



**CITY OF SALINAS
COUNCIL STAFF REPORT**

DATE: DECEMBER 4, 2018
DEPARTMENT: ADMINISTRATION
FROM: RAY E. CORPUZ, JR., CITY MANAGER
BY: ANDREW MYRICK, ECONOMIC DEVELOPMENT MANAGER
TITLE: NATIONAL RESOURCE NETWORK FINAL REPORT

RECOMMENDED MOTION:

This item is informational only.

RECOMMENDATION:

Staff recommends Council receive and accept the report.

EXECUTIVE SUMMARY:

The attached Report represents the culmination of nearly a year of work by the National Resource Network to develop a plan to eliminate the City's long-term structural deficit while preserving its ability to continue to maintain its strategic priorities, including those relating to housing and homelessness, and core services. The Report includes 31 specific recommendations for concrete actions the City can take which, taken together, should allow the City to continue to provide high-quality services to the community while managing costs.

BACKGROUND:

In November 2017, the City was one of five Cities selected nationally by the National Resource Network to perform an analysis to develop and implement multi-year budgetary planning. In addition to the City's \$100,000 investment, the John and Laura Arnold Foundation provided \$300,000 in funding. The NRN has engaged the services of multiple parties, including PFM Group Consulting, Marquez Community Strategy, and Enterprise Community Partners, each of which has contributed to this Report. These organizations have conducted a thorough analysis of our financial records and data, have reviewed previous studies and analyses performed for the City, examined internal documents and policies, and have engaged in numerous interviews with City executive and managerial staff, staff and officials from other government institutions, bargaining unit representatives, and community representatives. The Attached Final Report is the result of this effort.

As has been previously well-documented, the City of Salinas has experienced on-and-off budgetary challenges for over a decade. In the past, the City has made several efforts to reduce

its expenses, with reductions in the amount of services being provided and employees making significant sacrifices in order to keep the budget balanced. The City has also pursued additional revenues, most notably the Measure V/E and Measure G transaction taxes, as well as an update to the Utility User's tax. These additional revenues have enabled the City to reinstate many valued services and start new initiatives such as the Downtown Vibrancy Plan, the Alisal Vibrancy Plan, the development of the AgTech Ecosystem, the Economic Development Element, the restoration of sidewalk repair services, maintaining and expanding the City's library system, park and facilities maintenance and upkeep, responsive public safety services, and development of City infrastructure, including the construction of a new Police Station.

Unfortunately, these efforts to date have proven insufficient in the face of recent developments. In December 2016, CalPERS announced that they would be lowering their pension's discount rate, significantly increasing the City's pension obligations. Coupled with increases in health care, worker's compensation, and other costs, the result is that expenses are increasing faster than revenues. The impacts of this are already being felt: the FY 18-19 budget relied upon freezing positions (eliminating services or shifting additional duties to remaining employees) and dipping into the City's reserve in order to balance. This situation will only get worse, and left unresolved threatens to result in layoffs, significant reductions in employee compensation, and the loss of the ability to execute critical City functions. Fortunately, while these deficits are likely unavoidable, the City still has time to take action before the situation becomes acute.

In order to create the infrastructure to properly analyze the City's the National Resource Network developed a ten-year budget model. While no ten-year forecast will be flawless, looking at the problem in this way enables the City to examine problems and find solutions that will be sustainable over the long term. Utilizing this tool, in concert with the other sources described above, the National Resource Network has presented a number of recommendations that, if implemented, should close the budget gap over the following ten-year period.

This Report should not be viewed as an attempt to cut services or employee benefits. Rather, this Report is an attempt to minimize these impacts to the extent practicable. However, even if this plan is followed, it will not be painless. Some of the recommendations are designed to increase revenues which would be borne by people visiting, doing business, or living in Salinas, and others result from the City reducing its expenditures, impacting services and employee compensation. While attempts have been made to minimize each of these impacts, they are ultimately impossible to avoid when facing budget reductions of this magnitude. It is important to remember that, regardless of whether these recommendations are implemented or not, the City's structural deficit is a challenge that will be resolved one way or the other, whether that be through action or inaction.

This Report is informational only. Following this presentation, staff will begin the process of moving forward on many of these recommendations, many of which will require action by Council. It will ultimately be the decision of this and future Councils whether these recommendations are implemented.

STRATEGIC PLAN INITIATIVE:

This Project furthers the goal of Effective, Sustainable Government as identified in the City Council's current Strategic Plan, and would likely support other goals as well through its impacts.

DEPARTMENTAL COORDINATION:

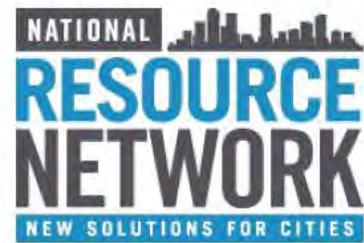
As noted above, all City Departments have been consulted as a part of this project, and have had the opportunity to provide significant feedback.

FISCAL AND SUSTAINABILITY IMPACT:

While no action is requested tonight, the recommendations in the Report, if fully implemented, should drastically reduce or eliminate the City's structural budget deficits, allowing for sustainable budget planning and increased confidence that funds will be available for future initiatives and employees.

ATTACHMENT:

National Resource Network Final Report



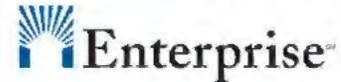
Final Report



MÁRQUEZ
COMMUNITY
STRATEGY



pfm



SALINAS

The Salinas Plan

Creating a Blueprint for Fiscal Sustainability and Housing Affordability

Prepared by the National Resource Network (PFM Group Consulting, Enterprise Community Partners, and Marquez Community Strategy) for the City of Salinas

DATE: November 26, 2018



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CHAPTER 1: EXECUTIVE SUMMARY

With a growing population, increasing home values, and a strong and growing agricultural/AgTech economy, Salinas is poised for opportunity. Salinas also faces significant challenges related to a growing structural budget gap, high poverty rates and occurrences of violent crimes, and over 1,000 residents who go to sleep every night without a roof over their head.

If the City does nothing, it will run out of reserves by FY23¹ and will face a cumulative deficit of \$63.1 million over the next ten years. Overcrowded housing and homelessness will continue to worsen, and Salinas will become even more unaffordable for its current residents.

To tackle these challenges, the City needs a plan for fiscal stability to ensure it has the resources needed to provide opportunities for prosperity, safety and quality of life for all residents, and to meet the glaring challenges of unsafe housing conditions while also creating more than 4,000 new units of affordable housing over the next decade, if possible.

This Salinas Plan calls for the City to make difficult decisions to accomplish the following: balance the General Fund budget; free up the resources needed to invest in infrastructure; provide a stronger fiscal foundation for the future service of municipal employees; and position Salinas to boldly take advantage of new Federal and State initiatives designed to create thousands of units of new affordable housing. This Plan will require the City to identify its key priorities and adopt a new approach to service delivery. It will also require sacrifices from both City workers and taxpayers, and the City must work to establish and strengthen its partnerships within the community. As a result of these efforts, this Plan strives to provide a path for a safer, more prosperous Salinas that is able to efficiently deliver basic services, maintain an effective and stable government, and truly provides opportunities to all residents.

The Problem

The City of Salinas faces dual crises that, if unaddressed, will limit the ability of the city and its residents in the years ahead:

- **The City's structural budget deficit** is the City's first major crisis. Driven largely by sharp, state-mandated increases in pension costs, healthcare inflation for employee benefits, and limited revenue growth, Salinas faces growing deficits each year for the next ten years, even absent any changes in service levels, catch-up investments that address deferred basic infrastructure needs, and compounding setbacks from any near-term recession. In addition, growth in the City's recurring revenue sources lag projected cost growth.
- At the same time, the City is also experiencing a **severe affordable housing crisis**, which has resulted in rising homelessness and less-recognized rental overcrowding, code violations, and associated life safety risks. Driven by housing costs that have rapidly outpaced income growth, in conjunction with the dynamics of the region's agricultural and farmworker economy, Salinas's housing crisis threatens community and economic health – and also adds to the City's budget pressures with increased service demands and potential dampening of the private investment that helps to drive revenue growth.

In recent years, City leaders have taken multiple steps to address both of these challenges – making difficult cuts when needed to maintain budget balance, gaining voter support for Measures E and G that have increased the available resources to fund public safety, facility investments, and other core service needs, and developing a sound, inter-agency homelessness strategy.

As a result, the FY19 City Budget is in short-term balance, but only as a result of renewed reductions in staffing, \$2.8 million in drawdowns from reserves, and continued deferral of needed investment in basic

¹ Throughout the document, fiscal years are referred to with the convention of using the year ending the fiscal year only. For example, "FY23" refers to the fiscal year beginning on July 1, 2022 and ending on June 30, 2023.



infrastructure. Yet, the budget gap is projected to reemerge and grow in succeeding years. Although significant City resources are now dedicated to combat homelessness, the problems remain severe and housing overcrowding appears to be increasing in intensity.

Despite the multiple steps taken by the City to offset these crises, the ground beneath these past steps continues to erode as the pressures from each major issue continues to create fault lines in the foundation of Salinas's future. In something of a vicious cycle, these budget pressures limit the City's capacity to address its housing needs, while the housing crisis weakens Salinas's economy and depresses City tax revenues.

Absent strong, corrective action, the City is projected to face continued and worsening fiscal deficits — growing from \$2.8 million in FY19 to over \$10 million per year by FY28, which would require annual cuts and a decline in basic services and infrastructure condition. At the same time, the City will lack the resources needed to address its ongoing affordable housing pressures. This ripple effect would ultimately undermine neighborhood vitality, threaten the stability of the region's agricultural industry workforce, and further risk the lives and safety of the children and families that already live in overcrowded housing conditions.

Salinas is at a crossroads, but the City does have a path to meet its fiscal and housing challenge. Based on City, civic, and community input, this Long-Range Financial Plan sets forth a framework to advance a set of major initiatives that address Salinas's twin crises – budget deficit and unaffordable housing – concurrently and forcefully. As further detailed throughout this report, this multi-year strategy encompasses:

- A renewed focus on prioritized core services,
- A series of management and productivity reforms,
- Strategic rethinking of the City's approach to employee compensation,
- Game-changing investments in more affordable and safer housing, and
- Increased commitment to basic infrastructure and deferred maintenance needs.

While the specifics of these approaches will almost certainly evolve as circumstances change over time and key stakeholders come to the table, we hope that this Long-Range Financial Plan will nonetheless be a call to action and a spark for change. As a government entity, and more importantly as a community, Salinas has the strengths and capabilities to overcome these very real challenges. The time to move forward is now.

Structural Budget Deficit

The City of Salinas has been struggling to balance its General Fund budget with appropriate service levels for the past 15 years. In 2003, a combination of a weak economy, State funding take-backs, and increasing operating costs threatened the City's fiscal solvency. As a result, the City reduced its budgeted expenses by 23 percent, eliminated 123 of 626 (almost 20%) staff positions, and temporarily closed its libraries.

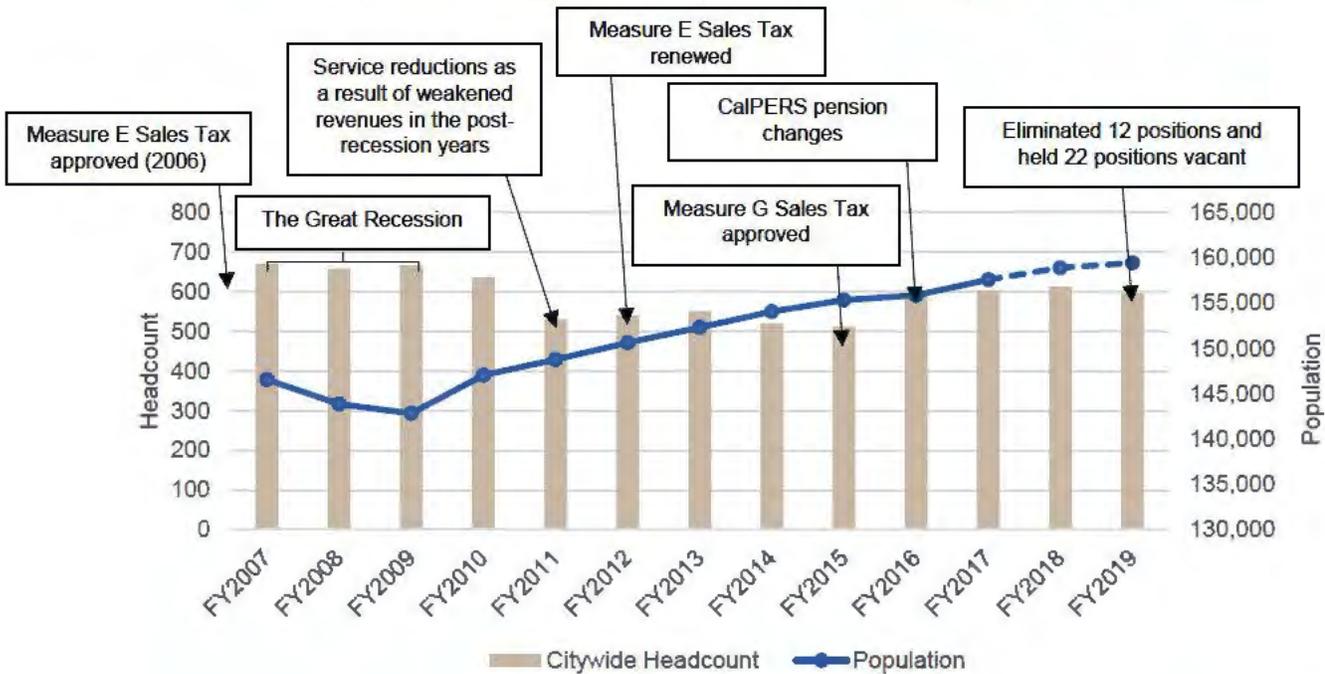
To reverse these cutbacks in services, voters passed a half-cent sales tax (Measure V) in 2005 with a ten-year sunset. In November 2012, voters approved a renewal of this tax with no sunset date, and this tax is now known as Measure E. This additional revenue helped to mitigate some of the worst impacts from the Great Recession and allowed Salinas to continue functioning at a base level of service delivery for more than a decade. Still, the City remained limited in its ability to make strategic investments in the community or grow services to meet increasing community needs.

In November 2014, City voters next passed Measure G to add an additional one cent to the City's sales and use tax through March of 2030, which increased the City's ability to make strategic investments in the community and expand its services to meet pre-recession staffing levels. To achieve this, Measure G allocates approximately two-thirds of its revenue to operating costs in the General Fund, and one-third to capital spending—dedicated primarily for a new police station and library. Substantially as a result, by 2016 the City had reached a level of fiscal capacity, and an ability to invest in City facilities, that it had not achieved in years.



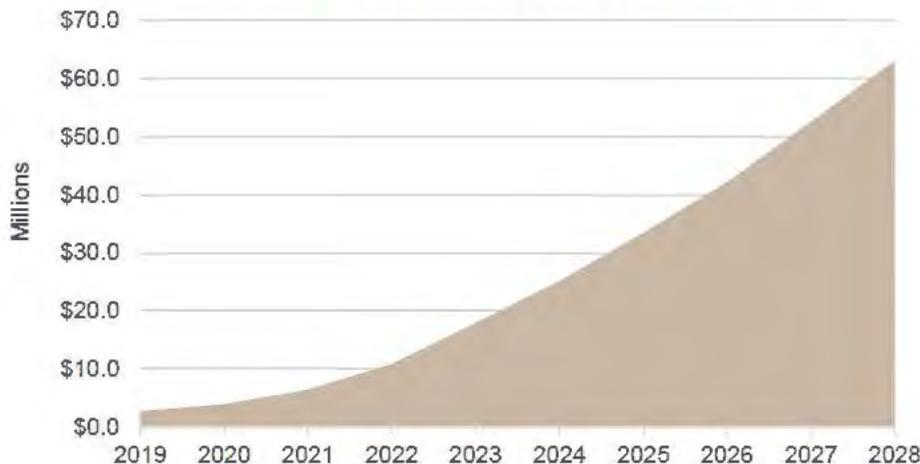
However, the CalPERS pension increases announced in December 2016 will result in a near doubling of pension costs by FY24. In conjunction with other structural budget pressures further outlined below, this has led to renewed employee headcount reductions in the most recent FY19 Budget – even as the City’s population and service demands have grown steadily since the start of the decade.

Salinas Headcount, Population, and External Events, FY07 – FY19



If these trends continue unabated, the PFM-led National Resource Network team projects that a current budget deficit of \$2.8 million² will grow to over \$10 million each year by FY28. Absent corrective action, Salinas will exhaust its reserves by FY23.

Cumulative Budget Gap, FY19 - FY28



² Deficits include all general government revenues and expenses, including the General, Measure E, and Measure G funds. The City adopted the FY19 budget with a \$2.8 million drawdown from reserves.



General Governmental Funds' Baseline Projection – Prior to Corrective Action

	FY19 Budget	FY20 Proj.	FY21 Proj.	FY22 Proj.	FY23 Proj.	FY24 Proj.	FY25 Proj.	FY26 Proj.	FY27 Proj.	FY28 Proj.
Operating Revenues	\$135.9	\$139.3	\$142.1	\$145.0	\$147.8	\$151.6	\$155.8	\$159.8	\$163.9	\$168.1
Operating Expenditures	\$138.6	\$140.5	\$144.6	\$149.4	\$154.9	\$158.9	\$164.2	\$168.5	\$174.3	\$178.6
Net Operating Results	(\$2.8)	(\$1.2)	(\$2.5)	(\$4.4)	(\$7.1)	(\$7.2)	(\$8.3)	(\$8.7)	(\$10.4)	(\$10.5)
Operating Reserve ³	\$9.6	\$8.4	\$5.8	\$1.4	(\$5.6)	(\$12.8)	(\$21.2)	(\$29.9)	(\$40.3)	(\$50.8)

This projected cumulative deficit of \$63.1 million assumes no change in budget policy or the economy from the FY19 budget assumptions, meaning:

- Positions on “hold” (or “frozen”) remain as such;
- No improvement in capital funding for City facilities and infrastructure;
- No reorganization or re-direction of funding priorities;
- No new funding to address the City’s housing crisis or unfunded long-term liabilities;
- Drawdown from budget reserves, which is 8.4 percent of total expenditures in FY19⁴
- No major economic downturn that would compound these challenges by impairing normal revenue growth.

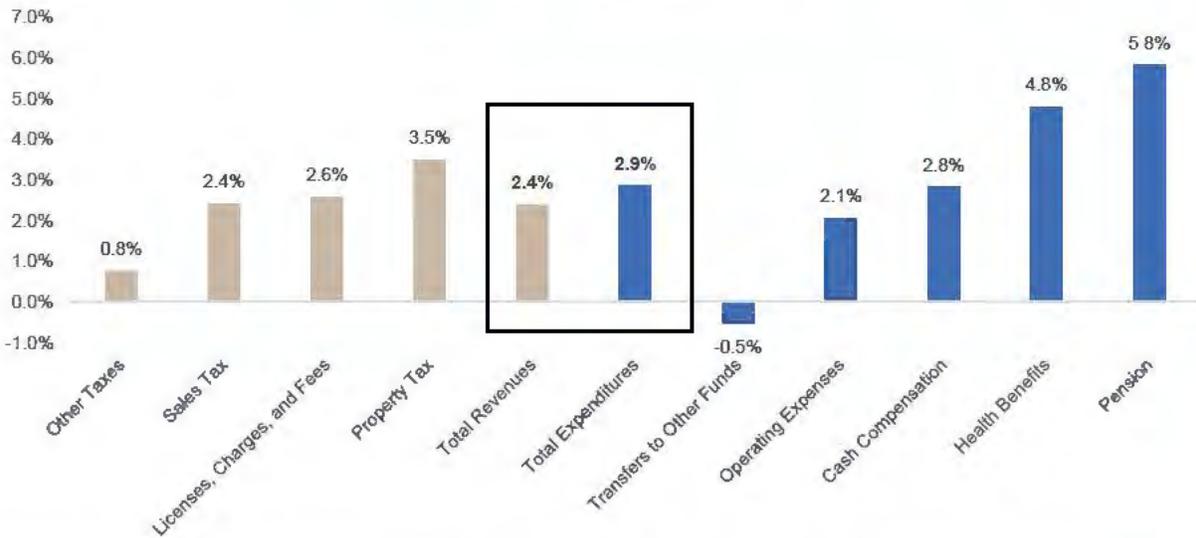
In further evaluating this forecast, it is important to recognize that these projected budget deficits are driven by a number of interrelated factors, including the recent expansion of City staff funded by sales tax measures, limited revenue growth, greater than expected pension funding pressures, and ongoing healthcare inflation. As detailed in this Plan’s Fiscal Gap chapter and highlighted in the graph below, over the ten-year plan period from FY19 to FY28, operating revenues are projected to increase by an annual average rate of just 2.4 percent, while operating expenditures are projected to increase by a higher average rate of 2.9 percent driven primarily by employee benefit cost growth.

³ FY19 adopted budget, p. xvi

⁴ FY19 operating budget, executive summary p. 16



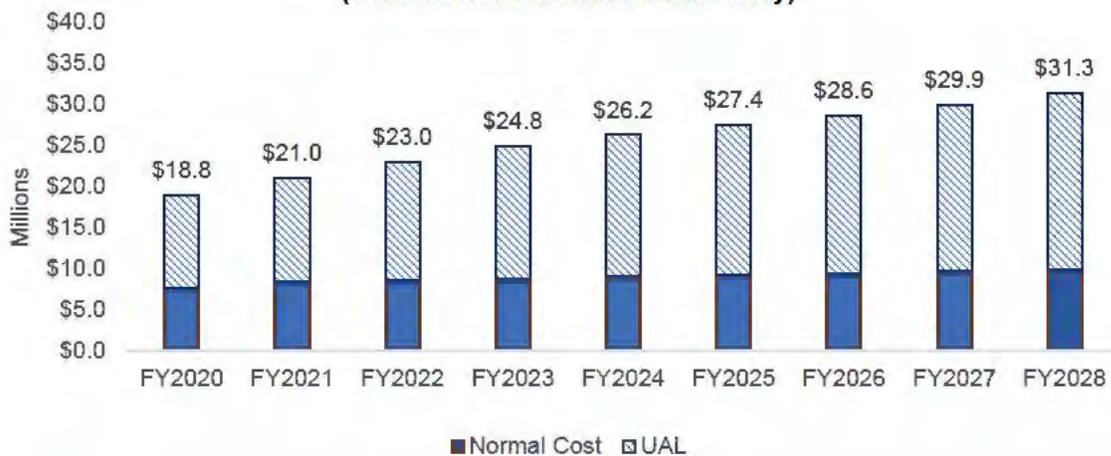
Major Budget Drivers – Compound Annual Growth Rate (CAGR), FY19 – FY28 Prior to Corrective Action



The chart above highlights the structural challenge common to many local governments: while expenditures are almost always driven by personnel costs that grow at a rate significantly higher than inflation as a result of benefits cost growth for healthcare and pensions, revenues often grow at a slower pace even in an economic expansion period of the business cycle.

In Salinas, these challenges are heightened by a relatively weak tax base and skyrocketing CalPERS pension costs. Projected cumulative increase in pension cost through FY28 is \$62.0 million greater than if the FY19 pension costs remained intact. If not for this growth in pension costs (shown in the graph below), the City would erase the \$63.1 million in projected cumulative budget gap and have \$3.1 million available for investment.

City of Salinas CalPERS Pension Cost Growth, FY20 - FY28 (General Governmental Funds Only)



Beyond the structural deficits projected for the City's annual operating budgets, Salinas also faces underlying fiscal challenges related to underinvestment and underfunding of its long-term obligations.

Like many California communities, the City deferred and reduced its ongoing infrastructure investment and maintenance of facilities and equipment in the aftermath of the Great Recession. In addition, Salinas is not



setting aside reserves for future retiree healthcare liabilities on an actuarial basis, but rather is only paying the current costs for those already retired. These practices will lead to additional strain on the budget in future years as facilities require more costly repairs on an emergency basis, infrastructure failures occur, and a growing number of retirees drive rising healthcare costs.

- **Deferred maintenance.** The City has a pavement condition index rating of 54 (out of 100) and an estimated deferred maintenance cost of \$137.9 million as of 2017, indicating the need for widespread reconstruction. Most City buildings are old and in need of repair, the park irrigation systems are up to 50-years old and failing, and the City's vehicle fleet is aging, but budget constraints have led to further FY19 reductions in maintenance staff. While some resources are available to address a subset of these challenges (e.g., a recently increased gas tax in California, a countywide transportation sales tax - Measure X), and Measure G bond funding for a new police station and replacement library, significant needs will remain unmet under a status quo approach.
- **Retiree Health Unfunded Liabilities.** The City's 2017 actuarial valuation for "other post-employment benefits" (OPEB) shows an actuarially determined contribution of \$2.3 million (in FY19) to fully fund the City's current and future liabilities on a sound actuarial basis. The City's FY19 budget allocates \$350,000 toward this liability for pay-go expenses for current retirees. **As of 2017, the plan had a \$15.5 million in unfunded liability and a funded ratio (actuarial value of assets as a percentage of actuarial accrued liability) of 11.0 percent. As the number of retirements increase, the required contributions from the City's General Fund is expected to increase as well.**

Moving forward, it is critical for Salinas to break the cycle of reacting to fiscal crises through service reductions and ad hoc voter-approved taxes and begin to strategically address the external factors that drive the structural imbalance. The City has already taken multiple positive steps, including dedicating \$11.3 million in an upfront contribution in 2018 to reduce the CalPERS pension unfunded liability and lower annual pension obligations over the next ten years. Nonetheless, as outlined throughout this Plan, a further set of bold new steps is now required. Heightening this imperative, the City must also start preparing for the next recession, which would inevitably weaken its revenue growth. **As of November 2018, the current expansion phase of the business cycle completed its ninth year –113 months and counting.** Across the entire post-war period, the average expansion phase has been 58.4 months, and the longest on record is 120 months. Although Measure E will now not expire and will exist in perpetuity (ballot measure November 2012), the same cannot be said for Measure G, which expires at the end of March 2030. Consequently, one of our recommendations calls for the eventual need to also have Measure G exist in perpetuity.

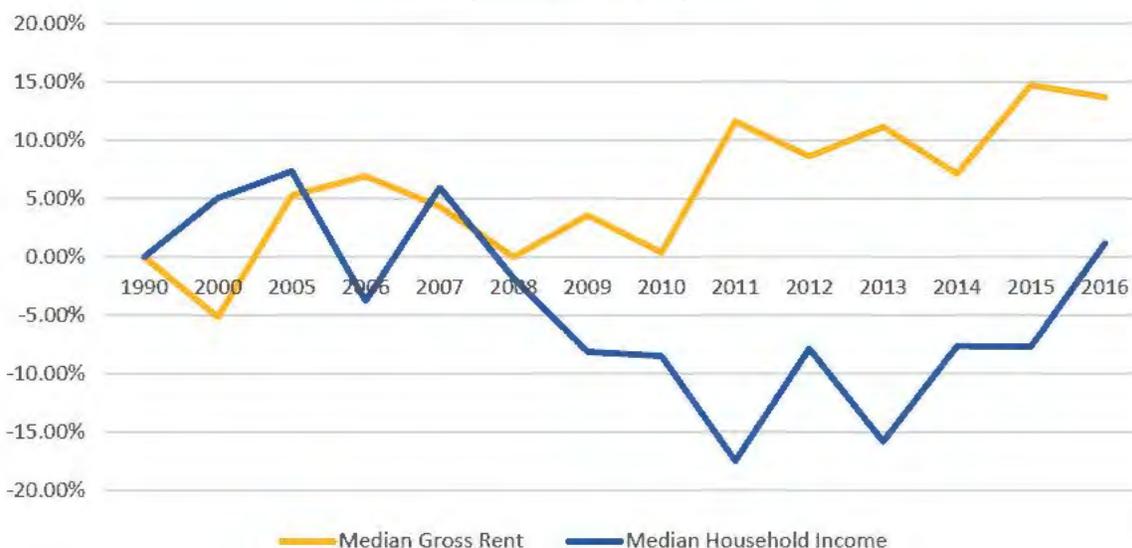
Affordable Housing and Homelessness

At the same time as the looming fiscal crisis is developing, the City is also experiencing growth in homelessness and a severe lack of available and affordable housing. **The loss of redevelopment funding in 2012 took away a key revenue source to address housing issues in the City and the City has not been able to fill the funding gap or address these critical issues in a meaningful way.**

Overcrowded housing in Salinas has reached crisis levels, caused by the confluence of skyrocketing rents and housing prices while median incomes have languished. With improvements in agricultural technology, growing seasons are longer and have led to agricultural worker households staying in Salinas year-round, creating a growing demand for affordable housing. While median household income has been negative most of the last several years, median rents have continued to rise. The following chart compares changes in the City's median household income and median rent, illustrating the increasing disparity over much of the last two decades. This chart shows the growth in the disparity between rental costs and incomes since the end of the Great Recession. While rental costs are over 13 percent higher in 2016 over 1990 (adjusted for inflation to 2016 dollars), wages are only up 1 percent over the same time period. A housing market that was already difficult became a housing market that is effectively impossible for lower-wage workers to afford.



Cumulative Change in Median Household Income and Median Rent City of Salinas, CA (1990–2016) (Constant 2016 \$)



Sources: 1990 & 2000 Decennial Census and 2005–2016 American Community Survey Public Use Microdata Sample 1-Year Estimates / Calculated as the percent change from 1990 base year, adjusted for inflation.

As a result, 48.0 percent of Salinas households are considered “cost burdened” – meaning that residents spend 30 percent or more of their income on housing—either rental or owned. By comparison, just 32.9 percent of households nationally and 42.9 percent in California are cost burdened. The rapid increase in housing cost is also one of the factors driving the 155 percent increase in homelessness in Salinas since 2013: in the most recent Monterey County Homeless Census in January 2017, 1,361 individuals in Salinas were homeless.

While the problems of housing burden and homelessness are somewhat easy to measure or see, Salinas also faces a separate but less visible problem – serious overcrowding. Overcrowding occurs as landlords, or renters who are able to qualify for a lease, often sublet to multiple families in a single-family home or apartment, turning rental units into de facto illegal boarding houses. Illegal rentals are also commonly found in garages, attics and even backyard sheds. As a result, the community has numerous de facto units where basic housing code requirements related to habitability, fire, and health and safety are often overlooked. On the other hand, the challenges in documenting these interior violations makes it difficult to gain access inside these units, meaning that code enforcement tends to focus primarily on issues external to structures. With limited data and legal authority through Ordinances, it is difficult to address overcrowding inside homes. While almost 60 percent of Salinas’s housing stock is rental property⁵, there is not a clear picture of rental ownership or compliance with laws regulating rental units. Additionally, the increasing use of the H2A visa program has resulted in the conversion of existing housing units to H2A-compliant housing with the intention of housing agricultural employees. While these units do provide housing that meets the minimum standards for H2A housing, the conversions can sometimes take place in neighborhoods with single-family homes, which can cause friction with existing residents and result in the displacement of existing residents if the converted units already have tenants. However, agricultural companies have concerns about the long-term stability of the H2A program, reducing incentives to find more permanent solutions.

⁵ 2016 Five-Year Estimates, American Community Survey, U.S. Census Bureau



The result of these housing market dynamics in Salinas – lack of affordable housing, severe code violations, and increasing demand for rental housing by agricultural workers and other vulnerable populations – has incentivized an underground rental economy that takes advantage of the impoverished. It also has a direct impact on the City’s budget. Public safety and community development costs are driven, in part, by the need to address homelessness and code enforcement issues. At the same time, the real estate market is impacted as a result of these housing market dynamics, and the negative impacts of overcrowding and homelessness can affect the City’s economic development efforts in impacted areas.

The City must build on its successes and play a leading role in developing and implementing a plan that addresses the housing crisis. While new partnerships and resources will be needed to help address these issues, City leadership will be no less essential. The City has direct control over zoning, code enforcement, and fire safety functions – all important tools. In many ways, the City also has the most at stake for its residents and its future.

The Salinas Plan

While Salinas’s dual fiscal and housing crises are daunting, they are by no means insurmountable. The City has seen steady population gains over the past decade and an identified Future Growth Area represents new opportunities for further development. Moving forward, the City can now build on this momentum to turn the corner that leads to long-term fiscal and community sustainability.

By choosing a bold path that provides a strong and balanced approach to solving the City’s challenges on both the housing and fiscal fronts, Salinas can regain budgetary stability and leverage the strong agricultural presence in the regional economy – transforming the City into a leader in solving some of the difficult problems that are not limited to Salinas, but that also challenge other communities across the Monterey region and beyond.

The Salinas Plan is documented over a series of chapters focusing on the budget, organization, workforce, and housing. Each of these chapters includes a series of recommendations comprising the plan. Appendix C includes a compilation of all recommendations. The major elements of this Plan include the following:

Risk Mitigation (Chapter 3)

These initiatives represent actions the City can take to reduce its exposure to significant budgetary impacts in the future.

- Work with the community to identify support for making the Measure G sales tax permanent; and
- Incorporate the use of a five-to-ten-year long range budget forecasting model into Council actions with a potentially significant budgetary impact.

Public Safety (Chapter 4)

These initiatives provide a path to more efficient, cost-effective Police and Fire services without reducing level of service.

- Optimize the Police Department staffing schedule to maximize patrol activities;
- Develop an Action Plan to implement the recommendations of the CPSM Public Safety Organizational and Overtime Study;
- Explore additional civilianization of police responsibilities by compiling an inventory of police functions and move any administrative duties to non-sworn personnel;,
- Modernize the Police Department’s data entry processes to eliminate the outdated word processing division; and
- Evaluate the current provision of ALS services within the City, with the goal of reducing or eliminating the City’s costs from overlapping services between the City and its countywide Emergency Medical Services (EMS) contractor.



Shared Services (Chapter 4)

These initiatives seek to make the most efficient use of shared services and for the City to be properly compensated for services provided on a shared basis.

- Recover the full cost of service from the Monterey County Regional Fire District; and
- Consolidate animal services with the County.

Managed Competition and Privatization (Chapter 4)

These initiatives focus on areas where the City should explore partnerships to either manage or repurpose City assets.

- Increase downtown parking fees or contract out downtown parking operations to a third-party vendor;
- Eliminate the current General Fund subsidy of golf course debt service via asset sales; and
- Eliminate the City's subsidy to Sherwood Hall by contracting out operations or transitioning to strategic re-use of the facilities.

Operational Efficiencies (Chapter 4)

These Initiatives change the way the City does business so that services are as efficient and affordable as possible.

- Restructure the Public Works Department to shift responsibility of facility and park maintenance to the Library and Community Services Department;
- Implement a Citywide fleet strategy to centralize fleet operations, contract out non-routine fleet repair and maintenance functions, and develop fleet tracking, rightsizing, and replacement plans;
- Improve the budget process and monitoring, using the existing priority-based budgeting process and tracking adherence to adopted policies; and
- Prepare a preventative maintenance program for all City facilities.

Workforce (Chapter 5)

These initiatives allow the City to develop a more affordable compensation package while increasing the City's long-term competitiveness and ability to recruit and retain the public employees critical to delivering quality services.

- Develop a more affordable, market level health and welfare benefits program to be phased in as current memoranda of understanding expire, including employee cost-sharing of premiums;
- Improve base pay on a cost-neutral basis by restructuring the City's compensation approach to fund prospective increases in base pay;
- Reduce employee costs by eliminating the Management Leave and Flex Leave benefits for employees; and,
- Take steps to support the management of workers' compensation cost growth.

Investment Strategies (Chapters 4 and 6)

These initiatives focus on investment in the City both to maintain the City's significant investments in community facilities and infrastructures and to support affordable housing and community development initiatives that will meaningfully begin to tackle the City's housing and homelessness crisis.

- Establish a policy of dedicating annual budgetary savings towards capital investment;
- Capitalize a Productivity Bank that allows City departments to make otherwise unaffordable technology investments return for cost savings, revenue gains, and service improvements;
- Establish an analyst position that reports directly to the City Manager with the responsibility for Long-Range Plan initiative implementation;



- Convene key stakeholders across interest groups to develop a plan to create more than 4,000 new units of affordable housing in the next ten years;
- Establish a Housing Trust Fund with local and state resources to create 2,000 new units of affordable housing;
- Develop a land strategy to leverage private market investment to create up to 2,400 units of affordable housing; and
- Create regulations to address safety and health conditions in rental and other group housing, including the establishment of a rental registration and inspection program on a full cost recovery basis, to reduce substandard housing in Salinas and hold landlords accountable for basic public safety and health conditions.

New Revenues (Chapters 4 and 6)

While the Plan identifies more than \$60 million in savings to substantially close the City's structural budget gap over the next ten years, it also includes provisions for new revenue to support new investment and projected growth.

- Enact a storm sewer utility fee to eliminate the current transfer of General Fund revenues to the Storm Sewer Fund;
- Increase the current Hotel Tax and dedicate the increased revenue adjustment toward rebuilding City assets and investing in City infrastructure;
- Require establishment of Mello-Roos Community Services Districts (CFD) in the Future Growth Areas to ensure that new growth in the City does not negatively impact City finances;
- Create funding for the Housing Trust Fund through a mix of
 - State funds;
 - City investment from the Redevelopment Property Tax Trust Fund (RPTFF);
 - New local revenues – such as a business license tax and parcel tax;
 - Voluntary funding from businesses and nonprofits; and
 - Private investment in new housing in the City's designated federal opportunity zones.
- Create rental registry and inspection fees to pay for some regulatory costs of code enforcement.

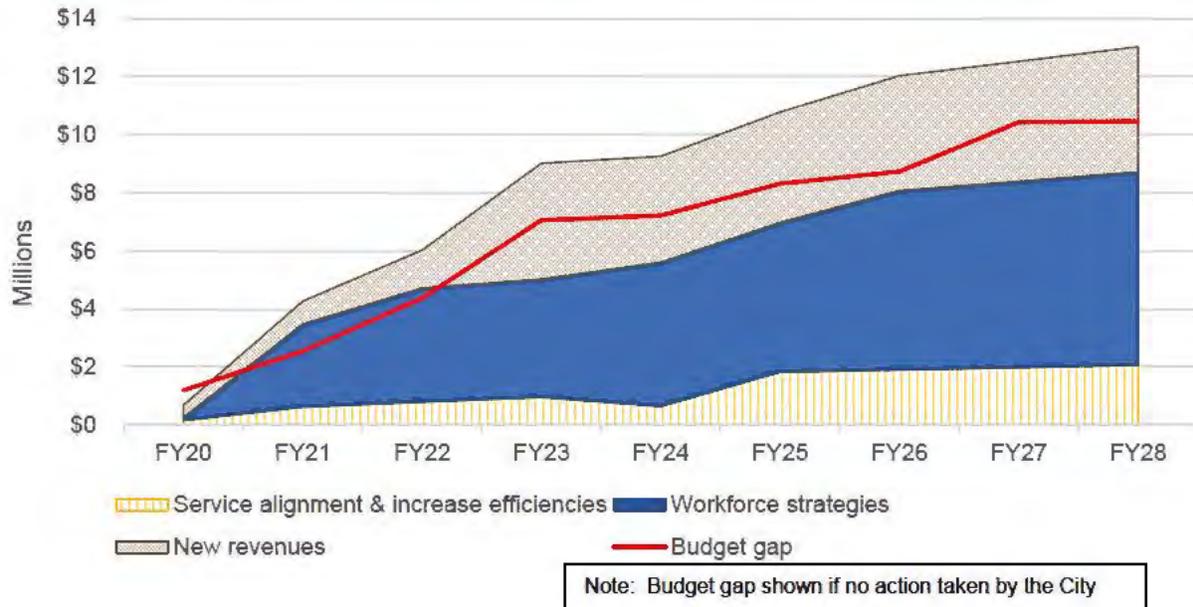
Risk Management (Chapter 3)

These initiatives provide guidance on how to identify, quantify, and address ongoing risks to the City's budget sustainability.

- Put an extended Measure M sales tax on the ballot by November 2024 to provide time for the City to adjust its spending or rerun the measure before it expires in FY31; and
- Provide results from the City's budget model prior to the Council adopting changes with multi-year budget impacts



Salinas Ten-Year Plan, Gap and Gap-Closing Initiatives (in \$ millions)⁶



Long-Range Strategy for Salinas (in millions \$)

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Baseline Projection - Prior to Corrective Action	(\$1.2)	(\$2.5)	(\$4.4)	(\$7.1)	(\$7.2)	(\$8.3)	(\$8.7)	(\$10.4)	(\$10.5)
Service alignment & increase efficiencies	\$0.2	\$0.5	\$0.7	\$0.9	\$0.2	\$1.2	\$1.4	\$1.5	\$1.6
Public safety	\$0	\$0.1	\$0.2	\$0.3	\$0.4	\$0.5	\$0.5	\$0.6	\$0.6
Shared services	\$0.2	\$0.2	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Managed competition	\$0.3	\$0.6	\$0.6	\$0.6	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8
Operational efficiencies	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4
Productivity Bank	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$1.0)	n/a	n/a	n/a	n/a
GF Contribution to Housing Trust Fund					(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
Workforce strategies	\$0.1	\$2.8	\$3.9	\$4.1	\$5.0	\$5.2	\$6.2	\$6.4	\$6.7
New revenues	\$0.4	\$0.8	\$1.3	\$4.0	\$4.1	\$4.3	\$4.5	\$4.6	\$4.8
Total Initiatives	\$0.7	\$4.0	\$5.9	\$9.3	\$9.3	\$10.8	\$12.0	\$12.5	\$13.0
Goal 1: Achieve Structural Balance	(\$0.5)	\$1.7	\$1.7	\$2.0	\$2.1	\$2.5	\$3.3	\$2.1	\$2.6
Goal 2: Investment Strategies									
Dedicate savings to capital investments ⁷	\$2.8	\$2.0	\$1.7	\$2.0	\$2.5	\$3.0	\$3.8	\$2.6	\$3.1
Increase hotel tax and dedicate to capital	\$0.0	\$0.0	\$0.0	\$0.5	\$0.5	\$0.6	\$0.6	\$0.6	\$0.6
Housing Trust Fund (Prelim. Est.) ⁸	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0
Total Investments	\$5.8	\$5.0	\$4.7	\$5.5	\$6.1	\$6.5	\$7.4	\$6.2	\$6.6

⁶ New revenues include a new storm water fee. It also includes revenues generated by a new rental registration and inspection fee, which offsets some of the existing code enforcement costs in the General Governmental Funds. Operational efficiencies savings in FY20 to FY24 are partially offset by annual investments in the productivity bank over that period.

⁷ Does not include additional funding through SB-1

⁸ Assumes \$3.0 million annually, exact amount of trust fund varies depends on the strategies the City pursues. See IN02 for details.



As summarized in the table below and detailed throughout the overall document, this Long-Range Financial Plan proposes a dual approach to address the City’s fiscal and housing crises. Given the City’s challenges, this path will not be easy or painless. But by building on the fundamental strengths of Salinas and its people, along with the actions City leadership has already taken, the opportunity to turn the corner is now at hand. With bold steps, the City can begin to move forward in a more positive direction toward long-range sustainability – not only as a government institution, but as a community.

Dual Approach to Salinas’s Budget and Housing Crises

Goal 1: Achieve Structural Balance	
Budget Strategy 1: Public safety, shared-services, managed competition, operational efficiencies	While the City has already made a number of spending cuts in the FY19 budget, the City must find new ways to align its services to its mission and deliver services more efficiently. This Plan achieves this goal by recommending changes to the current way of delivering services and increasing efficiencies through shared services and managed competition. These initiatives are estimated to generate average annual savings of \$1.6 million .
Budget Strategy 2: Workforce restructuring	Because personnel costs represent the majority of its budget, the City must find ways to control workforce cost growth when faced with chronic structural deficits. At the same time, Salinas must creatively work to maintain competitiveness for recruiting and retaining quality employees. This Plan includes workforce initiatives projected to generate average annual savings of \$4.5 million .
Budget Strategy 3: New revenues	The City must be creative in finding new revenue sources in order to fund ongoing services as well as the investment initiatives as outlined in the previous section. This Plan recommends a revenue package and estimates average annual new revenues of \$1.8 million from the storm sewer fee and net savings of \$1.4 million to the General Fund annually as a result of a self-sustaining rental registration and inspection program.
Goal 2: Invest in Affordable Housing and a Stronger Community	
Investment Strategy 1: Create a Housing Trust Fund	The City of Salinas has severe housing challenges and the no source of funding to tackle those challenges. The recommendation is to take a three-pronged approach of City investment, new taxes dedicated to a Housing Trust Fund, City investment, and the pursuit of voluntary contributions from agricultural interests outside of the City of Salinas to generate between \$6.5 to \$12.5 million per year in revenue to take a start at addressing housing and homeless issues in the City and leverage future expected State funding
Investment Strategy 2: Increase hotel tax for infrastructure and facilities	The City’s capital budget is severely underfunded and requires dedicated resources to repair core facilities, such as fire stations and recreation centers. The Plan proposes that, if the City voters choose to increase its hotel tax, additional revenues would be dedicated toward capital investments.
Investment Strategy 3: Dedicate operating savings toward capital investments on a pay-as-you-go basis	The FY19 capital budget projects capital funding for City infrastructure to decline every year, and the majority of remaining capital funding is from County Measure X and SB1 which has restricted uses. Looking forward, a portion of any additional savings the City achieves through efficiencies to be set aside for capital in City facilities and infrastructure.

Implementation Strategy

For the City of Salinas to successfully implement the efforts detailed through this financial plan, there must be strong and sustained partnership among the City’s leadership, City employees, labor groups, County administration, non-profits and community groups, and local businesses and residents. The road forward is not necessarily easy or smooth, and requires consensus and collaboration among the various stakeholders to share the sacrifices necessary to move the City forward to a financially sustainable future. It will also require difficult and potentially unpopular decisions.

Moving forward, the City should develop an annual implementation action plan in conjunction with its budget process, supported by the new Management Analyst recommended in **Chapter 4**. The annual implementation plan would identify selected initiatives the City would implement in the coming fiscal year,



and would provide the implementation goals, responsible parties, and savings/revenue targets for each of the identified initiatives. A full implementation plan is outlined in **Appendix C**.





CHAPTER 2: BACKGROUND

The National Resource Network

In the years immediately following the Great Recession, just under one-third of the 1,000 cities in the United States with a population of 40,000 or more struggled with serious economic challenges as measured by poverty, unemployment, or population decline. In 2013, with the goal of rethinking how the Federal government could most effectively and efficiently support a turnaround in these struggling cities, the U.S. Department of Housing and Urban Development (HUD) selected a consortium of five organizations – each with a track record of working with city officials -- to administer the National Resource Network and work side-by-side with city officials to deliver on-the-ground assistance. This initial effort was supported by \$10 million in federal funding.

The Network concept recognized that economically challenged cities rarely face just a single obstacle to revitalization. Economic challenges are often directly related to housing, equity, downtown development, transportation, workforce development, education, and public safety issues. Frequently, the local government may lack the fiscal and operational capacity needed to tackle these issues. Legacy costs (e.g. pensions and other retiree benefits) and public safety costs – which can account for more than half of a city's budget – often crowd out opportunities to invest in the future.

Economically challenged cities need additional resources to pursue a turnaround agenda, but financial support alone is rarely sufficient. In the most struggling cities, government leaders lack basic staff capacity to address a depleted civic infrastructure. These cities are ill-positioned to partner effectively with community organizations, businesses, philanthropies, anchor institutions, and other governmental agencies. Moreover, struggling cities often need to simultaneously address downtown development, neighborhood quality of life, crime, health, public education, and other challenges. An effective turnaround plan offers a focused, phased approach, not a mythical, one-time “silver bullet” solution. By drawing on the collective expertise of the members of the consortium, the Network was designed to take a comprehensive approach to finding new solutions for cities.

Now, with the support of a grant from the Laura and John Arnold Foundation, the Network is embarking on a second phase of targeted support focused on developing multi-year financial plans.

In our work with economically challenged cities, the Network has recognized that many cities often face serious fiscal woes. A deteriorating tax base combined with increased demand for city services and increased costs have led to economic decline that has plunged these cities into an oppressive cycle of declining service quality, structural deficits, or worse.

The lack of fiscal capacity has also frequently left these cities struggling to set a course for economic competitiveness. A Federal Reserve Bank analysis of budgetary trends during the Great Recession found that local governments in one Federal Reserve district responded to reductions in state funding and tax revenue by cutting support for community and economic development, investments necessary for a long-term turnaround.

Multi-year financial plans are a path toward fiscal sustainability. But they are also a means of guiding cities toward policies that enhance quality of life and economic competitiveness. Without the fiscal house in order, it is difficult – if not impossible – for these cities to recover economically.

For the selection of cities for direct assistance in the development of multi-year financial plans, the Network developed a new set of criteria for eligibility based on many of the same factors as used in the initial phase of assistance. Cities were eligible for assistance if they met one of the following criteria:

- A population decline of 2 percent or more between 2010 and 2015, as measured by the U.S. Census and the American Community Survey;



- A poverty rate of 20 percent or more (excluding students enrolled in undergraduate, graduate or professional school), as measured by the 2015 American Community Survey;
- An increase in the poverty rate (excluding students enrolled in undergraduate, graduate or professional school) by 4 percentage points or more, between 2010 and 2015;
- A 2016 annual average unemployment rate of 6.5 percent or more, as measured by the Bureau of Labor Statistics;
- An increase in the annual average unemployment rate by 4 percentage points or more, between 2010 and 2016.

In addition, the Network sought to target assistance to those cities where it believed that local leadership would be most ready and willing to support the work of a multi-year financial plan. Based on recommendations from members of the Network consortium, 58 cities were invited to submit applications for assistance in the development of a multi-year financial plan.

Selection of the City of Salinas for Network Assistance

Salinas was invited to participate in the application process based on its strong performance in working with the Network on a federally funded effort to improve workforce development capacity in the Salinas Valley. Salinas met the eligibility requirement based on a 2015 poverty rate of 20.2 percent.

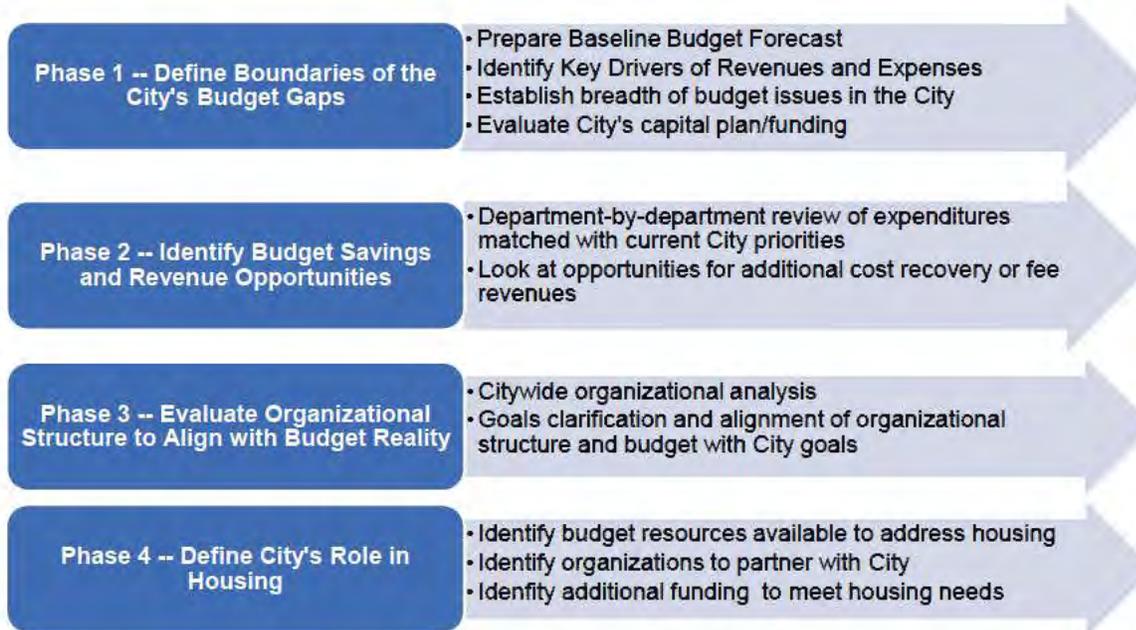
On September 14, 2017, the City of Salinas, CA submitted an application to the National Resource Network. Its application highlighted the five overarching goals adopted by City Council as part of a strategic planning effort:

- Economic Diversity and Prosperity
- Safe, Livable Community
- Effective, Sustainable Government
- Well Planned City and Excellent Infrastructure
- Quality of Life

Following a review of the City's application and supplemental materials, the Network scheduled a call with the City Manager, Finance Director, and Economic Development Manager on September 29, 2017. The Network team for the initial assessment call included: David Eichenthal, Russ Branson, and Nina Bennett (PFM); and Mercedes Marquez (Marquez Strategy).

Between October 31st and November 2nd, a Network assessment team conducted a site visit in the City of Salinas. The team included the following representatives: Russ Branson and Ryan McNeely (PFM); Mercedes Marquez (Marquez Community Strategy); and Anna Ravindranath (Enterprise Community Partners). Over the course of three days, the assessment team met with elected leaders, the City executive team, and key department representatives to better understand the key challenges facing Salinas and determine how to best integrate a multi-year financial plan into ongoing strategic planning efforts.

Based on the City's application and the Network assessment process, the Network and the City agreed to move forward with the development of a multi-year financial plan that addressed the following elements:



In addressing these four phases, this Plan provides a blueprint to help the City gain budgetary stability and begin to tackle housing challenges.

Salinas Economy and Demographics

The twin crises that the Salinas Plan attempts to address are both greatly affected by local economic conditions – particularly income and poverty levels. The slow growth of income compared to the rapid growth in housing costs is at the core of Salinas's housing challenge. And limited local purchasing capacity certainly affects the local tax base, particularly given Salinas's reliance on sales tax revenue.

Growing and Diverse Population

The City's population in 2018 is 161,784 people, with an estimated 40,025 households⁹. The City experienced slow population growth between 2010 and 2018, growing by 11,343 persons, or 7.5 percent¹⁰.

The City of Salinas is becoming more racially and ethnically diverse¹¹. Between 2000 and 2016, the share of White, non-Hispanic residents decreased by 40 percent and the share of residents of color, specifically Hispanic or Latino and Asian, increased by nearly the same amount (38 percent). A majority of residents in Salinas identify their race as Hispanic and Latino (77 percent). This racial and ethnic composition mirrors trends within Monterey County, in which Hispanic and Latino residents are also the largest racial group (55 percent), and higher than the State of California average, (38 percent). After Hispanic and Latino residents, White residents make up the largest share of the city's population (14 percent); followed by Asian residents (6 percent); and Black residents (1.5 percent).

On the whole, Salinas is a young city. Over half (58 percent) of the city's population is under the age of 34 years old, with up to 31 percent of the population being under the age of 18. The median age is 30 years old¹², which is lower than the median age for both the United States and California (36 years old)¹³.

⁹ California Department of Finance (1/1/18) and 2012-2016 American Community Survey 5-Year Estimates.

¹⁰ 2000 U.S. Census Summary File 3 and 2012-2016 American Community Survey 5-Year Estimates.

¹¹ California Department of Finance, Population Estimates of Cities, Counties, and State 2010-2018.

¹² 2012-2016 American Community Survey 5-Year Estimates.

¹³ 2012-2016 American Community Survey 5-Year Estimates.



Salinas residents live in all types of households and family structures. The most common type of family is married or related adults living together without children, representing 30 percent of all households in Salinas. A female-headed family without children, is slightly more common (5 percent of households) than male-headed family without children (3 percent of households). Married couples, with children, are also common throughout the city. These households make up 27 percent of all households in Salinas. Forty-nine percent of all households have children living in them: 30 percent live with married parents; 12 percent live in a female-headed family; and 6 percent live in a male-headed family.

The Salinas Economy

The June 2016 National Resource Network report on Salinas prepared by Jobs for the Future provides a summary of the Salinas economy:

The Salinas economy relies heavily on agriculture: crop and agricultural production represents approximately 12% of the metropolitan statistical area's (MSA's) \$18.6 billion gross regional product (GRP), which is the largest percentage of any single industry other than government (23%). Wholesale trade, retail trade, and health care and social assistance each make up approximately 6% of the GRP.

Salinas has a significant employer presence in agriculture, health, and government. The region is overwhelmingly dominated by employers in crop production and agricultural support. Together, these two areas employed nearly 55,000 individuals in 2015, representing almost 13% of the MSA's total workers. By comparison, the health care industry employs approximately 13,000 individuals, or about 3% of the regional population.

Major employers located in Salinas include Rocket Farms, D'Arrigo Bros. Co., Mann Packing Co., Taylor Farms, Hilltown Packing Co., Natividad Medical Center and Salinas Valley Memorial Healthcare.

Salinas is working to build on the concentration of agricultural employment by promoting "ag-tech" within as an opportunity to create high-paying jobs and boost property and sales taxes. To assist the City in addressing critical job issues, and the mismatch between the growing job market in ag-tech and employee skills, the Network worked with a coalition of cities in 2015—led by Salinas—to create a regional workforce development strategy for the cities in the Salinas Valley.

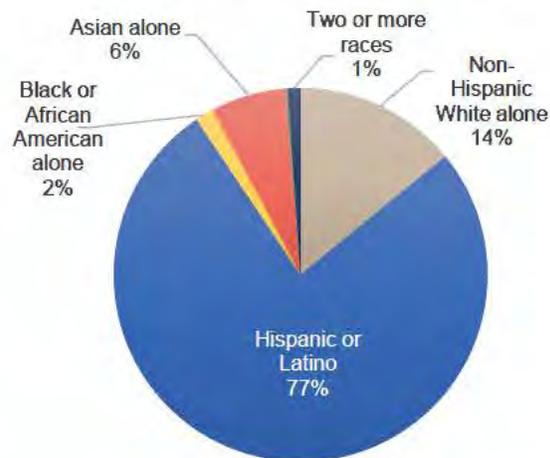
The City is also experiencing increased retail and service-related development. Several projects that are in development or near-completion will add to the City's sales tax base including:

- Continued expansion/upgrade of the Northridge Mall
- Construction of the Salinas Travel Center along Highway 101

High Levels of Unemployment and Poverty and Low Income Levels

Despite these promising signs of growth, Salinas struggles with high levels of poverty and unemployment. Census Bureau American Community Survey data indicate a poverty rate of 18.9 percent as of 2016, compared to 15.8 percent for California overall, and Salinas poverty rate has increased markedly since 2000. Child poverty in Salinas is also high at 27.8 percent as of 2016.

Population by Race and Ethnicity

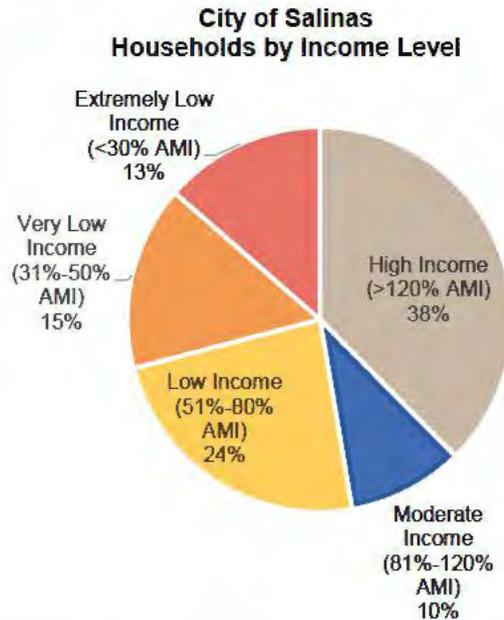




Currently, Salinas's 13.2 percent unemployment rate is 8.9 percentage points over the California average and 3.8 percentage points over Monterey County as a whole (with the overall County rate including unemployment within the City, such that the gap compared to the rest of the County would be even greater). The local economy's dependence on seasonal job markets is an important factor in high unemployment figures: the gap between local unemployment rates shrinks to less than two percentage points during the peak agricultural productivity month of September, but balloons during the relatively inactive month of January.

According to the 2016 American Community Survey¹⁴, the median household income in Salinas is approximately \$52,300, or 86 percent of the County median of \$63,783 (again, recognizing that the City's numbers are included in the County totals). This leaves residents vulnerable to economic cycles; during the last recession, unemployment doubled. These poverty and unemployment challenges are particularly pressing because, nearly one third of Salinas residents are under the age of 18, an indicator that Salinas may experience a strong surge in unemployment and poverty in the next decade unless there is significant improvement in job placement and career progression among young adults.

Comparisons with nearby cities also reflect that Salinas has the second lowest median household and per capita incomes.



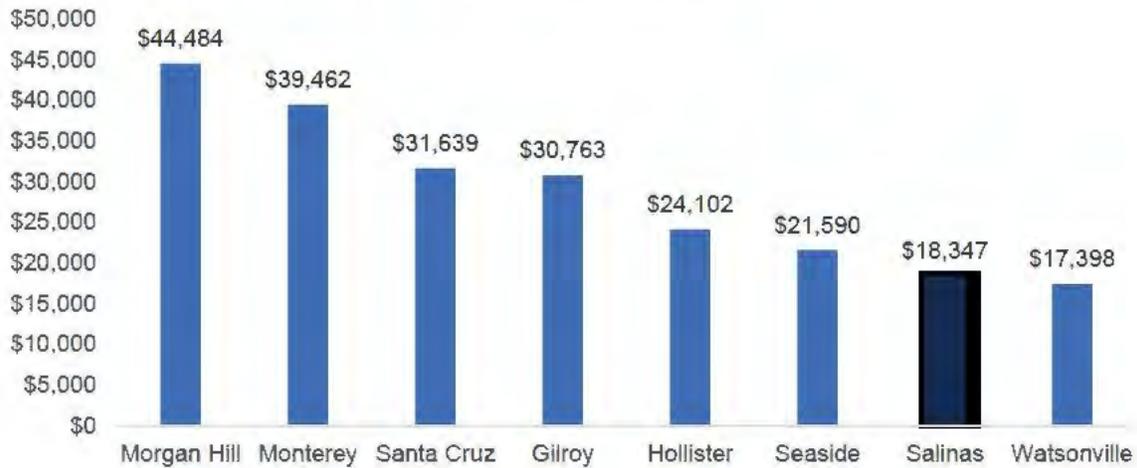
¹⁴ Based on area median income (AMI)



Median Household Income



Per Capita Income





Salinas also has the highest local poverty rates for children and is second to Santa Cruz in overall poverty rate¹⁵.

Poverty Comparison with Nearby Cities

City	Poverty Rate (All People)
Santa Cruz	24.1%
Salinas	18.9%
Watsonville	17.6%
Seaside	16.0%
Gilroy	13.0%
Hollister	11.9%
Monterey	8.6%
Morgan Hill	8.6%

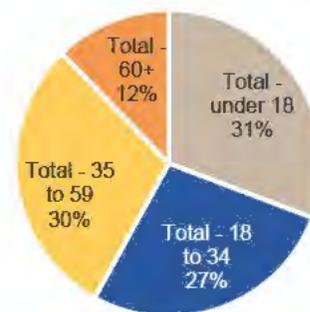
City	Child Poverty Rate
Salinas	27.8%
Watsonville	23.2%
Seaside	22.2%
Santa Cruz	19.5%
Gilroy	18.9%
Hollister	17.5%
Morgan Hill	10.9%
Monterey	1.2%

Lack of Training and Skills Needed For Higher-Paid Jobs

In the 2015 regional workforce study conducted by the NRN for Salinas Valley cities, significant issues were identified with a mismatch between job skills and jobs availability. According to the American Community Survey, approximately 40 percent of local residents are immigrants; a 2011 study by the Public Policy Institute of California found that Salinas has one of the highest concentrations of undocumented immigrants in the state and nationwide¹⁶. As is common in communities with a significant presence of immigrant agricultural workers, most Salinas Valley residents have little formal education beyond high school. According to American Community Survey data, almost 30 percent of adult residents over 25 years of age ended their formal schooling in elementary or middle school, and between 40 and 50 percent do not have a High School diploma.

According to education leaders interviewed, over 85 percent of local high school graduates do not have college-ready levels of Math and English proficiency and require significant remedial education. Several stakeholders interviewed noted that adult illiteracy and lack of English language skills remain significant problems, not only among adult immigrants but also among children and youth: only 50 percent of Salinas students achieve “advanced” or “proficient” scores on the English language section of the California Standards Test. These skill deficits represent significant barriers both to residents’ eligibility for higher paid jobs as well as to their ability to fully engage in advanced workforce training and higher education programs.

Population by Age



¹⁵ The overall poverty rate includes students in higher education which may, in part, account for the higher poverty rate in Santa Cruz.
¹⁶ Hill, Laura; Johnson, Hans. 2011. "Unauthorized Immigrants in California: Estimates for Counties" (PDF). Public Policy Institute of California. Public Policy Institute of California. Available at: http://www.ppic.org/content/pubs/report/R_711LHR.pdf



Report Structure

The remainder of this report attempts to understand and prescribe solutions to seemingly intractable issues faced by the City. In the following chapters, the study addresses:

- Achieving budget sustainability
- Organizational structure to both redirect City funding and to align funding with City priorities
- Rebalancing employee compensation to better reflect the labor marketplace, improve recruitment of future employees, and enhance retention of current employees
- Engaging and understanding the housing challenge and how the City can provide a leadership position in proactively working on housing solutions

Each chapter includes recommendations that will move the City toward solutions in each area. Following these chapters, a summary of all recommendations is included to provide an overall context for the broad range of recommendations that this study covers.

Implementation is the key for realizing the benefits of the recommendations. The recommendations in this report will take a number of years to implement and will require consistent engagement with Council, employees, local and regional employers, other governmental agencies in the Salinas Valley, and the local community. The final chapter discusses a process for implementing the study recommendations and continually keeping the goals of the recommendations at the forefront of the City's annual work program.

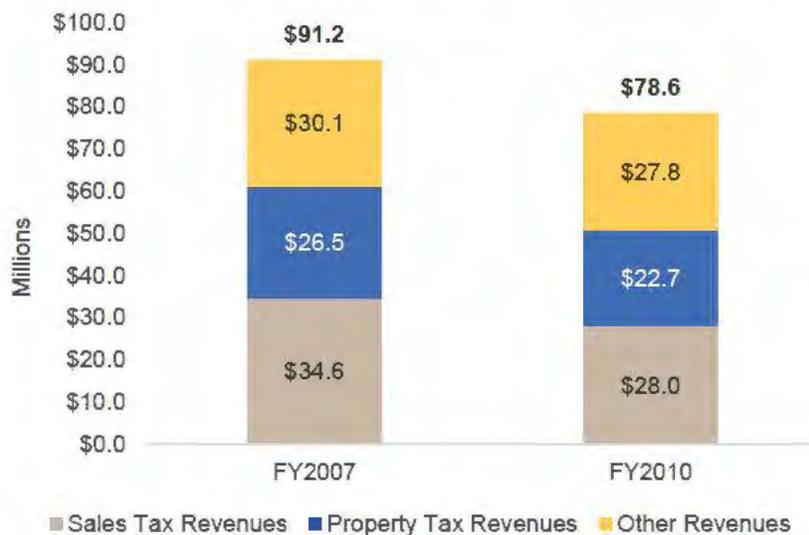


CHAPTER 3: DEFINING THE FISCAL CHALLENGE

Like many local governments in California, the City of Salinas struggles to maintain fiscal balance while providing quality services to its residents. Because Salinas's revenues are primarily driven by its sales and property taxes — correlating closely with the local economy and housing market — its revenues were significantly affected by the Great Recession that began in December 2007. The City lost almost 20 percent of its sales tax revenues from FY07 to FY10, dropping from \$34.6 million to \$28.0 million. Property tax revenues also fell from \$26.5 million in FY07 to \$22.7 million in FY10, representing a 14.3 percent decline.

Driven largely by the decline of these two major revenue drivers, the City lost a total \$12.6 million in annual revenues between FY07 and FY10, or one out of every six dollars.

**General Governmental Fund Revenues, Before and After the Great Recession
FY07 and FY10**



In tandem with the decline of these two main revenue drivers, personnel costs – salaries and cash compensation, health benefits, and pension contributions – continued to grow at a rate higher than inflation. By the end of FY10, the City's general governmental funds had deficit of \$7.5 million and unassigned fund balance dropped to \$1.5 million, or less than 2.0 percent of general governmental expenditures¹⁷.

Confronted with rising cost pressures and the possible depletion of the fund balance, the City reduced its citywide headcount by 16.6 percent from 637 in FY10 to 531 in FY11. Over the period from FY07 to FY11, the City lost more than one-fifth of its workforce in an effort to match costs to revenues.

In FY12, the City's financial situation finally began to improve as the economy recovered. Sales tax increased by more than 20 percent from FY11 to FY14 and property tax stabilized as the housing market slowly recovered. The City also expanded its utility user tax in FY12 with voter approval, capturing additional revenues from utility users. By the end of FY14, the City's general governmental funds finished the year with \$4.9 million in operating surplus, and the unassigned fund balance increased to \$3.5 million¹⁸. While the unassigned fund balance as a percentage of operating revenues was still significantly lower than the

¹⁷ From the City's FY10 Basic Financial Statements.

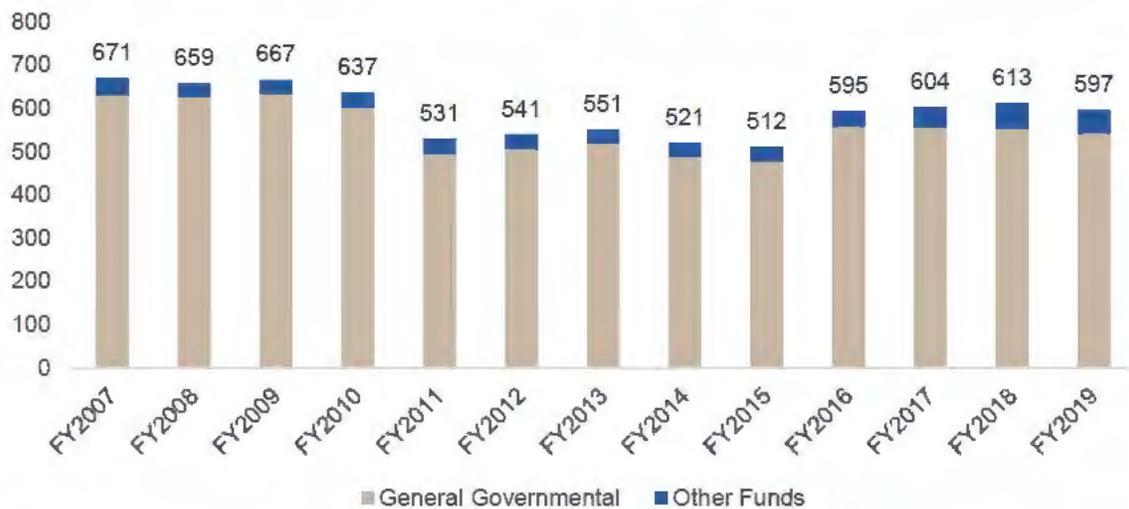
¹⁸ From the City's FY14 financial statements.



Government Finance Officers Association (GFOA) minimum recommendation of 16.7 percent, it was more double the amount the City had in FY10 (\$1.5 million).

As the City made progress in its financial recovery and successfully balanced its revenues with its expenditures, it also recognized the need to restore and improve City services and invest in capital infrastructure. To address that need, the City increased its sales tax by 1.0 percent beginning in April 2015 through the voter-approved Measure G sales tax. The new sales tax provided almost \$25 million in additional revenues to the City, allowing for additional investments in public safety, public works, and community services functions and restoration of almost 90 percent of eliminated positions by FY18. In the FY19 budget, however, the City's headcount dropped slightly again as a result of ongoing budget pressures, as illustrated in the chart below.

Citywide Headcount, FY07 - FY19



Looking forward, the City remains financially challenged with recent pension contribution increases. In December 2016, the California Public Employees' Retirement System (CalPERS) Board of Administration voted to lower the discount rate assumption on retirement investments from 7.5 percent to 7.0 percent over a three-year period, resulting in significant increases in the City's pension cost in the near future. The most recent actuarial valuation projects the City's pension contribution to increase by almost 70 percent over the next five years, due in part to the discount rate reduction and a substantial unfunded liability.

To manage this steep increase in cost, the City drew \$11.3 million from its reserve in June 2018 to pay down some of its Fire Safety pension liabilities, reducing the City's overall pension contribution by approximately \$2.0 million annually for the next ten years. The following shows the City's projected pension cost growth¹⁹, inclusive of the aforementioned \$2 million annual savings.

¹⁹ Excludes New York Life pension plan contribution, which is a closed plan with contributions totaling \$1.6 million. The most recent actuarial valuation report projects the contribution to the New York Life plan to decline at 10 percent annually.



CalPERS Pension Cost Growth, FY20 - FY28 (General Governmental Funds Only)



Even without the projected increases in pension costs, the City would still carry an underlying structural gap – with recurring expenses, especially those related to employee compensation and benefits, growing faster than recurring revenues. In addition, there is the business cycle risk that is beyond City government control. The current expansion phase of the economy began over nine years ago, after the Great Recession ended in June 2009. The last five expansion phases averaged 58.4 months in duration, ranging from 12 to 120 months. As of November 2018, the current expansion cycle has reached 113 months. Another recession within the next few years could weaken revenue growth, especially the sales and property tax revenues, which are driven at least in part by the overall local economy and housing market.

Baseline Ten-Year Projection

The PFM-led National Resource Network team has developed a financial forecast model using the City's FY19 budget as a starting point for projection. The "baseline" forecast reflects the City's financial position on a carry-forward basis over the next 10 years; in other words, **this forecast assumes continuation of current programs and financial policies *without* corrective action and is used as a point of comparison against alternative forecasts, initiatives, and scenarios.**

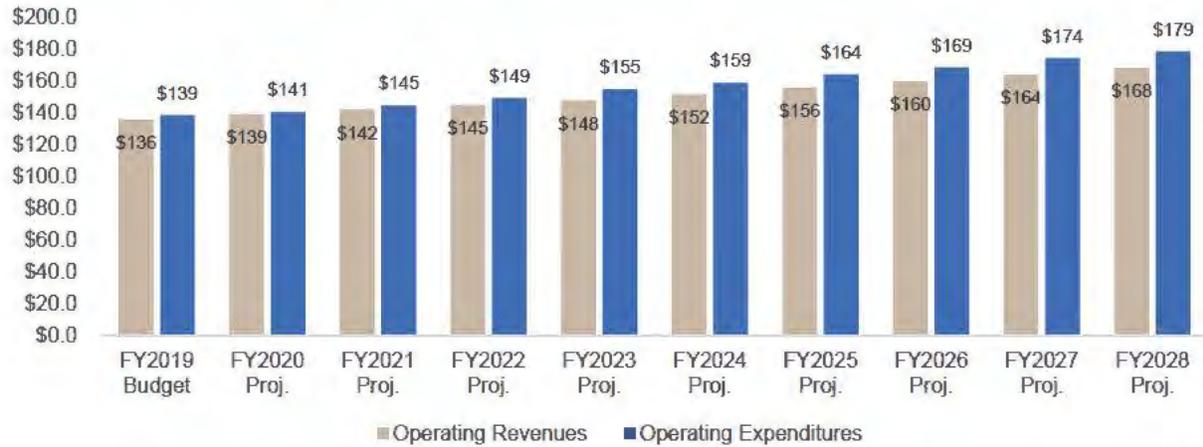
The baseline projection starts with the FY19 adopted budget. Beginning in FY19, the baseline projection accounts for known future changes, such as provisions in existing collective bargaining agreements and scheduled debt payments, and then applies growth rates calculated based on a combination of historical performance, socioeconomic trends, and other factors. The baseline projection is focused on the City's general operating budget, including the General Fund and the General Fund portions of the Measure E and Measure G voter-approved sales taxes.

On this basis – again, before further corrective action – the City's expenditures are projected to exceed revenues in each of the next ten years as expenditures grow at an average annual compound rate of 2.9 percent, outpacing revenue which is forecast to grow at an annual rate of 2.4 percent.

Under this baseline projection, the resulting structural imbalance between revenues and expenditures is forecast to yield a net operating shortfall of \$2.8 million in FY19 that eventually grows to \$10.1 million by FY28, totaling a cumulative total deficit of \$57.0 million over the ten-year period.



General Governmental Funds' Baseline Projections, FY19 – FY28 (in \$ millions)



	FY19 Budget	FY20 Proj.	FY21 Proj.	FY22 Proj.	FY23 Proj.	FY24 Proj.	FY25 Proj.	FY26 Proj.	FY27 Proj.	FY28 Proj.
Operating Revenues	\$135.9	\$139.3	\$142.1	\$145.0	\$147.8	\$151.6	\$155.8	\$159.8	\$163.9	\$168.1
Operating Expenditures	\$138.6	\$140.5	\$144.6	\$149.4	\$154.9	\$158.9	\$164.2	\$168.5	\$174.3	\$178.6
Net Operating Results	(\$2.8)	(\$1.2)	(\$2.5)	(\$4.4)	(\$7.1)	(\$7.2)	(\$8.3)	(\$8.7)	(\$10.4)	(\$10.5)

It is important to note that the baseline forecast already includes a number of measures the City took during the FY19 budget process to close the budget gap. Those measures include:

- Holding vacant 34 positions that are unfunded (\$4.3 million in personnel savings)
- No wage increases for the Police Officers Association until the new MOU becomes effective (FY19 budget assumes no wage increases for police officers; a 2.5% increase would be equivalent to a \$0.8 million increase in cost, including salaries and benefits)
- Reducing professional / consultant fees by \$421,000
- \$282,000 in cannabis permits and monitoring fees
- Cannabis tax revenues growing from \$0.5 million in FY20 to \$1.0 million by FY25

While these budget-balancing measures helped the City close approximately \$6.0 million in projected deficits²⁰, the FY19 Measure G portion of the General Fund budget still has a \$2.8 million deficit between the General Fund and Measures E and G, due in part to shift in funding for the police station financing costs included in the capital budget.

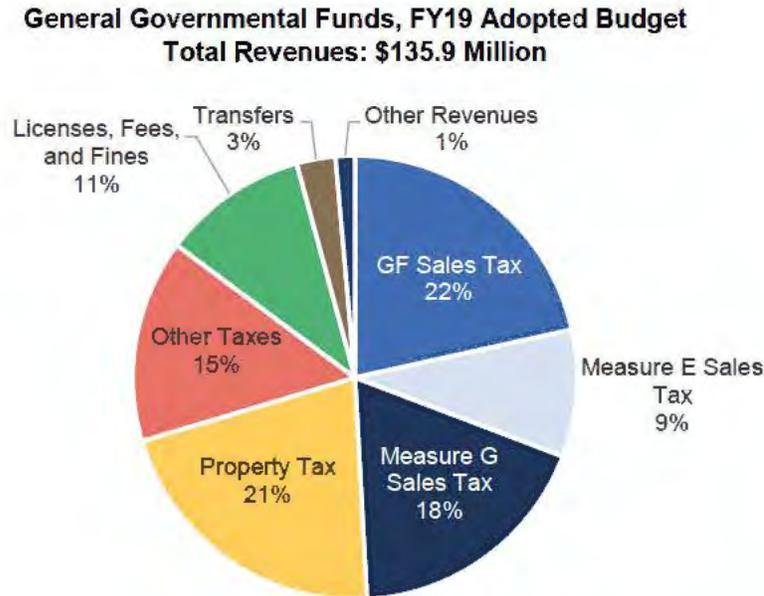
The next sections of this chapter detail the operating revenue and expenditure assumptions underlying this baseline forecast.

²⁰ The City made a one-time \$11.3 million payment to the Fire Safety pension plan using funding from reserve, resulting in an annual decrease in pension contribution of approximately \$2.0 million. Those savings were not included in the FY19 budget.



Revenues

Salinas's FY19 General Fund revenue (including the General, Measure E, and Measure G Funds) is characterized by substantial income from property taxes and sales tax. The pie chart below shows the major categories of City General Fund revenues, based on the FY19 adopted budget:



The main drivers of the FY19 general governmental revenues include the following:

- **Sales Tax** (\$66.8 million in FY19): The single largest revenue source for the City is the sales tax, which represents almost half of the City's FY19 budget. The City currently receives a 2.5 percent sales tax, of which 1.0 percent is from base State sales tax (the Bradley-Burns tax), 1.0 percent is from Measure G that began in April 2015, and another 0.5 percent is from Measure E that began in April 2006²¹. Because of the new Measure G tax override, sales tax revenues grew at an annual average of 18.7 percent from FY13 to FY17. Excluding Measure G, the growth of the tax base the City's sales tax revenues grew 3.8 percent per year from FY13 to FY17 on a compounded basis²². The Measure G sales tax sunsets in March 2030, and, if it expires and is not renewed, the City's General Fund Governmental Fund projected deficit would increase from \$10.5 million in FY28 to \$42.2 in FY30 as a result of the loss of over \$30 million in revenues (see Appendix C for more details).

²¹ The half-cent sales tax was originally a Measure V sales tax that was scheduled to expire in March 2016. In November 2012, voters approved Measure E, which stipulated that the tax created by Measure V will not expire and will exist in perpetuity. This Plan generally refers to this sales tax as the Measure E sales tax, though the terms may be used interchangeably.

²² The 3.8 percent average annual growth is calculated based on Measure E sales tax revenues, which began in 2006 and was not affected by the Triple Flip, which was a quarter-percent reduction in the Bradley-Burns local sales tax that was recovered through a series of revenue swapping procedures.



Impact on General Government Funds if Measure G Sales Tax Is Not Renewed²³

	FY27 Proj.	FY28 Proj.	FY29 Proj.	FY30 Proj.	FY31 Proj.
General Governmental Revenues	\$163.9	\$168.1	\$172.3	\$168.7	147.8
General Government Expenditures	\$174.3	\$178.6	\$183.0	\$187.6	192.3
Net Operating Result	(\$10.4)	(\$10.5)	(\$10.7)	(\$18.9)	(\$44.5)

- Property Tax** (\$28.9M in FY19): The property tax is the City's second largest revenue source, representing 21.5 percent of total General Fund revenues²⁴. From FY13 to FY17, property tax revenues grew at an annual average rate of 5.4 percent. Since base property values cannot increase more than 2.0 percent per year unless resold, the higher increase achieved reflects growth in taxable property values from new development, property turnover in the City, and restoration of reductions in assessed values from the recession under Prop 8. Nonetheless, the chart below shows that property taxes still had not yet reached their FY08 peak by FY17.

Property Tax Revenues, FY10 – FY17 (in \$ millions)



- Other Taxes** (\$20.1 million in FY19): The City generates another 14.8 percent of its general governmental revenues through other taxes, which consist of the utility users tax (UUT), business license tax, and transient occupancy tax (aka, "hotel tax").
 - Utility Users Tax** (\$12.2 million in FY19): The utility users tax is levied on telecommunications, water, and selected TV services: utilities -- including gas, electricity, and water-- are levied at 6.0 percent, telecommunications and video programming services are levied at 5.0 percent and prepaid wireless services are levied at 4.5 percent. This tax revenue generated an average of \$9.1 million from FY10 to FY15. In 2014, voters approved Measure H, which modernized the ordinance such that the utility tax expanded to include wireless technology, among other changes. As a result, revenues increased from \$9.7 million in FY15 to \$12.1 million in FY16. Since then, UUT revenues have been growing at an annual average rate of only 0.3 percent.

²³ Please refer to Appendix C for detailed breakdown of the projections.

²⁴ Under Proposition 13, property taxes are limited to 1.0 percent of assessed value; neither the City nor voters are allowed to increase the base property tax rate under any circumstances. Assessed values are also limited to an annual growth of 2.0 percent, except when a property is reassessed at market value upon a change of ownership.



- **Business License Tax** (\$5.0 million in FY19): Businesses operating in the City of Salinas, with the exception of nonprofit organizations, are subject to an annual business license tax that is based on the businesses' annual gross receipts. From FY13 to FY17, this revenue grew steadily at an annual average rate of 2.3 percent.
- **Transient Occupancy Tax** (\$2.9 million in FY19): Also known as the “hotel tax” or the “bed tax”, the transient occupancy tax is a 10.0 percent tax imposed on the total rent charged to transient guests, defined by consecutive stays of less than 28 days in hotels/motels and homes rented by owners²⁵. The City saw a 31.3 percent increase in transient occupancy tax in FY15 due to the opening of the Hampton Inn and an audit program that the City used to increase collections. Since then, revenues grew more slowly from \$2.4 million in FY15 to \$2.8 million in FY17.
- **Licenses, Fees, and Fines** (\$14.4 million in FY19): This category includes franchise fees (\$8.9 million), charges for services (\$4.3 million), licenses and permits (\$0.9 million), and fines (\$0.3 million). In aggregate, these revenues grew at an annual average of 6.8 percent from FY13 to FY17.
 - **Franchise Fees**: The City generated \$8.8 million in FY17 from franchise fees, which include utility franchise fees for cable TV, gas, and electric services as well as service franchise fees for garbage collection, recycling, and towing. Franchise fees grew at an annual average rate of 3.8 percent between FY13 and FY17.
 - **Charges for Services**: The major revenue category is the administrative service revenue, which is a cost allocation credit from enterprise and other funds to the General Fund. The City updated its cost allocation methodology in FY17, increasing its revenues from \$1.5 million in FY16 to \$1.9 million in FY17. Other charges in this category include public safety fees (\$1.3 million) for services related to police and fire such as false alarm and fingerprinting; recreation and community fees (\$0.3 million) that partially recover the costs required to maintain City facilities; and building and planning fees (\$0.4 million) related to inspections and plan review. The City also budgeted \$282,000 for new cannabis monitoring fees in FY19.
 - **Licenses and Permits**: The City's primary license revenue comes from its encroachment license fees, which are various types of fees related to work performed on City sidewalks, streets, or other public structures. Beginning in FY18, the City moved the Permit Services Division from the General Fund to the Permit Services Fund, thereby reducing revenues by \$1.9 million and corresponding expenditures by \$2.1 million²⁶. This category also includes new revenues of \$28,000 in FY19 that are anticipated to be collected from cannabis permits.
 - **Fines and Forfeits**: The City's fines and forfeits revenue consists primarily of code enforcement fines, and was budgeted at \$280,000 in FY19. Code enforcement functions are generally performed by the Department of Community Development.

²⁵ Salinas Code of Ordinances, Chapter 32, Article IV

²⁶ For the purposes of consistency, historical revenues and expenditures from the Permit Services Division, which was part of the General Fund prior to FY18, are removed from all General Fund tables and charts in this report.



- **Transfers (\$3.8 million in FY19):** The City's General Governmental Funds receive transfers from other funds and those transfers represent 2.8 percent of the revenue budget. More than half of the transfers (\$2.1 million) are transfers from the Measure G Fund to the General and Measure E Funds. Because these transfers are also reflected on the expenditure side, there is no net impact to the total General Governmental Funds' net operating result. Transfers are separate from the general fund expenses paid directly from Measures G and E.

FY19 Transfers among the General, Measure E, and Measure G Funds

	Revenues	Expenditures
Transfer from Measure G	\$2,112,730	
Transfer to General Fund		\$1,413,270
Transfer to Measure E		\$699,460
Total	\$2,112,730	\$2,112,730
Net Fiscal Impact		\$0

In addition to transfers among the General Fund and Measure E and Measure G Funds, the City also transfers \$1.7 million from the Gas Tax Fund for street and road maintenance work performed by Public Works staff.

- **Other Revenues (\$1.9 million in FY19):** The City's other revenues consist of grants and reimbursements from other agencies as well as miscellaneous revenues including interest and rental income.
 - **Revenue From other Agencies:** The City collected \$1.2 million in revenues from other agencies in FY17. Major revenues in this category include reimbursements from the State for fire suppression, hazmat incidents, and other mandated services. This category also includes payment-in-lieu revenues from tax-exempt entities.
 - **Other Revenues:** The City collected \$1.4 million from other revenues in FY17, including interest and rental income (\$0.8 million) and a one-time revenue of \$399,000 from an asset sale. The FY19 budget also includes \$445,000 in employee pension contributions from the safety units.

In aggregate, the City's general governmental revenues grew at a Compound Annual Growth Rate (CAGR) of 12.3 percent from FY13 to FY17. Some of this growth, however, was driven by the aforementioned transfers between the General Fund, Measure E, and Measure G Funds that had no net fiscal impact to the City. Excluding those transfers, the City's general governmental revenues grew at an annual rate of 11.9 percent, driven primarily by growth in sales tax revenues and the addition of the Measure G sales tax.



The following table displays major revenue categories from FY13 to FY17:

General Governmental Revenues, FY12 – FY17 (in \$ millions)

	FY13 Actuals	FY14 Actuals	FY15 Actuals	FY16 Actuals	FY17 Actuals	FY13-FY17 CAGR
GF Sales Tax	\$23.6	\$24.9	\$24.8	\$23.8	\$31.4	7.4%
Measure E Sales Tax	\$10.3	\$10.8	\$11.1	\$11.4	\$12.0	3.8%
Measure G Sales Tax	\$0.0	\$0.0	\$1.4	\$22.6	\$24.1	N/A
Property Tax	\$22.0	\$22.8	\$24.4	\$26.0	\$27.1	5.4%
Other Taxes	\$15.4	\$16.0	\$16.7	\$19.6	\$20.0	6.8%
Licenses, Fees, and Fines	\$11.0	\$11.7	\$12.2	\$12.3	\$14.3	6.8%
Transfers	\$2.0	\$4.9	\$2.2	\$3.9	\$4.0	18.7%
Other Revenues	\$0.8	\$1.7	\$1.9	\$2.6	\$2.6	33.4%
Total General Governmental Revenues	\$85.2	\$92.8	\$94.6	\$122.2	\$135.6	12.3%
Revenues excl. Transfers within General Governmental Funds	\$85.2	\$92.8	\$94.6	\$120.3	\$133.6	11.9%

As referenced previously, much of the revenue growth was the result of the new Measure G sales tax measure that became effective in 2015. The City also received the final reimbursements through the State's Triple Flip measure in FY17, resulting in one-time revenues of \$3.4 million²⁷.

Revenue Projections

For the ten-year budget projection period from FY19 to FY28, aggregate General Fund revenues are projected in the baseline scenario – again, prior to corrective action – to increase at a compound annual rate of 2.4 percent. Because the baseline projection is calibrated to reflect a reasonably conservative set of assumptions and does not account for additional developments beyond the planned developments or additional growth in the housing market, the projected revenue growth is generally lower than the historical growth that was discussed in this section. Additional revenue growth opportunities -- including possible new development and retail operations -- are reflected in the details of the Salinas Plan, with a broad set of revenue enhancement initiatives. The following table presents the City's baseline projection that starts with the FY19 proposed budget, with major assumptions outlined below.

Baseline Projections of General Governmental Revenues, FY19 – FY28

	FY19 Budget	FY20 Proj.	FY21 Proj.	FY22 Proj.	FY23 Proj.	FY24 Proj.	FY25 Proj.	FY26 Proj.	FY27 Proj.	FY28 Proj.
GF Sales Tax	\$29.3	\$30.2	\$30.7	\$31.1	\$31.6	\$32.5	\$33.4	\$34.4	\$35.3	\$36.3
Measure E Sales Tax	\$12.6	\$13.0	\$13.2	\$13.4	\$13.6	\$14.0	\$14.4	\$14.8	\$15.2	\$15.6
Measure G Sales Tax	\$24.9	\$25.6	\$26.0	\$26.4	\$26.8	\$27.5	\$28.3	\$29.1	\$29.9	\$30.8
Property Tax	\$28.9	\$29.9	\$30.9	\$32.0	\$33.1	\$34.3	\$35.5	\$36.7	\$38.0	\$39.3
Other Taxes	\$20.1	\$20.3	\$20.5	\$20.7	\$20.8	\$21.0	\$21.1	\$21.3	\$21.4	\$21.5
Licenses, Fees, and Fines	\$14.4	\$14.8	\$15.3	\$15.8	\$16.2	\$16.6	\$17.0	\$17.4	\$17.7	\$18.1
Transfers	\$3.8	\$3.9	\$3.9	\$3.9	\$4.0	\$4.0	\$4.1	\$4.2	\$4.2	\$4.3
Other Revenues	\$1.9	\$1.9	\$1.9	\$1.9	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
Total Revenues	\$135.9	\$139.5	\$142.3	\$145.3	\$148.1	\$151.9	\$155.8	\$159.8	\$163.9	\$168.1

²⁷ With the ending of the "Triple Flip" on December 31, 2015, the City's sales tax were fully identified in its sales tax revenues beginning in the second half of FY16. However, because of the delay in the final reimbursements, the City received a one-time revenue in FY17 when the Triple Flip had already ended.



Significant baseline revenue assumptions include the following:

- **Sales Tax**

- The City uses HdL, an external data analytics provider, to project its sales tax revenues. As discussed previously, the country is currently experiencing one of the longest expansion periods of a business cycle, resulting in significant budget risk if the next downturn arrives within the projection period. The sales tax forecast therefore incorporates that risk and projects sales tax growth to average 1.6 percent growth from FY12 to FY23, after which the growth would grow at a higher annual rate of 2.8 percent, matching the compound annual average growth from FY14 to FY16.

- **Property Tax**

- The City's property tax revenues declined from an all-time high of \$27.5 million in FY08²⁸ to \$21.2 million in 2012 as a result of declining housing market following the Great Recession. Like many other local governments in California, Salinas's property tax revenues slowly recovered beginning in FY13 as the housing market has gained strength over the last five years.

Despite positive trends in recent years, the City now expects property transactions to begin trending down in FY19. The baseline forecast therefore projects 3.5 percent in annual average growth over the ten-year projection period, assuming that the City would see a 2.0 percent annual growth as a result of the maximum Proposition 13 CPI increases in market values plus a 1.5 percent annual growth that is driven by reassessments as properties are being resold in the market. Increases from the restoration of Prop. 8 assessed value reductions from the recession are not a factor going forward.

- **Other Taxes**

- Utility tax: Since passing the ballot measure to modernize the tax in FY16, utility tax revenues have seen minimal growth. The baseline projection therefore assumes an annual growth of 0.3 percent, consistent with the growth the City saw from FY16 to FY17.
- Business license tax: Historically, business license tax has fluctuated from year to year since the tax base of this revenue is driven in part by the business environment and local economy in the City. The baseline forecast assumes an annual growth of 1.3 percent, consistent with the revenue growth from FY13 to FY18.
- Transient Occupancy Tax: From FY15 to FY17, revenues grew from \$2.4 million to \$2.8 million. The baseline projection assumes an annual average growth of 1.0 percent to reflect a more modest growth as occupancy growth flattens.

- **Licenses, Fees, and Fines**

Because the City reviews and updates its fee schedule regularly, the baseline projection assumes the City will continue this best practice and increase fees according to inflationary rates or other cost recovery measures.

²⁸ FY08 Annual Financial Statement, City of Salinas



- Franchise Fees: Because franchise fees are driven in part by the gross receipts of businesses, the baseline forecast projects 2.8 percent annual growth in its franchise fees, the 10-year average annual growth in the Salinas Metropolitan Statistical Area (MSA) Gross Domestic Product (GDP) from 2006 to 2016²⁹.
- Charges for Services: Charges for services are projected to grow at an annual average rate of 1.3 percent, assuming that building, planning, and public safety fees would remain flat based on historical trends, while recreation and community fees would track inflation and grow at 2.2 percent annually. Advanced Life Support (ALS) cost recovery revenue is also reduced from \$350,000 in FY18 to \$70,000 in FY19 as the City approved a new ordinance to exempt uninsured users from paying this fee beginning in February 2018³⁰.
- Licenses, permits, fines, and forfeits: The baseline forecast projects that all licenses and fines will grow at an inflationary rate of 2.2 percent annually, assuming that the City would continue to update and adjust its fee schedule to reflect its cost. In addition to the existing license and permit revenues, the baseline projection also includes the new cannabis tax revenue in this category.

The City collected approximately \$400,000 in cannabis tax revenues in 2017 and the first quarter of 2018. The baseline forecast assumes that this revenue would gradually increase to \$1.0 million by FY25 as collection improves and as businesses mature over the years.

▪ **Transfers**

- As mentioned previously, the transfer from the Measure G Fund to the General and Measure E Funds are simultaneously offset by the corresponding expenditure. These internal transfers are projected to remain flat and will have no net fiscal impact to the projection throughout the ten-year forecast period.
- The \$1.7 million transfer from the gas tax fund is projected to remain flat throughout the projection period.

▪ **Other Revenues**

- Most other revenues are projected to remain flat throughout the forecast period – again, based on the baseline “carry forward” or “current services” scenario – assuming no additional grants or revenues from other agencies. The baseline forecast also assumes no major asset sales or significant increases in interest or rental income.

Expenditures

The City's FY19 General Fund expenditures, like that of most municipal governments, are primarily comprised of employee wages and benefits. Local government is labor intensive, requiring workers to police the streets, fight fires, maintain thoroughfares, and provide services ranging from recreation programming to code enforcement. As a result, the baseline projection for the overall budget for the years from FY20 to FY28 is heavily driven by the forecast growth in pension and health benefit costs, as well as by assumptions regarding growth in wages.

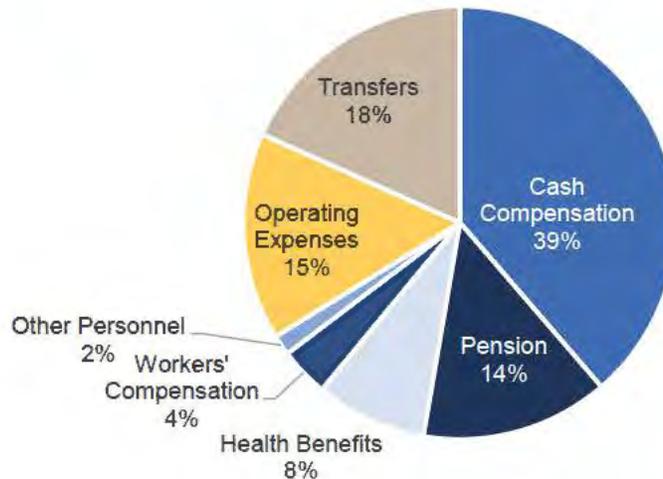
²⁹ Data obtained from the Bureau of Economic Analysis, U.S. Department of Commerce

³⁰ Council ordinance, February 20, 2018



The following chart shows the major categories of City general governmental expenditures in the FY19 adopted budget:

General Governmental Expenditures, FY19 Adopted Budget
Total Expenditures: \$138.6 Million



The main drivers of governmental fund expenditures include the following:

- **Personnel Costs** (\$91.8 million in FY19): More than two-thirds of the City's operating spending is on personnel costs, which includes salaries and other cash compensation, including longevity, overtime, special pay, leave pay, and allowances, as well as benefits including pension and health insurance.
 - **Cash Compensation** (\$53.6 million in FY19): This category includes spending on employee base salaries as well as other cash compensation, including longevity, overtime, special pay, leave pay, and uniform and other allowances. Over the last five years, the City's total cash compensation increased by 6.5 percent annually, driven primarily by across-the-board wage and step increases as well as headcount restoration.

The \$53.6 million in budgeted cash compensation also includes \$2.5 million in CIP salary credit, a budgetary practice the City uses to allocate some of the eligible Public Works personnel cost to the CIP budget.

From FY13 to FY17, the City increased public safety headcount by 5.2 percent from 311 to 327 and non-public safety headcount by 10.1 percent from 208 to 229, resulting in a total general governmental operations' headcount increase of 37 FTE, or 7.1 percent, over a five-year period. The majority of the non-public safety position increases were in the City's Public Works and Library and Community Services departments, 20 positions overall.

In FY19, the City held 34 positions vacant. The \$53.6 million in budgeted cash compensation accounts for 520 positions, compared to 554 positions in FY18.

In addition to base salary, the City also spends a significant amount of its cash compensation allocation on leave "cash-out" pay. In FY17, the City spent \$6.0 million (or



11.4 percent of total cash compensation) “cashing out” annual, flexible, and management leave alone. Another 10.6 percent of the City’s total cash compensation is allocated to overtime spending, of which \$2.3 million (or 41.6 percent of total overtime spending) is for the Police Department and another \$3.1 million (or 55.2 percent) is for the Fire Department.

Excluding typical premium pays such as overtime, longevity, uniform allowance, and shift differential, the City has 29 other additional pays for its public safety employees, which will be addressed in more detail in the workforce chapter.

- **Pension** (\$18.8 million in FY19): Pension contributions represent 13.2 percent of the City’s total General Fund spending. The City participates in the California Public Employees’ Retirement System (CalPERS) and makes annual required contributions to the pension funds, including one for police, three separate funds for fire (Fire Safety, Fire 2nd Tier, and Fire PEPRA), and another fund for its municipal employees. From FY13 to FY17, the City’s CalPERS pension contribution increased by an annual average rate of 12.2 percent from \$9.6 million to \$15.3 million, driven primarily by payroll increases as well as required reduction in discount rate from 7.75 percent to 7.5 percent in FY13³¹. Over the last several years, the CalPERS Board of Administration also made several changes to its actuarial assumptions that impact the City’s pension contribution, including³²:
 1. Changing amortization and smoothing policies that spread rate increases or decreases over a five-year period (2013)
 2. Adopting new mortality assumptions that show retirees are living longer (2014)

In addition to contribution to CalPERS, the City also contributes \$1.6 million to the New York Life Retirement Plan, a closed single-employer defined benefit pension plan that covers non-public safety employees that opted in to the plan prior to June 1995. All eligible new employees currently enroll in CalPERS.

- **Health Benefits** (\$11.5 million in FY19): In FY17, the City spent \$9.0 million on health benefits for active employees and another \$0.3 million for retirees’ health insurance. For the five-year period from FY13 to FY17, the City’s total health benefit cost grew by 11.1 percent on an annual average basis, driven in part by the aforementioned headcount increase of 7.1 percent. Setting aside the headcount increase, the City’s health insurance increased by 5.3 percent annually from FY13 to FY17.

The City has six health plans and the City currently contributes a dollar amount equal to between 95 and 100 percent of the annual premium of the PERS Choice Plan for the employee and all eligible dependents. Police Officers’ Association (POA), Police Managers Association (PMA) and Fire are in the Peace Officers Research Association of California (PORAC) plan and International Association of Firefighters (IAFF) employees are in a separate health plan³³. Employees selecting health plans with higher premiums than that of the PERS Choice Plan contribute the premium difference between the selected plan and the PERS Choice plan. Those contributions totaled \$60,000 in FY18 and are reflected in a separate revenue line item. The following table summarizes the annual premiums and employee contributions of the six citywide health plans in FY18.

³¹ The effect of the FY13 reduction in discount rate from 7.75 percent to 7.5 percent was reflected in FY15.

³² CalPERS news, CalPERS to lower discount rate to seven percent over the next three years, December 21, 2016.

³³ The new IAFF MOU requires that the union shall join the PERS Peace Officers Research Association of California (PORAC) health plans no later than the end of November 2019.



City of Salinas FY18 Health Plans (Except IAFF)

	Annual Health Premium			Annual Employee Contribution		
	Single	Employee + 1	Family	Single	Employee + 1	Family
PERS Select	\$8,301	\$16,603	\$21,584	\$0	\$0	\$0
PORAC ³⁴	\$8,808	\$18,480	\$23,640	\$0	\$0	\$0
Kaiser	\$9,545	\$19,090	\$24,817	\$0	\$0	\$0
Choice	\$9,768	\$19,535	\$25,396	\$0	\$0	\$0
Care	\$10,403	\$20,806	\$27,048	\$636	\$1,271	\$1,653
Blue Shield	\$10,733	\$21,466	\$27,906	\$966	\$1,931	\$2,511

IAFF employees are on separate health plans and contribute an amount ranging between 12 percent and 17 percent of the total premium as their premiums are generally higher than other health plans. The new IAFF Memorandum of Understanding that took effect on May 1, 2018 requires that the IAFF shall join the PERS PORAC health plan or other CalPERS plan no later than the end of November 2019. The practical impact of this change is that, beginning in 2020, the City will no longer pass-through any revenue from Fire employee contributions since the PORAC premium would be lower than the City's maximum contribution, governed by the MOU³⁵.

FY18 IAFF Premiums and Contributions (Prior to November 2019)

	Annual Premium	EE Contribution (\$)	EE Contribution (%)
Single	\$12,218	\$1,800	14.7%
Employee + 1 Child	\$24,269	\$3,600	14.8%
Employee + 1 Adult	\$24,869	\$4,200	16.9%
Employee + 2+ Children	\$30,887	\$3,600	11.7%
Family	\$32,087	\$4,800	15.0%

- **Workers' Compensation** (\$5.1 million in 2019): The City spends 3.7 percent of its budget on workers' compensation. From FY13 to FY17, workers' compensation spending almost doubled, increasing from \$2.3 million to \$5.0 million, representing an average annual increase of over 20 percent. The City's workers' compensation program is self-insured and, according to an actuarial study as of June 30, 2017, more than half of the reported claims in FY17 were from the Police Department. The percentage of claims from the Police Department increased over the last decade from 38 percent in FY07 to 55 percent in FY17.

The City has a separate workers' compensation fund that it uses to track workers' compensation spending. According to the FY17 audit, the fund had a negative \$72,000 fund balance as of June 30, 2017. The lack of a fund balance here subjects the City's General Fund to volatility if claim costs go up unexpectedly.

³⁴ The PORAC plan is limited to public safety employees and is not available to other employee groups.

³⁵ Effective December 2019, the City will contribute a dollar amount toward the monthly health benefits premium in an amount equal to 95% of the PERS Choice Plan premium for the level of coverage the employee has selected. Because 95% of the PERS Choice plans' premium is currently still higher than the PORAC health plan premium, IAFF employees do not contribute toward their health premiums.



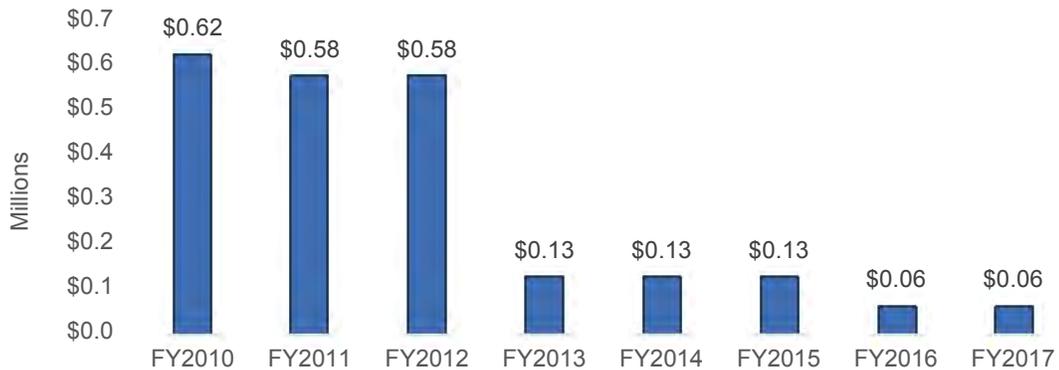
- **Other Personnel Costs** (\$2.1 million in FY19): Representing 1.6 percent of the City's spending, the majority of this category consists primarily of long-term disability and unemployment compensation and as well as Social Security and Medicare contributions.
- **Operating Expenses** (\$21.5 million in FY19): This category presents non-personnel spending requirements for the day-to-day operations of City government. Major subcategories include outside services, other charges, supplies and materials, and capital outlay. From FY13 to FY17, this category increased by an annual average rate of 8.5 percent.
 - Outside Services (\$13.8 million in FY19): Outside contracted services account for more than half of the City's total non-personnel operating expense. One of the largest contracted services is the City's 911 dispatch service (\$3.0 million in FY19) which is currently provided by the County. The City also budgeted within this category \$2.7 million for professional services, which includes contracted engineering and IT services, \$2.6 million in rental and maintenance contracts with external vendors, and \$1.6 million in utilities.
 - Other Charges (\$4.5 million in FY19): This category is driven by \$1.4 million in New York Life pension contributions, which is a closed pension plan. The City also budgeted \$0.6 million in workers' compensation in this category to provide a buffer against one-time funding needs as well as another \$0.5 million in training costs³⁶.
 - Supplies and Materials (\$2.6 million in FY19): This category includes all materials and supplies required for the day-to-day operations of City government, including tools and equipment, office supplies, motor fuel, and library books and materials. The City's energy costs are held in check through the implementation of energy savings investments funded through a recent bond issue.
 - Capital Outlay (\$0.5 million in FY19): The City budgeted \$0.5 million on capital outlay, which is primarily operating expenses on large equipment, furniture, and computer software. From FY13 to FY17, the City's capital outlay spending ranged from \$0.2 million to \$1.6 million depending on each year's needs and available funding. Additional capital investment is included in the Measure G and E funds.
- **Transfers** (\$25.4 million in FY19): This category includes internal transfers between the General, Measure E, and Measure G Funds that are offset by the same amount on the revenue side. While the Measure E and G funds are technically General Fund revenues, much of the funding is used for capital that resides in other funds. Transfers with major fiscal impact include transfers to the debt service, CIP, Storm Sewer, Fleet Maintenance, and the Twin Creeks Golf Course Funds.
 - Transfer to CIP Fund (\$12.9 million in FY19): The City has a capital budget totaling \$127.5 million in FY19, of which \$12.9 million, or 10.1 percent, is funded on a pay-as-you-go basis by the general governmental funds, most of which (63.2 percent) is funded through the Measure G Fund. More than half of the capital budget is funded by bond proceeds from the Police Services Headquarters and Library Bond Financing that totals \$67.7 million for the two new facilities. The capital budget also includes funding from the Measure X Fund (34.3 percent) from a countywide sales tax of 3/8 percent and can only be used for transportation safety and investment.

³⁶ Because these workforce expenses were budgeted under other charges in the City's budget, this report categorizes these expenses as other charges as well in order to be consistent with the City's budget.



- **Transfer to Fleet Maintenance** (\$2.2 million in FY19): In FY17, the City established an internal service fund for fleet maintenance to better track the full cost of maintaining the City’s vehicles and equipment. In order to continuously fund the fleet maintenance function through general governmental revenues, the City started making annual transfers in FY17 from the General Fund to the Fleet Maintenance Fund to support the fund’s personnel and operating spending.
- **Transfer to Debt Service Fund** (\$1.5 million in FY19): The City’s General Fund funding for its debt service is transferred to its debt service fund annually. The majority of debt service spending (\$1.2 million in FY19) is for an energy related improvements lease agreement that expires in 2032. The remainder of the debt service transfer is for the debt service related to the purchase of the Crazy Horse Canyon Landfill in 1997³⁷.
- **Transfer to Storm Sewer Fund** (\$2.1 million in FY19): The Storm Sewer Fund budgeted \$3.0 million in FY19, of which \$2.1 million (or 70 percent) is funded by the General and Measure G Funds and another \$750,000 (or 25 percent) is funded through the gas tax. The Storm Sewer Fund also collects \$100,000 in annual inspection fees. The Storm Sewer Fund’s FY19 budget has a \$67,000 operating deficit, and the unrestricted fund balance for the Storm Sewer Fund was negative \$586,000 according to the FY17 audit³⁸.
- **Transfer to Twin Creek Golf Fund** (\$0.5 million in FY19): Beginning in FY05, the operation of the Twin Creek Golf Course was transferred to First Tee, a nonprofit organization. As part of the agreement for operating a City-owned facility, First Tee agreed to pay an amount to the City annually to help offset the debt service costs related to the golf course’s capital improvements. Due to operating issues with First Tee, the annual payment made by First Tee to the City has declined by 90 percent from \$623,000 in FY10 to \$60,000 in FY17:

First Tee Contribution to the City’s Twin Creek Golf Course Fund



As a result of the decline in revenues that were required to recover costs, the City has transferred \$450,000 annually from the General Fund to the Twin Creek Golf Course Fund, beginning in FY13, to fully fund golf course debt service. According to the FY17 audit, the Municipal Golf Course Fund (including the Fairways and Twin Creek Golf Courses) had a negative unrestricted fund balance of \$1.3 million.

³⁷ In 1997, the City sold \$8.0 million in COP to finance the purchase of the Crazy horse Landfill by SVSWA in part because the authority, at the time, was unable to finance this acquisition. The 1997 COP was refinanced in 2002 and then again in 2015.

³⁸ The Storm Sewer Fund had a total fund balance of \$41.3 million according to the FY17 audit, but \$41.9 million of the fund balance were invested in capital assets and not spendable.



- **Transfer to Downtown Parking Fund** (\$175,000 in FY19): The Downtown Parking Fund is funded primarily by licenses and permits, which increased from \$211,000 in FY18 to \$514,000 FY19 as a result of a proposed fee increase to parking lots and garages. There is also a transfer from the Redevelopment Obligation Retirement Fund (RORF) related to the former Redevelopment Project Area and those revenues are used to offset the \$13.3 million long-term lease related to the Monterey Street Parking Structure that the City entered into in 2004. The lease was subsequently refinanced in 2014³⁹.
- **Transfers to General Liability Funds** (\$2.2 million in FY19): The City has a separate fund for its non-personnel liability insurance. In FY19, the City budgeted a transfer of \$2.2 million to the General Liability Fund that was previously reflected in the other charges category prior to FY19. Most of this allocation (\$1.8 million) is for claims and legal spending. The remainder of the spending is related to personnel costs. The City's liability insurance finished FY17 with an ending fund balance of \$720,000⁴⁰.
- **Other Transfers** (\$1.7 million in FY19): The City also budgeted a \$640,000 transfer to the Emergency Medical Services (EMS) Fund that is used primarily to fund the City's EMS operations in the Fire Department, and another \$1.0 million to the City's General Insurance Fund.

In the aggregate, the City's General Fund expenditures increased by an annual compound average of 10.8 percent from FY13 to FY17, driven primarily by increased headcount as a result of the passage of Measure G sales tax and increased personnel spending, especially growth in pension and healthcare costs. Some of the growth, however, was due to the transfers between the General, Measure E, and Measure G Funds that had no net fiscal impact to the City. Excluding those transfers, the City's operating expenditures grew at an annual rate of 10.4 percent between FY13 and FY17.

General Governmental Expenditures, FY12 – FY17 (in \$ millions)

	FY13 Actuals	FY14 Actuals	FY15 Actuals	FY16 Actuals	FY17 Actuals	FY13-FY17 CAGR
Cash Compensation	\$41.1	\$42.7	\$42.8	\$46.4	\$53.0	6.5%
Pension	\$10.4	\$11.2	\$11.2	\$13.5	\$15.9	11.4%
Health Benefits	\$6.1	\$6.0	\$6.1	\$9.0	\$9.3	11.1%
Workers' Compensation	\$2.3	\$3.6	\$3.3	\$4.7	\$5.0	20.8%
Other Personnel	\$2.4	\$1.6	\$1.5	\$1.8	\$2.0	-4.1%
Operating Expenses	\$14.4	\$14.5	\$17.2	\$19.0	\$19.9	8.5%
Transfers	\$5.8	\$8.0	\$9.7	\$16.2	\$19.3	34.8%
Total General Governmental Expenditures	\$82.6	\$87.6	\$91.7	\$110.7	\$124.5	10.8%
Expenditures excl. Transfers within General Governmental Funds	\$82.6	\$87.6	\$91.7	\$108.7	\$122.5	10.4%

³⁹ FY17 Basic Financial Statements, p. F-108

⁴⁰ FY17 Basic Financial Statements, p. O-17



Expenditure Projections

For the ten-year budget projection period from FY19 to FY28, General Fund personnel and operating expenditures are forecast in the baseline scenario to grow at a compound annual rate of 2.9 percent. The following table shows the City's baseline projection that starts with the FY19 Adopted Budget, again assuming no corrective action.

Baseline Projection of General Governmental Expenditures, FY19 – FY28 (in \$ millions)

	FY19 Budget	FY20 Proj.	FY21 Proj.	FY22 Proj.	FY23 Proj.	FY24 Proj.	FY25 Proj.	FY26 Proj.	FY27 Proj.	FY28 Proj.
Cash Compensation	\$53.6	\$56.3	\$57.5	\$58.9	\$60.6	\$62.4	\$64.0	\$65.6	\$67.3	\$68.9
Pension	\$19.4	\$19.4	\$21.5	\$23.4	\$25.3	\$26.6	\$27.7	\$28.9	\$30.2	\$31.5
Health Benefits	\$11.5	\$12.1	\$12.6	\$13.2	\$13.9	\$14.5	\$15.2	\$16.0	\$16.7	\$17.6
Workers' Compensation	\$5.1	\$5.3	\$5.6	\$5.9	\$6.2	\$6.5	\$6.8	\$7.1	\$7.5	\$7.9
Other Personnel	\$2.1	\$2.2	\$2.2	\$2.3	\$2.3	\$2.4	\$2.5	\$2.5	\$2.6	\$2.7
Operating Expenses	\$21.5	\$21.4	\$22.4	\$22.4	\$23.4	\$23.4	\$24.5	\$24.6	\$25.8	\$25.8
Transfers	\$25.4	\$23.7	\$22.8	\$23.3	\$23.3	\$23.0	\$23.4	\$23.9	\$24.2	\$24.2
Total Expenditures	\$138.6	\$140.5	\$144.6	\$149.4	\$154.9	\$158.9	\$164.2	\$168.5	\$174.3	\$178.6

Significant expenditure growth assumptions include the following:

- **Personnel Costs**

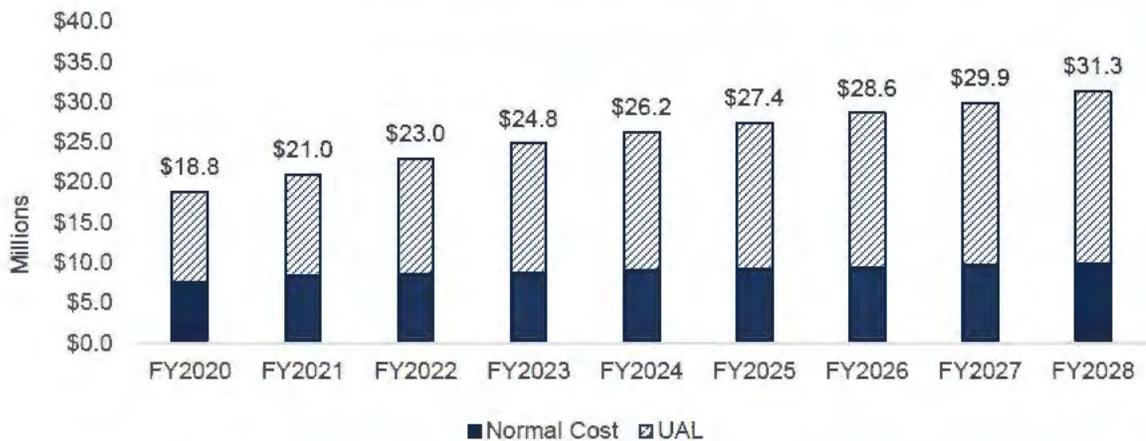
- **Cash Compensation:** The baseline projection assumes headcount at levels consistent with the FY19 adopted budget, an approximate vacancy allowance of 2.0 percent, and routine turnover of public safety personnel based on retirements with full replacement. All salary-related items grow by a blended salary growth rate that assumes:
 - The 34 held positions in the FY19 budget continue to be unfunded throughout the projection period;
 - All employees receive an annual negotiated cost-of-living adjustment (COLA) equivalent to an increase of 2.5 percent except when MOUs are already known and in effect;
 - Step increases and longevity for all applicable employees continue according to the provisions outlined in the latest MOUs;
 - Citywide attrition rate of 3.0 percent, resulting in higher-paid employees being replaced by lower-paid employees;
 - CIP salary credit adjusted from \$2.5 million in FY19 to \$2.0 million beginning in FY20 to account for slower-than-anticipated capital spending; and
 - The City's share (25 percent) of the six positions currently funded by the SAFER grant will continue in FY19 (25 percent City share) and FY20 (35 percent City share). Once the SAFER grant expires in FY21, those positions would be eliminated through attrition.



- **Pension:** Based on the most recent actuarial valuation report from 2016, CalPERS discount rate will reduce from the current 7.375 percent to 7.0 percent over three years. The baseline forecast therefore reflects the actuarial projection, and also includes pension savings achieved through attrition for IAFF employees as newly hired members of that bargaining unit enter a lower cost plan⁴¹.

In FY18, the City directed \$11.3 million (\$7.9 million from its unreserved fund balance and another \$3.4 million from its reserve) to its Fire Safety pension plan. As a result of this lump sum payment, the City estimates that it will reduce its pension contribution by \$1.9 million in FY19 and the savings grow to \$2.4 million by FY28⁴². The following pension contribution projection incorporates the savings achieved by the one-time payment.

**CalPERS Pension Cost Growth, FY20 – FY28
General Governmental Funds Only**



The City also contributes to the New York Life pension plan that is closed. The actuarial valuation projects the City's contribution to decline by 10 percent annually, so the baseline forecast assumes contribution to drop from \$1.5 million in FY20 to \$645,000 in FY28.

- **Health Benefits:** Both active employee and retiree health benefits are projected to grow at 5.0 percent according to the FY13 to FY18 five-year average annual growth of City's healthcare plans. Dental, vision, and life insurance are projected to grow at a more modest annual rate at 2.0 percent beginning in FY20.
- **Workers' Compensation:** Beginning in FY20, the baseline forecast assumes annual growth of 5.0 percent to reflect the City's historical growth trend as well as the ten-year claim and loss history from FY07 to FY17. As mentioned previously, the City's workers' compensation fund had a negative fund balance of \$72,000 as of the end of FY17, so the baseline forecast is calibrated to avoid further a drop in the fund balance.

⁴¹ IAFF has three pension plans: Fire Safety, Fire 2nd Tier, and Fire PEPRA. The baseline projection assumes that newly hired IAFF employees would be part of the Fire PEPRA plan. Because the normal cost percentage applied to payroll is significantly lower for the Fire PEPRA plan than it is for the Fire Safety plan, the City would generate savings in its normal cost as a result of the 5.0 percent attrition assumption included in the baseline salary forecast.

⁴² The \$1.9 million in savings in FY19 is not included in the FY19 budget



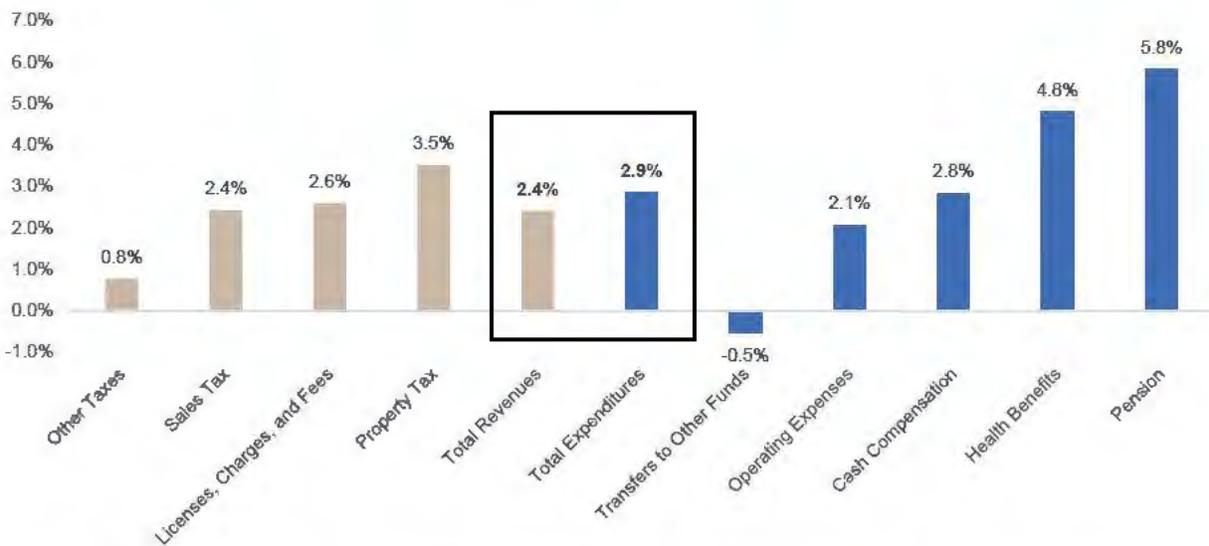
- **Other Personnel Costs:** Social security and Medicare contributions and long-term disability and unemployment compensation are all projected to grow consistent with the blended salary growth rate.
- **Operating / Non-Personnel Expense**
 - Most operating expenses are projected to grow at an annual inflation rate of 2.2 percent, consistent with the national Survey of Professional Forecasters expectations issued by the Federal Reserve Bank of Philadelphia. Any identified non-recurring costs are reflected in the baseline forecast as well.
 - The cost of 911 dispatch services provided by the County is forecast to grow at 5.0 percent annually, consistent with the average annual growth from FY10 to FY16.
 - Utilities (electricity, water, gas etc.) are projected to grow at a blended rate of 2.8 percent based on the ten-year historical growth of fuel and utilities prices in mid-sized and small metropolitan areas in the West according to data provided through the Bureau of Labor Statistics.
 - Non-personnel insurance is projected to grow at an annual rate of 2.0 percent based on the average annual historical growth of from FY10 to FY17. The higher operating cost as a result of moving to the new and larger police station and library is also incorporated in the baseline forecast beginning in FY20.
- **Transfers**
 - Transfer to the CIP Fund follows the FY19 capital budget and projects \$12.9 million in transfer to the CIP fund in FY19 across the General, Measure E, and Measure G Funds that gradually decreases to \$8.2 million by FY24. The capital financing costs related to the new police station and library that will be in use beginning in FY20 are included in the annual transfer to capital pay-go as well.
 - Transfer to the Debt Service Fund is projected to grow according to the existing debt schedule, increasing from \$1.5 million in FY19 to \$1.8 million by FY28.
 - Because the transfer to the Twin Creek Golf Course Fund is used toward debt service related to the golf course's capital improvements (Series 2015A), the General Fund transfer reflects the existing schedule, part of which is offset by the \$60,000 in revenue transfer from the nonprofit organization that operates the golf course.
 - While the Fairways golf course generates \$100,000 in lease revenues, the debt service associated with the golf course has a variable rate debt with payments growing from \$70,000 in FY19 to \$200,000 in FY28. An annual transfer from the General Fund to the Fairways Golf Course Enterprise Fund is included in the baseline forecast to reflect the bridge support needed. Because interest associated with the Fairways golf course debt service is variable, the baseline projection uses the debt schedule provided as of 2018 and does not assume any significant changes to the assumed interest rate.
 - Transfers to the Storm Sewer, Fleet Maintenance, General Liability, Downtown Parking, and Fairways Golf Course Funds are determined in part by the expenditures in those funds and the revenues generated through taxes, fees, and grants. The baseline forecast therefore projects these transfers based on the amount required to balance these funds.



Major Deficit Drivers — Prior to Corrective Action

For the ten-year plan period from FY19 to FY28, operating revenues are projected to increase by an annual average rate of 2.4 percent driven largely by sales and property tax growth, while operating expenditures are projected to increase by a higher average rate of 2.9 percent as a result of factors including personnel cost growth – including cash compensation, health benefits, and pensions. The following chart highlights key revenue and expenditure budget drivers across the Strategic Plan period prior to corrective action.

**Major Budget Drivers – Compound Annual Growth Rate (CAGR), FY19 – FY28
Prior to Corrective Action**



	Other Taxes	Licenses, Charges, and Fees	Sales Tax	Property Tax	Total Revenues	Total Expenditures	Transfers to Other Funds	Operating Expenses	Cash Compensation	Health Benefits	Pension
FY19	\$20.1	\$14.4	\$66.8	\$28.9	\$135.9	\$138.6	\$25.4	\$21.5	\$53.6	\$11.5	\$18.8
FY28	\$21.5	\$18.1	\$82.8	\$39.3	\$168.1	\$178.6	\$24.2	\$25.8	\$68.9	\$17.6	\$31.3
\$ Change	\$1.4	\$3.7	\$16.0	\$10.5	\$32.2	\$40.0	-\$1.2	\$4.3	\$15.3	\$6.0	\$12.5
CAGR	0.8%	2.6%	2.4%	3.5%	2.4%	2.9%	-0.5%	2.1%	2.8%	4.8%	5.8%

Budget Risks

It is also important to note that this baseline projection is calibrated to reflect a reasonable, moderately conservative set of assumptions – neither optimistic nor pessimistic. While not intended to reflect a rosy scenario, it is also not a worst case scenario. The following are among the major areas of identified budget risk still present in the baseline that will impact the ten-year forecast.

Economically Sensitive Revenues

- As mentioned previously, the current expansion phase of the business cycle began over nine years ago and, as of July 2018, the current expansion cycle has reached 109 months. While the projected sales tax is calibrated to grow at a more modest growth rate to account for this risk, another severe



recession within the projection period could further weaken revenue growth relative to the baseline scenario.

Sunset of Measure G

- The Measure G sales tax measure was approved to be in place for 15 years, and will run through March of 2030. If not extended by the voters, the sunset of the sales tax will have significant impacts on the City's General Fund revenues. **Appendix C** shows the budget impacts of the loss of this revenue in the years following the budget projection.
- The City will need to move for the renewal of this measure prior to its sunset or make significant cuts to its General Fund budget. The budget-balancing recommendations included in this study are not calibrated to adjust for a loss in the Measure G revenue.

Workforce

- Any negotiated wage increases and level/longevity increases would have a significant impact on the cost of services. Each one-percent increase in wages for all employees would result in additional general fund costs of \$600,000 to \$800,000 per year.
- Healthcare inflation could surpass the projected levels of 5.0 percent cost growth, thereby increasing the projected fiscal gap.
- Actual pension investment returns and overall plan experience could impact state mandated required contributions and increase the City's pension costs beyond the amounts assumed in the baseline projection.
- Binding arbitration for the Fire union moves control of future wage and benefit increases to the City Council to that of a labor arbitrator. This makes future cost increases for Fire Department personnel difficult to project. Because this was adopted through an initiative process by the voters of Salinas, binding interest arbitration rights can only be addressed through a new initiative (not initiated by the City).

Other expenditures

- New service demands and costs could be generated by infrastructure failure and/or unforeseen factors. For example, the City's fire stations and community centers are old and require maintenance and repair. The City's FY19 capital budget projects pay-as-you-go funding to decrease from \$12.9 million in FY19 to \$6.9 million in FY24⁴³, and the overall CIP budget to drop from \$127.5 million in FY19 to \$31.5 million in FY24. Any additional capital funding above the baseline projected levels would increase the fiscal gap.
- Transfers to other propriety funds (Storm Sewer, Downtown Parking, and Golf Course Funds) are based on the amount required to balance these funds in the baseline projection. As of June 30, 2017, all of these three funds had a negative unrestricted fund balance. Any additional transfer from the general governmental funds required to help these funds remain solvent would further increase the projected fiscal gap in the baseline forecast.

⁴³ The baseline forecast projects CIP to drop to \$8.2 million in FY24 (instead of the \$6.9 million in the FY2019 budget) because the \$1.3 million financing cost for the new library was not included in the FY19 CIP budget.



Proprietary Funds with Negative Unrestricted Fund Balances (in \$ million) ⁴⁴

	Storm Sewer	Downtown Parking	Golf Courses
Invested in capital assets	\$41.9	(\$2.2)	(\$7.1)
Restricted	\$0.0	\$0.1	\$0.3
Unrestricted	(\$0.6)	(\$2.6)	(\$1.3)
Total Fund Balance	\$41.3	(\$4.7)	(\$8.0)

- The City also has five internal service funds that are funded by the general governmental funds. Out of the five internal service funds, two of them – Workers’ Compensation and Fleet Maintenance Funds -- had negative fund balances as of the end of FY17. Any unforeseen spending higher than assumed in the baseline projection could further deplete the fund balances and may require additional one-time transfer from the general governmental funds.

Internal Service Funds, Total Fund Balances (in \$ million)

	Risk Management	General Insurance	Workers' Compensation	General Liability	Fleet Maintenance
Restricted	\$0.0	\$0.0	\$0.4	\$0.1	\$0.0
Unrestricted	\$1.1	\$3.5	(\$0.5)	\$0.6	(\$0.3)
Total Fund Balance	\$1.1	\$3.5	(\$0.1)	\$0.7	(\$0.3)

To evaluate how potential budget risks might impact the City’s multi-year projections, the National Resource Network team developed a recession scenario where revenue growth would be dampened below baseline levels by reduced economic growth. At the same time, inflation will grow at a slower rate as well, reducing operating expenditure growth, but those savings are offset by higher pension contribution as investments underperform in a recessionary environment. In this scenario, it is also assumed that the wage increases would be reduced in conjunction with lower inflation and a tightening labor market.

General Governmental Funds’ Recession Scenario, FY19 to FY28



Under the recession scenario, the fiscal gap is projected to increase to \$12.9 million by FY23 and continues to grow to \$18.9 million by FY28. Similar to the baseline scenario, much of the deficit is driven by increased pension contributions with an even steeper increase in a recessionary environment. In addition, the two

⁴⁴ FY17 Basic Financial Statements



largest revenue drivers – sales and property taxes – are expected to yield lower growth in an economic downturn, increasing the structural imbalance between revenues and expenditures.

RISK MITIGATION

Many of these risks are beyond the control of City government to influence directly. However, there are actions the City can take to reduce long-term budgetary risks.

RM01. Engage with the Salinas Community to Make the Measure G Sales Tax Increase Permanent

The analysis in this report looks forward ten years, through FY28. The Measure G Sales Tax has a sunset date in March 2030, meaning that it will be in force for the entire duration of the ten-year model. However, the expiration of this tax just beyond this horizon will result in a sudden and dramatic drop in City revenues if not extended by the voters, as shown in the following table (note that FY27 and FY28 represent the final two years of the ten-year projections found in the remainder of this Report):

City Revenues and Expenditures if Measure G Not Renewed (FY27 – FY31)

	FY27	FY28	FY29	FY30	FY31
	Proj.	Proj.	Proj.	Proj.	Proj.
GF Sales Tax	\$35.3	\$36.3	\$37.4	\$38.4	\$39.4
Measure E Sales Tax	\$15.2	\$15.6	\$16.1	\$16.5	\$16.9
Measure G Sales Tax	\$29.9	\$30.8	\$31.7	\$24.4	\$0
Property Tax	\$38.0	\$39.3	\$40.7	\$42.1	\$43.5
Other Taxes	\$21.4	\$21.5	\$21.7	\$21.8	\$21.9
Licenses, Fees, and Fines	\$17.7	\$18.1	\$18.5	\$18.9	\$19.3
Transfers	\$4.2	\$4.3	\$4.4	\$4.5	\$4.6
Other Revenues	\$2.0	\$2.0	\$2.0	\$2.1	\$2.2
Total General Governmental Revenues	\$163.9	\$168.1	\$172.3	\$168.7	\$147.8
Cash Compensation	\$67.3	\$68.9	\$70.7	\$72.4	\$74.1
Pension	\$30.2	\$31.5	\$32.9	\$34.4	\$36.0
Health Benefits	\$16.7	\$17.6	\$18.4	\$19.3	\$20.2
Workers' Compensation	\$7.5	\$7.9	\$8.3	\$8.7	\$9.1
Other Personnel	\$2.6	\$2.7	\$2.7	\$2.8	\$2.9
Operating Expenses	\$25.8	\$25.8	\$25.9	\$25.9	\$25.9
Transfers	\$24.2	\$24.2	\$24.1	\$24.1	\$24.1
Total General Governmental Expenditures	\$174.3	\$178.6	\$183.0	\$187.6	\$192.3
Net Operating Result	(\$10.4)	(\$10.5)	(\$10.7)	(\$18.9)	(\$44.5)

As shown in this table, the City's structural deficit, absent a voter extension of the Measure G sales tax, will increase from \$10.7 million in FY 29 to \$44.5 million in FY31. Bridging this additional structural deficit would require major structural changes in the way the City operates and the reduction or elimination of many core services provided by the City.

Making Measure G permanent will require a vote of Salinas residents. The City should begin the process of engaging the community within the next few years to determine the feasibility of renewing Measure G



with no expiration date. In the event that community support is likely to enable the extension of Measure G, this will provide a stable funding source for the City and enable the City to make financial and budgetary plans with a long-term outlook. If community support cannot be obtained for extending Measure G, the City needs to know as early as possible to allow time to determine the appropriate actions to take to deal with the loss of this key funding source.

The City should make every effort to have an early test of the community's willingness to extend Measure G by placing the question on the ballot by November 2024, or earlier. This will allow five years to make adjustments in the event Measure G is not extended as a permanent sales tax.

RM02. Incorporate Multi-Year Financial Planning into All Budgetary Actions

The City Council must regularly make significant financial decisions related to the City's budget. It is important that the Council and public be well-informed of not only the immediate impacts of these decisions, but the long-term consequences as well. The NRN team utilized a ten-year forecasting model for this report to identify policies that will result in sustainable budget practices. The City should incorporate the use of a five-to-ten-year budget forecasting model when considering actions which could have a significant impact on current or future budgets to inform policymakers about both the immediate and long-term consequences of their decisions.





CHAPTER 4: STRUCTURING THE ORGANIZATION

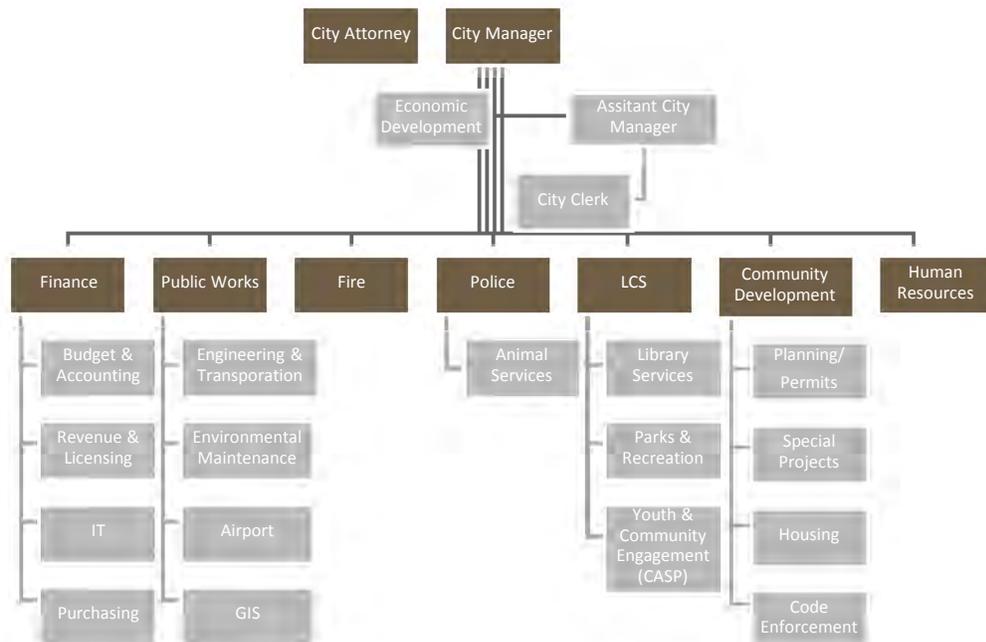
The City’s organizational structure reflects the values and priorities of the City—in how City revenues are programmed and what the City decided to continue funding during times of fiscal duress. Oftentimes, program funding does not change with changing values and priorities are. This study attempted to look at the organization of the City broadly and to compare the stated values and priorities of the City with the actual structure of the organization.

This chapter reflects the analysis and recommendations of the organizational analysis performed by the NRN team.

Salinas City Government

The City of Salinas is divided into eight primary operating departments, as shown below, with Economic Development and the City Clerk being included as part of the City Manager’s office. Department Heads are not civil service employees, and, with the exception of the City Attorney, report to the City Manager. This provides the City Manager with an ability to shape the services of each department to meet the City’s needs and resources.

City of Salinas Organizational Chart⁴⁵

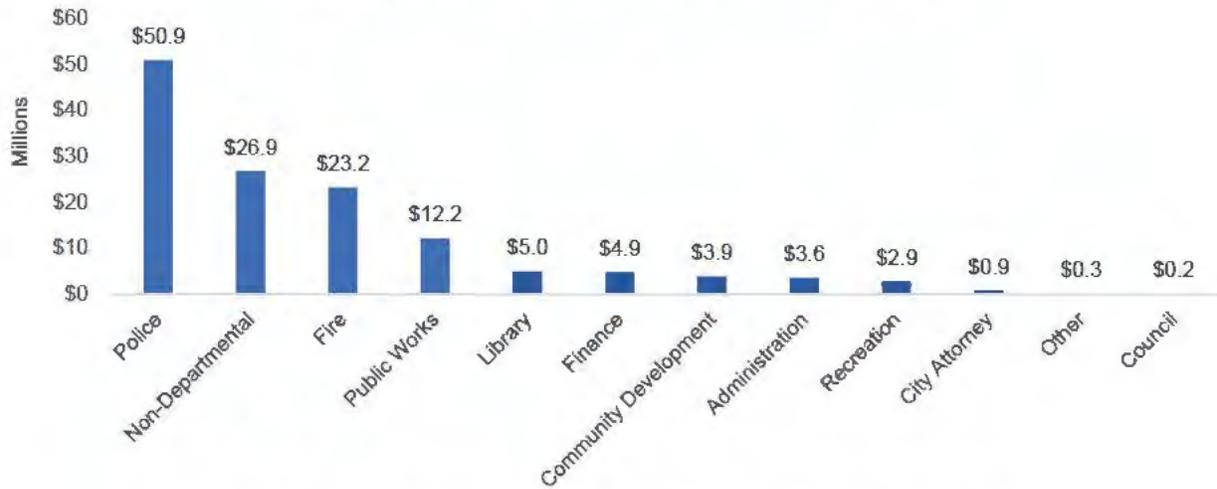


The allocation of resources in the budget provides a good gauge of what the Council and community values. In the FY19 budget, Police and Fire account for 65 percent of the General Fund operating budget (including Measure E and Measure G-funded expenses excepting capital transfers passed through the General Fund), and have the largest departmental budgets: the Fire Department’s (the second-largest department by budget) budget is nearly double the budget of Public Works, the third-largest department. Non-Departmental charges, the second largest budget category, are primarily transfers from Measure G to other funds or transfers to debt service.

⁴⁵ FY19 Budget

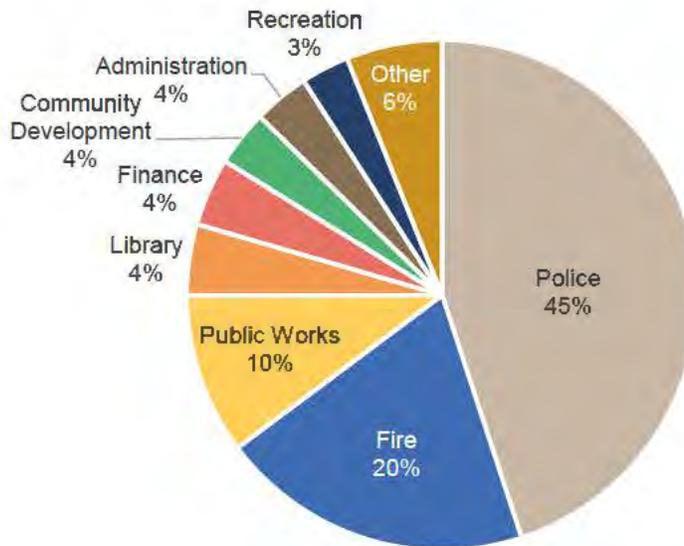


Budgeted Expenditures by Functional Area FY19 General Fund, Measure E and Measure G Budget



Note: Library and Recreation programs are both included in the Library and Community Services Department, but are shown here to illustrate funding priorities for these key community services.

FY19 General Fund Budget⁴⁶ By Function

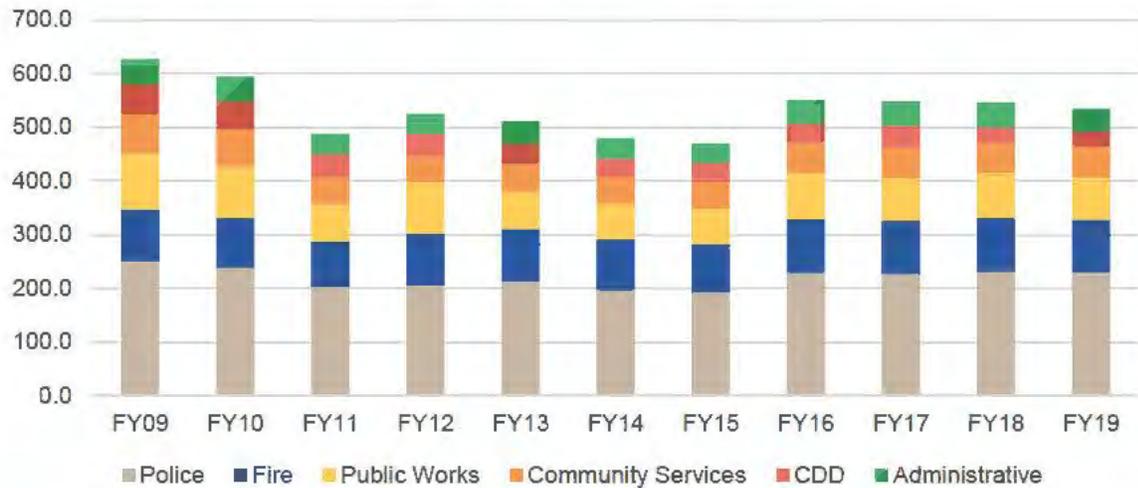


In FY19, the City's budget approved funding for 534.65 general government positions (excluding Council positions), and 55.35 positions in enterprise, or other non-General Fund, divisions. Out of a total of 590 budgeted FTE positions, 55.6 percent are in Police (230 employees) and Fire (98 employees).

⁴⁶ Excludes Measure G transfers to other funds



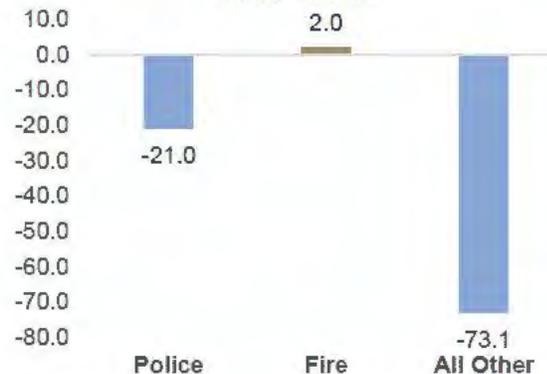
Historical Full-Time Equivalents (FTE) By Department (General Fund)



As shown in the chart to the right, the Police Department is 21 positions below its FY09 staffing levels, Fire is up two positions, and all other departments are down a combined 73 positions. While accounting for 45 percent of the FTEs in FY09, non-public safety departments have absorbed over 79 percent of the reductions in staffing.

Police reductions were weighted toward cuts in administrative positions (13) over sworn police positions (8). Other departments impacted most by staff reductions since FY09 include: Community Development (27 positions – includes shift of 11.75 permit staff to an enterprise fund), Environmental Maintenance (33.75 positions—many of these lost positions were replaced with contractors), Parks (5 positions), and Library (9.5 positions).

Change in FTE by Functional Area FY09 - FY19



Most City employees are represented by one of eleven labor groups that negotiate contracts on the employee's behalf. As mentioned earlier, the City had several years in which pay and benefits stayed flat or declined. In the last few years, the City has been providing for wage increases across most labor groups. Sworn firefighting personnel were granted binding arbitration by the voters in 1998. This provides the union with the ability to have an arbitrator decide the final compensation level for the union if agreement cannot be reached with the City. The City reached an agreement on a new contract with the International Association of Fire Fighters (IAFF) in May 2018 with wage increases of over 10 percent through January of 2019.

PUBLIC SAFETY

Salinas's public safety spending represents 65 percent of the General Governmental Funds' operating spending. Given the resources devoted to public safety and the importance of the issue in Salinas, the City recently completed organizational and overtime studies for the Police and Fire departments, prepared by the International City/County Management Association, this report provides a number of recommendations



on departmental improvements, but does not evaluate the City's potential operational improvement savings. In addition, the Management Partners report from several years ago for both Police and Fire provided a good organizational overview and recommendations for both Police and Fire operations. Where appropriate, the Plan incorporates these recommendations and includes preliminary costing information.

Police and Fire Staffing Against Benchmarks

Because Police and Fire comprise such a large portion of the City's budget, it is helpful to provide context, beyond historical FTEs, about how the Salinas Fire and Police departments stack up against national averages of staffing. These benchmarks provide some context about current staffing, but should not be used to determine the right levels of staffing. In other words, benchmarking is informative not dispositive. As noted in some of the recommended initiatives, the City is currently engaged with a more focused study examining the operations and staffing of both of these departments.

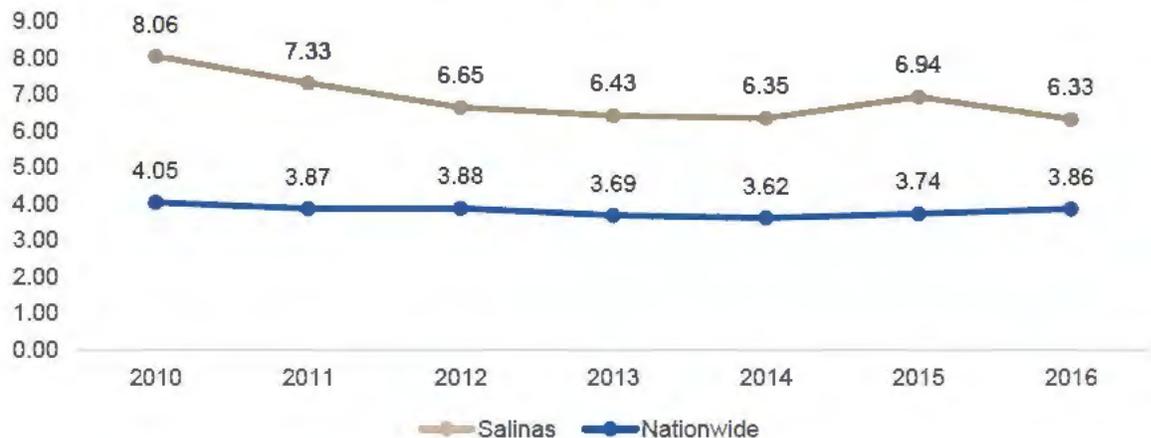
Based on the 2016 Uniform Crime Report (UCR) published by the Federal Bureau of Investigation, Salinas was 44th out of 49 California cities with population between 100,000 and 300,000 in FTEs and sworn Police FTE per capita (0.84 per 1,000 residents). If, however, Salinas had all FY19 budgeted positions filled, it would have ranked 16th in sworn FTE per capita.

Salinas Police Headcount, 2016 Actuals and FY19 Budget

	Population	Total law enforcement employees	Total officers	Total civilians	Employees/1000 Residents	Sworn/1000 Residents
2016 UCR Data	158,729	191	134	57	1.20	0.84
FY19 Budget	158,729	230	174	56	1.45	1.10

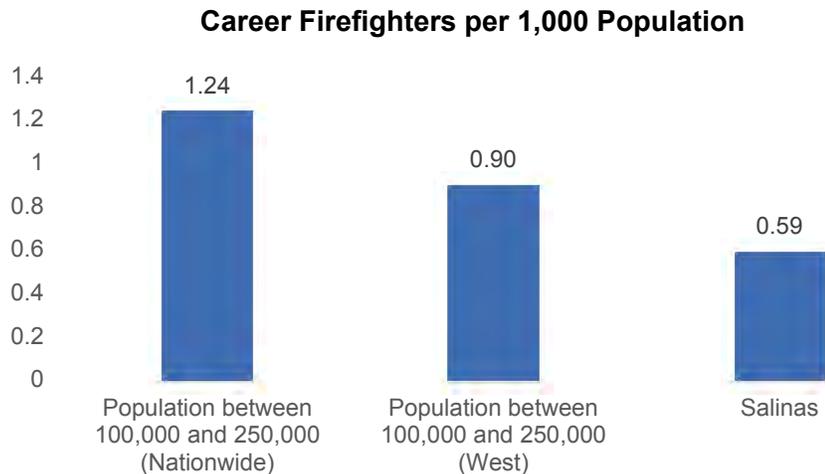
Per capita analysis of police staffing is limited because it does not take into account demand for police services as measured by calls to 911. Moreover, it does not take into account the need for resources to combat violent crime. In fact, Salinas has struggled with serious violent crime issues. During the Network assessment visit, police officials reported that Salinas struggles with multi-generational gang membership and the violence often associated with gangs. In 2016, Salinas experienced more than 1,000 violent crimes, and 35 murders. Nearby San Jose had 42 homicides, despite having seven times the population. Compared to national data, Salinas's violent crime rate is almost double the national average.

**Violent Crime per 1,000 Population
FY09 - FY16**





Similar staffing data is also available for fire departments. In 2017, the National Fire Protection Association (NFPA) released a comprehensive analysis of fire department staffing and operations. Nationally, for a city the size of Salinas, there were 1.24 career firefighters per 1,000 residents in 2015; in the West, where the typical schedule design allows for fewer firefighters to provide the same level of coverage, the median was 0.90. By comparison, in Salinas, there are 93 sworn firefighters for FY19 – or just 0.59 firefighters per 1,000 residents. Again, the NFPA cautions against the use of this data for determining the right level of fire protection staffing. But it nevertheless is informative in considering opportunities for savings – or the need for new investment -- in Salinas.



Source: U.S. Fire Department Profile – 2015, National Fire Protection Association (2017)

Because the City was conducting separate organizational and overtime studies for the Police and Fire departments concurrent with this study, the analysis of Police and Fire operations focused on areas where budget savings could be generated—consistent with the intent of this study—or efficiencies could be created to provide improved services at no additional cost. Most of the recommendations developed as a part of this study have an overlap with the recommendations found in the Police Overtime Study performed by the International City/County Management Association’s Center for Public Safety Management (CPSM). This overlap is indicated within the following recommendations.

PS01. Staffing and Overtime Reduction

Police Staffing

The Police Department should re-evaluate its staffing schedule to ensure that police officers are operating at their optimal capacity. If a change from the four-ten schedule is optimal, the City should pursue a change in SPOA and SPMA MOUs to allow a change in shifts.

The City’s Memorandums of Understanding (MOUs) with the Salinas Police Officer’s Association (SPOA) and the Salinas Police Management Association (SPMA) commit the City to maintaining a four-ten schedule for all personnel, with the exception of School Resource Officers and Deputy Chiefs. This scheduling requirement limits the Department in implementing new schedules without negotiating changes in the existing labor contracts.

In 2018, the Police Department changed its staffing schedule, while maintaining the four-ten schedule, from seven groups of officers to two groups. Officers have five days on and three days off for three weeks, followed by five days on and four days off for one week, followed by four days on and four days off for two weeks. Each of the shifts are 10-hours long. The result of this schedule is that there are only two groups of



police officers; however, the two groups have an “overlap day” when both groups of officers are on-call one day per week. The following table illustrates this police staffing schedule.

Current Police Staffing Schedule (Sample Month – July 2018) – Days On

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
1 Group B	2 Group B	3 Group A Group B	4 Group A	5 Group A	6 Group A	7 Group B
8 Group B	9 Group B	10 Group B	11 Group A Group B	12 Group A	13 Group A	14 Group A
15 Group A	16 Group B	17 Group B	18 Group B	19 Group A Group B	20 Group A	21 Group A
22 Group A	23 Group A	24 Group B	25 Group B	26 Group B	27 Group A Group B	28 Group A
29 Group A	30 Group A	31 Group A	1 Group B	2 Group B	3 Group B	4 Group A Group B

Watch Schedule

	Group A	Group B
1 st watch	7:30am – 5:30pm	7:30am – 5:30pm
2 nd watch	3pm – 1pm	3pm – 1pm
3 rd watch	10pm – 8am	10pm – 8am

One of the goals of changing to this staffing schedule was to better align supervisors and direct reports, since there are only two groups of officers. From interviews with police officers, however, the initial challenge with this schedule was that, on the “overlap” day, when both groups of patrol officers are on-duty, police officers did not have sufficient work to do, since the City does not have enough police vehicles to allow two teams of patrol officers to be policing streets at the same time. As this schedule has matured, however, the overlap days are now used to promote community-oriented policing, increase the patrol presence, used as training days, and for completing special projects. The initial disruption has been replaced by better departmental productivity, including:

- Bike patrol,
- Increased car patrol;
- Targeted downtown beat walks,
- Community events, and
- Scheduled training

At the same time, the current shift schedule may not provide the best operational results for the City. This observation was validated by the Police Overtime Study performed by CPSM. The Study finds that the staffing does not necessarily align with workload demands from the community, and indicates that most agencies do not require 52 training days. Even for the SWAT team that is usually charged with one of the most demanding training schedules, the training requirement is 24 days, less than half the number of training days the current staffing model provides.

The current staffing design not only results in potential unproductive on-duty hours; it also results in higher overtime costs for the City. According to the CPSM study, this staffing schedule results in a staffing disparity where, on the overlap day, there would be more officers than the minimum staffing requirement whereas, on another day when only one group of officers is scheduled, the City would sometimes have to call back



officers on overtime to meet that same staffing requirement. In the long run, the City must first and foremost prioritize shift efficiency and the quality of services to the community, and then design the shift schedule and span of control to optimize those priorities, instead of vice versa. However, to accomplish a change in shifts that does not include a four-ten schedule, the City must first negotiate changes in the Memorandum of Understanding with the SPOA and SPMA.

Regardless of how the City chooses to maximize police officers' time on the overlap days, there must be a strong accountability and performance metric system to measure the effective use of officers' time, especially in an environment where the City has a projected budget deficit for years to come. If the City's policing strategies are truly effective, it should see improvement to both public safety (reduced crime rates) and public trust and engagement (increased community confidence).

The Police Department should evaluate what the best staffing schedule is to accomplish the goals of adequately serving the community while controlling budget expenses. To achieve this, the City should work closely with police officers and community stakeholders to determine ways to best address community needs.

Public Safety Overtime

Public safety overtime represents 99.3 percent of total overtime budget in FY19 and at least six percent of the City's total cash compensation cost.

	FY14 Actuals	FY15 Actuals	FY16 Actuals	FY17 Actuals	FY18 Budget	FY19 Budget
Police	2,496,747	2,481,227	2,110,181	2,333,883	2,131,600	2,101,600
Fire	1,932,898	2,736,649	2,243,044	3,097,767	1,238,050	1,433,760
Other	199,001	180,790	198,136	181,965	43,000	23,500
Total	4,628,646	5,398,666	4,551,361	5,613,616	3,412,650	3,558,860

The recently completed CPSM overtime study provides recommendations on the overtime drivers to reduce overtime costs. The CPSM study does not provide estimates of overtime savings for Police if their recommendations are implemented; however, based on the total cost of overtime, even small shifts in police overtime will result in savings that could go to the City's budget balance or to justify funding police officer positions currently on funding hold in the budget.

Several of these recommendations require coordination with the County, changing City policies, and modifying the patrol schedule. The City should create an action plan to determine the cost or savings of each recommendation (not included in the CPSM plan), and prioritize recommendations that have a higher net savings.

The City should also be realistic about the practical impact of the overtime-reduction recommendations, and determine whether those recommendations will have an impact on service level and quality. The City should work closely with the Police and Fire Chiefs to implement those recommendations with the goal that the City can continue to provide the same level and quality of services while reducing overtime costs.

PS02. Police Civilianization

The CPSM study recommended converting four vacant police officer positions to Community Service Officers (CSO). While funding of these positions has been placed on hold, the department can begin the work of identifying how to best use additional CSOs when the opportunity permits. If the funding for vacant positions is allowed, hiring and training CSOs will be a more efficient use of City resources if there is sufficient existing work that can be transferred to non-sworn staff.



To illustrate this, the table below shows the difference in annual compensation between a police officer and a CSO, with the CSO costing less than 65 percent of an officer. If the City was to replace four vacant officer positions with CSOs, they could potentially hire six CSOs for the same cost.

	Police Officer	Community Service Officer
Bargaining Unit	SPOA	SMEA
Wages	\$100,130	\$54,540
Benefits	\$42,550	\$34,670
Taxes	\$1,450	\$4,170
Total	\$144,130	\$93,380

The first step in determining whether there are sufficient civilianization opportunities is to create an inventory of all the tasks currently performed by police officers that shows work flows in police officers' various capacities. Even with the most efficient municipal governments, compiling task inventories can usually reveal opportunities to streamline staffing. The goal of this initiative is to allow the Department to maximize its sworn headcount with available resources and to best deploy future resources. Once the City has completed its inventory, it should aim to transfer any administrative tasks to non-sworn staff so that police officers can focus on their core functions, including policing streets, investigating crimes, and maintaining public safety. Because this initiative aims to transfer functions within a Police Department, projected fiscal savings cannot be determined until the review is completed. This recommendation cannot be fully implemented until funding for additional positions is identified.

PS03. Improve Police Department Technology

The Police Department currently uses City-provided iPods to record police reports. These voice recordings are then transferred manually to paper reports by the Word Processing Division staff, and returned back to the Police Officers for final editing and signatures. This system has led to a two-year backlog on certain reports and is inefficient in its use of staff compared with the overall departmental and community needs. A new voice-to-text dictation system is expected to be implemented in the near future. The earlier the City is able to move to a more technologically-advanced software, the sooner the City can begin to reduce manual tasks and transition these jobs to more efficient uses, through attrition or reassignment in the Police Department.

The Police Department has 56 full-time administrative staff, including six word processors with an annual average salary of \$52,000 in FY19. Including other personnel costs such as health benefits and pensions the annual average cost for each word processor is \$84,000. With improved technology, the City can shift the Department's resources to policing by eliminating the word processing division. This will require a cultural shift for the patrol staff and may require new policies and procedures as well. Additionally, a move of employees to other positions can be difficult and existing employees may require additional training to prepare for different work duties. The City should proactively explore ways to provide this training to interested employees impacted by this change as soon as practicable.



Police Department Personnel, Sworn and Non-Sworn

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Sworn	182	176	146	148	156	150	145	170	172	174	174
Administrative	69	63	57.5	57.5	57.5	47.5	47.5	59.5	55.5	57.5	56
Total	251	239	203.5	205.5	213.5	197.5	192.5	229.5	227.5	231.5	230
Admin : Sworn Ratio	1 : 2.6	1 : 2.8	1 : 2.5	1 : 2.6	1 : 2.7	1 : 3.2	1 : 3.1	1 : 2.9	1 : 3.1	1 : 3.0	1 : 3.1

The goal of this initiative is not simply to reduce the Department's spending, but to more directly invest its resources to improving public safety and better align the City's revenues to the services it offers. The City has a structural deficit, and requires all City Departments to be innovative in generating operational efficiencies. In this day-and-age, when technology provides an effective way to reduce manual and repetitive tasks, using administrative personnel to perform manual word processing and payroll entry is simply not an expense the City can afford. The following table assumes that the City would eliminate the division through attrition or reassignment of staff to existing vacant positions, and is discounted by 20 percent to avoid double-counting the overall workforce savings. The savings shown are conservative and could happen more quickly as reassignment positions become available.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$72,033	\$149,824	\$232,787	\$321,451

FY24	FY25	FY26	FY27	FY28
\$416,749	\$518,254	\$534,509	\$551,445	\$569,671

PS04. Evaluate Provision of Advanced Life Support (ALS) Services

The City should redesign its ALS services to reduce the current number of paramedics in half

Adjustment of Advanced Life Support (ALS) services are recommended due to:

- The recent CPSM study of Fire operation and overtime included two recommendations on the adjustment of ALS services including the use of a more efficient squad units;
- ALS services are also provided by AMR, the County's ambulance provider, offering additional opportunities to coordinate for efficiency; and

Like most cities of its size nationally, the Salinas Fire Department provides both Basic Life Support (BLS) and ALS services to Salinas residents. Nationally, nearly two-thirds of departments serving cities of 100,000 – 249,999 residents provide ALS services.



Departments Providing EMS by Community Size, 2013-2015⁴⁷

	No EMS	BLS	ALS
1,000,000 or more	0.0%	0.0%	100.0%
500,000 to 999,999	0.0%	29.3%	70.7%
250,000 to 499,999	1.6%	26.2%	72.1%
100,000 to 249,999	3.2%	33.3%	63.5%
50,000 to 99,999	6.4%	37.3%	56.3%
25,000 to 49,999	16.4%	36.7%	46.9%
10,000 to 24,999	27.2%	41.2%	31.6%
5,000 to 9,999	38.5%	43.2%	18.4%
2,500 to 4,999	41.2%	46.6%	12.2%
Under 2,500	45.7%	48.2%	6.1%
Nationwide	39.1%	45.4%	15.5%

In addition, Salinas's current provision of ALS services overlaps with the County's responsibility for providing emergency transport. The City currently has a Paramedic Service Provider agreement with the County that allows certified City firefighters to provide paramedic and advanced life support (ALS) services to Salinas residents. The City currently schedules paramedics on every engine and truck and in each shift. A more detailed analysis of the need for paramedic services by call, time of day, and day of week will help the department to more efficiently deploy ALS staff and reduce the total number of paramedics needed.

The County's contract with AMR includes ALS services and emergency transport. This arrangement means that, whenever there is a 911 paramedic emergency call, the City responds with at least one fire engine that is staffed with one captain, one engineer, and one paramedic. If a rescue unit is also deployed, it also needs to be staffed with one paramedic (captain and paramedic can be the same person). On arrival at the scene, the City's firefighters are the first responder and, if the resident requires an emergency ambulance transport, AMR provides the ambulance service transporting the resident to a nearby hospital.

There has been discussion that this arrangement may not be the most efficient way of providing paramedic services. While the City is the primary provider of basic life support (BLS) services, its ALS paramedic support services overlap the services that are already provided by AMR.

The recent Fire Department organizational and overtime analysis performed by ICMA's Center for Public Safety Management found that: "Given the proximity of the AMR units and their ability to respond rapidly in the Salinas system, BLS first response is significantly less costly to maintain both from the perspective of equipment costs and employee training costs. In addition, paramedics often receive additional supplemental compensation for this higher level of training, which are typically not paid for EMT certifications. CPSM believes that SFD should consider a change to BLS first response on its response units." (CPSM report, page 17) Specific recommendations of the CPSM study include:

- SFD should evaluate the options of deploying smaller, more maneuverable EMS squad units instead of engines and ladder trucks for EMS and nonemergency service incidents (CPSM report, page 16)
- SFD should evaluate its current deployment practice of maintaining ALS first response capabilities on all in-service units (CPSM report, page 16)

There are benefits in the City's firefighters providing ALS services. Salinas Fire Department's response time is usually shorter than AMR, which is somewhat reflected in the County's annual report. According to the County's annual EMS report, while AMR met its required response time in 2016, it did not in 2017⁴⁸ in

⁴⁷ Source: U.S. Fire Department Profile – 2015, National Fire Protection Association (2017)

⁴⁸ Monterey County EMS Agency Report to the Monterey County Board of Supervisors



part because of differences in how response time was measured and the technical issues caused by a new dispatch system that went online in early 2017. While both the County and AMR committed to resolving these challenges and improving its quality of service in the coming year, it is possible that the Salinas Fire Department's ALS services is faster and more reliable than services provided through the County's contractor.

County-Required AMR Response Time

	Green Zone (Salinas and the Peninsula)	Yellow Zone (Less populated areas)	Orange Zone (Areas like the 101 corridor)	Red Zone (Wilderness area)
Priority 1 Calls (Life-threatening Emergencies)	8 minutes	12 minutes	16 minutes	ASAP
Priority 2 Calls (Non-Life- Threatening Emergencies)	10 minutes	16 minutes	20 minutes	ASAP
Priority 3 Calls (Non-Life- Threatening, Medical Condition)	12 minutes	20 minutes	24 minutes	ASAP

The Salinas Fire Department may provide faster responses than the County's contractor, but the ALS service comes at a cost that continually burdens the City's General Governmental Funds. The City's MOU with fire employees requires 27 paramedics with premium pay of 12.5 percent⁴⁹. The estimated cost of the paramedic premium pay in the current year is \$347,641 (pay plus pension and Medicare).

Providing a more efficient service delivery through smaller squad units could allow the City to reduce the number of paramedics needed in the City and reduce the annual cost of this service while still maintaining high service-delivery standards. EMS revenues in FY19 are projected to be \$231,500. The majority of these revenues come from the City's contract with the County and medical billings. Service levels can be set to maintain these revenues while reducing the number of fire fighters receiving premium pay. The City must determine a paramedic service model that provides quality services to its residents at an affordable price. To make a reduced number of paramedics work for the City, there must also be an effort to work with the County regional 911 service to improve the triage of calls in order to determine when a paramedic is required. This will likely require City fire staff sitting with dispatchers to help them discern the response needs for calls and communicate that effectively to the Fire Department when a response is dispatched. There will likely need to be an initial training period with periodic training updates.

Budget Savings -- A redesign of the paramedic program to cut the number of paramedics in the Fire department in half would provide annual savings of approximately \$170,000 per year. This change will also require a change in the IAFF MOU specifying the minimum number of paramedics on duty.

⁴⁹ This number differs from the City's FY19 budget, which budgeted for 23 paramedics based on the City's personnel roster.



SHARED SERVICES

Salinas struggles to provide the full range of services to its residents and businesses. The ability to share services – and the cost of those services – with other jurisdictions is one way to improve overall service while at the same time mitigating budgetary pressures.

The Government Finance Officers Association recommends shared services as a best practice: “shared services take advantage of economies of scale by aggregating like services across the organization or between organizations. They also promote best practices by organizing services into ‘shared-service centers’ that are focused on the most efficient/effective performance of that service and that are subject to result-based accountability via formal service-level agreements with customers.”

There are many opportunities for consolidation of services between the City, the County, and other independent local governments (e.g. school districts). Each of these opportunities need to be weighed for potential cost savings and to ensure fairness in funding and service delivery. As a start, the City and County should create a Shared Services Working Group that would review each of these opportunities. The Working Group approach is in place in a number of jurisdictions, including the County-City Shared Services Commission in Cincinnati and Hamilton County, Ohio.

Future opportunities might include:

- A shared services approach to Information Technology. While both the City of El Paso and El Paso County continue to have IT departments, the two have worked closely together since entering into an inter-local agreement in 2009. Among other things, the two departments have a shared data center and servers. The City of Charlotte’s Shared Services Division provides IT services for both the City and Mecklenburg County.
- A shared services approach to the library system. The Sacramento Library system is a countywide system for the unincorporated area and cities throughout the County, with all jurisdictions sharing in the cost of the system. In 2007, the City of Minneapolis and Hennepin County merged their separate library systems.

As a start, the Plan recommends improving current shared services with the Monterey County Regional Fire District and piloting a consolidated approach with the County for the provision of animal control.

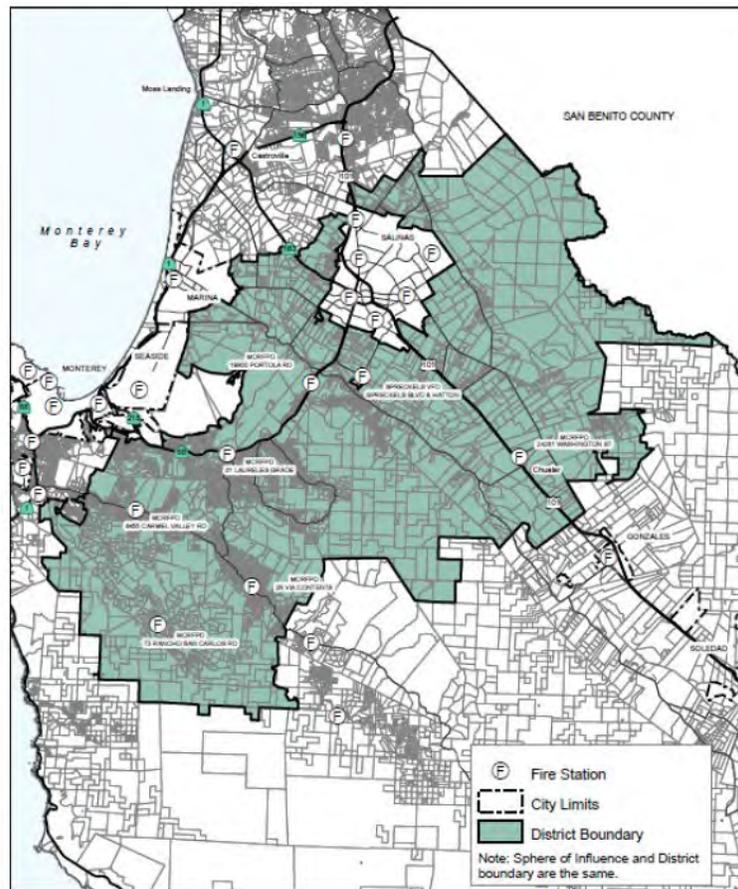
SS01. Recover Full Cost of Service from Monterey County Regional Fire District

The City currently provides fire protection to the Monterey Regional Fire District, which covers approximately 361 square miles of Monterey County serving 31,000 people. The District has its own six fire stations⁵⁰, equipment, and staffing and receives revenues of approximately \$377 per resident. According to a report from 2012, the Fire District had a fund balance of \$2.9 million and the fund balance was 39 percent of the total revenues. The Monterey Fire District currently provides fire protection, technical rescue, BLS (EMT), ALS (paramedic), and ambulance services.

⁵⁰ The new East Garrison fire station opened in Spring 2018, serving communities to the west of Salinas in the Reservation Road area.



Monterey County Regional Fire District and Salinas Fire Stations



Because the six fire stations of the Monterey County Regional Fire District (MRFD) are spread across the entire 361 square-mile area, while Salinas's six fire stations are concentrated in the City, the Fire District contracts with the City to provide fire protection and emergency medical services to approximately 35 square miles of the northern corner of the District⁵¹. A contract currently provides \$196,000 to the City to offset the costs of the service, and the annual contract cost has remained the same since at least FY16.

The Salinas Fire Department does not track calls to the MRFD area, making it difficult to accurately cost the services provided currently. An estimate of costs follows; however, tracking of MRFD calls needs to be included in the City's call tracking. The Fire District receives a little more than 2,000 calls annually⁵². If it is assumed that calls are distributed proportional to areas, approximately 10 percent of the calls made by residents living in the Fire District (200 calls) are responded to by Salinas Fire Department—based on the square miles that are included in the Salinas contract area (35 square miles out of a total of 361 square miles of the Fire District). The City of Salinas receives approximately 14,000 calls⁵³ annually, which means, based on our assumptions, approximately 1.5 percent of the calls were related to the Monterey Regional Fire District. In practice, given the relative density of the area around the City compared to the rest of the County, it is likely that this estimate is low. The City may also want to provide credit for calls responded to by the Fire District in the City.

⁵¹ The communities of Bolsa Knolls and Boronda and the area along Old Stage Road to and including Williams Road are included in the "Contract Area."

⁵² Monterey County Regional Fire Protection District, Local Agency Formation Commission, 2012

⁵³ Fire Services Data Analysis Report, Center for Public Safety LLC



1.5% of Total Fire Department Costs, FY19 – FY23

	FY19	FY20	FY21	FY22	FY23
Salaries & Benefits	20,484,430	21,122,281	22,207,937	23,303,972	24,425,626
Outside Services	1,027,700	1,062,909	1,099,523	1,137,604	1,177,218
Other Charges	321,150	333,124	345,606	358,621	372,193
Supplies & Materials	509,200	520,402	531,851	543,552	555,510
Capital Outlay	162,000	165,564	169,206	172,929	176,733
Total Fire Department	22,504,480	23,204,281	24,354,125	25,516,678	26,707,280
<i>1.5% of Total</i>	<i>337,567</i>	<i>348,064</i>	<i>365,312</i>	<i>382,750</i>	<i>400,609</i>

As illustrated in the table above, 1.5 percent of the Fire Department's total cost is \$338,000 in FY19, and exceeds the current contract rate of \$196,000. Part of the reason the City is not recovering its full costs is because there is no annual escalation in the contract. The Department commented in its recommendation to approve the contract that "there [would be] no fiscal impacts to continuing the agreement for the next three years as the City will receive the same amount of compensation." In reality, because of personnel and inflationary cost growth, the City will be in a deficit if the revenues remain flat.

Moving forward, the City must carefully and diligently track data related not only to staff time assigned to response calls to the Monterey County Regional Fire District but also any associated overtime to determine the full cost of providing the service. Because of the compensation and benefit cost growth, the City must ensure that there is an annual escalation in its contract to truly recover its costs. The following fiscal impact represents additional target revenues the City should negotiate in the new contract.

Financial Impact

FY19	FY20	FY21	FY22	FY23
0	\$119,665	\$133,419	\$147,325	\$161,567

FY24	FY25	FY26	FY27	FY28
\$174,575	\$186,007	\$197,982	\$210,741	\$223,661

One way to more fully recover the City's costs of providing the service is to negotiate an agreement that reflects a percentage of personnel costs instead of a flat dollar amount. The City of Redmond (WA) has a similar arrangement to Salinas's, where the City provides fire rescue services to King County. The agreement, which was most recently renewed in 2017, requires that the county be responsible for costs of fire suppression and ambulance based on a percentage of the full staffing cost. The county is also responsible for 10 percent of the fire prevention and education costs. Most other expenses, including training, vehicle maintenance and replacement, and capital improvement, are allocated between the City and County based on the staffing or project benefit.

SS02. Consolidate Animal Services

Consolidate the City's animal services with the County's animal services to provide high-quality, humane service at a lower cost.

The City currently provides in-house animal shelter and field services through eight full-time personnel, costing \$1.1 million in FY19. The mission of the City's animal services is to protect Salinas's residents from the negative community impacts of unwanted pets, strays, and dangerous animals while providing human



care to animals⁵⁴. Consolidation of services offers an opportunity to provide this service more efficiently, at a lower cost, and humanely. Such consolidation has been recommended by several previous studies, and, in fact, the City and County are currently operating a pilot program to pay for a shared administrator between the two nearby shelters. This is a good step in the direction of providing a shared service; however, it is only a small step in that direction. A commitment to sharing these services is required.

Salinas is not alone in balancing the need to maintain quality animal services with ongoing cost growth. Many cities in recent years have explored other models of providing animal control services, the most common of which include to contract with the County, the local SPCA through a master service agreement, or with neighborhood municipalities through a Joint Powers Authority. The Counties of Sacramento, San Luis Obispo, San Mateo, and Santa Cruz all have agreements with selected local municipalities to provide animal services through an agreement.

Consolidating services can have its inherent challenges, the most tangible of which is shelter capacity. The City of Elk Grove, for example, had contracted with Sacramento County for its shelter services since 2013, but the Bradshaw shelter, where it hosts the City's abandoned animals, was often operating at above capacity. As a result, the City of Elk Grove is currently building a new municipal shelter to ease the pressure on the County's shelter. The second common challenge of regionalization involves determining how the costs are to be shared. The City of Bakersfield had always shared its animal shelter operations with Kern County, but due in part to the lack of transparency and communication regarding the cost-sharing formula and other operational challenges, the City began contracting its local SPCA to operate its own animal shelter in 2013.

While challenges are probable, and the City and the County will need to have transparent communications to reach consensus, the City of Salinas is well-positioned to consolidate its animal services with Monterey County consistent with an assessment provided by Management Partners in 2016. The Monterey County Animal Shelter⁵⁵, which is only one block away from the City's animal shelter⁵⁶, has a capacity of 193 with 81 dog kennels and 112 cat cages. According to the Management Partners' assessment, the County's facility is new, modern, and is often operating under its capacity. County staff reported an approximate average capacity of 60 percent, and the daily animal population of 75 animals equates to only 39 percent of its maximum capacity. While there is currently a lack of staffing at the County animal shelter, the challenge is not so much staffing but more the arrangement of shift schedule to provide a more regular staffing capacity over the course of a week.

Salinas's animal shelter, which again is right next to the County's shelter, has a total capacity of 191 animals with 93 dog kennels, 92 cat cages, and 6 rabbit hutches. Average daily animal population is approximately 90, with the shelter operating at under 50 percent of its maximum capacity. The biggest challenge for Salinas, however, is staff capacity. The City's shelter staffing is barely meeting minimum industry standards of 15 minutes of care time per day for feeding and caring.

The second challenge for the City is the need to improve the shelter's condition, with limited storage space and significant maintenance upkeep requirements. The 2016 feasibility report noted that there were roof leaks at the time and mice and birds were able to get into the shelter through the leaks. The division also has two trucks that were acquired in 2007, both of which have more than 150,000 miles.

With a newer County facility that is just one block away operating under capacity, we believe that this is a prime opportunity to consider consolidating animal services with the County. The feasibility report provided by Management Partners provided four recommendations, ranging from sharing one animal service

⁵⁴ Division's mission, FY19 operating budget, p. 284

⁵⁵ Located at 160 Hitchcock Road

⁵⁶ Located at 144 Hitchcock Road



operations director between the City and the County (currently underway) to a full consolidation. Over time, the City should fully consolidate with the County in order to streamline services and the span of control.

While consolidation of services should produce cost savings because of streamlined services, that consolidation also provides the opportunity for the City and County to redirect resources to address backlogged improvements such as technology upgrades and new vehicle purchases. As mentioned previously, the City uses two trucks that are over 10 years old and are in need of replacement. Some of the savings achieved through the consolidation should be used toward funding new vehicles to improvement service delivery.

The feasibility study also highlights technology as an area of improvement. Both the City and the County uses the Chameleon software but for different functions. The County uses it to run basic reports but not for licensing purposes, and the basic reports are currently not being used to support operational decision making due in part to the lack of training. County animal control vehicles are equipped with laptops and wireless access, but animal control officers are not using the technology to access licensing records since they do not use the system for licensing services. On the other hand, the City uses Chameleon for licensing in the office but, because the current vehicles do not have laptop and wireless functions installed, the City's animal control officers cannot remotely access online records even though they are trained and have been utilizing the software for licensing purposes.

Finally, our conversations with staff, supported by the feasibility study, indicate that the County Animal Services require improved organizational management whereas the City's animal services in general has good morale. This is an area where the City and County must have transparent communications regarding the consolidation in order for it to be successful.

Strengths and Weakness of Current City and County Animal Services

	City Animal Services	County Animal Services
Strengths	<ul style="list-style-type: none"> • Positive organizational culture • Uses software for licensing • Facility is operating under capacity 	<ul style="list-style-type: none"> • New facility that is operating under capacity • Vehicles are up-to-date with laptop and wireless capability
Weaknesses	<ul style="list-style-type: none"> • Understaffed with old vehicles and facility • Vehicles are not equipped with remote software capability 	<ul style="list-style-type: none"> • Does not fully utilize the Chameleon software • Organizational management

In a scenario where the City and County animal services consolidate, the City would ideally transfer its current animal control officers to the County and consolidate the functions either through an agreement or a joint powers authority. Because the County has newer facility and vehicles, the immediate cost of maintaining the City's shelter is avoided, but there is still a need to dedicate funding toward a reserve fund for future maintenance and upkeep of the County shelter. The City would also generate operating savings from not having to operate the current City animal shelter, but some of these savings should be dedicated toward acquiring new vehicles, technology updates, and providing technology training to employees. More importantly, and as noted in the feasibility study, the consolidation would utilize a new Animal Services Administrator position, hired in May 2018, to provide the leadership skills to navigate this merger between City and County, facilitate communications, and lead the team of animal control officers – from both the City and County – to provide quality services to its residents.

The Feasibility Study estimates cost savings of \$53,000 in the first year and \$72,000 annually after the first year. We have calibrated those savings to the ten-year projections.



Financial Impact

FY19	FY20	FY21	FY22	FY23
0	\$53,000	\$72,000	\$73,440	\$74,909

FY24	FY25	FY26	FY27	FY28
\$76,407	\$77,935	\$79,494	\$81,084	\$82,705

MANAGED COMPETITION AND PRIVATIZATION

The City is involved in several services that are often coordinated with the private sector or generally provided by the private sector. These services, for various reasons, have placed financial burdens on the City's General Fund that are not manageable given the projected budget gap in the City's budget. The following recommendations address areas where the City can reduce subsidies to non-essential programs and services and create budget room for higher priorities.

MC01. Eliminate Downtown Parking Fund Deficits

Maintain parking rates sufficient to support cost of parking garage operations.

The City has a Downtown Parking Enterprise Fund that generates revenues from parking fees and City General Fund transfers. The purpose of the Parking Fund is to provide, operate, and maintain an efficient, effective and flexible downtown parking management system to meet the needs of residents, visitors and the business community. The Fund operated with a \$449,000 deficit in FY17 (excluding General Fund subsidy) and the baseline forecast projects the deficit to grow to \$346,000 annually by FY28, even after accounting for fee increases in the FY19 budget. These deficits are not sustainable especially because the Downtown Parking Fund is currently operating with a negative fund balance of \$2.6 million. As a result, without change, the City's General Fund will need to subsidize the Downtown Parking Fund whenever it operates with a deficit.

Downtown Parking Fund, Net Operating Results⁵⁷

	FY13	FY14	FY15	FY16	FY17
Monterey Street Garage	\$115,434	\$102,544	\$64,101	\$127,618	\$134,544
Other Parking Permits	97,318	93,688	73,748	73,164	78,790
Operating Revenues	212,752	196,232	137,849	200,782	213,334
Salaries and Benefits	96,315	93,008	96,688	125,547	123,499
Outside Services	325,672	329,747	289,766	342,608	347,310
Other	80,054	97,041	69,261	127,182	191,448
Operating Expenditures	502,042	519,796	455,715	595,336	662,257
Surplus / (Deficit)	(\$289,290)	(\$323,564)	(\$317,866)	(\$394,555)	(\$448,923)

⁵⁷ Only reflects operating revenues and expenditures; excludes the General Fund subsidy, a \$1.0 million transfer out in FY14 and a \$1.2 million transfer in in FY15. Also excludes the revenues from the Redevelopment Obligation Retirement Fund which offsets lease expenditures and have no net impact on the fund's net operating result.



The Fund's operating deficits are effectively subsidies from the City's General Fund and, as shown in the table above, these deficits are projected to require additional subsidies from the General Fund over time. The FY19 budget increased fees in all the parking garages and lots, and estimates that revenues would more than double, increasing from \$211,000 to \$524,000. Even with the large increase in fees, however, the City is still budgeted to incur a \$205,000 deficit absent any General Fund subsidy.

To eliminate this deficit, the City has several options:

- In May 2018, the City began the process of selecting a vendor to manage City-owned parking facilities. As a part of the City's agreement with the new vendor, the City should require the vendor to provide parking services (incur expenses) and set the service fees (collect revenues) for the Main Street Parking Garage without providing revenues to, or drawing expenditures from, the City's General Fund. The City would essentially own the garage but contract all of the service provision and revenue collection to an outside contractor.

While this recommendation allows the City to close the projected deficits in the Downtown Parking Fund, it provides the City with less control over the parking rates, which is a common criticism for local governments that have leased their parking assets to private vendors (e.g. Chicago and Indianapolis). Additionally, it's uncertain whether or not a vendor would be willing to take on the risk of raising rates to cover costs. The City's parking garages have not been financially self-supporting, and it is unclear how this would change if the garage was privately managed. Fully contracting parking garages out to a private vendor would likely require the City to first demonstrate that the parking system has the ability to be self-supporting.

- City staff is proposing to increase parking fees to eliminate this deficit. To be fully effective, this may require a broader parking plan for downtown in order to encourage the continued use of the parking garages. The City Council is likely to consider increased Monterey Street parking garage rates in the next few months. These fee increases, if implemented, are estimated to provide approximately \$250,000 in additional revenue. The City is also considering adding parking meters in downtown to fully recover the costs of the Downtown Parking Fund.
- The City also provides free parking to many of its City employees on parcels that could also be used for new buildings as the downtown continues to redevelop, as detailed in the Downtown Vibrancy Plan. As this occurs, the City may have to end this benefit, pushing employees to nearby parking garages. Instead of continuing to provide employees with free parking, the City can explore providing partial parking credit to employees so that both the City and employees share the cost of parking. If the City only subsidizes 50 percent of the annual parking cost (based on a \$40 monthly permit fee) instead of the full parking cost, the City would generate additional annual revenues of approximately \$25,000. Implementation of this plan would require the City to meet and confer with labor groups.

This recommendation encourages the City to continue monitoring the parking subsidy and to keep working towards eliminating all parking subsidies from the General Fund. The following financial impact assumes that the City will eliminate the deficit in the Downtown Parking Fund beginning in FY20.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$229,833	\$243,168	\$256,798	\$271,209

FY24	FY25	FY26	FY27	FY28
\$285,832	\$299,736	\$314,067	\$329,052	\$344,194



MC02. Eliminate General Fund Subsidy of Golf Course Debt Service

The City has two municipal golf courses in the City: Twin Creeks and Fairways. The operations and maintenance of both of these courses has been transferred to private contractors, leaving the City with no ongoing day-to-day maintenance costs; however, the City issued debt for course improvements and has an ongoing responsibility for the debt service payments. The two golf courses, in aggregate, have fund balances with a cumulative deficit of \$300,550 in FY19. The primary City revenue stream from each golf course is the lease payment from the contractor —\$100,000 per year for Fairways and \$60,000 per year for Twin Creeks.

Twin Creeks is a nine-hole course with a 30-station lighted practice range located in the Creekbridge neighborhood. The City transferred operations and maintenance of the course to First Tee (a national nonprofit organization with a local chapter) in November 2004. The City issued debt of \$4.4 million to fund course improvements, and \$3.7 million in principal is still owed on this course, with a term out to 2026. The City's debt service cost in FY19 is \$459,677. The land for the Twin Creeks course is owned by Monterey County and on a 99-year lease to the City. First Tee, which operates Twin Creeks, provides golf lessons to at-risk youth and is very engaged in the Salinas community. While initially the contract between First Tee and the City called for First Tee to assume responsibility for making the payments on the City's debt, the City recently renegotiated the First Tee contract and reduced the lease payments, effectively leaving the City to cover debt service.

The Fairways Golf Course is an 18-hole course located at the City's airport. The City transferred the day-to-day operations of the golf course to Sierra Golf (a private management company) in 2008; therefore, the City only pays debt service for improvements on an outstanding bond of \$4.7 million with a term until 2039. The City debt service cost in FY19 is budgeted at \$230,000. The Fairways debt is a variable-rate obligation, meaning that debt service changes with interest rate changes in the market. Interest rates have been historically low. Recent upward rate pressure, if it continues, could push up the cost of debt service in the next few years, requiring additional financial resources from the City. With the golf course on airport land, the disposition or use of the golf course for revenue-generating purposes is subject to Federal Aviation Administration (FAA) regulations and approval. The FAA also limits the use of excess land for airport purposes and may require all revenue to be airport related.

A golf course study for the City of San Jose in 2015 found that golf courses around the nation are generally underutilized and fewer people are playing golf. According to the National Golf Foundation, the number of golfers has dropped by 17 percent since 2005. As of June 2018, the National Golf Foundation reports that golf rounds played for the past year nationally are down 3.3 percent over the prior year; however, in California rounds are up 7.2 percent⁵⁸. Yet, even with this uptick in statewide play, Salinas's golf courses are a significant cost to the City's General Fund.

The City will pay over \$7 million in next 10 years servicing golf course debt, while receiving approximately \$1.6 million in lease revenues from the golf-course operators. This drain on General Fund revenues does not fit within the City's broader need to reduce budget deficits and improve base service levels.

It is not uncommon for public golf courses to receive General Fund subsidies. The City of San Jose subsidized golf courses by a total of \$2.6 million in 2016. An internal auditor report recommended reducing or eliminating subsidies. In 2018, a Los Gatos report on golf course subsidies of \$6 per round recommended consideration of selling a golf course for development purposes.

It is recommended that the City seek a way to monetize a portion of the Fairways golf course and to evaluate the potential of converting the Twin Creeks golf course into a revenue-generating asset for the purpose of paying off outstanding debt while also promoting economic development. The City will reap the increase in property and sales taxes from the economic use of these properties, and revenues from the sale or lease of land can be used to reimburse past, and pay future, debt service.

⁵⁸ June 2018, National Rounds Played, National Golf Foundation, August 2018.



Twin Creeks is leased by the City from Monterey County. Economic reuse of this golf course would require either the dedication of the land to the City or a cooperative agreement to share in revenues from a sale or reuse of the property, once the City's debt is repaid. Economic reuse would result in the loss of the golf course and First Tee program; however, use of the property could still include public open space and perhaps a driving range and other golf-related uses.

Fairways is divided into two nine-hole sections. One section is directly under the landing path for one of the airport's runways and cannot be used for any type of development. This portion should remain a golf course. The other nine-hole section (located west of Skyway Boulevard) is out of the direct landing path, but still within the area of flight operations. This portion could be sold or redeveloped into an industrial use, with the proceeds, at a minimum, used to repay the City for prior-years' debt service (\$700,000 from FY13 to FY18) and to eliminate the remaining debt on the Fairways course at least. To accomplish this, the City will need to apply to the FAA for disposition of the land.

Additional benefit from this action would be the opening up of needed industrial development land and the associated property and sales taxes from these uses, along with the generation of jobs within the City. The financial impact below assumes the repayment of the golf course debt currently associated with the airport land, and the elimination of future debt. As noted above, because this is variable-rate debt, the savings, based on future debt service, may be much higher. To be conservative, the use of land sales proceeds to repay the Twin Creeks debt is not assumed. If the City is able to accomplish the economic reuse of both golf courses, an additional \$400,000 of expense – debt service less rental fees from First Tee — will be freed up for other uses in the City.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$0	\$250,000	\$265,000	\$275,000

FY24	FY25	FY26	FY27	FY28
\$290,000	\$305,000	\$325,000	\$340,000	\$360,000

MC03. Eliminate Sherwood Hall Deficits

The City of Salinas has strived to provide a breadth of community services to residents. Along with parks and community centers, the California Rodeo Association, through its lease with the City, has successfully constructed and operated the Salinas Sport Complex adjacent to Sherwood Hall.

Salinas has pursued multiple initiatives to provide services in a financially sustainable way.

- In 2017, the City extended an agreement to lease the 80-acre Salinas Regional Soccer Complex (at Constitution Drive) from the County at \$1 for up to 90 years. The City was, at the time, already sub-leasing the site to the Salinas Regional Sports Authority who began operating the Regional Soccer Complex in 2010, so the new agreement allowed the City to extend the lease agreement with the Sports Authority to continue operating and financing the Complex. The City also leases the Salinas Sports Complex to the California Rodeo Association to run and maintain the facilities.
- The City leased the Aquatic Center to the Monterey County Aquatics/Salinas Valley Aquatics, Inc., a local nonprofit, in 2009 to operate the facility. The nonprofit invested \$2.0 million to expand the pool programs to an 11,000 square-foot municipal aquatic center. The center changed operators to the YMCA in August 2018 to provide various aquatics programs.

These two initiatives are examples of how the City, through creative partnerships with external entities, can reduce the personnel and maintenance cost burden while still providing quality recreational services to its



residents. Sherwood Hall, a facility with a 1,600-person capacity and a building age of almost 40 years, presents a fiscal challenge to the City that could be addressed by forming a partnership with a local for-profit or nonprofit entities.

Leasing Sherwood Hall to recover costs is not a new idea. The City leased the hall to the National Steinbeck Center from 2010 to 2013, which managed the facility on behalf of Youth Orchestra Salinas. After 2013, the City entered into a lease agreement with the new Millennium High School in 2014, leasing the non-performance space. This lease agreement expires in June 2019. Millennium High School mostly uses the classrooms in Sherwood Center, which are located next to the main hall, but has exclusive use of Sherwood Hall for two three-week periods a year for a school theater production. The lease with Millennium was set at \$15,000 per month, the estimated cost of utilities and some maintenance for the facility. The lease does not cover ongoing maintenance or renovations.

Even with lease revenues, the City has only been able to recover part of the operating costs for Sherwood Hall. Including the rental fees that the City generates from events, the City is only expecting to recover approximately 85 percent of Sherwood Hall operating expenditures in FY19. To fully recover the operating costs and ensure that infrastructure is properly maintained, the City needs to develop a new strategy.

According to the NRN team's ten-year budget projections, the \$46,000 operating deficit in FY19 will grow to \$103,000 by FY28, not including any additional capital investments that will be required for the aging facility. To address this deficit, and fully utilize the Sherwood Hall asset, the City should consider the long-term financial sustainability of operating such a large facility, and opt to focus more on its core services, such as providing recreation programming and maintaining the park areas near the Aquatic Center and Sherwood Hall area so that children and youth can participate in those programs in a safe environment.

The City should consider two options for operation of Sherwood Hall:

- **Long-term lease of entire facility.** As the City has already experienced with the Salinas Sports Complex and the Aquatic Center, leasing City facilities can help remove substantial cost burden from its General Fund because the pressure of recovering its full costs – the day-to-day operating cost and capital investments – can be funded by the leasee. Oftentimes other local or regional entities – for-profits or non-profits – have more experience with the business model of recovering costs with fees, and have more resources to advertise and promote venues than the City does. In addition, these external entities often have the benefit of economies of scale, since they often operate multiple venues and facilities, and can utilize its existing resources more efficiently.

Instead of negotiating to lease out only a portion of the facility – the City's current practice with Millennium Charter High School –the City should lease out the facility operations entirely -- daily operations, recreation programming, and rental management – so that the City can fully recover its operating and capital costs and focus its staff on other core services. When negotiating a lease agreement, the City should seek a long-term lease – preferably five years or more – to provide stability to the City's finances.

- **Sale of facility.** Alternatively, the City can seek to sell the facility to a private entity and generate one-time revenues to pay off its debt or make one-time capital investments. The possibility of a sale is largely dependent upon the local market. Selling city-owned assets and directing those one-time revenues to a dedicated cost center, such as debt, capital, or pension, is becoming increasingly common among local governments. Assets that can generate large one-time revenues are usually large systems like the water, sewer, or parking systems, but it is still fairly common for local governments to sell smaller assets like facilities and buildings.

The challenge of selling the asset entirely is to be able to find an entity that is committed to maintaining Sherwood Hall's current functions as a performance and conference venue and also willing to invest in the capital infrastructure to preserve the building. To accomplish this goal, the



City needs to be flexible in the usage of the facility, especially since a performance venue of this size will require creative strategies to operate and maintain.

Saving from leasing the operations of Sherwood Hall are provided below. These savings do not include capital improvements that will be needed, but are not yet included in the budget. If the City is able to generate any one-time revenues from a sale, those revenues should be dedicated toward cost-centers that bring long-term structural benefits, such as debt or capital, or reinvested into other recreations facilities, such as existing community centers, to improve services.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$54,000	\$58,000	\$64,000	\$70,000

FY24	FY25	FY26	FY27	FY28
\$77,000	\$83,000	\$90,000	\$96,000	\$103,000

OPERATIONAL EFFICIENCIES

The true test for City government should not be just whether annual budgets are balanced, but rather whether taxpayers are receiving appropriate service value at an affordable price. In other words, smaller government alone is not enough – the City must provide smarter, more efficient and more effective government.

The following initiatives aim to improve the City's operational efficiency, reduce expenditures, and make necessary investments that will lead to long-term savings. While the City created budget room after the recession by instituting furloughs, this across-the-board reduction in service is seen as a last resort, as spending reductions should generally be made with the goal of focusing on core services, rather than trying to maintain all services at reduced levels. Many departments cannot afford to reduce staff time and complete already-difficult-to-complete tasks. It is generally preferable to do what is most important well than to try to do everything if resources are limited. Additionally, the recommendations included in this report, if implemented, should lead to balanced budgets. Furloughs are not recommended in this study.

OE01. Move Facility and Park Maintenance to Library and Community Services

The Public Works Department is responsible for a wide range of activities that impact many other City operating departments and most residents. Public Works is divided into the two main Sub-Departments of Engineering and Transportation Services and Environmental and Maintenance Services. Each of these Sub-Departments is further divided into several different Divisions. Additionally, Public Works oversees the Salinas Municipal Airport and the City's Geographic Information Systems (GIS) Divisions, both of which report directly to the Public Works Director.

For most divisions in Public Works there is a direct tie back to the City's infrastructure planning, construction, and/or maintenance. Two areas that do not directly tie back to the core services of Public Works are facility maintenance and parks and Community Services. It is not uncommon for a Public Works Department to oversee these areas; however, the Salinas Public Works Department is already stretched thin with the breadth of tasks for which it is responsible.

There are different models to oversee services provided on a citywide and interdepartmental basis. An ideal model is to create a separate department for these central services that covers building maintenance, fleet, and parks and landscaping maintenance. Unfortunately, with projected budget constraints, the City is not in a position to add a department. However, moving the oversight of parks and building maintenance to the Library and Community Services Department is a good interim step.



The Library and Community Services Department has two primary areas of oversight: libraries and recreation services. As recreation services have been added back into the City staffing matrix, after having been all but eliminated during the Great Recession, the library and recreation programs have been working to integrate programming and facilities maintenance as much as possible. What they lack is control and direction over the maintenance and upkeep of the parks and community facilities from which they operate their programs.

Within Public Works, the Parks Maintenance and Urban Forestry Divisions cover more than just City parks. They are also used to maintain trees in the City rights-of-way as well as street medians. Similarly, the Building Maintenance Division is responsible for all City facilities. Most facilities used by the general public are primarily operated by the Library and Community Services Department. The Graffiti Abatement Division removes graffiti from public property and supports its removal from private property. Moving these four divisions⁵⁹ to Library and Community Services provides a closer connection of maintenance to programs, and will provide more accountability for the Library and Community Services department in carrying out their Programs.

These divisions currently have an overall ratio of line staff to managers and supervisors of 1 to 5, as shown in the table below (a target span of control ratio should be about 1 to 7⁶⁰ for most types of services). This ratio suggests that a combining and reorganizing of these divisions could eliminate one manager position increasing the ratio to 1 to 6.33. At the same time, the increasing role of contracting needs to be taken into account as well.

Public Works Span of Control

Division	Managers/ Supervisors	Line Staff	Ratio
Graffiti Abatement	n/a	1.0	n/a
Facilities Maintenance	1.0	3.0	1 : 3.0
Parks and Community Services	2.0	10.0	1 : 5.0
Urban Forestry	1.0	6.0	1 : 6.0
Total	4.0	20	1 : 5.0

The remaining divisions in Public Works under Environmental and Maintenance Services have a manager to line staff ratio of 1 to 4.05. A reorganization of supervisory staff within these divisions could also eliminate one supervisory position. This could occur by sharing oversight with a manager in the Engineering and Transportation Services Sub-Department. Overall, the Public Works Department is fragmented, and the movement of the parks and facility maintenance functions could be beneficial to an overall restructuring of the Public Works Department. A deeper analysis of the Public Works Department is underway and will be provided in a separate, dedicated report.

The savings from the elimination of two manager positions is listed below, include cash compensation and other personnel costs, and are discounted to avoid double-counting the overall workforce savings.

⁵⁹ The other Environmental and Maintenance Services Divisions — Maintenance Administration, Street Lights, Street Maintenance, Traffic Signals, Environmental Compliance, Fleet Maintenance, and Engineering Maintenance – would remain under Public Works.

⁶⁰ The City has also transitioned to more contract work in these divisions. Managing these contracts can also result in a smaller span of control if only looking at City staff.



Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$189,703	\$195,655	\$200,547	\$205,560

FY24	FY25	FY26	FY27	FY28
\$210,699	\$215,967	\$221,366	\$226,900	\$232,573

OE02. Citywide Fleet Strategy

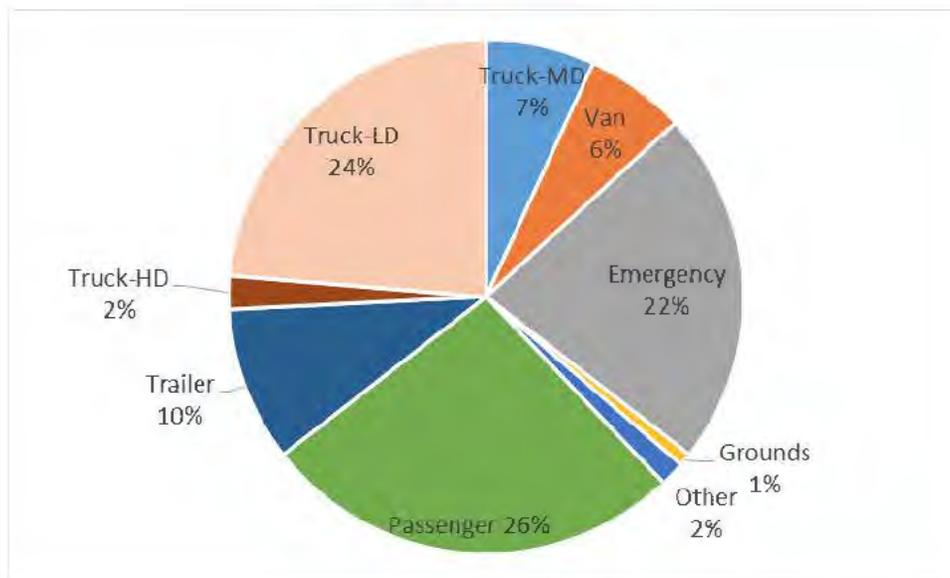
A fleet operations review that was completed in April 2017 by Mercury Consulting recommended that the City centralize its fleet maintenance operations to improve overall service and capture economies of scale. After interviewing the departments of Public Works, Fire, and Police, the Network team recommends that the City should not only centralize its fleet operations, but develop a citywide fleet strategy, including a fleet replacement plan. Mercury is currently working with the City to implement their 2017 recommendation.

The City operates a fleet of 380 vehicles and pieces of equipment, which primarily includes rolling stock such as utility carts, trailers, and forklifts. Together, these vehicles and pieces of equipment are tracked as units, of which 130 units are in the Police Department, 50 units are in the Fire Department, and the remaining 210 units are assigned to the Public Works Department.

An issue with the overall maintenance of the fleet is that the City does not have a fleet-replacement strategy or funding. This has resulted in an aging fleet with increased repair needs.

In FY19, the City budgeted \$2.7 million for maintaining its fleet, including personnel cost for maintenance, equipment, parts and supplies related to fleet maintenance, as well as fuel and oil lubricants for regular operations. The \$2.7 million in spending excludes capital expenditures associated with fleet replacement.

City's Fleet Composition ⁶¹



⁶¹ Salinas Fleet Operational Review Report, April 2017



The City's main fleet functions reside in the Department of Public Works where there are six budgeted full-time employees. As of The FY19 budget, the fleet maintenance manager, fleet analyst, and inventory technician positions were all eliminated to create budget savings. This leaves the Division with only one mechanic supervisor and four mechanics working on routine maintenance. The result is that the Division has been fulfilling departmental requests on a reactive, rather than proactive, basis. The lack of staffing and retreat on new positions will make any changes in fleet services very difficult, as staff do not currently have time to do more than perform minimum maintenance needs.

Beyond the main fleet functions that are hosted within the Department of Public Works, the Fire Department has six firefighters who work on vehicle maintenance on a part-time basis and the Police Department has one full-time equipment inventory technician and another full-time vehicle maintenance assistant. Each firefighter mechanic receives premium pay of 10 percent, and one firefighter mechanic supervisor receives a 2.5 percent premium in addition to the 10 percent premium.

FY19 Citywide Fleet Maintenance Budget

	Public Works	Police	Fire
Number of FTE	6	2	6 firefighters
Personnel Cost	\$527,270	\$219,640	\$162,730
Functions	<ul style="list-style-type: none"> Perform citywide fleet repairs, including Police's fleet, using a work order system Purchasing of vehicle parts for in-house repairs Determines repairs to be contracted out and negotiate pricing 	<ul style="list-style-type: none"> Perform small repairs and buy parts Work with DPW to schedule repairs Select outside repair shops and negotiate pricing Writes specifications for police vehicles and replacement criteria 	<ul style="list-style-type: none"> Oil changes All repairs except heavy repairs, which are contracted out Mandated safety inspections Ladders which are inspected by outside vendors Order and maintain commonly needed parts
Asset Management System	Squarerigger, Inc.	N/A	Manager Plus
Operating Cost (including supplies, utilities, and contracts)	\$1,094,940		\$209,400
Fuel Cost	\$130,900	\$241,200	\$105,700
Total Fleet Maintenance Cost	\$2,213,950		\$477,830
Citywide Fleet Maintenance Cost	\$2,691,780		

Because of a decentralized fleet approach and an essentially half-vacant fleet management function in the Department of Public Works, the City does not have a fleet replacement plan that aligns fleet replacements with fleet life cycles. Maintenance requests are performed on a reactive basis and the City runs an old fleet with an overall average age of over 15 years (although this is changing with the \$650,000 budgeted in FY19 for new Police vehicles). As a result, the City's maintenance costs keep rising as vehicles and equipment get older. New purchases may actually generate cost savings, since the cost of maintaining an old vehicle often exceeds the cost of purchasing a new vehicle that requires minimal maintenance⁶².

⁶² Salinas Fleet Operational Review Report, Mercury Associates, p. 22



The second downside of not having a centralized fleet function is the difficulty in tracking data. While the Department of Public Works currently uses *Squarerigger, Inc.* as its fleet management information system, neither Police nor Fire uses that system, so there is no centralized database. Further, because the software is outdated, and Public Works personnel has not had any software training since it was purchased 15 years ago, only selected data is entered into the system and preventative maintenance is managed manually.

Because of the lack of software training, the most accurate vehicle database is actually maintained by the Finance Department in Excel. With the lack of data, it is difficult to estimate the amount of time or money spent on vehicle maintenance and how a fleet replacement strategy can help the City generate savings in the long-term. Meanwhile, the City operates with an aging fleet that is expensive to maintain as departments struggle to provide quality services to its residents.

The recommendation that the City should centralize its fleet function has already been suggested in prior reports, including the Fleet Operations Review report (2017) and the Public Safety Management and Staffing Reports (2014). Both reports recommend centralizing fleet functions so that Police and Fire and transfer responsibility for fleet maintenance to a centralized operation.

Fleet Centralization

The centralization approach is ideal for the Police Department because the Public Works Department is already doing the majority of the in-house repair work. The two full-time vehicle maintenance employees in the Police department mostly negotiate pricing and schedule repairs with vendors and, as the Department cited, “do not turn wrenches.” The Fire Department, however, has reservations with centralizing fleet. This is partially because of limited capacity in the City Yard, the primary site where the City’s Public Works Department does vehicle repairs. Further, minor repairs on fire equipment often occurs on weekends or after regular working hours, when fleet staff is off duty. Additionally, six firefighters currently receive premium pay to maintain vehicles when not performing firefighting duties.

Centralizing fleet is inherently difficult because it requires a shift in culture. To successfully centralize its fleet operations, the City needs an incremental approach. The City is already outsourcing many complex repairs. There are, however, more opportunities to outsource more of its repair work so that public safety units can focus on their core functions. Over time, the City should structure contracts with local vendors to outsource all body work, communications equipment such as radios, tire replacements, engine and transmission repairs, fabrication, certifications for Fire vehicles and equipment, and any large vehicle components with warranties. By outsourcing most of the repair work, the City staff that are centralized under the Public Works Department can focus on preventative maintenance work and regular vehicle upkeep. The concern that the City Yard is not fully equipped to perform major repairs can also be solved if the City outsources those repairs.

The Network team heard from departments that, because Public Works does not have a 24-hour on-call system, repairs will not be completed overnight and will limit the number of functioning vehicles at any given time. Based on discussions with the City’s fleet consultant, the City should also outsource those on-call functions in order to limit overtime spending.

To incrementally outsource most of the repair functions and centralize preventative maintenance under Public Works, the City should seek to outsource most major repairs, move the police positions to the Fleet Maintenance Division and eliminate firefighter mechanic premium pay as contracts with outside vendors are put in place. The City is already working with its fleet management consultant to centralize its fleet functions, and is already moving in the right direction. The key to developing a successful centralized fleet program is also dependent upon the City having a leader that manages fleet. This person must have leadership skills to help the City transition its fleet operations to a centralized approach, and have the experience to be able to manage and negotiate contracts with local vendors as the City outsources more of its repair work.



While the City may generate some savings through outsourcing more of its repair work and centralizing its fleet functions within the Department of Public Works, those savings are largely dependent upon the timing of centralization and the pricing of contracts with local vendors. The following estimated fiscal impact is based on a conservative savings of five percent, phased-in over five years, beginning in FY21.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$0	\$26,000	\$53,000	\$81,000
FY24	FY25	FY26	FY27	FY28
\$112,000	\$143,000	\$147,000	\$151,000	\$155,000

Fleet Rightsizing

The Fleet Operations Review report also discusses the City’s fleet age and the need for a systematic replacement plan. As stated in the report, the average age of the City’s 390 vehicles and equipment is 15.4 years. Again, because the operating cost of maintaining an old vehicle is often higher than the one-time cost of purchasing a new vehicle, developing a regular fleet replacement plan is an industry best practice.

The first step in developing a fleet replacement plan is to identify the oldest vehicles that are not regularly used. The City should auction those vehicles and use these one-time proceeds to purchase new vehicles – this purchasing plan, however, must be done concurrently with a fleet reduction strategy in order to generate long-term savings. According to the City’s fleet consultant, a 10 percent fleet reduction target (or elimination of 39 vehicles and equipment) is a reasonable starting point. By reducing the fleet size, the City can dedicate its limited resources to maintaining the existing fleet and begin determining the ideal fleet replacement cycles for each of its vehicle type.

Developing a fleet rightsizing strategy is increasingly common among local governments. The City of Cincinnati, for example, in 2015 committed to investing in the Capital Acceleration Program, which provides \$40 million in 12 years, to bring the City’s rolling stock more into the proper lifecycle. The City also committed to a fleet reduction program in conjunction with the Capital Acceleration Program to create a more efficient fleet. To facilitate fleet reductions, the City explored alternative transportation options, such as a creating central motor pool, using Uber for business, or providing mileage reimbursements for employees using their own vehicles. These are all options that the City of Salinas should explore in the future – once the fleet centralization strategy is well underway -- in order to generate additional efficiencies in its fleet operations.

The Network team understands that much of the discussed changes – fleet centralization and rightsizing – are difficult to implement and require all departments to work together. Most importantly, the City needs a fleet manager with the leadership responsibility to steer the transition and build consensus with public safety departments in order for these strategies to be successful. The savings⁶³ from rightsizing and centralization—from reduced maintenance and replacement costs—can be utilized to fund this position⁶⁴.

⁶³ For the purpose of this analysis, PFM assumes that the proceeds from vehicle auctions would be offset by vehicle purchases, and any future savings from fleet replacement and reductions would be reinvested into the fleet rightsizing program.

⁶⁴ The City froze funding for the Fleet Manager position in the FY19 budget.



OE03. Improve Budget Process and Monitoring

The City's budget is a comprehensive document that clearly lays out the City's revenues and expenses, provides detailed budget policies, and includes a description and analysis of the City's priority-budgeting process. At the same time, each of these areas could be enhanced to better serve the City Council in the annual review and approval of the budget and its focus on key priorities; the City Manager in resource allocation and monitoring; and departments in annual budget development. Recommended changes to the budget include:

Budget Policy Monitoring. As noted, the City has budget policies in thirteen areas of the budget, including accounting, revenue, expenses, and debt. While these policies are detailed and appropriate for the City, there is no indication in the budget document how well the City is adhering to these policies. **The budget document should identify if policies have been met in the previous year and if they are being met in the current budget document.** This will allow the City Council to more readily identify potential areas of concern.

Departmental Revenues. The City has started to track revenues generated as a direct result of departmental activity. This includes grants, user fees, fines, permit fees, etc. This tracking allows departments to understand how well they are able to cover costs from their services. Many departments expressed a desire to have more control over revenues and receive regular updates on revenue activity. **Revenues by department should also be tracked in the budget document for Council review. Additionally, cost-recovery policies can then be set by department** to both identify where the General Fund is subsidizing programs while targeting the level of subsidy desired.

Priority-Based Budgeting. The City's priority-based budgeting process is an effort to identify where the City is spending funds, and what priority this funding has in the overall City budget. Setting such priorities also allows the City Manager and Council identify areas where funding could be shifted based on the City's priorities and the amount of funding needed for unfunded priorities. The City's priorities are divided into four categories—Priority A being the most aligned with the City's goals and Priority D having the least alignment. In theory, Priority D spending could be reallocated with little impact on City services.

There are two limitations with the City's current budget priority funding process. First, there is little evidence that priority-based budgeting has resulted in any reallocation of budgets between departments, and growth in budgets has remained formulaic. Second, in FY18 much of the spending categorized as Priority D was either required spending by law, a part of a grant, or critical funding for other higher-priority projects—effectively making Priority D projects “un-cutttable.” In theory, priority-based budgeting should have been used to cut the budget by \$7 million, which was the amount of Priority D funding in the budget. Instead, the City had to resort to an across-the-board decrease by department.

Priority-based budgets should be used to reallocate funding to higher-priority needs throughout the City, whether that is allocating more funding to existing projects or funding areas that are currently needed, but unfunded. Given the City's current depth of need, it can be argued that there should be no Priority D funding in the budget.

In summary, the City should institute the following budget changes:

- Track adherence to adopted policies listed in the budget document
- List budgeted departmental revenues and set cost-recovery policies by divisions or departments
- Use priority-based budgeting to reduce budget costs or reallocate costs to higher-priority projects in the City. Don't allow Priority D funding until all other City priorities are being adequately met.
- Include a minimum five-year budget forecast that shows how the current budget helps maintain fiscal sustainability over a longer-term horizon.



OE04. Strategically Implement Consultant Studies with Action Plans and Savings Targets

The City has performed many consultant studies in the last eight years:

Selected Consultant Studies

Department	Study Name	Completion Date
City Manager	Organizational Assessment Report	2010
Community and Economic Development	Organizational Assessment	2013
Fire Department	Fire Management and Staffing Study	2014
Police Department	Salinas Police Service Management and Staffing Study	2014
Administration	Total Compensation Survey	2016
Community Development	Nexus Affordable Housing	2016
Police	Animal Control Feasibility Study with County of Monterey	2016
Finance	Salinas Financial Sustainability Plan Framework	2017
Public Works	Fleet Operational Review Report	2017
Community Development	Farmworker Housing Study and Action Plan	2018
Library and Community Services	Parks Masterplan	2018
Police and Fire	Public Safety Organizational and Overtime Studies	2018
Library and Community Services	Sherwood Hall Business Plan	Upcoming
Public Works	Organizational Assessment	Upcoming
Fire Department	Community Needs Assessment	Upcoming
Human Resources	Classification Study	Upcoming

The City has proactively sought ways to deliver services more efficiently and effectively, but, in order to truly make the full use of the recommendations provided by consultants, the City should develop an accountability matrix for each study conducted. This matrix would include:

- Recommendations from the study
- Agreements/issues staff has with each recommendation
- Plan to implement all or part of a recommendation
- Implementation timing
- Expected vs. actual savings/cost from recommendation
- Follow up on City actions at 6 and 12 months after implementation

This matrix will help tie study recommendations to City actions, will keep the Council engaged in the actively improving the City, and will generate discussions over what improvements to make in City services and why (e.g., recommendation feasibility). **Appendix B** is a sample matrix.

OE05. Prepare a Preventive Maintenance Program for all City Facilities

Salinas has significant deferred maintenance on City facilities, based on on-site inspection of facilities and interviews with City staff across departments. A Parks Master Plan is underway that will address these issues for parks facilities, and the City is addressing issues with an aged Police Department building and the El Gabilan Library through bond issues funded by Measures G and E. However, the degree of deferred maintenance for other City facilities is not known and is not undergoing current study.



Not maintaining City facilities can create greater costs of replacement if left to go into extreme disrepair. In addition, deferred maintenance can lead to unsafe conditions and result in dilapidated buildings that do not meet the modern standards for the workplace or the public. To address this, the City should develop a Preventive Maintenance Program. Developing a Preventive Maintenance Program would provide information across several areas:

- An analysis of existing conditions of City facilities and major systems (e.g., HVAC, roofing, etc.)
- A list of deferred maintenance by facility and an estimate of cost to bring each facility up to standard
- The cost of regular ongoing maintenance and expected system replacement costs over an appropriate time horizon
- A plan of action to address deferred maintenance and regular ongoing-maintenance needs for all City facilities

Ideally, a Preventive Maintenance Program will provide the following benefits to the City:

- Provide the City Council with an understanding of what is not being funded in the annual budget.
- Lead to a plan to identify budget capacity over time to fully fund a preventive maintenance plan.
- Provide an analysis to determine if it is more cost-effective to replace key facility systems rather than incur high maintenance costs. For example, the parks irrigation systems are up to 50 years old and require a great deal of time and materials to keep in working order. Bringing these systems up to current standards could save on ongoing maintenance, water costs through more efficient control systems, and less replacement of plants.

A Preventive Maintenance Program is the starting point for the City to understand its current deferred maintenance need. Such a program, while providing the City with an understanding of future maintenance costs needs, can also be helpful in identifying areas where the City can expand its energy savings program or identify excess property for disposal that could both generate funds for other maintenance needs and save ongoing maintenance costs. It will be challenging for the City to fund any facility upgrades recommended by the Parks Master Plan without additional revenues.

INVESTMENT STRATEGIES

Most of the initiatives described so far are strategies to help the City close the projected budget gap. However, in order for Salinas to be a sustainable and thriving community, investments must be made to allow the City do deliver quality services more efficiently and ensure that the City's infrastructure – including its roads, sidewalks, buildings, bridges, recreation centers – is well-maintained. The following initiatives seek to provide the City with the necessary strategies to ensure the economic sustainability of the community and improve resident's quality of life.

Investment strategies for the City also include recommendations to address housing issues, and are included in **Chapter 6**. All recommendations are included in **Appendix C**.

IN01. Dedicate Savings to Capital Investment

The City has a capital budget totaling \$127.5 million in FY19, of which \$67.7 million (or 53.0 percent) is used toward the construction of the new police station and library. The capital budget includes \$12.9 million, or 10.1 percent, funded on a pay-as-you-go basis by the general governmental funds, most of which (63.2 percent) through the Measure G Fund. The remainder of the capital budget is funded primarily by the Measure X Fund (34.3 percent) that is funded by a countywide sales tax of 3/8 percent and can only be used for transportation safety and investment.

Looking forward, the CIP is projected to decline gradually to \$26.5 million by FY23. The majority of the \$26.5 million projected capital spending in FY23 are Measure X and SB1 funding that are used primarily toward transportation, and another \$6.0 million is dedicated toward the debt service payments for the new



police station and library, which means that the amount left for the City’s capital spending on its buildings (e.g. fire stations, recreation centers) will only be approximately \$2.0 million.

FY19 CIP Budget

Funding Sources	FY19	FY20	FY21	FY22	FY23	FY24	Total
General Fund	\$748,552	\$425,552	\$300,552	\$75,000	\$75,000	\$75,000	\$1,699,656
Measure E	\$4,005,000	\$600,000	\$225,000	\$705,000	\$0		\$5,535,000
Measure G	\$8,157,485	\$8,352,685	\$7,418,370	\$7,321,500	\$7,566,500	\$6,819,800	\$45,636,340
Other Funds	\$114,609,397	\$70,145,464	\$71,830,691	\$34,750,426	\$18,840,011	\$24,618,215	\$334,794,204
Total	\$127,520,434	\$79,523,701	\$79,774,613	\$42,851,926	\$26,481,511	\$31,513,015	\$387,665,200

Based on assessment of the City’s building conditions, especially for its fire stations and recreation center, the amount in the FY19 capital budget is inadequate – and other infrastructure and equipment categories face similar challenges.

- **Buildings** – Most City buildings are old and in need of repair; however, the City does not have an estimate for deferred maintenance or replacement (see recommended initiative above). Fire stations and community centers are in need of repair. The City is funding a new police station and a replacement library with Measure G funds, but does not have a plan to fund maintenance for other facilities.
- **Parks** — Park irrigation systems are up to 50-years old, failing, and require significant effort to maintain. A parks master plan is underway; however, there is no identified funding for increased or improved parks or community centers.
- **Streets** – The City has a paving condition index of 54 (out of 100), reflecting poor condition and widespread need for reconstruction, and estimated deferred maintenance of \$137.9 million⁶⁵. A recent increased gas tax in California will increase annual funding along with Measure X, a countywide transportation sales tax, and help to improve local streets.
- **Specialty venues**—The City has several specialty venues that it either operates itself or contracts out. Sherwood Hall, a large and aging performance and meeting venue, is a combination of City/lease with the City responsible for maintenance. A new recreation center is being constructed without accounting for increasing maintenance or operating costs.

One of the City’s most urgent priorities is to ensure that its capital infrastructure and basic equipment is at least sufficiently maintained. Moving forward, the City must dedicate a portion of the savings from implementing the initiatives recommended throughout this report toward capital investments.

The following additional investment in capital funding assumes that the City would dedicate any savings achieved through the initiatives as outlined in this report to capital investments. The amount as outlined in this table is still insufficient for the City’s capital needs, especially considering that over \$6.0 million each year is already earmarked for the police station and library debt service payment. This is why we encourage the City to follow the guiding principles outlined in this initiative, and continue to strive toward dedicating any additional operating savings or one-time revenues such as asset sales toward capital funding.

⁶⁵ 2017 Pavement Condition Assessment, November 15, 2017



Financial Impact

	FY19	FY20	FY21	FY22	FY23
Baseline CIP Pay-as-you-go Funding	\$12,911,037	\$10,484,470	\$9,207,471	\$9,366,833	\$8,907,765
Additional CIP	\$0	\$1,463,590	\$1,303,287	\$502,344	\$1,397,170
Total CIP	\$12,911,037	\$11,948,060	\$10,510,758	\$9,869,177	\$10,304,935

	FY24	FY25	FY26	FY27	FY28
Baseline CIP Pay-as-you-go Funding	\$8,161,146	\$8,160,399	\$8,158,800	\$8,158,850	\$8,160,440
Additional CIP	\$2,469,460	\$2,890,235	\$3,718,327	\$2,511,354	\$2,978,469
Total CIP	\$10,630,606	\$11,050,634	\$11,877,127	\$10,670,204	\$11,138,909

Alternatively, the City can consider issuing GO bonds dedicated to capital improvements and use the two-thirds voter-approved property tax to offset those additional debt service spending. The City's current debt service, including the police station and library financing, totals \$6.9 million in FY19, or 5.0 percent of total General Governmental Funds spending.

Financial Impact

	FY19	FY20	FY21	FY22	FY23
Transfer to Debt Service	1,548,290	1,801,654	1,830,446	1,859,295	1,881,335
Police Station Debt Service	4,677,000	4,677,000	4,677,000	4,677,000	4,677,000
Library Debt Service	675,972	\$1,106,233	\$1,263,549	\$1,265,333	\$1,266,265
Total Debt Service	\$6,901,262	\$7,584,887	\$7,770,995	\$7,801,628	\$7,824,600
% of total General Governmental Fund	5.0%	5.4%	5.4%	5.2%	5.1%

While issuing GO bonds will provide additional funding to help maintain the City's infrastructure, the biggest challenge lies in the execution of capital projects. The Department of Public Works is currently understaffed and is already overwhelmed with the number of capital projects they have to plan, contract, and execute with the upcoming funding from SB1 and Measure X. Before the City decides to issue GO bonds and use those proceeds to execute more capital projects, it should have a comprehensive plan and strategy on capital project execution and determine the impact a bond issuance will have on the operating budget.

IN02. Establish a Productivity Bank

A Productivity Bank is an internal revolving loan program that allows City departments to make otherwise unaffordable investments in return for cost savings, revenue gains and service improvements. The goal of the productivity bank is to incentivize creative programs that save the City money, staff time, or both. Having a formal program provides a forum for employees and departments to pursue cost-saving measures in a structured fashion.

As an example, the City of Philadelphia's established a \$20 million Productivity Bank during its early 1990's fiscal crisis provided "loans" to City departments and agencies for individual or collaborative projects, with those in excess of \$250,000 requiring City Council approval. Eligible projects were those that could not otherwise be funded from the City's capital budget or from a department's operating budget without jeopardizing normal service levels. Savings and revenues achieved through Bank projects were reflected in adjusted operating budgets, as were the loan repayments so that the Bank's lending capacity was not



depleted. Initial loan criteria required that projects generate cost savings or additional revenues in an amount sufficient to repay the loan plus interest within five years. A limited number of loans were later authorized for projects expected to generate substantial service improvements, even if financial benefits were not readily quantifiable.

Loans were reviewed and approved by an interdisciplinary Loan Committee, including senior City officials and private sector business leaders that reviewed departmental applications and the business case for requested investments. While ultimately phased out when Philadelphia regained fiscal stability, after more than a decade of positive bottom line impact, the Productivity Bank helped to promote a strategic approach to the way in which City government conducted its business by encouraging innovation, accountability, and entrepreneurship.

Examples of departments and agencies that were loan recipients in Philadelphia include the City Law Department for an upgrade of its computer system, allowing improved delinquent tax collection; the City's information technology department for an automated tape system to perform daily disaster-recovery backup of mainframe computer systems; the Police Department for an on-line photo-imaging system to store criminal mugshots; and the City energy office for an energy-efficient lightbulb replacement effort.

The City of Baltimore has a similar idea of rewarding departments with upfront investments if they can demonstrate long-term savings through its outcome budgeting process.

The City of Salinas should establish a Productivity Bank capitalized with \$0.5 million each year from FY20 to FY23 and \$1.0 million in FY24. If the City is able to realize budget savings on a year-by-year basis, this fund would ultimately have no direct budget impact. Initial project applications could include automating payroll; the development of an updated fleet management system; and other productivity initiatives described throughout this Plan. If those projects can begin sooner than FY20, the City should use operating savings from other initiative as outlined in this Plan to fund the initial capital investments.

Financial Impact

FY19	FY20	FY21	FY22	FY23	FY24
\$0	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$1,000,000)

IN03. Add an Analyst Position that Reports Directly to the City Manager

For many local governments, there are usually analyst positions within the executive branch of administration, whether it is the Mayor's office or the City Manager's office, who provide the necessary data analysis to help the administration make policy decisions. These analysts can often help estimate the net fiscal impact of a potential policy and determine the amount of support or pushback expected to be received from community stakeholders. Establishing an analyst position would be invaluable to the City Manager because it will allow the City manager to focus on building consensus with Council and evaluating the City's priorities, and will provide the necessary analytical tools to implement initiatives effectively.

Many cities comparable to Salinas's size have similar positions: Elk Grove has a Deputy City Manager, an Assistant City Manager, and a management analyst position who report to the City Manager. Hayward has a management analyst in the City Manager's office, Lancaster has a project assistant and a project coordinator that report to the Deputy City Manager, and Palmdale has a management analyst that reports to the City Manager.

The City of Salinas should consider adding an analyst position with sufficient local government policy background to help the City Manager with implementing the initiatives as outlined in the report. This analyst should also be empowered to work directly with departments to acquire the necessary data to perform analysis and should report directly to the City Manager.



It is assumed that the savings from creating a productivity bank (IN02), which allows the City to invest in initiatives that will generate long-term savings, will be used to fund the analyst position.

NEW REVENUES

The City must be creative in finding new revenue sources in order to fund ongoing services as well as the investment initiatives as outlined in the previous section. The Plan calls for:

- A new storm water fee to help close the General Fund structural deficit.
- An increased hotel tax to fund to capital spending.
- A Mello-Roos Special Tax to fund service expansions in the new growth area.

Strategies for new revenues sources also include recommendations to address housing issues, and are included in Chapter 6. All recommendations are included in **Appendix C**.

NR01. Enact Storm Sewer Utility Fee to Eliminate Current Transfer of General Fund Revenues to Storm Sewer Fund

The City currently transfers \$1.8 million to the storm sewer fund, which, as of the end of FY17, had a negative \$0.6 million fund balance. To eliminate the General Fund subsidy to the storm sewer fund, the City should institute a storm sewer fee.

Storm Sewer Fund (Excluding General Governmental Funds' Transfer)

	FY13	FY14	FY15	FY16	FY17	FY18
Transfers In Gas Tax	\$0	\$0	\$0	\$750,000	\$750,000	\$750,000
Review and Inspection Fees	43,685	56,982	53,999	99,136	0	100,000
Other	4,301	1,405	2,187	1,777	1,694	2,000
Total Revenues	47,986	58,387	56,186	850,913	751,694	852,000
Salaries and Benefits	980,626	882,719	892,039	1,121,367	1,211,619	1,542,000
Supplies and Materials	138,056	136,976	154,795	117,129	149,631	233,940
Outside Services	160,146	123,169	70,418	67,496	75,333	315,699
Other Charges	214,701	216,760	245,272	229,507	253,741	215,200
Debt Service	0	0	0	0	0	176,166
Capital	330,020	260,676	238,305	406,291	241,219	147,000
Total Expenditures	1,823,549	1,620,299	1,600,829	1,941,789	1,931,543	2,630,005
Surplus / (Deficit)	(\$1,775,563)	(\$1,561,912)	(\$1,544,643)	(\$1,090,877)	(\$1,179,849)	(\$1,778,005)

Under a new State law, the City can charge a utility-like fee for storm run-off that drains into federal waterways. Instituting a storm sewer fee requires two distinct steps: (a) developing and implementing an operating and capital plan for the stewardship of the City's storm water assets; and (b) creating a revenue stream to fund this ongoing responsibility.

The City is in the process of onboarding a consultant to conduct a feasibility study to determine the impervious area, or equivalent residential unit ("ERU"), per residential and commercial properties. The ERU measures the number of square feet of measure impervious surface as determined through aerial photography and surface feature evaluation process. In storm water programs across the nation, a single-family detached residential dwelling is usually charged a flat fee of one ERU per unit and commercial properties with more impervious ground cover with more ERUs would pay higher fees accordingly, while those with approved mitigation techniques can receive storm water credits offsetting the fee.



In addition to developing an operating and capital plan and fee structure, the City needs to engage its residents, business community, and interest groups to provide input and build consensus on proposed policies. In the City of Palo Alto, the storm drainage fee was first established in 1989 (pre-Prop 218), with an initial fee set at \$3.25 per month for single-family residential properties. The City attempted to increase the fee to \$9 per month in 2000 – the funds would create a \$48 million capital improvement program to be implemented over 30 years. However, because of the lack of support and consensus, only 37 percent of assessment-voters approved the fee increase—shy of the 50 percent +1 required.

In 2005, Palo Alto changed its approach and created an advisory Blue Ribbon Storm Drain Committee. The Committee consisted of 15 members appointed by the City Manager and represented business, neighborhood, and environmental leaders. With the support of the Committee, a proposal to increase the fee to \$10 per month won a 58-percent assessment-voter approval. The City continued this approach in 2017 when it created an 11-member Storm Water Blue Ribbon Committee and proposed to increase the fee to \$13.65 per month. The new fee, which received a 64-percent voter approval and became effective in June 2017, consists of a “base component” that is dedicated to ongoing maintenance (operating) and an additional component for projects and infrastructure (capital).

Because of the time and effort involved in developing the fee and creating consensus, it is assumed that the City will be able to generate revenues beginning in FY23.

Financial Impact (General Fund Only)

FY19	FY20	FY21	FY022	FY23
\$0	\$0	\$0	\$0	\$2,483,223

FY24	FY25	FY26	FY27	FY28
\$2,575,931	\$2,663,869	\$2,754,796	\$2,850,406	\$2,947,058

NR02. Increase Hotel Tax and Dedicate Funding that Results in Long-Term Savings

The City currently levies the transient occupancy tax, or hotel tax, of 10.0 percent. The tax is imposed on the total rent charged to transient guests, defined by consecutive stays of less than 28 days in hotels/motels and homes rented by owners⁶⁶. The City collected \$2.8 million in hotel tax revenues in FY17.

Many nearby municipalities of Salinas – Seaside, Marina, Sand City, and Soledad – levy a 12.0 percent hotel tax.

If the City chooses to increase its hotel tax rate, those proceeds must be used toward a dedicated funding area that provides long-term benefits, such as capital investment or to pay down pension or debt. The following financial impact assumes that the City increases its hotel tax rate from 10 percent to 12 percent in FY23. This would require that the City pursue a successful ballot measure authorizing the increase in the November 2022 election or earlier. Because this tax would be dedicated to a defined use, a 2/3 majority vote of the electorate would be required for passage.

NR03. Establish a Mello-Roos Special Tax

The City hired a consultant to prepare a Market Assessment for the West Area Specific Plan (WASP) and Central Area Specific Plan (CASP) of the Future Growth Area, which are the two of the three areas within

⁶⁶ Salinas Code of Ordinances, Chapter 32, Article IV



the future growth area. The Market Assessment indicated that the City is well-positioned to capture a substantial share of the regional growth, and that residential absorption of about 300 units per years is expected based on historical and projected housing trends.

While capturing regional growth is certainly key to Salinas’s fiscal and economic sustainability, the growth also means that the City will have to extend City services – including public safety services as well as public works services such as street and road repairs – to the future growth area. Although some of these costs will be offset by additional property and sales tax revenues, it is also possible that the additional spending on extending City services to the area will exceed the net revenues the new growth area will bring to the City. Additionally, tax revenues are not fees for service, but provide revenue to the entire City. Establishment of a Mello-Roos Community Facilities District (CFD) in the Future Growth Area will ensure that the areas of new growth pay for expanded services, and may provide additional revenue from property and sales taxes to help sustain services throughout the City.

To avoid drawing on General Fund revenues, the City should establish a special district in the new growth area and levy a Mello-Roos tax. The Mello-Roos tax must be approved by two-thirds of the district’s voters and can be used toward funding projects such as libraries, schools, ambulance and fire service, roads, and police. The goal of establishing a Mello-Roos tax is to ensure that any additional investments made in the future growth area are funded by a new revenue source and does not draw from the already-limited General Fund revenues.

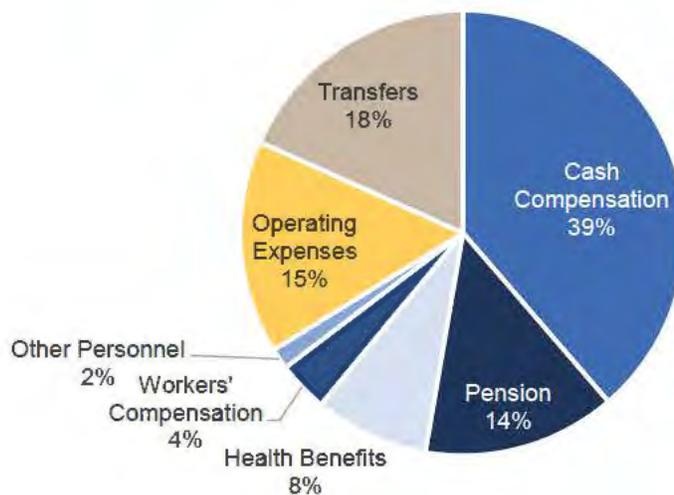
Establishing a Mello-Roos Community Facilities District for services is common among cities experiencing greenfield development. Mello-Roos CFDs have been established in Morgan Hill, Gilroy, and Hollister. The City of Hollister has had a services CFD since 1993.



CHAPTER 5: REBALANCING EMPLOYEE COMPENSATION

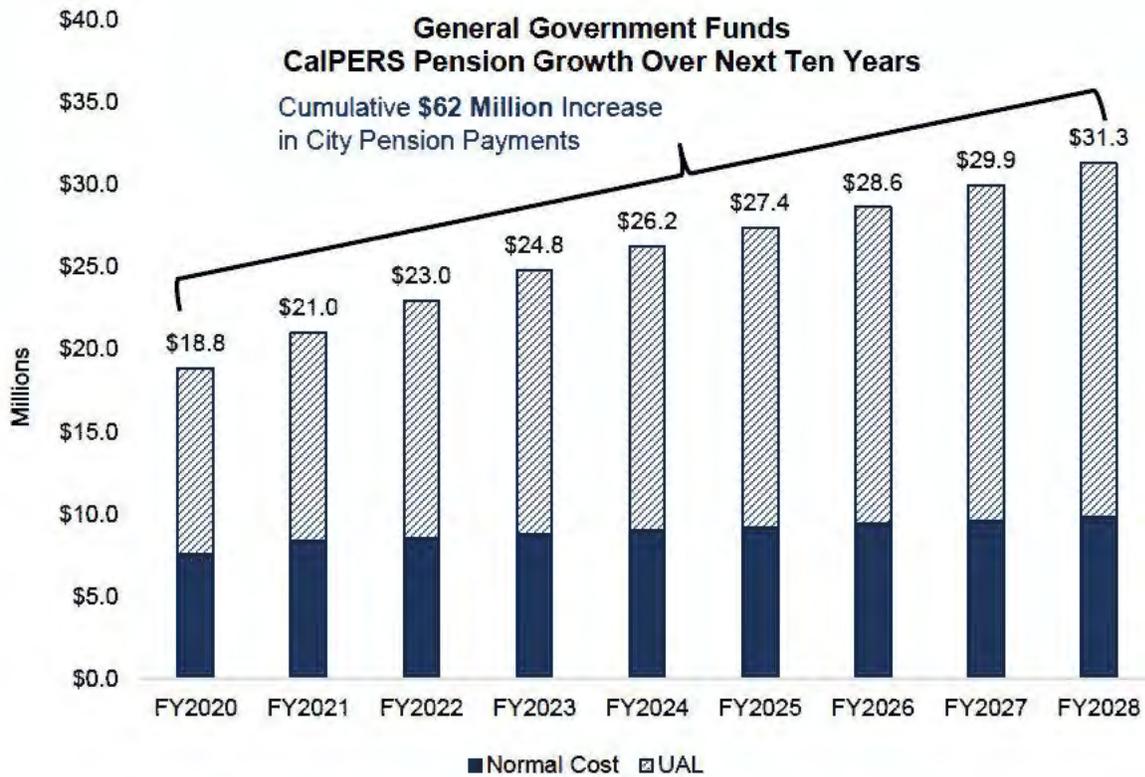
The single largest expense of the City of Salinas is employee wages and benefits, totaling over two-thirds of overall General Fund expenditures in FY19. Like most local governments, the City is a labor-intensive enterprise, requiring trained and service-oriented workers to prevent and investigate crime, to maintain safe and clean streets, to respond to fire emergencies, and to support the many other important functions of municipal government effectively. As a result, it is critical to develop a workforce strategy that recruits, retains, and motivates high quality personnel to fill these roles – and it is no less critical that this strategy be financially sustainable to support both essential services and stable employment.

General Fund Expenditures, FY19 Adopted Budget
Total Expenditures: \$138.6 Million



For many local governments, finding the right balance between providing competitive compensation and managing the associated fiscal impacts is challenging – particularly given the pressure healthcare inflation puts on employee benefit costs and growing funding requirements for retirees. In Salinas, as in many California cities, these challenges are particularly acute given recent and projected escalation in pension costs in the midst of CalPERS rate increases.

Multiple factors impact CalPERS funding requirements for employers, including actuarial and demographic experience. Adding to these ongoing dynamics, CalPERS has also adopted a set of more prudent actuarial assumptions in recent years in order to minimize the risk that current contributions will end up being insufficient to meet longer-term needs. The following chart illustrates the budget impact of one of the major assumption changes, adopting a lower assumed rate of return on investments in the system, as they phase in for Salinas over the years just ahead. Please note that the projected contributions shown below were estimated subsequent to an additional \$11.3 million payment the City made in 2018 as a strategy to help mitigate these growing pressures going forward.



As shown in the table below, the City’s employer pension contributions as a percentage of payroll have risen rapidly. In just the last two fiscal years, these expenditures have increased in an amount equivalent to the cost of a 1.7% raise for civilian employees, 7.8% for police, and 16.3% for the legacy firefighter plan in which a majority of current employees participate⁶⁷ – over and above any pay increases actually negotiated.

Pension Growth as a Percent of Payroll (FY16-FY18)

	% of Payroll (FY16)	% of Payroll (FY17)	% of Payroll (FY18)	2-Yr Change % of Payroll
General Municipal	16.0%	16.9%	17.7%	1.7%
Police	40.2%	45.6%	48.0%	7.8%
Fire Safety	54.2%	60.9%	70.6%	16.3%

Looking forward, the ongoing phase-in of CalPERS requirements will drive these contributions even higher – even if all investment return and other actuarial assumptions are met, and even after the City has made a special payment of \$11.3 million toward the unfunded liability to help address these pressures.

⁶⁷ Note: Firefighter plan funding requirements are generally expressed by CalPERS as a normal cost as a percentage of payroll plus a fixed amortization payment toward the unfunded liability. The combined rates shown above are based on estimates included in each year’s valuation report.



In total, assuming no headcount changes over the next five years, pension costs for the General, Measure E, and Measure G Funds are forecast to grow from \$18.8 million in FY19 to \$24.8 million by FY23, even if all actuarial assumptions are met. For the majority of municipal, police, fire employees – just to maintain the status quo – the cost of these increases equate to the cost of pay raises of 6.4%, 7.3%, and 12.4%, respectively, relative to the FY19 Budget.

Given the City's limited revenue growth and options, in tandem with under-addressed service and infrastructure needs, these severe cost pressures cannot be easily absorbed within Salinas' workforce budget. At the same time, however, employee wage and benefit costs must be addressed thoughtfully and strategically as the largest share of overall City spending.

When addressing workforce costs, the primary variables are (a) the total number of employees, and (b) the costs of compensation per employee.

Previously, when facing fiscal strain in the wake of the Great Recession, a significant component of the City's overall workforce strategy was to reduce the total number of employees. From FY07 to FY15, total headcount fell from 671 FTEs to 512 FTEs, a decline of almost one quarter of the total workforce. With the passage of Measures G and E, the City has been able to rebuild to a level of 613 FTEs as of FY18 – important progress for restoring services.

In the most recent FY19 budget, however, headcount was again effectively reduced when 34 positions were kept vacant – 520 positions were budgeted for, compared to 553 positions in FY18 (general governmental funds). Although the City was able to achieve these reductions through attrition, staffing levels remain important for maintaining service levels in many areas of municipal operations (absent organizational change).

To avoid staffing and service erosion going forward, this plan focuses on opportunities for better managing costs per employee.

In addressing these critical issues it is important to note that nearly all City of Salinas employees are unionized. If layoffs and service cutbacks are to be avoided, the City and each of its employee groups will have to work together in good faith to determine the best solutions for these challenges.



Employee Bargaining Units and Expiration of Memorandums of Understanding

Bargaining Unit	Expiration of MOU	FY19 Budget Headcount
Confidential Non-Management	12/31/2019	8
Confidential Management	12/31/2019	10
Fire (IAFF)	12/31/2019	82
Fire Supervisors Association	12/31/2019	7
Association of Management Personnel	12/31/2019	55
Salinas Municipal Employees Association	4/30/2020	155
Police Managers Association	12/31/2018	28
Police Officers Association	12/31/2018	122
SEIU (Crew Supervisors)	4/30/2020	5
SEIU (Blue Collar)	4/30/2020	61

The City's IAFF bargaining unit is the only unit that has the ability to pursue binding arbitration. Salinas is one of 20 local jurisdictions out of 58 counties and 480 cities in California that have adopted local legislation that requires the City to submit disputes "concerning wages, hours and other terms and conditions of employment to binding arbitration"⁶⁸. For all other Salinas bargaining units, City Council retains the flexibility to determine the City's best interests in the event that negotiations result in impasse.

Compensation Competitiveness

In 2017, median gross earnings were \$90,800⁶⁹ for Salinas employees (inclusive of all pay premiums and overtime). In comparison to a challenged Salinas labor market, these are good wages that come with a strong benefit package as well. At the same time, the City needs to be mindful of the specific educational and experience requirements of City jobs given the competitive market for employees with expertise in public safety, engineering, information technology, management, and other important roles across City government. It is important to evaluate benchmarks to address specific opportunities and expectations of change.

City of Salinas Relative to Other Public Employers

In 2016, the City of Salinas commissioned a Citywide total compensation study, benchmarking compensation relative to 15 other California general public employers and seven other municipal law enforcement employers. This study found that the City of Salinas is "providing an overall very competitive salary and benefits package"⁷⁰. When benefits such as health insurance premium allowance, retirement contribution, bilingual pay, education and certification incentives, and longevity are added to the base pay, Salinas compensation falls within or above 5% of the market prevailing rates for 86% of the survey sample⁷¹.

⁶⁸ Supreme Court of the State of California, *League of California Cities and County of Santa Cruz v. Operating Engineers Local Union No. 3*.

⁶⁹ FY17 payroll run. Excludes employees that did not work a full year and temporary employees.

⁷⁰ Public Sector Personnel Consultants, *Total Compensation Study*, September 2016.

⁷¹ *Ibid*.



Further, Salinas has achieved this competitive position despite substantially lower home values and income levels – and much higher poverty – than the comparison group as a whole. As shown in the tables that follow, relative to the surveyed communities, Salinas consistently ranks at or near the bottom with regard to such indicators – effectively “outpunching its weight” as a public employer.

Public Sector Consultants, Total Compensation Report, Police Survey Group

	Population (5-Yr. Estimates)	Median Home Value	Mean Earnings	Median Household Income	Poverty Rate (All People)
Salinas	155,889	\$303,800	\$44,118	\$52,338	18.9%
Gilroy	52,576	\$528,700	\$67,738	\$84,351	13.0%
Hayward	154,507	\$404,500	\$56,101	\$68,138	12.5%
Monterey	28,472	\$664,300	\$65,470	\$68,511	8.6%
Morgan Hill	41,839	\$678,900	\$100,223	\$100,900	8.6%
San Jose	1,009,363	\$658,000	\$81,863	\$90,303	10.9%
Santa Cruz City	63,310	\$707,600	\$73,342	\$62,471	24.1%
Santa Cruz County	270,931	\$615,200	\$72,641	\$70,088	15.1%
Median (Excluding Salinas)	63,310	\$658,000	\$72,641	\$70,088	12.5%
Salinas Variance from Median	146.2%	-53.8%	-39.3%	-25.3%	51.2%
Rank	3 of 8	8 of 8	8 of 8	8 of 8	2 of 8

Public Sector Consultants, Total Compensation Study, Survey Group

	Population (5-Yr. Estimates)	Median Home Value	Mean Earnings	Median Household Income	Poverty Rate
Salinas	155,889	\$303,800	\$44,118	\$52,338	18.9%
Concord	126,938	\$423,100	\$67,511	\$71,477	12.2%
Elk Grove	163,634	\$317,500	\$70,128	\$83,141	9.7%
Gilroy	52,576	\$528,700	\$67,738	\$84,351	13.0%
Hayward	154,507	\$404,500	\$56,101	\$68,138	12.5%
Hollister	36,901	\$365,900	\$53,860	\$71,948	11.9%
Modesto	208,512	\$208,000	\$56,282	\$50,996	18.2%
Monterey	28,472	\$664,300	\$65,470	\$68,511	8.6%
Monterey County *	430,201	\$393,300	\$55,093	\$60,889	16.1%
Oxnard	204,752	\$362,900	\$44,082	\$61,709	16.3%
Roseville	128,276	\$355,900	\$75,654	\$78,446	8.6%
Santa Cruz City	63,310	\$707,600	\$73,342	\$62,471	24.1%
Santa Cruz County	270,931	\$615,200	\$72,641	\$70,088	15.1%
Santa Rosa	173,165	\$414,800	\$60,178	\$62,705	12.2%
Sunnyvale	149,596	\$859,100	\$105,620	\$109,799	7.0%
Visalia	128,738	\$190,500	\$55,976	\$52,099	22.1%
Median (Excluding Salinas)	149,596	\$404,500	\$65,470	\$68,511	12.5%
Salinas Variance from Median	4.2%	-24.9%	-32.6%	-23.6%	51.2%
Rank	7 of 16	14 of 16	15 of 16	14 of 16	3 of 16

* Monterey County—included in the group from which the median is derived—includes the City of Salinas, which comprises about 1/3 of the County population.

While these other jurisdictions provide external perspective on regional pay levels for the surveyed occupations, this economic and demographic data indicates that other area public employers have greater underlying capacity to fund their employee compensation with regard to tax base characteristics, economic pressures driving service demand, and overall fiscal condition. Further, Salinas has comparatively lower housing costs, a major driver of localized cost of living.



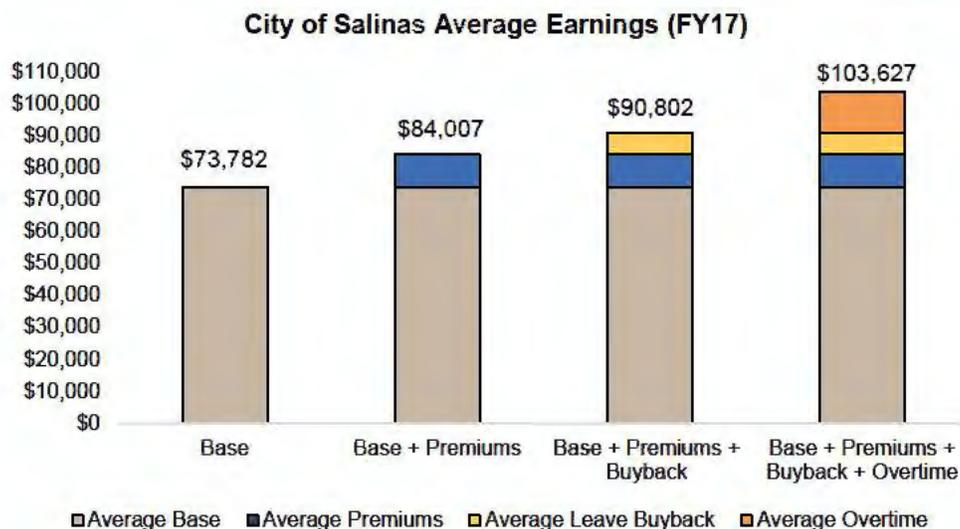
Even with these challenges, however, Salinas compared favorably to these communities across most job titles on a total compensation basis, illustrating that the City's compensation package is very competitive, especially given the economic characteristics of its tax base. On a total compensation basis, the City has a competitive position across all bargaining units, with 80 percent or more of each union being within 5 percent of median, or higher to comparator agencies.

At the same time, one major comparative concern emerged from this study, and another significant compensation issue was not addressed:

- One area of potential concern is that Salinas is not as comparatively strong in base pay as it is for total compensation. Looking at base pay only, the City was within 5% of the median for 54 positions (42.9%) and more than 5% above the median for another 11 (8.7%) – for a total at or above the survey group of 52.4%. It is Salinas's comparatively high benefit costs that drive much of the City's stronger overall position.
- At the same time, the study also left one major issue unaddressed. While the comparative data included base salary, employer medical and retirement contributions, as well as longevity and education premium pays, other supplemental payments were not evaluated. As outlined in subsequent sections of this chapter, these additional Salinas payments – most notably cash payouts for extraordinary levels of paid leave – represent a major element of the City's current cost structure, and an opportunity for prospective change.

Overall, again Salinas was found to be in a very strong comparative position for total compensation, even relative to a survey group skewed toward communities with higher housing costs and incomes, and still in a competitive pay position even when looking at base pay alone. In addition, had Salinas's premiums and cash payout opportunities been included in the study, the City's relative position would very likely have improved even further.

As shown in the following chart, Salinas employees earned approximately \$30,000 in wages outside of base pay on average in FY17. This additional cash compensation is categorized below as premium pays, leave buyback, and overtime, and the first two of these categories are further outlined in the following sections.





The City's compensation imbalance, which is currently tilted toward benefits, and its high cash compensation beyond base pay both represent significant opportunities. By rebalancing its total compensation portfolio, Salinas can manage its workforce costs on a more sustainable basis, despite the daunting CalPERS headwinds, while simultaneously improving competitiveness for recruiting and retaining quality personnel.

Rebalancing the Compensation Portfolio

While it is important for good employers to provide quality health benefits and the opportunity to build toward a dignified retirement, it is also important to be mindful of the balance between spending on cash compensation and non-cash benefits. As long as employee benefit programs are fiscally sound and providing adequate benefits many workers will prioritize salaries when comparing opportunities in the overall labor market. As a result, overweighting benefits in the total compensation package can create a competitive disadvantage for recruitment and retention. Further, healthcare inflation and pension costs have trended – and are projected to continue to trend – at higher rates of cost growth than market wages. Consequently, employers with larger healthcare costs are likely to face greater budget pressure just to maintain the status quo, with a dampening effect on future wage capacity and overall fiscal stability.

In this context, the current Salinas market position – as a comparatively high spender on benefits and somewhat low spender on salaries – is doubly problematic. Going forward, the NRN team strongly recommends that the City and its employee representatives work to achieve savings relative to a status quo approach while maintaining strong benefits. This approach will lead to more attractive salaries that are a more substantial part of total compensation for recruitment and retention, and less exposure to healthcare inflation that would erode future compensation capacity.

To help achieve these goals, the NRN team identified several opportunities further outlined in the sections that follow:

- Restructuring paid leave
- Moving selected pay premiums to base
- Healthcare cost sharing and cost containment
- Continuing to address high workers' compensation costs

Given the significant fiscal and operational implications of many of these alternatives, the NRN team notes that some may appropriately be prioritized, phased in, modified, or rejected as the City reviews these potential approaches going forward. Further, through good faith collective bargaining, employee representatives can and should have the opportunity to participate meaningfully in this process and to develop and propose additional and/or alternative options to help achieve the same goals.

Salinas Paid Leave

The City of Salinas provides employees with three different forms of leave: annual, flex and management leave. As shown below, in addition to annual leave, all employees – with the exception of IAFF bargaining unit members – also receive either flex or management leave.



Leave Type by Bargaining Unit⁷²

	Annual Leave	Flex Leave	Management Leave
AMPS	✓		✓
CITY ATTY	✓		✓
CITY MGR	✓		✓
CONF MGMT	✓		✓
CONF MISC	✓	✓	
DEPT DIR.	✓		✓
FSA	✓		✓
IAFF	✓		
PMA	✓		✓
SPOA	✓	✓	
SEIU BC	✓	✓	
SEIU CS	✓		✓
SMEA	✓	✓	

Annual Leave

Annual leave is accrued by all employees and is intended to be used to take paid time off for vacation, personal days, sick leave and other leave needs⁷³. City employees can bank up to 600 hours of annual leave, which creates future liabilities that the City does not fund. Further, employees who have accrued more than 600 hours of annual leave at the end of each year are compensated for those hours at their current hourly rate of pay, which imposes annual costs on the City (see “Leave ‘Buy Back’” below).

City employees other than IAFF and FSA bargaining unit members earn between 22 days (176 hours) and 33 days (264 hours) of leave annually, depending on the employee’s tenure, as shown below.

Annual Leave (40 Hour per Week Schedule)

Years of Service	Leave Days/Hours
1-5	22 Days or 176 Hours
6-10	27 Days or 216 Hours
11-15	29 Days or 232 Hours
16-17	30 Days or 240 Hours
18-19	31 Days or 248 Hours
20-24	32 Days or 256 Hours
25+	33 Days or 264 Hours

⁷² City of Salinas, Human Resources Division.

⁷³ City of Salinas, Human Resources Division, Personnel Manual.



IAFF bargaining unit members earn between 224 and 431 hours annually for employees working 56 hours per week, and between 160 hours and 308 hours of leave annually for employees working 40 hours per week, depending on years of service, as shown below:

Annual Leave for Uniformed Personnel Working 56 Hour Schedule (IAFF)

Years of Service	Leave Hours	Leave in Tours (24 hours)	Leave in Equivalent Days (8 hours)
1-3	224	9	28
4-5	280	12	35
6-10	314	13	39
11-15	353	15	44
16-17	372	16	47
18-19	392	16	49
20-24	412	17	52
25+	431	18	54

Annual Leave for Uniformed Personnel Working 40 Hour Schedule (IAFF)

Years of Service	Leave Hours	Leave in Days (8 hr. Tours)
1-3	160	20
4-5	200	25
6-10	224	28
11-15	252	32
16-17	266	33
18-19	280	35
20-24	294	37
25+	308	39

Management Leave and Flexible Leave

As part of the City's compensation package, all employees, with the exception of IAFF bargaining unit members, are also eligible for either management incentive pay (management leave) or a flexible compensation plan (flex leave).

Management leave may be used as leave or may be exchanged for cash at the employee's discretion. The City of Salinas defines management leave as, "compensation granted to management employees in the



form of additional time off or extra pay due to the unique nature of their job”, in accordance with the California Code of Regulations (CCR) Section 571(a) and (b)⁷⁴.

Employees in bargaining units that are eligible for the City’s flexible compensation plan have the ability to use this additional compensation as leave or cash at the employee’s regular rate of pay. The City does not have a definition or justification for flex leave.

As shown below, flex leave and management leave accrual rates vary by bargaining unit:

Flexible Compensation Plan Accrual Rates

Bargaining Unit	Flex Comp Accrual
Salinas Municipal Employees Association	5% of base pay per year; can be used toward benefit costs, flexible leave or cash
SEIU (Blue Collar)	4% of base pay per year; can be used toward benefit costs, flexible leave or cash
Police Officers Association	120 hours per year; can be used for leave or cash (sunsets on December 1, 2018)
Confidential Non-Management	5% of base pay per year; can be used toward benefit costs, flexible leave or cash

Management Leave Accrual Rates

Bargaining Unit	Management Leave Accrual
Department Directors	160 hours per year
Association of Management Personnel	130 hours per year
Confidential Management	130 hours per year/150 hours per year for At-Will
SEIU (Crew Supervisors)	130 hours per year
Fire Supervisors Association	80 hours per year (40 hr. schedule) 112 hour per year (56 hour schedule)
Police Managers Association	60 hours per year (Sergeants & Police Commanders) 80 hours per year (Deputy Chiefs)

Salinas Leave vs. Private Employers

In comparison to private industry employers, the City’s paid leave policies are very competitive. The table below compares the annual leave accruals of private sector employees to Salinas employees annual leave accruals. As shown below – even without including management and flex leave accruals – City employees receive more generous leave benefits than their private sector counterparts.

⁷⁴ Public Agency & Schools Reference Guide, February 2018.



Salinas Annual Leave vs. Private Industry⁷⁵

	City of Salinas	Private Industry Employers
Annual Leave* <i>(Used for vacation and sick leave in Salinas)</i>	Non-public safety and police: 1- YOS: 22 Days 6-10 YOS: 27 Days 11-15 YOS: 29 Days 16-17 YOS: 30 Days 18-19 YOS: 31 Days 20-24 YOS: 32 Days 25+ YOS: 33 Days Firefighter paid leave higher in equivalent 8-hour days	Median annual leave days per year (establishments of 100+ workers): 1 YOS: 10 Days 5 YOS: 15 Days 10 YOS: 20 Days 20 YOS: 20 Days Median annual sick days per year (establishments of 100+ workers): 1 YOS: 6 Days 5 YOS: 6 Days 10 YOS: 6 Days 20 YOS: 6 Days
Management Leave/ Flex Leave	<u>Management Leave:</u> 7.5 days to 20 days (varies by bargaining unit) <u>Flex Leave:</u> 4% - 5% of base pay, 15 days (varies by bargaining unit)	See Above
Holidays	Salinas Employees receive compensation for 12 paid holidays per year. Additionally, non-public safety bargaining units receive 2 floating holidays per year, while the FSA, POA and PMA receive 1 floating holiday per year	Private industry employees (establishments of 100+ workers) receive a median of 8 annual holidays per year

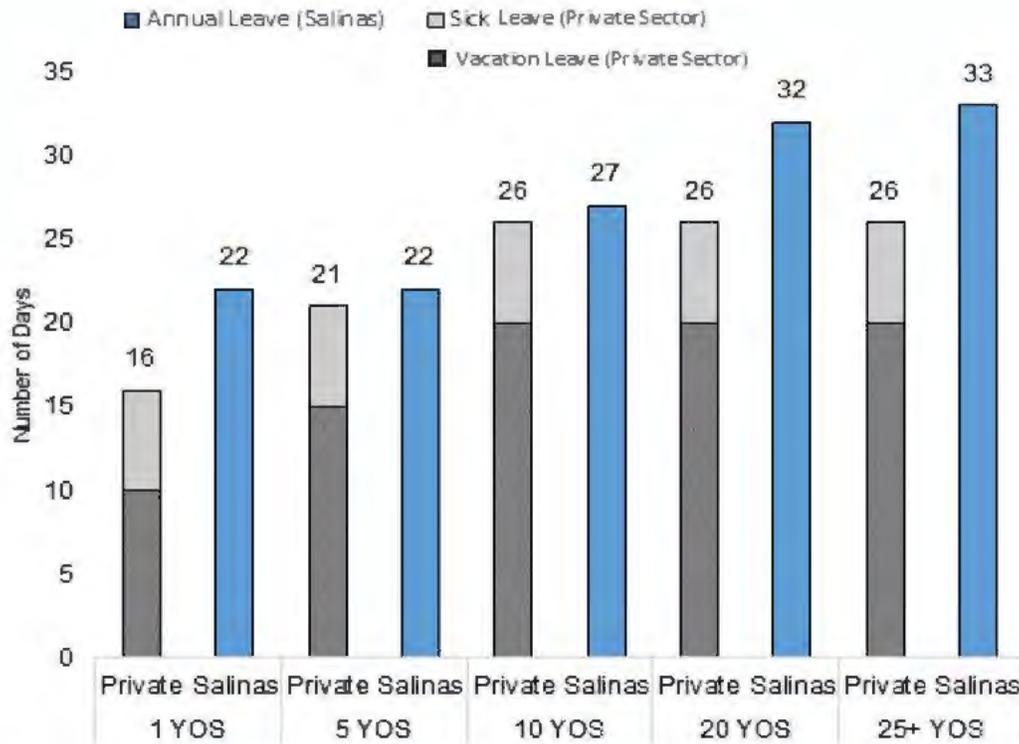
*Leave for all bargaining units other than IAFF bargaining unit members

In comparing Salinas's annual leave accruals to the private sector, it is important to recognize that Salinas's annual leave is also intended to be used for sick leave. As such, it is important to include both private sector annual and sick leave in comparisons to Salinas's annual leave accruals. The chart below illustrates that Salinas's annual leave accrual rates were more generous than those received in the private sector (particularly for new employees and long-term employees), even when private sector sick leave and annual leave accruals are aggregated – and, again, even before layering Salinas's management and flex leave.

⁷⁵ U.S. Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, 2017.



Salinas Annual Leave vs. Private Sector



Leave “Buy Back”

City policy allows employees to receive cash compensation for accrued annual, flex, and management leave. As shown below, leave payouts are a significant source of cash compensation for employees, and a large expense for the City. In fiscal year 2017, the City of Salinas spent over three million dollars on leave “buy back”⁷⁶.

Fiscal Year 2017 Leave Buyback

	Total	# of Employees with Earnings >0	Avg. Per Employee Receiving
Annual Leave Buyback	\$2,046,251	231	\$8,858
Flex Leave Buyback	\$903,713	263	\$3,436
Management Leave Buyback	\$435,436	78	\$5,583
Total	\$3,385,400	399	\$8,485

Note: The “Total” figures above will not equal the sum or average of individual leave categories, because many employees earned more than one form of leave.

⁷⁶ City of Salinas, Finance Department.



Salinas's management and flex leave programs provide an additional leave benefit that surpasses labor market norms. As a result, the additional management and flex leave benefit offered by the City has effectively become a supplemental form of cash compensation rather than paid leave.

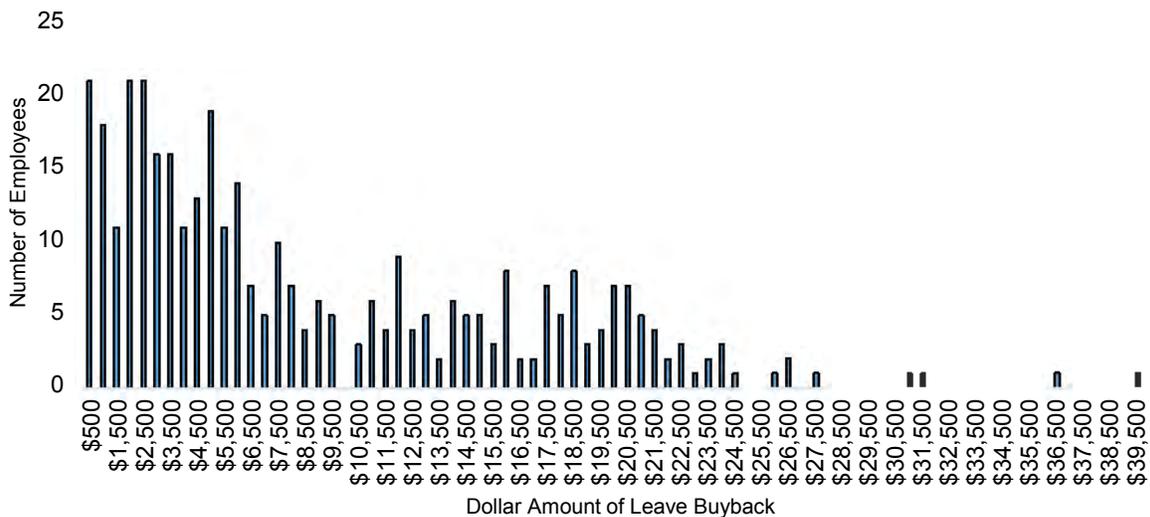
In fiscal year 2017, the City spent approximately \$1,221,584 more on leave pay-outs than on leave usage⁷⁷.

FY17 Leave Used vs. Leave Buyback



All three forms of leave payout represent cash compensation over and above base wages. In FY17, the total dollar amount of leave buy back – over and above base pay – ranged from zero dollars to nearly \$40,000. The average leave buy back amount across all recipients was \$8,485.

Total Leave Buyback, FY17 (Participating EEs Payout >\$500)



⁷⁷ Ibid.



Specialty Pays

In addition to significant leave cash outs for aggregate paid leave beyond market norms, Salinas's municipal employees can also increase their total compensation through a broad range of premium pays, incentives, and benefits. Currently, the City offers the following premiums/incentives to eligible employees, over and above base salaries:

City of Salinas Premium Pay Categories

Premium Pays	
AMPS	Bilingual Premium, Longevity Pay, Special Assignment Pay, Educational Achievement Pay (Bachelors/Graduate), Supervisor Premium, Physical Fitness Incentive Pay
Confidential Management Employees	Bilingual Premium, Longevity Pay, Special Assignment Pay, Educational Achievement Pay (BA/MA), Supervisor Premium, Physical Fitness Incentive Pay, Residency Stipend
Confidential Non-Management	Bilingual Premium, Longevity Pay, Educational Achievement (Bachelors/Associates/Units), Special Assignment Pay, Confidential Premium, Physical Fitness Incentive
Crew Supervisors	Bilingual Premium, Special Assignment Pay, On Call Pay, Differential Pay for Specific Duties, Certificate Premium Pay, Longevity Pay, Physical Fitness Incentive Pay
Department Directors	Auto Allowance, Bilingual Premium, Physical Fitness Incentive Pay
Fire Supervisors	Bilingual Premium, Special Assignment Pay, Residency Stipend, Longevity Pay, Callback Pay, Compensatory Time, Physical Fitness Incentive Pay
IAFF	Varies by position and employees are limited to two specialties and the total of both cannot exceed 17.5%. Bilingual pay is not subject to this cap. Premiums for this differential pay include: Lead Worker/Supervisor Premium, Platoon Training Coordinator Premium, Shift Inspector Premium, Fire Staff Premium, Hazardous Materials Team Member Premium, Paramedic Compensation, EMS Training Coordinator Premium, NFRIS Report Checker compensation, Bilingual Pay. In addition, Educational Incentive Pay, Acting Pay, Court Pay, Longevity Pay, Callback Pay, Overtime Pay
POA	Bilingual Pay, Special Assignment Pay, Motorcycle Patrol Premium, Canine Officer Premium, Detective Premium, Police Liaison Premium, Crime Scene Investigator Premium, Field Training Officer Training Premium, Violence Suppression Unit Assignment Premium, Police Admin Officer Premium, On-Call Detective Pay, Court Pay, Overtime Pay, Night Shift Pay, Master Police Officer Pay, POST Certificate Pay, Physical Fitness Incentive Pay, Longevity Pay, Flexible Compensation Plan (sunsets 12/31/18).
Police Management Association	Bilingual Premium, Special Assignment Pay, Overtime Pay, Court Pay for Sergeants, Night Shift Differential, Emergency Call back Pay, Compensatory Time Accrual, Investigations Supervisor On-Call Pay, Residency Stipend (\$200/month), Longevity Pay, Education Incentive (Bachelors/Graduate/Masters), Physical Fitness Incentive Pay
SEIU	Bilingual Premium, Special Assignment Pay, On-Call Pay, Chipper differential, tree trimming differential, Hazardous Conditions differential, Night Shift Differential, USA Electrical Differential (all 5%), Educational Incentive Pay (2.5%)(Also see Certificate Pay), Longevity Pay, Commercial Driver's License Differential (5%), Compensatory Time Accrual, Physical Fitness Incentive Pay
SMEA	Bilingual Premium, Special Assignment Pay, On-Call Pay (\$150 flat/work week on-call), Engineering Registration Premium, Educational Incentive Program for Librarians (2.5% of base pay), Police Records Assignment Premium (2.5% of base pay), Search Pay Premium (2.5% of base pay), Hazard premium pay (5%), Longevity Pay, Shift Differential, Certificate Pay (up to 7.5% for designated positions), Callback Pay, Court Pay



Looking at several of the above premiums in greater focus:

- Management and supervisory level personnel, represented by AMPS and Confidential Management units, receive an educational incentive. This **Educational Achievement Pay** provides 2.5% additional compensation to employees that hold a bachelor's degree and an additional 2.5% for those that hold a graduate degree. For many of the job titles represented by these bargaining units, a bachelor's degree is a basic requirement for the job. As a result, this premium does not provide meaningful incentives or recognition for educational attainment, but rather becomes just a less transparent element of what is effectively base pay.

FY17 Salinas Education Incentive

	Total	# of EEs w. Earnings > 0	Avg. Per EE Receiving
Bachelor's (B.A.) Degree 2.5%	\$132,543	61	\$2,173
Graduate Degree 2.5%	\$65,752	30	\$2,192
IAFF Education Incentive B.A. (56 hour week)	\$18,386	13	\$1,414
PMA Education Incentive B.A./B.S. 2.5%	\$10,040	14	\$717
FSA Education Incentive B.A. (40 hour work)	\$4,652	4	\$1,163
FSA Education Incentive B.A. (56 hour week)	\$4,320	4	\$1,080
Confidential Non-Management Education Incentive/B.A.	\$3,185	2	\$1,593
IAFF Education Incentive B.A.(40 hour week)	\$2,492	2	\$1,246
IAFF Education Incentive A.A. (56 hour week)	\$12,904	19	\$679
Total	\$254,274	149	\$1,707

- Similarly, a **Supervisory Premium** is offered to members of these bargaining units, rather than being incorporated in base pay. In FY17, 38 supervisors received total compensation of \$83,007.
- Department Directors** are also eligible for an auto allowance. This allowance is a monthly payment of \$750 to each Department Director unless the Director is assigned a City vehicle for their use. FY17 costs of \$67,500 were paid to eight directors.

FY17 Salinas Management Division Head and Auto Allowance Premiums/Incentives

	Total	# of EEs w. Earnings > 0	Avg. Per EE Receiving
Supervisory Premium (Division Head)	\$83,007	38	\$2,184
Director's Auto Allowance	\$67,500	8	\$8,438



- The physical fitness/wellness program includes reimbursement to health clubs (up to \$500 per calendar year), as well as a voluntary physical fitness incentive program. This program provides a fitness premium to employees who have received a pass score on the City of Salinas Fitness Assessment Program. There are three levels of premiums provided through the program as follows: Level 4 - \$500; Level 5 - \$750; Level 6 - \$1,000. To receive the premiums listed above, employees must complete a physical fitness assessment test administered by Hartnell College. While employee fitness is a positive overall goal, this is an unusual general pay premium. In FY17, 306 employees received a fitness incentive. The City spent \$229,250 on fitness incentive payouts in FY17. All thirteen bargaining units are eligible for this incentive.

FY17 Salinas Physical Fitness Incentive

	Total	# of EEs w. Earnings >0	Avg. Per EE Receiving
Physical Fitness Incentive – Misc.	\$123,000	173	\$711
Physical Fitness Incentive - Safety	\$106,250	133	\$799
Total	\$229,250	306	\$749

- Other major premiums include **Longevity Pay**, **Uniform Allowances** where required for a particular job, premiums for **Bilingual Proficiency**, and a range of premiums associated with various **Certifications**. While many of these premiums are common among public employers, some can be included in base pay. For example, the City of Monterey shifted longevity pay into base for many of its employees. Employees represented by Confidential Management, Fire Supervisors Association (FSA) and PMA who maintain their legal residence within the corporate limits of the City of Salinas are eligible to receive a \$200/month **Residency Stipend** payable on a biweekly basis.
- In each of the bargaining units shown below, employees who have attained 20 years of service with the City receive an additional 5% of base salary, as a longevity pay incentive. The employees represented by the Salinas Police Officer’s Association also receive a three percent longevity pay incentive at ten years of service, in addition to the five percent longevity incentive at 20 years of service (total of 8%). Beginning in July 2019, IAFF bargaining unit members will be eligible for longevity pay incentives at 10 years of service (1%), and 15 years of service (1.5%), in addition to the five percent received at 20 years of service, capped at seven percent⁷⁸.

⁷⁸ Memoranda of Understanding.



Bargaining Units Receiving Longevity Pay

Longevity Pay	
Association of Management Personnel	✓
City Attorney	
City Manager	
Confidential Management	✓
Confidential Non-Management	✓
Department Directors	
Fire Supervisors Association	✓
IAFF	✓
Police Management Association	✓
Police Officers Association	✓
SEIU (Blue Collar)	✓
SEIU (Crew Supervisors)	✓
Salinas Municipal Employees Association	✓

FY17 Salinas Longevity Pay

	Total	# of EEs w. Earnings >0	Avg. Per EE Receiving
Longevity 5% (20 YOS)	\$418,374	108	\$3,874

FY17 Salinas Police Officer Association

	Total	# of EEs w. Earnings >0	Avg. Per EE Receiving
Longevity 3% (10 YOS)	\$129,460	56	\$2,312
Longevity 8% (20 YOS)	\$31,500	5	\$6,300



- A uniform allowance is provided for position requiring a uniform for a specific job. Uniform allowances are not included in the recommendation to merge premium pays into base pay.

FY17 Salinas Uniform Allowance

	Total	# of EEs w. Earnings >0	Avg. Per EE Receiving
POA Uniform Allowance (PEPRA)	\$38,700	48	\$806
SEIU Uniform Allowance	\$21,265	42	\$506
IAFF Uniform Allowance (PEPRA)	\$24,600	24	\$1,025
SEIU Uniform Allowance (PEPRA)	\$7,287	18	\$405
IAFF Uniform Allowance	\$70,500	60	\$1,175
POA Uniform Allowance	\$99,700	87	\$1,146
PMA Uniform Allowance	\$33,500	31	\$1,081
FSA Uniform Allowance	\$8,400	7	\$1,200
Fire Chief Uniform Allowance	\$550	1	\$550
Total	\$304,702	320	\$952

- Due to the significant number of the City's residents that speak Spanish as a primary language, it is important to have an adequate number of bilingual employees in the City; therefore, bilingual pay is also not included in the base pay recommendation. At the same time, the City pays a significant number of employees an average of \$3,612 per year. The City should consider creating different levels of bilingual pay based on the amount of bilingual usage by employees and how critical bilingual skills are for the jobs being performed. It would be appropriate to review all positions receiving bilingual pay and differentiate between high-priority positions (high usage/critical to City services), and low-priority positions (low usage/limited connection to direct services) receiving bilingual pay. For low-priority positions, bilingual pay should be switched from a percent of pay to a monthly stipend (the current \$75 per biweekly pay period is a common bilingual stipend).

FY17 Salinas Bilingual Pay

	Total	# of EEs w. Earnings >0	Avg. Per EE Receiving
Bilingual Premium 5%	\$458,793	124	\$3,700
Bilingual (Directors)	\$3,000	3	\$1,000
Bilingual (Deputy Police Chief)	\$600	1	\$600
Total	\$462,393	128	\$3,612



- Certification pay is provided across many different positions in the City. Certifications must be job related and have caps for maximum pay, regardless of the number of certifications.

FY17 Salinas Certification Premiums

	Total	# of EEs w. Earnings >0	Avg. Per EE Receiving
Crew Supervisor Certification Incentive-- One Certification 2.5%	\$1,167	2	\$584
Crew Supervisor Certification Incentive – Two Certifications 5%	\$25,666	9	\$2,852
Crew Supervisor Certification Incentive – Three + Certifications 7.5%	\$3,493	4	\$873
FSA State Certification Chief Fire Officer 5%	\$22,646	4	\$5,661
FSA State Certification Company Officer 5%	\$42,069	7	\$6,010
FSA State Certification Hazardous Materials 5%	\$7,727	2	\$3,863
FSA State Certification Instructor 5%	\$34,084	5	\$6,817
IAFF Education Incentive Air Mask 2.5%	\$5,835	4	\$1,459
IAFF Education Incentive Mechanic 10% (No PERS)	\$18,761	2	\$9,381
IAFF Education Incentive Mechanic 10% (with PERS)	\$19,503	2	\$9,751
IAFF Education Incentive Paramedic Education 12.5%	\$270,894	31	\$8,739
POA Post Advanced Education 6%	\$329,720	63	\$5,234
POA Post Intermediate Education 3%	\$37,668	18	\$2,093
SMEA Certification Incentive – 2.5% Per Certification	\$8,635	5	\$1,727
SMEA Certification Incentive 7.5% Maximum	\$8,483	2	\$4,242
Total	\$836,351	160	\$5,227

- In an effort to encourage employees to reside in the corporate limits of Salinas, a residency stipend is offered to certain employee groups through their MOU or compensation plans.

FY17 Salinas Management Residency Stipend

	Total	# of EEs w. Earnings > 0	Avg. Per EE Receiving
Residency Stipend	\$45,324	23	\$1,971



Healthcare Cost-Sharing

The City participates in the CalPERS health network. CalPERS provides health benefits to 1.4 million public employees, retirees and their dependents. Benefits vary based on location. Annual health plan availability, covered benefits, health premiums and co-payments are determined by the CalPERS Board of Administration⁷⁹.

The City offers six health plans through CalPERS. A majority of miscellaneous employees are currently in the PERS Choice Plan, while the majority of Police Officers' Association (POA), Police Managers Association (PMA), and Fire Supervisors Association members are in the PORAC Plan. For covered miscellaneous employees, the City currently contributes the full costs of the PERS Choice Plan for employees and all eligible dependents (although this will change under current MOUs, as noted below). POA/PMA employees currently receive health care benefits equal to 95% of the annual premium of PERS Choice for employees and eligible dependents; however, since PORAC is significantly less expensive than PERS Choice, this has the de facto result of the City contributing the full costs for PORAC coverage. International Association of Firefighters (IAFF) employees are in a separate health plan, but will move to the PORAC plan or other CalPERS plan by the end of November 2019.

Employees selecting health plans with higher premiums than that of the PERS Choice plan contribute the premium difference between the selected plan and the PERS Choice plan. The following table summarizes the annual premiums and employee contributions of the six citywide health plans in FY18.

City of Salinas FY18 Health Plans (Except IAFF)

	Annual Health Premium			Annual Employee Contribution		
	Single	Employee + 1	Family	Single	Employee + 1	Family
PERS Select	\$8,301	\$16,603	\$21,584	\$0	\$0	\$0
PORAC	\$8,808	\$18,480	\$23,640	\$0	\$0	\$0
Kaiser	\$9,545	\$19,090	\$24,817	\$0	\$0	\$0
PERS Choice	\$9,768	\$19,535	\$25,396	\$0	\$0	\$0
PERS Care	\$10,403	\$20,806	\$27,048	\$636	\$1,271	\$1,653
Blue Shield of CA	\$10,733	\$21,466	\$27,906	\$966	\$1,931	\$2,511

Based on existing memoranda of understanding, between January 1, 2018 and December 1, 2019 each of Salinas's bargaining units other than the IAFF will increase the employee cost-share of health premium costs to 4% or 5% of premium costs, although maximum employee costs are capped (varies by bargaining unit, and further detailed in the table on the following page).

IAFF employees participate in separate health plans and their annual premiums are generally higher than the citywide health plans, IAFF employees contribute an amount ranging between 12% and 17% of the total premium. The IAFF employee contribution amounts remained the same in FY18 as FY17.

Effective the first full pay period of December 2019, the City will contribute 95% of the cost of the PERS Choice Plan for IAFF bargaining unit member's premium costs with employees paying for premium costs above the City's contribution⁸⁰. Note that since IAFF members will be enrolled in the PORAC plan, it is probable that employees will not in fact be responsible for any contribution towards premium costs.

⁷⁹ CalPERS, Benefit Programs, www.calpers.ca.gov.

⁸⁰ Memorandum of Understanding between the City of Salinas and the Salinas IAFF.



City of Salinas FY18 Health Plans - IAFF

	Annual Premium	EE Contribution (\$)	EE Contribution (%)
Single	\$12,218	\$1,800	14.7%
Employee + 1 Child	\$24,269	\$3,600	14.8%
Employee + 1 Adult	\$24,869	\$4,200	16.9%
Employee + 2+ Children	\$30,887	\$3,600	11.7%
Family	\$32,087	\$4,800	15.0%



City of Salinas Health Plan Changes, by Bargaining Unit

Health Premium Increases	
AMPS	Beginning December 2019, employee healthcare cost-share will increase to 4% of the premium for the PERS Choice plan, capped at \$25/\$50/\$75
Confidential Management	Beginning December 2019, employee healthcare cost-share will increase to 4% of the premium for the PERS Choice plan, capped at \$25/\$50/\$75
Crew Supervisors	Beginning December 2019, employee healthcare cost-share will increase to 4% of the premium for the PERS Choice plan, capped at \$25/\$50/\$75
Department Directors (Non-represented)	Beginning December 2019, employee healthcare cost-share will increase to 4% of the premium for the PERS Choice plan, capped at \$25/\$50/\$75
Fire Supervisors	Effective January 2019, if the PERS Choice monthly premium is equal to, or less than 5%, the city will pay 50% of the increase and the employee will pay 50% of the increase. If the monthly premium is greater than 5%, the city will pay 2/3 of the increase and employees 1/3. Employees shall pay for all premium costs above the city's contribution via payroll deductions (Examples provided in MOU)
IAFF	Effective December 2019, contribution of a dollar amount toward monthly health benefits premiums in an amount equal to 95% of the PERS Choice Plan premium for the level of coverage that the employee has selected. Employee pays for premium costs above the City's contribution and the City retains savings for health plans chosen with lower premiums than the PERS Choice plan.
POA	Effective January 2018, if the PERS Choice monthly premium is equal to, or less than 5%, the city will pay 50% of the increase and the employee will pay 50% of the increase. If the monthly premium is greater than 5%, the city will pay 2/3 of the increase and employees 1/3. Employees shall pay for all premium costs above the city's contribution via payroll deductions (Examples provided in MOU)
Police Management Association	Effective January 1, 2018, if the PERS Choice monthly premium is equal to, or less than 5%, the city will pay 50% of the increase and the employee will pay 50% of the increase. If the monthly premium is greater than 5%, the city will pay 2/3 of the increase and employees 1/3.
SEIU	Beginning December 2019, employee healthcare cost-share will increase to 4% of the premium for the PERS Choice plan, capped at \$25/\$50/\$75
SMEA	Beginning December 2019, employee healthcare cost-share will increase to 4% of the premium for the PERS Choice plan, capped at \$25/\$50/\$75

The highest-enrolled health plan among Salinas employees is the PERS Choice Plan (243 employees). The City currently contributes 100% of the premium for this plan (employee plus dependents), as well as for dental and vision coverage. Health benefit contributions grew a compounded annual average of 7.6% from FY10 through FY17.

In evaluating opportunities to control increasing medical costs, it should be noted that the City's current benefits package is generous – with no employee contributions toward monthly premiums for the highest-enrolled plan option and co-payments for office visits and prescription drugs below national norms.



The following tables compare several key elements of the Salinas employee health benefits package to the health benefit packages offered by private sector employers.

Health and Welfare Benefits vs. Private Industry⁸¹

	City of Salinas	U.S. Private Industry Employers	U.S. State and Local Government Workers
Medical benefits	Full family coverage.	44.4% of California private-sector establishments offer health insurance (96.0% of establishments with 50+ workers)*	89% of all government workers have access to health insurance (89% of workers in governments with 100+ workers)**
Employee medical premium cost-sharing	The City contributes up to the annual premium (100%) of the PERS Choice Plan, with the exception of Police Officers' Association (POA) who are in the PORAC plans and International Association of Firefighters (IAFF) employees who are in a separate health plan	Premium contributions for covered workers in the state of California averaged 18.9% of premium for single coverage and 27.7 for family coverage (19.6%, and 28.3% respectively for establishments with 50+ workers)*	Premium contributions for covered government workers averaged 14% of premium for single coverage and 29% for family coverage (14%, and 30% respectively for governments with 100+ workers)**
Rx co-pays	Highest-Enrolled Plan (PERS Choice): \$5 generic \$20 preferred brand \$50 non-preferred	National average (private and public sectors combined): \$11 generic \$33 preferred brand \$59 non-preferred***	National average (private and public sectors combined): \$11 generic \$33 preferred brand \$59 non-preferred***
Office co-pays (Primary Care / Specialist)	Highest-Enrolled Plan (PERS Choice): \$20 primary care or specialist (to go to \$35 in 2019)	National average (private and public sectors combined): \$22/\$35 HMO \$25/\$39 PPO \$25/\$39 POS***	National average (private and public sectors combined): \$22/\$35 HMO \$25/\$39 PPO \$25/\$39 POS***
Other Supplemental	Employees can enroll in term life insurance.	55% of U.S. private industry workers nationally have access to life insurance benefits (74% among establishments with 100+ workers)*	81% of government workers nationally have access to life insurance benefits (83% among establishments with 100+ workers)*

Differences in benefit levels and employer contributions to healthcare premiums are important components of a total compensation package. As part of the Public Sector Personnel Consultants 2016 total compensation study, a regional comparison group was surveyed. The data presented in the following summary tables was collected by Public Sector Personnel Consultants as part of that study.

⁸¹ *Agency for Healthcare Research & Quality, Center for Financing, Access & Cost Trends, 2016 Medical Expenditure Panel Survey; **U.S. Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, 2017; ***Kaiser Family Foundation, Employer Health Benefits 2017 Annual Survey (Rx co-pays for covered workers in three or four-tier plans); ****Wells Fargo Insurance, 2016 Benefit Analytics and Benchmarking Study (October 2016).



As shown below, of the 15 surveyed communities, the City of Salinas has among the highest employer health premium contribution per employee⁸².

Employer Medical Premium Contribution (2016)⁸³

Premium Contribution	
Sunnyvale	\$32,256
Santa Cruz City	\$31,632
Santa Rosa	\$31,500
Salinas	\$26,679
Hayward	\$24,836
Hollister	\$22,967
Gilroy	\$22,213
Concord	\$21,495
Santa Cruz (County)	\$20,256
Monterey (City)	\$20,208
Monterey (County)	\$18,802
Roseville	\$17,568
Modesto	\$14,568
Visalia	\$7,265
Oxnard	\$7,102
Elk Grove	\$0
Median (excl. Salinas)	\$20,256
Variance from Median	32%
Rank	4 of 16

⁸² Public Sector Personnel Consultants, Total Compensation Study, September 2016. The City has subsequently reduced its subsidy by 5 percent, and shows up lower elsewhere in the study. However, this change does not impact Salinas's place in the survey results.

⁸³ Ibid.



Dental and Vision Coverage

Salinas also provides its employees with comprehensive vision and dental insurance plans. Employees do not contribute to the premium costs of these supplemental plans, which are currently 100% City-funded.

Supplemental Dental and Vision Benefits⁸⁴

	City of Salinas	U.S. Private Industry Employers	U.S. State and Local Government Workers
Dental	Salinas fully funds of dental coverage for employees + dependents FY18 City Costs: \$556,734	42% of private industry workers nationally have access to dental coverage (57% among establishments with 100+ workers)**	58% of government workers nationally have access to dental coverage (among establishments with 100+ workers)**
Vision	Salinas fully funds of vision coverage for employees + dependents FY18 City Costs: \$82,394	23% of private industry workers nationally have access to vision coverage (32% among establishments with 100+ workers)**	36% of government workers nationally have access to vision coverage (among establishments with 100+ workers)**

Retirement Benefits

In addition to competitive cash earnings opportunities over the course of a career and no-cost/low-cost health insurance, Salinas also provides a mix of benefits for retirement security, health, and welfare.

City employees – with the exception of IAFF members – who retire from the City and qualify as “annuitants” under the Public Employees’ Medical & Hospital Care Act (PEMHCA) are eligible to receive the “PEMHCA minimum” payment towards healthcare, if the annuitant enrolls in a PEMHCA health plan. For police and fire supervisors, the City pays the PEMHCA minimum contribution for annuitants plus 25% or \$100 per month (whichever is less) of the employee and spouse medical insurance premium for qualified annuitants. The City’s contribution toward this additional benefit is discontinued when the employee or spouse becomes eligible for Medicare (no more than 10 years). Employees must enroll in Medicare at age 65 or as soon as they become eligible. For IAFF bargaining unit members, the City pays 25% of the premium of the Union sponsored plan up to \$100 per month for employee and spouse medical insurance up until the employee becomes eligible for Medicare coverage.

Salinas currently funds annual contributions to retiree health (also known as Other Post-Employment Benefits, or “OPEB”) expenditures on a pay-as-you-go (PAYGO) basis, making only the annual payment due to fund a given year’s OPEB costs without pre-funding future liabilities on an actuarial basis. An OPEB trust established in FY08 had \$1,898,038 as of June 30, 2017. In FY17, Salinas General Fund expenditures for OPEB related health cost totaled \$332,456 – a \$119,543 (56%) increase since FY12. Overall, the City’s total unfunded actuarial accrued liability for OPEB totaled \$18,498,000 as of the end of FY15, a very significant long-term balance sheet liability⁸⁵. Further, this liability indicates that Salinas faces sharp increases to annual OPEB funding requirements for many years to come.

⁸⁴ *Agency for Healthcare Research & Quality, Center for Financing, Access & Cost Trends, 2016 Medical Expenditure Panel Survey;

^{**}U.S. Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, 2017.

⁸⁵ City of Salinas, Basic Financial Statement (2017).



While retiree health benefits are not uncommon among California local government retirees, such coverage is increasingly rare in the broader labor market.

The table below outlines the retirement benefits offered to City employees, including a traditional defined benefit pension and post-employment medical coverage – both increasingly rare in the general labor market.

Retirement Benefits vs. Private Industry⁸⁶

	City of Salinas	U.S. Private Industry Employers	U.S. State and Local Government Workers
Retirement	Retirees participate in a traditional defined benefit pension plan through the CalPERS retirement system	24% of U.S. private industry workers in establishments with 100+ workers participate in a defined benefit plan, many of which are closed to new hires 56% participate in a defined contribution plan*	74% of government workers in establishments with 100+ workers participate in a defined benefit plan, many of which are closed to new hires 18% participate in a defined contribution plan*
Post-Retirement Medical	Retirees are enrolled by CalPERS in the applicable group health plan as a retiree. The City pays the PEMHCA minimum contribution for Police and Fire retirees and 25% or \$100 per month (whichever is less)	24% of large firms that offer health benefits (200+ employees; private and public sectors combined) offer some form of post-retirement medical coverage, many with employer caps or other significant cost-sharing**	70% of government workers have access to retiree health benefits under age 65 (100+ workers) and 66% of government workers have access to retiree health benefits at age 65 and over*

Employer Pension Contribution as a % of Payroll (FY16)⁸⁷

Percent of Payroll	
Salinas	39.6%
Hayward	37.8%
Concord	37.6%
Monterey (City)	34.2%
Gilroy	31.5%
Modesto	29.2%
Roseville	29.1%
Oxnard	29.1%
Median (excl. Salinas)	31.5%
Variance from Median	25.6%
Rank	1 of 8

⁸⁶ * U.S. Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, 2017; **Kaiser Family Foundation, Employer Health Benefits 2017 Annual Survey.

⁸⁷ California Policy Center, database of CalPERS contributions, <https://californiapolicycenter.org/much-will-cities-counties-pay-calpers/>.



Employee Pension Contributions, by Bargaining Unit⁸⁸

	PERS Classic	New York Life	PEPRA
Conf. Non-Management	7%	4.5%	-
IAFF	10% ⁸⁹	-	50% of the normal cost
Salinas Municipal Employees Association	7%	4.5%	50% of the normal cost
Department Directors	7%	-	50% of the normal cost
Fire Supervisors Association	11%	-	50% of the normal cost
Assoc. of Mgt. Personnel	7%	4.5%	50% of the normal cost
Confidential Management	7%	4.5%	50% of the normal cost
SEIU Crew	7%	4.5%	50% of the normal cost
SEIU Blue Collar	2.5%	0.0%	50% of the normal cost
Police Management Association	12%	-	50% of the normal cost
POA	12%	-	50% of the normal cost

Workers' Compensation

The City of Salinas Attorney's Department is the administrative unit that has management responsibility for the City's workers' compensation program.

State of California Program Requirements

California employers are required by State law to have workers' compensation insurance. The purpose of this coverage is to insure that employees are appropriately compensated if they are injured or become sick due to their job. Workers' compensation insurance provides basic benefits, including medical care,

⁸⁸ **IAFF:** Each employee shall contribute an additional 1% toward the employer contribution to his/her pension benefit. Effective January 1, 2019, each employee shall contribute an additional 1% toward the employer contribution to his/her pension benefit. Effective December 31, 2019, each employee shall contribute an additional 1% toward the employer contribution to his/her pension benefit.

Department Directors: Fire Chief pays 9%.

FSA: Effective January 2019 an additional 1% will be paid by the employee.

PMA: Each employee in the classifications of Police Sergeant and Police Commander shall contribute an additional two percent (2%) toward the employer contribution to his/her pension benefit. Effective January 2018, each employee in the classifications of Police Sergeant and Police Commander shall contribute an additional one percent (1%) toward the employer contribution to his/her pension benefit. Effective in the first full pay period of July 2018, employees in the classification of Deputy Chief shall contribute an additional three percent (3%) toward the employer contribution to his/her pension benefit.

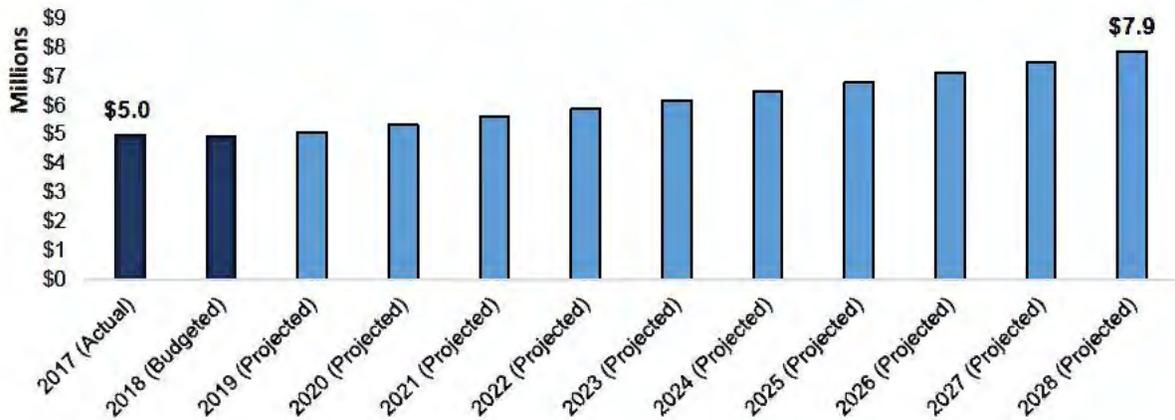
⁸⁹ Increasing to 11% on 1/1/2019 and 12% on 12/31/2019.



temporary disability benefits, permanent disability benefits, supplemental job displacement benefits, a return-to-work supplement, and death benefits⁹⁰.

The City of Salinas is self-insured, such that workers' compensation claims are included as a liability as part of the City's long-term debt profile. In FY17 the City spent nearly \$5 million on workers' compensation payments and related expenses. These expenses are expected to grow to nearly \$8 million in the next ten years. As of June 30, 2017, total workers' compensation insurance claims liabilities were \$27.9 million⁹¹.

Workers' Compensation Expenditures by Year



Recent Changes to Workers' Compensation Program

In FY17, the City commissioned a full audit of the City's third party worker's compensation claim administrator and implemented new protocols and standards. Further, the City Attorney's Department collaborated with defense counsel to "batch close" potentially high-exposure claims, reducing the City's outstanding liability⁹².

Salinas should continue to support and build upon these positive efforts, working to reduce workers' compensation related liabilities and payouts through improved employee safety, quality treatment, and accelerated returns to work.

Wage Increases v. Consumer Prices

The Bureau of Labor Statistics' Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of goods and services⁹³, commonly used as a measure of inflation.

Over the past few years, CPI growth has been low – just 6.4% in total over the five-year period from July 2013 to July 2018.

⁹⁰ State of California, Department of Industrial Relations, Division of Workers' Compensation website, <https://www.dir.ca.gov/dwc/Employer.htm>.

⁹¹ City of Salinas, Basic Financial Statements, FY17.

⁹² City of Salinas FY18-19 Proposed Operating Budget.

⁹³ Bureau of Labor Statistics, "Frequently Asked Questions about the Chained Consumer Price Index for All Urban Consumers (C-CPI-U)."



Looking forward, for the full calendar year 2018 and beyond, CPI growth nationally is projected to remain low. As shown below, CPI nationally is projected to be 2.4% in calendar year 2018, 2.3% in 2019, and 2.3% in 2020. Over the long term, CPI is projected to average 2.2% annually from 2018-2022 and 2.2% from 2018-2027⁹⁴.

Survey of Professional Forecasters CPI Projections

Survey of Professional Forecasters 2018 Q3 CPI Projections % (8/10/2018)				
CY2017 (Actual C-CPI-U)	CY2018	CY2019	CY2020	CY 2018-2022 (Average)
1.6%	2.4%	2.3%	2.3%	2.2%

In comparison, the table on the following page shows negotiated employee general wage increases for fiscal years 2017 through 2019 – relative to actual and projected CPI change. Similarly, bargained wage increases slated for future years are also at or above projected CPI rates. For each City bargaining unit, the cumulative three-year total wage growth exceeds actual and projected CPI growth across the same time period.

Further, many individual City workers have received and/or will receive automatic pay progression step increases and longevity increments and other premium increases, over and above the across-the-board raises and COLAs.

⁹⁴ Federal Reserve Bank of Philadelphia: Survey of Professional Forecasters.



Cumulative Wage Increases by Bargaining Unit FY17 – FY19

Bargaining Unit	FY17	FY18	FY19	3-Yr. Cumulative Wage Growth
Consumer Price Index	1.4%	2.7%	2.3%	6.5%
Confidential Non-Management	2.5%	2.5%	2.5%	7.7%
Confidential Management	2.5%	2.5%	2.5%	7.7%
Fire (IAFF)	5.0%	6.0%	4.0%	15.8%
Fire Supervisors Association	3.25%	3.25%	3.0%	9.9%
Association of Management Personnel	-	2.5% + 2.5%	2.5%	7.7%
Salinas Municipal Employees Association	2.5%	2.5%	2.5%	7.7%
Police Managers Association	6.3%	3.17%	TBD	9.7%
Police Officers Association	2% Equity Adj. + 2% GWA (9/16) 2% Equity Adj. + 2% GWA (1/17)	1% Equity Adj. + 2% GWA	TBD	11.2%
SEIU (Crew Supervisors)	3.5%	3.5%	3.5%	10.9%
SEIU (Blue Collar)	2.5%	2.5%	2.5%	7.7%

Confidential Non-Management: Unit members received a one-time lump sum payment of \$2,500 in FY17.

Confidential Management Personnel: \$1,000 off-schedule salary adjustment 1/11/2017.

Association of Management Personnel: Association members received a one-time lump sum payment of \$2,500 in FY18.

IAFF: Bargaining unit members received a one-time \$3,000.

Salinas Municipal Employees Association: Unit members received a one-time lump sum payment of \$2,000 in FY17.

Police Managers Association: Increases do not apply to Deputy Chief. Unit members employed in the Deputy Chief Classification on the date of MOU approval, will receive 2% salary increase, effective 7/1/2018. Unit members received a one-time \$1,000 lump sum payment in FY17.

Police Officers Association: One time lump sum of \$850 in FY17, for employees that joined the City (FY16). Police officers were also provided with 120 hours of flex leave (which can be cashed out) in 2016, sun-setting in January 2019.

SEIU (Crew Supervisors): Unit members received a one-time \$2,500 lump sum payment in FY17.

SEIU (Blue Collar): Unit members received a one-time \$2,000 lump sum payment in FY17.

Fire Supervisors Association: Unit members will receive a one-time \$2,000 off salary schedule payment in the first full pay period following City Council approval of MOU (FY18).

Department Directors: Contract stipulates that the compensation plan shall continue in force until amended.

Even before any other compensation changes are negotiated, rising CalPERS costs for employee retirement security will add significantly to the City's costs over the years ahead. The City faces significant workforce-driven unfunded liabilities for both retiree healthcare (OPEB) and workers' compensation that will further add to future budget pressures under a status quo approach.



WORKFORCE STRATEGIES

To absorb these mounting cost pressures within the context of an existing structural budget deficit – while avoiding severe cutbacks in staffing levels and services – creativity and collaboration will be required. As current collective bargaining agreements expire, the Plan proposes the following principles and approach:

- Work to rebalance the total compensation portfolio, shifting a higher proportion of personnel spending toward base pay rather than benefits (while still maintaining quality coverage).
- Share in benefits funding, consistent with standard practice in the public and private sectors alike, promoting increased promote cost awareness among employees and establishing a joint stake in affordability.
- Maximize base pay and minimize premiums without a strong incentive value, creating better “headline” pay for recruitment and greater transparency for current employees and the public.
- Improve base pay on a cost neutral basis through the shifts outlined above, even as the City continues to absorb rising pension costs.
- Incrementally seek to fund workers compensation liabilities on an actuarially sound basis to better ensure long-term sustainability.

WF01: Healthcare Cost Containment

It is recommended that the City develop a more affordable, market level health and welfare benefits program, to be phased in as current memoranda of understanding expire. While Salinas employee representatives should have input through collective bargaining into the particular changes to be adopted, as well as timing, options would include (but not be limited to) the following:

- Adopt the CalPERS Select plan as the City’s base plan for employees instead of the current CalPERS Choice plan, with employees paying the difference between the premium cost for the base plan and any more expensive options made available, in addition to any premium cost-sharing for the base plan.
 - As of FY18, the CalPERS Select plan premium costs are 13% below those for the Choice plan:

	Annual Health Premium			Annual Employee Contribution		
	Single	Employee + 1	Family	Single	Employee + 1	Family
PERS Select	\$8,301	\$16,603	\$21,584	\$0	\$0	\$0
PORAC	\$8,808	\$18,480	\$23,640	\$0	\$0	\$0
Kaiser	\$9,545	\$19,090	\$24,817	\$0	\$0	\$0
Choice	\$9,768	\$19,535	\$25,396	\$0	\$0	\$0
Care	\$10,403	\$20,806	\$27,048	\$636	\$1,271	\$1,653
Blue Shield	\$10,733	\$21,466	\$27,906	\$966	\$1,931	\$2,511

- The Select plan still offers a market-competitive plan design. Providing low costs prescription drug co-pays (\$5/\$20/\$50), low-cost deductible and coverage of certain preventive services without cost-sharing and before deductible is met.



- Based on FY18 enrollment, this approach would have reduced City costs by approximately 15% if it were already in place.
- As previously outlined, existing memoranda of understanding will begin to phase in modest employee cost-sharing for healthcare premium over the next several years. As these current MOUs subsequently expire, the City and its employee groups should work together to establish an employee contribution of 20% for the base City plan⁹⁵, with employees still responsible for the full incremental cost of more expensive plan options. Adjusting the employee premium contributions toward the base plan would still provide a highly competitive benefit in the overall labor market.
- Introduce parallel cost containment measures for supplemental dental and vision benefits, toward which the City contributed \$639,129 in FY18 with no employee cost sharing for premiums.

Through measures such as the above, the City can, at a minimum (if healthcare premiums match projections), achieve flat healthcare cost growth for each bargaining unit for at least the first three years after current terms expire. If all of the above measures are adopted, over \$2.5 million in savings will be realized once fully phased in. The following savings represent achievement of the three-year cost containment goal for each employee group as current provisions expire, assuming a phased-in approach to premium cost-sharing, followed by a return to baseline cost growth thereafter. These savings assume staying in the current PERS Choice plan as the City's base premium. An alternative way of achieving these savings is to change the base plan to PERS Select, which would allow a smaller employee share to achieve the same savings.

Financial Impact

	FY19	FY20	FY21	FY22	FY23
Increase EE Contribution to 20%	0.0%	0.0%	5.0%	10.0%	10.0%
Total EE Contribution	\$0	\$0	\$642,839	\$1,349,961	\$1,417,459

	FY24	FY25	FY26	FY27	FY28
Increase EE Contribution to 20%	15.0%	15.0%	20.0%	20.0%	20.0%
Total EE Contribution	\$2,232,499	\$2,344,124	\$3,281,773	\$3,445,862	\$3,618,155

⁹⁵ The costs assume that the City remains in the PERS Choice Plan for base assumed premiums.



WF02: Improve Base Pay on a Cost-Neutral Basis

Salinas has multiple opportunities to restructure its compensation approach in order to fund prospective increases in base pay:

- Eliminate low/no value and/or uncommon pay premiums such as “incentives” for basic requirements of a job, as well as the fitness bonus, auto allowance, the residency stipend, and longevity pay
- Restructure bilingual pay to ensure that payment levels are dependent on whether a bilingual employee would be able to perform their duties and serve the public more effectively than if they spoke English only. Payments for positions requiring consistent need and public benefit should be higher than those received for positions that use bilingual skills on a periodic basis only
- In conjunction with increases in base pay, the City should explore increased employee pension contributions, as adopted for the Fire and Police bargaining units in recent agreements

Creative approaches, such as those outlined in this chapter, should fund significant base pay improvements without adding net costs. Specialty pay amounts in the FY17 budget were:

Financial Impact of Selected Specialty Pays – FY17 Amounts

Specialty Pays	Current Cost	Employees Impacted
Educational Incentives	\$254,274	Various Groups
Auto Allowance Premium	\$67,500	Department Heads
Supervisory Incentive	\$83,007	Management Employees
Physical Fitness Incentive	\$229,250	Safety and Miscellaneous
Longevity Pay - 20 Years	\$418,374	Non-Police
Longevity Pay – Police 10 and 20 years	\$160,960	Police
Certification Pay ⁹⁶	\$836,351	Fire, Police, Crew Supervisors, SMEA
Total Specialty Pays	\$2,049,716	

The \$2.0 million in total specialty pay represents 4.1% of all other cash compensation. Merging these specialty pays into base pay could raise overall wages by approximately this amount on an overall basis. The increases in base pay will likely vary by bargaining groups, and the City may determine that specific specialty pays should remain in targeted circumstances. These changes would need to be phased-in over time, as current collective bargaining agreements expire. The City will need work with its labor groups to determine the best way to resolve situations where these changes result in an overall reduction in pay for an employee. With recent general wage increases already ahead of low CPI growth, and continued low inflation projected for the period ahead – as well as Salinas’ strong comparative total compensation position relative to a more affluent, higher cost survey group – the above approaches should maintain, if not improve, a competitive recruitment and retention position for the City as it further absorbs rising pension and other benefit costs. Implementing these changes will require close work with the City’s labor groups.

WF03: Eliminate Management and Flex Leave

Leave cash-outs are provided to most employees in the City⁹⁷. The total annual cost of leave cash-outs in FY17 was \$3.5 million, with \$2.0 million of that for Annual Leave and \$1.5 million for Management and Flex Leave. Employees cashed out more leave time than was used for time off of work. Flex leave cash-outs for Police sunset in December 2018, and were approximately 25 percent of the total Flex leave cash-out in FY17.

⁹⁶ Note a portion of certification pay may be valuable to remain in place for some specialized positions; however, City should consider capping certification classifications and rolling this pay into base pay as much as possible.

⁹⁷ Leave cash-outs to the SPOA members will end on December 31, 2018.



Eliminating the remaining management and flex leave cash-outs will have a significant positive impact on the City's General Fund net revenue.

To reduce these costs, the City should:

- Restructure paid leave, eliminating or reducing Flex and Management Leave that provide total benefits well above comparative norms and drive extraordinary leave cash out costs
 - Eliminating Management and Flex Leave hours will require negotiations with labor unions
- It may be beneficial for Annual Leave buy-back to remain in place for some employee groups, as it is an important option in managing the overall workload and not incurring higher overtime, especially in the Fire department, where leave results in paid overtime to maintain minimum staffing levels

The financial impact of eliminating Flex Leave, Management Leave, and a portion of annual leave cash-outs is provided below. This is based on FY17 cash-out amounts, less the amount for Police and approximately 25 percent of annual leave. (The elimination of Police Flex Leave cash-outs is already included in the FY19 budget, and is not a savings from this recommendation).

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$0	\$2,100,000	\$2,461,609	\$2,530,409

FY24	FY25	FY26	FY27	FY28
\$2,607,640	\$2,670,615	\$2,735,923	\$2,806,870	\$2,875,139

WF04: Continue to Address Workers Compensation Costs, Moving Toward Sound Actuarial Funding

A number of significant reforms have been advanced in recent years to improve the City's workers' compensation program. The City Attorney's Department completed a full evaluation and modification of contracts with service providers (third party administrators) to add accountability to their handling of City accounts, and commissioned a full audit of the City's third party administrator of worker's compensation claims and implemented protocols and standards for improved performance. Further, the City combined potentially high-exposure claims, reducing the City's outstanding liability.

With a negative fund balance and absence of actuarial funding, the City should continue to work to strengthen its workers' compensation program to control cost.

- The City could add or re-assign an FTE to act as a Citywide Safety Manager. The Safety Manager could provide citywide safety programs and related workers' compensation injury investigations. Additionally, the Safety Manager's job responsibilities could include proactive identification and reporting of unsafe work and environmental conditions throughout the City's workplaces and within the City's work procedures.
- Implement a Citywide Safety Training Program conducted by the Department heads. This program could include safety education and training programs with the assistance of the Safety Manager.



Supervisory personnel could then work closely with the Safety Manager to ensure that all recommendations of the Safety Manager concerning workplace facility and environmental safety provisions are carried out.

- Incrementally seek to fund workers compensation liabilities on an actuarially sound basis to better ensure long-term sustainability.

The following initiative impact assumes a two-percent annual savings in workers' compensation spending, net of the Citywide Safety Manager position. The initiative estimates are meant to provide a savings target for the City, assuming that partial implementation of the three recommendations would yield annual savings of at least two percent.

Financial Impact – 2% in workers' compensation savings

FY19	FY20	FY21	FY22	FY23
\$0	\$106,600	\$111,930	\$117,526	\$123,403

FY24	FY25	FY26	FY27	FY28
\$129,573	\$136,052	\$142,854	\$149,997	\$157,497





CHAPTER 6: ENGAGING THE HOUSING CHALLENGE

At the same time as the looming fiscal crisis is developing, the City is also experiencing growth in homelessness and a severe lack of available and affordable housing. Overcrowded housing in Salinas has reached crisis levels, caused by the confluence of skyrocketing rents and housing prices while median incomes have languished.

The result is that Salinas has one of the highest housing cost burdens among cities of its size nationally – with nearly half of all households paying 30 percent or more of their income for the cost of housing, generally recognized as the threshold for housing affordability. There is a gap of more than 4,000 units of affordable housing. The latest street counts show that more than 1,000 Salinas residents go to sleep every night without a roof over their head. And thousands of Salinas residents live in overcrowded, often unregulated housing where the risk of fire and unsafe and unsanitary conditions is a daily fact of life.

Beyond the real human costs that result from the Salinas housing challenge, there are fiscal costs as well. The housing crisis impacts the City's finances in many ways:

- As of January 2018, the City has documented expenditures over \$5 million on initiatives directly designed to address homelessness over the previous four-year period⁹⁸. Of that amount, a minimum of 30 percent, over \$300,000 per year, is spent on an annual basis from the General Fund, although the City has already surpassed this amount during the current fiscal year on clean-up efforts in Chinatown and along Natividad Creek.
- Impacts on police and fire responses, especially in the Chinatown neighborhood, impact the ability of City departments to respond timely to more critical calls⁹⁹
- Dampened economic development opportunities (e.g., Chinatown neighborhood) and impact on other City resident use of public places (e.g., libraries, parks and community centers)¹⁰⁰ in areas impacted by homelessness, and reduced wage-competitiveness due to high housing costs.
- High housing costs as a percent of income limit spendable income and keep the City's sales tax revenues lower than they might otherwise achieved.

Yet, the City is limited in its capacity to address the housing challenge because of its ongoing fiscal challenges. Like most California cities, Salinas has struggled to identify local funding to replace housing resources that were available through redevelopment agencies until 2012.

This chapter details the nature of Salinas's housing challenge and provides the basis of housing initiatives. The initiatives explained at the end of this chapter are designed to address the challenges laid out below and to close the City's housing gap as part of the overall plan to close the City's fiscal gap.

The Lack of Affordability

The causes for the lack of housing affordability in Salinas are fairly straightforward. In addition to the primary industry of agriculture, many residents of Salinas are employed in the retail or other service industries. Additionally, the City serves as a bedroom community for a substantial number of workers for the tourism industry on the Monterey Peninsula. With improvements in agricultural technology, growing seasons are longer and have led to agricultural worker households remaining in Salinas year-round, creating a growing demand for affordable housing. This is exacerbated by a general lack of new housing

⁹⁸ Memorandum to City Council from Megan Hunter, Community Development Director, entitled "City of Salinas Activities to Address Homelessness," January 18, 2018

⁹⁹ Based on interviews with police and fire personnel. The police and fire departments do not keep records coded by homelessness or housing issues

¹⁰⁰ Based on interviews with City staff, stakeholders in community, and on-site visits by the Network team



in the City, fueled by limited ability to annex adjacent farmland for new housing development, and the construction of higher priced market-rate single-family homes when new development is approved. Local developers also cite high construction costs, available labor, and high development fees and regulatory barriers as reasons they do not develop more affordable housing units.

Salinas's median household income is only 80 percent of the State's median income and the gap between income and housing cost has been growing since the end of the Great Recession. Market driven responses for low income workers have been limited and the City and non-profit partners have not had adequate resources to keep up.

As a result, 48.0 percent of Salinas households are considered "cost burdened" – meaning that residents spend 30 percent or more of their income on housing. By comparison, just 32.9 percent of households nationally and 42.9 percent in California are cost burdened.

Low Income and Growing Demand

To further understand the challenges related to lack of affordability, it is important to return to the discussion of demographics in Chapter 2. Salinas residents have very low incomes and a large percentage of Salinas residents are living in poverty. As a result, many Salinas residents cannot afford to buy much housing and rising costs limit their ability to do so.

The majority of households in Salinas (53 percent) earn below or equal to 80 percent of area median income (AMI) and are therefore considered low-income households: 43 percent of households earn extremely low incomes (30 percent or less of AMI) or very low incomes (50 percent or less of AMI), as shown in the table below.

The socioeconomics of Salinas are also greatly affected by the high concentration of agricultural workers in the region. Salinas sits within one of the world's largest agricultural centers and is a major processing and shipping point for lettuce, broccoli, mushrooms, strawberries, and other crops. The agriculture industry has always been a major driver of the City's economic base and a top employer for many residents. From 2014-2016, the average annual value of farm production was \$5.2 billion¹⁰¹ with 50 percent of that being vegetable and fruit production alone. Within the last 10 years farm production has increased substantially across the region, with a 14 percent growth over that time period¹⁰².

Based on the increase in production and labor demands, the region's resident agricultural worker population has also increased. Driven by the growth in production, full-time employment among farm labor increased 24 percent (3-year averages 2005-2007 to 2014-2016)¹⁰³. To meet the increased demand for farm labor in the region, 2017 saw a substantial boost in temporary non-immigrant foreign agricultural workers, also known as H-2A workers, by 4,365 compared to 268 H-2A workers in 2013¹⁰⁴. Based on Census findings, the recent Farmworker Housing Study revealed that Salinas has absorbed a considerable number of H-2A workers over the years and those living in Salinas increased by 41 percent. Farmworkers tend to earn lower incomes and have fewer options for housing, as shown in the table below.

¹⁰¹ 2018 Farmworker Housing Study and Action Plan for Salinas and Pajaro Valleys, Agriculture Production and Employment, p. 5.

¹⁰² Ibid..

¹⁰³ Ibid.

¹⁰⁴ 2018 Farmworker Housing Study and Action Plan for Salinas and Pajaro Valleys, Agricultural Employment, p. 50.



Farm labor annual income by household size, Salinas, CA (2018)¹⁰⁵

Household Income	Household Size 1	Household Size 2-4	Household Size 4-5	Household Size 6 +
\$0 - \$14,999	23%	25%	11%	9%
\$15,000 - \$24,999	44%	22%	32%	32%
\$25,000 - \$37,499	28%	31%	27%	26%
\$37,500 - \$49,999	5%	16%	17%	22%
\$50,000 or more	0%	6%	12%	11%

In addition to the agricultural workforce, the 2015 Housing Element documented that 19% of Salinas residents work in the retail or the arts, entertainment, recreation, accommodation, and foodservices industries. Many of these workers work in the tourist industry on the Monterey Peninsula with very limited affordable housing. An additional 18.4% work in the educational, health, and social service industry.

Limited Supply of Affordable Housing

Salinas has a limited supply of affordable rental supply. Along with partners such as the Housing Authority of the County of Monterey (HACM) and nonprofit developers, such as MidPen Housing and CHISPA Inc., the City has created subsidized or "income-restricted" units to serve populations with special needs including senior housing. The current income-restricted (subsidized) unit supply is approximately 3,445 active units with another 2,591 rental assistance vouchers utilized in the private rental market¹⁰⁶ for income eligible households out of an overall total of 40,025 households that reside in the City¹⁰⁷.

Solving the affordability challenges in Salinas through the creation of new units would require developing an additional 4,361 units for households under 50 percent area median income (AMI), including 2,177 units for households under 30 percent AMI, according to data from the American Community Survey.

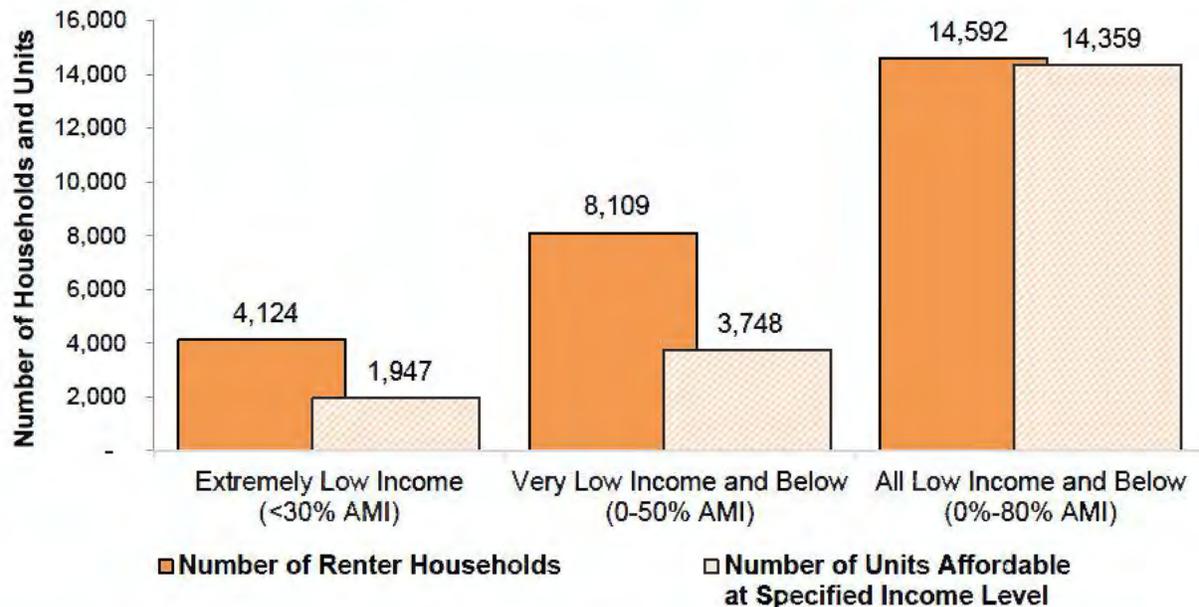
¹⁰⁵ *Farmworker Housing Study and Action Plan, 2018.*

¹⁰⁶ National Housing Preservation Database (data assessed via <http://nhpd.preservationdatabase.org/Data>) and Affirmatively Furthering Fair Housing Database (data assessed via <https://eqis.hud.gov/affht/>).

¹⁰⁷ 2016 ACS 1-year Public Use Microdata Sample (PUMS) Data.



Supply gap among renters, City of Salinas, CA (2016)¹⁰⁸



The City's limited supply of rental housing priced for low-income individuals and families reinforces the importance of its income-restricted housing, which helps keep housing costs manageable for the individuals and families living in it. Privately owned, federally subsidized properties and tenant-based rental assistance provided by the Housing Authority of Monterey County comprise most of the city's income-restricted supply. Loss of subsidized or income-restricted units could put additional pressure on the city's affordable housing supply. Income-restricted units can be lost through a variety of ways including, expiring subsidies, deteriorating quality that ultimately makes them uninhabitable, and owners "opting out" of subsidized housing contracts. Among Salinas's existing privately owned, federally subsidized supply, 168 active units have subsidies that expire by 2020. Over the next ten years, 413 active units (12 percent of the subsidized stock) across 19 properties are set to expire¹⁰⁹.

Salinas residents in occupations that make up a significant share of the local workforce -- healthcare aides, cooks, and sales staff at retailers -- along with households receiving public benefits and a substantial percentage of residents employed through agrarian and farm work, have few viable housing options.

Growing Housing Cost and Housing Cost Burden

It is not surprising that increased demand and limited supply has led to a rise in the cost of housing. In 2016, the median rent price for the Salinas market is \$2,344, with a median multifamily unit (up to five units) rent of \$1,799 and median of \$2,399 for a single-family home. Post-Recession, between 2011 and 2016, the Salinas rental market has experienced a steady increase in median rent. In 2015, the City experienced an all-time high when median rent increased 15 percent in one year.

¹⁰⁸ 2016 American Community Survey Public Use Microdata Sample 1-Year Estimate

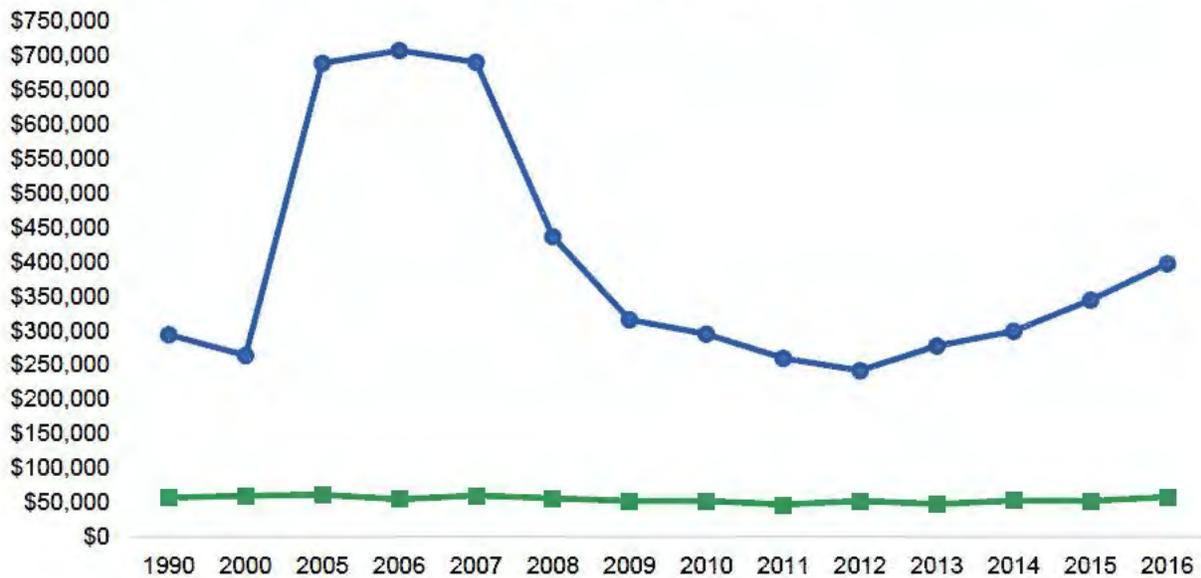
¹⁰⁹ National Housing Preservation Database. Data assessed via <http://nhpd.preservationdatabase.org/Data>.



The median home price listed as of April 2018 is \$525,000, a five percent increase from just a year earlier: this trend of steady increase is consistent with a 25 percent increase going back to May 2014, when the median home was listed at \$417,800.

The combined effect of low median income and growing cost of housing has worsened over time. The following two charts show the growing gap in affordability for both renters and homeowners.

Comparison of change in median household income and median home value, City of Salinas, CA (1990–2016)¹¹⁰

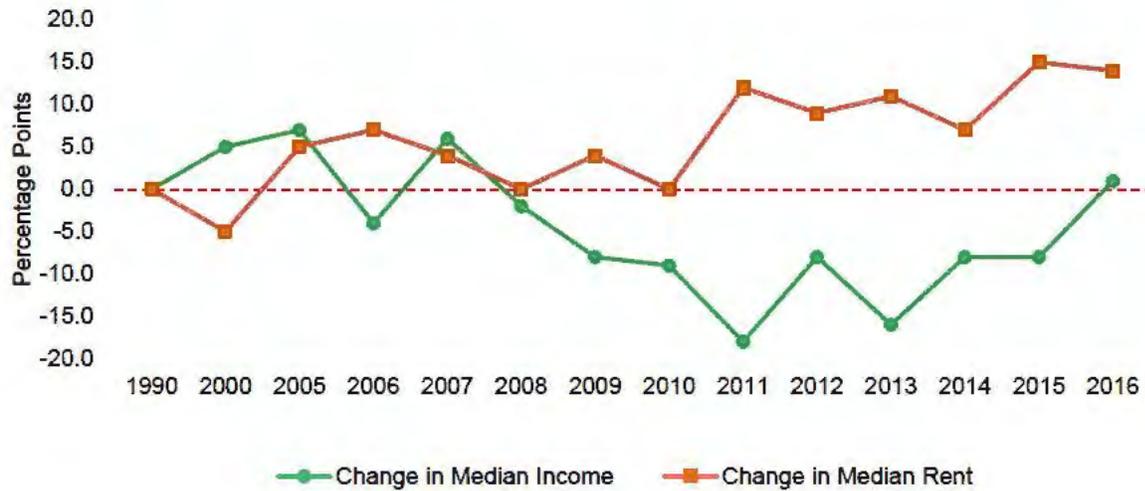


Note: Household income shown in constant 2016 dollars

¹¹⁰ 1990 & 2000 Decennial Census and 2005–2016 American Community Survey Public Use Microdata Sample 1-Year Estimates

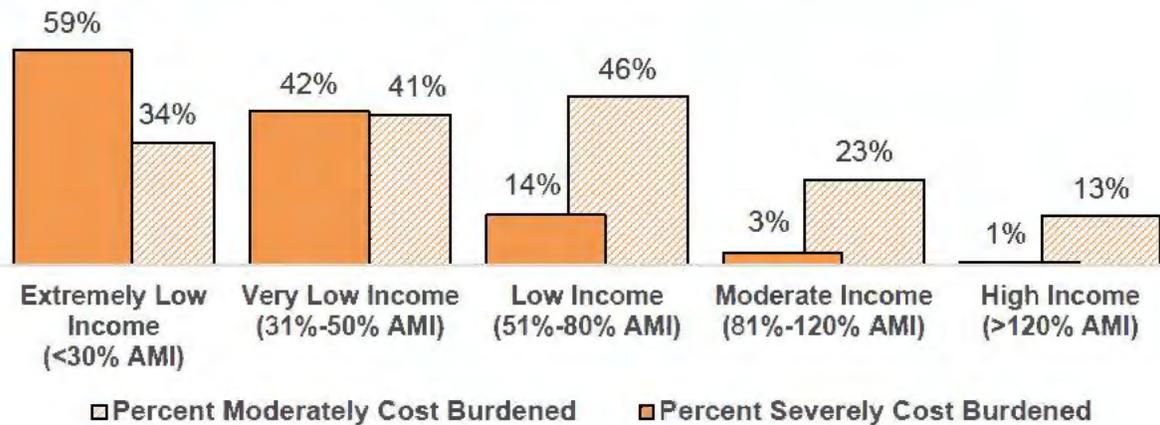


**Cumulative change in median household income and median rent,
City of Salinas, CA (1990–2016) (Constant 2016 \$)¹¹¹**



The result is that a very high percentage of Salinas households cannot afford housing. When a household pays more than 30 percent of their gross income on housing, including utilities, they are considered “cost-burdened.” Currently, 48 percent of households in the City of Salinas experience cost-burdens: of these households, 18 percent are extremely cost burdened, paying more than 50 percent of their gross income on housing each month¹¹².

**Comparison of cost burden households with household income,
City of Salinas, CA (2016)¹¹³**



¹¹¹ 1990 & 2000 Decennial Census and 2005–2016 American Community Survey Public Use Microdata Sample 1-Year Estimates / Calculated as the percent change from 1990 base year, adjusted for inflation.

¹¹² 2016 American Community Survey Public Use Microdata Sample 1-Year Estimates

¹¹³ 2016 American Community Survey Public Use Microdata Sample 1-Year Estimates



Extremely low-income households, those earning 30 percent or less of AMI, represent over half (59 percent) of all cost-burdened renters and 18 percent of all severely cost-burdened homeowners¹¹⁴.

Homelessness

Every two years, during one day in late January, communities across the country conduct comprehensive counts of the local population experiencing homelessness. This effort, known as the Point-in-Time Count, is used to measure the prevalence of homelessness and collect information on individuals and families residing in emergency shelters and transitional housing, as well as people sleeping on the streets, in cars, in abandoned properties, or in other places not meant for human habitation. Homelessness data for Salinas is collected as part of the Point-in-Time Count for Monterey and San Benito Counties, most recently conducted January 25, 2017. The City's Homeless Emergency Aid Program (HEAP) grant indicated that the Monterey/San Benito County area has the 7th largest homeless population per capita in the State and the 20th largest population nationally.

The rapid increase in housing cost is also one of the factors driving the 155 percent increase in homelessness in Salinas since 2013: in the most recent annual count, 1,361 individuals in Salinas were homeless.

Among all the cities in the Monterey County, Salinas has seen the largest increase in individuals experiencing homelessness, increasing 57 percent since 2015 and 155 percent since 2013. The January 2017 Count found 1,361 homeless persons in Salinas, of which 1,097, or more than 80 percent, were unsheltered. Homeless persons in Salinas now account for 48 percent of the County's homeless population, up from 38 percent according to the 2015 Count. In the latest national Annual Homeless Assessment Report to Congress, the Salinas/Monterey, San Benito Counties Continuum of Care is included in the top three highest prevalence for several key homelessness factors and subpopulations, including chronic homeless, youth homelessness, and overall homeless population, when looking at all Smaller City, County, and Regional Continuum of Care.

Unregulated and Unsafe Housing

While the problems of housing burden and homelessness are somewhat easy to measure or see, Salinas also faces a separate but less visible problem – serious overcrowding. Overcrowding occurs as landlords, or renters who are able to qualify for a lease, often sublet to multiple families in a single-family home or apartment, turning rental units into de facto illegal boarding houses. Illegal rentals are also commonly found in garages, attics and even backyard sheds. As a result, the community has numerous de facto units where basic housing code requirements related to habitability, fire, and health and safety are often overlooked. On the other hand, the challenges in documenting these interior violations makes it difficult to gain access inside these units, meaning that code enforcement tends to focus primarily on issues external to structures. With limited data and legal authority through Ordinances, it is difficult to address overcrowding inside homes. While almost 60 percent of Salinas's housing stock is rental property¹¹⁵, there is not a clear picture of rental ownership or compliance with laws regulating rental units. Additionally, the increasing popularity locally of the H2A visa program has resulted in the conversion of existing housing units to H2A compliant housing with the intention of housing agricultural employees. While these units do provide housing that meets the minimum standards for H2A housing, the conversions can sometimes take place in neighborhoods with single-family homes, which can cause friction with existing residents, and can result in the displacement of existing residents if the converted units already have tenants. However, agricultural companies have concerns about the long-term stability of the H2A program, reducing incentives to find more permanent solutions.

¹¹⁴ 2016 American Community Survey Public Use Microdata Sample 1-Year Estimates

¹¹⁵ 2016 Five-Year Estimates, American Community Survey, U.S. Census Bureau



The result of these housing market dynamics in Salinas – lack of affordable housing, severe code violations, and increasing demand for rental housing by low-and-moderate-wage workers and other vulnerable populations has incentivized an underground rental economy that takes advantage of the impoverished and working families.

Overcrowding is most severe among low-income renters and is prevalent in both single family and multifamily rental units. Many households do not rent a unit themselves or informally “sublet” from another tenant. Instead, many rent individual bedrooms, living rooms, closets, and even single beds in garages outfitted with bunk beds, directly from the single-family property owners. This business model is more akin to an unregulated Boarding House than to a traditional landlord/tenant rental model. In multiple interviews, accounts of unhealthy and unsafe living conditions in shared bathrooms, the overuse of electrical outlets, and general uninhabitability of units were described. Additionally, it was expressed that parents fear the possible consequences of their minor children living with unrelated and unaccompanied adults.

The Salinas community has experienced these dangerous housing conditions for years, particularly in areas such as the Alisal, which was initially developed prior to annexation by the City INS 1963, and currently has highest population density in the City. Many owners, and renters operating as *de facto* landlords, operate their rentals relying on vulnerable renters who are particularly susceptible to illegal housing arrangements, allowing for the prevalence of overcrowded boarding-style housing. Currently owners have no meaningful incentive to maintain their investment or to adhere to minimum legal requirements. Instead, they can charge per capita rents well beyond what would be a legitimate rental value of their properties by renting to more individuals than units were designed to accommodate, endangering the health and safety of vulnerable tenants.

Severe overcrowding has been recently documented for agricultural workers. Based on survey research for the Farmworker Housing Study and Action Plan (2018), 54 percent of the surveyed agriculture workers reported living in crowded housing – with more than one tenant in the same unit. This included 22 percent living in extremely crowded conditions, with more than two people per room and up to five people per bathroom. When compared to the standard of one person per room, 93 percent of agricultural workers live in overcrowded conditions.

Although some agricultural workers rent single family homes and apartments, the survey results indicated that many rent a single room, and other structures such as garages, trailers, or attached studios were also common housing options, as shown in the table below. This is also reported among other vulnerable populations.

Distribution of rents per dwelling type, per room¹¹⁶

Type of Unit	Rent Paid	
	Mean Amount	Median Amount
House	\$212.88	\$180.00
Apartment	\$207.73	\$170.00
Room in apartment or house	\$236.82	\$200.00
Mobile home	\$169.94	\$181.25
Garage or studio	\$206.55	\$208.33

Survey responses from 445 residents across 168 dwellings reported 57 percent of respondents sleeping outside of bedrooms and in the living room, while 32 percent reported sleeping in a garage. Among the 23

¹¹⁶ Salinas Pajaro Agricultural Worker Housing Survey (SPAWHS) for the Farmworker Housing Study and Action Plan, 2018. Unable to calculate for whole units due to concentration.



H-2A workers surveyed, 74 percent reported living in motels¹¹⁷ in Salinas, which is consistent with interviews conducted with City staff and service providers.

As noted previously, agriculture business expansion and the diminishing number of migrant agricultural workers have led growers to increasingly rely on H-2A foreign agricultural workers. As a matter of labor and visa requirements, growers are required to provide housing for H-2A workers. To meet this requirement, many growers and labor contractors have chosen to enter long-term leases with motel owners both in and out of Salinas to house these workers¹¹⁸.

Relying solely on motels poses serious health and safety concerns caused by lack of plumbing and electrical capacity to support multiple dwellers within one room. Using the motels as year-round housing also has the effect of removing the motels as a source of temporary housing for the homeless, domestic violence survivors and/or for domestic migrant agriculture workers who travel the coast as the growing season has extended given technological advances.

Impact on City Finances and Operations

The housing challenge also has a direct impact on the City's fiscal challenge.

Homelessness is a significant problem in the urban center and in an increasing number of encampments on vacant county land adjacent to City boundaries. The City's Public Works budgeted \$340,000 in FY18 to clean up trash from about 30 encampments; the actual costs are likely higher. Police and other City staff resources are spent managing the impacts of homelessness. The Downtown Housing Assessment Study expresses public concern that as homelessness is addressed in Chinatown, unserved homeless will migrate to downtown, thereby making it more difficult to attract investment.

In response to these extensive needs on homelessness, the City of Salinas has taken active steps to address homelessness and has shifted its approach to adopt best practices on street outreach, housing navigation, and rapid rehousing. The City has engaged County officials and agencies including the Department of Social Services and Behavioral Health to align and leverage resources across departments and has focused on health factors to reduce homelessness in the region. The City has also increased its collaboration with the Coalition of Homeless Services Providers of Monterey County (Coalition) to acquire additional federal funding for homeless providers.

These efforts come with a cost. More than \$5 million was been spent from 2014-2017 on direct homeless services. An investment of more than \$200,000 was made to develop the Chinatown Revitalization Plan, a planning effort in the City's Chinatown Neighborhood where homelessness is most concentrated. MidPen Housing has developed a mixed-use project with 88 units of permanent supportive housing received an investment of nearly \$4 million, including land donated by the City. The City funded the Lake Street Health Center with \$150,000 in operating expenses to provide 250 adults living in encampments with all day restrooms, showers, early case management, and outside health services. First United Methodist Church received an allocation of \$500,000 to support improvements to kitchen and laundry facilities. The City invested \$429,870 from 2014-2017 in a Warming Shelter to house up to 80 individuals nightly and plans to complete construction and open a Permanent Shelter.

Conclusion

The City of Salinas faces a housing crisis, with a shortfall of available units across a spectrum of income levels and a marked pattern of overcrowded housing among very low- and extremely low-income residents. Many of the City's poorest residents also live in housing that is not maintained to minimum legal standards.

¹¹⁷ Farmworker Housing Study and Action Plan (2018), p. 549.

¹¹⁸ Long-term use of motels also eliminates transient lodging (the intended use under the Salinas Zoning Code) for travelers or other guests who need accommodations for twenty-eight or fewer days per year.



The City's housing challenge is anchored in a widening gap between land values and wage levels, and a majority of Salinas's households are considered low-income¹¹⁹.

INVESTMENT STRATEGIES

Most of the initiatives described so far are strategies to help the City close the projected budget gap and address structural organizational issues. However, in order for Salinas to be a sustainable and thriving community, investments must be made to allow the City do address the housing issues it is facing. The following initiatives seek to provide the City with the necessary strategies to ensure the sustainability of the City's housing stock and improve resident's quality of life.

Investment strategies **IN01-IN03** are included in the **Chapter 4: Structuring the Organization**. All investment strategies are provided together in **Appendix C**.

IN04 – Convene Stakeholders to Develop an Implementation Plan to Create More than 4,000 New Units of Affordable Housing in the Next Ten Years

Current plans to close the affordable housing gap in Salinas are inadequate. California General Plan law requires each city and county to have land zoned to accommodate its fair share of the regional housing need, but these are minimum requirements. The Regional Housing Needs Allocation (RHNA) targets in the Salinas Housing Element calls for 2,093 units of additional housing to be produced between 2014-2023, of which 517 would be for affordable for households at or below 50 percent AMI¹²⁰ – just a little over ten percent of the need of 4,361 units of housing for households at or below 50 percent AMI. Providing this number of units is a daunting task, and one that will require broad support from the community, business leaders, and other governmental agencies.

Salinas needs a plan to fully close the affordable housing gap and create the 4,361 units of affordable housing needed over the next ten years – with the understanding that the need for even more affordable units will probably increase with time. The plan should concentrate on closing the gap for housing for lower income residents, but should also increase affordability for those with higher incomes as well. By focusing a substantial percentage of affordable development on units for households below 50 percent AMI, the plan would have the added benefit of increasing the availability of units affordable above 50 percent AMI as families move from less affordable units to ones they can afford. This would strengthen the City's housing ladder, where households could still find a new affordable unit for rent or ownership as their income increases over time, as they move from low- to moderate-income.

The City absolutely cannot meet the housing challenge on its own. As detailed in the initiatives that follow, it will require a real partnership between the City, the County, State government, non-profits and the private sector – both in terms of funding and execution. The development of the plan should reflect that partnership in its earliest stages.

The City has already taken steps down this path with its efforts to address homelessness. There has been a robust collaboration with the City taking a leadership role in the management of countywide federal funds targeted to the homeless. Moreover, the quality and commitment of the City's Community Development Department staff and those involved in the work of the Alisal Vibrancy Plan is impressive.

The City should build on its current efforts and call together the key stakeholders involved in the development of important city planning efforts, including the Downtown, Chinatown, Alisal Vibrancy and Future Growth Area (FGA) plans and the Regional Farmworker Study. This collaboration should identify

¹¹⁹ City of Salinas 2015-2018 Housing Element, page 20.

¹²⁰ The RHNA housing numbers are an eight-year look forward with a regional allocation for addressing housing needs. The NRN housing needs number is based on current household needs for affordable housing. These represent different measures and approaches to addressing housing needs, and not conflicting needs assessments.



ways to synergize housing opportunities and policy across plan goals and strategies. The effort should include housing and homeless advocates, major employers and employment sectors, and developers from the FGA.

This is not a call for a new study. It is a recommendation that the City adopt an action-oriented assessment of its commitments and opportunities, as well as possible conflicting and complementing strategies. A successful effort would apply a housing lens, focused on the City's need for a housing ladder across incomes. The effort would also specifically examine opportunities to address the housing needs of very low- and extremely low-income residents, including the homeless, and the housing conditions in which they live.

IN05 – Establish a Housing Trust Fund with a Dedicated Revenue Stream for Affordable Housing

A successful effort to close the housing gap and create more than 4,000 units of new affordable housing will require new funding. Lack of resources has been a significant barrier to addressing the Salinas housing challenge. Financial resources to meet affordable housing needs have been in decline. In California, redevelopment agencies that by law contributed tax increment to finance affordable housing were legislated out of business in 2012. Salinas, like most cities, is now largely reliant on federal funds to address its affordable housing needs. In addition to constituting an insufficient amount of money to meet the City's needs, federal funding also imposes both eligible program uses and immigration status restrictions.

New Opportunities for Federal and State Support

There are significant opportunities on the horizon. Although in its infancy, recent changes in federal tax law creating Opportunity Zones are intended to create incentives for private investment – including in affordable housing – in low income communities. In Salinas, the State has designated five Census tracts as opportunity zones where Opportunity Fund investments will be eligible for significant federal tax benefits.

The State of California is also moving forward with unprecedented new funding for affordable housing. SB-2: Building Homes and Jobs Act, signed into law on September 29th, 2017, is expected to generate \$250 million dollars a year through recording fees. The California Housing and Community Development Department has announced that program guidelines will be available in Spring and Summer of 2019, and Notices of Funding Availability will be released in the second half of 2019, but some program details are already known. In addition to funding made available to Salinas as an entitlement community, 10 percent of the Fund (expected to be \$25 million annually) will be dedicated to Farmworker Housing. These two funding streams could support affordable and agricultural worker housing development in Salinas.

Proposition 1, passed by the voters in November 2018, will create \$3 billion available for affordable housing and \$1 billion for affordable home-ownership opportunity for veterans statewide. Proposition 1 funding allocation has not been determined, but again Salinas is likely to benefit significantly.

The Need for Local Action

To leverage potential Opportunity Zone investments and new state funding, the City should explore the feasibility of modifying the existing Trust Fund managed by the Monterey Bay Economic Partnership (MBEP) for additional loan types. The Monterey Bay Housing Trust (MBHT) Fund was created in July 2016 as a revolving loan fund for affordable housing. It is a partnership between MBEP and Housing Trust Silicon Valley, and the City has already allocated \$500,000 to this fund. If the existing trust fund cannot be modified to accommodate construction loans, or if the City determines that its interests would be best served by creating its own Trust Fund, then the City should do so. Regardless of the option chosen, the Trust Fund will require a dedicated revenue streams to finance affordable housing strategies. The Salinas Housing Trust Fund would be funded through dedicated local revenue sources and private and philanthropic contributions. When combined with state funded housing investments, the goal would be for the Housing Trust Fund to support 2,000 units of affordable housing over the period of the Salinas Plan.



The exact use of the Housing Trust Fund would be subject to the planning process outlined in the prior initiative. The City could fund a range of activities including acquisition, new construction (including Accessory Dwelling Units), and the preservation and rehabilitation of existing units, including preservation of eligible units with expiring covenants and those in the private rental market.

Cities large and small across the nation are increasingly turning to development of a Housing Trust Fund as a best practice.

- The City of Pittsburgh created an Affordable Housing Task Force in 2015 in light of a shortage of 18,000 subsidized affordable units. During the 2019 budget process, the City established a \$10-million Housing Opportunity Fund that was funded by a 0.5 percent real estate transfer tax in 2018 and 2019 that increases to 1.0 percent by 2020. The City plans to use those funds on new affordable housing projects as well as assistance for low-income home-buyers for home purchases and rehab costs.
- In 2016, City of Los Angeles voters passed Proposition HHH, a \$1.2 Billion ten-year bond to build 10,000 units of housing, primarily for the homeless. In 2017, voters in the County of Los Angeles agreed to Proposition H – a 10 year, ¼ cent sales tax estimated to raise \$355 million a year to fund homeless services including funding for housing and rent subsidies.
- The City of Philadelphia in 2018 introduced a new impact tax – a one-percent tax on construction costs – that will be dedicated toward a Housing Trust Fund that could be accessed by both nonprofit and for-profit developers to build affordable housing as well as by low-income residents for down-payment assistance. The City expects that the impact tax could generate as much as \$22 million annually for new affordable housing.
- In 2019, the City of Chattanooga adopted a multi-year capital plan that calls for \$1 million a year in funding for affordable housing.

The goal of 2,000 new units over ten years in Salinas is ambitious – in part precisely because of the high cost of housing that the Trust Fund is designed to address.

Based on evaluation of recent gap financing of affordable housing in Salinas, the average subsidy for an affordable rental unit is about \$121,400, with greater subsidy needed to develop housing for extremely low-income and less subsidy needed for low-income households. For low-income and moderate-income households in a stronger financial position, and able to become homeowners with some assistance, the average down payment subsidy is \$42,300. Affordable rental housing is generally the best option for households at 50 percent area median income or below and most jurisdictions support homeowner down payment assistance for households near 80 percent area median income. Using the average rental subsidy of \$121,400, **2,000 new units of housing would cost \$242.8 million.**

Part of the goal of recent state legislation is to reduce housing cost through changes in local regulation. And the City can also have an impact on the required level of subsidy through a variety of non-fiscal actions that it can take to ease development of affordable housing – from changes in its permitting processes to making City-owned vacant land available for development.

Specifically, Salinas should survey vacant land opportunities, including City-owned property, identify opportunities for mixed use projects on City land, and underutilized property along commercial corridors. For example, in Chinatown there are a significant number of vacant parcels. City staff shared that some of those parcels are owned by public or quasi-public entities and that certain parcels may require environmental remediation. Regardless of the City's current financial ability to acquire and remediate, it is imperative that the City understand the actual condition of large parcels of vacant land in its core neighborhoods.

There may also be opportunities for the City to create housing opportunities even as it addresses other infrastructure needs. For example, Salinas has community libraries that need substantial rehabilitation. In 2006, San Francisco designed and built the Mission Bay branch library in concert with new affordable senior



housing, a health center, community meeting hall and some retail. Chicago has broken ground on a housing-library campus this year, and New York City is also considering the same service mix.

The planning process recommended in the prior initiative should help to guide these and related efforts.

Even with the potential for significant funding from the State and the potential to lower the necessary levels of subsidy, any meaningful effort to meet the goal of 2,000 new units will require new funding at the local level as well.

Local government funding sources are constrained in the State of California by Proposition 13, limiting the property tax rate and extension of requiring votes on all special taxes. Proposition 218 further defined the difference between general vs. special taxes, requiring all assessments to have special property-related benefit and changing the protest proceeding to a protest vote. Proposition 26 further defines fees as taxes if revenues are used for non-regulatory purposes and requires a two-thirds vote for passage. In addition, the use of City revenues must be carefully monitored to avoid a gift-of-public funds issue, if providing funding for private development by for-profit enterprises. The City's ability to use of General Obligation Bonds to fund development may also be limited due to private-use restrictions if tax-exempt bonds are sold. Depending on what the City goes forward with, there will need to be an in-depth review of the limitations of funding sources by the City Attorney, Bond Counsel, and Financial Advisor.

Nevertheless, there are a series of potential local revenue sources that can be used to support the creation of the Salinas Housing Trust Fund, as shown in the following table:



Funding Options for a Housing Trust Fund				
Potential Funding	Description	Limitations		Potential Revenues
New Voter-Approved Tax		Goal: Generate \$30 to \$60 million over next ten years from one of the below sources		
General Obligation Bonds	- <i>Ad valorem</i> property tax in addition to the Prop. 13 property taxes	- Spread over large base - Secure annual funding - Successfully implemented by other Calif. Cities	- Must be used for capital - Required 2/3 vote - Will be impacted by sales tax votes - May need to be taxable bonds	Based on current assessed values, a \$50 million housing bond would cost land owners an average of \$17 per \$100,000 valuation
Business License Tax	- Tax on businesses in City based on factors such as gross receipts, employees, etc.	- Paid by benefitting businesses - Can be calculated on different business metrics - Not subject to federal grant limitations	- Requires 2/3 vote - May not be supported by local business - Only covers City businesses - Limited for private-use purposes	A 2.5% tax on gross receipts for agricultural businesses would generate \$2.5 million per year. ¹²¹ Expanding the tax base would generate additional revenue
Parcel Tax	- Set tax per assessor parcel	- Annual revenue easy to project - Assesses all parcels in City	- Regressive in that small parcels pay same as large - Requires 2/3 vote	Varies based on amount of tax levied
- Outside Funding		Goal: \$30 million to \$60 million over 10-years		
Voluntary Ag or other business ¹²² contributions/philanthropy	- Voluntary funding from businesses in and out of the City	- Most flexibility in use - No vote required to generate revenue	- May result in uneven contributions between businesses - No ability to force collection	Unknown, but should target at minimum an amount equal to tax contribution from businesses/residents
- City General Fund		Goal: \$4 million to \$5 million over 10-years		
City Contribution of Redevelopment Property Tax Trust Fund (RPTTF)	- Investment of City General Fund revenues	- No additional taxes - Use of old redevelopment funds for former purpose	- Reduces City's GF budget - As city revenue, may be limited for private-use purposes	\$400K to \$500K per year
State Funding		Goal: \$120 million minimum over 10-years		
Propositions 1 and 2 (November 2018)	- Current State funding programs that provide several billion in funding	- Will provide additional funding to City to augment local funding initiatives	- Unclear how much funding City will be able to capture	Estimate of \$30 million +- over a 10-year period (this estimate is very preliminary)
- Total Funding		Goal: \$184 million to \$245 million		

¹²¹ The agricultural industry in Salinas has approximately \$112 million in annual business gross receipts and would be a direct beneficiary of an increase in housing affordable to their workforce. The \$112 million figure is derived from data in the 2012 Survey of Business Owners, published by the US Census Bureau, which has been calibrated to 2018 gross receipts using California's farm income growth from 2012 to 2018, using data from the US Department of Agriculture. The 2012 Survey of Business owners include the agriculture, forestry, fishing, and hunting sector, which comprises establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from a farm, ranch, or their natural habitats



As part of the funding for the Housing Trust Fund, the City should engage in discussions with local government and philanthropic partners in investing resources into the housing fund. This recommendation does not specify how the trust is formed or partnered, but rather that funding from a variety of sources is needed, and City sources alone will not be adequate.

The strength of the regional housing market over the last five years indicates an opportunity for private capital to support development and redevelopment of affordable rental housing with a competitive rate of return. Similar investment in preservation and redevelopment of affordable housing in other communities has generated equity funds ranging from \$25 million to \$100 million and can leverage several times that amount in development capital.

Moreover, because Salinas is a regional center for housing for many workers in agriculture, tourism, and education/social services, there may be an interest in private contributions from employers – both those based in Salinas and those based in the region – in support of the Housing Trust Fund. County government should be tapped for support, in addition to philanthropy. Recognizing the growing demand for housing among agricultural workers, the agriculture industry continues to participate in regional discussions regarding the construction of new housing on grower owned land. Additionally, regional leaders are exploring opportunities to build on efforts such as Tanimura & Antle’s employee housing located in Spreckels and consisting of 100 units. Several employees from agriculture companies participated in the day-long forum during the release of the Farmworker Housing Study and Action Plan to discuss regional solutions to the housing crisis facing agriculture workers throughout the region.

At a minimum, the City should identify \$6 million a year in new local revenues from the sources described above to support the Housing Trust Fund and another commitment of \$6 million from local non-City funders. If this is matched by funding from the state on a 50/50 basis¹²³, it would be sufficient to meet the goal of funding 2,000 new units in the next ten years – even without reductions in the needed level of subsidy.

IN06 – Develop a Land Strategy to Leverage Private Market Investment to Create Up to 2,400 New Units of Affordable Housing

A key potential for production of additional affordable housing is the City’s Future Growth Area (FGA) on the north and east sides of the City. The FGA is targeted to produce as many as 12,000 new units over the next ten to thirty years. The City can use this opportunity to leverage the value created by the development to require the inclusion of affordable housing in the overall housing mix. Inclusion of affordable housing is required under the City’s inclusionary housing ordinance, although at levels lower than required to produce 1,600 units.

The City has designated undeveloped farm land in the area north of Boronda as the Future Growth Area (FGA)¹²⁴. Currently the land is owned by multiple parties and is zoned for New Urbanist development. This area was annexed by the City in 2008 and includes up to 2,400 acres of land for potential housing development¹²⁵.

¹²² Examples of other business types that might be interested in providing voluntary contributions include tourism, hospitals, and education.

¹²³ It is assumed that self-help cities will have an increased success rate at getting recently-approved State bond funds for housing. To achieve a 2,000 unit affordable housing goal, the City will need to attract State funding roughly equal to local sources of revenue.

¹²⁴ Salinas 2015-2023 Housing Element.

¹²⁵ Salinas 2015-2023, Housing Element.



Comparison of Sites Inventory and RHNA

Unit Capacity	Income Category			Total	
	Extremely/ Very Low	Low	Moderate		
Vacant Residential Sites			505	236	741
Vacant Mixed-Use Sites					
15-24 units/acre			111		111
30-40 units/acre	76				76
30-40 units/acre (Allows residential uses by-right)	226				226
Underutilized Sites					
15-24 units/acre			591		591
30-40 units/acre	902				902
30-40 units/acre (Allows residential uses by-right)	529				529
Total	1733		1207	236	3176

Developers participated in early planning efforts for the FGA in 2002 and again between 2005 and 2006. In 2009, the City held charrettes based off the General Plan design concepts with new urbanism. Two specific plans for the West and Central Areas, including approximately 8,000 units, are in process, with development agreements for these plans yet to be negotiated.

During a series of interviews with the Network team, developers indicated that the FGA could provide a means of addressing the housing crisis across income groups. Recognizing the severe shortage of housing across the income spectrum, developer interest is in building single family homes with new urbanism design principles – high density, up to nine units per net acres – instead of the five units as previously done. They will also include multifamily units and/or townhomes to provide more diverse housing type options to meet the existing demand. The area is currently zoned for New Urbanism, which allows for transitional zoning until specific development plans in the area receive approval. The City will adopt zoning to accommodate residential, mixed use and other land uses and development regulations through specific site plans. The City is working on the West Area and Central Area Specific Plans to accommodate residential development in the FGA, with approval of these plans expected to occur in 2019.

The City has worked with developers to ensure affordable housing is produced through inclusionary zoning. The recently adopted ordinance established inclusionary zoning requirements based on unit type and income levels. To achieve affordable housing levels of 20 percent or more of the new units in the FGA, the City will need to work with future housing developers to provide a range of housing options that include additional market-rate housing that will be affordable to a range of residents.

The combination of affordable housing and private development is not an approach that should be limited to the FGA. It should be just one component of an overall strategy that looks at land and private development as a means to addressing the affordable housing need.

For example, any effort to alleviate the dense living conditions within the Alisal should include a Commercial Corridor Assessment of the Alisal corridor. Staff shared that a survey of business owners has been contemplated. It may be possible to identify underutilized property along the corridor that could serve as



mixed use development opportunities. Housing above commercial uses could fill different needs from senior housing near a pharmacy to units for single adult low-income workers.

IN07 – Create Regulations to Address Safety and Health Conditions in Rental and Other Group Housing

More affordable housing is an essential step to addressing Salinas’s housing crisis, but it is not enough. The City must take steps to address unsafe conditions that are the result of overcrowding even as it relieves the pressure on the housing market that has in part led to some of those conditions.

Interviews probing possible solutions for the housing conditions among extremely low-income households and agricultural workers revealed a deep concern that the problem may be too big to tackle. There are concerns that the City lacks sufficient resources, and that the outcome of any strategy that focuses on current conditions of the overcrowded housing would primarily lead to the significant displacement of an already vulnerable group. During interviews there was a pronounced hesitance to discuss direct strategies regarding deficient housing conditions and overcrowding, particularly through code enforcement

Absent a policy scheme specifically designed to limit displacement and address both housing conditions and the need for a significant number of new affordable housing units, hesitation to commit to policy approaches that might seriously impact a vulnerable population is understandable. The City, however, cannot succeed in addressing the breadth of affordable housing needs by limiting their effort to new construction. Salinas’s renters across income levels overwhelmingly live in private rental housing, and the City has a vested interest in ensuring decent standards. Moreover, rental housing with significant habitability issues is both privately owned and geographically concentrated, and the City will need to leverage new locally raised funds with its municipal powers if it is to meet the problem.

Foundational to the development of well-designed city programs and high leverage housing outcomes is an evaluation of the City’s existing rental housing stock. The Network team recommends a suite of strategies are meant to assist the City in addressing the breadth of its complex rental housing challenges. The recommendations include:

- Create a rental housing registry
- Establish a proactive rental housing inspection program
- Protect tenants against owner retaliation
- Establish occupancy standards and develop a regulatory scheme for boarding houses
- Consider a motel master lease program

1) Create a Rental Housing Registry

The registration of all rental housing units will provide local data that is not available from national data sources. An evaluation will help clarify the current and forecasted needs of Salinas’s very-low and extremely-low income populations against the actual quantity of rental units and their building types. Moreover, local data will equip the City with essential information needed to manage through any future economic downturn which impacts real estate.

There are numerous examples of housing registry programs in California.

Hemet (population under 80,000) adopted a rental registry program as part of a larger inspection program in 2013. Hemet’s program applies to all residential rental units, requires regular inspection of rental units and established a fee structure to cover the cost of registration and inspections. (Ordinance 1873, Article XIV, Chapter 18, Hemet Municipal Code).

Fresno offers free on-line registration of all residential rental properties. An updated registration is required at a change of ownership or contact information. Fresno has also implemented an inspection program.



Eastvale (population under 60,000) instituted a rental registry requirement for all single-family dwelling rentals in 2013. This requirement is included as part of their Business Registration program. The program goal is to ensure that single-family house rentals provide to tenants a safe and decent place to live. Currently, the business registration fee is \$114 for the initial application and \$44 for renewals. Separately, Eastvale requires a property inspection as part of this requirement.

Sacramento, like the cities referenced above, requires registration of every rental unit. Likewise, the registration is the first step of a larger inspection program. The City currently charges a registration fee of \$16.00 per unit.

2) Establish a Proactive Inspection of Rental Housing Program

Salinas's renters overwhelmingly live in private rental housing. Even assuming a robust public affordable housing construction program, private rental housing will continue to be home to most renters. Salinas has an interest in safeguarding minimum habitability standards and the health and safety of its residents. National data estimates the level of overcrowded housing but cannot illuminate the scope of uninhabitable conditions, the stage of building deterioration, or the location and concentration of substandard housing.

The City's Community Development staff have shared that they are studying program designs for a rental housing inspection program. Salinas should adopt a Proactive Rental Housing Inspection Program.

Proactive rental housing inspection programs support community health and can further complement community investment strategies. Salinas would be able to move beyond speculation on the size of the problem and begin to reverse the declining trajectory of substandard buildings –sparing neighborhoods the social ills that accompany poor housing conditions.

One of the natural outcomes of rental housing inspections is the confirmation that the clear majority of rental housing units are owned by responsible business owners. Conversely, the community will also become aware of patterns of ownership and unacceptable business practices by the owners of substandard buildings. At a micro level, the City will finally be able to differentiate between single-family homeowners who are living with other related persons in difficult conditions from those who own single-family homes and knowingly employ a business model that creates severely overcrowded conditions, by essentially illegally subdividing a single-family structure and renting out individual rooms, living rooms and garages - mixing unrelated persons within the same dwelling.

There are long term benefits of proactive rental housing inspection programs. City rental housing inspections are objectively carried out and help mitigate the tension between landlords and tenants as rights and responsibilities of both parties are clarified. Additionally, the City can support struggling landlords.

Generally, the design of proactive rental housing inspection programs considers the building types of rental housing to be included, whether the program is to be implemented citywide or targeted, the frequency of inspections, the scope of inspections (exterior/interior), and compliance protocols.

There are many examples of inspections programs across the U.S. Here, we have limited the reporting to a selection of California cities.

Los Angeles adopted its Systematic Code Enforcement Program in 1998. This is a citywide program that requires all rental units in buildings with 2 or more units to register. Single-family homes are not included in the program unless there are two single-family homes on a lot. The City inspects every unit on a 4-year cycle. There is no self-certification program.

The current code enforcement fee is \$43.32 per unit per year. Los Angeles differs from the other cities listed below in that tenants ultimately pay the annual fee. Landlords must pay the fee to the City by the end of February of each year. The City permits landlords to pass the fee through to its tenants at the rate of 1/12 of the annual fee per month.



In 2005 the program received the Innovations in American Government Award by the Kennedy School of Government at Harvard University, recognized as the best housing program in the country.

Initially, apartment owners vociferously opposed the program. Twenty years later, the City's housing department and the local apartment owners association collaborate and offer monthly workshops on preventative building maintenance and property management. This strategy has proven particularly effective in helping "Mom and Pop" owners move away from a deferred maintenance model, which is both more expensive and legally precarious, to a preventative maintenance model.

Between 1998 and 2005 Los Angeles was able complete its first full cycle of inspection of the City's 760,000 rental units. This first effort resulted in over 1.5 million corrected violations. The Housing Department hired cost estimators to calculate the value of the repairs. The value of business owner reinvestment in the Los Angeles private rental housing stock was estimated to be \$1.4 billion¹²⁶. It is helpful to contrast this private reinvestment against the current Los Angeles public financing effort to provide housing for the homeless. As described earlier, Los Angeles voters approved an historic 10-year \$1.2 billion housing bond in 2017 to support the construction and rehabilitation of 10,000 permanent supportive housing units.

Santa Cruz has implemented a citywide program that includes all rental housing units that are over five years old within its Residential Rental Inspection Program. Both the exterior and interior of every unit is inspected. At the time of registration, owners whose properties have no existing building, housing or sanitation code violations from the previous three years can qualify for the self-certification program.

Self-certification limits yearly inspections to 20 percent of a registrant's units for a period of up to five years as long as all units continue to meet all standards. During the period of eligibility, the owner is required to conduct an annual self-inspection of every rental unit and to file certifications under penalty of perjury that all units meet the minimum standards under applicable codes. Santa Cruz provides owners with a Self-Certification Program Checklist. Those units that do not qualify for self-certification will be inspected every year until the units meet the standards for self-certification.

The program currently charges a \$45 yearly registration fee. Additionally, if an owner's units have qualified for self-certification, a \$20 fee per unit for the 20 percent of units that are to be inspected is required. If an owner's units have not qualified for self-inspection, a \$20 fee is charged for every unit owned, in addition to the \$45 per unit annual registration fee.

Sacramento began as a pilot program targeting two neighborhoods with a concentration of substandard rental housing. In 2008, the program was expanded citywide and applies to all rental housing units. Housing built within the preceding ten years is exempt from inspection, but registration is required.

All rental housing units over ten years old are inspected after the initial registration. Sacramento offers a different version of a Self-Certification program. Every building over 10 years old is inspected. If at the time of inspection, the building is either found to be in compliance with all applicable codes or cures any violation before the 30-day re-inspection, the building will qualify for the self-certification program. Building owners are required to complete annual self-inspections. The City's audit approach is to randomly select 10 percent of the units in the self-certification every year for inspection. Any building with units that do not pass inspection will receive annual inspections until they requalify for the self-certification program.

The current inspection fee is \$16 per rental unit and \$127 per each new rental unit inspected. Any unit that falls out of the self-certification program is subject to the \$127-unit inspection fee.

Fresno adopted its Rental Housing Improvement Program in 2017 and began to pilot inspections earlier this year. Fresno is implementing a citywide program that includes all rental housing units. While all units

¹²⁶ Ash Institute, Harvard University, 2005 Innovations in American Government Competition.



must register, the City is implementing the program by selecting, pursuant to a random sampling formula, which of its approximately 93,000 rental units will receive a baseline inspection each year.

The City does not have a registration fee but does charge \$100 per unit for the annual baseline inspection.

3) Protect Tenants Against Owner Retaliation for Participating in Rental Housing Inspections

California state law provides legal protection against landlords that retaliate against their tenants for exercising their legal rights as renters. Relating to inspections, it is illegal for a landlord to retaliate – eviction, terminating tenancy, increased rent, decreased services – because a tenant has complained about habitability conditions or has cooperated with local inspection officials. California Civil Code Sec. 1942.5.

In interviews it was reported that extremely low-income tenants fear retaliation and will be less likely to exercise their rights relating to inspections, including seeking legal advice. The initiation of an inspection program is likely to increase tensions while all the parties adjust to a new business model.

The Proactive Rental Inspection Program should support tenant involvement in the program making it clear that landlords that illegally retaliate against tenants will not be able to register their units until the violation is remedied. The City should implement both a tenant and owner education program regarding the implementation of the rental inspection program to be funded with the new rental registry fees.

4) Establish Occupancy Standards and Develop a Regulatory Scheme for Boarding Houses

One outcome of the desperate need for low rent housing coupled to the absence of systemic code inspection in the interior of housing units has been the development and operation of concentrations of severely overcrowded single-family dwelling units as unregulated Boarding House businesses. Implementation of even the most basic rental registry and housing inspection programs will expose a level of housing un-inhabitability among this subclass of unregulated businesses.

The City should establish occupancy standards for all residential units in the community to prevent this type of ad-hoc conversion of single-family dwellings to illegal unregulated Boarding Houses. At the same time, the City should use the Boarding House model as an anti-displacement strategy by providing a regulatory pathway for owners of this subclass of rental units to come into compliance as licensed Boarding Houses. This strategy acknowledges the need for low rent housing and the community interest in stabilizing neighborhoods by supporting the transformation of these properties to productive code compliant local businesses. Indeed, the City should work collaboratively with community members of the impacted neighborhoods, advocates, property owners, local affordable housing developers and others concerned about this issue to develop a uniquely local frame to this issue.

Across the country, boarding houses and other forms of shared housing were once common strategies providing low-rent spaces. More recently, cities such as Seattle, San Francisco and New York have experimented with micro-housing types. In dense cities, the construction of multi-story apartment buildings with unit sizes ranging from 220 to 350 square feet integrate the need for lower cost housing with extremely limited available land. Salinas has single-family homes that without intervention will continue to deteriorate until they are abandoned.

The basic elements of a Boarding House regulatory scheme could be framed by the minimum requirements of code compliance. As an initial matter, housing inspections could include a report identifying properties that meet the City adopted definition of a boarding house. Inspection reports would also be able to identify the pattern of ownership in these properties. Specifically, the City would have the capacity to distinguish between property owners who rent out one single-family house from those who own several properties and have developed a business model.

A detailed understanding of the characteristics of this subset of housing is the starting point for a program designed to assist qualifying properties and owners to bring their businesses into compliance. It may be prudent to launch this program as a pilot. The City could start with a limited number of motivated property owners. This would permit the City to gain a deeper understanding of the housing conditions (including



financial estimates for compliance), and the actual tenant profile, e.g., the percentage make up of families vs. single adults. Ultimately, owners who bring their properties into compliance would be licensed to run a Boarding House pursuant to program guidelines that prevent severe overcrowding and uninhabitable conditions.

The issue of occupancy standards will be of paramount importance to the development of any program. California state law and various federal housing programs provide different and often conflicting formulas for occupancy. The City should work with community members, owners and tenant advocates, and expert legal assistance to craft occupancy standards that meet the broadest occupancy formulas under state law and the needs of Salinas's residents.

To support the preservation of properties meeting eligibility criteria, the City may want to dedicate a portion of the Housing Trust Fund either by purchasing key properties from owners who do not wish to do business by adhering to minimum legal standards or by offering a loan to owners who are also investing in the future of their buildings. This refurbished housing stock – in part, supported by non-federal funds – could become a valuable complement to new construction investments at a significantly lower cost.

5) Consider a Master Lease Program for Privately Owned Motels

As previously noted, some agricultural owners are meeting their legal requirement to house foreign H2A workers by leasing privately owned motels for the months-long length of an agricultural season. This strategy is leading to overcrowded and sometimes dangerous conditions, e.g., bunk beds blocking exits or compromised electrical systems. Properly regulated motel rooms are a viable rental option for housing seasonal workers and as emergency housing for the homeless.

To ensure effective regulation, the City should develop a Master Leasing program so as to control a percentage of motel rooms within Salinas. The City should work with the agricultural industry, private motel owners, Monterey County representatives and other stakeholders to explore an organized approach to the use of this private rental housing stock. It may be possible to reach an agreement wherein the City would focus in on master leasing motel units within Salinas's city limits and individual growers could focus their rental initiatives on motel units outside of Salinas's city limits. Working with Monterey County, it may be possible to set some units aside for the provision of housing for the homeless.

Master Leasing brings benefits to the motel owners, renters and the City. All parties benefit from a multi-year, fixed-rent contract. Owners are protected against vacancy risk, save on turn over costs and receive guarantees against tenant caused damage. Renters will rent lodging that is habitable and will be protected against unfair rent increases. The City will be able to curtail the number of severely overcrowded single-family rental properties and help stabilize the neighborhoods they are located in.

A master leasing program should adopt key standard elements. As an initial step, the City should gain an accurate count of motel and motel units within city limits. Discussions with motel owners and estimations arrived at by city staff will delineate the number of units that the city should optimally contract for. Most residential master leasing programs work through a local third-party non-profit organization that on a fee basis, works with the city to negotiate leases including the establishment of management responsibilities and occupancy standards.

The non-profit entity is responsible for the day to day management of the housing, including rent collection and tenant selection. After inspection of the leased units, the non-profit manager would also work with the owner to correct any deficiencies and after inspections certify the units, the non-profit manager would ready the units for occupancy. Given startup costs and the limited income of the expected renters and that many may be seasonal residents, the City through the non-profit manager will probably need to establish a revolving fund to cover any deposits and rent until the renters receive their wage pay.

San Francisco has, since 1998, successfully implemented a master leasing strategy for residential hotels. In this instance, San Francisco was focused on providing housing for the homeless – particularly homeless adults. Working with third-party non-profit managers they negotiated 20-year leases. Prior to taking control



of properties, owners were required to fund repairs pursuant to code inspections and to retain responsibility for negotiated building wide systems. This strategy is particularly innovative because of how San Francisco funds the rent gaps for homeless persons whose income cannot cover the entire amount of monthly rent. They combine local, federal and state funds including: 1) local general funds; 2) HUD (McKinney-Vento); 3) federal funding from the Substance Abuse and Mental Health Services Administration and the Health Resources and Services Administration (CARE Title I) and; 4) California Mental Health Services Act funding. The City of Salinas should discuss this model with the County of Monterey, and local stakeholders to determine whether this strategy would support the balance of regional homeless program efforts.

NEW REVENUES

The City must be creative in finding new revenue sources in order to fund solutions to the housing challenges. The City's budget can only provide very limited financial assistance from existing City funding. The Plan calls for:

- A combination of the business license tax and/or general obligation bonds, rental registry, and inspection fees to fund the housing plan and increase code enforcement.
- City investment from reallocated redevelopment funds in the General Fund.
- Establishment of a rental registry fee to pay for expanded code enforcement.

New revenues **NR01-NR03** are included in the **Chapter 4: Structuring the Organization**. All investment strategies are provided together in **Appendix C**.

NR04. Use Multiple Sources to Provide Revenue for the Housing Trust Fund

As discussed in the section on new investments, the City needs to provide local funding for a Housing Trust Fund as part of meeting a goal of creating 4,000 new units of affordable housing.

As a starting point, the City should develop a plan to provide at least \$6 million a year in City funding for the Trust Fund. Potential sources of funding include:

- **Voter-Approved Taxes (Goal of \$6 million per year):** Target sources will all require a two-thirds voter approval, and include
 - General Obligation bonds—target of \$17 per \$100,000 valuation could generate approximately \$50 million in bonds, equivalent to \$5 million per year
 - Business License Tax—could be applied broadly or targeted to benefitting industries. A 2.5 percent tax on agricultural businesses operating in Salinas would generate approximately \$2.5 million per year based on gross receipts
 - Parcel Tax—flat tax per parcel. An average \$75 per parcel could generate approximately \$2.5 million per year
- **City Funding (Goal of \$500,000 per year):** As budget capacity is created with implementation of study recommendations, the City should dedicate the revenues from the Redevelopment Property Tax Trust Fund (RPTTF) to the City's affordable housing funding. This funding is approximately \$500,000 per year

The City may be able to offset, or augment, some of the needed revenue through contributions from the business community, local philanthropy or other local government partners. If those alternative funding sources are not realized, the City needs a plan to fully fund the targeted local share of investment. (Refer to matrix under IN02 for a complete list of funding sources and funding goals.)



NR05. Rental Registry and Inspection Fee

The City should follow the lead of other cities and adopt rental registry and inspection fees to completely cover the cost of the new rental housing inspection program and related activities.

The City's code enforcement division is currently structured under the Department of Community Development, with six code enforcement officers (one currently frozen) and three administrative staff. The code enforcement division budgeted \$1.2 million in FY19, most of which is to support the personnel cost. According to the baseline forecast, the division's spending will grow to \$1.6 million by FY28, driven by cash compensation and pension cost growth. The rental registry fee is designed to fund the entire cost of code enforcement related to the direct enforcement effort. The fee can only be charged for direct regulatory efforts, plus the cost of overhead, vehicles, and allocated indirect costs. Not all of code enforcement costs will be covered by these fees; however, this program assumes a good deal of effort will be placed on the rental registry and inspection program.

According to the 2016 American Community Survey, the City has 23,000 rental units. If the City charges an annual rental registration fee of \$75 and an inspection fee of \$50¹²⁷, the City would generate \$1.5 million annually, assuming a 75 percent collection. Accounting for a phase-in implementation approach and delinquent payments, we estimate that the City will generate \$216,000 in the first year of implementation that grows to \$2.3 million by FY23. The revenue included in the tables below are intended to fund both existing costs, reflected in the tables above, and anticipated expanded service costs.

Rental Registration and Inspection Fees

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Rental Registration Fee (Annual)	\$75	\$75	\$80	\$80	\$85	\$85	\$90	\$90	\$95	\$95
Inspection Fee (Every 4 yrs)	\$50	\$50	\$55	\$55	\$60	\$60	\$65	\$65	\$70	\$70
Registration Phase-in	0%	25%	50%	75%	100%	100%	100%	100%	100%	100%

Rental Registration and Inspection Revenues (in \$ million)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Registration	\$0.0	\$0.3	\$0.7	\$1.2	\$1.8	\$1.8	\$1.9	\$1.9	\$2.0	\$2.0
Inspection	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.4	\$0.4
Total Revenues	\$0.2	\$0.5	\$1.0	\$1.4	\$2.1	\$2.1	\$2.2	\$2.2	\$2.3	\$2.3

The revenue forecast above assumes that fees would be updated periodically to reflect the operating cost growth. The City would dedicate revenues generated from rental registration and inspection fees into a code enforcement fund to ensure that any unspent revenues would go toward code enforcement activities only.

Based on the estimated amount of revenues generated by these fees, the City would be able to gradually increase the number of code enforcement officers from six to nine over five years. Alternatively, the City

¹²⁷ The rental registration fee amount is an estimate based on the fee needed to offset costs of the program, including administrative costs. When implemented, the fee cannot exceed the reasonable cost of the program, and will require a separate analysis to set fees.



can hire part-time temporary code officers in the near-term to alleviate the workload, which can sometimes be more cost-effective since the benefits and pension costs are lower for temporary workers.

It is also important to note that increasing headcount alone is not enough for the City to improve its code compliance and ensure a better living environment for its residents. A strategic approach to enforce its code ordinances should include targeting specific neighborhoods with the most violations, rigorous follow-up on violations, and tracking performance data regularly. Efficiency and effectiveness indicators such as the percentage of units inspected, percentage of housing with violations, and the average number of days to close a violation allow the City to evaluate the Department's performance and determine if the dollars invested into code enforcement are tied to its success.

The following fiscal impact illustrates the expected costs for current code officers and departmental overhead and supervision that are projected to be offset by the fee revenues. Additionally, an expanded program could fold in more public safety involvement which could also be off-set by the registration fees. The amount of fee revenue that can be offset by registration and inspection fees will be based on how the final program is structured to utilize existing program costs. Any costs related to the hiring of additional code officers are assumed to be offset by the fee revenues with no net fiscal impact.

Net Fiscal Impact (on General Fund Only)

FY19	FY20	FY21	FY22	FY23
\$0	\$431,250	\$791,200	\$1,308,332	\$1,501,753

FY24	FY25	FY26	FY27	FY28
\$1,571,718	\$1,637,717	\$1,707,365	\$1,782,563	\$1,859,534



CHAPTER 7: IMPLEMENTATION PLAN

This Study provides the key strategies for the City to not only achieve fiscal balance in the future, but also charts a course to build on existing efforts in addressing housing issues and investing in facilities citywide. These strategies include:

- Aligning the City's services to the its core mission, focusing on high-quality service delivery in critical areas of operations;
- Finding efficiencies in its current operations through contracting out where the private sector has more expertise and economies of scale;
- Recovering the full cost of operations through a fee-for-service model in its parking, facility rentals, storm water, and other enterprise operations;
- Rolling premium pays into employees' base pay to improve recruitment and retention;
- Containing healthcare cost growth through various approaches including premium cost-sharing with employees;
- Establishing a productivity bank to encourage a culture of innovation and efficiency in government;
- Launching a major effort to address the City's housing challenges – including homelessness, overcrowding, and the lack of affordable housing – by establishing a housing trust fund through a dedicated funding source and enhancing rental property enforcement; and
- Dedicating savings and identified revenue streams to invest in its capital infrastructure.

For the City of Salinas to successfully implement these and other efforts detailed through this financial plan, there must be strong and sustained partnership among the City's leadership, City employees, County administration, non-profits and community groups, and local businesses and residents. The road forward is not necessarily easy or smooth, and requires consensus and collaboration among the various stakeholders to share the sacrifice necessarily to move the City forward to a financially sustainable future. It will also require difficult and potentially unpopular decisions.

To help the City determine next steps for implementation, the matrix below lists the recommendations detailed in this report, the necessary next steps, and the associated timeline required in order to move forward. The timelines indicate the period in which the City should aim for full implementation, not when implementation should be started. Many of the long-term initiatives will require long lead-time to implement. The Plan initiatives are categorized into three main categories:

- **Short-term initiatives** – these are actions that the City can implement in the next year to start closing the budget gap, are within the City's authority to implement unilaterally, or are a precursor to longer-term changes. Examples of short-term changes are to implement new parking fees, implement a storm sewer fee, and prepare a preventative maintenance program for City facilities.
- **Near-term initiatives** -- actions to be implemented within the next three years. These initiatives will require more preparation, study, or engagement with labor unions. Examples include: prepare for police civilianization, recover full cost of service from the Monterey County Regional Fire District, and eliminate General Fund Subsidy of golf course debt.
- **Long-term initiatives** – actions expected to be implemented within the next five, or more, years. These initiatives generally have a longer lead time, study, outside approval, or agreement from labor unions. Examples of long-term initiatives include the establishment of a new business model for Sherwood Hall, increase TOT for capital improvements, and departmental restructuring. These initiatives require engaging the City's stakeholders, including its local businesses, residents, and its public and private partners in the region, and may require working with external consultants who have the subject-area expertise.

Success of the City in implementing the study recommendations will rely on a concerted effort to both determine where the City agrees with the recommendations or where there are changes to the recommendations that will improve their effectiveness. This means that the City will need to determine how



it wants to process and then organize itself around this course of action. The following actions are recommended as a plan of implementation:

- **Develop an annual implementation action plan** in conjunction with its budget process, supported by the new Implementation Manager (Management Analyst) recommended in the Management and Productivity section. The annual implementation plan would identify selected initiatives the City would implement in the coming fiscal year, and would provide the implementation goals, responsible parties, and savings/revenue targets for each of the identified initiatives.
- **Track progress on this plan with Department Heads, staff, and Council at least annually.**
- **Engage labor groups and employees**, especially in working on initiatives that will require meet and confer processes or changes to existing labor agreements.
- **Identify outside partners** who are key to the implementation of recommendations, especially in the housing area.
- **Continue to update the underlying budget analysis** used in this study. The City was provided with the budget model used to project the budget sustainability issues. As the City builds this budget resilience, it will be important to keep focused on implementing recommendations that will continue building capacity to fund investment in the City's buildings and infrastructure, investing in housing, and maintaining fair and reasonable compensation.

The goal of this study is to identify opportunities for the City to address current issues and get ahead of potential future issues. The key to accomplishing this will be in the City's implementation activities.

Plan Initiatives and Implementation Strategy

Initiative		Next Steps	Implementation Timeline	Further analysis required?	Near or Long Term
Public Safety					
PS01	Evaluate Future of EMS	Enter into discussions with County, AMR, and Fire Department about service levels	Within five years	Yes	Long-term
PS02	Staffing and Overtime Reduction	Define new schedule or create plan to fully utilize overlap days for departmental goals	Within next 3 years	No	Near-term
PS03	Police Civilianization	Inventory all tasks performed by sworn officers which can be done by non-sworn staff	Within the next 3 years	No	Near-term
PS04	Police Department Technology	Switch to full voice-to-text software for police reports and eliminate the word processing division through attrition or reassignment	Within the next 3 years	Yes	Near-term
Shared Services					
SS01	Recover full cost of service from Monterey County Regional District	Negotiate new contract after the current contract expires	Within the next 3 years	No	Near-term
SS02	Consolidate Animal Services	Continue conversations with County on additional consolidation plans with the goal of merging the two animal shelters	Within the next 5 years	Yes	Long-term
Managed Competition and Privatization					
MC01	Eliminate Downtown Parking Fund Deficits	Increase downtown parking rates to cover current deficit	Within one year	Yes	Short-term
MC02	Eliminate General Fund Subsidy of Golf Course Debt	Evaluate options and FAA restrictions	Within the next 3 years	Yes	Near-term
MC03	Sherwood Hall – Contract Operations	Request a proposal for a business plan for Sherwood Hall	Within the next 3 years	Yes	Near-term
Operational Efficiencies					
OE01	Move facility and park maintenance to Community Services	Requires inter-departmental consensus and collaboration	Within one year	No	Short-term

Initiative		Next Steps	Implementation Timeline	Further analysis required?	Near or Long Term
OE02	Develop citywide fleet strategy	Continue working with the City's current fleet consultant to maximize contracting out efforts	Within the next year	No	Short-term
OE03	Improve budget process and monitoring	Create inter-departmental team to addresses priority-based budgeting issues, create template for tracking financial policies, add revenue to departmental budgets	Within the next year	No	Short-term
OE04	Strategically pursue consultant studies with action plans and savings target	List all recent study recommendations and develop plan to implement or reject	Ongoing	No	Near-term
OE05	Prepare a Preventive Maintenance Program for all City Facilities	Determine plan to prepare program—insource or outsource	Within one year	Yes	Short-term
Workforce					
WF01	Healthcare cost containment	Develop plan to phase in for inclusion in upcoming labor negotiations	When contracts expire	Yes	Long-term
WF02	Improve base pay on cost-neutral basis	Engage HR, executive team and labor representatives to discuss merger of special pays and base pay	When contracts expire	No	Long-term
WF03	Eliminate Management and Flex Leave cash-outs	Meet and confer with labor over elimination of cash-outs	Within next year	No	Short-Term
WF04	Continue to address workers' compensation funding	Attorney and Finance develop plan to reduce WC costs and invest savings into fund reserve	Within the next 5 years	Yes	Near Term
Investments					
IN01	Dedicate savings to capital investment	Determine funding levels for capital needs and establish budget policy on directing GF net revenue towards that need until met	Within the next year	No	Near-term
IN02	Establish productivity bank	Develop program parameters and engage City Council and staff in defining goals of program	Within the next year	No	Short-term

	Initiative	Next Steps	Implementation Timeline	Further analysis required?	Near or Long Term
IN03	Add analyst position to City Managers' office	Create position	Within the next year	No	Near-term
IN04	Convene stakeholders to develop a Plan to create more than 4,000 new units of affordable housing in the next ten years	Adopt an action-oriented assessment of its commitments and opportunities, as well as possible conflicting and complementing strategies.	Within one year	Yes	Short-term
IN05	Create a Housing Trust Fund	Create working group of employers, housing advocates and City to determine program needs and funding options	Within one year	Yes	Short-term
IN06	Create a land strategy	Determine rental housing stock and Future Growth Area development potential	Within one year	Yes	Short-term
IN07	Create regulations to address safety and health conditions in rental and other group housing	Evaluate of the City's existing rental housing stock and create working group between City and local landlords to define rental issues and changes needed	Within the next 5 years	Yes	Long-term
New Revenues					
NR01	Enact Storm Sewer Utility Fee to Fund Current Transfer of General Fund Revenues to Storm Sewer Fund	Perform a storm water rate study	Within next one year	Yes	Short-term
NR02	Increase hotel tax and dedicate to capital investment	Engage hotel owners in discussion of hotel tax rate and build support for increase	Within the next 5 years	Yes	Long-term
NR03	Establish a Mello-Roos Special Tax for new growth area	Adopt policy to require Mello-Roos CFD for services for all Specific Plans	Within the next 3 years	Yes	Near-term
NR04	Levy new tax revenue to fund Housing Trust Fund (no net GF impact)	Create working group of City, industry, and community groups to begin identifying a plan that provides benefits to broader community	Within the next 5 years	Yes	Long-term
NR05	Rental registry and inspection fee	Create working group between City and local landlords to define rental issues and changes needed	Within next 5 years	Yes	Long-term

Initiative		Next Steps	Implementation Timeline	Further analysis required?	Near or Long Term
Risk Management					
RM01	Engage with the Community to Make Measure G Permanent	Develop community outreach plan	Within next 3 years	Yes	Near-Term
RM02	Incorporate Multi-Year Financial Planning into All Budgetary Actions	Adopt policy on use of budget model	Within the next year	No	Short-Term

APPENDIX A

The table below lists the baseline projections and the initiatives as detailed in this Plan.

Initiative	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Baseline Projection Net Operating Result	(\$2,759,266)	(\$1,199,663)	(\$2,547,452)	(\$4,367,648)	(\$7,057,857)	(\$7,216,739)	(\$8,313,104)	(\$8,732,116)	(\$10,425,010)	(\$10,462,772)
PS01 Staffing and Overtime Reduction	N/A	N/A								
PS02 Police Civilianization	N/A	N/A								
PS03 Improve Police Department Technology	\$0	\$72,033	\$149,824	\$232,787	\$321,451	\$416,749	\$518,254	\$534,509	\$551,445	\$569,671
PS04 Evaluate Provision of Advanced Life Support Services	N/A	N/A								
SS01 Recover Full Cost of Service from Monterey County Regional Fire District	\$0	\$119,665	\$133,419	\$147,325	\$161,567	\$174,575	\$186,007	\$197,982	\$210,741	\$223,661
SS02 Consolidate Animal Services	\$0	\$53,000	\$72,000	\$73,440	\$74,909	\$76,407	\$77,935	\$79,494	\$81,084	\$82,705
MC01 Eliminate Downtown Parking Fund Deficits	\$0	\$229,833	\$243,168	\$256,798	\$271,209	\$285,832	\$299,736	\$314,067	\$329,052	\$344,194
MC02 Eliminate General Fund Subsidy of Golf Course Debt Service	\$0	\$0	\$250,000	\$265,000	\$275,000	\$290,000	\$305,000	\$325,000	\$340,000	\$360,000
MC03 Eliminate Sherwood Hall Deficits	\$0	\$54,000	\$58,000	\$64,000	\$70,000	\$77,000	\$83,000	\$90,000	\$96,000	\$103,000
OE01 Move Facility and Park Maintenance to Library and Community Services	\$0	\$189,703	\$195,655	\$200,547	\$205,560	\$210,699	\$215,967	\$221,366	\$226,900	\$232,573
OE02 Citywide Fleet Strategy	\$0	\$0	\$26,000	\$53,000	\$81,000	\$112,000	\$143,000	\$147,000	\$151,000	\$155,000
OE03 Improve Budget Process and Monitoring	N/A	N/A								
OE04 Strategically Implement Consultant Studies with Action Plans and Savings Targets	N/A	N/A								
OE05 Prepare a Preventive Maintenance Program for All City Facilities	N/A	N/A								

Initiative	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	
WF01	Healthcare Cost Containment	\$0	\$0	\$642,839	\$1,349,961	\$1,417,459	\$2,232,499	\$2,344,124	\$3,281,773	\$3,445,862	\$3,618,155
WF02	Improve base pay on cost-neutral basis	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
WF03	Eliminate Management and Flex Leave	\$0	\$0	\$2,100,000	\$2,461,609	\$2,530,409	\$2,607,640	\$2,670,615	\$2,735,923	\$2,806,870	\$2,875,139
WF04	Continue to Address Workers' Compensation Funding	\$0	\$106,600	\$111,930	\$117,526	\$123,403	\$129,573	\$136,052	\$142,854	\$149,997	\$157,497
IN01	Dedicate Savings to Capital Investment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IN02	Establish a Productivity Bank	N/A	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$1,000,000)	N/A	N/A	N/A	N/A
IN03	Add an Analyst Position to City Managers' Office	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IN04	Convene Stakeholders to Develop a Plan to Create More than 4,000 New Units of Affordable Housing in the Next Ten Years	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IN05	Establish a Housing Trust Fund	N/A	N/A	N/A	N/A	N/A	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)
IN06	Create a Land Strategy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IN07	Create Regulations to Address Safety and Health Conditions in Rental and Other Group Housing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NR01	Enact Storm Sewer Utility Fee	\$0	\$0	\$0	\$0	\$2,483,223	\$2,575,931	\$2,663,869	\$2,754,796	\$2,850,406	\$2,947,058
NR02	Increase Hotel Tax and Dedicate to Capital Investment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NR03	Establish a Mello-Roos Special Tax	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NR04	Identify Additional Funding Sources for Housing Trust Fund	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NR05	Rental Registry and Inspection Fee	N/A	\$431,250	\$791,200	\$1,308,332	\$1,501,753	\$1,571,718	\$1,637,717	\$1,707,365	\$1,782,563	\$1,859,534
RM01	Engage with the Community to Make Measure G Permanent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
RM02	Incorporate Multi-Year Financial Planning into all budget actions	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Initiative	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Total Initiative Impact	\$0	\$693,618	\$4,274,043	\$6,030,325	\$9,016,943	\$9,260,622	\$10,781,275	\$12,032,128	\$12,521,921	\$13,028,186
Projection -- after Corrective Actions to Close the Gap (Surpluses to be dedicated to capital)	(\$2,759,266)	(\$506,425)	\$1,726,591	\$1,662,678	\$1,959,086	\$2,043,883	\$2,468,171	\$3,300,013	\$2,096,910	\$2,565,414

APPENDIX B

Below is a suggested template for tracking recommendations from current and past studies. Several recommendations in this study are repeated from studies completed over the last five years. Many of the recommendations in prior studies were not officially rejected, nor were they implemented.

To better track the investment that the City has made in these studies, it is recommended that a table, similar to the template below, be used by the City for recommendations for this study as well as the major studies completed in the last several years.

Not all study recommendations will be agreed to or implemented by the City; however, a discussion on the merits of the recommendations along with the City's plan to implement, modify, or reject a recommendation should be explicitly be discussed with the Council. Additionally, progress on plan recommendations should be provided to Council on a regular basis until completed.

Implementation Template

Initiative	Plan To Implement (YES/NO/With Modifications)	Implementation Timeline	Implementation Responsibility	Date Implemented
PS01	Staffing and Overtime Reduction			
PS02	Police Civilianization			
PS03	Improve Police Department Technology			
PS04	Evaluate Provision of Advanced Life Support Services			
SS01	Recover Full Cost of Service from Monterey County Regional Fire District			
SS02	Consolidate Animal Services			
MC01	Eliminate Downtown Parking Fund Deficits			
MC02	Eliminate General Fund Subsidy of Golf Course Debt Service			
MC03	Eliminate Sherwood Hall Deficits			
OE01	Move Facility and Park Maintenance to Library and Community Services			
OE02	Develop a Citywide Fleet Strategy			
OE03	Improve Budget Process and Monitoring			

Initiative	Plan To Implement (YES/NO/With Modifications)	Implementation Timeline	Implementation Responsibility	Date Implemented
OE04	Strategically Implement Consultant Studies with Action Plans and Savings Targets			
OE05	Prepare a Preventive Maintenance Program for all City Facilities			
WF01	Increase Healthcare Cost Sharing (phase-in to 20% over 8 years)			
WF02	Improve Base Pay on Cost-Neutral Basis			
WF03	Eliminate Management and Flex Leave			
WF04	Continue to Address Workers' Compensation Funding			
IN01	Dedicate Savings to Capital Investment			
IN02	Establish Productivity Bank			
IN03	Add an Analyst Position to City Managers' Office			
IN04	Convene Stakeholders to Develop a Plan to Create More than 4,000 New Units of Affordable Housing in the Next Ten Years			
IN05	Create a Housing Trust Fund			
IN06	Create a Land Strategy			
IN07	Create Regulations to Address Safety and Health Conditions in Rental and Other Group Housing			
NR01	Enact Storm Sewer Utility Fee			
NR02	Increase Hotel Tax and Dedicate to Capital Investment (Revenues are dedicated to capital with no net GF fiscal impact)			
NR03	Establish a Mello-Roos Special Tax for New Growth Area			
NR04	Levy New Tax Revenue to Fund Housing Trust Fund			
NR05	Rental Registry and Inspection Fees			

Initiative		Plan To Implement (YES/NO/With Modifications)	Implementation Timeline	Implementation Responsibility	Date Implemented
RM01	Engage with community to make Measure G permanent				
RM02	Use 5- 10-year budget model to understand impacts of budget-related decisions				

APPENDIX C: THE SALINAS PLAN—RECOMMENDATIONS

The recommendations provided in this Report aim to address long-term issues with under-funded City services, capital investment, and community needs. Each recommendation included in the body of the report is included in this Appendix.

Through a combination of new revenues, adjustments to operations and pay practices, as well as taking a leadership role in addressing housing needs, the Salinas Plan will help the City move beyond balancing the budget on a year-to-year basis and move into long-term fiscal and social sustainability.

While some of the initiatives in this chapter have already been proposed by prior consultant studies, this chapter aims to coordinate recommendations from a citywide strategic and fiscal perspective. By intentionally pursuing these initiatives and instituting a culture of innovation and transparency, Salinas will be able to gradually improve operational coordination and efficiencies, reduce projected budget deficits, and ultimately deliver better services to its residents and businesses.

The Plan contains the following subsections:

- **Public Safety:** Most of the City's workforce and most of the City's budget is allocated to providing police and fire services, including emergency medical service. While opportunities exist to achieve savings in these departments, Salinas needs to deploy adequate resources to ensure that the Police Department has sufficient resources to take on a chronic violent crime problem and that there is an effective response to the medical calls that drive current activity by the Fire Department.
- **Shared Services:** Cooperation and coordination are often the most cost effective means of addressing problems, yet the hardest to actually achieve. The City needs to explore better relationships with the County and other local government entities to pursue opportunities for mutual benefit through cost sharing or consolidation.
- **Managed Competition and Privatization:** Local government often directly provides services that can be more efficiently and effectively delivered by the private sector or non-profit organizations. While outsourcing and privatization are not cure-alls, the City has the opportunity to achieve savings through better management of current assets.
- **Operational Efficiencies:** While most spending in City government is concentrated in public safety, there are opportunities for savings in other departments as well. Moreover, just as the City needs to invest in an effective compensation plan for its workforce, it also needs to make basic changes in City operations with an eye toward constantly seeking opportunities for increased productivity, efficiency and performance improvement.
- **Workforce and Collective Bargaining:** Because employee compensation represents the largest expense of City government, any plan to identify savings must include modifications related to employee salaries and benefits. However, short-sighted strategies that place the burden of balancing budgets solely on the backs of City workers will fail. Instead, the Salinas Plan attempts to both identify savings and shift the current allocation of resources in a way that makes Salinas more competitive in efforts to recruit and retain the workforce needed to provide quality public services.
- **Investment Strategies:** The Plan seeks to both close the City's structural deficit **and** ensure adequate investment in Salinas's future. First and foremost, this means that an essential component of the overall plan will address the City's housing challenge. In addition, Salinas must make basic investments in its current facilities and infrastructure.
- **New Revenue:** While local government has an obligation to first ensure that it uses existing taxpayer funds wisely, Salinas will need new sources of revenue to make the investments needed to be competitive as a City for decades to come. The Plan details a series of strategies for new revenue sources to ensure fiscal stability and economic competitiveness.

- **Risk Management:** Part of protecting the City’s long-term budget sustainability is to look forward to risk’s that the City might face over the next several years. These recommendations address both a known risk—the sunset of Measure G in FY30—and the process of identifying and addressing future risks as they arise.

PUBLIC SAFETY

Salinas’s public safety spending represents 65 percent of the General Governmental Funds’ operating spending. Given the resources devoted to public safety and the importance of the issue in Salinas, the City recently completed organizational and overtime studies for the Police and Fire departments, prepared by the International City/County Management Association, this report provides a number of recommendations on departmental improvements, but does not evaluate the City’s potential operational improvement savings. In addition, the Management Partners report from several years ago for both Police and Fire provided a good organizational overview and recommendations for both Police and Fire operations. Where appropriate, the Plan incorporates these recommendations and includes preliminary costing information.

Police and Fire Staffing Against Benchmarks

Because Police and Fire comprise such a large portion of the City’s budget, it is helpful to provide context, beyond historical FTEs, about how the Salinas Fire and Police departments stack up against national averages of staffing. These benchmarks provide some context about current staffing, but should not be used to determine the right levels of staffing. In other words, benchmarking is informative not dispositive. As noted in some of the recommended initiatives, the City is currently engaged with a more focused study examining the operations and staffing of both of these departments.

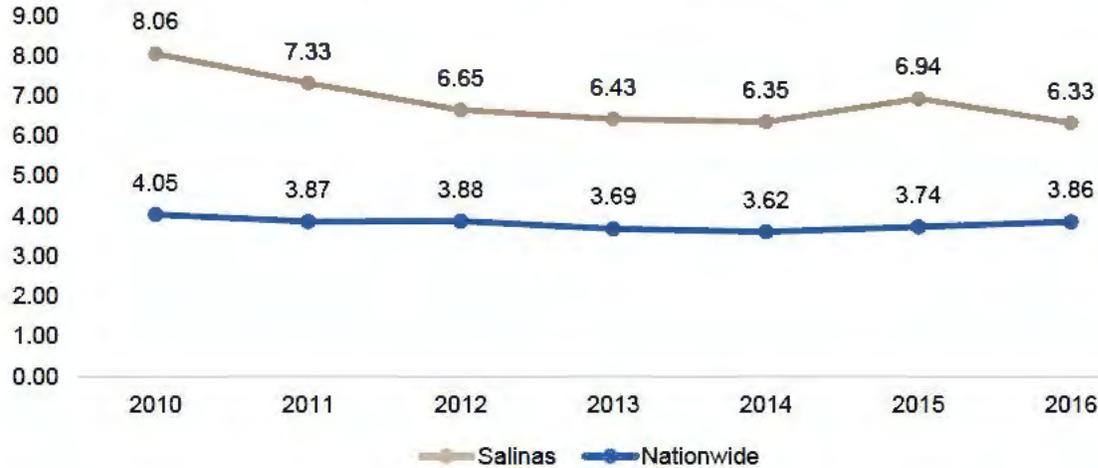
Based on the 2016 Uniform Crime Report (UCR) published by the Federal Bureau of Investigation, Salinas was 44th out of 49 California cities with population between 100,000 and 300,000 in FTEs and sworn Police FTE per capita (0.84 per 1,000 residents). If, however, Salinas had all FY19 budgeted positions filled, it would have ranked 16th in sworn FTE per capita.

Salinas Police Headcount, 2016 Actuals and FY19 Budget

	Population	Total law enforcement employees	Total officers	Total civilians	Employees/1000 Residents	Sworn/1000 Residents
2016 UCR Data	158,729	191	134	57	1.20	0.84
FY19 Budget	158,729	230	174	56	1.45	1.10

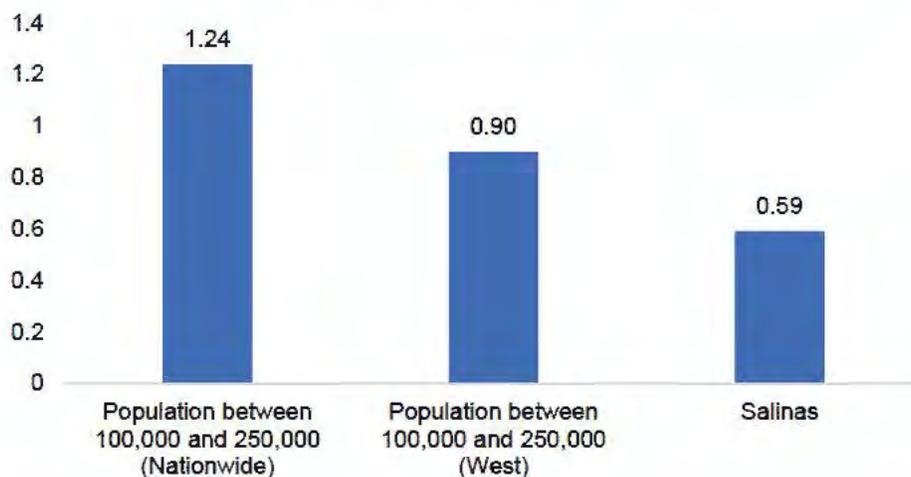
Per capita analysis of police staffing is limited because it does not take into account demand for police services as measured by calls to 911. Moreover, it does not take into account the need for resources to combat violent crime. In fact, Salinas has struggled with serious violent crime issues. During the Network assessment visit, police officials reported that Salinas struggles with multi-generational gang membership and the violence often associated with gangs. In 2016, Salinas experienced more than 1,000 violent crimes, and 35 murders. Nearby San Jose had 42 homicides, despite having seven times the population. Compared to national data, Salinas’s violent crime rate is almost double the national average.

Violent Crime per 1,000 Population



Similar staffing data is also available for fire departments. In 2017, the National Fire Protection Association (NFPA) released a comprehensive analysis of fire department staffing and operations. Nationally, for a city the size of Salinas, there were 1.24 career firefighters per 1,000 residents in 2015; in the West, where the typical schedule design allows for fewer firefighters to provide the same level of coverage, the median was 0.90. By comparison, in Salinas, there are 93 sworn firefighters for FY19 – or just 0.59 firefighters per 1,000 residents. Again, the NFPA cautions against the use of this data for determining the right level of fire protection staffing. But it nevertheless is informative in considering opportunities for savings – or the need for new investment -- in Salinas.

Career Firefighters per 1,000 Population¹²⁸



Because the City was conducting separate organizational and overtime studies for the Police and Fire departments concurrent with this study, the analysis of Police and Fire operations focused on areas where budget savings could be generated—consistent with the intent of this study—or efficiencies could be

¹²⁸ U.S. Fire Department Profile – 2015, National Fire Protection Association (2017)

created to provide improved services at no additional cost. Most of the recommendations developed as a part of this study have an overlap with the CPSM study recommendations. This overlap is indicated within the following recommendations, which may also be found in Chapter 4.

PS01. Staffing and Overtime Reduction

Police Staffing

The Police Department should re-evaluate its staffing schedule to ensure that police officers are operating at their optimal capacity. If a change from the four-ten schedule is optimal, the City should pursue a change in SPOA and SPMA MOUs to allow a change in shifts.

The City's Memorandums of Understanding (MOUs) with the Salinas Police Officer's Association (SPOA) and the Salinas Police Management Association (SPMA) commit the City to maintaining a four-ten schedule for all personnel, with the exception of School Resource Officers and Deputy Chiefs. This scheduling requirement limits the Department in implementing new schedules without negotiating changes in the existing labor contracts.

In 2018, the Police Department changed its staffing schedule, while maintaining the four-ten schedule, from seven groups of officers to two groups. Officers have five days on and three days off for three weeks, followed by five days on and four days off for one week, followed by four days on and four days off for two weeks. Each of the shifts are 10-hours long. The result of this schedule is that there are only two groups of police officers; however, the two groups have an "overlap day" when both groups of officers are on-call one day per week. The following table illustrates this police staffing schedule.

Current Police Staffing Schedule (Sample Month – July 2018) – Days On

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
1 Group B	2 Group B	3 Group A Group B	4 Group A	5 Group A	6 Group A	7 Group B
8 Group B	9 Group B	10 Group B	11 Group A Group B	12 Group A	13 Group A	14 Group A
15 Group A	16 Group B	17 Group B	18 Group B	19 Group A Group B	20 Group A	21 Group A
22 Group A	23 Group A	24 Group B	25 Group B	26 Group B	27 Group A Group B	28 Group A
29 Group A	30 Group A	31 Group A	1 Group B	2 Group B	3 Group B	4 Group A Group B

Watch Schedule

	Group A	Group B
1 st watch	7:30am – 5:30pm	7:30am – 5:30pm
2 nd watch	3pm – 1pm	3pm – 1pm
3 rd watch	10pm – 8am	10pm – 8am

One of the goals of changing to this staffing schedule was to better align supervisors and direct reports, since there are only two groups of officers. From interviews with police officers, however, the initial challenge with this schedule was that, on the "overlap" day, when both groups of patrol officers are on-duty, police officers did not have sufficient work to do, since the City does not have enough police vehicles to

allow two teams of patrol officers to be policing streets at the same time. As this schedule has matured, however, the overlap days are now used to promote community-oriented policing, increase the patrol presence, used as training days, and for completing special projects. The initial disruption has been replaced by better departmental productivity, including:

- Bike patrol,
- Increased car patrol;
- Targeted downtown beat walks,
- Community events, and
- Scheduled training

At the same time, the current shift schedule may not provide the best operational results for the City. This observation was validated by the Police Overtime Study performed by the International City/County Management Association’s Center for Public Safety Management (CPSM). The report finds that the staffing does not necessarily align with workload demands from the community, and indicates that most agencies do not require 52 training days. Even for the SWAT team that is usually charged with one of the most demanding training schedules, the training requirement is 24 days, less than half the number of training days the current staffing model provides.

The current staffing design not only results in potential unproductive on-duty hours; it also results in higher overtime costs for the City. According to the CPSM study, this staffing schedule results in a staffing disparity where, on the overlap day, there would be more officers than the minimum staffing requirement whereas, on another day when only one group of officers is scheduled, the City would sometimes have to call back officers on overtime to meet that same staffing requirement. In the long run, the City must first and foremost prioritize shift efficiency and the quality of services to the community, and then design the shift schedule and span of control to optimize those priorities, instead of vice versa. However, to accomplish a change in shifts that does not include a four-ten schedule, the City must first negotiate changes in the Memorandum of Understanding with the SPOA and SPMA.

Regardless of how the City chooses to maximize police officers’ time on the overlap days, there must be a strong accountability and performance metric system to measure the effective use of officers’ time, especially in an environment where the City has a projected budget deficit for years to come. If the City’s policing strategies are truly effective, it should see improvement to both public safety (reduced crime rates) and public trust and engagement (increased community confidence).

The Police Department should evaluate what the best staffing schedule is to accomplish the goals of adequately serving the community while controlling budget expenses. To achieve this, the City should work closely with police officers and community stakeholders to determine ways to best address community needs.

Public Safety Overtime

Public safety overtime represents 99.3 percent of total overtime budget in FY19 and at least six percent of the City’s total cash compensation cost.

	FY14	FY15	FY16	FY17	FY18	FY19
	Actuals	Actuals	Actuals	Actuals	Budget	Budget
Police	2,496,747	2,481,227	2,110,181	2,333,883	2,131,600	2,101,600
Fire	1,932,898	2,736,649	2,243,044	3,097,767	1,238,050	1,433,760
Other	199,001	180,790	198,136	181,965	43,000	23,500
Total	4,628,646	5,398,666	4,551,361	5,613,616	3,412,650	3,558,860

The recently completed CPSM overtime study provides recommendations on the overtime drivers to reduce overtime costs. The CPSM study does not provide estimates of overtime savings for Police if their recommendations are implemented; however, based on the total cost of overtime, even small shifts in police overtime will result in savings that could go to the City's budget balance or to justify funding police officer positions currently on funding hold in the budget.

Several of these recommendations require coordination with the County, changing City policies, and modifying the patrol schedule. The City should create an action plan to determine the cost or savings of each recommendation (not included in the CPSM plan), and prioritize recommendations that have a higher net savings.

The City should also be realistic about the practical impact of the overtime-reduction recommendations, and determine whether those recommendations will have an impact on service level and quality. The City should work closely with the Police and Fire Chiefs to implement those recommendations with the goal that the City can continue to provide the same level and quality of services while reducing overtime costs.

PS02. Police Civilianization

The CPSM study recommended converting four vacant police officer positions to Community Service Officers (CSO). While funding of these positions has been placed on hold, the department can begin the work of identifying how to best use additional CSOs when the opportunity permits. If the funding for vacant positions is allowed, hiring and training CSOs will be a more efficient use of City resources if there is sufficient existing work that can be transferred to non-sworn staff.

To illustrate this, the table below shows the difference in annual compensation between a police officer and a CSO, with the CSO costing less than 65 percent of an officer. If the City was to replace four vacant officer positions with CSOs, they could potentially hire six CSOs for the same cost.

	Police Officer	Community Service Officer
Bargaining Unit	SPOA	SMEA
Wages	\$100,130	\$54,540
Benefits	\$42,550	\$34,670
Taxes	\$1,450	\$4,170
Total	\$144,130	\$93,380

The first step in determining whether there are sufficient civilianization opportunities is to create an inventory of all the tasks currently performed by police officers that shows work flows in police officers' various capacities. Even with the most efficient municipal governments, compiling task inventories can usually reveal opportunities to streamline staffing. The goal of this initiative is to allow the Department to maximize its sworn headcount with available resources and to best deploy future resources. Once the City has completed its inventory, it should aim to transfer any administrative tasks to non-sworn staff so that police officers can focus on their core functions, including policing streets, investigating crimes, and maintaining public safety. Because this initiative aims to transfer functions within a Police Department, projected fiscal savings cannot be determined until the review is completed. This recommendation cannot be fully implemented until funding for additional positions is identified.

PS03. Improve Police Department Technology

The Police Department currently uses City-provided iPods to record police reports. These voice recordings are then transferred manually to paper reports by the Word Processing Division staff, and returned back to the Police Officers for final editing and signatures. This system has led to a two-year backlog on certain reports and is inefficient in its use of staff compared with the overall departmental and community needs. A new voice-to-text dictation system is expected to be implemented in the near future. The earlier the City is able to move to a more technologically-advanced software, the sooner the City can begin to reduce manual tasks and transition these jobs to more efficient uses, through attrition or reassignment in the Police Department.

The Police Department has 56 full-time administrative staff, including six word processors with an annual average salary of \$52,000 in FY19. Including other personnel costs such as health benefits and pensions the annual average cost for each word processor is \$84,000. With improved technology, the City can shift the Department’s resources to policing by eliminating the word processing division. This will require a cultural shift for the patrol staff and may require new policies and procedures as well. Additionally, a move of employees to other positions can be difficult and existing employees may require additional training to prepare for different work duties. The City should proactively explore ways to provide this training to interested employees impacted by this change as soon as practicable.

Police Department Personnel, Sworn and Non-Sworn

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Sworn	182	176	146	148	156	150	145	170	172	174	174
Administrative	69	63	57.5	57.5	57.5	47.5	47.5	59.5	55.5	57.5	56
Total	251	239	203.5	205.5	213.5	197.5	192.5	229.5	227.5	231.5	230
Admin : Sworn Ratio	1 : 2.6	1 : 2.8	1 : 2.5	1 : 2.6	1 : 2.7	1 : 3.2	1 : 3.1	1 : 2.9	1 : 3.1	1 : 3.0	1 : 3.1

The goal of this initiative is not simply to reduce the Department’s spending, but to more directly invest its resources to improving public safety and better align the City’s revenues to the services it offers. The City has a structural deficit, and requires all City Departments to be innovative in generating operational efficiencies. In this day-and-age, when technology provides an effective way to reduce manual and repetitive tasks, using administrative personnel to perform manual word processing and payroll entry is simply not an expense the City can afford. The following table assumes that the City would eliminate the division through attrition or reassignment of staff to existing vacant positions, and is discounted by 20 percent to avoid double-counting the overall workforce savings. The savings shown are conservative and could happen more quickly as reassignment positions become available.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$72,033	\$149,824	\$232,787	\$321,451

FY24	FY25	FY26	FY27	FY28
\$416,749	\$518,254	\$534,509	\$551,445	\$569,671



PS04. Evaluate Provision of Advanced Life Support (ALS) Services

The City should redesign its ALS services to reduce the current number of paramedics in half

Adjustment of Advanced Life Support (ALS) services are recommended due to:

- The recent CPSM study of Fire operation and overtime included two recommendations on the adjustment of ALS services including the use of a more efficient squad units;
- ALS services are also provided by AMR, the County's ambulance provider, offering additional opportunities to coordinate for efficiency; and

Like most cities of its size nationally, the Salinas Fire Department provides both Basic Life Support (BLS) and ALS services to Salinas residents. Nationally, nearly two-thirds of departments serving cities of 100,000 – 249,999 residents provide ALS services.

Departments Providing EMS by Community Size, 2013-2015¹²⁹

	No EMS	BLS	ALS
1,000,000 or more	0.0%	0.0%	100.0%
500,000 to 999,999	0.0%	29.3%	70.7%
250,000 to 499,999	1.6%	26.2%	72.1%
100,000 to 249,999	3.2%	33.3%	63.5%
50,000 to 99,999	6.4%	37.3%	56.3%
25,000 to 49,999	16.4%	36.7%	46.9%
10,000 to 24,999	27.2%	41.2%	31.6%
5,000 to 9,999	38.5%	43.2%	18.4%
2,500 to 4,999	41.2%	46.6%	12.2%
Under 2,500	45.7%	48.2%	6.1%
Nationwide	39.1%	45.4%	15.5%

In addition, Salinas's current provision of ALS services overlaps with the County's responsibility for providing emergency transport. The City currently has a Paramedic Service Provider agreement with the County that allows certified City firefighters to provide paramedic and advanced life support (ALS) services to Salinas residents¹³⁰. The City currently schedules paramedics on every engine and truck and in each shift. A more detailed analysis of the need for paramedic services by call, time of day, and day of week will help the department to more efficiently deploy ALS staff and reduce the total number of paramedics needed.

The County's contract with AMR includes ALS services and emergency transport. This arrangement means that, whenever there is a 911 paramedic emergency call, the City responds with at least one fire engine that is staffed with one captain, one engineer, and one paramedic. If a rescue unit is also deployed, it also needs to be staffed with one paramedic (captain and paramedic can be the same person). On arrival at the scene, the City's firefighters are the first responder and, if the resident requires an emergency ambulance transport, AMR provides the ambulance service transporting the resident to a nearby hospital.

¹²⁹ Source: U.S. Fire Department Profile – 2015, National Fire Protection Association (2017)

¹³⁰ The contract was most recently extended to the deadline of July 31st, 2018, provided that the City takes corrective measures to ensure sufficient training is provided to the City's paramedics.

There has been discussion that this arrangement may not be the most efficient way of providing paramedic services. While the City is the primary provider of basic life support (BLS) services, its ALS paramedic support services overlap the services that are already provided by AMR.

The recent Fire Department organizational and overtime analysis performed by ICMA’s Center for Public Safety Management found that: “Given the proximity of the AMR units and their ability to respond rapidly in the Salinas system, BLS first response is significantly less costly to maintain both from the perspective of equipment costs and employee training costs. In addition, paramedics often receive additional supplemental compensation for this higher level of training, which are typically not paid for EMT certifications. CPSM believes that SFD should consider a change to BLS first response on its response units.” (CPSM report, page 17) Specific recommendations of the CPSM study include:

- SFD should evaluate the options of deploying smaller, more maneuverable EMS squad units instead of engines and ladder trucks for EMS and nonemergency service incidents (CPSM report, page 16)
- SFD should evaluate its current deployment practice of maintaining ALS first response capabilities on all in-service units (CPSM report, page 16)

There are benefits in the City’s firefighters providing ALS services. Salinas Fire Department’s response time is usually shorter than AMR, which is somewhat reflected in the County’s annual report. According to the County’s annual EMS report, while AMR met its required response time in 2016, it did not in 2017¹³¹ in part because of differences in how response time was measured and the technical issues caused by a new dispatch system that went online in early 2017. While both the County and AMR committed to resolving these challenges and improving its quality of service in the coming year, it is possible that the Salinas Fire Department’s ALS services is faster and more reliable than services provided through the County’s contractor.

County-Required AMR Response Time

	Green Zone (Salinas and the Peninsula)	Yellow Zone (Less populated areas)	Orange Zone (Areas like the 101 corridor)	Red Zone (Wilderness area)
Priority 1 Calls (Life-threatening Emergencies)	8 minutes	12 minutes	16 minutes	ASAP
Priority 2 Calls (Non-Life-Threatening Emergencies)	10 minutes	16 minutes	20 minutes	ASAP
Priority 3 Calls (Non-Life-Threatening, Medical Condition)	12 minutes	20 minutes	24 minutes	ASAP

The Salinas Fire Department may provide faster responses than the County’s contractor, but the ALS service comes at a cost that continually burdens the City’s General Governmental Funds. The City’s MOU with fire employees requires 27 paramedics with premium pay of 12.5 percent¹³². The estimated cost of the paramedic premium pay in the current year is \$347,641 (pay plus pension and Medicare).

Providing a more efficient service delivery through smaller squad units could allow the City to reduce the number of paramedics needed in the City and reduce the annual cost of this service while still maintaining high service-delivery standards. EMS revenues in FY19 are projected to be \$231,500. The majority of these revenues come from the City’s contract with the County and medical billings. Service levels can be set to maintain these revenues while reducing the number of fire fighters receiving premium pay. The City must determine a paramedic service model that provides quality services to its residents at an affordable price. To make a reduced number of paramedics work for the City, there

¹³¹ Monterey County EMS Agency Report to the Monterey County Board of Supervisors

¹³² This number differs from the City’s FY19 budget, which budgeted for 23 paramedics based on the City’s personnel roster.

must also be an effort to work with the County regional 911 service to improve the triage of calls in order to determine when a paramedic is required. This will likely require City fire staff sitting with dispatchers to help them discern the response needs for calls and communicate that effectively to the Fire Department when a response is dispatched. There will likely need to be an initial training period with periodic training updates.

Budget Savings -- A redesign of the paramedic program to cut the number of paramedics in the Fire department in half would provide annual **savings of approximately \$170,000** per year. This change will also require a change in the IAFF MOU specifying the minimum number of paramedics on duty.

SHARED SERVICES

Salinas struggles to provide the full range of services to its residents and businesses. The ability to share services – and the cost of those services – with other jurisdictions is one way to improve overall service while at the same time mitigating budgetary pressures.

The Government Finance Officers Association recommends shared services as a best practice: “shared services take advantage of economies of scale by aggregating like services across the organization or between organizations. They also promote best practices by organizing services into ‘shared-service centers’ that are focused on the most efficient/effective performance of that service and that are subject to result-based accountability via formal service-level agreements with customers.”

There are many opportunities for consolidation of services between the City, the County, and other independent local governments (e.g. school districts). Each of these opportunities need to be weighed for potential cost savings and to ensure fairness in funding and service delivery. As a start, the City and County should create a Shared Services Working Group that would review each of these opportunities. The Working Group approach is in place in a number of jurisdictions, including the County-City Shared Services Commission in Cincinnati and Hamilton County, Ohio.

Future opportunities might include:

- A shared services approach to Information Technology. While both the City of El Paso and El Paso County continue to have IT departments, the two have worked closely together since entering into an inter-local agreement in 2009. Among other things, the two departments have a shared data center and servers. The City of Charlotte’s Shared Services Division provides IT services for both the City and Mecklenburg County.
- A shared services approach to the library system. The Sacramento Library system is a countywide system for the unincorporated area and cities throughout the County, with all jurisdictions sharing in the cost of the system. In 2007, the City of Minneapolis and Hennepin County merged their separate library systems.

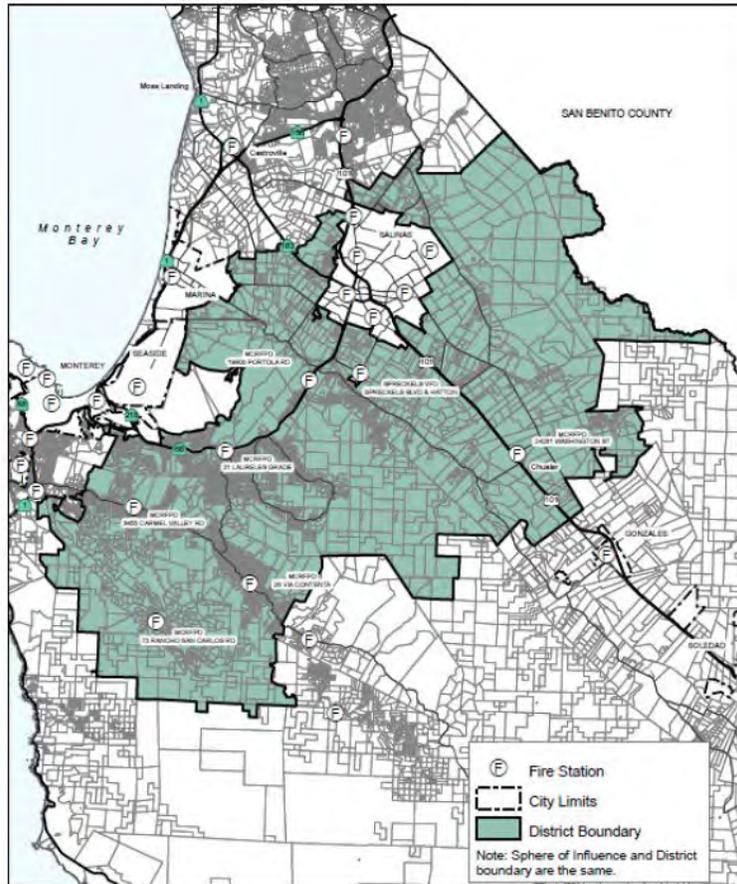
As a start, the Plan recommends improving current shared services with the Monterey County Regional Fire District and piloting a consolidated approach with the County for the provision of animal control. These recommendations may also be found in **Chapter 4**.

SS01. Recover Full Cost of Service from Monterey County Regional Fire District

The City currently provides fire protection to the Monterey Regional Fire District, which covers approximately 361 square miles of Monterey County serving 31,000 people. The District has its own six fire

stations¹³³, equipment, and staffing and receives revenues of approximately \$377 per resident. According to a report from 2012, the Fire District had a fund balance of \$2.9 million and the fund balance was 39 percent of the total revenues. The Monterey Fire District currently provides fire protection, technical rescue, BLS (EMT), ALS (paramedic), and ambulance services.

Monterey County Regional Fire District and Salinas Fire Stations



Because the six fire stations of the Monterey County Regional Fire District (MRFD) are spread across the entire 361 square-mile area, while Salinas's six fire stations are concentrated in the City, the Fire District contracts with the City to provide fire protection and emergency medical services to approximately 35 square miles of the northern corner of the District¹³⁴. A contract currently provides \$196,000 to the City to offset the costs of the service, and the annual contract cost has remained the same since at least FY16.

The Salinas Fire Department does not track calls to the MRFD area, making it difficult to accurately cost the services provided currently. An estimate of costs follows; however, tracking of MRFD calls needs to be included in the City's call tracking. The Fire District receives a little more than 2,000 calls annually¹³⁵. If it is assumed that calls are distributed proportional to areas, approximately 10 percent of the calls made by residents living in the Fire District (200 calls) are responded to by Salinas Fire Department—based on the

¹³³ The new East Garrison fire station opened in Spring 2018, serving communities to the west of Salinas in the Reservation Road area.

¹³⁴ The communities of Bolsa Knolls and Boronda and the area along Old Stage Road to and including Williams Road are included in the "Contract Area."

¹³⁵ Monterey County Regional Fire Protection District, Local Agency Formation Commission, 2012

square miles that are included in the Salinas contract area (35 square miles out of a total of 361 square miles of the Fire District). The City of Salinas receives approximately 14,000 calls¹³⁶ annually, which means, based on our assumptions, approximately 1.5 percent of the calls were related to the Monterey Regional Fire District. In practice, given the relative density of the area around the City compared to the rest of the County, it is likely that this estimate is low. The City may also want to provide credit for calls responded to by the Fire District in the City.

1.5% of Total Fire Department Costs, FY19 – FY23

	FY19	FY20	FY21	FY22	FY23
Salaries & Benefits	20,484,430	21,122,281	22,207,937	23,303,972	24,425,626
Outside Services	1,027,700	1,062,909	1,099,523	1,137,604	1,177,218
Other Charges	321,150	333,124	345,606	358,621	372,193
Supplies & Materials	509,200	520,402	531,851	543,552	555,510
Capital Outlay	162,000	165,564	169,206	172,929	176,733
Total Fire Department	22,504,480	23,204,281	24,354,125	25,516,678	26,707,280
<i>1.5% of Total</i>	<i>337,567</i>	<i>348,064</i>	<i>365,312</i>	<i>382,750</i>	<i>400,609</i>

As illustrated in the table above, 1.5 percent of the Fire Department’s total cost is \$338,000 in FY19, and exceeds the current contract rate of \$196,000. Part of the reason the City is not recovering its full costs is because there is no annual escalation in the contract. The Department commented in its recommendation to approve the contract that “there [would be] no fiscal impacts to continuing the agreement for the next three years as the City will receive the same amount of compensation.” In reality, because of personnel and inflationary cost growth, the City will be in a deficit if the revenues remain flat.

Moving forward, the City must carefully and diligently track data related not only to staff time assigned to response calls to the Monterey County Regional Fire District but also any associated overtime to determine the full cost of providing the service. Because of the compensation and benefit cost growth, the City must ensure that there is an annual escalation in its contract to truly recover its costs. The following fiscal impact represents additional target revenues the City should negotiate in the new contract.

Financial Impact

FY19	FY20	FY21	FY22	FY23
0	\$119,665	\$133,419	\$147,325	\$161,567

FY24	FY25	FY26	FY27	FY28
\$174,575	\$186,007	\$197,982	\$210,741	\$223,661

One way to more fully recover the City’s costs of providing the service is to negotiate an agreement that reflects a percentage of personnel costs instead of a flat dollar amount. The City of Redmond (WA) has a similar arrangement to Salinas’s, where the City provides fire rescue services to King County. The agreement, which was most recently renewed in 2017, requires that the county be responsible for costs of fire suppression and ambulance based on a percentage of the full staffing cost. The county is also responsible for 10 percent of the fire prevention and education costs. Most other expenses, including training, vehicle maintenance and replacement, and capital improvement, are allocated between the City and County based on the staffing or project benefit.

¹³⁶ Fire Services Data Analysis Report, Center for Public Safety LLC

SS02. Consolidate Animal Services

Consolidate the City's animal services with the County's animal services to provide high-quality, humane service at a lower cost.

The City currently provides in-house animal shelter and field services through eight full-time personnel, costing \$1.1 million in FY19. The mission of the City's animal services is to protect Salinas's residents from the negative community impacts of unwanted pets, strays, and dangerous animals while providing human care to animals¹³⁷. Consolidation of services offers an opportunity to provide this service more efficiently, at a lower cost, and humanely. Such consolidation has been recommended by several previous studies, and, in fact, the City and County are currently operating a pilot program to pay for a shared administrator between the two nearby shelters. This is a good step in the direction of providing a shared service; however, it is only a small step in that direction. A commitment to sharing these services is required.

Salinas is not alone in balancing the need to maintain quality animal services with ongoing cost growth. Many cities in recent years have explored other models of providing animal control services, the most common of which include to contract with the County, the local SPCA through a master service agreement, or with neighborhood municipalities through a Joint Powers Authority. The Counties of Sacramento, San Luis Obispo, San Mateo, and Santa Cruz all have agreements with selected local municipalities to provide animal services through an agreement.

Consolidating services can have its inherent challenges, the most tangible of which is shelter capacity. The City of Elk Grove, for example, had contracted with Sacramento County for its shelter services since 2013, but the Bradshaw shelter, where it hosts the City's abandoned animals, was often operating at above capacity. As a result, the City of Elk Grove is currently building a new municipal shelter to ease the pressure on the County's shelter. The second common challenge of regionalization involves determining how the costs are to be shared. The City of Bakersfield had always shared its animal shelter operations with Kern County, but due in part to the lack of transparency and communication regarding the cost-sharing formula and other operational challenges, the City began contracting its local SPCA to operate its own animal shelter in 2013.

While challenges are probable, and the City and the County will need to have transparent communications to reach consensus, the City of Salinas is well-positioned to consolidate its animal services with Monterey County consistent with an assessment provided by Management Partners in 2016. The Monterey County Animal Shelter¹³⁸, which is only one block away from the City's animal shelter¹³⁹, has a capacity of 193 with 81 dog kennels and 112 cat cages. According to the Management Partners' assessment, the County's facility is new, modern, and is often operating under its capacity. County staff reported an approximate average capacity of 60 percent, and the daily animal population of 75 animals equates to only 39 percent of its maximum capacity. While there is currently a lack of staffing at the County animal shelter, the challenge is not so much staffing but more the arrangement of shift schedule to provide a more regular staffing capacity over the course of a week.

Salinas's animal shelter, which again is right next to the County's shelter, has a total capacity of 191 animals with 93 dog kennels, 92 cat cages, and 6 rabbit hutches. Average daily animal population is approximately 90, with the shelter operating at under 50 percent of its maximum capacity. The biggest challenge for Salinas, however, is staff capacity. The City's shelter staffing is barely meeting minimum industry standards of 15 minutes of care time per day for feeding and caring.

The second challenge for the City is the need to improve the shelter's condition, with limited storage space and significant maintenance upkeep requirements. The 2016 feasibility report noted that there were roof

¹³⁷ Division's mission, FY19 operating budget, p. 284

¹³⁸ Located at 160 Hitchcock Road

¹³⁹ Located at 144 Hitchcock Road

leaks at the time and mice and birds were able to get into the shelter through the leaks. The division also has two trucks that were acquired in 2007, both of which have more than 150,000 miles.

With a newer County facility that is just one block away operating under capacity, we believe that this is a prime opportunity to consider consolidating animal services with the County. The feasibility report provided by Management Partners provided four recommendations, ranging from sharing one animal service operations director between the City and the County (currently underway) to a full consolidation. Over time, the City should fully consolidate with the County in order to streamline services and the span of control.

While consolidation of services should produce cost savings because of streamlined services, that consolidation also provides the opportunity for the City and County to redirect resources to address backlogged improvements such as technology upgrades and new vehicle purchases. As mentioned previously, the City uses two trucks that are over 10 years old and are in need of replacement. Some of the savings achieved through the consolidation should be used toward funding new vehicles to improvement service delivery.

The feasibility study also highlights technology as an area of improvement. Both the City and the County uses the Chameleon software but for different functions. The County uses it to run basic reports but not for licensing purposes, and the basic reports are currently not being used to support operational decision making due in part to the lack of training. County animal control vehicles are equipped with laptops and wireless access, but animal control officers are not using the technology to access licensing records since they do not use the system for licensing services. On the other hand, the City uses Chameleon for licensing in the office but, because the current vehicles do not have laptop and wireless functions installed, the City's animal control officers cannot remotely access online records even though they are trained and have been utilizing the software for licensing purposes.

Finally, our conversations with staff, supported by the feasibility study, indicate that the County Animal Services require improved organizational management whereas the City's animal services in general has good morale. This is an area where the City and County must have transparent communications regarding the consolidation in order for it to be successful.

Strengths and Weakness of Current City and County Animal Services

	City Animal Services	County Animal Services
Strengths	<ul style="list-style-type: none"> • Positive organizational culture • Uses software for licensing • Facility is operating under capacity 	<ul style="list-style-type: none"> • New facility that is operating under capacity • Vehicles are up-to-date with laptop and wireless capability
Weaknesses	<ul style="list-style-type: none"> • Understaffed with old vehicles and facility • Vehicles are not equipped with remote software capability 	<ul style="list-style-type: none"> • Does not fully utilize the Chameleon software • Organizational management

In a scenario where the City and County animal services consolidate, the City would ideally transfer its current animal control officers to the County and consolidate the functions either through an agreement or a joint powers authority. Because the County has newer facility and vehicles, the immediate cost of maintaining the City's shelter is avoided, but there is still a need to dedicate funding toward a reserve fund for future maintenance and upkeep of the County shelter. The City would also generate operating savings from not having to operate the current City animal shelter, but some of these savings should be dedicated toward acquiring new vehicles, technology updates, and providing technology training to employees. More importantly, and as noted in the feasibility study, the consolidation would utilize the new Animal Services Administrator position, hired in May 2018, to provide the leadership skills to navigate this merger between City and County, facilitate communications, and lead the team of animal control officers – from both the City and County – to provide quality services to its residents.

The Feasibility Study estimates cost savings of \$53,000 in the first year and \$72,000 annually after the first year. We have calibrated those savings to the ten-year projections.

Financial Impact

FY19	FY020	FY21	FY22	FY23
0	\$53,000	\$72,000	\$73,440	\$74,909

FY24	FY25	FY26	FY27	FY28
\$76,407	\$77,935	\$79,494	\$81,084	\$82,705

MANAGED COMPETITION AND PRIVATIZATION

The City is involved in several services that are often coordinated with the private sector or generally provided by the private sector. These services, for various reasons, have placed financial burdens on the City's General Fund that are not manageable given the projected budget gap in the City's budget. The following recommendations address areas where the City can reduce subsidies to non-essential programs and services and create budget room for higher priorities. These recommendations may also be found in Chapter 4.

MC01. Eliminate Downtown Parking Fund Deficits

Maintain parking rates sufficient to support cost of parking garage operations.

The City has a Downtown Parking Enterprise Fund that generates revenues from parking fees and City General Fund transfers. The purpose of the Parking Fund is to provide, operate, and maintain an efficient, effective and flexible downtown parking management system to meet the needs of residents, visitors and the business community. The Fund operated with a \$449,000 deficit in FY17 (excluding General Fund subsidy) and the baseline forecast projects the deficit to grow to \$346,000 annually by FY28, even after accounting for fee increases in the FY19 budget. These deficits are not sustainable especially because the Downtown Parking Fund is currently operating with a negative fund balance of \$2.6 million. As a result, without change, the City's General Fund will need to subsidize the Downtown Parking Fund whenever it operates with a deficit.

Downtown Parking Fund, Net Operating Results¹⁴⁰

	FY13	FY14	FY15	FY16	FY17
Monterey Street Garage	\$115,434	\$102,544	\$64,101	\$127,618	\$134,544
Other Parking Permits	97,318	93,688	73,748	73,164	78,790
Operating Revenues	212,752	196,232	137,849	200,782	213,334
Salaries and Benefits	96,315	93,008	96,688	125,547	123,499
Outside Services	325,672	329,747	289,766	342,608	347,310
Other	80,054	97,041	69,261	127,182	191,448
Operating Expenditures	502,042	519,796	455,715	595,336	662,257
Surplus / (Deficit)	(\$289,290)	(\$323,564)	(\$317,866)	(\$394,555)	(\$448,923)

¹⁴⁰ Only reflects operating revenues and expenditures; excludes the General Fund subsidy, a \$1.0 million transfer out in FY14 and a \$1.2 million transfer in in FY15. Also excludes the revenues from the Redevelopment Obligation Retirement Fund which offsets lease expenditures and have no net impact on the fund's net operating result.

The Fund's operating deficits are effectively subsidies from the City's General Fund and, as shown in the table above, these deficits are projected to require additional subsidies from the General Fund over time. The FY19 budget increased fees in all the parking garages and lots, and estimates that revenues would more than double, increasing from \$211,000 to \$524,000. Even with the large increase in fees, however, the City is still budgeted to incur a \$205,000 deficit absent any General Fund subsidy.

To eliminate this deficit, the City has several options:

- In May 2018, the City began the process of selecting a vendor. As a part of the City's agreement with the new vendor, the City should require the vendor to provide parking services (incur expenses) and set the service fees (collect revenues) for the Main Street Parking Garage without providing revenues to, or drawing expenditures from, the City's General Fund. The City would essentially own the garage but contract all of the service provision and revenue collection to an outside contractor.

While this recommendation allows the City to close the projected deficits in the Downtown Parking Fund, it provides the City with less control over the parking rates, which is a common criticism for local governments that have leased their parking assets to private vendors (e.g. Chicago and Indianapolis). Additionally, it's uncertain whether or not a vendor would be willing to take on the risk of raising rates to cover costs. The City's parking garages have not been financially self-supporting, and it is unclear how this would change if the garage was privately managed. Fully contracting parking garages out to a private vendor would likely require the City to first demonstrate that the parking system has the ability to be self-supporting.

- City staff is proposing to increase parking fees to eliminate this deficit. To be fully effective, this may require a broader parking plan for downtown in order to encourage the continued use of the parking garages. The City Council is likely to consider increased Monterey Street parking garage rates in the next few months. These fee increases, if implemented, are estimated to provide approximately \$250,000 in additional revenue. The City is also considering adding parking meters in downtown to fully recover the costs of the Downtown Parking Fund.
- The City also provides free parking to many of its City employees on parcels that could also be used for new buildings as the downtown continues to redevelop, as detailed in the Downtown Vibrancy Plan. As this occurs, the City may have to end this benefit, pushing employees to nearby parking garages. Instead of continuing to provide employees with free parking, the City can explore providing partial parking credit to employees so that both the City and employees share the cost of parking. If the City only subsidizes 50 percent of the annual parking cost (based on a \$40 monthly permit fee) instead of the full parking cost, the City would generate additional annual revenues of approximately \$25,000. Implementation of this plan would require the City to meet and confer with labor groups.

This recommendation encourages the City to continue monitoring the parking subsidy and to keep working towards eliminating all parking subsidies from the General Fund. The following financial impact assumes that the City will eliminate the deficit in the Downtown Parking Fund beginning in FY20.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$229,833	\$243,168	\$256,798	\$271,209

FY24	FY25	FY26	FY27	FY28
\$285,832	\$299,736	\$314,067	\$329,052	\$344,194

MC02. Eliminate General Fund Subsidy of Golf Course Debt Service

The City has two municipal golf courses in the City: Twin Creeks and Fairways. The operations and maintenance of both of these courses has been transferred to private contractors, leaving the City with no ongoing day-to-day maintenance costs; however, the City issued debt for course improvements and has an ongoing responsibility for the debt service payments. The two golf courses, in aggregate, have fund balances with a cumulative deficit of \$300,550 in FY19. The primary City revenue stream from each golf course is the lease payment from the contractor —\$100,000 per year for Fairways and \$60,000 per year for Twin Creeks.

Twin Creeks is a nine-hole course with a 30-station lighted practice range located in the Creekbridge neighborhood. The City transferred operations and maintenance of the course to First Tee (a national nonprofit organization with a local chapter) in November 2004. The City issued debt of \$4.4 million to fund course improvements, and \$3.7 million in principal is still owed on this course, with a term out to 2026. The City's debt service cost in FY19 is \$459,677. The land for the Twin Creeks course is owned by Monterey County and on a 99-year lease to the City. First Tee, which operates Twin Creeks, provides golf lessons to at-risk youth and is very engaged in the Salinas community. While initially the contract between First Tee and the City called for First Tee to assume responsibility for making the payments on the City's debt, the City recently renegotiated the First Tee contract and reduced the lease payments, effectively leaving the City to cover debt service.

The Fairways Golf Course is an 18-hole course located at the City's airport. The City transferred the day-to-day operations of the golf course to Sierra Golf (a private management company) in 2008; therefore, the City only pays debt service for improvements on an outstanding bond of \$4.7 million with a term until 2039. The City debt service cost in FY19 is budgeted at \$230,000. The Fairways debt is a variable-rate obligation, meaning that debt service changes with interest rate changes in the market. Interest rates have been historically low. Recent upward rate pressure, if it continues, could push up the cost of debt service in the next few years, requiring additional financial resources from the City. With the golf course on airport land, the disposition or use of the golf course for revenue-generating purposes is subject to Federal Aviation Administration (FAA) regulations and approval. The FAA also limits the use of excess land for airport purposes and may require all revenue to be airport related.

A golf course study for the City of San Jose in 2015 found that golf courses around the nation are generally underutilized and fewer people are playing golf. According to the National Golf Foundation, the number of golfers has dropped by 17 percent since 2005. As of June 2018, the National Golf Foundation reports that golf rounds played for the past year nationally are down 3.3 percent over the prior year; however, in California rounds are up 7.2 percent¹⁴¹. Yet, even with this uptick in statewide play, Salinas's golf courses are a significant cost to the City's General Fund.

The City will pay over \$7 million in next 10 years servicing golf course debt, while receiving approximately \$1.6 million in lease revenues from the golf-course operators. This drain on General Fund revenues does not fit within the City's broader need to reduce budget deficits and improve base service levels.

It is not uncommon for public golf courses to receive General Fund subsidies. The City of San Jose subsidized golf courses by a total of \$2.6 million in 2016. An internal auditor report recommended reducing or eliminating subsidies. In 2018, a Los Gatos report on golf course subsidies of \$6 per round recommended consideration of selling a golf course for development purposes.

It is recommended that the City seek a way to monetize a portion of the Fairways golf course and to evaluate the potential of converting the Twin Creeks golf course into a revenue-generating asset for the purpose of paying off outstanding debt while also promoting economic development. The City will reap the

¹⁴¹ June 2018, National Rounds Played, National Golf Foundation, August 2018.

increase in property and sales taxes from the economic use of these properties, and revenues from the sale or lease of land can be used to reimburse past, and pay future, debt service.

Twin Creeks is leased by the City from Monterey County. Economic reuse of this golf course would require either the dedication of the land to the City or a cooperative agreement to share in revenues from a sale or reuse of the property, once the City's debt is repaid. Economic reuse would result in the loss of the golf course and First Tee program; however, use of the property could still include public open space and perhaps a driving range and other golf-related uses.

Fairways is divided into two nine-hole sections. One section is directly under the landing path for one of the airport's runways and cannot be used for any type of development. This portion should remain a golf course. The other nine-hole section (located west of Skyway Boulevard) is out of the direct landing path, but still within the area of flight operations. This portion could be sold or redeveloped into an industrial use, with the proceeds, at a minimum, used to repay the City for prior-years' debt service (\$700,000 from FY13 to FY18) and to eliminate the remaining debt on the Fairways course at least. To accomplish this, the City will need to apply to the FAA for disposition of the land.

Additional benefit from this action would be the opening up of needed industrial development land and the associated property and sales taxes from these uses, along with the generation of jobs within the City. The financial impact below assumes the repayment of the golf course debt currently associated with the airport land, and the elimination of future debt. As noted above, because this is variable-rate debt, the savings, based on future debt service, may be much higher. To be conservative, the use of land sales proceeds to repay the Twin Creeks debt is not assumed. If the City is able to accomplish the economic reuse of both golf courses, an additional \$400,000 of expense – debt service less rental fees from First Tee — will be freed up for other uses in the City.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$240,000	\$250,000	\$265,000	\$275,000

FY24	FY25	FY26	FY27	FY28
\$290,000	\$305,000	\$325,000	\$340,000	\$360,000

MC03. Eliminate Sherwood Hall Deficits

The City of Salinas has strived to provide a breadth of community services to residents. Along with parks and community centers, the California Rodeo Association, through its lease with the City, has successfully constructed and operated the Salinas Sport Complex adjacent to Sherwood Hall, a City-owned facility on North Main Street.

Salinas has pursued multiple initiatives to provide services in a financially sustainable way.

- In 2017, the City extended an agreement to lease the 80-acre Salinas Regional Soccer Complex (at Constitution Drive) from the County at \$1 for up to 90 years. The City was, at the time, already sub-leasing the site to the Salinas Regional Sports Authority who began operating the Regional Soccer Complex in 2010, so the new agreement allowed the City to extend the lease agreement with the Sports Authority to continue operating and financing the Complex. The City also leases the Salinas Sports Complex to the California Rodeo Association to run and maintain the facilities.
- The City leased the Aquatic Center to the Monterey County Aquatics/Salinas Valley Aquatics, Inc., a local nonprofit, in 2009 to operate the facility. The nonprofit invested \$2.0 million to expand the pool programs to an 11,000 square-foot municipal aquatic center. The center changed operators to the YMCA in August 2018 to provide various aquatics programs.

These two initiatives are examples of how the City, through creative partnerships with external entities, can reduce the personnel and maintenance cost burden while still providing quality recreational services to its residents. Sherwood Hall, a facility with a 1,600-person capacity and a building age of almost 40 years, presents a fiscal challenge to the City that could be addressed by forming a partnership with a local for-profit or nonprofit entities.

Leasing Sherwood Hall to recover costs is not a new idea. The City leased the hall to the National Steinbeck Center from 2010 to 2013, which managed the facility on behalf of Youth Orchestra Salinas. After 2013, the City entered into a lease agreement with the new Millennium High School in 2014, leasing the non-performance space. This lease agreement expires in June 2019. Millennium High School mostly uses the classrooms in Sherwood Center, which are located next to the main hall, but has exclusive use of Sherwood Hall for two three-week periods a year for a school theater production. The lease with Millennium was set at \$15,000 per month, the estimated cost of utilities and some maintenance for the facility. The lease does not cover ongoing maintenance or renovations.

Even with lease revenues, the City has only been able to recover part of the operating costs for Sherwood Hall. Including the rental fees that the City generates from events, the City is only expecting to recover approximately 85 percent of Sherwood Hall operating expenditures in FY19. To fully recover the operating costs and ensure that infrastructure is properly maintained, the City needs to develop a new strategy.

According to the NRN team's ten-year budget projections, the \$46,000 operating deficit in FY19 will grow to \$103,000 by FY28, not including any additional capital investments that will be required for the aging facility. To address this deficit, and fully utilize the Sherwood Hall asset, the City should consider the long-term financial sustainability of operating such a large facility, and opt to focus more on its core services, such as providing recreation programming and maintaining the park areas near the Aquatic Center and Sherwood Hall area so that children and youth can participate in those programs in a safe environment.

The City should consider two options for operation of Sherwood Hall:

- **Long-term lease of entire facility.** As the City has already experienced with the Salinas Sports Complex and the Aquatic Center, leasing City facilities can help remove substantial cost burden from its General Fund because the pressure of recovering its full costs – the day-to-day operating cost and capital investments – can be funded by the leasee. Oftentimes other local or regional entities – for-profits or non-profits – have more experience with the business model of recovering costs with fees, and have more resources to advertise and promote venues than the City does. In addition, these external entities often have the benefit of economies of scale, since they often operate multiple venues and facilities, and can utilize its existing resources more efficiently.

Instead of negotiating to lease out only a portion of the facility – the City's current practice with Millennium Charter High School –the City should lease out the facility operations entirely -- daily operations, recreation programming, and rental management – so that the City can fully recover its operating and capital costs and focus its staff on other core services. When negotiating a lease agreement, the City should seek a long-term lease – preferably five years or more – to provide stability to the City's finances.

- **Sale of facility.** Alternatively, the City can seek to sell the facility to a private entity and generate one-time revenues to pay off its debt or make one-time capital investments. The possibility of a sale is largely dependent upon the local market. Selling city-owned assets and directing those one-time revenues to a dedicated cost center, such as debt, capital, or pension, is becoming increasingly common among local governments. Assets that can generate large one-time revenues are usually large systems like the water, sewer, or parking systems, but it is still fairly common for local governments to sell smaller assets like facilities and buildings.

The challenge of selling the asset entirely is to be able to find an entity that is committed to maintaining Sherwood Hall's current functions as a performance and conference venue and also

willing to invest in the capital infrastructure to preserve the building. To accomplish this goal, the City needs to be flexible in the usage of the facility, especially since a performance venue of this size will require creative strategies to operate and maintain.

Saving from leasing the operations of Sherwood Hall are provided below. These savings do not include capital improvements that will be needed, but are not yet included in the budget. If the City is able to generate any one-time revenues from a sale, those revenues should be dedicated toward cost-centers that bring long-term structural benefits, such as debt or capital, or reinvested into other recreations facilities, such as existing community centers, to improve services.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$54,000	\$58,000	\$64,000	\$70,000

FY24	FY25	FY26	FY27	FY28
\$77,000	\$83,000	\$90,000	\$96,000	\$103,000

OPERATIONAL EFFICIENCIES

The true test for City government should not be just whether annual budgets are balanced, but rather whether taxpayers are receiving appropriate service value at an affordable price. In other words, smaller government alone is not enough – the City must provide smarter, more efficient and more effective government. These recommendations may also be found in Chapter 4.

The following initiatives aim to improve the City’s operational efficiency, reduce expenditures, and make necessary investments that will lead to long-term savings. While the City created budget room after the recession by instituting furloughs, this across-the-board reduction in service is seen as a last resort, as spending reductions should generally be made with the goal of focusing on core services, rather than trying to maintain all services at reduced levels. Many departments cannot afford to reduce staff time and complete already-difficult-to-complete tasks. It is generally preferable to do what is most important well than to try to do too much and provide mediocre service in all areas. Additionally, the recommendations included in this report, if implemented, should lead to balanced budgets. Furloughs are not recommended in this study.

OE01. Move Facility and Park Maintenance to Library and Community Services

The Public Works Department is responsible for a wide range of activities that impact many other City operating departments and most residents. Public Works is divided into the two main Sub-Departments of Engineering and Transportation Services and Environmental and Maintenance Services. Each of these Sub-Departments is further divided into several different Divisions. Additionally, Public Works oversees the Salinas Municipal Airport and the City’s Geographic Information Systems (GIS) Divisions, both of which report directly to the Public Works Director.

For most divisions in Public Works there is a direct tie back to the City’s infrastructure planning, construction, and/or maintenance. Two areas that do not directly tie back to the core services of Public Works are facility maintenance and parks and Community Services. It is not uncommon for a Public Works Department to oversee these areas; however, the Salinas Public Works Department is already stretched thin with the breadth of tasks for which it is responsible.

There are different models to oversee services provided on a citywide and interdepartmental basis. An ideal model is to create a separate department for these central services that covers building maintenance, fleet, and parks and landscaping maintenance. Unfortunately, with projected budget constraints, the City is not in a position to add a department. However, moving the oversight of parks and building maintenance to the Library and Community Services Department is a good interim step.

The Library and Community Services Department has two primary areas of oversight: libraries and recreation services. As recreation services have been added back into the City staffing matrix, after having been all but eliminated during the Great Recession, the library and recreation programs have been working to integrate programming and facilities maintenance as much as possible. What they lack is control and direction over the maintenance and upkeep of the parks and community facilities from which they operate their programs.

Within Public Works, the Parks Maintenance and Urban Forestry Divisions cover more than just City parks. They are also used to maintain trees in the City rights-of-way as well as street medians. Similarly, the Facilities Maintenance Division is responsible for all City facilities. Most facilities used by the general public are primarily operated by the Library and Community Services Department. The Graffiti Abatement Division removes graffiti from public property and supports its removal from private property. Moving these four divisions¹⁴² to Library and Community Services provides a closer connection of maintenance to programs, and will provide more accountability for the Library and Community Services department in carrying out their Programs.

These divisions currently have an overall ratio of line staff to managers and supervisors of 1 to 5, as shown in the table below (a target span of control ratio should be about 1 to 7¹⁴³ for most types of services). This ratio suggests that a combining and reorganizing of these divisions could eliminate one manager position increasing the ratio to 1 to 6.33. At the same time, the increasing role of contracting needs to be taken into account as well.

Public Works Span of Control

Division	Managers/ Supervisors	Line Staff	Ratio
Graffiti Abatement	n/a	1.0	n/a
Facilities Maintenance	1.0	3.0	1 : 3.0
Parks and Community Services	2.0	10.0	1 : 5.0
Urban Forestry	1.0	6.0	1 : 6.0
Total	4.0	20	1 : 5.0

The remaining divisions in Public Works under Environmental and Maintenance Services have a manager to line staff ratio of 1 to 4.05. A reorganization of supervisory staff within these divisions could also eliminate one supervisory position. This could occur by sharing oversight with a manager in the Engineering and Transportation Services Sub-Department. Overall, the Public Works Department is fragmented, and the movement of the parks and facility maintenance functions could be beneficial to an overall restructuring of the Public Works Department. A deeper analysis of the Public Works Department is underway and will be provided in a separate, dedicated report.

The savings from the elimination of two manager positions is listed below, include cash compensation and other personnel costs, and are discounted to avoid double-counting the overall workforce savings.

¹⁴² The other Environmental and Maintenance Services Divisions — Maintenance Administration, Street Lights, Street Maintenance, Traffic Signals, Environmental Compliance, Fleet Maintenance, and Engineering Maintenance – would remain under Public Works.

¹⁴³ The City has also transitioned to more contract work in these divisions. Managing these contracts can also result in a smaller span of control if only looking at City staff.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$189,703	\$195,655	\$200,547	\$205,560

FY24	FY25	FY26	FY27	FY28
\$210,699	\$215,967	\$221,366	\$226,900	\$232,573

OE02. Citywide Fleet Strategy

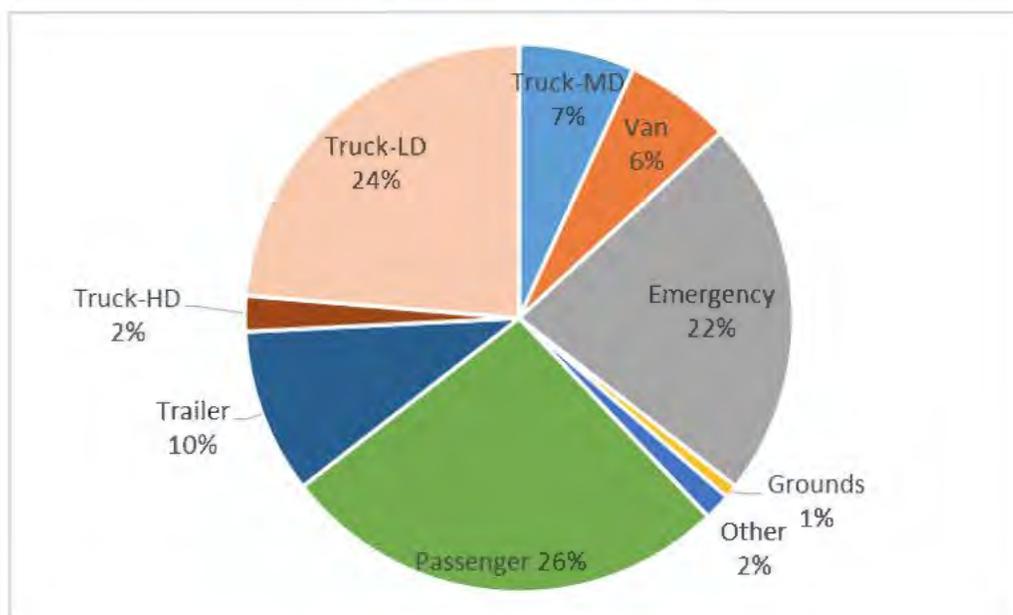
A fleet operations review that was completed in April 2017 by Mercury Consulting recommended that the City centralize its fleet maintenance operations to improve overall service and capture economies of scale. After interviewing the departments of Public Works, Fire, and Police, the Network team recommends that the City should not only centralize its fleet operations, but develop a citywide fleet strategy, including a fleet replacement plan. Mercury is currently working with the City to implement their 2017 recommendation.

The City operates a fleet of 380 vehicles and pieces of equipment, which primarily includes rolling stock such as utility carts, trailers, and forklifts. Together, these vehicles and pieces of equipment are tracked as units, of which 130 units are in the Police Department, 50 units are in the Fire Department, and the remaining 210 units are assigned to the Public Works Department.

An issue with the overall maintenance of the fleet is that the City does not have a fleet-replacement strategy or funding. This has resulted in an aging fleet with increased repair needs.

In FY19, the City budgeted \$2.7 million for maintaining its fleet, including personnel cost for maintenance, equipment, parts and supplies related to fleet maintenance, as well as fuel and oil lubricants for regular operations. The \$2.7 million in spending excludes capital expenditures associated with fleet replacement.

City's Fleet Composition ¹⁴⁴



¹⁴⁴ Salinas Fleet Operational Review Report, April 2017

The City's main fleet functions reside in the Department of Public Works where there are six budgeted full-time employees. As of The FY19 budget, the fleet maintenance manager, fleet analyst, and inventory technician positions were all eliminated to create budget savings. This leaves the Division with only one mechanic supervisor and four mechanics working on routine maintenance. The result is that the Division has been fulfilling departmental requests on a reactive, rather than proactive, basis. The lack of staffing and retreat on new positions will make any changes in fleet services very difficult, as staff do not currently have time to do more than perform minimum maintenance needs.

Beyond the main fleet functions that are hosted within the Department of Public Works, the Fire Department has six firefighters who work on vehicle maintenance on a part-time basis and the Police Department has one full-time equipment inventory technician and another full-time vehicle maintenance assistant. Each firefighter mechanic receives premium pay of 10 percent, and one firefighter mechanic supervisor receives a 2.5 percent premium in addition to the 10 percent premium.

FY19 Citywide Fleet Maintenance Budget

	Public Works	Police	Fire
Number of FTE	6	2	6 firefighters
Personnel Cost	\$527,270	\$219,640	\$162,730
Functions	<ul style="list-style-type: none"> Perform citywide fleet repairs, including Police's fleet, using a work order system Purchasing of vehicle parts for in-house repairs Determines repairs to be contracted out and negotiate pricing 	<ul style="list-style-type: none"> Perform small repairs and buy parts Work with DPW to schedule repairs Select outside repair shops and negotiate pricing Writes specifications for police vehicles and replacement criteria 	<ul style="list-style-type: none"> Oil changes All repairs except heavy repairs, which are contracted out Mandated safety inspections Ladders which are inspected by outside vendors Order and maintain commonly needed parts
Asset Management System	Squarerigger, Inc.	N/A	Manager Plus
Operating Cost (including supplies, utilities, and contracts)	\$1,094,940		\$209,400
Fuel Cost	\$130,900	\$241,200	\$105,700
Total Fleet Maintenance Cost	\$2,213,950		\$477,830
Citywide Fleet Maintenance Cost	\$2,691,780		

Because of a decentralized fleet approach and an essentially half-vacant fleet management function in the Department of Public Works, the City does not have a fleet replacement plan that aligns fleet replacements with fleet life cycles. Maintenance requests are performed on a reactive basis and the City runs an old fleet with an overall average age of over 15 years (although this is changing with the \$650,000 budgeted in FY19 for new Police vehicles). As a result, the City's maintenance costs keep rising as vehicles and equipment get older. New purchases may actually generate cost savings, since the cost of maintaining an old vehicle often exceeds the cost of purchasing a new vehicle that requires minimal maintenance¹⁴⁵.

¹⁴⁵ Salinas Fleet Operational Review Report, Mercury Associates, p. 22

The second downside of not having a centralized fleet function is the difficulty in tracking data. While the Department of Public Works currently uses *Squarerigger, Inc.* as its fleet management information system, neither Police nor Fire uses that system, so there is no centralized database. Further, because the software is outdated, and Public Works personnel has not had any software training since it was purchased 15 years ago, only selected data is entered into the system and preventative maintenance is managed manually.

Because of the lack of software training, the most accurate vehicle database is actually maintained by the Finance Department in Excel. With the lack of data, it is difficult to estimate the amount of time or money spent on vehicle maintenance and how a fleet replacement strategy can help the City generate savings in the long-term. Meanwhile, the City operates with an aging fleet that is expensive to maintain as departments struggle to provide quality services to its residents.

The recommendation that the City should centralize its fleet function has already been suggested in prior reports, including the Fleet Operations Review report (2017) and the Public Safety Management and Staffing Reports (2014). Both reports recommend centralizing fleet functions so that Police and Fire and transfer responsibility for fleet maintenance to a centralized operation.

Fleet Centralization

The centralization approach is ideal for the Police Department because the Public Works Department is already doing the majority of the in-house repair work. The two full-time vehicle maintenance employees in the Police department mostly negotiate pricing and schedule repairs with vendors and, as the Department cited, “do not turn wrenches.” The Fire Department, however, has reservations with centralizing fleet. This is partially because of limited capacity in the City Yard, the primary site where the City’s Public Works Department does vehicle repairs. Further, minor repairs on fire equipment often occurs on weekends or after regular working hours, when fleet staff is off duty. Additionally, six firefighters currently receive premium pay to maintain vehicles when not performing firefighting duties.

Centralizing fleet is inherently difficult because it requires a shift in culture. To successfully centralize its fleet operations, the City needs an incremental approach. The City is already outsourcing many complex repairs. There are, however, more opportunities to outsource more of its repair work so that public safety units can focus on their core functions. Over time, the City should structure contracts with local vendors to outsource all body work, communications equipment such as radios, tire replacements, engine and transmission repairs, fabrication, certifications for Fire vehicles and equipment, and any large vehicle components with warranties. By outsourcing most of the repair work, the City staff that are centralized under the Public Works Department can focus on preventative maintenance work and regular vehicle upkeep. The concern that the City Yard is not fully equipped to perform major repairs can also be solved if the City outsources those repairs.

The Network team heard from departments that, because Public Works does not have a 24-hour on-call system, repairs will not be completed overnight and will limit the number of functioning vehicles at any given time. Based on discussions with the City’s fleet consultant, the City should also outsource those on-call functions in order to limit overtime spending.

To incrementally outsource most of the repair functions and centralize preventative maintenance under Public Works, the City should seek to outsource most major repairs, move the police positions to the Fleet Maintenance Division and eliminate firefighter mechanic premium pay as contracts with outside vendors are put in place. The City is already working with its fleet management consultant to centralize its fleet functions, and is already moving in the right direction. The key to developing a successful centralized fleet program is also dependent upon the City having a leader that manages fleet. This person must have leadership skills to help the City transition its fleet operations to a centralized approach, and have the experience to be able to manage and negotiate contracts with local vendors as the City outsources more of its repair work.

While the City may generate some savings through outsourcing more of its repair work and centralizing its fleet functions within the Department of Public Works, those savings are largely dependent upon the timing of centralization and the pricing of contracts with local vendors. The following estimated fiscal impact is based on a conservative savings of five percent, phased-in over five years, beginning in FY21.

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$0	\$26,000	\$53,000	\$81,000
FY24	FY25	FY26	FY27	FY28
\$112,000	\$143,000	\$147,000	\$151,000	\$155,000

Fleet Rightsizing

The Fleet Operations Review report also discusses the City's fleet age and the need for a systematic replacement plan. As stated in the report, the average age of the City's 390 vehicles and equipment is 15.4 years. Again, because the operating cost of maintaining an old vehicle is often higher than the one-time cost of purchasing a new vehicle, developing a regular fleet replacement plan is an industry best practice.

The first step in developing a fleet replacement plan is to identify the oldest vehicles that are not regularly used. The City should auction those vehicles and use these one-time proceeds to purchase new vehicles – this purchasing plan, however, must be done concurrently with a fleet reduction strategy in order to generate long-term savings. According to the City's fleet consultant, a 10 percent fleet reduction target (or elimination of 39 vehicles and equipment) is a reasonable starting point. By reducing the fleet size, the City can dedicate its limited resources to maintaining the existing fleet and begin determining the ideal fleet replacement cycles for each of its vehicle type.

Developing a fleet rightsizing strategy is increasingly common among local governments. The City of Cincinnati, for example, in 2015 committed to investing in the Capital Acceleration Program, which provides \$40 million in 12 years, to bring the City's rolling stock more into the proper lifecycle. The City also committed to a fleet reduction program in conjunction with the Capital Acceleration Program to create a more efficient fleet. To facilitate fleet reductions, the City explored alternative transportation options, such as a creating central motor pool, using Uber for business, or providing mileage reimbursements for employees using their own vehicles. These are all options that the City of Salinas should explore in the future – once the fleet centralization strategy is well underway -- in order to generate additional efficiencies in its fleet operations.

The Network team understands that much of the discussed changes – fleet centralization and rightsizing – are difficult to implement and require all departments to work together. Most importantly, the City needs a fleet manager with the leadership responsibility to steer the transition and build consensus with public safety departments in order for these strategies to be successful. The savings¹⁴⁶ from rightsizing and centralization—from reduced maintenance and replacement costs—can be utilized to fund this position¹⁴⁷.

OE03. Improve Budget Process and Monitoring

The City's budget is a comprehensive document that clearly lays out the City's revenues and expenses, provides detailed budget policies, and includes a description and analysis of the City's priority-budgeting

¹⁴⁶ For the purpose of this analysis, PFM assumes that the proceeds from vehicle auctions would be offset by vehicle purchases, and any future savings from fleet replacement and reductions would be reinvested into the fleet rightsizing program.

¹⁴⁷ The City froze funding for the Fleet Manager position in the FY19 budget.

process. At the same time, each of these areas could be enhanced to better serve the City Council in the annual review and approval of the budget and its focus on key priorities; the City Manager in resource allocation and monitoring; and departments in annual budget development. Recommended changes to the budget include:

Budget Policy Monitoring. As noted, the City has budget policies in thirteen areas of the budget, including accounting, revenue, expenses, and debt. While these policies are detailed and appropriate for the City, there is no indication in the budget document how well the City is adhering to these policies. **The budget document should identify if policies have been met in the previous year and if they are being met in the current budget document.** This will allow the City Council to more readily identify potential areas of concern.

Departmental Revenues. The City has started to track revenues generated as a direct result of departmental activity, including grants, user fees, fines, permit fees, etc. This type of revenue tracking allows departments to understand how well they are able to cover costs from their services. Many departments expressed a desire to have more control over revenues and receive regular updates on revenue activity. **Revenues by department should also be tracked in the budget document for Council review. Additionally, cost-recovery policies can then be set by department** to both identify where the General Fund is subsidizing programs while targeting the level of subsidy desired.

Priority-Based Budgeting. The City's priority-based budgeting process is an effort to identify where the City is spending funds, and what priority this funding has in the overall City budget. Setting such priorities also allows the City Manager and Council identify areas where funding could be shifted based on the City's priorities and the amount of funding needed for unfunded priorities. The City's priorities are divided into four categories—Priority A being the most aligned with the City's goals and Priority D having the least alignment. In theory, Priority D spending could be reallocated with little impact on City services.

There are two limitations with the City's current budget priority funding process. First, there is little evidence that priority-based budgeting has resulted in any reallocation of budgets between departments, and growth in budgets has remained formulaic. Second, in FY18 much of the spending categorized as Priority D was either required spending by law, a part of a grant, or critical funding for other higher-priority projects—effectively making Priority D projects “un-cutttable.” In theory, priority-based budgeting should have been used to cut the budget by \$7 million, which was the amount of Priority D funding in the budget. Instead, the City had to resort to an across-the-board decrease by department.

Priority-based budgets should be used to reallocate funding to higher-priority needs throughout the City, whether that is allocating more funding to existing projects or funding areas that are currently needed, but unfunded. Given the City's current depth of need, it can be argued that there should be no Priority D funding in the budget.

In summary, the City should institute the following budget changes:

- Track adherence to adopted policies listed in the budget document
- List budgeted departmental revenues and set cost-recovery policies by divisions or departments
- Use priority-based budgeting to reduce budget costs or reallocate costs to higher-priority projects in the City. Don't allow Priority D funding until all other City priorities are being adequately met.
- Include a minimum five-year budget forecast that shows how the current budget helps maintain fiscal sustainability over a longer-term horizon.

OE04. Strategically Implement Consultant Studies with Action Plans and Savings Targets

The City has performed many consultant studies in the last eight years:

Selected Consultant Studies

Department	Study Name	Completion Date
City Manager	Organizational Assessment Report	2010
Community and Economic Development	Organizational Assessment	2013
Fire Department	Fire Management and Staffing Study	2014
Police Department	Salinas Police Service Management and Staffing Study	2014
Administration	Total Compensation Survey	2016
Community Development	Nexus Affordable Housing	2016
Police	Animal Control Feasibility Study with County of Monterey	2016
Finance	Salinas Financial Sustainability Plan Framework	2017
Public Works	Fleet Operational Review Report	2017
Community Development	Farmworker Housing Study and Action Plan	2018
Library and Community Services	Parks Masterplan	2018
Police and Fire	Public Safety Organizational and Overtime Studies	2018
Library and Community Services	Sherwood Hall Business Plan	Upcoming
Public Works	Organizational Assessment	Upcoming
Fire Department	Community Needs Assessment	Upcoming
Human Resources	Classification Study	Upcoming

The City has proactively sought ways to deliver services more efficiently and effectively, but, in order to truly make the full use of the recommendations provided by consultants, the City should develop an accountability matrix for each study conducted. This matrix would include:

- Recommendations from the study
- Agreements/issues staff has with each recommendation
- Plan to implement all or part of a recommendation
- Implementation timing
- Expected vs. actual savings/cost from recommendation
- Follow up on City actions at 6 and 12 months after implementation

This matrix will help tie study recommendations to City actions, will keep the Council engaged in the actively improving the City, and will generate discussions over what improvements to make in City services and why (e.g., recommendation feasibility). **Appendix B** is a sample matrix.

OE05. Prepare a Preventive Maintenance Program for all City Facilities

Salinas has significant deferred maintenance on City facilities, based on on-site inspection of facilities and interviews with City staff across departments. A Parks Master Plan is underway that will address these issues for parks facilities, and the City is addressing issues with an aged Police Department building and the El Gabilan Library through bond issues funded by Measures G and E. However, the degree of deferred maintenance for other City facilities is not known and is not undergoing current study.

Not maintaining City facilities can create greater costs of replacement if left to go into extreme disrepair. In addition, deferred maintenance can lead to unsafe conditions and result in dilapidated buildings that do not meet the modern standards for the workplace or the public. To address this, the City should develop a Preventive Maintenance Program. Developing a Preventive Maintenance Program would provide information across several areas:

- An analysis of existing conditions of City facilities and major systems (e.g., HVAC, roofing, etc.)
- A list of deferred maintenance by facility and an estimate of cost to bring each facility up to standard
- The cost of regular ongoing maintenance and expected system replacement costs over an appropriate time horizon
- A plan of action to address deferred maintenance and regular ongoing-maintenance needs for all City facilities

Ideally, a Preventive Maintenance Program will provide the following benefits to the City:

- Provide the City Council with an understanding of what is not being funded in the annual budget.
- Lead to a plan to identify budget capacity over time to fully fund a preventive maintenance plan.
- Provide an analysis to determine if it is more cost-effective to replace key facility systems rather than incur high maintenance costs. For example, the parks irrigation systems are up to 50 years old and require a great deal of time and materials to keep in working order. Bringing these systems up to current standards could save on ongoing maintenance, water costs through more efficient control systems, and less replacement of plants.

A Preventive Maintenance Program is the starting point for the City to understand its current deferred maintenance need. Such a program, while providing the City with an understanding of future maintenance costs needs, can also be helpful in identifying areas where the City can expand its energy savings program or identify excess property for disposal that could both generate funds for other maintenance needs and save ongoing maintenance costs. It will be challenging for the City to fund any facility upgrades recommended by the Parks Master Plan without additional revenues.

WORKFORCE

The detailed analysis of the City's workforce can be found in **Chapter 5: Rebalancing Employee Compensation**. The recommendations below are also provided in **Chapter 5**.

WF01: Healthcare Cost Containment

It is recommended that the City develop a more affordable, market level health and welfare benefits program, to be phased in as current memoranda of understanding expire. While Salinas employee representatives should have input through collective bargaining into the particular changes to be adopted, as well as timing, options would include (but not be limited to) the following:

- Adopt the CalPERS Select plan as the City's base plan for employees instead of the current CalPERS Choice plan, with employees paying the difference between the premium cost for the base plan and any more expensive options made available, in addition to any premium cost-sharing for the base plan.
 - As of FY18, the CalPERS Select plan premium costs are 13% below those for the Choice plan:

	Annual Health Premium			Annual Employee Contribution		
	Single	Employee + 1	Family	Single	Employee + 1	Family
PERS Select	\$8,301	\$16,603	\$21,584	\$0	\$0	\$0
PORAC	\$8,808	\$18,480	\$23,640	\$0	\$0	\$0
Kaiser	\$9,545	\$19,090	\$24,817	\$0	\$0	\$0
Choice	\$9,768	\$19,535	\$25,396	\$0	\$0	\$0
Care	\$10,403	\$20,806	\$27,048	\$636	\$1,271	\$1,653
Blue Shield	\$10,733	\$21,466	\$27,906	\$966	\$1,931	\$2,511

- o The Select plan still offers a market-competitive plan design. Providing low costs prescription drug co-pays (\$5/\$20/\$50), low-cost deductible and coverage of certain preventive services without cost-sharing and before deductible is met.
 - o Based on FY18 enrollment, this approach would have reduced City costs by approximately 15% if it were already in place.
- As previously outlined, existing memoranda of understanding will begin to phase in modest employee cost-sharing for healthcare premium over the next several years. As these current MOUs subsequently expire, the City and its employee groups should work together to establish an employee contribution of 20% for the base City plan¹⁴⁸, with employees still responsible for the full incremental cost of more expensive plan options. Adjusting the employee premium contributions toward the base plan would still provide a highly competitive benefit in the overall labor market.
 - Introduce parallel cost containment measures for supplemental dental and vision benefits, toward which the City contributed \$639,129 in FY18 with no employee cost sharing for premiums.

Through measures such as the above, the City can, at a minimum (if healthcare premiums match projections), achieve flat healthcare cost growth for each bargaining unit for at least the first three years after current terms expire. If all of the above measures are adopted, over \$2.5 million in savings will be realized once fully phased in. The following savings represent achievement of the three-year cost containment goal for each employee group as current provisions expire, assuming a phased-in approach to premium cost-sharing, followed by a return to baseline cost growth thereafter. These savings assume staying in the current PERS Choice plan as the City's base premium. An alternative way of achieving these savings is to change the base plan to PERS Select, which would allow a smaller employee share to achieve the same savings.

¹⁴⁸ The costs assume that the City remains in the PERS Choice Plan for base assumed premiums.

Financial Impact

	FY19	FY20	FY21	FY22	FY23
Increase EE Contribution to 20%	0.0%	00%	5.0%	10.0%	10.0%
Total EE Contribution	\$0	\$0	\$642,839	\$1,349,961	\$1,417,459

	FY24	FY25	FY26	FY27	FY28
Increase EE Contribution to 20%	15.0%	15.0%	20.0%	20.0%	20.0%
Total EE Contribution	\$2,232,499	\$2,344,124	\$3,281,773	\$3,445,862	\$3,618,155

WF02: Improve Base Pay on a Cost-Neutral Basis

Salinas has multiple opportunities to restructure its compensation approach in order to fund prospective increases in base pay:

- Eliminate low/no value and/or uncommon pay premiums such as “incentives” for basic requirements of a job, as well as the fitness bonus, auto allowance, and longevity pay
- Restructure bilingual pay to ensure that payment levels are dependent on whether a bilingual employee would be able to perform their duties and serve the public more effectively than if they spoke English only. Payments for positions requiring consistent need and public benefit should be higher than those received for positions that use bilingual skills on a periodic basis only
- In conjunction with increases in base pay, the City should explore increased employee pension contributions, as adopted for the Fire and Police bargaining units in recent agreements

Creative approaches, such as those outlined in the chapter above, should fund significant base pay improvements without adding net costs. Specialty pay amounts in the FY17 budget were:

Financial Impact of Selected Specialty Pays – FY17 Amounts

Specialty Pays	Current Cost	Employees Impacted
Educational Incentives	\$254,274	Various departments
Auto Allowance Premium	\$67,500	Department Heads
Supervisory Incentive	\$83,007	Management employees
Physical Fitness Incentive	\$229,250	Safety and Miscellaneous
Longevity Pay - 20 Years	\$418,374	Non-Police
Longevity Pay – Police 10 and 20 years	\$160,960	Police
Certification Pay ¹⁴⁹	\$836,351	Fire, Police, Crew Supervisors, SMEA
Total Specialty Pays	\$2,049,716	

The \$2.0 million in total specialty pay represents 4.1% of all other cash compensation. Merging these specialty pays into base pay could raise overall wages by approximately this amount on an overall basis. The increases in base pay will likely vary by bargaining groups, and the City may determine that specific specialty pays should remain in targeted circumstances. These changes would need to be phased-in over time, as

¹⁴⁹ Note a portion of certification pay may be valuable to remain in place for some specialized positions; however, City should consider capping certification classifications and rolling this pay into base pay as much as possible.

current collective bargaining agreements expire. The City will need work with its labor groups to determine the best way to resolve situations where these changes result in an overall reduction in pay for an employee. With recent general wage increases already ahead of low CPI growth, and continued low inflation projected for the period ahead – as well as Salinas’ strong comparative total compensation position relative to a more affluent, higher cost survey group – the above approaches should maintain, if not improve, a competitive recruitment and retention position for the City as it further absorbs rising pension and other benefit costs. Implementing these changes will require close work with the City’s labor groups.

WF03: Eliminate Management and Flex Leave

Leave cash-outs are provided to most employees in the City¹⁵⁰. The total annual cost of leave cash-outs in FY17 was \$3.5 million, with \$2.0 million of that for Annual Leave and **\$1.5 million for Management and Flex Leave**. Employees cashed out more leave time than was used for time off of work. Flex leave cash-outs for Police sunset in December 2018, and were approximately 25 percent of the total Flex leave cash-out in FY17. Eliminating the remaining management and flex leave cash-outs will have a significant positive impact on the City’s General Fund net revenue.

To reduce these costs, the City should:

- Restructure paid leave, eliminating or reducing Flex and Management Leave that provide total benefits well above comparative norms and drive extraordinary leave cash out costs
 - Eliminating Management and Flex Leave hours will require negotiations with labor unions
- It may be beneficial for Annual Leave buy-back to remain in place for some employee groups, as it is an important option in managing the overall workload and not incurring higher overtime, especially in the Fire department, where leave results in paid overtime to maintain minimum staffing levels

The financial impact of eliminating Flex Leave, Management Leave, and a portion of annual leave cash-outs is provided below. This is based on FY17 cash-out amounts, less the amount for Police and approximately 25 percent of annual leave. (The elimination of Police Flex Leave cash-outs is already included in the FY19 budget, and is not a savings from this recommendation).

Financial Impact

FY19	FY20	FY21	FY22	FY23
\$0	\$0	\$2,100,000	\$2,461,609	\$2,530,409

FY24	FY25	FY26	FY27	FY28
\$2,607,640	\$2,670,615	\$2,735,923	\$2,806,870	\$2,875,139

WF04: Continue to Address Workers Compensation Costs, Moving Toward Sound Actuarial Funding

A number of significant reforms have been advanced in recent years to improve the City’s workers’ compensation program. The City Attorney’s Department completed a full evaluation and modification of contracts with service providers (third party administrators) to add accountability to their handling of City

¹⁵⁰ Leave cash-outs to the SPOA members will end on December 31, 2018.



accounts, and commissioned a full audit of the City's third party administrator of worker's compensation claims and implemented protocols and standards for improved performance. Further, the City combined potentially high-exposure claims, reducing the City's outstanding liability.

With a negative fund balance and absence of actuarial funding, the City should continue to work to strengthen its workers' compensation program to control cost.

- The City could add or re-assign an FTE to act as a Citywide Safety Manager. The Safety Manager could provide citywide safety programs and related workers' compensation injury investigations. Additionally, the Safety Manager's job responsibilities could include proactive identification and reporting of unsafe work and environmental conditions throughout the City's workplaces and within the City's work procedures.
- Implement a Citywide Safety Training Program conducted by the Department heads. This program could include safety education and training programs with the assistance of the Safety Manager. Supervisory personnel could then work closely with the Safety Manager to ensure that all recommendations of the Safety Manager concerning workplace facility and environmental safety provisions are carried out.
- Incrementally seek to fund workers compensation liabilities on an actuarially sound basis to better ensure long-term sustainability.

The following initiative impact assumes a two-percent annual savings in workers' compensation spending, net of the Citywide Safety Manager position. The initiative estimates are meant to provide a savings target for the City, assuming that partial implementation of the three recommendations would yield annual savings of at least two percent.

Financial Impact – 2% in workers' compensation savings

FY19	FY20	FY21	FY22	FY23
\$0	\$106,600	\$111,930	\$117,526	\$123,403

FY24	FY25	FY26	FY27	FY28
\$129,573	\$136,052	\$142,854	\$149,997	\$157,497

INVESTMENT STRATEGIES

Most of the initiatives described so far are strategies to help the City close the projected budget gap. However, in order for Salinas to be a sustainable and thriving community, investments must be made to allow the City do deliver quality services more efficiently and ensure that the City's infrastructure – including its roads, sidewalks, buildings, bridges, recreation centers – is well-maintained. The following initiatives seek to provide the City with the necessary strategies to ensure the economic sustainability of the community and improve resident's quality of life, and may be found in Chapter 4.

Investment strategies for the City also include recommendations to address housing issues, and are included in Chapter 6.

IN01. Dedicate Savings to Capital Investment

The City has a capital budget totaling \$127.5 million in FY19, of which \$67.7 million (or 53.0 percent) is used toward the construction of the new police station and library. The capital budget includes \$12.9 million, or 10.1 percent, funded on a pay-as-you-go basis by the general governmental funds, most of which (63.2 percent) through the Measure G Fund. The remainder of the capital budget is funded primarily by the Measure X Fund (34.3 percent) that is funded by a countywide sales tax of 3/8 percent and can only be used for transportation safety and investment.

Looking forward, the CIP is projected to decline gradually to \$26.5 million by FY23. The majority of the \$26.5 million projected capital spending in FY23 are Measure X and SB1 funding that are used primarily toward transportation, and another \$6.0 million is dedicated toward the debt service payments for the new police station and library, which means that the amount left for the City’s capital spending on its buildings (e.g. fire stations, recreation centers) will only be approximately \$2.0 million.

FY19 CIP Budget

Funding Sources	FY19	FY20	FY21	FY22	FY23	FY24	Total
General Fund	\$748,552	\$425,552	\$300,552	\$75,000	\$75,000	\$75,000	\$1,699,656
Measure E	\$4,005,000	\$600,000	\$225,000	\$705,000	\$0		\$5,535,000
Measure G	\$8,157,485	\$8,352,685	\$7,418,370	\$7,321,500	\$7,566,500	\$6,819,800	\$45,636,340
Other Funds	\$114,609,397	\$70,145,464	\$71,830,691	\$34,750,426	\$18,840,011	\$24,618,215	\$334,794,204
Total	\$127,520,434	\$79,523,701	\$79,774,613	\$42,851,926	\$26,481,511	\$31,513,015	\$387,665,200

Based on assessment of the City’s building conditions, especially for its fire stations and recreation center, the amount in the FY19 capital budget is inadequate – and other infrastructure and equipment categories face similar challenges.

- **Buildings** – Most City buildings are old and in need of repair; however, the City does not have an estimate for deferred maintenance or replacement (see recommended initiative above). Fire stations and community centers are in need of repair. The City is funding a new police station and a replacement library with Measure G funds, but does not have a plan to fund maintenance for other facilities.
- **Parks** — Park irrigation systems are up to 50-years old, failing, and require significant effort to maintain. A parks master plan is underway; however, there is no identified funding for increased or improved parks or community centers.
- **Streets** – The City has a paving condition index of 54 (out of 100), reflecting poor condition and widespread need for reconstruction, and estimated deferred maintenance of \$137.9 million¹⁵¹. A recent increased gas tax in California will increase annual funding along with Measure X, a countywide transportation sales tax, and help to improve local streets.
- **Specialty venues**—The City has several specialty venues that it either operates itself or contracts out. Sherwood Hall, a large and aging performance and meeting venue, is a combination of City/lease with the City responsible for maintenance. A new recreation center is being constructed without accounting for increasing maintenance or operating costs.

¹⁵¹ 2017 Pavement Condition Assessment, November 15, 2017



One of the City's most urgent priorities is to ensure that its capital infrastructure and basic equipment is at least sufficiently maintained. Moving forward, the City must dedicate a portion of the savings from implementing the initiatives recommended throughout this report toward capital investments.

The following additional investment in capital funding assumes that the City would dedicate any savings achieved through the initiatives as outlined in this report to capital investments. The amount as outlined in this table is still insufficient for the City's capital needs, especially considering that over \$6.0 million each year is already earmarked for the police station and library debt service payment. This is why we encourage the City to follow the guiding principles outlined in this initiative, and continue to strive toward dedicating any additional operating savings or one-time revenues such as asset sales toward capital funding.

Financial Impact

	FY19	FY20	FY21	FY22	FY23
Baseline CIP Pay-as-you-go Funding	\$12,911,037	\$10,484,470	\$9,207,471	\$9,366,833	\$8,907,765
Additional CIP	\$0	\$1,463,590	\$1,303,287	\$502,344	\$1,397,170
Total CIP	\$12,911,037	\$11,948,060	\$10,510,758	\$9,869,177	\$10,304,935

	FY24	FY25	FY26	FY27	FY28
Baseline CIP Pay-as-you-go Funding	\$8,161,146	\$8,160,399	\$8,158,800	\$8,158,850	\$8,160,440
Additional CIP	\$2,469,460	\$2,890,235	\$3,718,327	\$2,511,354	\$2,978,469
Total CIP	\$10,630,606	\$11,050,634	\$11,877,127	\$10,670,204	\$11,138,909

Alternatively, the City can consider issuing GO bonds dedicated to capital improvements and use the two-thirds voter-approved property tax to offset those additional debt service spending. The City's current debt service, including the police station and library financing, totals \$6.9 million in FY19, or 5.0 percent of total General Governmental Funds spending.

Financial Impact

	FY19	FY20	FY21	FY22	FY23
Transfer to Debt Service	1,548,290	1,801,654	1,830,446	1,859,295	1,881,335
Police Station Debt Service	4,677,000	4,677,000	4,677,000	4,677,000	4,677,000
Library Debt Service	675,972	\$1,106,233	\$1,263,549	\$1,265,333	\$1,266,265
Total Debt Service	\$6,901,262	\$7,584,887	\$7,770,995	\$7,801,628	\$7,824,600
% of total General Governmental Fund	5.0%	5.4%	5.4%	5.2%	5.1%

While issuing GO bonds will provide additional funding to help maintain the City's infrastructure, the biggest challenge lies in the execution of capital projects. The Department of Public Works is currently understaffed and is already overwhelmed with the number of capital projects they have to plan, contract, and execute with the upcoming funding from SB1 and Measure X. Before the City decides to issue GO bonds and use those proceeds to execute more capital projects, it should have a comprehensive plan and strategy on capital project execution and determine the impact a bond issuance will have on the operating budget.

IN02. Establish a Productivity Bank

A Productivity Bank is an internal revolving loan program that allows City departments to make otherwise unaffordable investments in return for cost savings, revenue gains and service improvements. The goal of the productivity bank is to incentivize creative programs that save the City money, staff time, or both. Having

a formal program provides a forum for employees and departments to pursue cost-saving measures in a structured fashion.

As an example, the City of Philadelphia’s established a \$20 million Productivity Bank during its early 1990’s fiscal crisis provided “loans” to City departments and agencies for individual or collaborative projects, with those in excess of \$250,000 requiring City Council approval. Eligible projects were those that could not otherwise be funded from the City’s capital budget or from a department’s operating budget without jeopardizing normal service levels. Savings and revenues achieved through Bank projects were reflected in adjusted operating budgets, as were the loan repayments so that the Bank’s lending capacity was not depleted. Initial loan criteria required that projects generate cost savings or additional revenues in an amount sufficient to repay the loan plus interest within five years. A limited number of loans were later authorized for projects expected to generate substantial service improvements, even if financial benefits were not readily quantifiable.

Loans were reviewed and approved by an interdisciplinary Loan Committee, including senior City officials and private sector business leaders that reviewed departmental applications and the business case for requested investments. While ultimately phased out when Philadelphia regained fiscal stability, after more than a decade of positive bottom line impact, the Productivity Bank helped to promote a strategic approach to the way in which City government conducted its business by encouraging innovation, accountability, and entrepreneurship.

Examples of departments and agencies that were loan recipients in Philadelphia include the City Law Department for an upgrade of its computer system, allowing improved delinquent tax collection; the City’s information technology department for an automated tape system to perform daily disaster-recovery backup of mainframe computer systems; the Police Department for an on-line photo-imaging system to store criminal mugshots; and the City energy office for an energy-efficient lightbulb replacement effort.

The City of Baltimore has a similar idea of rewarding departments with upfront investments if they can demonstrate long-term savings through its outcome budgeting process.

The City of Salinas should establish a Productivity Bank capitalized with \$0.5 million each year from FY20 to FY23 and \$1.0 million in FY24. If the City is able to realize budget savings on a year-by-year basis, this fund would ultimately have no direct budget impact. Initial project applications could include automating payroll; the development of an updated fleet management system; and other productivity initiatives described throughout this Plan. If those projects can begin sooner than FY20, the City should use operating savings from other initiative as outlined in this Plan to fund the initial capital investments.

Financial Impact

FY19	FY20	FY21	FY22	FY23	FY24
\$0	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$1,000,000)

IN03. Add an Analyst Position that Reports Directly to the City Manager

For many local governments, there are usually analyst positions within the executive branch of administration, whether it is the Mayor’s office or the City Manager’s office, who provide the necessary data analysis to help the administration make policy decisions. These analysts can often help estimate the net fiscal impact of a potential policy and determine the amount of support or pushback expected to be received from community stakeholders. Establishing an analyst position would be invaluable to the City Manager because it will allow the City manager to focus on building consensus with Council and evaluating the City’s priorities, and will provide the necessary analytical tools to implement initiatives effectively.

Many cities comparable to Salinas’s size have similar positions: Elk Grove has a Deputy City Manager, an Assistant City Manager, and a management analyst position who report to the City Manager. Hayward has a management analyst in the City Manager’s office, Lancaster has a project assistant and a project

coordinator that report to the Deputy City Manager, and Palmdale has a management analyst that reports to the City Manager.

The City of Salinas should consider adding an analyst position with sufficient local government policy background to help the City Manager with implementing the initiatives as outlined in the report. This analyst should also be empowered to work directly with departments to acquire the necessary data to perform analysis and should report directly to the City Manager.

It is assumed that the savings from creating a productivity bank (IN02), which allows the City to invest in initiatives that will generate long-term savings, will be used to fund the analyst position.

IN04 – Convene Stakeholders to Develop an Implementation Plan to Create More than 4,000 New Units of Affordable Housing in the Next Ten Years

Current plans to close the affordable housing gap in Salinas are inadequate. California General Plan law requires each city and county to have land zoned to accommodate its fair share of the regional housing need, but these are minimum requirements. The Regional Housing Needs Allocation (RHNA) targets in the Salinas Housing Element calls for 2,093 units of additional housing to be produced between 2014-2023, of which 517 would be for affordable for households at or below 50 percent AMI¹⁵² – just a little over ten percent of the need of 4,361 units of housing for households at or below 50 percent AMI. Providing this number of units is a daunting task, and one that will require broad support from the community, business leaders, and other governmental agencies.

Salinas needs a plan to fully close the affordable housing gap and create the 4,361 units of affordable housing needed over the next ten years – with the understanding that the need for even more affordable units will probably increase with time. The plan should concentrate on closing the gap for housing for lower income residents, but should also increase affordability for those with higher incomes as well. By focusing a substantial percentage of affordable development on units for households below 50 percent AMI, the plan would have the added benefit of increasing the availability of units affordable above 50 percent AMI as families move from less affordable units to ones they can afford. This would strengthen the City's housing ladder, where households could still find a new affordable unit for rent or ownership as their income increases over time, as they move from low- to moderate-income.

The City absolutely cannot meet the housing challenge on its own. As detailed in the initiatives that follow, it will require a real partnership between the City, the County, State government, non-profits and the private sector – both in terms of funding and execution. The development of the plan should reflect that partnership in its earliest stages.

The City has already taken steps down this path with its efforts to address homelessness. There has been a robust collaboration with the City taking a leadership role in the management of countywide federal funds targeted to the homeless. Moreover, the quality and commitment of the City's Community Development Department staff and those involved in the work of the Alisal Vibrancy Plan is impressive.

The City should build on its current efforts and call together the key stakeholders involved in the development of important city planning efforts, including the Downtown, Chinatown, Alisal Vibrancy and Future Growth Area (FGA) plans and the Regional Farmworker Study. This collaboration should identify ways to synergize housing opportunities and policy across plan goals and strategies. The effort should include housing and homeless advocates, major employers and employment sectors, and developers from the FGA.

¹⁵² The RHNA housing numbers are an eight-year look forward with a regional allocation for addressing housing needs. The NRN housing needs number is based on current household needs for affordable housing. These represent different measures and approaches to addressing housing needs, and not conflicting needs assessments.

This is not a call for a new study. It is a recommendation that the City adopt an action-oriented assessment of its commitments and opportunities, as well as possible conflicting and complementing strategies. A successful effort would apply a housing lens, focused on the City's need for a housing ladder across incomes. The effort would also specifically examine opportunities to address the housing needs of very low- and extremely low-income residents, including the homeless, and the housing conditions in which they live.

IN05 – Establish a Housing Trust Fund with a Dedicated Revenue Stream for Affordable Housing

A successful effort to close the housing gap and create more than 4,000 units of new affordable housing will require new funding. Lack of resources has been a significant barrier to addressing the Salinas housing challenge. Financial resources to meet affordable housing needs have been in decline. In California, redevelopment agencies that by law contributed tax increment to finance affordable housing were legislated out of business in 2012. Salinas, like most cities, is now largely reliant on federal funds to address its affordable housing needs. In addition to constituting an insufficient amount of money to meet the City's needs, federal funding also imposes both eligible program uses and immigration status restrictions.

New Opportunities for Federal and State Support

There are significant opportunities on the horizon. Although in its infancy, recent changes in federal tax law creating Opportunity Zones are intended to create incentives for private investment – including in affordable housing – in low income communities. In Salinas, the State has designated five Census tracts as opportunity zones where Opportunity Fund investments will be eligible for significant federal tax benefits.

The State of California is also moving forward with unprecedented new funding for affordable housing. SB-2: Building Homes and Jobs Act, signed into law on September 29th, 2017, is expected to generate \$250 million dollars a year through recording fees. The California Housing and Community Development Department has announced that program guidelines will be available in Spring and Summer of 2019, and Notices of Funding Availability will be released in the second half of 2019, but some program details are already known. In addition to funding made available to Salinas as an entitlement community, 10 percent of the Fund (expected to be \$25 million annually) will be dedicated to Farmworker Housing. These two funding streams could support affordable and agricultural worker housing development in Salinas.

Proposition 1, passed by the voters in November 2018, will create \$3 billion available for affordable housing and \$1 billion for affordable home-ownership opportunity for veterans statewide. Proposition 1 funding allocation has not been determined, but again Salinas is likely to benefit significantly.

The Need for Local Action

To leverage potential Opportunity Zone investments and new state funding, the City should explore the feasibility of modifying the existing Trust Fund managed by the Monterey Bay Economic Partnership (MBEP) for additional loan types. The Monterey Bay Housing Trust (MBHT) Fund was created in July 2016 as a revolving loan fund for affordable housing. It is a partnership between MBEP and Housing Trust Silicon Valley, and the City has already allocated \$500,000 to this fund. If the existing trust fund cannot be modified to accommodate construction loans, or if the City determines that its interests would be best served by creating its own Trust Fund, then the City should do so. Regardless of the option chosen, the Trust Fund will require a dedicated revenue streams to finance affordable housing strategies. The Salinas Housing Trust Fund would be funded through dedicated local revenue sources and private and philanthropic contributions. When combined with state funded housing investments, the goal would be for the Housing Trust Fund to support 2,000 units of affordable housing over the period of the Salinas Plan.

The exact use of the Housing Trust Fund would be subject to the planning process outlined in the prior initiative. The City could fund a range of activities including acquisition, new construction (including

Accessory Dwelling Units), and the preservation and rehabilitation of existing units, including preservation of eligible units with expiring covenants and those in the private rental market.

Cities large and small across the nation are increasingly turning to development of a Housing Trust Fund as a best practice.

- The City of Pittsburgh created an Affordable Housing Task Force in 2015 in light of a shortage of 18,000 subsidized affordable units. During the 2019 budget process, the City established a \$10-million Housing Opportunity Fund that was funded by a 0.5 percent real estate transfer tax in 2018 and 2019 that increases to 1.0 percent by 2020. The City plans to use those funds on new affordable housing projects as well as assistance for low-income home-buyers for home purchases and rehab costs.
- In 2016, City of Los Angeles voters passed Proposition HHH, a \$1.2 Billion ten-year bond to build 10,000 units of housing, primarily for the homeless. In 2017, voters in the County of Los Angeles agreed to Proposition H – a 10 year, ¼ cent sales tax estimated to raise \$355 million a year to fund homeless services including funding for housing and rent subsidies.
- The City of Philadelphia in 2018 introduced a new impact tax – a one-percent tax on construction costs – that will be dedicated toward a Housing Trust Fund that could be accessed by both nonprofit and for-profit developers to build affordable housing as well as by low-income residents for down-payment assistance. The City expects that the impact tax could generate as much as \$22 million annually for new affordable housing.
- In 2019, the City of Chattanooga adopted a multi-year capital plan that calls for \$1 million a year in funding for affordable housing.

The goal of 2,000 new units over ten years in Salinas is ambitious – in part precisely because of the high cost of housing that the Trust Fund is designed to address.

Based on evaluation of recent gap financing of affordable housing in Salinas, the average subsidy for an affordable rental unit is about \$121,400, with greater subsidy needed to develop housing for extremely low-income and less subsidy needed for low-income households. For low-income and moderate-income households in a stronger financial position, and able to become homeowners with some assistance, the average down payment subsidy is \$42,300. Affordable rental housing is generally the best option for households at 50 percent area median income or below and most jurisdictions support homeowner down payment assistance for households near 80 percent area median income. Using the average rental subsidy of \$121,400, **2,000 new units of housing would cost \$242.8 million.**

Part of the goal of recent state legislation is to reduce housing cost through changes in local regulation. And the City can also have an impact on the required level of subsidy through a variety of non-fiscal actions that it can take to ease development of affordable housing – from changes in its permitting processes to making City-owned vacant land available for development.

Specifically, Salinas should survey vacant land opportunities, including City-owned property, identify opportunities for mixed use projects on City land, and underutilized property along commercial corridors. For example, in Chinatown there are a significant number of vacant parcels. City staff shared that some of those parcels are owned by public or quasi-public entities and that certain parcels may require environmental remediation. Regardless of the City's current financial ability to acquire and remediate, it is imperative that the City understand the actual condition of large parcels of vacant land in its core neighborhoods.

There may also be opportunities for the City to create housing opportunities even as it addresses other infrastructure needs. For example, Salinas has community libraries that need substantial rehabilitation. In 2006, San Francisco designed and built the Mission Bay branch library in concert with new affordable senior housing, a health center, community meeting hall and some retail. Chicago has broken ground on a housing-library campus this year, and New York City is also considering the same service mix.

The planning process recommended in the prior initiative should help to guide these and related efforts.

Even with the potential for significant funding from the State and the potential to lower the necessary levels of subsidy, any meaningful effort to meet the goal of 2,000 new units will require new funding at the local level as well.

Local government funding sources are constrained in the State of California by Proposition 13, limiting the property tax rate and extension of requiring votes on all special taxes. Proposition 218 further defined the difference between general vs. special taxes, requiring all assessments to have special property-related benefit and changing the protest proceeding to a protest vote. Proposition 26 further defines fees as taxes if revenues are used for non-regulatory purposes and requires a two-thirds vote for passage. In addition, the use of City revenues must be carefully monitored to avoid a gift-of-public funds issue, if providing funding for private development by for-profit enterprises. The City's ability to use of General Obligation Bonds to fund development may also be limited due to private-use restrictions if tax-exempt bonds are sold. Depending on what the City goes forward with, there will need to be an in-depth review of the limitations of funding sources by the City Attorney, Bond Counsel, and Financial Advisor.

Nevertheless, there are a series of potential local revenue sources that can be used to support the creation of the Salinas Housing Trust Fund, as shown in the table on the following page:

Funding Options for a Housing Trust Fund				
Potential Funding	Description	Limitations		Potential Revenues
New Voter-Approved Tax		Goal: Generate \$30 to \$60 million over next ten years from one of the below sources		
General Obligation Bonds	- <i>Ad valorem</i> property tax in addition to the Prop. 13 property taxes	- Spread over large base - Secure annual funding - Successfully implemented by other Calif. Cities	- Must be used for capital - Required 2/3 vote - Will be impacted by sales tax votes - May need to be taxable bonds	Based on current assessed values, a \$50 million housing bond would cost land owners an average of \$17 per \$100,000 valuation
Business License Tax	- Tax on businesses in City based on factors such as gross receipts, employees, etc.	- Paid by benefitting businesses - Can be calculated on different business metrics - Not subject to federal grant limitations	- Requires 2/3 vote - May not be supported by local business - Only covers City businesses - Limited for private-use purposes	A 2.5% tax on gross receipts for agricultural businesses would generate \$2.5 million per year. ¹⁵³ Expanding the tax base would generate additional revenue
Parcel Tax	- Set tax per assessor parcel	- Annual revenue easy to project - Assesses all parcels in City	- Regressive in that small parcels pay same as large - Requires 2/3 vote	Varies based on amount of tax levied
- Outside Funding		Goal: \$30 million to \$60 million over 10-years		
Voluntary Ag or other business ¹⁵⁴ contributions/philanthropy	- Voluntary funding from businesses in and out of the City	- Most flexibility in use - No vote required to generate revenue	- May result in uneven contributions between businesses - No ability to force collection	Unknown, but should target at minimum an amount equal to tax contribution from businesses/residents
- City General Fund		Goal: \$4 million to \$5 million over 10-years		
City Contribution of Redevelopment Property Tax Trust Fund (RPTTF)	- Investment of City General Fund revenues	- No additional taxes - Use of old redevelopment funds for former purpose	- Reduces City's GF budget - As city revenue, may be limited for private-use purposes	\$400K to \$500K per year
State Funding		Goal: \$120 million minimum over 10-years		
Propositions 1 and 2 (November 2018)	- Current State funding programs that provide several billion in funding	- Will provide additional funding to City to augment local funding initiatives	- Unclear how much funding City will be able to capture	Estimate of \$30 million +- over a 10-year period (this estimate is very preliminary)
- Total Funding		Goal: \$184 million to \$245 million		

¹⁵³ The agricultural industry in Salinas has approximately \$112 million in annual business gross receipts and would be a direct beneficiary of an increase in housing affordable to their workforce. The \$112 million figure is derived from data in the 2012 Survey of Business Owners, published by the US Census Bureau, which has been calibrated to 2018 gross receipts using California's farm income growth from 2012 to 2018, using data from the US Department of Agriculture. The 2012 Survey of Business owners include the agriculture, forestry, fishing, and hunting sector, which comprises establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from a farm, ranch, or their natural habitats

As part of the funding for the Housing Trust Fund, the City should engage in discussions with local government and philanthropic partners in investing resources into the housing fund. This recommendation does not specify how the trust is formed or partnered, but rather that funding from a variety of sources is needed, and City sources alone will not be adequate.

The strength of the regional housing market over the last five years indicates an opportunity for private capital to support development and redevelopment of affordable rental housing with a competitive rate of return. Similar investment in preservation and redevelopment of affordable housing in other communities has generated equity funds ranging from \$25 million to \$100 million and can leverage several times that amount in development capital.

Moreover, because Salinas is a regional center for housing for many workers in agriculture, tourism, and education/social services, there may be an interest in private contributions from employers – both those based in Salinas and those based in the region – in support of the Housing Trust Fund. County government should be tapped for support, in addition to philanthropy. Recognizing the growing demand for housing among agricultural workers, the agriculture industry continues to participate in regional discussions regarding the construction of new housing on grower owned land. Additionally, regional leaders are exploring opportunities to build on efforts such Tanimura & Antle’s employee housing located in Spreckels and consisting of 100 units. Several employees from agriculture companies participated in the day-long forum during the release of the Farmworker Housing Study and Action Plan to discuss regional solutions to the housing crisis facing agriculture workers throughout the region.

At a minimum, the City should identify \$6 million a year in new local revenues from the sources described above to support the Housing Trust Fund and another commitment of \$6 million from local non-City funders. If this is matched by funding from the state on a 50/50 basis ¹⁵⁵, it would be sufficient to meet the goal of funding 2,000 new units in the next ten years – even without reductions in the needed level of subsidy.

IN06 – Develop a Land Strategy to Leverage Private Market Investment to Create Up to 2,400 New Units of Affordable Housing

A key potential for production of additional affordable housing is the City’s Future Growth Area (FGA) on the north and east sides of the City. The FGA is targeted to produce as many as 12,000 new units over the next ten to thirty years. The City can use this opportunity to leverage the value created by the development to require the inclusion of affordable housing in the overall housing mix. Inclusion of affordable housing is required under the City’s inclusionary housing ordinance, although at levels lower than required to produce 1,600 units.

The City has designated undeveloped farm land in the area north of Boronda as the Future Growth Area (FGA)¹⁵⁶. Currently the land is owned by multiple parties and is zoned for New Urbanist development. This area was annexed by the City in 2008 and includes up to 2,400 acres of land for potential housing development¹⁵⁷.

¹⁵⁴ Examples of other business types that might be interested in providing voluntary contributions include tourism, hospitals, and education.

¹⁵⁵ It is assumed that self-help cities will have an increased success rate at getting recently-approved State bond funds for housing. To achieve a 2,000 unit affordable housing goal, the City will need to attract State funding roughly equal to local sources of revenue.

¹⁵⁶ Salinas 2015-2023 Housing Element.

¹⁵⁷ Salinas 2015-2023, Housing Element.

Comparison of Sites Inventory and RHNA

Unit Capacity	Income Category			Total	
	Extremely/ Very Low	Low	Moderate		
Vacant Residential Sites			505	236	741
Vacant Mixed-Use Sites					
15-24 units/acre			111		111
30-40 units/acre	76				76
30-40 units/acre (Allows residential uses by-right)	226				226
Underutilized Sites					
15-24 units/acre			591		591
30-40 units/acre	902				902
30-40 units/acre (Allows residential uses by-right)	529				529
Total	1733		1207	236	3176

Developers participated in early planning efforts for the FGA in 2002 and again between 2005 and 2006. In 2009, the City held charrettes based off the General Plan design concepts with new urbanism. Two specific plans for the West and Central Areas, including approximately 8,000 units, are in process, with development agreements for these plans yet to be negotiated.

During a series of interviews with the Network team, developers indicated that the FGA could provide a means of addressing the housing crisis across income groups. Recognizing the severe shortage of housing across the income spectrum, developer interest is in building single family homes with new urbanism design principles – high density, up to nine units per net acres – instead of the five units as previously done. They will also include multifamily units and/or townhomes to provide more diverse housing type options to meet the existing demand. The area is currently zoned for New Urbanism, which allows for transitional zoning until specific development plans in the area receive approval. The City will adopt zoning to accommodate residential, mixed use and other land uses and development regulations through specific site plans. The City is working on the West Area and Central Area Specific Plans to accommodate residential development in the FGA, with approval of these plans expected to occur in 2019.

The City has worked with developers to ensure affordable housing is produced through inclusionary zoning. The recently adopted ordinance established inclusionary zoning requirements based on unit type and income levels. To achieve affordable housing levels of 20 percent or more of the new units in the FGA, the City will need to work with future housing developers to provide a range of housing options that include additional market-rate housing that will be affordable to a range of residents.

The combination of affordable housing and private development is not an approach that should be limited to the FGA. It should be just one component of an overall strategy that looks at land and private development as a means to addressing the affordable housing need.

For example, any effort to alleviate the dense living conditions within the Alisal should include a Commercial Corridor Assessment of the Alisal corridor. Staff shared that a survey of business owners has been contemplated. It may be possible to identify underutilized property along the corridor that could serve as mixed use development opportunities. Housing above commercial uses could fill different needs from senior housing near a pharmacy to units for single adult low-income workers.

IN07 – Create Regulations to Address Safety and Health Conditions in Rental and Other Group Housing

More affordable housing is an essential step to addressing Salinas’s housing crisis, but it is not enough. The City must take steps to address unsafe conditions that are the result of overcrowding even as it relieves the pressure on the housing market that has in part led to some of those conditions.

Interviews probing possible solutions for the housing conditions among extremely low-income households and agricultural workers revealed a deep concern that the problem may be too big to tackle. There are concerns that the City lacks sufficient resources, and that the outcome of any strategy that focuses on current conditions of the overcrowded housing would primarily lead to the significant displacement of an already vulnerable group. During interviews there was a pronounced hesitance to discuss direct strategies regarding deficient housing conditions and overcrowding, particularly through code enforcement

Absent a policy scheme specifically designed to limit displacement and address both housing conditions and the need for a significant number of new affordable housing units, hesitation to commit to policy approaches that might seriously impact a vulnerable population is understandable. The City, however, cannot succeed in addressing the breadth of affordable housing needs by limiting their effort to new construction. Salinas renters across income levels overwhelmingly live in private rental housing, and the City has a vested interest in ensuring decent standards. Moreover, rental housing with significant habitability issues is both privately owned and geographically concentrated, and the City will need to leverage new locally raised funds with its municipal powers if it is to meet the problem.

Foundational to the development of well-designed city programs and high leverage housing outcomes is an evaluation of the City’s existing rental housing stock. The Network team recommends a suite of strategies are meant to assist the City in addressing the breadth of its complex rental housing challenges. The recommendations include:

- Create a rental housing registry
- Establish a proactive rental housing inspection program
- Protect tenants against owner retaliation
- Establish occupancy standards and develop a regulatory scheme for boarding houses
- Consider a motel master lease program

1) Create a Rental Housing Registry

The registration of all rental housing units will provide local data that is not available from national data sources. An evaluation will help clarify the current and forecasted needs of Salinas’s very-low and extremely-low income populations against the actual quantity of rental units and their building types. Moreover, local data will equip the City with essential information needed to manage through any future economic downturn which impacts real estate.

There are numerous examples of housing registry programs in California.

Hemet (population under 80,000) adopted a rental registry program as part of a larger inspection program in 2013. Hemet’s program applies to all residential rental units, requires regular inspection of rental units and established a fee structure to cover the cost of registration and inspections. (Ordinance 1873, Article XIV, Chapter 18, Hemet Municipal Code).

Fresno offers free on-line registration of all residential rental properties. An updated registration is required at a change of ownership or contact information. Fresno has also implemented an inspection program.

Eastvale (population under 60,000) instituted a rental registry requirement for all single-family dwelling rentals in 2013. This requirement is included as part of their Business Registration program. The program goal is to ensure that single-family house rentals provide to tenants a safe and decent place to live. Currently, the business registration fee is \$114 for the initial application and \$44 for renewals. Separately, Eastvale requires a property inspection as part of this requirement.

Sacramento, like the cities referenced above, requires registration of every rental unit. Likewise, the registration is the first step of a larger inspection program. The City currently charges a registration fee of \$16.00 per unit.

2) Establish a Proactive Inspection of Rental Housing Program

Salinas renters overwhelmingly live in private rental housing. Even assuming a robust public affordable housing construction program, private rental housing will continue to be home to most renters. Salinas has an interest in safeguarding minimum habitability standards and the health and safety of its residents. National data estimates the level of overcrowded housing but cannot illuminate the scope of uninhabitable conditions, the stage of building deterioration, or the location and concentration of substandard housing.

The City's Community Development staff have shared that they are studying program designs for a rental housing inspection program. Salinas should adopt a Proactive Rental Housing Inspection Program.

Proactive rental housing inspection programs support community health and can further complement community investment strategies. Salinas would be able to move beyond speculation on the size of the problem and begin to reverse the declining trajectory of substandard buildings –sparing neighborhoods the social ills that accompany poor housing conditions.

One of the natural outcomes of rental housing inspections is the confirmation that the clear majority of rental housing units are owned by responsible business owners. Conversely, the community will also become aware of patterns of ownership and unacceptable business practices by the owners of substandard buildings. At a micro level, the City will finally be able to differentiate between single-family homeowners who are living with other related persons in difficult conditions from those who own single-family homes and knowingly employ a business model that creates severely overcrowded conditions, by essentially illegally subdividing a single-family structure and renting out individual rooms, living rooms and garages - mixing unrelated persons within the same dwelling.

There are long term benefits of proactive rental housing inspection programs. City rental housing inspections are objectively carried out and help mitigate the tension between landlords and tenants as rights and responsibilities of both parties are clarified. Additionally, the City can support struggling landlords.

Generally, the design of proactive rental housing inspection programs considers the building types of rental housing to be included, whether the program is to be implemented citywide or targeted, the frequency of inspections, the scope of inspections (exterior/interior), and compliance protocols.

There are many examples of inspections programs across the U.S. Here, we have limited the reporting to a selection of California cities.

Los Angeles adopted its Systematic Code Enforcement Program in 1998. This is a citywide program that requires all rental units in buildings with 2 or more units to register. Single-family homes are not included in the program unless there are two single-family homes on a lot. The City inspects every unit on a 4-year cycle. There is no self-certification program.

The current code enforcement fee is \$43.32 per unit per year. Los Angeles differs from the other cities listed below in that tenants ultimately pay the annual fee. Landlords must pay the fee to the City by the end of

February of each year. The City permits landlords to pass the fee through to its tenants at the rate of 1/12 of the annual fee per month.

In 2005 the program received the Innovations in American Government Award by the Kennedy School of Government at Harvard University, recognized as the best housing program in the country.

Initially, apartment owners vociferously opposed the program. Twenty years later, the City's housing department and the local apartment owners association collaborate and offer monthly workshops on preventative building maintenance and property management. This strategy has proven particularly effective in helping "Mom and Pop" owners move away from a deferred maintenance model, which is both more expensive and legally precarious, to a preventative maintenance model.

Between 1998 and 2005 Los Angeles was able complete its first full cycle of inspection of the City's 760,000 rental units. This first effort resulted in over 1.5 million corrected violations. The Housing Department hired cost estimators to calculate the value of the repairs. The value of business owner reinvestment in the Los Angeles private rental housing stock was estimated to be \$1.4 billion¹⁵⁸. It is helpful to contrast this private reinvestment against the current Los Angeles public financing effort to provide housing for the homeless. As described earlier, Los Angeles voters approved an historic 10-year \$1.2 billion housing bond in 2017 to support the construction and rehabilitation of 10,000 permanent supportive housing units.

Santa Cruz has implemented a citywide program that includes all rental housing units that are over five years old within its Residential Rental Inspection Program. Both the exterior and interior of every unit is inspected. At the time of registration, owners whose properties have no existing building, housing or sanitation code violations from the previous three years can qualify for the self-certification program.

Self-certification limits yearly inspections to 20 percent of a registrant's units for a period of up to five years as long as all units continue to meet all standards. During the period of eligibility, the owner is required to conduct an annual self-inspection of every rental unit and to file certifications under penalty of perjury that all units meet the minimum standards under applicable codes. Santa Cruz provides owners with a Self-Certification Program Checklist. Those units that do not qualify for self-certification will be inspected every year until the units meet the standards for self-certification.

The program currently charges a \$45 yearly registration fee. Additionally, if an owner's units have qualified for self-certification, a \$20 fee per unit for the 20 percent of units that are to be inspected is required. If an owner's units have not qualified for self-inspection, a \$20 fee is charged for every unit owned, in addition to the \$45 per unit annual registration fee.

Sacramento began as a pilot program targeting two neighborhoods with a concentration of substandard rental housing. In 2008, the program was expanded citywide and applies to all rental housing units. Housing built within the preceding ten years is exempt from inspection, but registration is required.

All rental housing units over ten years old are inspected after the initial registration. Sacramento offers a different version of a Self-Certification program. Every building over 10 years old is inspected. If at the time of inspection, the building is either found to be in compliance with all applicable codes or cures any violation before the 30-day re-inspection, the building will qualify for the self-certification program. Building owners are required to complete annual self-inspections. The City's audit approach is to randomly select 10 percent of the units in the self-certification every year for inspection. Any building with units that do not pass inspection will receive annual inspections until they requalify for the self-certification program.

The current inspection fee is \$16 per rental unit and \$127 per each new rental unit inspected. Any unit that falls out of the self-certification program is subject to the \$127-unit inspection fee.

¹⁵⁸ Ash Institute, Harvard University, 2005 Innovations in American Government Competition.

Fresno adopted its Rental Housing Improvement Program in 2017 and began to pilot inspections earlier this year. Fresno is implementing a citywide program that includes all rental housing units. While all units must register, the City is implementing the program by selecting, pursuant to a random sampling formula, which of its approximately 93,000 rental units will receive a baseline inspection each year.

The City does not have a registration fee but does charge \$100 per unit for the annual baseline inspection.

3) Protect Tenants Against Owner Retaliation for Participating in Rental Housing Inspections

California state law provides legal protection against landlords that retaliate against their tenants for exercising their legal rights as renters. Relating to inspections, it is illegal for a landlord to retaliate – eviction, terminating tenancy, increased rent, decreasing services – because a tenant has complained about habitability conditions or has cooperated with local inspection officials. California Civil Code Sec. 1942.5.

In interviews it was reported that extremely low-income tenants fear retaliation and will be less likely to exercise their rights relating to inspections, including seeking legal advice. The initiation of an inspection program is likely to increase tensions while all the parties adjust to a new business model.

The Proactive Rental Inspection Program should support tenant involvement in the program making it clear that landlords that illegally retaliate against tenants will not be able to register their units until the violation is remedied. The City should implement both a tenant and owner education program regarding the implementation of the rental inspection program to be funded with the new rental registry fees.

4) Establish Occupancy Standards and Develop a Regulatory Scheme for Boarding Houses

One outcome of the desperate need for low rent housing coupled to the absence of systemic code inspection in the interior of housing units has been the development and operation of concentrations of severely overcrowded single-family dwelling units as unregulated Boarding House businesses. Implementation of even the most basic rental registry and housing inspection programs will expose a level of housing un-inhabitability among this subclass of unregulated businesses.

The City should establish occupancy standards for all residential units in the community to prevent this type of ad-hoc conversion of single-family dwellings to illegal unregulated Boarding Houses. At the same time, the City should use the Boarding House model as an anti-displacement strategy by providing a regulatory pathway for owners of this subclass of rental units to come into compliance as licensed Boarding Houses. This strategy acknowledges the need for low rent housing and the community interest in stabilizing neighborhoods by supporting the transformation of these properties to productive code compliant local businesses. Indeed, the City should work collaboratively with community members of the impacted neighborhoods, advocates, property owners, local affordable housing developers and others concerned about this issue to develop a uniquely local frame to this issue.

Across the country, boarding houses and other forms of shared housing were once common strategies providing low-rent spaces. More recently, cities such as Seattle, San Francisco and New York have experimented with micro-housing types. In dense cities, the construction of multi-story apartment buildings with unit sizes ranging from 220 to 350 square feet integrate the need for lower cost housing with extremely limited available land. Salinas has single-family homes that without intervention will continue to deteriorate until they are abandoned.

The basic elements of a Boarding House regulatory scheme could be framed by the minimum requirements of code compliance. As an initial matter, housing inspections could include a report identifying properties that meet the City adopted definition of a boarding house. Inspection reports would also be able to identify the pattern of ownership in these properties. Specifically, the City would have the capacity to distinguish between property owners who rent out one single-family house from those who own several properties and have developed a business model.

A detailed understanding of the characteristics of this subset of housing is the starting point for a program designed to assist qualifying properties and owners to bring their businesses into compliance. It may be

prudent to launch this program as a pilot. The City could start with a limited number of motivated property owners. This would permit the City to gain a deeper understanding of the housing conditions (including financial estimates for compliance), and the actual tenant profile, e.g., the percentage make up of families vs. single adults. Ultimately, owners who bring their properties into compliance would be licensed to run a Boarding House pursuant to program guidelines that prevent severe overcrowding and uninhabitable conditions.

The issue of occupancy standards will be of paramount importance to the development of any program. California state law and various federal housing programs provide different and often conflicting formulas for occupancy. The City should work with community members, owners and tenant advocates, and expert legal assistance to craft occupancy standards that meet the broadest occupancy formulas under state law and the needs of Salinas's residents.

To support the preservation of properties meeting eligibility criteria, the City may want to dedicate a portion of the Housing Trust Fund either by purchasing key properties from owners who do not wish to do business by adhering to minimum legal standards or by offering a loan to owners who are also investing in the future of their buildings. This refurbished housing stock – in part, supported by non-federal funds – could become a valuable complement to new construction investments at a significantly lower cost.

5) Consider a Master Lease Program for Privately Owned Motels

As previously noted, some agricultural owners are meeting their legal requirement to house foreign H2A workers by leasing privately owned motels for the months-long length of an agricultural season. This strategy is leading to overcrowded and sometimes dangerous conditions, e.g., bunk beds blocking exits or compromised electrical systems. Properly regulated motel rooms are a viable rental option for housing seasonal workers and as emergency housing for the homeless.

To ensure effective regulation, the City should develop a Master Leasing program so as to control a percentage of motel rooms within Salinas. The City should work with the agricultural industry, private motel owners, Monterey County representatives and other stakeholders to explore an organized approach to the use of this private rental housing stock. It may be possible to reach an agreement wherein the City would focus in on master leasing motel units within Salinas's city limits and individual growers could focus their rental initiatives on motel units outside of Salinas city limits. Working with Monterey County, it may be possible to set some units aside for the provision of housing for the homeless.

Master Leasing brings benefits to the motel owners, renters and the City. All parties benefit from a multi-year, fixed-rent contract. Owners are protected against vacancy risk, save on turn over costs and receive guarantees against tenant caused damage. Renters will rent lodging that is habitable and will be protected against unfair rent increases. The City will be able to curtail the number of severely overcrowded single-family rental properties and help stabilize the neighborhoods they are located in.

A master leasing program should adopt key standard elements. As an initial step, the City should gain an accurate count of motel and motel units within city limits. Discussions with motel owners and estimations arrived at by city staff will delineate the number of units that the city should optimally contract for. Most residential master leasing programs work through a local third-party non-profit organization that on a fee basis, works with the city to negotiate leases including the establishment of management responsibilities and occupancy standards.

The non-profit entity is responsible for the day to day management of the housing, including rent collection and tenant selection. After inspection of the leased units, the non-profit manager would also work with the owner to correct any deficiencies and after inspections certify the units, the non-profit manager would ready the units for occupancy. Given startup costs and the limited income of the expected renters and that many may be seasonal residents, the City through the non-profit manager will probably need to establish a revolving fund to cover any deposits and rent until the renters receive their wage pay.

San Francisco has, since 1998, successfully implemented a master leasing strategy for residential hotels. In this instance, San Francisco was focused on providing housing for the homeless – particularly homeless adults. Working with third-party non-profit managers they negotiated 20-year leases. Prior to taking control of properties, owners were required to fund repairs pursuant to code inspections and to retain responsibility for negotiated building wide systems. This strategy is particularly innovative because of how San Francisco funds the rent gaps for homeless persons whose income cannot cover the entire amount of monthly rent. They combine local, federal and state funds including: 1) local general funds; 2) HUD (McKinney-Vento); 3) federal funding from the Substance Abuse and Mental Health Services Administration and the Health Resources and Services Administration (CARE Title I) and; 4) California Mental Health Services Act funding. The City of Salinas should discuss this model with the County of Monterey, and local stakeholders to determine whether this strategy would support the balance of regional homeless program efforts.

NEW REVENUES

The City must be creative in finding new revenue sources in order to fund ongoing services as well as the investment initiatives as outlined in the previous section, as noted in **Chapter 4**. The Plan calls for:

- A new storm water fee to help close the General Fund structural deficit.
- An increased hotel tax to fund to capital spending.
- A Mello-Roos Special tax to fund service expansions in the new growth area.

Strategies for new revenues sources also include recommendations to address housing issues, and are included in **Chapter 6**.

NR01. Enact Storm Sewer Utility Fee to Eliminate Current Transfer of General Fund Revenues to Storm Sewer Fund

The City currently transfers \$1.8 million to the storm sewer fund, which, as of the end of FY17, had a negative \$0.6 million fund balance. To eliminate the General Fund subsidy to the storm sewer fund, the City should institute a storm sewer fee.

Storm Sewer Fund (Excluding General Governmental Funds' Transfer)

	FY13	FY14	FY15	FY16	FY17	FY18
Transfers In Gas Tax	\$0	\$0	\$0	\$750,000	\$750,000	\$750,000
Review and Inspection Fees	43,685	56,982	53,999	99,136	0	100,000
Other	4,301	1,405	2,187	1,777	1,694	2,000
Total Revenues	47,986	58,387	56,186	850,913	751,694	852,000
Salaries and Benefits	980,626	882,719	892,039	1,121,367	1,211,619	1,542,000
Supplies and Materials	138,056	136,976	154,795	117,129	149,631	233,940
Outside Services	160,146	123,169	70,418	67,496	75,333	315,699
Other Charges	214,701	216,760	245,272	229,507	253,741	215,200
Debt Service	0	0	0	0	0	176,166
Capital	330,020	260,676	238,305	406,291	241,219	147,000
Total Expenditures	1,823,549	1,620,299	1,600,829	1,941,789	1,931,543	2,630,005
Surplus / (Deficit)	(\$1,775,563)	(\$1,561,912)	(\$1,544,643)	(\$1,090,877)	(\$1,179,849)	(\$1,778,005)

Under a new State law, the City can charge a utility-like fee for storm run-off that drains into federal waterways. Instituting a storm sewer fee requires two distinct steps: (a) developing and implementing an operating and capital plan for the stewardship of the City’s storm water assets; and (b) creating a revenue stream to fund this ongoing responsibility.

The City is in the process of onboarding a consultant to conduct a feasibility study to determine the impervious area, or equivalent residential unit (“ERU”), per residential and commercial properties. The ERU measures the number of square feet of measure impervious surface as determined through aerial photography and surface feature evaluation process. In storm water programs across the nation, a single-family detached residential dwelling is usually charged a flat fee of one ERU per unit and commercial properties with more impervious ground cover with more ERUs would pay higher fees accordingly, while those with approved mitigation techniques can receive storm water credits offsetting the fee.

In addition to developing an operating and capital plan and fee structure, the City needs to engage its residents, business community, and interest groups to provide input and build consensus on proposed policies. In the City of Palo Alto, the storm drainage fee was first established in 1989 (pre-Prop 218), with an initial fee set at \$3.25 per month for single-family residential properties. The City attempted to increase the fee to \$9 per month in 2000 – the funds would create a \$48 million capital improvement program to be implemented over 30 years. However, because of the lack of support and consensus, only 37 percent of assessment-voters approved the fee increase—shy of the 50 percent +1 required.

In 2005, Palo Alto changed its approach and created an advisory Blue Ribbon Storm Drain Committee. The Committee consisted of 15 members appointed by the City Manager and represented business, neighborhood, and environmental leaders. With the support of the Committee, a proposal to increase the fee to \$10 per month won a 58-percent assessment-voter approval. The City continued this approach in 2017 when it created an 11-member Storm Water Blue Ribbon Committee and proposed to increase the fee to \$13.65 per month. The new fee, which received a 64-percent voter approval and became effective in June 2017, consists of a “base component” that is dedicated to ongoing maintenance (operating) and an additional component for projects and infrastructure (capital).

Because of the time and effort involved in developing the fee and creating consensus, it is assumed that the City will be able to generate revenues beginning in FY23.

Financial Impact (General Governmental Funds Only)

FY19	FY20	FY21	FY022	FY23
\$0	\$0	\$0	\$0	\$2,483,223

FY24	FY25	FY26	FY27	FY28
\$2,575,931	\$2,663,869	\$2,754,796	\$2,850,406	\$2,947,058

NR02. Increase Hotel Tax and Dedicate Funding that Results in Long-Term Savings

The City currently levies the transient occupancy tax, or hotel tax, of 10.0 percent. The tax is imposed on the total rent charged to transient guests, defined by consecutive stays of less than 28 days in hotels/motels and homes rented by owners¹⁵⁹. The City collected \$2.8 million in hotel tax revenues in FY17.

¹⁵⁹ Salinas Code of Ordinances, Chapter 32, Article IV

Many nearby municipalities of Salinas – Seaside, Marina, Sand City, and Soledad – levy a 12.0 percent hotel tax.

If the City chooses to increase its hotel tax rate, those proceeds must be used toward a dedicated funding area that provides long-term benefits, such as capital investment or to pay down pension or debt. The following financial impact assumes that the City increases its hotel tax rate from 10 percent to 12 percent in FY23. This would require that the City pursue a successful ballot measure authorizing the increase in the November 2022 election or earlier. Because this tax would be dedicated to a defined use, a 2/3 majority vote of the electorate would be required for passage.

NR03. Establish a Mello-Roos Special Tax

The City hired a consultant to prepare a Market Assessment for the West Area Specific Plan (WASP) and Central Area Specific Plan (CASP) of the Future Growth Area, which are the two of the three areas within the future growth area. The Market Assessment indicated that the City is well-positioned to capture a substantial share of the regional growth, and that residential absorption of about 300 units per year is expected based on historical and projected housing trends.

While capturing regional growth is certainly key to Salinas’s fiscal and economic sustainability, the growth also means that the City will have to extend City services – including public safety services as well as public works services such as street and road repairs – to the future growth area. Although some of these costs will be offset by additional property and sales tax revenues, it is also possible that the additional spending on extending City services to the area will exceed the net revenues the new growth area will bring to the City. Additionally, tax revenues are not fees for service, but provide revenue to the entire City. Establishment of a Mello-Roos Community Facilities District (CFD) in the Future Growth Area will ensure that the areas of new growth pay for expanded services, and may provide additional revenue from property and sales taxes to help sustain services throughout the City.

To avoid drawing on General Fund revenues, the City should establish a special district in the new growth area and levy a Mello-Roos tax. The Mello-Roos tax must be approved by two-thirds of the district’s voters and can be used toward funding projects such as libraries, schools, ambulance and fire service, roads, and police. The goal of establishing a Mello-Roos tax is to ensure that any additional investments made in the future growth area are funded by a new revenue source and does not draw from the already-limited General Fund revenues.

Establishing a Mello-Roos Community Facilities District for services is common among cities experiencing greenfield development. Mello-Roos CFDs have been established in Morgan Hill, Gilroy, and Hollister. The City of Hollister has had a services CFD since 1993.

NR04. Use Multiple Sources to Provide Revenue for the Housing Trust Fund

As discussed in the section on new investments, the City needs to provide local funding for a Housing Trust Fund as part of meeting a goal of creating 4,000 new units of affordable housing.

As a starting point, the City should develop a plan to provide at least \$6 million a year in City funding for the Trust Fund. Potential sources of funding include:

1. **Voter-Approved Taxes (Goal of \$6 million per year):** Target sources will all require a two-thirds voter approval, and include
 - General Obligation bonds—target of \$17 per \$100,000 valuation could generate approximately \$50 million in bonds, equivalent to \$5 million per year

- **Business License Tax**—could be applied broadly or targeted to benefitting industries. A 2.5 percent tax on agricultural businesses operating in Salinas would generate approximately \$2.5 million per year based on gross receipts
 - **Parcel Tax**—flat tax per parcel. An average \$75 per parcel could generate approximately \$2.5 million per year
2. **City Funding (Goal of \$500,000 per year):** As budget capacity is created with implementation of study recommendations, the City should dedicate the revenues from the Redevelopment Property Tax Trust Fund (RPTTF) to the City’s affordable housing funding. This funding is approximately \$500,000 per year

The City may be able to offset, or augment, some of the needed revenue through contributions from the business community, local philanthropy or other local government partners. If those alternative funding sources are not realized, the City needs a plan to fully fund the targeted local share of investment. (Refer to matrix under IN02 for a complete list of funding sources and funding goals.)

NR05. Rental Registry and Inspection Fee

The City should follow the lead of other cities and adopt rental registry and inspection fees to completely cover the cost of the new rental housing inspection program and related activities.

The City’s code enforcement division is currently structured under the Department of Community Development, with six code enforcement officers (one currently frozen) and three administrative staff. The code enforcement division budgeted \$1.2 million in FY19, most of which is to support the personnel cost. According to the baseline forecast, the division’s spending will grow to \$1.6 million by FY28, driven by cash compensation and pension cost growth. The rental registry fee is designed to fund the entire cost of code enforcement related to the direct enforcement effort. The fee can only be charged for direct regulatory efforts, plus the cost of overhead, vehicles, and allocated indirect costs. Not all of code enforcement costs will be covered by these fees; however, this program assumes a good deal of effort will be placed on the rental registry and inspection program.

According to the 2016 American Community Survey, the City has 23,000 rental units. If the City charges an annual rental registration fee of \$75 and an inspection fee of \$50¹⁶⁰, the City would generate \$1.5 million annually, assuming a 75 percent collection. Accounting for a phase-in implementation approach and delinquent payments, we estimate that the City will generate \$216,000 in the first year of implementation that grows to \$2.3 million by FY23. The revenue included in the tables below are intended to fund both existing costs, reflected in the tables above, and anticipated expanded service costs.

Rental Registration and Inspection Fees

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Rental Registration Fee (Annual)	\$75	\$75	\$80	\$80	\$85	\$85	\$90	\$90	\$95	\$95
Inspection Fee (Every 4 yrs)	\$50	\$50	\$55	\$55	\$60	\$60	\$65	\$65	\$70	\$70
Registration Phase-in	0%	25%	50%	75%	100%	100%	100%	100%	100%	100%

¹⁶⁰ The rental registration fee amount is an estimate based on the fee needed to offset costs of the program, including administrative costs. When implemented, the fee cannot exceed the reasonable cost of the program, and will require a separate analysis to set fees.

Rental Registration and Inspection Revenues (in \$ million)

	FY29	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Registration	\$0.0	\$0.3	\$0.7	\$1.2	\$1.8	\$1.8	\$1.9	\$1.9	\$2.0	\$2.0
Inspection	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.4	\$0.4
Total Revenues	\$0.2	\$0.5	\$1.0	\$1.4	\$2.1	\$2.1	\$2.2	\$2.2	\$2.3	\$2.3

The revenue forecast above assumes that fees would be updated periodically to reflect the operating cost growth. The City would dedicate revenues generated from rental registration and inspection fees into a code enforcement fund to ensure that any unspent revenues would go toward code enforcement activities only.

Based on the estimated amount of revenues generated by these fees, the City would be able to gradually increase the number of code enforcement officers from six to nine over five years. Alternatively, the City can hire part-time temporary code officers in the near-term to alleviate the workload, which can sometimes be more cost-effective since the benefits and pension costs are lower for temporary workers.

It is also important to note that increasing headcount alone is not enough for the City to improve its code compliance and ensure a better living environment for its residents. A strategic approach to enforce its code ordinances should include targeting specific neighborhoods with the most violations, rigorous follow-up on violations, and tracking performance data regularly. Efficiency and effectiveness indicators such as the percentage of units inspected, percentage of housing with violations, and the average number of days to close a violation allow the City to evaluate the Department's performance and determine if the dollars invested into code enforcement are tied to its success.

The following fiscal impact illustrates the expected costs for current code officers and departmental overhead and supervision that are projected to be offset by the fee revenues. Additionally, an expanded program could fold in more public safety involvement which could also be off-set by the registration fees. The amount of fee revenue that can be offset by registration and inspection fees will be based on how the final program is structured to utilize existing program costs. Any costs related to the hiring of additional code officers are assumed to be offset by the fee revenues with no net fiscal impact.

Net Fiscal Impact (on General Fund Only)

FY19	FY20	FY21	FY22	FY23
\$0	\$431,250	\$791,200	\$1,308,332	\$1,501,753

FY24	FY25	FY26	FY27	FY28
\$1,571,718	\$1,637,717	\$1,707,365	\$1,782,563	\$1,859,534

RISK MITIGATION

Many of these risks are beyond the control of City government to influence directly. However, there are actions the City can take to reduce long-term budgetary risks. These recommendations may also be found in Chapter 3.

RM01. Engage with the Salinas Community to Make the Measure G Sales Tax Increase Permanent

The analysis in this report looks forward ten years, through FY28. The Measure G Sales Tax has a sunset date in March 2030, meaning that it will be in force for the entire duration of the ten-year model. However, the expiration of this tax just beyond this horizon will result in a sudden and dramatic drop in City revenues if not extended by the voters, as shown in the following table (note that FY27 and FY28 represent the final two years of the ten-year projections found in the remainder of this Report):

City Revenues and Expenditures if Measure G Not Renewed (FY27 – FY31)

	FY27 Proj.	FY28 Proj.	FY29 Proj.	FY30 Proj.	FY31 Proj.
GF Sales Tax	\$35.3	\$36.3	\$37.4	\$38.4	\$39.4
Measure E Sales Tax	\$15.2	\$15.6	\$16.1	\$16.5	\$16.9
Measure G Sales Tax	\$29.9	\$30.8	\$31.7	\$24.4	\$0
Property Tax	\$38.0	\$39.3	\$40.7	\$42.1	\$43.5
Other Taxes	\$21.4	\$21.5	\$21.7	\$21.8	\$21.9
Licenses, Fees, and Fines	\$17.7	\$18.1	\$18.5	\$18.9	\$19.3
Transfers	\$4.2	\$4.3	\$4.4	\$4.5	\$4.6
Other Revenues	\$2.0	\$2.0	\$2.0	\$2.1	\$2.2
Total General Governmental Revenues	\$163.9	\$168.1	\$172.3	\$168.7	\$147.8
Cash Compensation	\$67.3	\$68.9	\$70.7	\$72.4	\$74.1
Pension	\$30.2	\$31.5	\$32.9	\$34.4	\$36.0
Health Benefits	\$16.7	\$17.6	\$18.4	\$19.3	\$20.2
Workers' Compensation	\$7.5	\$7.9	\$8.3	\$8.7	\$9.1
Other Personnel	\$2.6	\$2.7	\$2.7	\$2.8	\$2.9
Operating Expenses	\$25.8	\$25.8	\$25.9	\$25.9	\$25.9
Transfers	\$24.2	\$24.2	\$24.1	\$24.1	\$24.1
Total General Governmental Expenditures	\$174.3	\$178.6	\$183.0	\$187.6	\$192.3
Net Operating Result	(\$10.4)	(\$10.5)	(\$10.7)	(\$18.9)	(\$44.5)

As shown in this table, the City's structural deficit, absent a voter extension of the Measure G sales tax, will increase from \$10.7 million in FY 29 to \$44.5 million in FY31. Bridging this additional structural deficit would require major structural changes in the way the City operates and the reduction or elimination of many core services provided by the City.

Making Measure G permanent will require a vote of Salinas residents. The City should begin the process of engaging the community within the next few years to determine the feasibility of renewing Measure G with no expiration date. In the event that community support is likely to enable the extension of Measure G, this will provide a stable funding source for the City and enable the City to make financial and budgetary plans with a long-term outlook. If community support cannot be obtained for extending Measure G, the City

needs to know as early as possible to allow time to determine the appropriate actions to take to deal with the loss of this key funding source.

The City should make every effort to have an early test of the community's willingness to extend Measure G by placing the question on the ballot by November 2024, or earlier. This allows five years to make adjustments in the event Measure G is not extended as a permanent sales tax.

RM02. Incorporate Multi-Year Financial Planning into All Budgetary Actions

The City Council must regularly make significant financial decisions related to the City's budget. It is important that the Council and public be well-informed of not only the immediate impacts of these decisions, but the long-term consequences as well. The NRN team utilized a ten-year forecasting model for this report to identify policies that will result in sustainable budget practices. The City should incorporate the use of a five-to-ten-year budget forecasting model when considering actions which could have a significant impact on current or future budgets to inform policymakers about both the immediate and long-term consequences of their decisions.