

The Salinas Plan: Creatively Addressing Budget Deficits, the Cost of Services, and Affordable Housing

**Presentation to California Society of Municipal Finance Officers
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The National Resource Network

- The National Resource Network was a core component of the Obama Administration's Strong Cities, Strong Communities initiative to develop and deliver innovative solutions for American cities to help them address their toughest economic challenges.
- The Network was led by a consortium of organizations with experience and expertise in working with local government – including PFM and Enterprise Community Partners.
- Cities applied to the Network for assistance, the Network conducted an assessment to determine key challenges and opportunities, and cities and the Network worked together to identify direct assistance.
- In 2017, the work of the Network continued with a \$4 million grant from the Laura and John Arnold Foundation, with a focus on supporting the Network's efforts to assist economically challenged cities by developing multi-year financial plans.
- Since inception, the Network has provided technical assistance to more than 60 cities nationally – including Compton, Richmond and Salinas in California.

What is Multi-Year Planning?

A multi-year financial plan helps local government leaders think through budget position, structural position, and community goals in a quantified, analytical, logical way and communicate their thoughts and priorities to different audiences. It includes

- **A baseline projection**, like the diagnosis your doctor gives you after a physical. It reflects the City's current condition, absent significant changes.
 - For revenues, this means no assumed changes in tax rates, new taxing powers, new grants, large fee increases, or reassessment.
 - For expenditures, this means no assumed new hiring, layoffs, or wage increases that deviate from recent trends.
- In response to this diagnosis, a multi-year financial plan will include a **menu of initiatives**. Like treatment options or corrective actions, these initiatives are designed to change the city's anticipated trajectory.
- **A dynamic, easy-to-update budget model** that will help decision-makers to balance policy and operations goals in future years.

Why Salinas

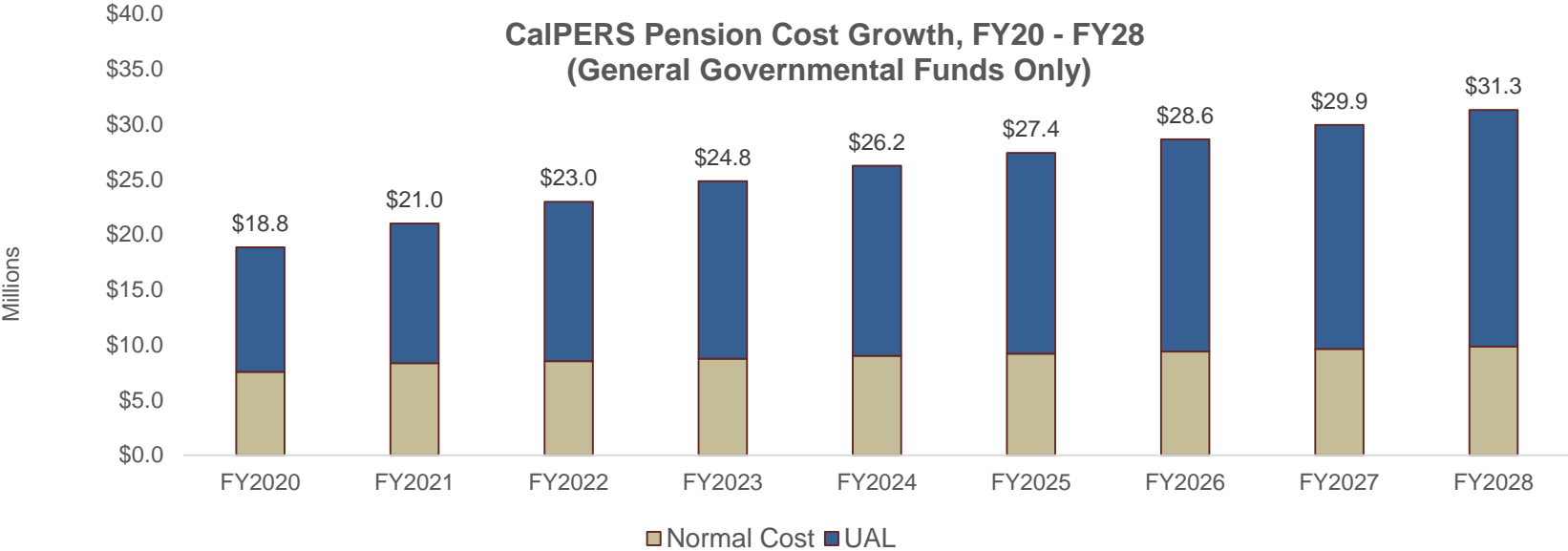
- Salinas was invited to participate in the application process based on its strong performance in working with the Network on a federally funded effort to improve workforce development capacity in the Salinas Valley.
- Salinas met the eligibility requirement based on a 2015 poverty rate of 20.2 percent.
- In September 2017, Salinas applied for assistance, highlighting 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

Defining the Budget Challenge: Baseline

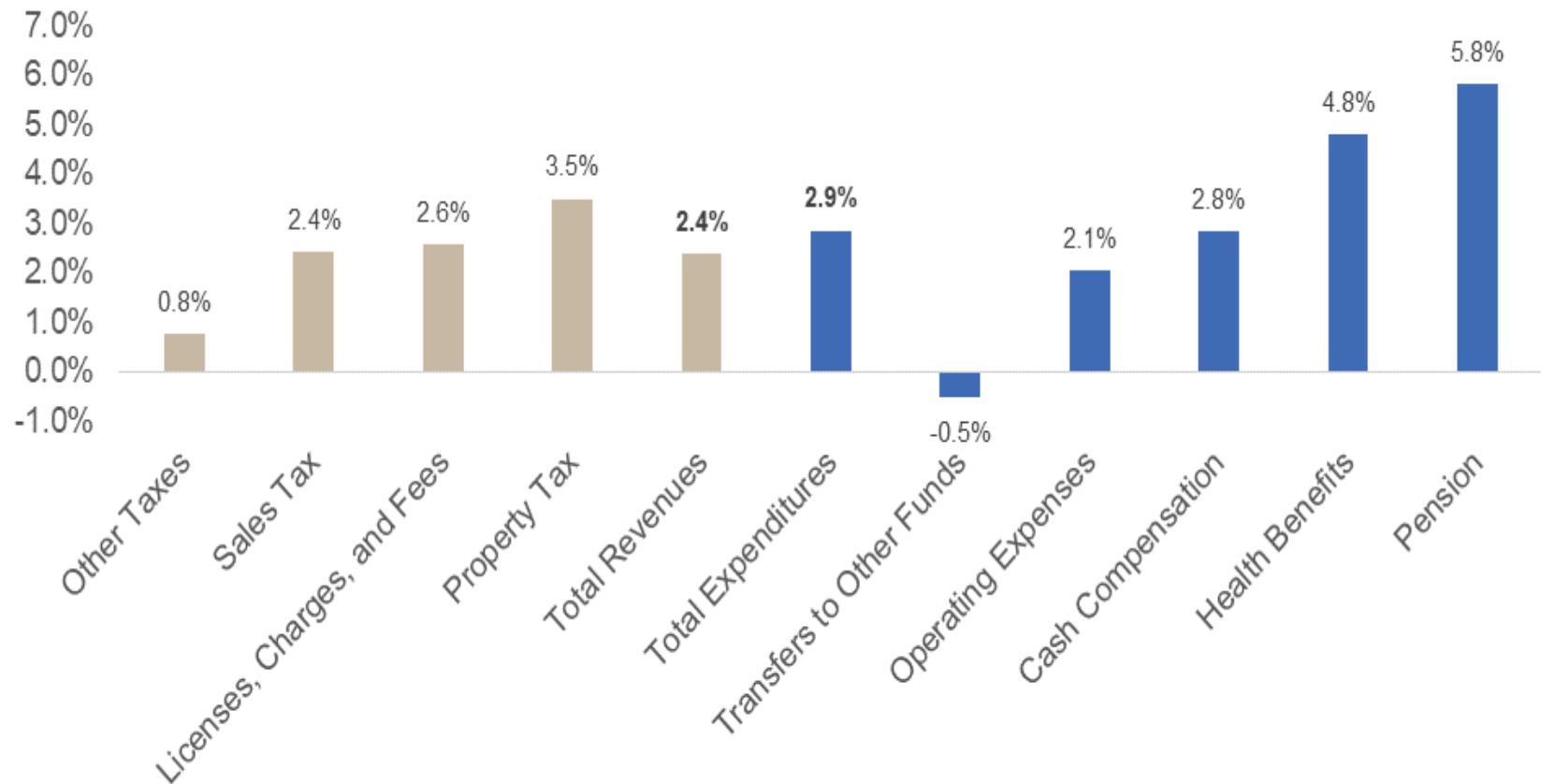
	FY19 Budget	FY20 Proj.	FY21 Proj.	FY22 Proj.	FY23 Proj.	FY24 Proj.	FY25 Proj.	FY26 Proj.	FY27 Proj.	FY28 Proj.
Operating Revenues	\$135.9	\$139.3	\$142.1	\$145.0	\$147.8	\$151.6	\$155.8	\$159.8	\$163.9	\$168.1
Operating Expenditures	\$138.6	\$140.5	\$144.6	\$149.4	\$154.9	\$158.9	\$164.2	\$168.5	\$174.3	\$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	\$9.6	\$8.4	\$5.8	\$1.4	(\$5.6)	(\$12.8)	(\$21.2)	(\$29.9)	(\$40.3)	(\$50.8)

Defining the Budget Challenge: Pensions

- Most of the long-term deficit is due to increases in pension costs
- Increases between FY20 and FY28 are **\$62 million** over a flat FY19 pension rate. These increases are after an \$11.3 million payment of Fire Safety pension liability in FY18, saving the City \$1.9 million per year in annual payments

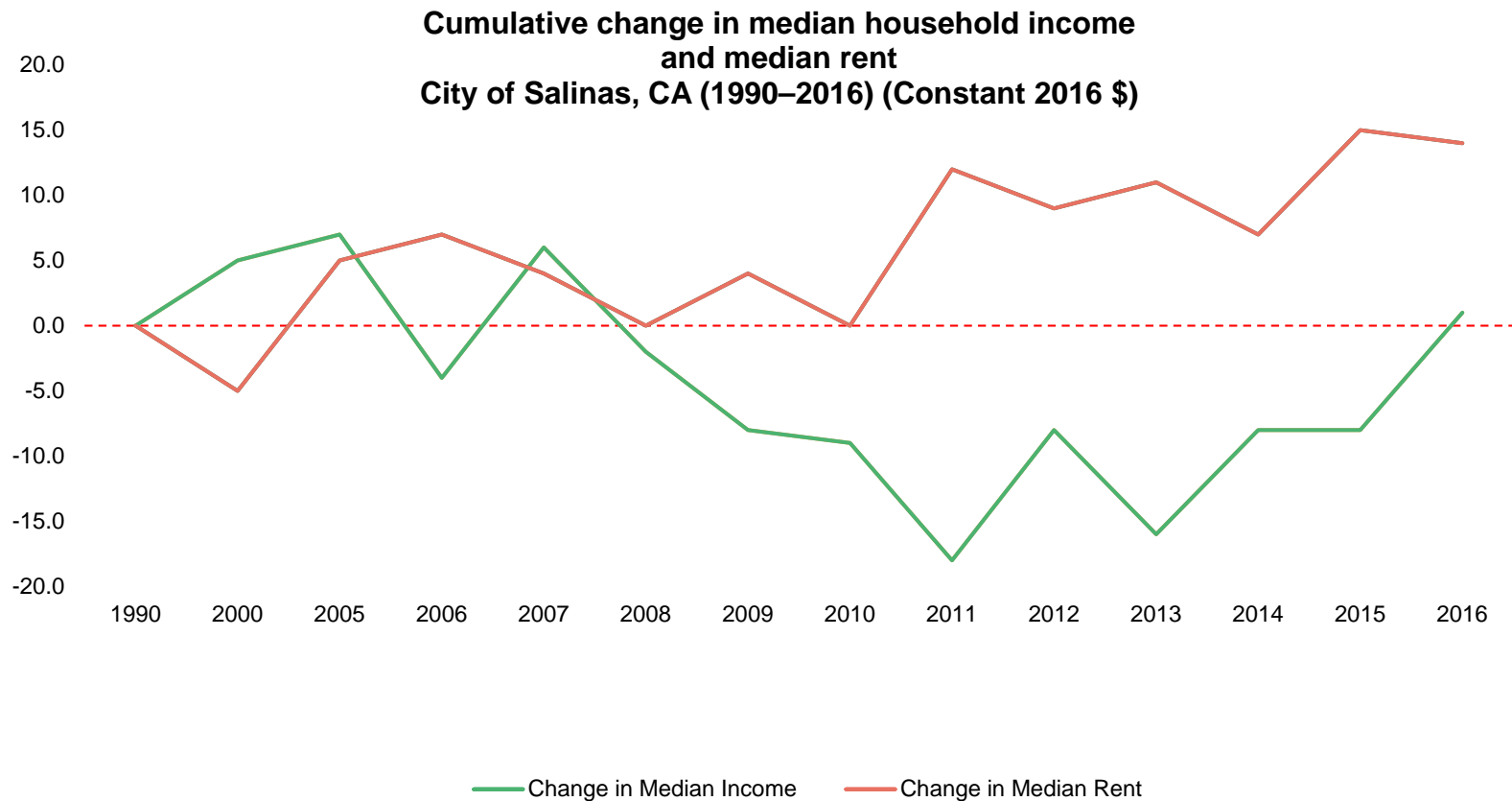


Defining the Budget Challenge

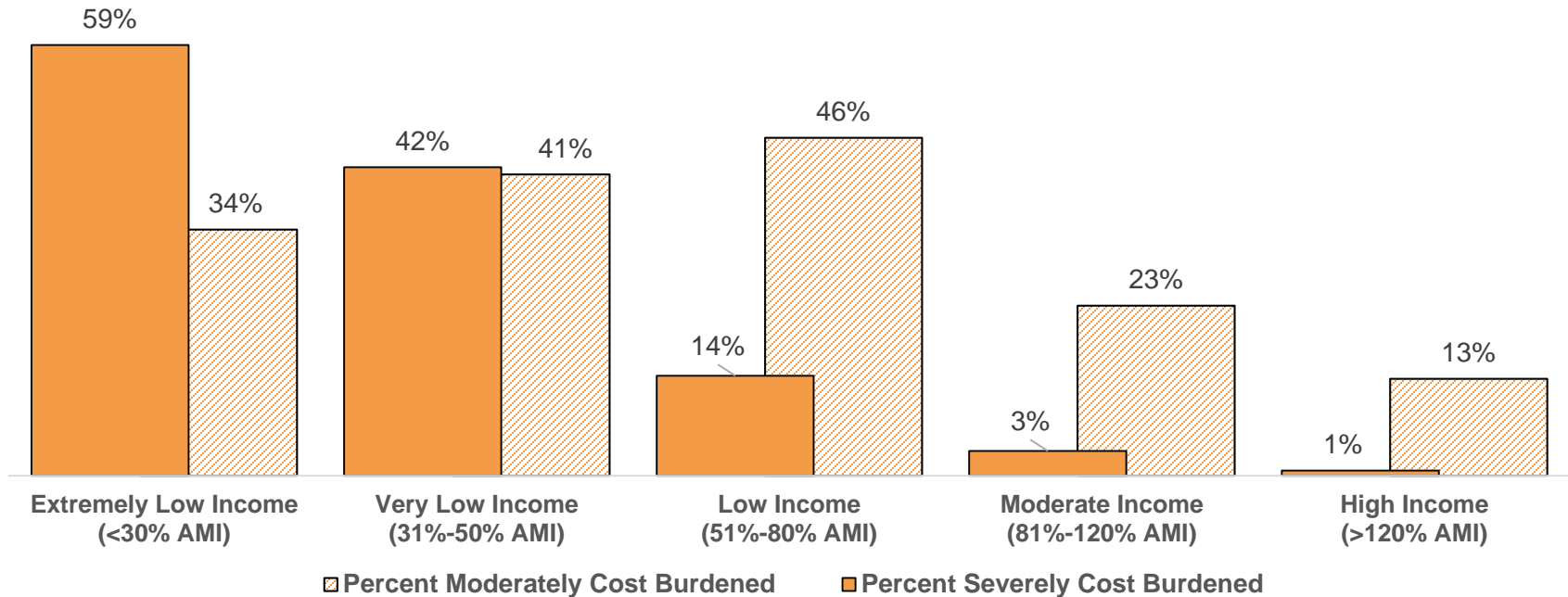


Defining the Housing Challenge

- Over the last 25 plus years, rent in Salinas has (on an inflation-adjusted basis) increased 13 percent while incomes are only up 1%



Defining the Housing Challenge



The Salinas Plan

Goal 1: Achieve Structural Balance

Budget Strategy 1: Public safety, shared-services, managed competition, operational efficiencies	<p>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.</p>
Budget Strategy 2: Workforce restructuring	<p>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.</p>
Budget Strategy 3: New revenues	<p>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.</p>

The Salinas Plan

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.

The Salinas Plan

	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	\$0.6	\$0.8	\$0.9	\$0.2	\$1.3	\$1.4	\$1.5	\$1.6
Public Safety	\$0.0	\$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)	\$0.0	\$0.0	\$0.0	\$0.0
GF Contribution to Housing Trust Fund	\$0.0	\$0.0	\$0.0	\$0.0	(\$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	\$4.3	\$6.0	\$9.0	\$9.3	\$10.8	\$12.0	\$12.5	\$13.0
Goal 1: Achieve Structural Balance	(\$0.5)	\$1.7	\$1.7	\$2.0	\$2.0	\$2.5	\$3.3	\$2.1	\$2.6
Goal 2: Investment Strategies									
Dedicate Savings to Capital Investments	\$0.0	\$1.7	\$1.7	\$2.0	\$2.0	\$2.5	\$3.3	\$2.1	\$2.6
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.)	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0
Total Investments	\$3.0	\$4.7	\$4.7	\$5.5	\$5.5	\$6.1	\$6.9	\$5.8	\$6.2

From Plan to Implementation

- Today, we'll focus on:
 - Why Salinas decided to move forward with multi-year planning
 - How Salinas and the National Resource Network team worked to develop a seamless plan that addressed both the budget and housing issues
 - The specific initiatives of the Salinas Plan
 - How Salinas is working toward implementation
- Today's Panel
 - Matt N. Pressey, Finance Director, City of Salinas
 - Andrew Myrick, CEcD, EDFP, Economic Development Manager, City of Salinas
 - Russ Branson, Russ Branson Consulting