salinas Public Works, City of Salinas (Blood Bourne - Pathogen/exposure Policies), State OES, City and County EOC, Salinas Rural Fire Department, North County Fire Department, Monterey City fire Department, Seaside Fire department, Marina Public Safety, Mid – Carmel and Carmel Valley Fire District, Monterey County Sheriffs Department, all South County City Fire and Police Departments, Monterey County EMS, Navy Post Graduate School, San Benito County, and CAL-Fire.

In 2007 the Division of Training updated and improved its data collection for tracking and accountability of personnel training hours and certifications. The department has also implemented a new online fire department training program (Target Safety) that will make available training courses as well as tracking training hours. Target Safety online training has enhanced the department's ability to train by allowing courses to be taken at the station, from home or wherever an Internet connection is available. This will eliminate some of traditional training on a fire schedule. In addition, the improved data collection/tracking and use of Target Safety will ensure State Fire Marshall and OSHA compliance.

Vehicle Maintenance Budget

Mechanical failure of fire apparatus continues to plague the Maintenance Division. In anticipation of continued maintenance issues, a catastrophic account of \$40,000.00 was established in 06/07. This account has greatly enhanced the ability to keep our apparatus on the road. Year to date expenditures from the catastrophic account are approximately \$10,000, however due to the mileage of our apparatus and age, the Maintenance Division predicts mechanical failures will continue to occur. The Maintenance Division currently has three major projects that will utilize the remaining \$30,000 from the catastrophic account: HME sub frame replacement; HME front and rear spring replacement and Patrol 5335 pump and tank replacement.

Fire Emergency Vehicle Replacement

The fire department will receive the two Measure V funded equipped command vehicles (SUVs) in January 2008. These vehicles are currently being outfitted with necessary radio and emergency lighting equipment. Unfortunately, there was a delay in receiving and equipping the command vehicles due to a RFP dispute. Based on language included in the bid document, it is estimated that approximately \$6,000 will be saved due to contractor delays in delivery.

The department took possession of two new Pierce Quantum pumpers. The pumpers were placed in-service at stations two and four in May 2007 and were within the General Fund allocated budget.

The department took possession of the new Measure V funded Pierce Wildland unit in August 2007. The Wildland unit has been equipped and assigned to station five and was within the \$285,000 allocated budget. The Wildland unit will enhance the department's Wildland firefighting abilities in the Wildland-urban interface areas within the city limits. These areas include the Natividad Creek Park, Cesar Chavez Park, and various locations within the Creekbridge I subdivision, the south Salinas's area surrounding the Salinas Municipal Airport and the Moffett Street business areas, and the initial attack responsibility areas in agricultural fields and Gabilan Mountain Range.

The addition of the new apparatus to the department's fleet will greatly enhance emergency operations and safety of fire department personnel; however, four first line HME pumpers are quickly reaching 75,000 miles range. The Maintenance Division is predicting all units will have 100,000 miles within four years, based on current monthly mileage reports.

Rescue Unit Replacement

The Salinas Fire Department is in need of replacing a 1997 Ford F-350 Rescue unit. The rescue unit is the second busiest unit in the tri-county area running over 2,100 emergency calls a year. Unfortunately, the call volume has taken its toll on the unit. Today, the unit has in excess of 75,000 miles and has proven unreliable recently.

In calendar year 2007, the rescue unit has been out-of-service for weeks at a time due to major repairs and the lack of part(s) availability. In addition, the wear and tear has broken down the suspension to the point where the ride has caused injury to fire personnel.

On January 14, 2007, staff requested the Measure V Committee consider funding a new multipurpose rescue/ambulance unit for \$200,000. The multipurpose rescue unit will still carry firefighting/rescue equipment, however, the new unit will have the added capability to transport patients. By purchasing a multipurpose rescue unit, fire department personnel will have the ability to transport fire or police personnel and residents should there be a need. This will eliminate the need to depend on the current ambulance service provider at emergency scenes. In addition, fire department personnel could have the ability to serve as a backup ambulance to transport residents to the hospital, in major emergency situations.

At year-end, once Measure V 2007-08 carryover funds are determined, the Measure V Committee will consider recommending that Council approved the replacement of the rescue unit with Measure V funds.

Modifications/Repairs to Fire Stations

A dividing wall was built in the dormitory at Station 1 to provide women's quarters. The women's restroom remodel is completed.

DEVELOPMENT AND ENGINEERING SERVICES (DES) DEPARTMENT

ADVANCE PLANNING SECTION (CITY HALL)

Future Growth Area

Advance Planning staff of the Development and Engineering Services (DES) Department continued to work actively and cooperatively with the property owners, development interests, and City's environmental consultant, John Bridges of EDAW, to prepare the required documents to amend the City's Sphere of Influence (SOI) and Annex the Future Growth Area (FGA). The area is located north of East Boronda Road, generally between San Juan Grade Road and Williams Road. In October of 2006, City Council acknowledged that the scale and complexity of the SOI Amendment, Annexation, Specific Plans and necessary CEQA documentation required dedicated resources beyond those available by permanent City staff and authorized an agreement with the Sausedo Company to provide full time consultant services to manage and coordinate this significant planning process. The new development/future growth area teams fund these services.

During the last half of 2007, the Supplemental Environmental Impact Report (SEIR) and Plans for Providing Public Services and Public Facilities/Fiscal Impact Analysis was completed and circulated for public review and comments. This process was completed, responses were provided for the comments received, and the SEIR was formally considered and recommended for approval by the Traffic and Transportation Commission and Planning Commission in November. City Council considered and approved/certified the SEIR, thereby allowing the SOI and annexation to be submitted to the Local Agency Formation Commission (LAFCO) for formal consideration. The formal application was submitted to LAFCO staff on December 31, 2007, and is currently being reviewed by LAFCO staff to determine completeness status. Consideration by the LAFCO Board is expected to occur in March 2008.

Within this Future Growth Area, City Council has authorized the property owners and development interests to

prepare the required Specific Plans to identify land uses, infrastructure requirements, and development standards that will govern these areas. Three Specific Plans are currently being prepared for the West Area (San Juan Grade Road to Natividad Road), the Central Area (Natividad Road to the extension of Constitution Boulevard) and the East Area (Constitution Boulevard to Williams Road). Administrative Drafts of these plans are anticipated to be submitted in the next few months, and staff's focus will turn toward completing these plans and coordinating the formal processing of said plans. The City is responsible for the CEQA compliance for the specific plans and will prepare the EIRs through the consultant services agreement with EDAW.

The Future Growth Area project has been established as a property owner financed Capital Improvement Project. Funding agreements have been authorized with the majority of the property owners to fund the consultant services and City staff costs. Those agreements are being updated by staff to address additional property owner involvement and additional costs required to complete the environmental documents. Those agreements are expected to be completed and finalized in January/February 2008.

South Boronda Area/Nestech Development

The approval of the Greater Salinas Area Memorandum of Understanding (GSA-MOU) between the City and the County in August 2006 opened the door for the Boronda Meadows Business Park, which is located west of Davis Road, north of the UPRR tracks, east of Boronda Road, and south of the Boronda Area. The Rossi Street Extension will be the primary access/street to serve this new development area.



The project proponent, Nestech Management Group, Inc., filed applications with the County of Monterey to develop a proposed business park on said land, and City staff is working in partnership with the Monterey County Resource Management Agency's Planning staff and development team to process the project. The development proposal includes commercial, office, and mixed-use components with approximately 298,000 square feet of building area and 96 condominium units. The most westerly portion of the development, located west of Markley Slough, will consist of a residential subdivision with single-family lots/homes and condominium/higher density residential units. The project also includes the City's 8.7-acre park site located west of Davis Road (which has been leased for farming) and a significant alteration and wetland restoration of Markley Slough and along the Monterey County Reclamation Ditch.

The developer enlisted the services of RJA this past year, a local engineering/planning-consulting firm, who are addressing many of the development and infrastructure issues associated with the development, and progress has been very good since their involvement in the project. As agreed to in the GSA-MOU, the County of Monterey is the lead agency for the planning, development review, and planning-level approval processes; subject to concurrent City review to assure that the project is consistent with City standards and General Plan Policies/Zoning Code requirements. This is necessary because the final actions will be to annex the project into the City before actual construction of the project. DES staff is working collaboratively with the applicant,

the development team and consultants, and Monterey County Planning, Public Works, Water Resource Agency, and Redevelopment staff to ensure that the proposed General Plan Amendment, Specific Plan, CEQA evaluation and associated actions will be in the community's best interest. Staff expects the environmental work and Specific Plan to be prepared and the project processed in 2008.

Western Bypass

The Nestech proposal highlights the necessity of commencing planning efforts for the Western Bypass. Development and Engineering Services (DES) staff initiated discussions with Monterey County Public Works staff regarding the development of the Project Study Report (PSR) for this regional transportation facility. Some very general alignments have been identified to determine likely limits of the Bypass, and staff expects to work with the County to hire a consultant to prepare the PSR. It is anticipated that neighborhood meetings involving both City and County staff to gain public input on this facility will occur in the latter part of 2008. The City's basis for discussion regarding the Westside Bypass is the City's adopted General Plan. The City's adopted alignment does not directly impact the Nestech proposal. The Western Bypass is also included in the Transportation Agency of Monterey County's (TAMC's) proposed Regional Traffic Impact Fee Program and the existing Salinas Traffic Fee Ordinance program.

Rogge Commons

In support of another City-Centered Growth initiative, DES staff contracted with Pacific Municipal Consultants (PMC) to provide technical assistance to prepare a Sphere of Influence Amendment and Annexation application to incorporate the 12.5-acre, 171-unit affordable housing proposal into the City limits. The planning/environmental work is now complete, and ready for application to LAFCO for consideration. The planning-level entitlements and building permits have been approved/issued by the County of Monterey, the project broke ground this past spring, and is approximately 30% constructed. The project site lies on the northeast corner of San Juan Grade Road and Rogge Road. Consistent with our agreements with the County, City staff reviewed the project plans to ensure general conformity with City standards. Public street improvements are complete along San Juan Grade Road and Rogge Road.

Bolsa Knolls Community Outreach

In December of 2008, City staff, Mayor Donohue, Councilmembers Lutes and Villegas, County Supervisor Calcagno, and County staff met with Bolsa Knolls Area residents to discuss the Future Growth Area development proposal, the Rogge Commons development/annexation, and receive input regarding the possible interest of area residents to annex into the City. After a lengthy discussion and question-answer period, the vast majority of residents indicated their desire to remain in the County and not be included as part of the City. This community outreach was coordinated between the City and County, and fulfilled a City obligation as identified in the GSA-MOU.

Hartnell College East Campus

DES staff continued providing planning and engineering support and assistance to develop Hartnell College's East Campus. The first phase is for a small classroom facility that has cleared the environmental process. Staff will continue working with the College and their development team to review and approve the project components as development occurs, and also address land-use elements of the plan to ensure a coordinated development with the Salinas Airport.

Fresh Express Expansion

The Fresh Express expansion proposal has recently been re-initiated. Current Planning staff is taking the lead on this development proposal, and has contracted with Nichols-Berman to complete all applicable environmental studies, prepare the CEQA document, and prepare the project's Specific Plan. DMH Planning was also hired under a planning services contract to help process the application in a timely manner. The proposal incorporates roughly 22.4 acres into the City to accommodate a 285,000 square foot facility

expansion; including 105,000 square feet of food processing; 157,500 square feet of cold storage; 20,000 square feet of administrative offices; and employee parking, truck staging and loading facilities. The project should be considered by City Commissions and Council in fall 2008.

Uni-Kool Development

The GSA-MOU acknowledges the future incorporation of the Uni-Kool properties located south of the current City limits, just north of Harris Road and generally south of and adjacent to Abbott Street. The incorporation of these properties would expand the City by approximately 245 acres and be used for the exclusive purpose of enhancing the City's agricultural processing capacity and ag-related businesses/uses, subject to the establishment of agricultural conservation easements. Staff anticipates that formal applications will be submitted in the first quarter of 2008 for processing the appropriate CEQA document, Specific Plan, General Plan Amendment, Zoning, and related documents/entitlements.

Zoning Code Update / Subdivision Ordinance Update

Following a considerable public outreach and participation process, the City Council adopted the update to the Salinas Zoning Ordinance in November 2006. The new zoning regulations implementing the Salinas General Plan became effective on December 7, 2006, and have been used this past year (2007). During this time, staff has been monitoring the success and challenges included in the Code, and will process a Zoning Code Amendment in the latter half of 2008 to clean-up certain portions/regulations that are proving problematic, and modifying as appropriate to address and meet the requirements and vision created by the Salinas General Plan. This endeavor will include public outreach to the business-development group as was done during the development of the Code.

An additional task to be accomplished in the first half of 2008 is an update to the City's Subdivision Ordinance (Municipal Code Chapter 31). The General Plan anticipated that this task would be accomplished in late 2005. Unfortunately, staff resources and budgetary constraints inhibited the timely completion of this task. DES staff initiated this task in fall of 2007, hired outside legal counsel (with Legal's assistance) to assist with this endeavor, and the new Code should be completed by July 2008. The draft document is 75% complete at this time, but will require significant discussion and consideration of Quimby Park Land Dedication requirements associated with New Urbanism development.

Carr Lake and the Regional Watershed

DES staff is working with the City Manager's Office, Legal Department, and Maintenance Services Department with regard to Carr Lake issues to ensure the most appropriate watershed management practices are implemented in (and above) the area known as Carr Lake. Although limited actions have been taken with regard to Carr Lake, the area does hold opportunity related to: flood control, water quality, active and passive recreational opportunities, and transportation needs. A conceptual plan for the development of Carr Lake Park was presented to and supported by the previous City Council, while the General Plan includes additional functions not identified in that plan that are necessary to serve the community. Staff will continue to work cooperatively with the Monterey County Water Resources Agency, Legal staff, other City departments, landowners, and interested community interests/partners to address regional concerns with regard to the improvement of the Reclamation Ditch, Gabilan and Natividad Creeks, and ancillary improvements that connect with the Carr Lake area.

CURRENT PLANNING SECTION (PERMIT CENTER)

Development Review

The Current Planning Section of the Development and Engineering Services Department is located on the second floor of the Permit Center, at 65 West Alisal Street. One of the primary functions of Current Planning is to review new development applications, ensure conformity with City Code requirements, and environmentally assess those projects subject to the California Environmental Quality Act (CEQA). Once the planning-level

permits are secured, planners then review building permit plans to ensure conformity with the planning-level entitlements and Codes. Said Section is currently staffed with 1 Planning Manager, 1 Senior Planner, 2 Associate Planners, 1 Assistant Planner, and 2 recently hired Planning Technicians. The Planning Technicians are currently being trained for their duties, and are expected to assist in the overall productivity of the Current Planning Section. The chart shown below identifies the various services provided by Current Planning staff during the six-month period from July 1, 2007 through December 31, 2007 (6 months).

CURRENT PLANNING SECTION (a.k.a. COMMUNITY PLANNING & DEVELOPMENT)	
Applications Processed July 1 – December 31, 2007	
Development Description	Number
Annexation	1
Building Permit Review	461
Conditional Use Permit	26
Environmental Impact Review	9
General Plan Amendment	0
Home Occupation	147
Large Family Day Care	13
Master Sign Plan	4
Miscellaneous	4
Planned Unit Development	3
Precise Plan Amendment	1
Preliminary Project Review	2
Resubdivision	10
Rezoning	1
Sign Permits	61
Site Plan Review	16
Second Dwelling Units	6
Temporary Use of Land Permit	53
Tentative Map	1
Variance	3
Zoning Code Amendments	0

As noted above, the Zoning Code Update became effective in December 2006. Thus, staff continues to receive and process applications under the new Zoning Code regulations, and has become much more familiar and knowledgeable of the new Code. The new regulations are based on the 2002 General Plan, which focuses development on New Urbanism and pedestrian-oriented principles. Current Planning staff is increasing its proficiency with the City's new Trakit Software, which was formally implemented in February of 2007. Staff is currently in the process of archiving all development-related permits and updating our database as appropriate to enhance our abilities to do research and create efficiencies in our operations while dealing with the development public over the phone or at the Permit Center counter. Staff is also starting to monitor application process times/actions using the Trakit system to ensure we are efficiently processing development proposals, and to identify steps in the process that are compromising the timely approval of projects.

The Current Planning Section continued to work cooperatively with the Engineering Services Section at the Permit Center to plan and map check residential subdivisions, most of which were located in the Monte Bella Planned Community/development area. Phases 1 and 2 of that Planned Community are complete, while Phases 3 and 4 are generally under construction and 60-70% complete. Staff is currently finalizing their review of the Monte Bella Community Park, which will be approved in January/February of 2008, and under construction this spring. Development is essentially complete in the Harden Ranch and Northeast Salinas development areas, while only minor development remains in the Creekbridge and Williams Ranch development areas.

During the past year, Current Planning staff worked on an 8-acre Boronda Square Shopping Center located in

the Williams Ranch Planned Community (at the Boronda-Sanborn intersection), and a new 92-unit Tresor Townhome development in the Williams Ranch Area (at the Sanborn-Buckhorn intersection). The shopping center's construction is mostly complete and occupied at this time, while the townhome project has yet to commence construction. Staff has worked with three separate developers over the past two years to develop this townhome project, but permits have yet to be issued to commence building.

In the Creekbridge development area, staff continued to work on the last remaining sites on new commercial development on the Creekbridge IJ site (located south of Constitution Boulevard and west of Gabilan Creek). The proximity of the development with respect to Gabilan Creek has necessitated the preparation of a biotic study as required by the Salinas General Plan, which has identified some potential plant species worthy of protection. A revised site plan and mitigation proposal is being developed to address that habitat, and final plan approval is expected to occur in February 2008.

The rezone of a retail site within the Creekbridge Area was also processed during this past year (located northeast of the Constitution-Independence intersection), approved by Council, but building permits have yet to be submitted for this development.

Finally, staff has been working with the developer of the Los Laureles Senior Housing Project, which is a 53-unit senior housing project located off of East Laurel Drive, roughly 2000 feet northwest of Sanborn Road. The planning entitlements for the project have been approved, and construction is expected to commence in spring 2008.

PERMIT CENTER ADMINISTRATION/PUBLIC COUNTER (PERMIT CENTER)

The Permit Center provides builders, developers, contractors and residents with a centralized location where building related permits are issued and code enforcement is administered. Permit Center staff is located at 65 West Alisal Street, and continued to work toward improving the plan review and inspection process as related to building permits. These improvements were initiated through the Salinas Valley Business Development Task Force (SVBDTF), a partnership between City staff and interested parties in the business and development community.

Likely the most significant project undertaken this past year at the Permit Center was the acquisition and implementation of the CRW "Trakit" permitting software program. Trakit has replaced the former permitting system that was used for over 20 years, and required significant manual processes. The Process Improvement Team (PIT Crew) first identified the need for new permitting software in 1996 as the Permit Center was being considered. This critical need was again identified in October 2003 when City staff and the local business community formed the SVBDTF to improve the development process. After considerable effort by the task force and City staff, the Trakit program was selected and Council approved the purchase in August 2006, implementation began in September 2006 and the initial "go-live" date occurred on February 16, 2007. E-Trakit (a program that allows contractors and design professionals to query the status and comments of their project, and also schedule building inspections) was implemented in October 2007, and has been well received by the business community. Additional aspects of Trakit will continue to be implemented as our understanding increases and additional needs identified.

Staff also implemented (with Council's approval and in consultation with the SVBDTF) a technology surcharge fee to fund the purchase and operation of said hardware and software. This surcharge, added to all development applications/permits, will re-pay the initial cost of implementing Trakit over a period of approximately five years. After the initial cost is paid back, the fee will be reduced to a level that provides for maintenance of the system.

All development-related sections at the Permit Center (Planning, Building, Engineering, Fire Prevention and Code Enforcement) are using the Trakit system to process projects, permits, inspections and code violations. We have realized more efficiency in our operations with the program, and expect further enhancements/efficiencies over the upcoming year. Most importantly, Trakit should provide additional tools to monitor permits and information that should translate into better customer service.

BUILDING PLAN CHECK AND INSPECTION (PERMIT CENTER)

Several vacant positions currently exist in these sections, including two (2) Combination Building Inspectors, one Senior Construction Inspector, one Senior Plan Check Engineer, and one Plan Check Services Manager. Plan review timeframes have generally been good, and the current workload has been moderate given the current economic challenges of the nation. To maintain acceptable building permit plan review turnaround times for major projects, most larger projects and several smaller projects have been contracted out, which has increased our consultant services costs. Further, one significant budget increase this fiscal year was new code books, reference manuals and training materials due to the adoption of new Building and Fire Codes by Council in late 2007. After years of delay, the State adopted a new Building Code, which became effective on January 1, 2008. Updated plumbing, electrical and mechanical codes were also adopted at the same time. Plan check services and the building inspection team are currently becoming familiar with the new requirements/codes to ensure compliance with these codes and ensure the safety of our residents. Building activity and incoming fees are roughly 30-40% above projections at mid-year.

CODE ENFORCEMENT (PERMIT CENTER)

The Code Enforcement Team is now currently staffed with one Senior Code Enforcement Officer who supervises the Section, four (4) Code Enforcement Officers, and one (1) Administrative Clerk. Two of these positions are funded with Measure V money. Council has identified code enforcement as a critical area to improve the quality of life/safety and enhance the image of the City. Code enforcement is now providing both better response to standard complaints, but also commenced pro-active enforcement of blight issues such as abandoned and inoperable vehicles, illegal signs and banners, dilapidated properties and some overcrowding issues. The Section is working on an overall work program and policies/procedures manual to better identify our organizational focus and standards. As reported to Council in January, 1224 cases were opened in 2008, and 758 cases were closed/resolved. This is a 50% increase in activity over previous years, and staff expects another increase in activity this coming year based on our processes becoming more efficient and the program being more developed than in early/mid-2007.

Over the past year, the Code Enforcement Section worked closely with the Neighborhood Services Coordinators to provide community outreach and education on City codes and ordinances. Staff has also focused on community outreach efforts to educate and inform residents of Codes and most common violations that compromise the health and safety of our residents.

DEVELOPMENT ENGINEERING & INSPECTION SERVICES SECTION (PERMIT CENTER)

The Permit Center also includes the Development Engineering and Subdivision/Encroachment Inspection Services Sections staff who are housed at 65 West Alisal Street. The Development Engineering Section reviews and comments on both planning and building permit applications for conformity with City design standards and standard engineering/traffic practices. Staff works very closely with Current Planning staff to review and comment on development proposals processed through the City. Engineer's Reports prepared by Section staff have continued to improve over the past year with regard to detail and timeliness, and more City-applicant meetings continue to be held to coordinate and resolve issues of development applications. Such issues include the implementation of Low Impact Development (LID) design concepts in new development and significant redevelopment as is being required under the City's NPDES storm water discharge permit. Generally, this improved communication is resulting in development approvals in a faster timeframe compared to when our NPDES permit was first approved by the Regional Water Board.

Newer engineering staff members, hired in 2006, are now fully trained and providing development and building plan reviews to ensure projects meet the various City/State/Federal requirements and standards; including, but not limited to: standard street and public infrastructure, the City's NPDES permit, traffic access and circulation, floodplain management, infrastructure management, ADA/Title 24 compliance, etc.). This is significant to ensure issues are coordinated; we define common practices, and become proficient before more active development occurs in the City.

Other projects on which engineering services and current planning staff worked over the past 6 months include review and finalization of the subdivision map and Conditions, Covenants, and Restrictions (CC&Rs) for the Maya Cinemas condominiums (front retail spaces); as well as review/approval of subdivision maps, CC&Rs, and improvement plans for various smaller developments throughout the City including Orchard Park Condominiums, Pajaro Park Condominiums, and the Grower's Ice subdivision.

Finally, the Development Engineering team has been assisting the Deputy City Engineer in developing the City Storm Water Development Standards (an NPDES obligation), tracking and recording projects implementing Low Impact Development (LID) features/strategies for NPDES storm water compliance, and ensuring all developments implementing LID measures enter into storm water facility agreements for these measures to ensure proper maintenance and operation of such facilities. The Subdivision/Encroachment Inspection folks also increased their inspection of work sites to ensure NPDES obligations were met, and storm water discharges were as clean as practicable.

The Inspection Section also worked with the Legal Department, Finance, Monterey County Health Department, and interested parties to finalize the Vendor Permit Ordinance Update, and has worked to re-establish vendor services in accordance with the new rules and regulations.

TRAFFIC ENGINEERING AND TRANSPORTATION PLANNING SECTION (CITY HALL)

Traffic Monitoring Program

City staff has completed the Traffic Monitoring Program (TMP) data collection for summer 2007, reported findings to the Traffic and Transportation Commission in December, and will report to Council in January 2008.

Staff essentially monitors 100 arterial streets within the City every summer, and monitors the nearly 100 City-owned/maintained signalized intersections at least once every two years. This monitoring program is required as part of the Salinas General Plan, and includes turning movement counts at signalized intersections during the peak traffic hours, and screen line traffic counts on arterial streets throughout the City. Results provide Level of Service (LOS) information on the City's street/traffic system.

Staff is continuing to use the SYNCHRO software program to better identify service levels based on average intersection delay rather than the volume-to-capacity ratios used historically. SYNCHRO allows staff to identify signal-timing enhancements that should be made to optimize signal operations. Once optimal timing is determined, staff is then making the signal timing changes in the field. Thus, significantly more staff time is required to perform the analysis, but the analyses will result in some service level improvements that will be realized by Salinas's residents and visitors. Signal timing upgrades will continue to be a priority for staff during the first half of 2008. In addition to these signal timing enhancements, staff is also implementing more advanced signal controllers and video detection system technologies that will improve our ability to coordinate signals along a corridor and/or address special needs of more complex signalized intersections.

Staff also recently completed an update of the Traffic Signal Priority listing, being processed for consideration and approval by Council. This list identifies non-signalized intersections that were studied by staff to determine if those intersections meet signal warrants, and then identify "priority points". The Traffic and Transportation Commission (T&TC) considered this issue in January, and Council will consider the TTC recommendation in February. Once the list is approved, the next priority signal will be designed.

US 101/Airport Interchange Improvements

Staff continued working with Caltrans to process the US 101/Airport Blvd. Interchange Improvement project. The project's primary goal is to improve the movement of goods to market, relieve traffic congestion at the interchange, enhance access to/from the agri-business area of south Salinas, and improve safety. The project was changed approximately three years ago to include a 2-phased approach, making Phase 1 economically. The Environmental Document was completed and certified, and the State is working on the final project design and right-of-way acquisition. The design is roughly 50% complete, construction is expected to commence in 2009/10, and the project should be completed in 2012.

CALTRAIN Extension

Staff worked with Redevelopment Agency staff, the Transportation Agency of Monterey County (TAMC), local businesses and other interested parties to process the Salinas Inter-modal Transportation Center (ITC) Master Plan Update, identify AMTRAK station improvements, and also process the Caltrain Extension to Monterey County documents. TAMC has completed the state environmental clearance, and Council recently recommended a preferred project scope as related to the Freight Building and the American Supply property to allow the process to continue moving forward. Staff will continue working with our partners to continue pursuing Caltrain service to Monterey County and Salinas, and ensuring local businesses are “made whole”.

Standard Traffic Practices/Procedures

Staff continues to work on developing standard practices and policies for traffic control and signing/stripping issues to ensure consistent and unbiased consideration of issues throughout Salinas. This is also important so Salinas-area drivers have consistent messages as they drive along City streets. Standard Policies/Practices have been developed for All-Way STOP installations, Crosswalks, disabled Parking Stalls, NO PARKING (red) zones installations, school flashing beacons and flashing crosswalks, and special “enhanced” school crossings.

ENGINEERING-DESIGN AND INSPECTION SERVICES SECTIONS

Capital Improvement Program (CIP)

The City’s Engineering-Design and Inspection Services Sections continued working on the design, construction, inspection, and project management of capital improvements in 2007. The following major projects were completed (or essentially completed) in 2007:

- a. Sanborn Road Street Improvement Project (John Street to Abbott Street, and Blanco road from Abbott to south city limits)
- b. North Main Street Improvements (Alvin Drive to Lamar Street)
- c. Street Reconstruction/Overlay Projects
 1. San Joaquin Street (South Main Street to Pajaro Street)
 2. Griffin Street (East Alisal Street to East Market Street)
 3. Calle Cebu (Sherwood Drive to Sun Street)
 4. Sherwood Drive (East Market Street to Sherwood Circle)
- d. South Main-Blanco Intersection Improvements
- e. Boronda Crossing Public Improvements
- f. 2006-07 and 2007-08 Street Resurfacing Projects
- g. 2006-07 and 2007-08 Parking Lot Resurfacing Projects
- h. Measure V Sidewalk Improvement Project – Phase 1
- i. Monterey County Government Center ADA Upgrades (sidewalk/ped. ramps)
- j. Cesar Chavez Community Park and Central Park Restroom Facilities
- k. Breadbox Parking Lot Expansion
- l. Airport Re-Paving Projects
- m. Airport Main T-Hangar Painting/Window Replacement Project

The following projects are currently under construction, or out to public bid:

- a. Sanborn Road Improvements (Laurel Drive to Del Monte Avenue)
- b. East Salinas Street Lighting Projects (3 phases)
- c. Sanitary Sewer Pump Station Emergency Generator Installations
- d. Laurel and El Gabilan Park Playground Equipment Replacement
- e. Alisal-Towt Traffic Signal and Alisal Improvement Project (Sanborn to John)
- f. US 101/Laurel Drive Interchange Improvements

The following major projects/programs are currently a focus for the design section:

- a. New Municipal Aquatic Center; East Bernal Drive Improvements; Municipal Pool Repairs
- b. Cesar Chavez Library Upgrades/Improvements/Expansion
- c. New Police Facility across from City Hall (at Armory)
- d. New Police Storage Building
- e. El Gabilan Library Upgrades/Improvements
- f. ITC Station and First Mayor's Home Improvements
- g. Continued Regional Board/NPDES items/issues.
- h. More Street Resurfacing and Concrete Repair Improvements
- i. East Market Street Utility Underground District, Streetscape and Street Improvements.

Finally, two State (Caltrans) capital projects were recently completed within the City limits, and have improved major routes that run through and serve our City. These include the Highway 68 Improvement Project (South Main Street from the south City limits to John Street, and John Street from South Main to US 101) that was completed approximately 2 years ago. Improvements included reconstructing the street pavement; reconstructing curb, gutter and sidewalk; storm drain improvements; and installing street trees along said street segment. The project significantly enhanced the street aesthetics and function that is a gateway to/from the Monterey Peninsula. The Highway 183 Improvement Project is similar in scope to the Highway 68 improvements, was recently completed (except for street trees), and included improvements along West Market Street (Davis Road to Monterey Street) and North Main Street (Market Street to Bernal Drive). Finally, Caltrans repaired damaged pavement along the US 101 corridor through Salinas last year as part of a maintenance effort, which has improved the riding surface and condition of this state highway.

Infrastructure Management is another primary focus for DES staff, who will be re-surveying all streets in the City. Our goal is to update our pavement management program and prioritize street maintenance strategies. Maintaining existing streets and sidewalks in good/fair condition is a priority for the City and staff. Maintenance costs to retain streets in a good/fair condition is much less than the cost to overlay or reconstruct streets that are in poor condition. Thus, the reason staff continues to maintain streets that look in generally good condition – because of economics. Street maintenance funding for Salinas is still sub-standard to meet our “needs” (our need of which amounts to roughly \$3 million per year). Our current budget fluctuates between a low of \$500,000, and a high of nearly \$3 million). Our objective is to resurface all streets (not requiring reconstruction/overlay work) over the next 7 years – completing our task in 2014. Funding, however, will continue to be a challenge to meet this objective, and requires expected delivery of state and federal funding to Salinas to make the improvements possible. A proposed ½-cent sales tax is expected to be placed on the November 2008 ballot, and would provide the City with roughly \$3 million annually for street resurfacing/reconstruction work if approved. This would go a long way in achieving our goal of maintaining a good street/traffic system that supports activity of businesses and residents.

MAINTENANCE SERVICES

Fleet Maintenance Division

The Fleet Maintenance Division continues to provide safe, dependable and economical vehicles, tools and equipment for City forces although, it is now at a somewhat reduced level due to resource restrictions. The loss of positions due to the overall City budget reductions in past years has reduced the ability to respond to service requests in a timely manner. The Division's commitment to provide support and training opportunities outside the department such as fire extinguisher training and support of the City hall Emergency Operations Center will remain a responsibility of the Division. The assumption of Parking Management duties, with the opening of the Monterey Street Parking garage further diversified the duties of the Fleet Maintenance Division.

Deferring vehicle replacement has reduced the size of the Fleet. Replacement vehicles are required when vehicles become inoperable due to mechanical breakdowns excessive wear and mileage, or damage due to accidents. As fewer vehicles have been available, Fleet Maintenance has been attempting to make older vehicles roadworthy as a temporary stopgap measure for staff transportation. As the Police Department releases older Police Cars to the Fleet Division, these will be used for replacements for Administration and trip vehicles.

To accommodate eight new Measure V maintenance positions, on January 29, 2007, the Measure V Committee approved and recommended that \$80,000 of Measure V one-time carryover funds be allocated to purchase five (5) pick-up trucks for Park Maintenance. Council approved the Measure V recommendation on February 13, 2007. These new positions have been filled and the equipment required for their success has been acquired

Additionally, starting in FY 07-08, Fleet Maintenance has been funded for a systematic replacement of the older (20+ year old) trucks. The emissions produced by these older trucks are a focus for Fleet Maintenance effort to reduce the carbon footprint of the City. There are currently twelve vehicles in this category and in the next three years, twelve more old trucks will require replacement.

The Fleet Maintenance anticipates that the Police Department will release sedans that will require minor mechanical refurbishing and repainting to eliminate the black and white Police Car paint format. The cost to reconfigure patrol cars into administrative sedans, including paint will require an allocation of \$3,000 to \$5,000 per vehicle. Over the next five years, \$125,000 per year will be needed to recycle twenty-five police sedans and to replace twenty pickup trucks that have outlived their service lives. Another area in which Fleet can increase the fuel efficiency and reduce harmful emissions of the overall fleet is by eliminating the recycling of police cruisers for use as administrative sedans. A conservative estimate of replacing our ex-police cruiser administrative sedans with more fuel-efficient compact, or Hybrid vehicles would reduce our fuel consumption by 30-50% for this class of vehicle. The tradeoff is that a recycled police sedan costs \$5,000.00 to reconfigure, and the acquisition cost of a new hybrid is \$25,000.00.

The emissions regulations that have regulated the gasoline engine pickups and sedans are now being expanded to include our diesel engine heavy-duty trucks and equipment. Recently, Fleet has acquired a data logger to assess the condition of our heavy-duty trucks and a Smoke Tester to measure the opacity of our diesel engines' exhaust. The reporting and testing requirements are closely matching those from the 'bureau of Automotive Repair. New regulations require that older heavy –duty diesel engine vehicles and equipment be retrofitted with Diesel Particulate Filters on an increasing number of units. The budget cost is \$10,000.00 per unit.

Facility Maintenance Division

Building Maintenance and Custodial

Prior years staff reductions continue to impact services. In the last year, staffing has been reassigned to a limited number of buildings other than the libraries and the closed recreation facilities. The current challenge has been to now gear up to the provide maintenance as these buildings are coming back to use. Measure V funds have been used to restore a portion of the staffing lost in the prior year budget cuts. Some of these funds have been allocated to contract janitorial services at the libraries and recreation centers.

The Facility Maintenance Division is continually reassessing methods to use the limited permanent staff and temporary personnel to provide the basic services to City facilities. Basic safety and sanitation requirements are being met while major facility repairs and aesthetic needs to replace aging equipment, furniture, are continuing to be deferred until such time as more funding is available.

Termite inspections at the Recreation Center and El Dorado Park buildings have revealed that the infestations require remediation. Fumigation at each of those sites is estimated to cost at least \$6,000. Asbestos monitoring and heater duct cleaning and repairs at City Hall has already begun. At the completion of the project, the total cost may be \$100,000. The deferred maintenance of City roofs has led to some failures, such as the Lincoln Street Recreation Center, Fire House Recreation Center, a section of the Corporation Yard Facility Maintenance Building and Fleet Shop, and the lower roof of City Hall. These repairs are estimated to cost \$10,000 to \$20,000 each. No request is being made mid-year, however, staff will present a request for increases in capital facility funding for the repairs.

Graffiti Abatement

Graffiti abatement is a responsibility of the Facility Maintenance Division. The Graffiti Abatement program was eliminated with budget reductions in 05/06 but the General Fund was able to help restart a limited program in FY 06/07 with a one-time allocation of \$100,000 for temporary employees and supplies. The current Graffiti Abatement program has been funded with Measure V dollars (\$108,300), utilizing California Conservation

Corps members. This has provided job skill building opportunities for participating Corps members while performing the Graffiti Abatement activities. This program focuses on removal of graffiti from public spaces. A program proposal to enhance graffiti abatement with permanent staff and contemporary equipment will be presented in the budget request for FY08-09.

Energy Assessment

Facility Maintenance is a member of the Association of Monterey Bay Area Governments (AMBAG) Energy Advisory Committee (EAC). Facility Maintenance has recently completed an energy assessment funded from a grant from PG&E and AMBAG, and have completed a high efficiency lighting retrofit in all City facilities. Facility Maintenance is waiting for an assessment of the effectiveness of the retrofit.

Landscape District Inspection

The management of the landscape maintenance districts continues to grow, with new areas being accepted into the existing districts without sufficient resources for the maintenance activities required. With the acceptance of Monte Bella subdivision, new sites will be added to the responsibility for the Division. Harden Ranch and the Northeast Landscape and Lighting District are both under funded and the scope of maintenance is being reduced proportionately to work within the existing budgets for each district. With the elimination of the staffing in 05/06, some of the responsibilities have been transferred to the Facility Maintenance Crew Supervisor, Manager and Department Director.

Street Maintenance Division

Sign Section

Street Sign Section of the Division has replaced 296 signs and added an additional 34 signs to our traffic control systems. Staff repainted 21,517 feet of red curb and an additional 5,200 feet of miscellaneous curb painting. The Sign Section installed 27,347 Square feet of thermoplastic stripping during this period. The staff provided support for 10 special events during this period. This is typically done on an overtime basis, with the event paying the costs for the labor. The Sign Section responded to 447 USA (Underground Service Alert) marking requests.

Streetlight/Traffic Signal Section

The Streetlight Maintenance Section of the Division was formed in July of 2005. This Section is responsible for the maintenance and repair of over 6,000 streetlights. In this six-month period, 288 streetlights have been replaced or repaired and thirteen streetlight poles have been replaced following automobile accidents. The one staff member of the Division has provided these streetlight services with contract service support for the larger repair jobs. The signal lights are repaired through contract services. Development and Engineering as well as the Maintenance Services Department staff from the Street Division oversee the repairs and programming of the lights.

Street Maintenance Section

The Street Maintenance Division of the Maintenance Service Department is responsible for maintenance of 280 street centerline miles. The Street Maintenance Section of the Division has performed pavement repairs, which required placement of 1,111 tons of asphalt concrete in the maintenance of City streets. Right-of-way weed abatement has been performed on a bi-annual basis on ten acres of City properties throughout the roadway system.

Street maintenance is critical to keep street pavement from deteriorating, and in a good condition. Due to a shortage of funds to perform street maintenance over the past several years, preventative maintenance has been deferred causing the pavement condition to deteriorate on many streets.

The City's 2006-07 & 2007-08 street resurfacing budget is improved over prior years with the use Measure V funds (\$1,387,500), Gas Tax funds (\$1,000,000) and State Proposition 42 funds (\$700,000). Funding for the 2006-07 & 2007-08 street resurfacing projects total \$3.0 million.

The 2006-07 & 2007-08 Street Resurfacing Project will provide preventative maintenance (slurry seals) to a list of residential streets spread within the six (6) Council Districts. Every \$500,000 provides for roughly 10 miles of street resurfacing (slurry seal), which is one of the most cost-effective means of maintaining the 280 miles of

street system.

The City expects to receive \$1.5 million in State Proposition 42 funding and \$2.4 million in State Proposition 42 bond funds in 2008-09. These funds in conjunction with the annual gas tax allocation of \$575,000 and Measure V allocation of \$212,500 will provide \$4.7 million for street rehabilitation projects in 2008-09.

Work Alternative Program

The County Inmate Program that released inmates for labor assignments to the City, no longer provides labor to Salinas. The Work Alternative Program does direct labor to the City, as the low-risk offenders are required to work off specified hours for restitution for their various crimes. The labor force that is available for this work is quite variable. On some days there are no Program laborers available and other days there may be up to six available. The Inmate/Work Alternative Program removed over 639 cubic yard of weeds and debris. The abatement activities for this crew are frequently in response to requests for clean-ups of illegal dumping or campsites on City property. This process frequently involves manpower support from the Park Maintenance staff, the Police Department, Code Enforcement and Monterey County Environmental Health Department.

Sidewalk Repair Section

This Section is responsible for the maintenance of over 500 miles of City sidewalks. The Crew poured 81 yards of concrete and made 489 temporary sidewalk repairs at various locations in the City. The current sidewalk program is addressing repairs to school sites and routes to schools.

Over the past 12 years, the City Maintenance Services Department has been receiving calls pertaining to damaged and / or uplifted sidewalks. Due to a shortage of funds, the list of locations reported has grown to over 1,800. The current City policy is to respond to each complaint within two weeks, make temporary asphalt concrete repairs to the damaged sidewalk, and place the location on a list for future permanent repairs.

Included in the adopted 2007-08 budget is \$425,000 of additional Measure V funds for sidewalk repair and street tree planting. One goal of the Measure V Committee and Council is to repair all 1,800 sidewalk locations over the next ten-years. This will require about \$425,000 of Measure V funds annually.

Park Maintenance/Urban Forestry Division

Park Maintenance Section

In 2007, the Council acted to contract out the maintenance of the Fairways Golf Course. With this, a transfer of the Golf Course Maintenance and supervision staff also occurred. This staff was transferred to positions in the Park Maintenance Section. The vacant position of Manager of Parks and Urban Forestry was filled with the Superintendent of Golf Operations. One Crew Supervisor and six Maintenance Workers took positions that were vacant or that were reduced during the budget reduction process of prior years. Vacancies created through retirements are currently being recruited for. The addition of staff to this Section has improved the service level however staffing levels that existed prior to budget cuts have still not been entirely restored.

The improvement in service levels attributable to the restoration of some staffing has resulted in services going from a level of health and safety maintenance activities only to add back some services that would otherwise be seen as routine park maintenance activities. These include pruning, edging, routine litter removal, weed control, and limited fertilization. Although the addition of these services is a visible improvement, to maintain Salinas parks to a level of industry standard will require additional resources.

A significant contribution to improved services is the increased allocation for contract services. Contract service providers continue to be utilized to provide some of the park mowing, litter abatement, weed control and hedge pruning along major arterials such as Davis and Blanco Roads. Janitorial services for select park restrooms have also been added to contract services in the Park Maintenance Section. To provide full maintenance service capabilities and improve the declining condition of the greenbelt inventory, an additional annual investment of approximately \$500,000 would be required for maintenance activities.

Measure V allocations have funded one-time improvements to several median areas. These included Market Street Underpass medians, Davis Road medians and the Work Street median tree planting. Block Grant funds provided for the installation of handicap accessible restrooms at Closter Park, Central Park in 2007. In January of 2008, additional restrooms will be added at El Dorado and Sherwood Parks. With the build out of Monte

Bella Park in 2008, additional acreage will be added to the responsibility of this section.

Urban Forestry Section

The Urban Forestry Division currently has filled the Measure V funded positions that were vacant. With additional funding, for the planting program, contract services and the assistance of volunteers, approximately 500 new tree plantings have been completed to date, this fiscal year. Contract services continue to provide large-scale pruning operations and approximately 10% of the city's urban forest inventory has received pruning. With the additional staff and the purchase of a new chipper, the Section's response during the winter storms will improve the emergency response time for downed trees and limbs. A continuing investment is required to reinstate the urban forest inventory of street trees, lost to prior years of no investment in replacement trees. Staff will continue to need to be increased as the City's street tree inventory increases and as some segments of the inventory decline and require replacement.

Wastewater Division

Industrial Waste Enterprise

The City operates the Industrial Wastewater Treatment Facility under Waste Discharge Requirements Order No. R3-2003-008 issued by the Central Coast Regional Water Pollution Control Agency.

The 200-acre Industrial waste treatment ponds, at 240 Davis Road, are crucial to the success of providing wastewater disposal service to Salinas' industrial customers. The 52 drying beds at the Facility are used for water disposal by percolating treated water into the soil.

In 2005, the City Council approved a three-year contract agreement with the Monterey Regional Water Pollution Control Agency (MRWPCA) for administrative and operational oversight of the City's Industrial Wastewater Treatment Facility. Along with the contract operator, one incumbent staff person is permanently assigned operational responsibilities for the facility. MRWPCA staff performs inspections and re-permitting of all industrial customers and providing customer support, oversight of operations and compliance with the City's State Waste Discharge Requirements Permit (WDR). After a successful first contract term, the City, by mutual agreement with the MRWPCA will extend the contract for another three-year term to end in January 2011.

Sanitary Sewer Enterprise

The City maintains approximately 269 miles of sanitary sewer pipelines. The program consists of routine maintenance, scheduled maintenance to trouble areas; environmental protection through response to and prevention of sanitary sewer overflows and underground video investigation of pipelines when necessary. The maintenance program remains consistent with NPDES Best Management Practices (BMP) for maintaining the system in good working condition and to reduce or eliminate sewer system overflows to the environment.

The City maintains a Waste Discharge Requirement (WDR) Permit for the sanitary sewer system with the Central Coast Regional Water Pollution Control Agency. A requirement of this Permit is to implement a grease source control program. This program includes monitoring and inspection of all food preparation facilities to ensure compliance with the Permit. There are approximately 700 food-related businesses permitted by the Monterey County Health Department and operating within the City. The City in-house staff resources are insufficient to facilitate this program. In order for the City to meet its obligations, the City entered into an agreement with the MRWPCA to provide contract services for implementing a comprehensive source control restaurant grease trap inspection program. The MRWPCA budget estimate for implementing the source control inspection program is approximately \$145,000 annually. City staff is working with the MRWPCA to begin initial inspections in 2008 and are currently assessing the need to write a sewer ordinance to assist in implementing the program.

The City has joined with other local agencies through the Southern Monterey Bay Discharger's Group to develop a regional public education program for grease source control. The residential component of the education campaign for 2007 includes 70 print ads in each of five local newspapers (four English, 1 Spanish), and 10 weeks of radio ads on three local English and Spanish language stations. The program also includes internet ads at three area newspaper web sites and has developed an informational internet web site at www.clogbusters.org. The costs associated with this program are shared between the member's entities by population.

Salinas faces a continuing sanitary sewer infrastructure maintenance challenge. This same challenge is facing

other municipal sanitary sewer systems, throughout the United States. Although the City has replaced a significant portion of its major sewer trunk lines the advanced age of smaller pipelines that make up the largest portion of the sanitary sewer system is of major concern. The lack of sufficient resources to fund repairs and replacements has meant that this critical work has, in many cases, had to be delayed beyond a timeframe before potential line failures may occur. These older sections of pipe exist throughout Salinas. Current sanitary sewer capital projects have facilitated lift stations improvements and include back up generators at select locations.

On January 4, 2008, the Central Coast Regional Water Quality Control Board notified the City that it would rescind the City's Waste Discharge Requirements Order No. R3-2002-0078 for Local Sewage Collection Agencies Tributary to Monterey Regional Wastewater Treatment Plant, Monterey County, at their March 21, 2008 Regional Water Quality Control Board public hearing in Salinas. The City will be required to enroll under the Statewide General Waste Discharge Requirements for Sanitary Sewer Systems, Order No. 2006-0003-DWQ. The full extent of the requirements of the Statewide General Program is not known at this time but appears to be consistent with the major requirements of the City's current permit.

NPDES Storm Drain Sewer Enterprise

In 1972, the National Clean Water Act (CWA), established that discharges of pollutants to waters of the United States from any point source is prohibited unless in compliance with a National Pollutant Discharge Elimination System (NPDES) permit. The 1987 Amendments to the Clean Water Act established a framework for regulating municipal, industrial and construction storm water discharges under the NPDES program. The resulting framework continues to be an un-funded federal mandate.

Emergency readiness is a critical activity of this Wastewater Section to prevent spills of hazardous materials from reaching water bodies. Collaborating with the Fire Department and the County Health Department is essential to this effort. This collaboration has continued for the Fourth year with the City co-hosting an Environmental Compliance Workshop in September of 2007, at the Community Center with presentations by the Monterey County Health Department. Vendors manned table demonstrating environmental products. Over 300 participants from throughout the region attended the program.

Salinas' prior NPDES Permit expired October 21, 2004 and a new 5-year permit was issued on February 11, 2005. Personnel from Maintenance Services and Development and Engineering have been working with the Central Coast Regional Water Quality Control Board to develop a Storm Water Management Plan as required by the Permit. The required Permit activities continue to present significant challenges as we pursue Salinas' commitment to storm water pollution prevention.

Compliance requires increased manpower, contract engineering services, GIS mapping of the storm system, staff services to prepare inventories and updates for all commercial/industrial business, advertising expenses, contract services for water monitoring, laboratory costs for monitoring and to follow-up on toxicity reduction evaluations, and contract services for public education curriculum development and implementation. In this Permit year, NPDES activities continued to increase due to the phased implementation of the NPDES Permit. If a Storm Utility Fee is not approved in the near future, funding of the Federally mandated NPDES program would continue to require substantial funding from the General Fund and Gas Tax sources.

NPDES Street Sweeping Enterprise

The City continues to meet its NPDES requirements through its street sweeping program. The sweeping program is an NPDES Best Management Practice (BMP) with the goal of maintaining a clean City, and reducing litter or trash on the public streets therefore reducing or eliminating pollution from being washed into the storm drain system by storm water runoff or illicit discharges from identified and unidentified sources. Council approved the purchase of an additional street sweeper and the addition of a sweeper operator position in the FY 05/06 midyear budget. The position was hired and the new sweeper has been purchased and is currently in service.

The third street sweeper provides service for new residential development, island sweeping, and increased service to thoroughfares that were previously swept on a quarterly or complaint basis.

LEGAL

As provided by the City Charter, the City Attorney's Office provides legal representation and guidance to the

City Council, its committees, boards and commissions, the City Manager and all City Departments. Virtually every program and activity identified in the Mid-Year Budget Review requires the active involvement or review by the Legal Department.

The FY 2007-08 budget (Measure V funds) allowed for the addition of an Assistant City Attorney position. This now brings the total staffing of the City Attorney's Office to 6.5 positions. The ratio of four city attorneys to population ($4/150,000 = 1:37,500$) is still below the average for a city of our size (which would provide for 6 attorneys or 1 per 25,000). However, the addition of an experienced attorney has improved our ability to respond to many of the legal demands of the City and will reduce the costs of hiring outside counsel by handling some matters in house.

Each attorney in the office has distinct assignments and primary subject matter responsibilities as follows:

- City Attorney – City Council; Measure V Committee; oversight of major land use matters, litigation, ordinances, downtown initiatives and other items coming before the Council. Coordination with regional bodies (e.g., County, LAFCO, TAMC, MCWRA, Civil Grand Jury.)
- Assistant City Attorney – Civil litigation; employment law including grievance and disciplinary actions; oversight of outside counsel; supervision of cost recovery and claims; workers compensation matters; legal support to the Library Commission and Arts Committee.
- Sr. Deputy City Attorney -- Contracts and other transactional documents; legal support to Airport and Planning Commission; NPDES permit and State Regional Water Quality Control Board (RWQCB) matters; California Public Utilities Commission (CPUC) matters; Special Events committee.
- Deputy City Attorney – Code enforcement; criminal prosecutions and civil enforcement actions; SUBA; Weed & Seed program; Breadbox committee.

All attorneys cross-train and assist on multiple matters as required, including Public Records Act requests, Brown Act questions and conflict of interest issues.

Highlights of the Legal Department's recent activities include:

Salinas Future Growth Area:

- Completion of the Final Supplement to the General Plan Final Program Environmental Impact Report (the "FSEIR") dated November 2007, including responses to public comments.
- Approval of the FGA applications by the Council on December 11, 2007 certifying the environmental documents, adopting the Mitigation and Monitoring and Reporting Program (the "MMRP"), authorizing the application to LAFCO for an amendment to the City's Sphere of Influence consistent with the Salinas General Plan designated Future Growth Area, an Annexation of approximately 2,400 acres situated north of East Boronda Road between San Juan Grade Road and Williams Road, and a Prezone to designate the land to be annexed as within the City of Salinas New Urbanism Interim—Specific Plan Overlay.

GSA-MOU: Continued implementation of the 2006 Greater Salinas Area Memorandum of Understanding (GSA-MOU) with the County, including GPU-4 and GPU-5.

Boronda Crossing Project: Continued project implementation of this major retail project with Kohl's and Home Depot; final resolution of "emergency driveway" access issue.

Public Utilities Commission/ Alco Water: Representation of the City's interests before the California Public Utilities Commission (CPUC) concerning Alco Water's Application to expand its service area results in Order Instituting Investigation (OII) to respond to City's concerns regarding water quality and service to current and future growth area customers.

NPDES/Stormwater Compliance:

- Completion of Storm Water Management Plan (SWMP)
- Completion of 2007 Annual Report
- Completion of Stormwater Ordinance, Grading Standards
- Representation of the City's interests at Regional Water Quality Control Board (RWQCB) meetings

- Commencement, staffing and guidance at NPDES Stakeholders Committee

Hartnell College East Campus Development: Successful negotiation of MOU with Hartnell College regarding East Campus project on property adjacent to the Fairways Golf Course.

Airport Jet Center (Core Area Development): Selection of developer completed following RFP process; environmental review of proposed development commenced; DDA to be drafted between City and developers/tenants.

Ordinances -- Completion and adoption of ordinances concerning:

1. Special events
2. Claims Ordinance
3. Mobile food vendors
4. Stormwater and Grading Standards
5. Sidewalk cafés
6. Medical marijuana dispensaries
7. Video Service Franchises

Targeted Code Enforcement Efforts: Continued support of Code Enforcement and Animal Control efforts throughout the City, including representation of the City at Administrative Hearings resulting in fines, penalties and recovery of expenses and demolition of substandard buildings.

Criminal Prosecutions

- Representation of the City before the Monterey County Superior Court in matters concerning violations of the Salinas City Code. Appearances on misdemeanors including arraignments, pre-trials, trial calendar calls, and jury trials; Infractions; and Pretrial Motions.
- Representation of City's interest on Motions to Suppress Evidence (1538.5 motion) and Motions for Pretrial Discovery (*Pitchess* motion) seeking discovery of Salinas Police officers' personnel and internal affairs files.

Contracts/ Agreements

- Provide transactional and contract support for all City departments.
- Lease Agreements:
 - **Breadbox Recreation Center:** Successful negotiation of lease agreements between City and Alisal Center for the Fine Arts and Second Chance Youth Program (July 2007).
 - **Closter Park Recreation Center:** Lease agreement between City and Salinas Boxing Club (July 2007).
 - **Firehouse Recreation Center:** Lease agreement between City and LUPE (pending).

Employment/ Human Resources Matters

- Attendance at "Skelly" pre-disciplinary hearings and all Notices of Intent to Discipline.
- Ongoing collaboration with HR and affected departments to properly conduct disability interactive process.

Civil Litigation Cases

- Management and resolution of claims and civil actions filed against the City.
- Cost Recovery: The City Attorney's Office recovered \$98,320 in the fiscal year ending June 30, 2007

from damage to City property by a Third Party.

FINANCE DEPARTMENT

Beginning in April 2003, the Finance Department, through budget reductions, lost six (6) positions (a 21% reduction in the department's workforce) and a half time contract position. After budget reductions, Finance Department staff totaled 23 full time positions. For comparison, Finance staff totaled 25.5 full time positions, ten years ago, in FY 1997-98.

In 2006-07, with the passage of Measure V, three (3) positions were restored, and with General Fund revenue growth a fourth (4th) position was restored. Positions restored include a Senior Account Clerk, a Senior Accountant, a Computer Operator and Web Master/Systems Analyst. The Web Master/Systems Analyst is allocated to the libraries on a half time basis. Currently, all Finance positions are filled.

Finance staff now totals 26.5 full time positions.

A review of the "core" services provided by Finance leaves no doubt that these services must be continued regardless of staffing reductions or Citywide services level reductions. Simply put, the work continues.

The Finance Department has two divisions: the **Finance Division** that provide "core" services such as audits, banking, investments, budgets, debt service, payroll, financial reporting, accounting, accounts payable, accounts receivable, credit and collections, retirement and deferred compensation, fiscal services to other agencies, fixed asset management, grant administration, parking citation processing, purchasing and receiving, disposal of surplus property, DMV licensing, customer counter assistance, animal licensing, business licenses, garage sale permits, Oldtown and SUBA district billings, assessment and maintenance district administration; and the **Information Systems Division** that provide "core" services such as computer network administration, computer server administration, computer software programming and support, computer aided dispatch support, Geographic Information Systems (GIS) mapping, Personal Computer (PC) support, telephone and on-line communications, computer user training, mail services, City and Police Web Site maintenance and print shop services.

With the 21% reduction in Finance's workforce that occurred prior to 2006-07, both divisions struggled to provide "core" services. These services continued only due to the dedication of the Finance staff and their willingness to work long and hard hours to get the job done. Additionally, while both Finance divisions have been able to improve operating efficiencies, the department's ability to move forward on new and existing projects was seriously affected partly because higher-level staff had to be involved in many of the day-to-day tasks involved in running operations.

The restoration of Finance's positions has provided a more normal workload and allowed the beginning of new projects including development of audit programs for business license tax and property tax and variety information systems initiatives.

Accounting

The Governmental Accounting Standards Board through Statement 34 (GASB 34) mandated a complete overhaul of the City's financial reporting. Under Statement 34, the annual financial statements continue to be presented under the fund accounting model, but the new government-wide reporting model adds statements that focus on the City's net worth including depreciation of all assets and infrastructure.

Staff completed the appraisal of all City capital assets and infrastructure and has implemented fixed asset accounting software. This project has required significant staff time and had to be completed in order to issue both the June 30, 2003, 2004, 2005, 2006 and 2007 financial statements. Staff has coordinated this effort with Council's independent auditor.

Under the new GASB 34 requirements, Finance staff has completed audited financial statements for the City of Salinas and Salinas Redevelopment Agency. In addition, finance staff has completed the Single Audit Report covering federal grants. The financial reports and financial operations received unqualified "clean" audit opinions for all five years from Council's independent auditor.

In addition to devoting considerable time to budget issues, Finance staff has completed required State Controllers Reports for the City of Salinas and Salinas Redevelopment Agency, the City's State Gas Tax Report and a variety of other Federal and State mandated reports.

Payroll

The City's payroll is completed on time, every two weeks, year after year. This is possible due to the dedication of Finance's payroll department, one Payroll Coordinator and one Payroll Technician. These two employees work diligently, week after week, to process over 19,000 payroll checks annually, including Federal and State tax reporting. Additionally, Finance's Senior Accounting Technician handles deferred compensation and retirement issues. Together this team works with Human Resources to administer the New York Life, ICMA and PERS retirement plans, deferred compensation plans, health, dental and vision plans and all the related reporting requirements.

Purchasing

After the loss of the Stores Purchasing Clerk, Purchasing still operates a City Yard Stores one morning a week. Inventory remaining from the full time Stores operations was distributed to City departments, leaving only bulk items such as paper and City letterhead to be distributed from City Yard Stores. Purchasing still maintains a City Hall Stores for office supplies.

Purchasing continually monitors services and product sources for the City and informing departments of any new developments. Cooperative purchasing groups and other government agency's purchasing contracts have proven to be valuable resources.

Data entry service provided by Purchasing includes requisitions, purchase orders and payments. Purchasing insures that items are properly received and invoiced and will handle any discrepancies with the vendors. City departments rely on Purchasing to provide information on pending and past orders.

Surplus and unclaimed City property is maintained by Purchasing. During January 2006, Council approved the use of an online public auction service. In past years, City staff spent significant time and used all available storage space handling, storing, keeping records and disposing of surplus City property including property seized, found, and recovered by the police department. Staff time included purchasing, maintenance services and police personnel.

The City has contracted with Property Room.com (PR.com) an online public auction house specializing in the disposal of police property and other City surplus property. PR.com currently works with 100 California agencies and 460 agencies nationwide. City surplus and unclaimed property is now picked up by PR.com on a monthly basis (if required), the property is warehoused and inventoried by PR.com and a list is provided to the City. The property sold at public auction on the Internet similar to E-bay. This new service will save countless hours for purchasing, maintenance and police personnel.

Revenue and Licensing

Revenue and Licensing continues to service customers (estimated at over 15,000 annually) at our Finance counter. Public service includes issuing business licenses, dog licenses, parking permits, garage sale and other miscellaneous permits.

With the programming help of our Information Systems division, the billings for the two Business Improvement Districts, Oldtown Salinas Association (OSA) and Salinas United Business Association (SUBA) continue to be completed on time. Again with programming assistance from our information systems division, the Business License Tax increase was successfully implemented. During 2006-07, over 8,000 Business License Tax billings were processed.

On November 20, 2007, Council approved a Business License Tax Compliance and Enforcement Program, including a sixty-day amnesty period beginning January 1 through February 29, 2008. Council authorized a consultant agreement with Municipal Auditing Services (MAS) to provide a compliance/enforcement program over a three-year period to include auditing all 8,000 plus business licenses issued by the City. Finance and legal staff will work closely with MAS during the three-year audit process.

Finance staff has completed work with the State Board of Equalization (BOE) and has implemented the Transactions and Use Tax (Measure V) approved by Salinas' voters November 8, 2005. The tax is effective April 1, 2006 with the City receiving the funds from the BOE beginning May 2006.

Information Systems

The Information Systems division has continued to maintain the City's networks, applications,

telecommunications and server systems. With the passage of Measure V, two new positions were created within this division of the Finance Department. The hiring process for these positions was completed in the Fall of 2007, and both of the new staff members have 'hit the ground running' getting involved with Information Systems projects.

The Application and Integration Group continues support for all internal computer applications. Trakit, the new Permit Center software package, went live in February 2007. An interface between Trakit and the existing City Finance system was developed in-house and implemented at the same time. ETrakit, a web-based application allowing contractors, architects, engineers, and designers to schedule inspections, download and view comments from plan checks, and check statuses of their permits online, was implemented in July 2007. An in-house developed process to upload County Assessor information to Trakit on a monthly basis was completed in October 2007. The last module, MobileTrak, was implemented in December 2007. This provides a method for the inspectors to enter inspection information on a PDA so they can spend more time in the field. The transfer of data from the Trakit system to feed existing City applications, such as Salinas Source, is in progress and scheduled for completion soon. In-house programming to allow electronic upload of data to E-CARS, the electronic crime and arrest reporting system used by the State Department of Justice, is nearing completion. In-house programming to provide an automated system for sending City customers with overdue unpaid balances to a collections agency was completed in October 2007. Document imaging software, already available to the Police Department, has recently also been implemented in both the City Clerk's office and the Finance department. A major software upgrade of Chameleon, the software package used by Animal Services, was completed in June 2007. The upgrade included the ability to automatically display animals at the Shelter available for adoption on the City's web site. A major software upgrade of TraQ, the Police evidence tracking system, is currently underway as well.

The Geographic Information Systems Group, or GIS, continued to provide support to all departments for their mapping needs, including: crime mapping, development of new zoning and general plan maps, redevelopment exhibits, Block Grant exhibits, and storm sewer mapping to support NPDES. Over 50 internal requests for GIS services were processed. Additionally, GIS continued to support SalinasSource, our internal Intranet application for City employees that provides property, business, building and other city related information. This group also started the initial phases of migrating the GIS information to a more modern data format as well as starting to look at updating our high-resolution aerial images of the City. In addition to internal service and support, the GIS Group handles approximately 10 map requests a month for the public.

The Network and Systems Group continued managing and supporting the City's PC workstations, servers and the network. This Group has spent the majority of the last year working to integrate new technologies into the Libraries. The primary projects undertaken included a Public Access initiative requiring replacement all of the Public Access computers with new up-to-date models as well as implementing a wireless network for the Library System. After much research and testing, a new computer configuration was created that allows for all Public Access PCs to be used in both English and Spanish. The wireless network has also been installed and is already in use for the Public, with wireless notebooks for both staff and Literacy program participants coming soon. Network and Systems has continued to enhance the reliability of our server systems by upgrading five of our older servers to new hardware and also replacing older battery systems that are used to keep the servers running in the event of a power outage. The efforts will continue in 2008. This group has also been working with the Police Department to implement a new Video Mug-shot system and Wireless Surveillance video cameras. The new Video Mug-shot system should be completed early this year and the Wireless Surveillance is currently being tested.

The Telecommunications Group has continued its primary role of providing reliable phone and data service for City staff. A focus this year has been on improving the reliability of our phone systems at the Fire Stations including refreshing the power and battery systems at those sites. The Telecommunications Group has started the process of exploring what the City's next generation phone system might look like by attending a telecommunications conference this fall. This group has also been auditing our phone lines records and was able to make changes that will result in cost savings of approximately \$500.00 per month.

The City's Web Sites

A Webmaster was hired in September and total redesigns of both the City intranet and Library web sites have been completed. Work is proceeding on development of a web site for the City's Weed and Seed program.

The City's external web site is scheduled for redesign next, followed by a redesign of the Police Department's web site.

FINANCIAL ISSUES

As part of the City's budget monitoring process, the City Council and all departments receive a monthly financial report inclusive of revenues, expenditures and encumbrances to date. Council's Finance Committee meets on a bi-weekly to discuss City financial issues and reviews detailed revenue reports on a monthly basis. This mid-year review covers the following areas for the period July 1, 2007 through December 31, 2007.

Detailed Revenue and Estimates (Attachment A), Operating Expenditures and Budget (Attachment B) and Capital Project Expenditures and Budget (Attachment C) are provided and include two years (2005-06 and 2006-07) actual, current (2007-08) budget, budget revisions, revised (2007-08) budget and actual revenue, expenditure and encumbrances through December 31, 2007.

This review was prepared during the month of January 2008 and includes information as of that date.

CITY FUNDS

1. General Fund
2. Measure V Fund
3. Enterprise Funds
4. Emergency Medical Services Fund
5. Asset Seizure Fund
6. Maintenance District Funds
7. Public Safety Fund
8. Block Grant Fund
9. Development Fee Fund
10. Gas Tax Fund
11. Traffic Safety Fund
12. Vehicle Abatement Fund
13. Recreation Parks Fund
14. Special Aviation Fund
15. Special Construction Assistance Fund
16. Business District Surcharge Funds
17. Debt Service Funds
18. Internal Service Funds
19. Grant Funds
20. Deferred Compensation Fund
21. Assessment District Funds
22. Capital Projects Fund

OTHER FINANCIAL ISSUES

1. California Public Employees' Retirement System (CALPERS)
2. New York Life Retirement Plan (NYL)
3. ICMA Retirement Defined Contribution Plan
4. Health Insurance
5. Monterey County Booking Fees
6. Monterey County Prop 172 Reductions
7. Fixed Costs
8. State Budget Impacts
9. Labor Relations
10. Transactions and Use Tax (Measure V)
11. General Fund 2006-07 Carryover
12. General Fund Reserves-June 30, 2007
13. General Fund Budgets FY 2007-08 and 2008-09
14. Estimated General Fund Reserves-June 30, 2008 and 2009
15. Outstanding Budget Issues

- 16. Financial Policies
- 17. Bond Issuer Credit Rating

CITY FUNDS

1. General Fund (10.00)

The General Fund is the operating fund of the City. It accounts for all financial resources necessary to carry out basic governmental activities of the City that are not accounted for in other restricted funds. The General Fund supports essential City services such as Police, Fire, Street and Park Maintenance, Recreation, and other community services. Library services are funded with Measure V taxes.

General Fund revenues total \$39,214,190 or 50.66% of the revised revenue estimate at December 31, 2007.

General Fund expenditures and encumbrances total \$35,106,731, with 55.6% of the revised operating budget available at December 31, 2007.

The General Fund (10.00) recommended Mid-year budget adjustments are detailed in Attachment 1.

General Estimated Revenue

As discussed below, a variety of General Fund revenue estimates are being adjusted, although to total revenues estimate remains at \$77,402,000 for 2007-08.

Property Tax

Countywide Property Tax distribution is controlled by the State with about 62% going to School Districts, 16% to County Agencies, 9% to Special Districts and 13% to Cities and Redevelopment Agencies (does not include property tax in-lieu of vehicle license fees allocation).

Fiscal year 2004-05 secured property tax revenue and growth is as follows: \$9,669,243 in 2004-05 (9.8%), \$11,014,343 in 2005-06 (13.9%), \$12,095,981 in 2006-07 (9.8%). FY 2006-07 includes a deduction for Monterey County's increased administrative fees of \$243,312. The City's taxable assessed value growth was 10.7% for 2004-05, 12.9% for 2005-06 and 12.7% for 2006-07. The City's property tax growth reflects tax reassessments with the continued buying and selling of existing homes during those years.

During 2006-07, Monterey County (as did most counties) increased property tax administrative fees from \$114,253 to \$243,312, citing the Triple Flip and VLF Swap as reasoning for the cost increase. During January 2007, the State Controller's Office issued a legal opinion stating that an increase based on the Triple Flip and VLF Swap is not valid. City has notified the County of this ruling and has requested a refund.

The County confirmed the City's growth in taxable assessed values for 2007-08 of 7.3% during August 2007. Based on this information, as part of the City's mid-year budget review, the City's secured property tax estimate for 2007-08 of \$12,900,000 will not be adjusted.

The prior year secured property tax estimate is being increased by \$25,000 to \$275,000.

Property Tax In Lieu of VLF

In 1948, Local Governments established a 2% tax on the value of motor vehicles instead of levying property tax on vehicles. Vehicle License Fees (VLFs) are collected by the Department of Motor Vehicles (DMV) and allocated to Cities and Counties based on population. In November 2003, Governor Schwarnegger reduced VLF by 67% and reimbursed local governments by a reallocation of property tax distributions. Now, 67% of the City's VLFs are distributed with property taxes.

In 2004-05, the City's VLF distributed with property tax totaled \$8.3 million and the remaining 33% of \$1.2 million was collected by the DMV and is distributed based on population. It is important to note that, beginning in 2005-06, the City's 67% share of VLF is considered property tax grows based in increases in assessed property valuation.

During November 2007, the County confirmed the City's 2007-08 property tax in-lieu VLF at \$12,100,000, a 7.3% increase over the \$11,281,580 received in 2006-07. The VLF distribution is determined based on

property assessed value growth.

Based on this information, as part of the City's mid-year budget review, the City's VLF In-lieu estimate for 2006-07 is being increased \$100,000, to \$12,100,000.

Secured property tax and property tax in-lieu of VLF total \$25.0 million. This represent about 33% of General Fund on-going revenue and growth from this revenue source is dependent on assessed value growth.

The three years (2004 through 2006) of extraordinary assessed value growth averaging 12% per year (due to the real estate boom and increased property values) will not continue. This was anticipated and City's property tax estimate for 2007-08 reflects growth based on taxable assessed value growth of 7.3%.

The City's multi-year projection assumed 5% growth in property tax and in-lieu of VLF for 2008-09. Based on conversations with the Monterey County Assessor's office and Hdl Coren & Cone (the City property tax auditors) this projection is being reduced to 4% growth. This is a decrease in 2008-09 estimated secured property tax and property tax in-lieu of VLF of \$205,000 to \$25,950,000.

On January 30, 2008, the Monterey County Assessor reports and predicts a 5.5% increase in taxable assessed values from 2006-07 to 2007-08. Although, the assessor cautions this 5.5% estimate maybe revised to 5.0% with the continued foreclosures and declining property values. The City's revised property tax growth assumption of 4.0% for 2008-09 is in line with the assessor's estimate.

Along with increased demands for City services, property tax and property tax in-lieu of VLF will grow as new residential and commercial development occurs.

Supplemental Property Tax Assessments

Supplemental property tax assessments estimated revenue is being increased \$100,000 to \$600,000 at this 2007-08 mid-year point. Supplemental property tax is billed when real estate is sold prior to the end of the tax year (June 30th). This tax is reflective of real estate sales and has declined from a high of \$1.7 million in 2005-06 to \$400,000 expected in 2008-09.

Property Transfer Tax

Property transfer tax is imposed at the time real estate is sold in the County. The tax is assessed at \$1.10 per \$1,000 of the sales price of the real estate sold. This tax is split 50% between Cities and Monterey County. This tax, along with property tax, has increased steadily reflecting continued property sales in the City of Salinas and Monterey County. Property transfer tax collected in 2004-05 was \$843,392, in 2005-06 \$883,075, in 2006-07 was \$522,692 and was estimated at \$425,000 in 2007-08. While a decrease in property sales was anticipated, the property transfer tax revenue estimate for 2007-08 is being further reduced \$200,000 to \$225,000.

Additionally, the property transfer tax revenue estimate for 2008-09 is being reduced by \$200,000 to \$200,000.

Sales Tax

During the 1990s, with a strong economy, a growing population, housing developments such as Creekbridge and Harden Ranch and new retail including Harden Ranch Plaza, Westridge Shopping Center and the Salinas Auto Mall, the City sales tax grew at an average of about 7% per year. With the beginning of a recession in 2001-02, the City's sales tax grew 3.8%, declining in 2002-03 by 2.3% and further declining in 2003-04 by 0.2%.

Salinas' economy began to improve during 2004-05, closing the year with sales tax growth of 7.9%. While this was substantial growth, about 3% of this growth was due to increased fuel prices and the balance of the growth, 4.9%, reflected an improved economy. Fiscal year 2005-06 sales tax totaled \$23,519,860 reflecting a 3.6% increase over 2004-05 collections of \$22,694,294. Fiscal year 2006-07 sales tax totaled \$24,132,494 reflecting a 2.6% increase over 2005-06 collections.

The combination of declining home sales and prices, foreclosures and tightening credit has created an economic slowdown and the beginning of a recession.

The City's sales tax estimate for 2007-08 of \$24,700,000 assumed a modest 2.4% growth factor.

The City's sales tax receipts have declined 4% in the first half of fiscal year 2007-08 (a decline of \$500,000). Building and construction materials sales are down 19% and automobile sales are down 6% in the first half of this fiscal year. Sales tax represents about one-third of General Fund revenues. At this 2007-08 mid-year, the City's sales tax estimate of \$24.7 million is being reduced \$200,000 to \$24.5 million.

With the 4% sales tax decline in the first half of 2007-08, the City sales tax base has declined \$500,000. Based on this information, the City's sales tax projection for 2008-09 will be reduced \$700,000. The revised sales tax projection for 2008-09 assumes an improved economy and 3% growth.

Again, based on this information, as part of the City's mid-year budget review, the City's sales tax estimate for 2007-08 is being decreased \$200,000, to \$24.5 million. This estimate has been discussed with the City's sales tax consultant/auditor Hinderliter, de Llamas & Associates (HDL).

Sales Tax and the Triple Flip

What is the "Triple Flip" of local sales tax? On March 2, 2004, California voters approved a \$15 billion bond issue (Economic Recovery Bonds) to finance the State's 2002-03 and 2003-04 budget deficits. To issue the bonds at a more favorable interest rate, the State pledged one-quarter cent of local governments sales tax to guarantee the debt. To compensate, the State has reallocate in-lieu sales tax dollars that are distributed by the County auditor with property tax distributions. This creates a cash flow problem, as "backfill" of sales tax is now paid by the State (through the County) twice a year in January and May/June rather than our normal monthly allocation of sales tax. For the City of Salinas, the one-quarter cent sales tax about \$6.5 million annually.

The "Triple Flip" of local sales tax ends with the repayment of the \$15 billion Economic Recovery Bonds. The State planned to retire these bonds in 2009-10, although this date will be extended to 2012 or beyond with the Governor's proposal to issue an additional \$3.3 billion in bonds during 2007-08.

The County, during November 2007, confirmed the City's Property Tax In-lieu of Sales Tax at \$6,570,000 and with the distribution of property tax in December 2007, the City received one-half of the 25% sales tax distribution due from the State and in May 2008 will receive the balance. The City's Property Tax In-lieu of Sales Tax is included in the overall 2007-08 Sales Tax estimates of \$24,500,000.

Sales tax totals \$24.5 million. This represent about 31% of General Fund on-going revenue and growth from this revenue source is dependent on retail sales.

Vehicle License Fees (VLF)

In November 2003, Governor Schwarnegger reduced VLF by 67% and reimbursed local governments by a reallocation of property tax distributions. Now, 67% of the City's VLFs are distributed with property taxes. The remaining VLF (33%) is collected by the Department of Motor Vehicles (DMV) and distributed based on population.

DMV administrative costs are deducted from the remaining 33% VLF collections. DMV costs continue to erode this revenue source. Distributions of the City's remaining VLF (33%) are as follows; \$1,159,953 in 2004-05, \$930,400 in 2005-06, \$1,040,841 in 2006-07 and the City's 2007-08 budget estimate was \$1,100,000.

DMV administrative costs for 2007-08 have increased 17% or \$52.5 million to \$366.6 million. The City's share of this increase is about \$275,000. Additionally, VLF has increased 1.4% year to date, as compared to budgeted growth of 5% or a \$50,000 reduction in anticipated VLF. Based on this information, as part of the City's mid-year budget review, the City's VLF estimate for 2007-08 is being decreased \$325,000, to \$775,000.

Additionally, the VLF revenue estimate for 2008-09 is being reduced \$350,000 to \$800,000.

Utility Users Tax

The City's Utility Users Tax (adopted July 28, 1969) is imposed on all users of natural gas, electricity, cable television and telephone services within the City limits. The tax rate is 6% of all utility charges. The Utility Users Tax revenue estimate of \$8,550,000 is not being adjusted at this 2007-08 mid-year point.

Business License Tax

The Business License Tax is a general tax on businesses for the privilege of conducting business within the City. On November 2, 2004, Salinas' voters approved Measure C that increased the Business License Tax. The tax increase has generated about \$1,200,000 annually.

On November 20, 2007, Council approved a Business License Tax Compliance and Enforcement Program, including a sixty-day amnesty period beginning January 1 through February 29, 2008. Council authorized a consultant agreement with Municipal Auditing Services (MAS) to provide a compliance/enforcement program over a three-year period to include auditing all 8,000 plus business licenses issued by the City.

To date eighteen businesses have used the amnesty period paying about \$10,000 in taxes. MAS will begin audits on March 1, 2008.

As part of the City's mid-year budget review the Business License Tax revenue estimate of \$4,000,000 is being increased \$100,000 to \$4,100,000.

Additionally, the Business License Tax revenue estimate for 2008-09 is being increased by \$200,000 to \$4,300,000.

Franchise Fees

Franchise fees are imposed on privately owned utility companies and other businesses for the privilege of using city rights-of-way (streets). Franchise fee are paid for electricity, natural gas, garbage and cable T.V. On April 15, 2005, the City Council adopted a resolution to increase garbage franchise fees from 12% to 14% of annual gross revenues, effective July 1, 2005. The fee increase generates \$300,000 annually. On April 15, 2005, the City Council adopted an ordinance approving a towing franchise fee at \$15,000 per City tow service provider. The fee was effective July 1, 2005 and generates about \$150,000 annually. Franchise Fees (Electric, Gas, Garbage, Cable TV and Towing) revenue estimates totaling \$3,305,000 is not being adjusted at this 2007-08 mid-year point.

Building Permit and Plan Check Fees

As anticipated, building and remodeling activity has declined (about 40%), although estimated Building Permit and Plan Check Fees revenue of \$1,300,000 will be increased \$100,000 to \$1,400,000 at this 2007-08 mid-year point. Building Permit and Plan Check Fees of \$1.8 million were collected in both 2004-05 and 2005-06 and \$2.0 million was collected in 2006-07.

Additionally, Building Permit and Plan Check Fees revenue are estimated at \$1.3 million for 2008-09.

Other General Fund Revenues

During 2007-08, the City sold excess property (\$93,100) on Bernal Street.

Other General Fund revenue increases include administrative service fees (an increase of \$75,000 to \$1,275,000), 65 West Alisal Building Lease (\$65,000), State ABC grant (\$20,000), Department of Justice grant (\$10,000), Fire Fees (\$40,000) and Other Fees (\$29,500).

State Public Library Funds are decreased \$32,600 to \$54,700.

Other revenue represent about 36% of General Fund on-going revenue and growth from these revenue sources is dependent primarily on population growth and inflationary increases.

General Fund 2007-08 Mid-year Adjustments

General Fund 2007-08 mid-year budget adjustments include; a reduction in the General Fund advance to Fairways golf course from \$750,000 to \$700,000; an increase of \$20,000 to the Fire Department training budget per the approved MOU with IAFF; an appropriation of \$31,102 to match the FEMA Fire Department wellness grant; an appropriation of \$35,000 to operate the Firehouse Recreation Center through the end of this fiscal year; an appropriation of \$1,523,600 to cover the cost of MOUs adjusting employee

compensation approved after the adoption of the 2007-08 budget; and an appropriation of \$890,000 to match the \$2.9 million COPs public safety radio system grant. Additionally, staff recommends \$2.0 million of the 2006-07 carryover be allocated to the operating reserve. The \$2.0 million allocation to the operating is required to keep the General Fund multi-year forecast intact.

Estimated General Fund Reserves-June 30, 2008 and 2009

After approval of recommended 2007-08 mid-year budget adjustments, estimated General Fund balances to end 2007-08 total \$8,535,941, inclusive of a capital projects reserve for 2008-09 of \$2,533,000, an operating reserve of \$6,000,000 and an unallocated balance of \$2,941.

The June 30, 2007 General Fund operating reserve of \$7.2 million will decrease \$1.2 million during 2007-08 to an estimated \$6.0 million at June 30, 2008. This decrease was anticipated as the three-year (2007-08 through 2009-10) financial forecast assumes the entire \$7.2 million operating reserve will be exhausted during this period. This fact was discussed during April 2007 with the beginning of employee MOU negotiations.

The combination of declining home sales and prices, foreclosures and tightening credit has created an economic slowdown and the beginning of a recession. Sales tax, property tax and other General Fund revenue estimates for 2008-09 are being decreased \$1.1 million to \$78.7 million. The estimated General Fund operating reserve of \$6.0 million at June 30, 2008 will decrease \$2.8 million to \$3.2 million at June 30, 2009 (the end of the City's current two-year budget cycle).

The City's three-year financial forecast (of April 2007) projected the General Fund operating reserve at \$4.2 million for the year ending June 30, 2009. At this 2007-08 mid-year point, the June 30, 2009 General Fund operating reserve is projected at \$3.2 million or \$1.0 million less than the April 2007 projection. This decline is due to the economic slowdown and revised General Fund revenue estimates for 2008-09.

2. Measure V Fund (11.00)

The Measure V Fund accounts for the proceeds of the ½ cent transactions and use tax approved by the Salinas' voters on November 8, 2005. The tax was imposed effective April 1, 2006 with first advance distribution to the City during June 2006. Annual revenue from the tax is estimated at \$10,000,000. The tax will sunset in ten (10) years. The Oversight Committee is a fundamental provision of the voter-approved tax. The Mayor and City Council each annually appoints one member of the public to serve on the Oversight Committee. The committee has two (2) major responsibilities, recommending the specific uses of Measure V funds to the City Council and overseeing the use of Measure V funds to assure consistency with the voter approved tax and the appropriated use of Measure V funds.

During May 2006, the Measure V Oversight Committee completed its work identifying \$10,000,000 in on-going programs and services to be funded by Measure V revenue.

At its April 16, 2007 meeting, the Measure V Oversight Committee approved the continuation of the original \$10,000,000 operating budget allocation for 2007-08 with two exceptions. The Measure V Committee recommended the elimination of the five vacant police officer positions included in the prior year budget, the addition of a Librarian II (Children's Services Coordinator) position to the Library budget and to set-aside \$400,000 for a Community Safety Initiative. A reserve for the Community Safety Initiative was established pending specific program budget requests. See the Other Financial Issues-Number 11 "Transactions and Use Tax (Measure V)" section of this report for detail of annual appropriations.

Significant savings were forecasted during the first year (FY 2006-07) of Measure V funding. The primary reason for the savings was the time necessary to complete the hiring process required to restore services. It was essential these one-time savings be used for one-time capital outlay or capital improvement investments. See the Other Financial Issues-Number 11 "Transactions and Use Tax (Measure V)" section of this report for detail of capital improvement appropriations.

Measure V revenues total \$5,446,102 or 52.49% of the revised revenue estimate at December 31, 2007.

Measure V operating expenditures and encumbrances total \$3,046,737, with 68.1% of the operating

budget available at December 31, 2007.

Measure V capital project expenditures and encumbrances total \$2,291,410, with 44.50% of the capital projects budget available at December 31, 2007.

The Measure V (11.00) recommended Mid-year budget adjustments are detailed in Attachment 2

Staff recommends the 2007-08 Measure V tax revenue estimate of \$10,300,000 be reduced by \$100,000 to \$10,200,000. While Measure V tax collections in the first quarter were up 18.4% due to the receipt of taxes from taxpayers on an irregular reporting schedule (other than quarterly reporting), tax collections were down 4.9% with the second quarter receipts. During the first six-month period of this fiscal year (April 2007 through September 2007 retail sales) building and construction material sales are down 19% and automobile sales are down 6%. Assuming no further declines over the next six-months, Measure V tax will end the fiscal year at \$10,200,000.

Staff recommends the 2007-08 investment earnings revenue estimate of \$75,000 be increased by \$100,000 to \$175,000. This increase is due to cash balances held and invested pending expenditure on capital projects such as Library improvements and street rehabilitation projects.

With these adjustments the overall Measure V revenue estimate remains at \$10,375,000.

A mid-year budget increase of \$194,127 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

3. Enterprise Funds

Enterprise Funds are used to report business-type activities for which a fee is charged to external users for goods or services.

Airport Fund (21.00) - This fund is used to account for the enterprise operations of the City-owned airport. The Federal Aviation Administration governs the use of Airport funds.

Airport revenues total \$621,691 or 55.11% of the revised revenue estimate at December 31, 2007.

Airport expenditures and encumbrances total \$471,628, with 53.4% of the operating budget available at December 31, 2007.

The Airport Fund (21.00) recommended Mid-year budget adjustments are detailed in Attachment 3

Adjustments include and increase in estimated Use Permit Fees of \$4,500 and an increase budget appropriation of \$39,000 to purchase a vehicle (\$20,000) and to fund temporary pay (\$19,000) to provide increased staff coverage at the airport. To complete the Airport Fire Crash Truck an appropriation of \$10,100 is required. A mid-year budget increase of \$12,646 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

Industrial Waste Fund (22.00) - This fund is used to account for enterprise operations of the City-operated Industrial Wastewater treatment facility. The Industrial Waste Fund is operated like a co-op with the users of the treatment plant.

Industrial Waste revenues total \$524,660 or 40.05% of the revised revenue estimate at December 31, 2007. Revenue estimates consist of user's fees and investment earnings.

Industrial Waste expenditures and encumbrances total \$422,942 with 63.6% of the operating budget available at December 31, 2007. Operating budget includes interest on bond debt of \$102,800.

The Industrial Waste Fund (22.00) recommended Mid-year budget adjustments are detailed in Attachment 4

Adjustments include an increase in the estimated investment earnings of \$10,000. Adjustments also include the transfer of a Public Service Maintenance Worker II from the Sewer Enterprise to the Industrial Enterprise. FY 2007-08 cost of \$39,100 will be absorbed in the existing 2007-08 budget. A mid-year budget increase of \$4,999 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

Municipal Golf Courses Fund (23.00) - This fund is used to account for the enterprise operations of the Fairways and Twin Creeks golf courses. These funds are restricted for operations of the Golf Courses and payment of the 1999 Fairways and 2005 Twin Creeks Golf Course bonds.

Twin Creeks (23.30)

On August 24, 2004, the City Council entered into a sublease agreement with the Monterey Peninsula Foundation and its related foundation, the Future Citizens Foundation, (known as First Tee of Monterey County) providing for the lease and operation of Twin Creeks golf course and youth golf learning center.

The sublease term runs for 20 years (15 years with a 5-year option) with base annual rent of \$575,000. The Monterey Peninsula Foundation guarantees the lease payments. First Tee of Monterey County has been operating the golf course since November 2004. This arrangement eliminated the General Fund subsidy of Twin Creeks golf course.

During September 2005 the Twin Creeks 1999 financing was refunded with a new bond issue 2005A. The new bond issue complies with the 20-year sublease with First Tee. Annual debt service payments of the new 2005A bonds are \$571,800.

Fairways Golf Course (23.20)

Funding for the Fairways Golf Course's 2007-08 operating and capital budgets total includes user fee revenue estimated at \$1.2 million and a General Fund advance of \$700,000.

Beginning in February 2005, consistent with the authority provided to staff by City Council, rates were reduced and offered as "special rates" in an effort to increase rounds and revenue at Fairways. This strategy has proven successful. Fairways golf course has experienced an increase in rounds played.

Greens fee revenue at Fairways are as follows; \$862,859 in 2002-03, \$780,714 in 2003-04, \$690,524 in 2004-05, \$672,587 in 2005-06 and \$766,664 in 2006-07. FY 2007-08 has improved with greens fees estimated at \$800,000.

Staff and City Council continue to explore alternatives to eliminate the General Fund subsidy to the Fairways Golf Course. "Special rates" have led to increases in the number of rounds played with green fee revenue increasing 14% in 2006-07 and over 10% to date in 2007-08. During May 2007, grounds maintenance was contracted to a private operator with savings estimated \$200,000 annually.

A cash advance of \$900,000 was made from the City's General Fund to cover operating losses at Fairways Golf Course during 2006-07. With improved green fee revenue and savings on the private maintenance contract the 2007-08 estimated General Fund advance is being reduced to 700,000.

Staff is exploring privatizing the entire operations of the golf course.

Mid-year Adjustments

Golf Courses revenues total \$1,033,992 or 57.18% of the revised revenue estimate at December 31, 2007.

Golf Courses expenditures and encumbrances total \$1,702,208, with 27.1% of the operating budget available at December 31, 2007.

To close the gap between Fairways Golf Course revenue and expenditures, an advance from the General Fund is estimated at \$700,000 and will be required this fiscal (2007-08) year. With this advance, General Fund advances to Fairways Golf Course will total \$4,435,000. The Golf Course pay interest to the General Fund on these advances.

Fairways Golf Course Fund (23.20) recommended Mid-year budget adjustments are detailed in Attachment 5 and include an increase in Green Fees, Cart Rentals and Merchandise Sales all totaling \$115,000. Staff recommends that the General Fund advance be reduced by \$50,000 to \$700,000. A mid-year budget increase of \$4,657 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

Sanitary Sewer Fund (27.00) - This fund is used to account for the maintenance of the City's sanitary sewer collection system, which is funded with a 35% surcharge on the Monterey Regional Water Pollution Control Agency sewer user fees. These funds are restricted for operations of the sewer system and payment of the 1998 Sewer bonds.

Sanitary Sewer revenues total \$1,189,885 are 52.88% of the revised revenue estimate at December 31, 2007.

Sanitary Sewer expenditures and encumbrances total \$1,265,653, with 46.0% of the operating budget available at December 31, 2007.

Sanitary Sewer Fund (27.00) recommended Mid-year budget adjustments are detailed in Attachment 6 and include the transfer of a Public Service Maintenance Worker II from the Sewer Enterprise to the Industrial Enterprise. FY 2007-08 savings of \$39,100 will accrue to the Sewer Fund. A mid-year budget increase of \$25,310 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

Storm Sewer Fund (30.00) - This fund is used to account for the maintenance of the City's storm drainage system and the street sweeping program. This program was funded with a storm sewer fee that was declared by the Court as invalid under Proposition 218. Until alternative funding is secured, the program is funded with a combination of general funds and gas tax funds. In addition, the program is funded with a 9% street sweeping surcharge on garbage collection billings.

Currently, a total of \$1.3 million of gas tax funds are allocated to the NPDES program, in addition to General Funds of \$0.6 million.

Storm Sewer revenues total \$268,245 or 53.64% of the revised revenue estimate at December 31, 2007.

Storm Sewer expenditures and encumbrances total \$512,294, with 65.4% of the operating budget available at December 31, 2007.

The Storm Sewer Fund (30.00) recommended Mid-year budget adjustments are detailed in Attachment 7 and includes an increase of \$100 for prior year tax collections. A mid-year budget increase of \$27,605 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

Landfill Garbage Surcharge Fund (31.00) - This fund is used to account for the 1997 installment sale of the Crazy Horse landfill site (\$8,000,000) to the Salinas Valley Solid Waste Authority (SVSWA). During August 2003, the SVSWA paid the City \$3,850,000 of the amount due. Council allocated these funds to the General Fund operating reserve to be used over the City's three-year budget cycle. The SVSWA's remaining debt is \$3,875,837 and annual payments to the City are \$385,100, including interest at 7.91% for the remaining 21 years. These payments (\$385,000) are transferred to the Debt Service Fund and used to offset annual debt service (\$795,700) on the 1997 Crazy Horse COPs (Refunded by COP Series 2005 B in September 2005). Additional debt service funds in the amount of \$100,000 come from the lease of space at 65 West Alisal Street to Well Fargo Bank.

Estimated Landfill revenues total \$192,549 or 50.0% of the annual revenue estimate and represent the first half annual installment purchase payment from the Salinas Valley Solid Waste Authority. The installment purchase payment will be transferred to the COP Debt Service Fund to make the annual bond payments.

There are no mid-year budget adjustments recommended.

Water Utility Fund (51.00)- This fund is used to account for the repairs and maintenance of the water well and water system that provides water to Monterey County Animal Shelter, City of Salinas Animal Shelter, Monterey Regional Water Pollution Control Agency (MRWPCA) Pumping Station and City Industrial Waste Water Facility. These users are billed based on water usage.

Hitchcock Road Water Utility revenues total \$0 or 00.00% of the revised revenue estimate at December 31, 2007. Users will be billed during the second half of fiscal year 2007-08.

Hitchcock Road Water Utility expenditures and encumbrances total \$9,946, with 76.4% of the operating

budget available at December 31, 2007.

There are no mid-year budget adjustments recommended.

Parking District Fund (52.00)- This fund was established in FY 2005-06 to account for revenues, operating expenses and debt service associated with the City's parking facilities. The City's paid parking facilities include the Monterey Street Parking Structure (435 spaces), the Salinas Street Garage (252 spaces) and four parking lots.

Funding for the Downtown Parking District's 2007-08 operating and capital budgets includes parking fee revenue estimated at \$387,000 and a budgeted General Fund advance of \$300,000.

Parking District revenues total \$146,352 or 37.82% of the revised revenue estimate at December 31, 2007.

Parking District expenditures and encumbrances total \$390,769, with 33.8% of the operating budget available at December 31, 2007.

The Parking District Fund (52.00) recommended Mid-year budget adjustments are detailed in Attachment 8 and include a decrease in estimated Salinas Street Garage parking fees of \$10,000 and an increase of \$10,000 in investment earnings. An appropriation of Parking District funds of \$15,000 is required to complete the Parking Lot Resurfacing project. A mid-year budget increase of \$3,045 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget. There is no change to the budgeted advance from the General Fund of \$300,000.

The Monterey Street Parking Structure is a 5-level, 435-space parking garage adjacent to the Steinbeck Center and Maya Multiplex Theater. The project was funded with COP financing and a \$2.0 million EDA grant. Annual debt service of \$1,091,950 was paid from capitalized interest in the first three years. The first full debt service payment begins in FY 07-08.

Debt service payments were made during fiscal year 2006-07 using the balance of capitalized interest, investment earnings and \$275,000 of Redevelopment Agency (Central City Project) funds. Beginning in fiscal year 2007-08, maximum annual debt service payments are \$1,091,950. At June 30, 2007, the Agency has reserved \$1,135,000 of fund balance for the purpose of making debt service payments.

It is anticipated that the Downtown Parking District including debt service will be funded with a combination of off-street paid parking, Central City tax increment growth (with the planned Hotel development) and lastly (if required) the General Fund.

Pursuant to a reimbursement agreement the Salinas Redevelopment Agency (Central City Project) is responsible for debt service. The City's General Fund is ultimately responsible for the parking structure debt if the Agency is financially unable to make the bond payments.

4. Emergency Medical Services Fund (24.00)

This fund accounts for the financial transactions of the City Fire Department's paramedic program, including 27 firefighter paramedics.

The City currently receives \$18,000 from County Service Area (CSA) 74 funds. These funds are allocated by Monterey County from the estimated \$450,000 paid annually by City residences to CSA 74. The annual allocation of \$18,000 is restricted to purchase emergency medical and safety equipment for Basic Life Support (BLS) program.

During October 2005, Council approved a funding agreement with Westmed Ambulance that provided \$497,500 annually for the City's \$790,500 paramedic program budget. Additionally, during May 2006, Measure V Funds of \$147,500 were allocated to fund a portion of the paramedic program.

On November 27, 2006, due to financial challenges, Westmed indicated its intent to terminate its agreement with the City. During January 2007, Council approved an amended contract with Westmed Ambulance, reducing Westmed's payments for paramedic support to \$300,000 annually.

Funding for the City's FY 2007-08 EMS (Paramedic) Program's operating and capital budgets totals \$790,500, including a City General Fund subsidy (\$325,000), Westmed contract payments (\$300,000), Measure V funds (\$147,500) and County CSA 74 payments (\$18,000).

The City will continue to monitor the on-going County-Westmed discussions as changes in the current contract may impact the City's ALS paramedic program. The City also continues efforts to secure Monterey County CSA 74 funds to support paramedic services. City efforts have been supported by the County EMS Council and the Board of Supervisor's Budget Committee. Monterey County staff has delayed the City and County Fire Chief's proposal to fund a portion of the City's paramedic program with CSA 74 funds.

Emergency Medical Services Fund revenues total \$151,983 or 47.49% of the revised revenue estimate at December 31, 2007.

Emergency Medical Services Fund expenditures and encumbrances total \$309,017, with 60.6% of the operating budget available at December 31, 2007.

The Emergency Medical Services Fund (24.00) recommended Mid-year budget adjustments are detailed in Attachment 9 and include a increase in estimated miscellaneous receipts of \$2,000. A mid-year budget increase of \$20,904 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

5. Asset Seizure Fund (25.00)

This fund accounts for the proceeds from sale of assets seized primarily from illegal narcotics activity. These funds are used exclusively for law enforcement.

Asset Seizure revenues total \$2,098 or 7.34% of the revised revenue estimate at December 31, 2007. Asset Seizure expenditures and encumbrances total \$21,623, with 47.9% of the operating budget available at December 31, 2007.

There are no mid-year budget adjustments recommended.

6. Maintenance District Funds (26.00)

This fund accounts for monies received from property owners in various maintenance districts throughout the City. Funds are used to pay for landscape maintenance in the following districts; Woodside Park, Downtown, Airport Business Park, North East Salinas, Harden Ranch, Vista Nueva, Mira Monte and Monte Bella.

Maintenance District revenues total \$739,516 or 49.26% of the revised revenue estimate at December 31, 2007.

Maintenance District expenditures and encumbrances total \$633,051, with 44.4% of the operating budget available at December 31, 2007.

The Maintenance District Fund (26.00) recommended Mid-year budget adjustments are detailed in Attachment 10 and include a upward revision to estimated revenue of \$290,600 The increase reflect adjusting estimates to actual amounts levied for maintenance in the Monte Bella District (\$274,700) and investment earnings for several of the maintenance districts coupled with an increase in the operating budget of \$1,436 required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 Budget.

7. Public Safety Funds (28.00)

This fund accounts for monies received from federal and state grants and other funds restricted for law enforcement services. Funds include Prop 172- Sales Tax Funds, State (AB3229) Law Enforcement Funds, State Office of Traffic Safety (DUI) Grants, State Office of Emergency Services NIBIN Grant, Federal Bureau of Justice Administration (BJA) Funds, Random Access Network (RAN) Funds (\$1 paid with VLF) and administered by Monterey County, Federal COP More Grants, COPS 2007 NGEN Technology Grant and the Federal Gang Task Force Grant.

Public Safety revenues total \$972,582 or 20.43% of the revised revenue estimate at December 31, 2007.

Public Safety expenditures and encumbrances total \$480,195, with 55.3% of the operating budget available at December 31, 2007.

The Public Safety Fund (28.00) recommended Mid-year budget adjustments are detailed in

Attachment 11 and include an increase in grant revenue and related appropriation for transfers out to capital projects (\$2,989,125) for the Next Generation Radio System (NGEN) used by public safety partially funded by the federal government COPS 2007 Grant. The total costs of the project are estimated at \$3,985,500 of which 25% or \$996,375 is a required match including other participating agencies. The General Fund share of the match is \$890,000. An additional increase in grant revenue and related appropriation is also included for the Office of Emergency Services NIBIN Project (Federally funded) that intends to reduce gun-related crime by networking local programs that target gun crime with state and federal efforts. The mid-year revision for this grant increases estimated revenues and appropriations in Police Support Services program by \$94,000. A decrease of \$25,000 in fund 28.10 (one-half sales tax imposed pursuant proposition 172 to use exclusively for public safety purposes) revenue, an increase in the State Traffic Grant Avoid the 18 of \$23,932, an increase in the Supplemental Law Enforcement fund estimated revenue of \$67,700 coupled with an increase in the operating appropriation of \$71,950 per approved grant award, an increase to the Federal Bureau of Justice Assistance Fund for the fiscal year 2008-09 grant of \$146,595 and an increase for the remaining balance of the Federal Gang Task Force Grant of \$65,635 are also recommended.

8. Block Grant Fund (29.00)

This fund accounts for the use of community development Block Grant and Home funds received from the federal government. Other revenues in this fund include repayments of commercial and residential loans and rental income from City property. Funds are used for programs or projects that increase affordable housing and benefit people with special needs such as senior and handicapped citizens.

Block Grant, Home and Emergency Shelter Grant, revenues total \$1,708,943 or 19.39% of the revised revenue estimate at December 31, 2007.

The Block Grant Program funded by HUD's annual Community Development Block Grant, provides funds for Public Services, the Bread Box Rec Center, Community Programs, Jazz-Up Program, Housing Programs and administration of HUD grants. This program is within the budgeted level of expenditures at this mid-year point. Actual expenditures and encumbrances to date total \$699,341, with 62.8% of the operating budget available at December 31, 2007.

Block Grant funds are allocated to the capital improvement program to fund projects such as ADA Improvements (i.e., sidewalk ramps, park restrooms, City streets), Street Lights and Traffic Signals in East Salinas neighborhoods, Illuminated Crosswalks, N. Main Street Improvements, and Municipal Pool Building Improvement.

The Housing Program consists of Housing Rehabilitation, First Time Home Buyers Program, Rental Housing, CHDO (Community Housing Development Organizations), Special Programs, Farm Labor Housing, and administration. The Housing Program is within the budgeted level of expenditures at this mid-year point. Actual expenditures and encumbrances to date total \$715,448, with 85.8% of the operating budget available at December 31, 2007.

Housing and Urban Development (HUD) Funds (29.00) recommended Mid-year budget adjustments are detailed in Attachment 12 and include increases to Block Grant, Home, American Dream Down-payment and Emergency Shelter carryover grants totaling \$4,034,400 and a reduction in program income of \$400,000. **Carryover grants were assumed with the development of the 2007-08 Block Grant and Home programs.**

9. Development Fee Fund (32.00)

This fund accounts for fees charged to developers to cover development impact costs relating to traffic, annexation, sewers, storm drains, park facilities, library facilities and street trees. These funds are restricted for capital projects that relate to the impact of development.

Development Fee revenues total \$1,551,284 or 67.54% of the revised revenue estimate at December 31, 2007.

Development Fee funds are allocated to the capital improvement program to fund projects such as Sewer and Storm Drains, Natividad and Monte Bella Park Improvements, Street Trees, Municipal Pool, West Laurel, East Bernal, East Romie Lane and South Main/Blanco improvements, and other traffic signal and

street improvements.

The Library Development Fees Fund has \$1,250,000 set aside for the expansion of Chavez Library.

The Development Fee Fund (32.00) recommended Mid-year budget adjustments are detailed in Attachment 13 and include increases to estimated investment earnings of \$345,000 and increases in sewer impact fees of \$300,000, street tree fees of \$1,000 and library impact fees of \$15,000, coupled with a downward revision to estimated traffic impact fees of 200,000. Appropriations of Traffic Impact Fees (\$15,000) to Sanborn Road Improvements and Park Impact Fees (\$10,000) to Lower Natividad Creek Park are required to complete these projects through the end of this fiscal year.

10. Gas Tax Fund (33.00)

This fund accounts for gas tax revenues received from State apportionments of gasoline taxes. Expenditures are restricted to street maintenance and street improvements. No expenditures are made directly from this fund, but transfers are made to the General Fund for street maintenance and engineering salaries and to the Capital Projects Fund for street improvements based on actual expenditures.

Gas Tax Fund revenues total \$1,323,131 or 43.39% of the revised revenue estimate at December 31, 2007.

Currently, a total of \$1.3 million of gas tax funds are allocated to the NPDES program, in addition to General Funds of \$0.6 million.

Gas Tax funds are allocated to the capital improvement program to fund projects such as the annual City street rehab program (which due to NPDES requirements) has decreased from \$1.0 million annually to \$0.5 million), traffic signal installation, sidewalk and drainage repair, and other street related projects.

The Gas Tax Fund (33.00) recommended Mid-year budget adjustments are detailed in Attachment 14 and includes an increase in estimated investment earnings of \$100,000 and miscellaneous receipts of \$2,100.

11. Traffic Safety Fund (34.00)

This fund accounts for revenue derived from Vehicle Code Fines and Parking Fines whose use is restricted by State statute for traffic safety and street maintenance purposes. No expenditures are made directly from this fund, but transfers are made to the General Fund for reimbursement of traffic safety and street maintenance expenditures.

Traffic Safety Fund revenues total \$431,830 or 50.51% of the revised revenue estimate at December 31, 2007.

Transfer of Traffic Safety Funds of \$900,000 to the General Fund to reimburse for traffic safety and street maintenance expenditures is included in FY 2007-08 budget. Sufficient funds are available to make this transfer.

There are no mid-year budget adjustments recommended.

12. Vehicle Abatement Fund (35.00)

This fund accounts for monies allocated by the State to fund the vehicle abatement program.

Vehicle Abatement Fund revenues total \$47,462 or 41.27% of the revised revenue estimate at December 31, 2007.

Vehicle Abatement Fund expenditures and encumbrances total \$81,873, with 52.1% of the operating budget available at December 31, 2007.

The Vehicle Abatement Fund (35.00) recommended Mid-year budget adjustments are detailed in Attachment 15 and include an increase of \$4,755 is required to cover the cost of MOU adjusting employee compensation approved after the adoption of the 2007-08 Budget.

13. Recreation Parks Fund (36.00)

This fund accounts for revenue received from an admission fee charge imposed to events held at the Salinas Sports Complex (Rodeo Grounds Stadium). Funds are designated for Parks and Recreation activities.

Recreation Parks Fund revenues total \$18,567 or 61.89% of the revised revenue estimate at December 31, 2007.

Recreation Park funds (\$200,000) are budgeted in capital project number 9854 for activities associated with the prevention initiative.

The June 30, 2007 Recreation Parks Fund Balance is estimated at \$34,664.

There are no mid-year budget adjustments recommended.

14. Special Aviation Fund (37.00)

This fund accounts for federal and state airport grants. Funds are used to reimburse the Capital Projects fund for airport capital expenditures.

Special Aviation Fund revenues total \$411,952 or 50.11% of the revised revenue estimate at December 31, 2007. Grant revenue is reimbursed after Airport project expenditures are made.

Special Aviation Fund includes approved FAA Grants that are allocated to the capital improvement program to fund Airport capital improvement projects.

The Special Aviation Fund (37.00) recommended Mid-year budget adjustments are detailed in Attachment 3 and include increases in estimate investment earning of \$10,000 and carryover FAA grants of \$367,297.

15. Special Construction Assistance Fund (38.00)

This fund accounts for numerous federal, state and county grants as well as developer contributions and other capital related revenue used for public improvements. Funds are used to reimburse the Capital Projects fund for capital project expenditures.

Special Construction Assistance Fund revenues total \$4,233,232 or 30.54% of the revised revenue estimate at December 31, 2007. Construction grant revenue is received after project expenditures are made.

The Special Construction Assistance Fund (38.00) recommended Mid-year budget adjustments are detailed in Attachment 16 and include increases in both capital project grants and reimbursements and related project appropriations including; State Bond Act (Abbott Street \$200,000); Other State Aid (Dept of Transportation \$138,800, Bicycle Transportation Act \$295,000, AB 2766 \$157,500); State H&CD Prop 46 for the Municipal Pool (\$417,402); HUD-EDI for the Municipal Pool (\$1,290,448); Salinas Pool Foundation donations for the Municipal Pool (\$1,600,000); the recently approved Packard Foundation grant for the Municipal Pool (\$1,480,000); State Airboard Grant (\$119,964) for Street Maintenance Equipment-Striper; Regional Surface Transportation Projects (\$2,100,000); Investment Earnings \$165,000; Developers' Contributions for Future Growth (\$1,345,000); Trakit Permit System Charges (\$80,000); South County Cities Contribution (\$25,000); Transportation Development Act (\$200,000) and Monterey County Reimbursement (\$266,000). The Federal Grant for the Public Safety Radio System of \$750,000 has been cancelled; this project is now maintained in the Public Safety Fund.

In November 2006, California voters approved a \$19.9 billion bond issue for various transportation projects to rebuild California, of which \$1.0 billion will go to cities and \$1.0 billion will go to counties for local street and road improvement projects (Proposition 1B). These bonds will be issued over time in conjunction with the State's budget adoption process and fiscal requirements. The 2007 State Budget Act appropriates \$950 million of these Prop 1B funds in 2007-08. The City's share of these funds is \$2,405,200 million and will be used for City street resurfacing (CIP 9138).

16. Business District Surcharge Fund (39.00)

This fund accounts for the business license surcharged assessment imposed on Oldtown Salinas Association (OSA) and Salinas United Business Association (SUBA) businesses. These funds are used to promote and revitalize these businesses. Expenditures are determined by the districts' Board of Directors

and approved by the City Council.

Business District Surcharge Fund-OSA and SUBA revenues total \$246,877 or 98.16% of the revised revenue estimate at December 31, 2007.

Business District Surcharge Fund- OSA and SUBA expenditures and encumbrances total \$258,938, with 3.1% of the operating budget available at December 31, 2007.

The Business District Surcharge Fund (39.00) recommended Mid-year budget adjustments are detailed in Attachment 17 and include a reduction in the Oldtown Business Improvement district estimated revenues of \$18,500 coupled with a reduction of \$2,800 in the operating appropriation is recommended at this mid-year.

17. Debt Service Funds (40.00)

These funds are used for the accumulation and disbursement of financial resources that will be used to make principal and interest payments on the City's outstanding Certificates of Participation (COPs). The debt service funds include the following debt issuances: 1997 Crazy Horse COPs, 1999 Animal Shelter COPs, 2002 Steinbeck COPs and 2004 Monterey Street Parking Structure COPs.

Debt Service Fund revenues total \$116,897 or 41.91% of the revised revenue estimate at December 31, 2007.

Debt Service Fund expenditures and encumbrances total \$1,430,717, with 33.9% of the operating budget available at December 31, 2007.

There are no mid-year budget adjustments recommended.

18. Internal Service Funds (50.00)

Internal Service Funds are used to account for the financing of insurance services provided by the City's Risk Management Department to other City departments, Enterprise Funds, Redevelopment Agency, and other outside agencies, on a cost reimbursement basis.

Risk Management Fund - This fund is used to account for the City's Risk Management program, which administers employee benefits, and the Internal Service Funds insurance programs.

General Insurance Fund - This fund is used to account for citywide safety programs, employee assistance program, unemployment claims, biennial physical exams, and insurance for property, fine arts and reimbursable damages.

Health Insurance Fund - This fund was used to account for administration of the City's health insurance programs. The City is no longer self-insured for employee health claims. Employees are covered under a fully paid PERS health insurance program.

Workers Compensation Fund - This fund is used to account for the City's self-insured workers compensation program.

General Liability Fund - This fund is used to account for the City's self-insured liability insurance program.

Internal Service Fund revenues total \$2,726,086 or 55.51% of the revised revenue estimate at December 31, 2007.

Internal Service Fund expenditures and encumbrances total \$2,454,776, with 46.2% of the revised operating budget available at December 31, 2007.

The Internal Service Fund (50.00) recommended Mid-year budget adjustments are detailed in Attachment 18 and include a \$600,000 decrease in Workers Compensation premiums collected from City operating departments offset by a reduction in Workers Compensation claims expenses. A mid-year budget increase of \$6,224 is required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the 2007-08 budget.

Workers Compensation Shortfall

Total outstanding Worker's Compensation liability is \$10,016,836 at June 30, 2007. The projected Worker's Compensation fund balance at June 30, 2009 is \$8,233,436; a shortfall of \$1,783,400.

For comparison purposes, total outstanding Worker's Compensation liability was \$10.5 million at June 30, 2004. The Worker's Compensation fund balance at June 30, 2004 was \$5.0 million; a shortfall of \$5.5 million.

Due to lack of sufficient General Fund resources, the City has been unable to completely fund the Worker's Compensation reserve, however the reserve has been increased from \$5.0 million at June 30, 2004 to the projected reserve of \$8.2 million at June 30, 2009. Annual costs of the Worker's compensation program have improved as follows: FY 03-04 (\$4.9 million), FY 04-05 (\$3.5 million), FY 05-06 (\$3.3 million) and FY 06-07 (\$3.1 million). Worker's Compensation claim expenditures will end FY 07-08 \$600,000 under budget with 80% of the resulting savings accruing to the General Fund. The revised Worker's Compensation budget for FY 07-08 totals \$2.8 million. The reductions in costs are due to the continued settlement of old claims by the City's claims administrator and recent State legislation.

Savings in Worker's Compensation claims were anticipated and included in the City multi-year economic forecast used with the recent approvals of MOUs adjusting employee compensation.

19. Grant Funds (61.00)

This fund accounts for various grants received for purposes ranging from library, recreation to police operations.

Grant Fund revenues total \$295,119 or 35.05% of the revised revenue estimate at December 31, 2007.

Grant Fund expenditures and encumbrances total \$377,761, with 62.7% of the operating budget available at December 31, 2007.

The Grant Fund (61.00) recommended Mid-year budget adjustments are detailed in Attachment 19 and include revenue increases in the Housing Trust Fund (\$500), KDF Tenant Services (\$1,600) and the Prop 10 School Readiness Grant (\$12,393), coupled with decreases in the Recreation Park After-school Program (\$18,700) after the three-year grant ended June 30, 2007, Literacy Program (\$9,900), Vanpool Employee Contributions (\$1,000), CLSA Families for Literacy grant (\$10,000) and the Weed and Seed grant (\$30,650) that ended October 1, 2007. On the Expenditure type, an increase of \$1,600 in the KDF Tenant Services grant is recommended coupled with decreases in the Recreation-Park After-school Grant (\$18,700), the State Literacy Grant (\$8,472), the Employee Commuter Vanpool program (\$1,000) and the CLSA-Families for Literacy (\$13,350).

Outside Agencies

The City is the fiscal agent for two outside agencies.

Sunrise House whose main goal is to provide services to residents in need of counseling and treatment for drug addictions. Sunrise House has a variety of revenue sources funding its operations including Block Grant funds, County and High School District grants and private donations. They had a fund balance at June 30, 2007 of \$87,224.

Second Chance Youth Program whose mission is to contribute to the reduction of gang violence by promoting total community involvement and awareness through several programs in order to direct at-risk youth towards healthy alternatives to a gang lifestyle. The recently completed Annual Financial report confirmed that the Second Chance Youth Program had a deficit fund balance at June 30, 2007 of \$37,416 and a deficit cash balance of \$48,241. An advance from the General Fund was required to guarantee the continuation of the services provided by the organization. The Executive Director and its Board are aware of the deficit experienced at the end of the previous fiscal year and approved an operating budget that included reductions in their projected expenses. Cash flow advances up to \$75,000 are required to cover operating expenses pending grant reimbursements.

20. Deferred Compensation Fund (65.05)

This fund accounts for revenue received from management fees (1/4 of 1-percent) paid by participants of

the Trust Deed Deferred Compensation program administered by the City. Funds collected are used to offset a portion of the cost of the Sr. Accounting Technician position responsible for the program and other costs associated with managing the real estate loans and investments.

Deferred Compensation Fund revenues total \$50,221 or 51.77% of the revised estimate at December 31, 2007.

Deferred Compensation Fund expenditures and encumbrances total \$51,333, with 48.5% of the operating budget available at December 31, 2007.

The Deferred Compensation Fund (65.05) recommended Mid-year budget adjustments are detailed in Attachment 20 and include an increase of \$1,853 is required to cover the cost of MOU adjusting employee compensation approved after the adoption of the 2007-08 Budget.

21. Assessment District Funds (70.00)

Assessment District Projects Fund - This fund accounts for bond proceeds from assessment districts used for capital improvements. Funds are used to reimburse the Capital Projects fund for assessment district capital project expenditures.

Assessment District Projects Fund revenues total \$28,719 or 47.08% of the revised revenue estimate at December 31, 2007.

Assessment District Administration Fund - This fund accounts for the cost of administering the City's 18 assessment district bonds used to finance improvements within those districts. Funding is provided by an assessment equal to 5% of the assessment amount with a maximum \$16 levy per parcel per bond.

Assessment District Debt Service

This fund is used to accumulate monies for payment of the City's Assessment Districts Improvement Bonds. Debt service is financed with special assessments levied against property owners within the respective improvement districts.

Assessment District Reserve Fund - This fund accounts for the reserves on outstanding Assessment Districts Bonds.

Assessment District Administration, Debt Service and Reserve Fund revenues total \$1,517,598 or 46.29% of the revised revenue estimate at December 31, 2007.

Assessment District Administration, Debt Service and Reserve Fund expenditures and encumbrances total \$2,604,381, with 20.7% of the operating budget available at December 31, 2007.

The Assessment District Funds (70.00) recommended Mid-year budget adjustments are detailed in Attachment 21 and include an increase in the revenue for the Investment Earnings of the Assessment District Project of \$5,400, increases to the Administrative Fees and Redistribution Fees of the Assessment District Administration Fund of \$2,500 and \$600 respectively and a decrease of \$85,000 in the estimated revenue from Assessment District Bond Calls coupled with a decrease of in the same amount in the appropriation side under the program Assessment District Bonds. An increase of \$1,500 is required to cover the cost of MOU's adjusting employee compensation approved after the adoption of the 2007-08 budget.

22. Capital Projects Fund (80.00)

This fund accounts for all capital projects expenditures. Funds are transferred in from various other funds after expenditures are made. This revolving fund was established with \$2,000,000 and is used to advance capital project expenditures prior to reimbursement of Federal, State and other construction grants and bond financings.

The Capital Projects Fund (80.00) recommended Mid-year budget adjustments are detailed in Attachment 22 and include a net increase to capital project appropriations of \$7,414,425. The increases are funded from a variety of sources including the General Fund COPs Radio Grant match-\$890,000,

Airport Fund-\$10,100, Public Safety Fund-\$2,989,125, Development Impact Fee Fund-\$25,000, Parking District Fund-\$15,000 and Construction Assistance Fund -\$3,485,200, including \$2.4 million (Prop 1B) for street resurfacing and \$1.4 million (Packard Grant) for construction of the new Municipal Pool.

OTHER FINANCIAL ISSUES

1. California Public Employees’ Retirement System (CALPERS)

During fiscal year 2004-05, most public agencies through out California faced significant budget shortfalls due, in large part; to increases in health and retirement rates coupled with flat revenue and State revenue shifts.

What caused the large increases in employer retirement contribution rates? The short answer – investment returns. During the mid- to late 1990’s, the U.S. stock market experienced a tremendous boom. The compound annual investment return at CalPERS was 15.6% between July 1, 1994 and June 30, 2000.

However, the great boom ended with three fiscal years of returns considerably less than the 8.25% assumed in CalPERS actuarial calculations: -7.23% for fiscal year 2000-01; -5.9% for fiscal year 2001-02; and 3.9% for fiscal year 2002-03. Because of asset smoothing (three-year lag in posting gains and losses), CalPERS investment losses were not reflected in the City’s contribution rates until fiscal years 2004-05 and 2005-06. City of Salinas rates and contributions for fiscal years 2002-03, and 2007-08 are compared as follows:

	Fiscal year <u>2002-03</u>	Fiscal Year <u>2007-08</u>
Police	12.031%	26.700%
Fire	0.000%	34.579%
Miscellaneous	3.081%	10.834%
City Contribution	\$1,946,800	\$9,547,200

CalPERS investment performance provides hope to see a reversal of past trends of rising employer contribution rates. After suffering three years of losses during the stock market downturn, CalPERS recorded a 13.4% return in 2003-04, an 11.2% return in 2004-05, a 12.3% return in 2005-06, and a 19.1% return in 2006-07. Since these actual returns are higher than the 7.75% returns currently assumed by CalPERS actuaries, CALPERS estimates that rates have peaked in fiscal year 2007-08.

Where might employer contribution rates be in five years? Due to the large swings in employer contribution rates, difficulty in state and local agency budget planning and the need to reduce volatility in rates, during April 2005, the CalPERS board adopted new rate stabilization methods. In order to smooth employer contribution rates, CalPERS will now spread investment gains and losses over fifteen (15) years rather than three (3) years. Given the new rate stabilization method and CalPERS positive investment returns, staff believes CalPERS rates have peaked and will remain at fiscal year 2007-08 levels over the next five years. Fiscal year 2008-09 rates for the City of Salinas are estimated as follows:

	Fiscal Year <u>2008-09</u>
Police	26.30%
Fire	34.70%
Miscellaneous	10.70%
City contribution	\$10,158,200

Effective June 1, 2001, retirement formulas for police officers are 3% @ 50 and miscellaneous employee are 2% @ 55. Effective December 1, 2005, retirement formula for firefighters are 3% @ 50. In addition to

the City contributions, public safety employees contribute 9% and miscellaneous employees contribute 7%.

For fiscal year 2006-07, CalPERS pension cost was \$11,022,569. The City of Salinas actually contributed \$8,053,470 (12.7% higher than previous year's cost) while City employees contributed \$2,969,099.

2. New York Life Retirement Plan (NYL)

The New York Life Retirement Plan is a closed defined benefit pension plan that covers non-public safety employees. As of June 19, 1995, all new non-public safety employees are required to enroll in PERS. The NYL plan is based on a 2% at 60 years of age formula and provides for a monthly annuity or a lump sum retirement benefit. Employees contribute 4.5% of their compensation to the plan.

The City's annual pension costs expressed as a percentage of covered payrolls is as follows; FY 2002-03 (16.44%); FY2003-04 (17.90%); FY 2004-05 (15.36%); FY 2005-06 (22.02%); FY 2006-07 (26.5%); and FY 2007-08 (29.2%) Due to the conservative nature of the plan's investments, NYL rates are consistent, although the NYL retirement plan continues to be more expensive than PERS (FY 2007-08 miscellaneous employee rate of 10.834%).

During fiscal year 2006-07, the City contributed \$1,309,379 (7.9% higher than previous year's cost) to the New York Life retirement plan while the employees contributed \$152,197. The City paid member contributions on behalf of SEIU employees of \$54,671.

3. ICMA Retirement Defined Contribution Plan

On June 19, 1995, the City established a qualified retirement program in accordance with Internal Revenue Code Section 401 (a). This defined contribution plan was established with International City Managers Association Corporation (ICMA). Non-Public Safety Mid-management employees that were participating in the ICMA 457 non-qualified deferred compensation plan, in-lieu of participation in the New York Life Retirement Program, were required to transfer to one of the other City's three qualified retirement plans.

At June 30, 2006, there were 9 employees participating in the 401 (a) defined contribution plan. The City's contribution is based on the City's contribution to the New York Life Retirement Plan. Employees contribute 4.5% of their compensation to the plan.

4. Health Insurance

City employees are covered for health, dental and vision costs under PERS Choice, Delta Dental and MES Vision. The City pays one hundred (100%) percent of the health insurance premiums for employees. Health insurance premiums increased 18.0% in calendar year 2004, 10.0% in calendar year 2005, 9.5% in calendar year 2006, 12.5% in calendar year 2007 and 6.0% in calendar year 2008. The City's health insurance costs are budgeted at \$8.6 million in 2007-08 and \$9.4 million in 2008-09.

5. Monterey County Booking Fees

State legislation allows Counties to charge Cities a fee for booking arrestees into county jails. By way of example, Monterey County's booking fee charge to the City in 2002-03 was \$688,968 (4,729 bookings @ \$146.69). In 1999-00, the State enacted a booking fee relief program with a fixed formula (based on 1997 booking fees paid) and has reimbursed the City \$541,200 annually through 2004-05.

Monterey County intended to increase its booking fee from \$145.69 to \$205.36 (a 40% increase) beginning July 1, 2003. The increase was not noticed properly and the City paid its booking fees based on the prior year rate of \$145.69 during 2003-04.

On May 25, 2004, the County Board of Supervisors held a public meeting to consider increasing Jail Booking Fee charges to Monterey County Cities from \$146.69 to \$250.16 (71% increase) effective July 1, 2004. After a series of negotiations with the Monterey County Sheriff, the 2004-05 booking fee rate was reduced to \$233.86 (59% increase). The County was unable to charge this rate because of SB 1102.

As part of the State's 2004-05 budget, as set forth in SB 1102, the County's authority to charge a booking fee remained unchanged in 2004-05 but the booking fee rate was "locked in" at the level in place on January 1, 2004. Monterey County's rate was "locked in" at \$145.69. This legislation also eliminated the

booking fee reimbursement in 2005-06, and beginning in 2005-06 the County was limited to charging one-half of their actual costs associated with booking and processing arrestees (\$122.40).

Monterey County booking fee charge for 2005-06 was \$427,788 (3,495 bookings @ \$122.40) and the State did not provide a booking fee reimbursement in 2005-06.

For 2006-07, the State budget appropriated \$35 million to reimburse cities for actual booking fees paid during 2005-06. The City received \$427,788 during December 2006. Monterey County booking fee charge for 2006-07 was \$383,258 (3,131 bookings @ \$122.40).

Beginning July 1, 2007, the State (AB 1805) has altered the booking fee procedure as follows:

1. In lieu of charging booking fees, counties through out the state will receive \$35 million to operate, renovate, remodel or construct local detention facilities.
2. Counties will have the authority to charge a "jail access fee" for each booking in excess of each local agency's three year average of bookings for the following low-level offenses; municipal code violations and misdemeanor violations (except driving under the influence, domestic violence and enforcement of domestic orders).

In June of 2005, the Monterey County Board of Supervisor's approved the Sheriff's Office actual cost of each booking at \$244.88. This fee remained fixed in 2005-06, 2006-07 and will remain in place in 2007-08. The City's prior three-year average for misdemeanor bookings is 1,117. The County will bill the City at the end of 2007-08 at \$244.88 for misdemeanor bookings that exceed 1,177. The City's 2007-08 booking fee budget is \$100,000.

6. Monterey County Prop 172 Reductions

For a number of years the County of Monterey distributed 10% of its Prop 172 (Public Safety Sales Tax) dollars to cities and fire districts to offset costs for 911 dispatch services. The allocation to the City of Salinas for 2002-03 was \$1,120,784. Beginning in 2003-04, in response to County budget shortfalls, the Board of Supervisors reduced the City's allocation to \$562,318.

The Monterey County Board of Supervisors approved a fixed allocation of Prop 172 funds for a three-year period, which includes a 50% reduction with a 3% growth factor. The City's allocation of Prop 172 funds is as follows; FY 2004-05 (\$562,318); FY 2005-06 (\$566,703); and FY 2006-07 (\$577,074). The City's allocation of Prop 172 was approved an additional year (FY 2007-08) at \$600,992.

The City's 911 dispatch services costs and Prop 172 allocation are summarized as follows:

	Fiscal Year 2002-03 Actual	Fiscal Year 2006-07 Actual	Fiscal Year 2007-08 Estimate
City Share of 911 Costs	\$ 1,616,267	\$ 2,250,643	\$ 2,610,100
City SB172 allocation	(1,120,784)	(577,074)	(601,100)
City net cost	<u>\$ 495,483</u>	<u>\$ 1,673,569</u>	<u>\$ 2,009,000</u>

The City's 2007-08 budget for County 911 system charges is \$2,009,000, an increase over 2002-03 of \$1,513,517. The three-year Prop 172 funding agreement with the County ended in 2006-07 and was extended one-year for 2007-08. A new funding agreement will have to be negotiated for 2008-09 and as history has proven, the County's commitment to continue the City's SB172 funding is not guaranteed.

7. Fixed Costs

Included in the City's O & M (non-personnel) budget are Fixed costs-costs that simply cannot be reduced. Cost that are fixed and can not be reduced include; Street Lights, Traffic Signals, Insurances, Bond and Lease Payments, Booking Fees and 911 Communications. Other costs that are fixed in nature include; Gasoline, Telephone (not cell phones), Water, Gas and Electric and Building Rent. Over 60% of the City's O & M (non-personnel) budget is fixed costs.

8. State Budget Impacts

Beginning in 1992, the State of California began a shift of property tax revenues from cities, counties and redevelopment agencies to schools and reduced its spending on education by an equal amount. Each dollar of property tax transferred by the State to the Educational Relief Augmentation Fund (ERAF), allows the State to reduce its General Fund commitment to schools.

For the City of Salinas, the ERAF (I & II) shift beginning in 1992 is an annual property tax “take” from Salinas’ taxpayers of \$3.9 million. The State, to balance its own budgets took these resources from the taxpayers of Salinas. This is an on-going property tax shift, it is not protected by Proposition 1A, and the State will continue to take a minimum of \$3.9 million of Salinas’ tax dollars year after year.

The next ERAF (III) shift was a compromise made with Governor Schwarzenegger by local governments for the Governor’s support of Proposition 1A. State Proposition 1A was approved (by over 70%) at the November 2004 election and constitutionally protects local government revenue from State takes in the future. For the City of Salinas this latest ERAF (III) property tax shift totaled \$3,098,672 over two years (FY04-05 \$1,549,336 and FY05-06 \$1,549,336).

In November 2003, Governor Schwarzenegger permanently reduced Vehicle License Fees (VLF) by 67% and replaced the reduction of the City’s VLF with an increase in the City’s property tax. Currently, in fiscal year 2007-08, the City’s VLF distributed with property tax totals \$12,100,832 (12.7% AV increase) and the remaining 33% of \$1,100,000 is collected by the Department of Motor Vehicles and is distributed based on population. It is important to note that the City’s 67% share of VLF is now considered property tax and increases based on increases in property (AV) assessed valuation.

What is the “Triple Flip” of local sales tax? On March 2, 2004, California voters approved a \$15 billion bond issue (Economic Recovery Bonds) to finance the State’s fiscal years 2002-03 and 2003-04 budget deficits. To issue the bonds at a more favorable interest rate, the State pledged one-quarter cent of local governments sales tax to guarantee the debt. To compensate, the State has reallocate in-lieu sales tax dollars that are distributed by the County auditor with property tax distributions. This creates a cash flow problem, as “backfill” of sales tax is now paid by the State (through the County) twice a year in January and May/June rather than our normal monthly allocation of sales tax. For the City of Salinas, the one-quarter cent sales tax is about \$6.3 million annually. The “Triple Flip” of local sales tax ends with the repayment of the \$15 billion Economic Recovery Bonds. The State had planned to retire these bonds in 2009-10.

In November 2004, the voters of California approved Proposition 1A, an amendment to the California state constitution intended to restore predictability and stability to local government budgets. The measure protects local property tax, sales tax and vehicle license fee (VLF) revenues. Additionally Proposition 1A requires the Legislature to either fund or suspend state mandates. Although Proposition 1A will lessen the frequency and ability of the State to shift resources away from local governments, the State legislature will still have the ability, upon a two-thirds vote, to “borrow” from allocations to local governments twice during a 10-year period and any “borrowing” must be repaid within three years-with interest.

Additionally, the State legislature, upon a two-thirds vote, has the ability to reallocated property taxes between counties, cities and special districts, with the potential of reducing state budget commitments.

In addition to ERAF property tax shifts from the City, ERAF shift of property tax increments from Redevelopment Agencies began in fiscal year 2002-03. Payments have been made to the Monterey County Auditor as follows: May 2003 (\$123,344), May 2004 (\$212,756), May 2005 (\$401,183) and May 2006 (\$373,526). The State’s take of property tax from the taxpayers of the Central City and Sunset project areas totaled \$1,110,807 over the four-year period. The State’s approved fiscal year 2006-07 budget did not include ERAF shifts from redevelopment agencies. Proposition 1A does not protect redevelopment agencies from future State ERAF shifts.

While Proposition 1A protects local government from State takes of property tax, sales tax and vehicle license fees, the real issue may be sources of revenue not covered under 1A, such as COPs grants and other statutory relationships between state and local government that in time of difficulty are placed under additional review. Examples of City of Salinas funding not protected by 1A are:

- The City receives an annual allocation of COPs program funds (\$280,000) that funds police overtime. The COPs program costs the State about \$200 million annually.

- Effective July 1, 2007, the State altered the booking fee procedure (AB 1805). In lieu of charging booking fees, counties through out the state will receive \$35 million to operate, renovate, remodel or construct local detention facilities. If the State amends the booking fee program and allows Monterey County to charge booking fees, costs to the City could be increased over \$650,000 annually.
- As the State puts pressure on Monterey County's budget, allocations of SB 172 funds to local cities will be discussed. Beginning in 2003-04, in response to County budget shortfalls, the Board of Supervisors reduced the City's allocation from \$1,120,874 to \$562,318. The allocation to the City of Salinas for 2007-08 is \$601,100. A new funding agreement will have to be negotiated for 2008-09 and as history has proven, the County's commitment to continue the City's SB172 funding is not guaranteed.
- ERAF shifts of property tax increments from Redevelopment Agencies could be reinstated by the State. In 2005-06, ERAF shifts from the Central City project area totaled \$190,123 and the Sunset Avenue project area totaled \$183,401.

Potential losses to the City's General Fund exceed \$1.5 million annually. Potential losses to the Salinas Redevelopment Agency could be at least \$400,000 annually.

Proposition 42 of 2002 earmarked revenues from the state sales tax on gasoline for transportation purposes including local streets and roads. The City of Salinas is scheduled to receive \$1,523,500 in 2008-09. These funds are used in the City's street rehab program. In November 2006, the voters of California approved (by 77%) another Proposition 1A, this one providing protections for the Proposition 42 transportation sales taxes. Similar to the revenue protections in Proposition 1A of 2004, Proposition 1A of 2006 provides that the State may borrow Proposition 42 funds, but only under the same stipulations of Proposition 1A (2004) discussed above.

The housing downturn, lower property tax revenues and the economic slowdown have put California's State Budget under severe pressure. Estimates place a projected state budget shortfall of \$14.5 billion in the 2007-08 fiscal year. The Governor's proposed budget for 2008-09 was released January 10, 2008. The Governor declared a "fiscal emergency" that will require the Legislature to develop a plan in the next 45 days to reduce deficits in the current fiscal year, and proposed a constitutional amendment intended to reduce or avoid budget shortfalls in future years.

The Governor outlined a two-pronged approach to deal with both the projected deficit in the current fiscal year, 2007-08 and the structural deficit in 2008-09.

Governor's Proposed Solution to FY 2007-08 Imbalance: 1) Sell the remaining \$3.3 billion in economic recovery bonds by February 2008. This will delay the sunset of the triple flip several years to 2012 or beyond. 2) Delay payment of about \$500 million of local gas tax funds. The City of Salinas will have to wait five-months (April-August 2008) for receipt of \$1.2 million in gas tax funds. The State will not pay interest on this loan. 3) Delay payment of \$6.24 billion to schools and various Medi-Cal and other health programs. 4) Cutting \$217 million from state agencies.

Governor's Proposed Solution to FY 2008-09 Imbalance: For the fiscal year that begins July 1, 2008, the Governor proposes to cut funding across all state agencies by 10 percent. These cuts have many significant impacts on state programs, including education. The Governor has not proposed to take property taxes from local government under Proposition 1A (2004), nor has he proposed to take any transportation funds under Proposition 42, Proposition 1A (2006). The Governor's budget does not propose taking Redevelopment Agency funds.

Across the Board Cuts Impact to City of Salinas

1) Citizens Option for Public Safety (COP) Grants would be reduced by 10%. The City of Salinas received \$287,671 in 2007-08 that funds front line police services. A 10% cut in funding is \$28,800.

2) Booking Fees reimbursements to Counties would be reduced by 10%. Counties will be able to increase booking fee charges to cities to compensate for his reduction. The City of Salinas booking fee charges may increase about \$50,000.

3) Public Library Funds would be reduced by 10%. The Salinas Library received \$57,018 in 2007-08 that

funds library improvements. A 10% cut in funding is \$5,700.

9. Labor Relations

As of December 2007, all employee groups have approved Memorandum of Understandings (MOUs) with the City. Police Management Association (PMA) and Salinas Police Officers Association (SPOA) MOUs expire December 31, 2009. Fire Supervisors Association (FSA) and International Association of Firefighters (IAFF) MOUs expire June 30, 2009. MOUs for Association of Management Personnel of Salinas (AMPS), Salinas Municipal Employees Association (SMEA), Service Employees International Union (SEIU) and SEIU Crew Supervisors have been extended through December 31, 2011. Confidential Compensation Plans (Management and Non-management) have been extended through December 31, 2011.

MOU increases per bargaining unit are as follows: PMA and SPOA (5.0% 4/1/07, 5.0% 10/1/07, 5.0% 4/1/08, 5.0% 10/1/08 and 5.0% 4/1/09); FSA and IAFF (6.0% 7/1/07 and 6.0% 7/1/08); and AMPS, SMEA, SEIU, SEIU Crew Supervisors, and Confidential Management and Non-management (5.0% 10/1/07, 5.0% 11/1/08, 4.0% 12/1/09 and 4.0% 1/1/11).

The City's three-year (2007-08 through 2009-10) budget projections assumes the General Fund \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

10. Transactions and Use Tax (Measure V)

Over a period of three fiscal years beginning in April 2003, the Salinas City Council reduced City programs and services funded by the General Fund budget a total of \$15.3 million or 24%. The required reductions included the elimination of 123.50 authorized positions, the layoff of employees and broadly impacted services throughout the City. The reductions were required to maintain the City's financial solvency. The financial crisis was the result of a combination of factors including a weak economy evidenced by sales tax actually decreasing for two years, State raids on local revenue, increasing charges assessed by the County of Monterey, increasing retirement costs and increasing employee health insurance costs.

On November 8, 2005, the voters of Salinas approved (61.74%) the ordinance establishing a Temporary Transactions and Use Tax at the rate of one-half of one percent (0.50%) to be in effect for a period of ten (10) years. Initial collection of the tax began April 1, 2006 with the first receipt of revenues from the tax occurring in June 2006. The tax generates approximately \$10.0 million annually and began in fiscal year 2006-07.

The tax approved by the voters is a general tax. As such, the City may use the revenue from the tax for any general governmental purpose. In order to assure full compliance with the intent of the ordinance, the tax proceeds from this ordinance will be separately received and accounted for in the City's financial reporting system. The tax is reported as part of the General Fund in the Basic Financial Statements.

The Oversight Committee is a fundamental provision in the voter-approved ordinance. The ordinance states that: "The Mayor and City Council shall each annually appoint one member of the public to serve as an oversight committee for the revenue that the City receives from the tax. The committee shall prepare an annual report on the revenue received and recommend the use thereof. The City Manager shall provide staff for the committee, and the Finance Director shall provide all relevant data regarding revenue from the tax and expenditure thereof."

During May 2006, the Measure V Oversight Committee completed its work identifying \$10,000,000 in on-going programs and services to be funded by Measure V revenue.

At its April 16, 2007 meeting, the Measure V Oversight Committee approved the continuation of the original \$10,000,000 operating budget allocation for 2007-08 with two exceptions. The Measure V Committee recommended the elimination of the five vacant police officer positions included in the prior year budget, the addition of a Librarian II (Children's Services Coordinator) position to the Library budget and to set-aside \$400,000 for a Community Safety Initiative. A reserve for the Community Safety Initiative was established pending specific program budget requests.

The approved on-going (annual appropriations) departmental use of Measure V funds is as follows:

Administration	\$	334,400
Development & Engineering & Permit Center		289,400
Street Maintenance		212,500
Sidewalk Maintenance		125,000
Finance		192,300
Fire		191,900
Paramedic Program		147,500
Legal		198,000
Library		3,693,200
Maintenance Services		920,800
Parks and Recreation		1,146,400
Police		2,335,400
		<hr/>
Total Budget Appropriation	\$	9,786,800
Reserved for:		
Community Safety Initiative		400,000
Contingencies		113,200
		<hr/>
Total 2007-08 Measure V	\$	<u>10,300,000</u>

Significant savings were forecasted during the first year (FY 2006-07) of Measure V funding. The primary reason for the savings was the time necessary to complete the hiring process required to restore services. It was essential these one-time savings be used for one-time capital outlay or capital improvement investments.

The approved departmental use of the one-time savings is as follows:

Administration		
Recruitment Advertising	\$	40,000
City Web Page Redesign		75,000
Community Outreach Trailer		35,000
Engineering and Maintenance Services		
Street Trees		50,000
Street Maintenance		1,175,000
Sidewalk Maintenance		1,795,000
Median Landscape Maintenance		203,000
Fire		
Fire Mobile Command Vehicles		170,000
Fire Wild Land Engine		285,000
Library		
Delivery Van		25,000
Computer Equipment		243,000
Planning		50,000
Capital Improvements		250,000
Bathrooms		500,000
Chavez Roof Replacement		200,000
Park Maintenance		
Turf Mower		80,000
Five Pick-up Trucks		80,000
Parks Lights Replacement		100,000
Paint Hebbbron Heights Rec Center		10,000
Police		
Equipment, Uniforms and Academy		50,000
Seven Patrol Vehicles		350,000
Crime Scene Investigation Vehicle		225,000
Two (2) Animal Control Trucks		65,000
		<hr/>
Total	\$	<u>6,056,000</u>

During May 2006, the Measure V Committee recommended and Council approved allocating \$1,000,000 for Library capital improvements over a four-year period and \$250,000 was appropriated in 2006-07. The \$250,000 was not used in 2006-07 and the funds were carried-over to the 2007-08 budget. The source of

funds will be Measure V savings that will accrue from hiring lags and vacancies during the next four years. During May 2007, the Measure V Committee recommended and Council approved using \$300,000 of estimated annual one-time funds (on-going vacancies) for sidewalk repair. The Measure V Committee has also recommended an annual \$125,000 investment in sidewalk repair as part of the overall \$10,300,000 Measure V budget. Staff estimates that \$425,000 per year will be sufficient to repair all existing residential request for repairs within the ten-year life of Measure V.

The number of positions funded by Measure V during fiscal year 2007-08 is summarized as follows:

Administration	2.5
Development and Engineering	3.0
Finance	2.5
Fire	1.0
Legal	1.5
Library	40.5
Maintenance Services	11.0
Parks and Recreation	4.0
Police	19.0
Total	<u>85.0</u>

The following describes services funded by Measure V in 2006-07 and 2007-08:

ADMINISTRATION-\$334,400

City Manager’s Office:

Measure V funds one-half the cost of a Confidential Secretary with the General Fund funding the balance. This position assists with the general office support and related coordination of Council activities and operations of the City Manager’s Office. Operations now include neighborhood services, community safety, and economic development as new and restored Council initiatives.

Measure V provides an annual allocation of \$50,000 for contract grant writing services. The City’s most recent literacy and homework center grant applications (Library) were prepared using a contract grant writer. The Recreation Division is using a contract grant writer to prepare a funding application to construct a new municipal pool.

Neighborhood Services:

Measure V funds a major part of the restored Neighborhood Services initiative. Measure V funds one Neighborhood Services Coordinator and community cleanups (\$56,000).

Two Neighborhood Services Coordinators staff the office and are implementing a City Council approved work plan promoting Council/community interaction primarily through a series of 20 Council district meetings, neighborhood cleanups, and community fairs.

Human Resources:

Measure V funding restored a Human Resources Technician position that had been eliminated as a result of the fiscal crisis. The Technician assists with the administrative detail and office coordination of Human Resources. The work of Human Resources not only entails filling vacant positions but also the ongoing administrative requirements related to supporting an existing workforce of over 500 permanent employees and 200 plus temporary staff.

DEVELOPMENT and ENGINEERING and PERMIT SERVICES-\$289,400

Traffic Safety Program (Addition of a Senior Engineering Technician):

The originally approved Measure V funding program included the addition of a Senior Engineering

Technician position in the City's Traffic Engineering Section of the Development and Engineering Services Department. The primary activities identified for this position (and the team) were the design and public bidding of the Traffic Signal Installation Project at East Alisal and Towt Street to address pedestrian safety, develop a suggested routes to school program for all elementary schools within Salinas, and provide additional public outreach and education for bicycle/pedestrian safety.

The traffic signal project is currently under construction. The project will include additional pedestrian safety enhancements that include relocating crosswalks and transit stops to minimize conflicts and take advantage of the new signal, as well as a bulb-out/curb extension at the new signal to reduce the Alisal Street pedestrian crossing distance and provide better sight lines for both motorists and pedestrians. Street lighting at the intersection will also enhance pedestrian visibility at the new crosswalk.

The Suggested Routes to School Program has been on the Section's priority list for several years, and the Program is now complete. The goal is to complete all recommended routes to school maps and educational information, identify a formal program/presentation that can be provided to school students, and begin the educational process vehicle accidents. This is a partnership with the Salinas Police Department, and addresses the educational component of the safety program.

This position was also instrumental in promoting/assisting with Walk to School Day in October 2006, Bike to School Week in May 2007, and meeting with the Monterey County Traffic Safety Collaborative to develop a countywide traffic safety program. The Street Smarts Program is another major program that Salinas is attempting to implement with our traffic safety partners, but we will need to secure additional funding through grants to fully realize the marketing for this program.

Code Enforcement (Addition of two Code Enforcement Positions):

Measure V funding also made it possible to hire a new Senior Code Enforcement Officer and Code Enforcement Officer in the Department. Combined with a second Code Enforcement Officer position made possible with General funds, this Section has completed the primary training for all officers, and is focusing on the enforcement of visual Code infractions throughout the City. These primarily include vehicle storage and inoperable vehicles on private properties, garage conversions and illegal additions/structures, illegal auto repair uses/operations, and overcrowding in residential areas. Staff is also developing a more formal Code Enforcement Program for this Section.

STREET MAINTENANCE-\$212,500

An annual appropriation of \$212,500 for street maintenance is included in the \$10.3 million annual Measure V budget. In addition, one-time Measure V funds of \$1,175,000 were allocated for street maintenance. Other street maintenance funding included \$1.0 million of Gas Tax funds and \$700,000 of State Proposition 42 money. Funding for the 2006-07 and 2007-08 Street Rehabilitation project totaled \$3.0 million.

This project provides for street resurfacing on various streets throughout Salinas. A bid was awarded June 5, 2007 and including a change order approved during September 2007, the street-resurfacing contract totaled \$2.4 million. Construction began in August 2007 and the majority of work is complete.

SIDEWALK MAINTENANCE-\$125,000

An annual appropriation of \$125,000 for sidewalk maintenance is included in the \$10.3 million annual Measure V budget. In addition, one-time Measure V funds of \$1,795,000 were allocated for sidewalk maintenance.

The 2007 Concrete Sidewalk Repair project was awarded to Granite Construction on May 8, 2007, with a contract amount of \$1,200,000. The project is complete, and included the reconstruction of damaged sidewalks, curbs and gutters damaged by City street trees. Trees that were required to be removed due to substantial root damage or for health/safety reasons were replaced with new trees within 1 month of completing the concrete repair work at each location; under a separate contract.

The concrete repair project focused on the oldest 150 reported locations on the citywide waiting list, and within the Central Business District. The downtown area experiences high pedestrian travel volumes, and serves many residents who use Monterey County, City of Salinas, and US Postal Office services; all of which are in this area. Staff has assessed additional "priority" concrete repair locations (based on

numbers, severity and geographic equity), and has issued another \$500,000 work order to Granite Construction in early January 2008 to address other damaged sidewalk areas in Salinas.

FINANCE DEPARTMENT-\$192,300

Measure V funds allocated to the Finance Department provide funding for a Senior Account Clerk, a Web Master/Library Analyst, a Computer Operator and contract desk top computer services (the equivalent of one-half time employee).

The Senior Account Clerk position was filled in June 2006 and has allowed the department to focus on uncollected accounts receivable, streamlining payment processing and provide front counter support to the City's 15,000 annual walk-in customers.

The additional contract desk top computer support and the new Computer Operator position (filled in April 2007) has allowed Information Systems to focus on Library computer issues including the implementation of the Gates Foundation grant (16 desk top computers and 10 notebook computers for public use), the Annenberg Foundation grant (30 notebook computers with wireless applications for public use) and completely revamping the Library network infrastructure, rerouting the Library computers through the City's network and upgrading the overall Internet connection to a faster speed. These measures have allowed Library staff to provide better and faster service and enhance the overall Library experience for the public.

The Web Master/Library Analyst was filled during August 2007. The position along with \$75,000 approved by Council as recommended by the Measure V Committee will allow for a complete redesign of the City Web page. In combination with the new Web Master position, contractual marketing research, Spanish translation, database programming support and community input, the City's outdated web page will be redesigned to reflect Salinas' new image. The City's Web Master has redesigned the City's internal page and the Library web page.

FIRE MARSHAL-\$191,900

The Fire Marshal position was filled August 16, 2007. This position is responsible for Fire Prevention, Disaster Preparedness and Investigations.

PARAMEDIC PROGRAM-\$147,500

Measure V support of the paramedic program has allowed an increase in paramedic staffing from 21 to 27. This has allowed the Fire Department to staff every the daily minimum assigned paramedics from 5 to 7 providing paramedic coverage from each engine company 24/7 (24 hours per day 7 days per week).

LEGAL-\$198,000

Measure V funding restored the Assistant City Attorney position that had been eliminated as a result of the fiscal crisis. Measure V also funds a half time Receptionist.

LIBRARY-\$3,693,200

Measure V revenues support 100% of the restoration of library services to the Salinas community. The libraries are funded to operate at 117 hours of weekly public service. Essentially, each of the three branches is open 39 hours a week to the public. Incrementally, the work of restoration for the Salinas Library will continue in 2007-08 beyond 117 hours of public service on a number of fronts: Staffing vacancies and staff development, technology and collection development services both external (public) and internal, literacy services, children's services, strategic planning, and capital facility needs.

The combined Measure V capital budget for is \$1,268,000. This entails a \$50,000 set-aside for the community planning process and a \$250,000 set aside (based on the \$1,000,000 commitment) for one-time capital expenditures to be determined by the community planning process. Measure V has also funded: \$25,000 to purchase and equip a new library van, \$243,000 to upgrade the library's software system, replacement of the Chavez roof at \$200,000, and \$500,000 for restroom ADA renovations.

MAINTENANCE SERVICES-\$920,800

Measure V funds restored the Graffiti Abatement Program, eight Park Maintenance Worker positions, and three Urban Forestry Worker positions that had been eliminated as a result of the fiscal crisis. All positions

have been filled with the exception of five Park Maintenance Worker positions that remain vacant as of December 2007.

PARKS AND RECREATION-\$1,146,400

The largest Measure V allocation totals \$730,000 in funding towards after school programs. This is to fund after school programs for students in the four (4) Salinas school districts. It also includes the hiring of a Recreation Coordinator working for the City to maximize the potential for this program.

Other significant Measure V funding within the Recreation Division budget include two additional Recreation Coordinator positions and one Senior Recreation Assistant. The balance of Measure V funding provides resources and staffing to keep various recreation centers open, including El Dorado Park, Central Park, Lincoln Street Recreation Center, Hebbroon Heights, Bread Box and even additional staff funding for the aquatics program at the Municipal Pool.

POLICE-\$2,335,400

Measure V funds eleven new Community Service Officer positions. These are civilian positions that provide support function throughout the Department. The goal has been to increase their deployment and use in the field to assist Patrol. Nine of the eleven authorized position have been hired, trained and are fully deployed. The testing and hiring process is underway for the remaining two positions.

The Crossing Guard Program was restored with Measure V funds.

One Police Clerk and one Animal Control Officer position were restored with Measure V funds. The Department has experienced hiring/retention challenges in the Police Clerk position. The Department currently has five vacant positions in the Police Clerk classification. Testing has been done and backgrounds are in progress for prospective employees. The Animal Control position has been filled.

Approximately \$1.2 million of the overall Measure V allocation was allocated to support the Police personnel assigned to the Monterey County Joint Gang Task Force. These positions include a commander, sergeant and four officers. Salary for these positions has been supported by Measure V funds since January 2007.

11. General Fund 2006-07 Carryover

During March 2007, staff estimated a General Fund carryover of at least \$2.0 million. Along with the General Fund operating reserve, a \$2.0 million carryover is required to fund Police MOUs approved in April 2007, Fire MOUs approved in August 2007, and civilian MOUs approved in October 2007.

Cash basis (budget basis) General Fund results produced a surplus for fiscal year ended June 30, 2007. Cash Basis revenue exceeded budget estimates by \$2,417,945 and expenditures were less than budget by \$1,002,796. Year-end adjustments include appropriations to the Paramedic Fund (\$159,250), the Downtown Parking District Fund (\$50,000), the Liability Insurance Fund (\$380,300) and a reimbursement from the Federal Gang Task Force Grant (\$75,219). After year-end adjustments, the General Fund carryover is \$2,906,410.

Continued strong building related permits and fees (remodeling activity and commercial development), increased investment earnings (increased reserves and interest rates), State mandated cost reimbursements (required by Proposition 1A), and an one-time increase in Utility Users Tax (due to 13 payments by PG & E) accounts for most of the revenue increase.

Expenditure savings were achieved because of vacant positions carried during the year along with other operating budget savings.

The General Fund 2006-07 carryover balance of \$2,906,410 has been confirmed by audit.

City Council's past practice is to allocate carryover funds pursuant to the City's adopted financial policies. The policy states "General Fund Year-end carryover balances shall be allocated to reserves in the following priority order; 1) Insurance Reserves; 2) Operating Budget Reserve and 3) Capital Improvement Program Reserve."

12. General Fund Reserves-June 30, 2007

The June 30, 2007 undesignated fund balance estimated in fiscal year 2006-07 budget was \$20,133. The undesignated fund balance at June 30, 2007 pursuant to the audited financial statements is \$2,926,543. The difference of \$2,906,410 is the General Fund carryover at June 30, 2007. The General Fund carryover of \$2,906,410 was reported to Council with the year-end budget review during October 2007.

The General Fund undesignated fund balance of \$2,926,543 is available for allocation and expenditure at June 30, 2007. General Fund resources available for expenditure at June 30, 2007 total \$14,480,443, including the operating reserve of \$5,200,000, the capital projects reserve of \$6,353,900 and the undesignated fund balance of \$2,926,543. General Fund reserves have been set-aside by Council for specific purposes.

As part of the 2007-08 mid-year budget review staff recommends the allocation of the June 30, 2007 General Fund budget carryover of \$2,906,410 as follows; 1) \$2,000,000 to the Operating Reserve; and 2) \$906,410 to the Capital Projects Reserve.

After the allocation of the June 30, 2007 budget carryover, General Fund reserves available for expenditure at June 30, 2007 are \$14,480,443, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$7,260,310, an operating reserve of \$7,200,000 and an unreserved balance of \$20,133.

The City's three-year (2007-08 through 2009-10) budget projections assumes the \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

13. General Fund Budgets FY 2007-08 and 2008-09

On May 22, 2007, the City Council was presented and reviewed a two-year budget (2007-08 and 2008-09) with staff recommending approval of a one (1) year operating budget for the City of Salinas and Salinas Redevelopment Agency. The Salinas City Council and Salinas Redevelopment Agency unanimously adopted fiscal year 2007-08 Annual Operating Budgets on May 22, 2007. An updated Six-Year Capital Improvement Budget for fiscal year 2007-08 was adopted on May 22, 2007. The Capital Improvement Budget is generally updated every two years.

The City of Salinas 2007-08 approved operating budget reflects continued modest improvements in service delivery and programs as the City restores programs and services using Measure V funds and the modest growth in General Fund revenues recognized in 2006-07. The restoration of services that began in 2006-07 reflects an intense six-month process involving the community, the Measure V Committee, City Commissions, City staff and the City Council. The 2006-07 operating budget (developed during this six-month process) was carried forward to 2007-08.

The approved 2007-08 budget includes a limited number of new initiatives approved by Council during the 2006-07 mid-year budget review as well as other small investments geared specifically to implementing Council goals including; a Community Safety program, Economic Development program, Police and Fire Reserves programs, an increase in Paramedic service levels, a Storm Water (NPDES) Compliance Inspector position and an increase in contract park and tree maintenance.

Even with only very modest additions, the approved 2007-08 General Fund budget draws on reserves in order to maintain current service levels and to recognize the required investment in sworn police officer, firefighter and non-safety employee compensation levels. It is anticipated that reserves will be needed in each on the next three (3) fiscal years (2007-08, 2008-09 & 2009-10) in order to maintain services. Consequently, there will be very little discretion in the next couple of years to increase service levels. The use of reserves is a necessity in the short term and provides further emphasis to the critical importance of the economic development initiative included in the 2007-08 budget.

Staff remains confident that the direction established by the City Council can result in long-term stability for the City's finances. However, the next two (2) years will require close monitoring and will present significant risks if outside influences impact the budget. Three potential impacts include an economic

downturn, State budget impacts and Monterey County budget impacts. These will be closely monitored.

14. Estimated General Fund Reserves-June 30, 2008 and 2009

After approval of recommended 2007-08 mid-year budget adjustments, estimated General Fund balances to end 2007-08 total \$8,535,941, inclusive of a capital projects reserve for 2008-09 of \$2,533,000, an operating reserve of \$6,000,000 and an unallocated balance of \$2,941.

The June 30, 2007 General Fund operating reserve of \$7.2 million will decrease \$1.2 million during 2007-08 to an estimated \$6.0 million at June 30, 2008. This decrease was anticipated as the three-year (2007-08 through 2009-10) financial forecast assumes the entire \$7.2 million operating reserve will be exhausted during this period. This fact was discussed during April 2007 with the beginning of employee MOU negotiations.

The combination of declining home sales and prices, foreclosures and tightening credit has created an economic slowdown and the beginning of a recession. Sales tax, property tax and other General Fund revenue estimates for 2008-09 are being decreased \$1.1 million to \$78.7 million. The estimated General Fund operating reserve of \$6.0 million at June 30, 2008 will decrease \$2.8 million to \$3.2 million at June 30, 2009 (the end of the City's current two-year budget cycle).

The City's three-year financial forecast (of April 2007) projected the General Fund operating reserve at \$4.2 million for the year ending June 30, 2009. At this 2007-08 mid-year point, the June 30, 2009 General Fund operating reserve is projected at \$3.2 million or \$1.0 million less than the April 2007 projection. This decline is due to the economic slowdown and revised General Fund revenue estimates for 2008-09.

15. Outstanding Budget Issues

Operating Reserve

The City's General Fund Operating Reserve is required to facilitate cash flow as well as to guard against the next downward economic cycle. Although it took a decade, the City was able to grow its General Fund Operating Reserve from \$256 on June 30, 1992 to \$10,363,291 on June 30, 2003. Experience from the three-year (2003-2005) budget shortfalls has proven the importance of a sufficient operating reserve. In fact, prior to the start of the budget shortfalls, on June 30, 2003 General Fund reserves totaled \$10,363,291 or 16% of operating expenditures. While this reserve allowed Council to gradually reduce the budget, in the end \$15.3 million (24%) and 123 positions had to be eliminated. If the June 30, 2003 reserve had not existed, the General Fund reductions required during 2003 through 2005 would have gone far beyond the services that were eliminated and would have required significant reductions in public safety services.

The General Fund Operating Reserve is \$5,200,000 (6.6% of operating expenditures) at June 30, 2007. At this mid-year, staff recommends that \$2,000,000 of 2006-07 carryover funds be allocated to the operating reserve, increasing this reserve to \$7,200,000 (9.2% of operating expenditures).

The General Fund Operating Reserve will be required to fund recently approved MOUs adjusting employee compensation.

Employee Contracts

As of December 2007, all employee groups have approved Memorandum of Understandings (MOUs) with the City. Fire MOUs expire June 30, 2009. Police MOUs expire December 31, 2009. MOUs for all other employee groups have been extended through December 31, 2011.

The impact of the approved compensation adjustments are significant and will require significant fiscal discipline on the part of the City over the next twenty four months. The approved Police MOUs are the significant cost item and were required to assure that the City of Salinas remains competitive in the local market area so that the best qualified police personnel can be recruited and retained. The City's long-term ability to finance the recommended adjustments is dependant on the success of various economic development initiatives that must result in enhanced revenues for the City if current public safety service

levels are to be maintained.

Carryover 2007-08

The City's three-year (2007-08 through 2009-10) budget projections assumes the General Fund \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. In addition to the use of the \$7.2 million operating reserve, a \$2.0 million General Fund carryover (2007-08 budget savings) is required and included in the three-year projections. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

General Fund 2007-08 revenues will not exceed estimates. The 2007-08 carryover will have to be achieved by expenditure savings. If General Fund operating budget savings of \$2.0 million are not achieved this year, a variety of budgeted capital projects will have to be delayed or cancelled to achieve this savings.

Economic Slowdown

The combination of declining home sales and prices, foreclosures and tightening credit has created an economic slowdown and the beginning of a recession.

The City's sales tax estimate for 2007-08 of \$24,700,000 assumed a modest 2.4% growth factor.

The City's sales tax receipts have declined 4% in the first half of fiscal year 2007-08 (a decline of \$500,000). Building and construction materials sales are down 19% and automobile sales are down 6% in the first half of this fiscal year. Sales tax represents about one-third of General Fund revenues. At this 2007-08 mid-year, the City's sales tax estimate of \$24.7 million is being reduced \$200,000 to \$24.5 million.

With the 4% sales tax decline in the first half of 2007-08, the City sales tax base has declined \$500,000. Based on this information, the City's sales tax projection for 2008-09 will be reduced \$700,000. The revised sales tax projection for 2008-09 assumes an improved economy and 3% growth.

As anticipated, property tax growth has begun to slow. Property tax growth is as follows: 7.3% in 2007-08, 12.7% in 2006-07, and 12.9% in 2005-06 and 10.7% in 2004-05. The slowdown in home sales and prices has reduced tax reassessments and property tax growth. Property tax represents about one-third of General Fund revenues. At this 2007-08 mid-year, the City's secured property tax and property tax in-lieu of vehicle license fees estimate of \$24.9 million is being increased \$100,000 to \$25.0 million.

Estimates of assessed property value growth for 2007-08 indicates property tax increases for 2008-09 of a modest 4%. The City's three-year (2007-08 through 2009-10) budget projections assumed 5% property tax growth in 2008-09. The City property tax projection in 2008-09 will be reduced \$195,000.

State and County Budget Impacts

The State of California has a history of balancing its budget using local government resources and in fact currently takes \$3.9 million of Salinas' property taxes annually. While Proposition 1A (2004) protect local government property tax, sales tax and vehicle license fees, the State legislature can upon a two-thirds vote, borrow these funds. Proposition 1A requires these funds to be paid back in three years with interest.

Additionally, the State legislature, upon a two-thirds vote, has the ability to reallocated property taxes between counties, cities and special districts, with the potential of reducing state budget commitments.

Another issue are sources of City revenue not covered by Proposition 1A. Examples of City of Salinas funding not protected by 1A are:

- The City receives an annual allocation of COPs program funds (\$280,000) that funds police overtime.
- If the State amends the booking fee program and allows Monterey County to charge booking fees, costs to the City could be increased over \$650,000 annually.
- As the State puts pressure on Monterey County's budget, allocations of SB 172 funds to local cities will be discussed. The allocation to the City of Salinas for 2007-08 is \$601,100. A new funding agreement will have to be negotiated for 2008-09 and as history has proven, the County's

commitment to continue the City's SB172 funding is not guaranteed.

- ERAF shifts of property tax increments from Redevelopment Agencies could be reinstated by the State.

Potential losses to the City's General Fund exceed \$1.5 million annually. Potential losses to the Salinas Redevelopment Agency could be at least \$400,000 annually.

Facing an estimated \$14.5 billion deficit, the State Governor's proposed budget includes a 10% reduction in funding across all state agencies. Under this proposal, the direct dollar impacts to the City are modest (reduced funding estimated under \$100,000). There will be law enforcement costs to local governments associated with proposed budget reductions, for example, the early release of prisoners and closing state parks.

On January 30, 2008, Monterey County staff reported to the Supervisor's Budget Committee that the Governor's proposed budget would reduce annual County revenue by \$24.8 million or about 3.0% of the County' annual budget.

Normal Revenue Variances

With the reallocation of vehicle license fees, Property Tax and Property Tax In-lieu of VLF total about 33% of the General Fund annual revenue stream. Sales tax totals about 31% of the General Fund on-going revenue source. Together these two annual revenue sources total 65% of General Fund annual revenue. A 1% variance in these sources is \$500,000. Operating reserves are designed to cushion the budget effect of revenue down turns.

Cash Flow Requirements

The State's reallocation of vehicle license fees (\$12.1 million) and a portion of sales tax (\$6.5 million) requires the City to wait six-months to receive one-half of these funds with property tax distributions. Prior to the reallocation, these funds were received monthly. During December 2007, the City received \$17.8 million (one-half of the annual property tax and sales tax distribution). Reserves are designed to cover cash flow shortfalls. Without sufficient reserves the City would have to borrow funds in anticipation of property tax receipts.

Capital Facilities, Capital Improvement and Capital Outlay Programs

Investment in both the annual General Fund Capital Outlay programs and the multi-year General Fund Capital Improvement Program all but disappeared during 2003 through 2006. The City's needs range from equipment and vehicle replacement to facility rehabilitation, from the need to expand current library facilities to the need to build a new police station, from the need to replace a decades old financial system to the need to install an emergency generator at City Hall.

The City's deferred capital requirements have been partially addressed with the adoption of 2006-07 and 2007-08 Measure V budgets. During this two-year period, \$6.0 million of one-time Measure V funds were invested in much needed capital improvements and equipment.

An updated Six-Year Capital Improvement Budget (CIP) for fiscal year 2007-08 was adopted on May 22, 2007. The Capital Improvement Budget is generally updated every two years. The General Fund capital investments are typically funded with budget savings from the prior year (carryover funds). Beginning in 2009-10, the General Fund CIP identifies over \$13.0 million in unfunded capital needs.

General Fund reserves for capital investments total \$4.7 million in 2007-08 and \$2.5 million in 2008-09. There are no General Fund reserves for capital investments in 2009-10. Funding for 2009-10 capital projects/equipment maybe provided by General Fund 2008-09 carryover funds (if available).

The City's current three-year financial forecast required a \$2.0 million General Fund carryover each year from 2006-07 and 2007-08 to balance the operating budget.

The only potential funding for new capital improvements/equipment are Measure V carryover funds. Additionally, Federal and State grants maybe available to meet some capital requirements.

Street Maintenance and NPDES Funding

Beginning in 1999-00, the City began an aggressive investment in the annual street improvement program, investing almost \$11.5 million in five years, including \$3.1 million from one-time Crazy Horse landfill proceeds. The largest one-year investment was \$4.6 million in 2000-01. During that time, about \$1.5 million of gas tax funds were invested annually in street resurfacing.

The annual investment of gas tax funds in street resurfacing has been reduced to \$575,000. The major factor in the reductions has been the requirement to provide funding for the NPDES program, perhaps the most burdensome unfunded mandate in the history of the federal government's program of unfunded mandates. With the loss of the Storm Utility Fee (\$1.3 million annual revenue) in 2001-02, annual NPDES expenditures are paid with gas tax (\$1.1 million) and general funds (\$350,000). Cost increases associated with the NPDES program are expected to further erode resources available for street maintenance and general funded programs.

The City's 2006-07 & 2007-08 street resurfacing budget is improved over prior years with the use Measure V funds (\$1,387,500), Gas Tax funds (\$1,000,000) and State Proposition 42 funds (\$700,000). Funding for the 2006-07 & 2007-08 street resurfacing projects total \$3.0 million.

The 2006-07 & 2007-08 Street Resurfacing Project provides preventative maintenance (slurry seals) to a list of residential streets spread within the six (6) Council Districts. Every \$500,000 provides for roughly 10 miles of street resurfacing (slurry seal), which is one of the most cost-effective means of maintaining the 280 miles of street system.

The City expects to receive \$1.5 million in State Proposition 42 funding and \$2.4 million in State Proposition 1B bond funds in 2008-09. These funds in conjunction with the annual gas tax allocation of \$575,000 and Measure V allocation of \$212,500 will provide \$4.7 million for street rehabilitation projects in 2008-09.

In November 2006, California voters approved a \$19.9 billion bond issue for various transportation projects to rebuild California, of which \$1.0 billion will go to cities and \$1.0 billion will go to counties for local street and road improvement projects (Proposition 1B). These bonds will be issued over time in conjunction with the State's budget adoption process and fiscal requirements. The 2007 State Budget Act appropriates \$950 million of these Prop 1B funds in 2007-08. The City's share of these funds is \$2.4 million as mentioned above.

Traffic Congestion Relief Funds (Proposition 42) are allocated by the State (sales tax on gasoline). The State did pay the City these funds in 2003-04 and 2004-05 but reimbursed the amount due (\$1.1 million) in 2006-07. The State has not budgeted payment of these funds in 2007-08. A payment to the City is due (\$1.5 million) in 2008-09 as mentioned above.

The City's investment in street maintenance needs to continue to be a priority over the next years.

Fairways Golf Course Subsidy

On August 24, 2004, City Council approved a 20-year lease with First Tee of Monterey County to operate and manage Twin Creeks Golf Course. Annual lease payments are \$575,000 and are sufficient to cover Twin Creeks' bond payments and eliminate the General Fund subsidy. The Monterey Peninsula Foundation guarantees the lease payments to the City.

Staff and City Council continue to explore alternatives to eliminate the General Fund subsidy to the Fairways Golf Course. Special rates" have led to increases in the number of rounds played with green fee revenue increasing 14% in 2006-07 and over 10% to date in 2007-08. During May 2007, grounds maintenance was contracted to a private operator with savings estimated \$200,000 annually.

A cash advance of \$900,000 was made from the City's General Fund to cover operating losses at Fairways Golf Course during 2006-07. With improved green fee revenue and savings on the private maintenance contract the 2007-08 estimated General Fund advance is being reduced to 700,000.

Staff is exploring privatizing the entire operations of the golf course.

16. Financial Policies

The financial policies of the City were adopted during December 1991 and are included with the adoption of the annual City budget. The policies provide a framework for managing the day-to-day, as well as the long-term fiscal affairs of the City. The policies include accounting, reserves, administrative fees, revenues, operating budget, capital improvement program, debt, assessment districts, fixed asset maintenance and replacement and risk management.

Two key elements of the City's financial policies govern the allocation of General Fund Year-end carryover balances and establishes operating reserve goals.

The year-end carryover policy states "General Fund Year-end carryover balances shall be allocated to reserves in the following priority order; 1) Insurance Reserves; 2) Operating Budget Reserve and 3) Capital Improvement Program Reserve."

The operating reserve policy states "The City will endeavor to maintain an operating reserve equal to five percent of the General Fund operating budget to cover cash flow requirements and normal variances in revenue and expenditure estimates."

Council's adherence to this financial policy increased the City's General Fund Reserve from its \$256 level on June 30, 1992 to the \$10,363,291 that was available in April 2003 when Council approved a multi-pronged three-year budget balancing strategy. The strategy included service level reductions, employee concessions, revenue increases and using reserves over the three-year period. While ultimately, General Fund budget reductions of \$15.3 million (24%) were required, imagine the budget cuts that would have been necessary without this reserve. There would have been no time to phase reductions, negotiate employee concessions, increase fees, transfer Twin Creeks golf course to First Tee or pass the Business License Tax increase or Measure V. The budget cuts would have been immediate and would have certainly included public safety.

At this mid-year, staff recommends that \$2,000,000 of 2006-07 carryover funds be allocated to the operating reserve, increasing this reserve to \$7,200,000. Again, this reserve will be used over the next three years (2007-08 through 2009-10) to fund MOUs adjusting employee compensation.

17. Bond Issuer Credit Rating

The City of Salinas received an Issuer Credit Rating (ICR) of A+ from Standard and Poor's when the Golf Course bonds were issued in 1999. Standard and Poor's affirmed the City's A+ ICR on November 26, 2003 in conjunction with the issuance of the Monterey Street Parking Structure financing. On August 25, 2005, Standard and Poor's again awarded the City an A+ ICR in connection with the refunding of the 1999A Golf Course and the 1997A Capital Projects financings. The City's A+ ICR is widely published and will be instrumental in securing the lowest possible interest rates on future bond issues.

The rationale for this strong A+ ICR on City of Salinas debt, as stated by Standard and Poor's, reflects the City's:

- Strong local economy centered around agricultural production,
- Sustained growth in assessed property valuations,
- Sound financial management and reserve policies, and
- Low General Fund supported debt burden

THE ISSUE

Shall Council approve the recommended adjustment to estimated revenues, transfers and appropriations?

ALTERNATIVES AVAILABLE TO COUNCIL

- 1 Approve the recommended adjustments to estimated revenues, transfers, appropriations, and reserves as outlined in Attachments 1 through 22.
- 2 Modify recommended adjustments, as appropriate.

FISCAL IMPACT

The recommended adjustments to revenue estimates, transfers and appropriations are reflective of the City's

fiscal position at this mid-year point and are outlined in Attachments 1 through 22.

RECOMMENDATION

Staff recommends that Council approve the recommended adjustment to estimated revenues, transfers, appropriations and reserves outlined in Alternative No. 1.

Attachments 1 through 22 Mid-year Budget Adjustments

Attachment A Revenue

Attachment B Operating Expenditures

Attachment C Capital Project Expenditures