

IT'S ABOUT PRESERVING MONTEREY'S QUALITY OF LIFE!

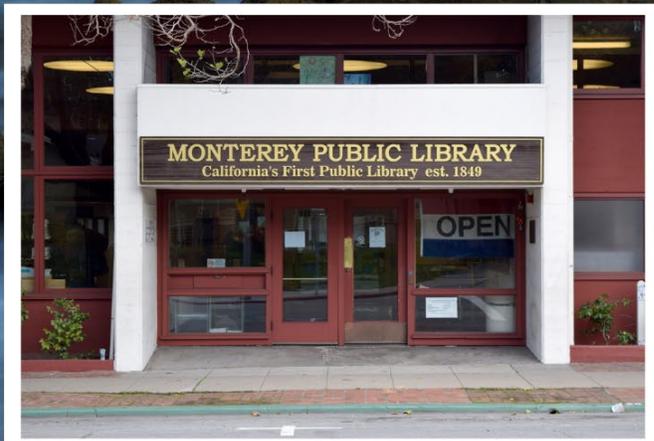
fiscal health response plan

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# MONTEREY

## CITY FINANCE 101





# FISCAL HEALTH RESPONSE PLAN

## CITY FINANCE 101

MAR 2019, 1ST EDITION, V4

*It's about preserving Monterey's quality of life*



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# CITY MANAGER'S MESSAGE

Welcome to the first edition of our “City Finance 101” report! We hope this report will provide you with an easy-to-understand presentation of your City’s finances. Every year, the City publishes a budget, which is presented and approved by our City Council, as well as a Comprehensive Annual Financial Report (CAFR), prepared and published by a third party auditing firm. All budget-related documents are posted on the web, as well as printed in limited numbers.

The City is required to balance income or revenues against spending or expenditures. And, like you, after balancing the check book, we also need to put money into savings in order to have funding available should something unexpected happen. The great recession of 2008/2009 required us to use some of our savings. Since 2014 however, we have been able to continue to put money aside in our rainy day fund filling it up to a little over \$11 million.

Over the past recent years, we have been able to upgrade and repair many of our aging infrastructure assets. Our sewer system and our storm drain system have been taken care of; many of our streets have been resurfaced; sidewalks and traffic signals have become more and more ADA compliant; and, as an investment into our economic sustainability, our Conference Center has been remodeled, thanks to the funding by our hotels and motels. We have accomplished a lot using a variety of funding from state issued loans (sewer fund) to special tax measures (Measure P and Measure S) to pay for the repairs, which were long overdue.

Remember our 2014 slogan “It’s happening now”? Well, it did. Alvarado Street has been filled with new businesses, restaurants and interesting shops. The Golden State Theatre is once again hosting dozens of events drawing residents and visitors into old town enjoying shows and performances; Cooper Molera has been restored and is enjoyed by visitors of all ages. The heart of Monterey is beating again.

There is still a lot to do - our library, fire stations, police station, community centers, and other facilities (i.e. public restrooms, tunnel, City Hall, etc.) are aging and will require investments. You will find more information about our future necessary investments in this report as well.

Monterey is home to around 28,500 residents living within about 13,500 households. Our community provides jobs for more than 25,500 people, of which one (1) out of five (5) actually live and work in Monterey. In other words, 80% of our work force commutes daily into our City. Monterey is a regional employment hub - the economic vitality of our City influences the economies of many other communities in our region. The Monterey Bay Aquarium alone attracts more than two (2) million visitors per year. Signature events such as the Jazz

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Festival, Car Week, Big Sur Marathon and Half Marathon, races at Laguna Seca, as well as numerous other events, attract visitors from the Bay Area and beyond. Iconic places like Cannery Row, our Bay and our Wharves are “must see” stops for many trips between San Diego and San Francisco.

It is no surprise, but tourist-related revenues contribute greatly to our successful economy. Hotel tax remains the City’s main source of revenue. Per our City Charter, 16% of the hotel tax is being allocated to our great Neighborhood Improvement Program (NIP) resulting since inception in hundreds of projects in our neighborhoods. Sales tax is also a strong revenue source - and, no surprise, 62% of the sales tax is generated by non-residents. The success of the hospitality industry translates into success for our region and our local economy.

In the next years, we have to jointly figure out how we continue to balance the City’s check book. We will analyze our service levels and adjust where appropriate; we will look at our internal processes to streamline and optimize; we need to look at our work force, our compensation and benefit structure as well as pension obligations; and, lastly, we need to look at our revenues. The Fiscal Health Response Plan will be our guiding plan. In the upcoming months, we will jointly be developing this plan.

Monterey is an unique and dynamic small City that provides a high quality of life for its residents. Our City Council and staff are here to make sure we sustain this high quality of life for now and for future generations. Working together, we can make it happen. Let’s do it!

~ City Manager Hans Uslar



#### **CITY VISION STATEMENT**

*Monterey is committed to being a model city for its quality of life driven by responsiveness of local government, historical and cultural preservation, mobility opportunities emphasizing pedestrians over vehicles, economic sustainability, a strong sense of place and good stewardship of the natural environment.*

#### **CITY MISSION STATEMENT**

*The Monterey City Council will provide visionary policy and legislative leadership that assures a safe, healthy and economically vibrant community.  
Anda!*

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# GENERAL FUND REVENUES

## Q: What is the General Fund?

A. The general fund is the primary fund used to provide most of the city services such as police, fire, recreations, public works, library and parks, etc. The General Fund may be used at Council's discretion, unlike other funds that may be restricted for specific purpose.

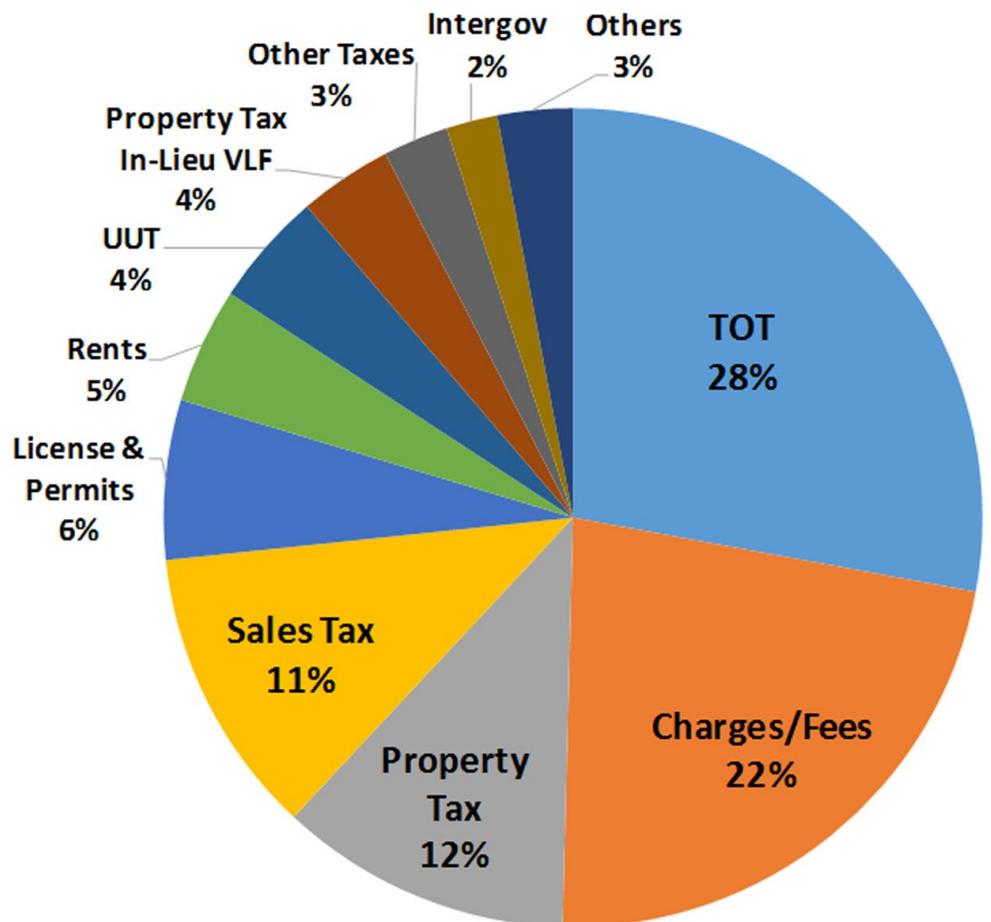


**DID YOU KNOW?**  
62% of City Sales Tax is paid by non-residents

Here is a snapshot of City General Fund revenues. The Top 5 revenue sources make up 79% of total General Fund revenues, and they are:

- Transient Occupancy Tax (TOT) (hotel)
- Charges for services (fees)
- Property Tax
- Sales Tax
- License Permits

Source: FY17/18 Audit



# GENERAL FUND EXPENDITURES

The City spending is focused on direct service delivery, with 91% in direct service programs and only 9% in general government.

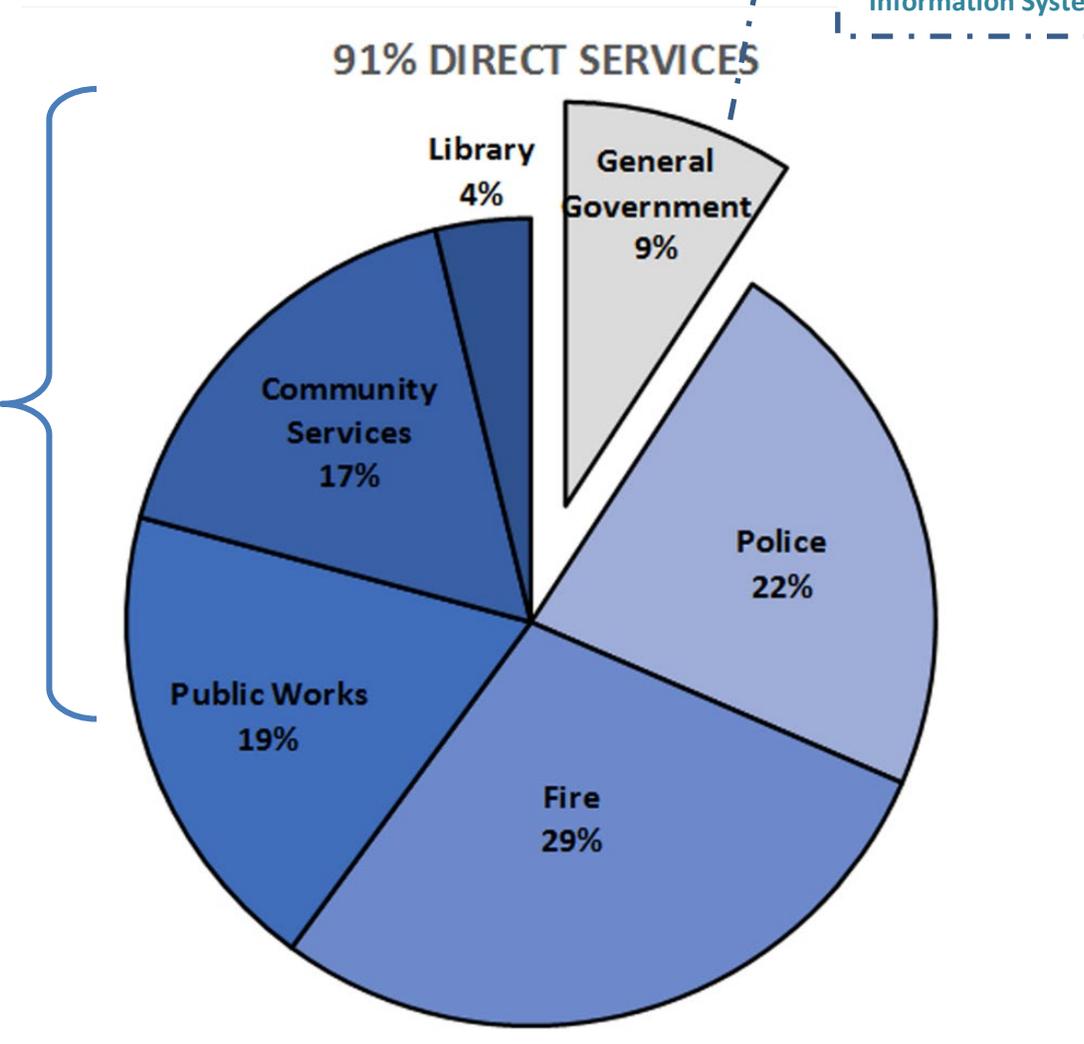


Residents love Monterey's quality of life - 90% of residents rate it "excellent or good"

General Government is City Council, City Manager's Office, City Clerk, Finance, Human Resources, Information Systems

## General Fund Direct Services Include:

- Police
- Fire
- Parks
- Public Works
- Monterey Sports Center
- Recreation
- Urban Forestry
- Library
- Museum
- Planning
- Building Inspection
- Engineering
- and others



# GENERAL FUND BALANCE

## What's our saving? \$11.2M EMERGENCY RESERVE

The City's General Fund savings is expected to be **\$20.8 million** (by June 2019), summarized below.

### What's the purpose for the General Fund Balance?

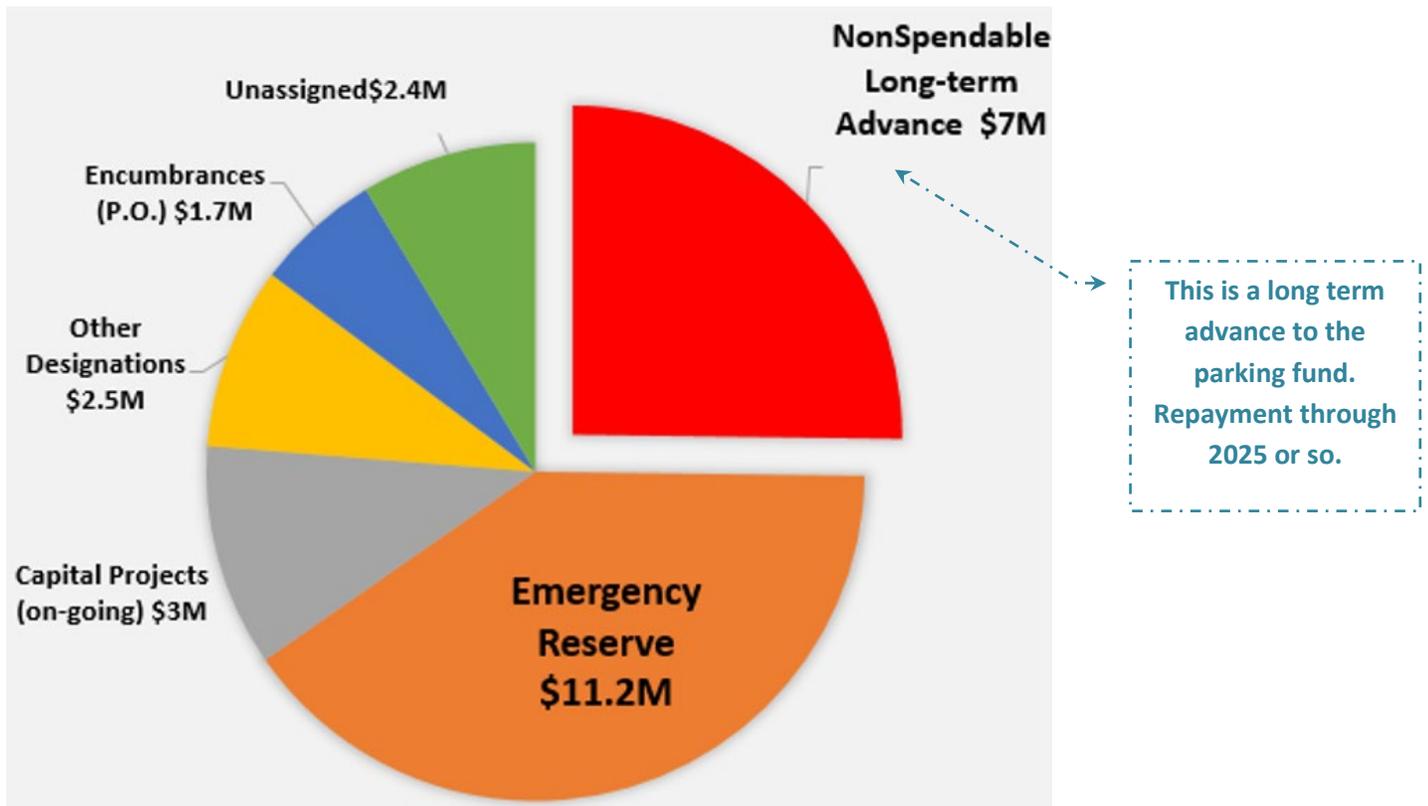
- "Rainy Day Fund" for emergency
- Contingency funding for unanticipated costs
- Gap funding for current services
- Possible funding for unfunded service needs and city priority projects

### How much should be in Emergency Reserve

- Independent analysis of Monterey's finances by GFOA recommends an emergency reserve of 16.6% (as % of Gen Fund operating budget).
- Monterey is at 14.2%, which would cover about 1.7 months of General Fund Operations

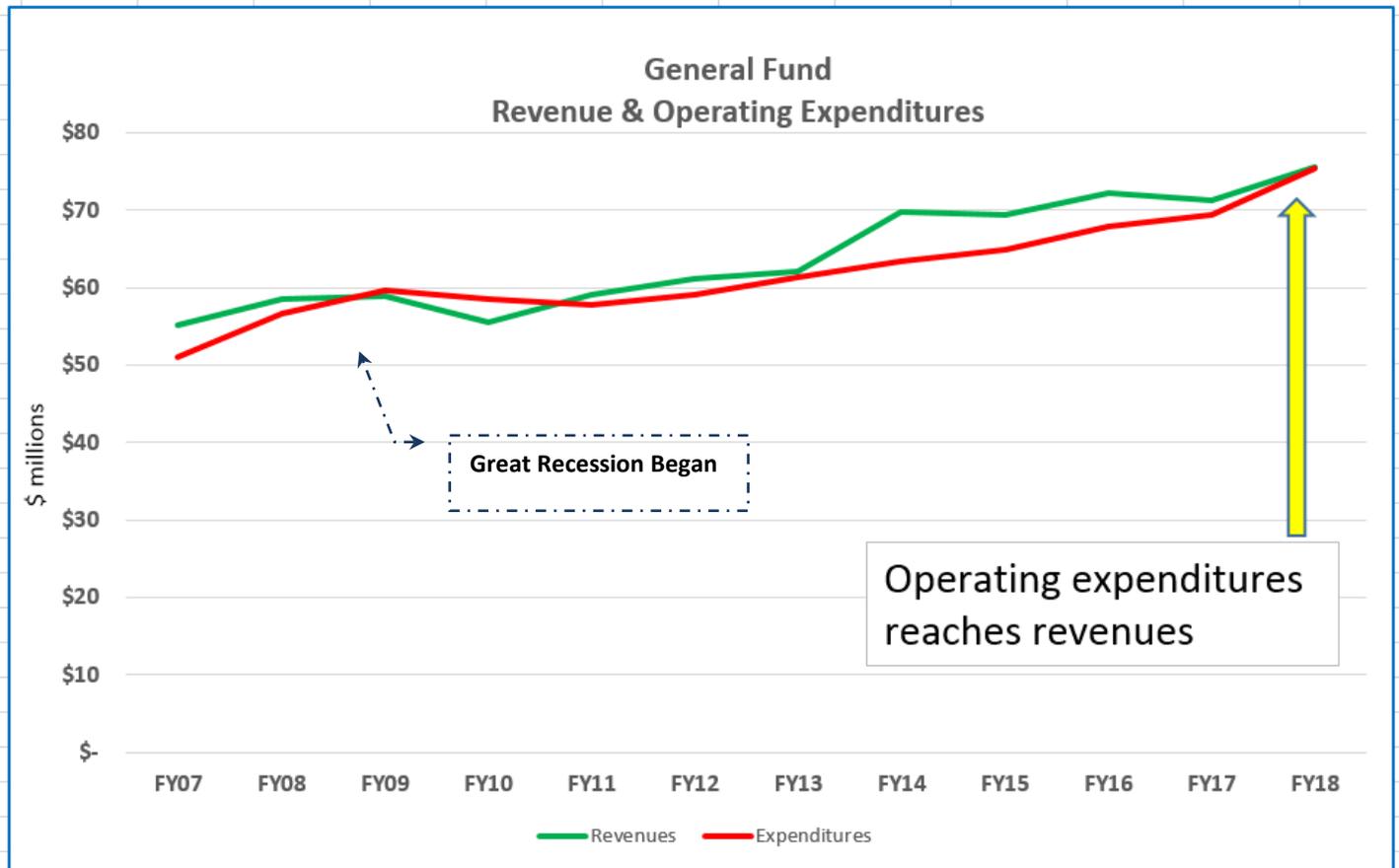
### What are the others

- CIP is for on-going capital projects
- Other Designation is for various set asides
- Encumbrance is for open P.O. (contracts)
- Unassigned is available and unrestricted



# GENERAL FUND HISTORICAL TRENDS #1

## Revenue vs Operating Expenditure



### What's Included? (\$ in chart above)

This shows the historical trend of the City General Fund revenue and expenditure from FY07 to FY18. This does NOT include debt payments, transfers and/or capital project costs.

This is based upon City audited financial statements.

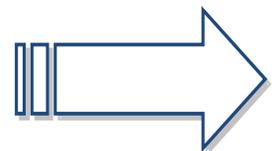
### What does this tell us?

During most of the years, operating revenue was able to cover the cost of operating expenditure. However, in FY18, the operating expenditure reached revenue.

Keep in mind the Country's Great Recession hit in 2008 and had an impact on the economy. That explains the sharp revenue decline.

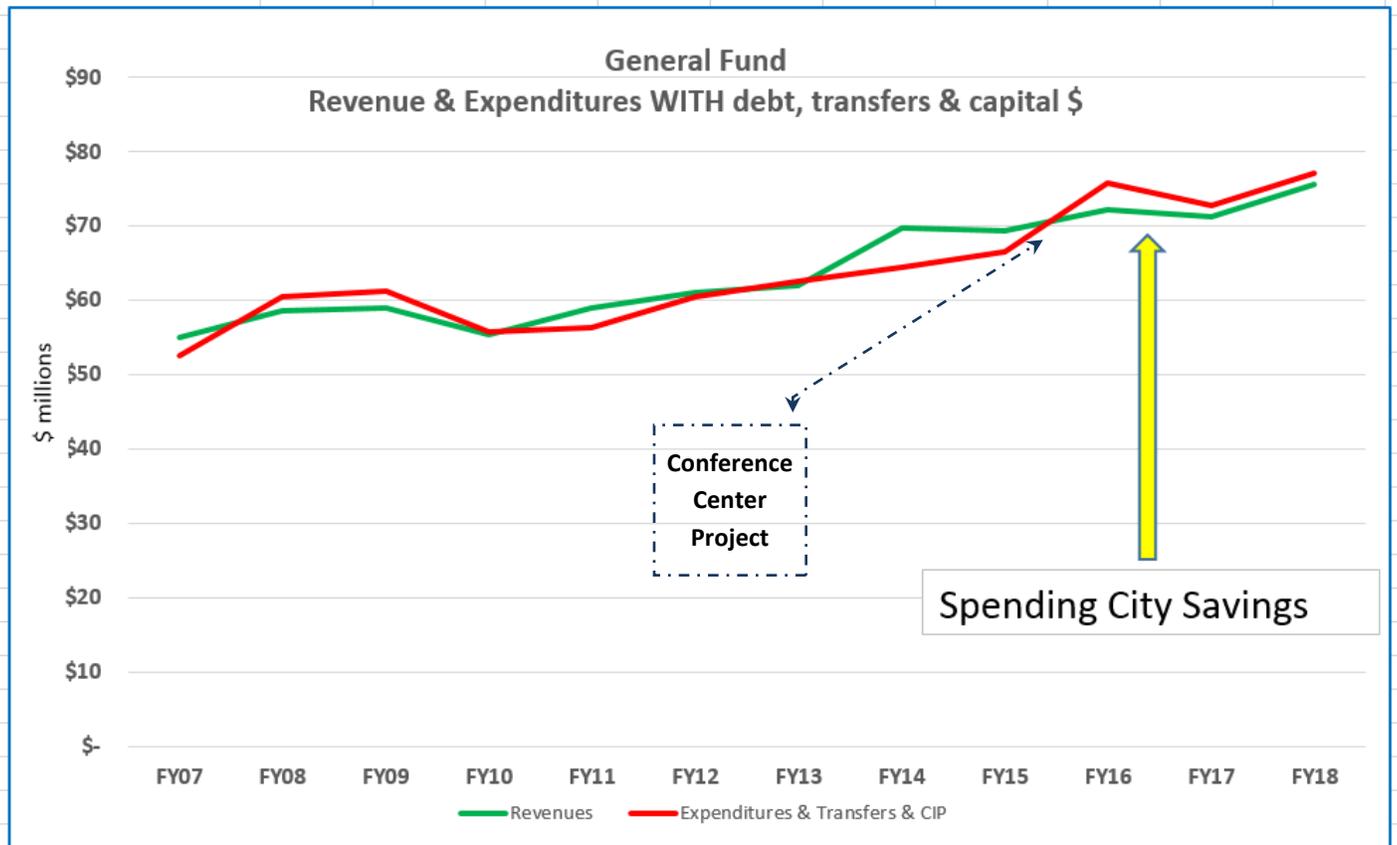
### How is the General Fund doing when we consider debts, transfers and capital projects?

Let's turn the page for the answers.



# GENERAL FUND HISTORICAL TRENDS #2

## Revenue vs. Expenditure WITH debt, transfers & capital \$



### What's Included? (\$ in chart above)

This shows the historical trend of the City General Fund revenue and expenditure from FY07 to FY18. This INCLUDES debt payments, transfers and capital project costs.

This is based upon City audited financial statements.

### What does it tell us?

It is difficult for the operating revenue to cover all the costs of (1) operations (2) debt (3) transfers and (4) capital projects.

The sharp increase in FY15 and FY16 relates to the Conference Center renovation project, which was an economic development strategic project.

### How is the General Fund doing when we consider debt, transfers and capital projects?

**We are spending General Fund balance. This is not sustainable in the long-term.**

# GENERAL FUND 5-YEAR FORECAST

Our most recent General Fund 5-Year Forecast, published in August 2018, shows operating deficits for FY19/20 and FY20/21 of \$3.7M and \$4M, respectively. In the upcoming months, Staff will be calibrating these assumptions and updating the forecast. Please participate and stay tuned for updates.

<b>GENERAL FUND 5 - YEAR FORECAST (\$ millions)</b>				
	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>
	<b>Prelim. Estimate</b>	<b>Prelim. Estimate</b>	<b>Prelim. Estimate</b>	<b>Prelim. Estimate</b>
<b>Operations</b>				
Operating Revenues	\$ 75.6	\$ 77.6	\$ 79.4	\$ 80.7
Operating Expenditures	(77.4)	(79.6)	(85.0)	(89.0)
Net Operating Transfers	(0.0)	(0.0)	(0.0)	0.0
Debt Service	(0.5)	(0.5)	(0.5)	(0.5)
Capital Improvement Program	(1.4)	(1.4)	(1.4)	(1.4)
<b>Net Operations Surplus (Deficit)</b>	<b>\$ (3.7)</b>	<b>\$ (4.0)</b>	<b>\$ (7.5)</b>	<b>\$ (10.2)</b>

# UNFUNDED SERVICES AND NEEDS

As of the publication of this report, this is a summary of unfunded services, needs and/or priorities. This list will be updated as more information becomes available.

## Infrastructure Priorities (\$70 – 80M)

- Police Station/Fire Station 1 (\$30M)
- Library Upgrade (\$10M)
- Community Centers (\$15M)
- Implementation of Specific Plans (\$15M)
- Storm Water System (amount TBD)

## Over next 15 Years: (\$30M +)

- City Hall Campus (\$10M)
- Rebuild Fire Stations 2 & 3 (\$8M+ each)
- Conference Center rehab reserve (amount TBD)
- Monterey Sports Center (amount TBD)

## Aging vehicle and equipment

- Fire department needs to replace up to 5 engines/trucks in the next 5 years

## Updating Information Technology – (need \$500-\$700k/year)

## Pension Liability – (see next page)

## Community Initiatives – (prelim listing)

- Affordable housing
- Long-term economic development and job creation
- Water sustainability
- Homeless services/solutions
- Neighborhood Impacts and parks
- Undergrounding utilities
- Sea level rising (planning & mitigations)
- and others



### GOOD NEWS

From 2014 to 2026 Measure P & S will provide around \$110m for road, ADA, sidewalk improvements

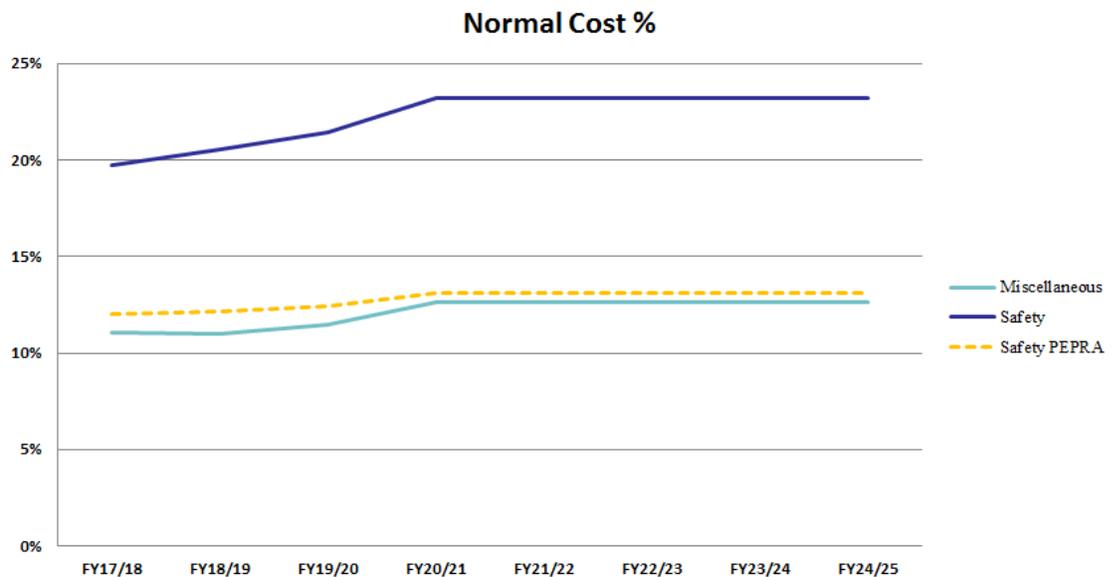
# UNFUNDED SERVICES AND NEEDS

## PENSION

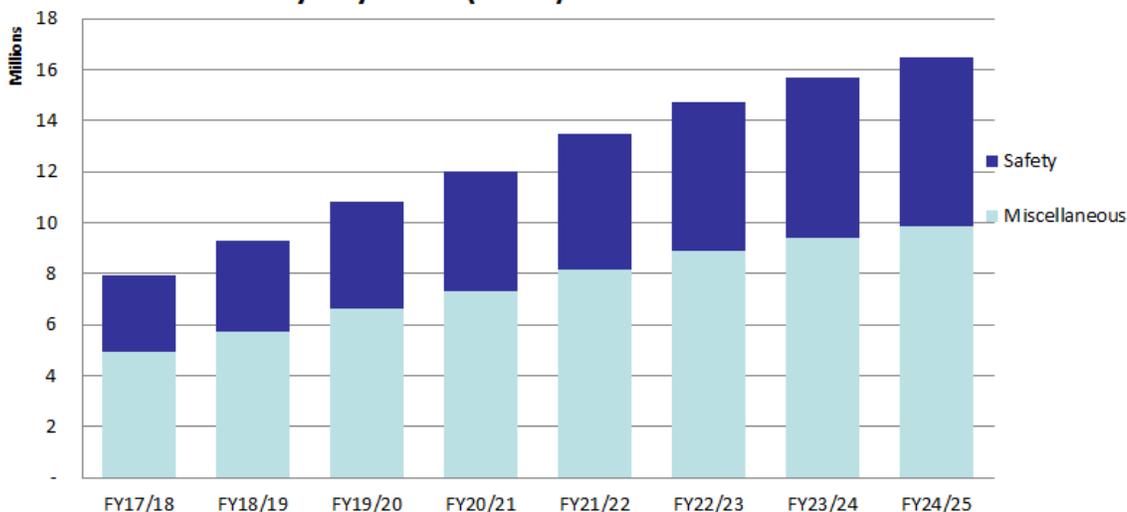
Like other cities in California, the City of Monterey has a pension liability (\$141M or 67% funded). Through labor negotiation, some of these challenges were tackled, but significant work remains ahead of us to solve the pension liability. Studies will be conducted to evaluate various repayment options with the goal of reducing costs and preserving services to residents.

### RETIREMENT COST INCREASES

The California Public Employees' Pension Reform Act (**PEPRA**), which took effect in January 2013, changes the way **CalPERS** retirement and health benefits are applied, and places compensation limits on members. The greatest impact is felt by new **CalPERS** members.



### Unfunded Actuarial Accrued Liability Payments (UAAL)

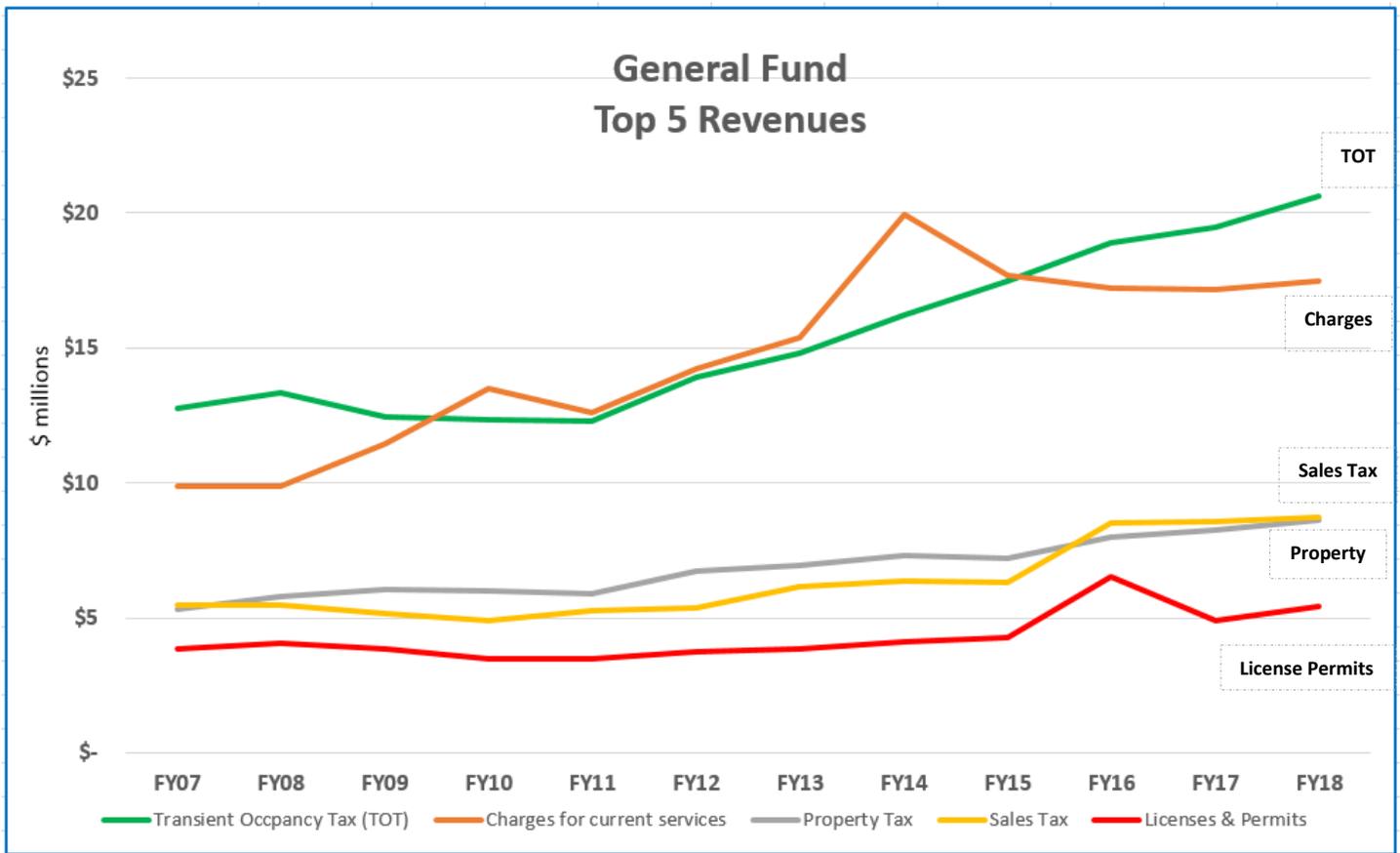


# GENERAL FUND TOP 5 REVENUE SOURCES

Historical trend of City General Fund Top 5 Revenue Sources are shown below. The Top 5 revenue sources are:

The Top 5 revenue sources make up **79%** of total General Fund revenues.

- Transient Occpancy Tax (TOT)
- Charges for current services
- Property Tax
- Sales Tax
- Licenses & Permits



# (TOT) HOTEL TAX

## TOT (hotel or room tax)

Transient Occupancy Tax is commonly known as “TOT”, hotel tax or room tax. **The City TOT rate is 10% and paid by hotel guests.** Comparative TOT rates are provided in the tables below.

TOT is the City’s top revenue source. Based upon Fy18/19 estimates, it generates about \$26M per year with 84% (\$22M) for City General Fund and 16% (\$4M) for the Neighborhood Improvement Project (NIP) Fund projects.



**Hotel guests pay for the TOT hotel tax**

2019 TOT Rates - Various Cities	
Anaheim	15.0%
Garden Grove	14.5%
Beverly Hills	14.0%
Culver City	14.0%
Healdsburg	14.0%
Inglewood	14.0%
Los Angeles	14.0%
Marina	14.0%
Oakland	14.0%
Palo Alto	14.0%
San Francisco	14.0%
San Leandro	14.0%
Santa Monica	14.0%
Calistoga	13.0%
Napa	12.0%
Napa County	13.0%
Santa Barbara	12.0%
Santa Barbara County	12.0%
Santa Cruz	12.0%
<b>Monterey</b>	<b>10.0%</b>

2019 TOT Rates - Monterey County	
Marina	14.0%
Pacific Grove	12.0%
Sand City	12.0%
Seaside	12.0%
Soledad	12.0%
Monterey County	10.5%
Carmel	10.0%
Del Rey Oaks	10.0%
<b>Monterey</b>	<b>10.0%</b>
Salinas	10.0%
Gonzales	8.0%
King City	8.0%

# SALES TAX

Sales Tax is the 4th General Fund revenue source. **The current City sales rate is 8.75%.** Sales Tax rates amongst cities within Monterey County range from 8.25% (Gonzales & King City) to 9.25%.

**HdL Economics study determined that 62% of the City Sales tax is paid by non-residents.**

Sales tax rate is made of **7.25%** Statewide Rate and **1.5%** Local Taxes (1% Measure P & S), 0.375% TAMC, 0.125% Regional Parks).

Of the 7.25% Statewide rate, only **14%** of the revenue is allocated to the City.

Of the 1% Measure P & S, **100%** is allocated to the City (streets, etc).

In Nov 2018, **82% of Monterey voters overwhelmingly approved Measure S**, extending the existing 1% sales tax for streets, sidewalks, storm drains, & ADA ramps and signals at intersections.

State law allows the City to increase sales tax rate by an additional 0.5%, subject to City voter approval. Based upon FY18/19 estimate, an additional 0.5% sales tax would general about \$5M/yr.

## SALES TAX RATES (effective OCT. 1, 2018)



### CITY SALES TAX

**62% paid by non-residents**

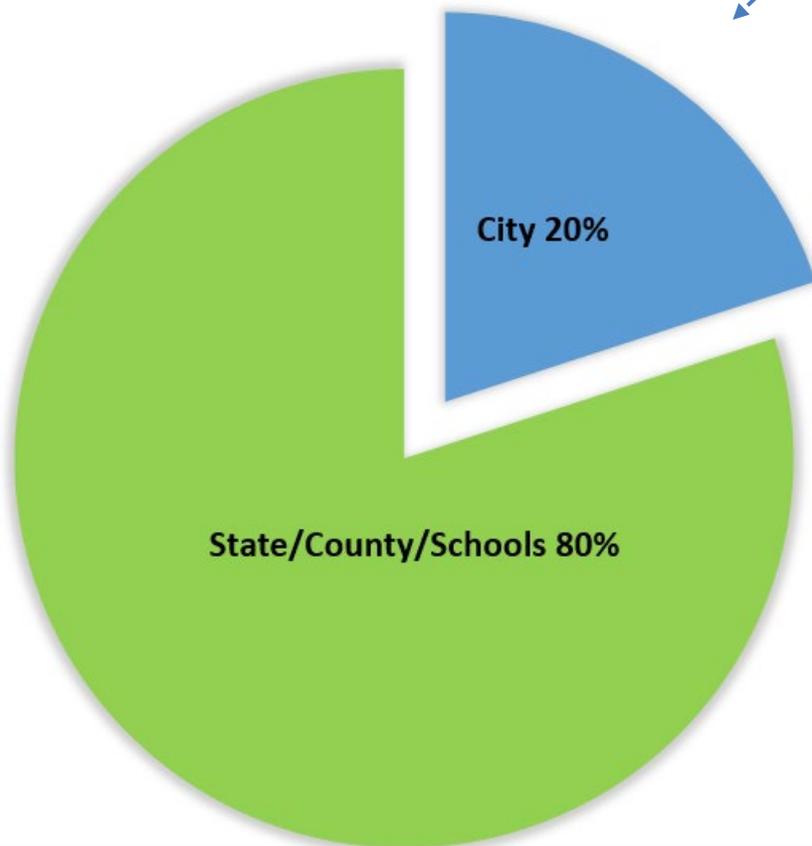
Sales Tax Rates (Effective Oct. 1, 2018)	
City of Carmel-by-the-Sea	8.75%
City of Del Rey Oaks	9.25%
City of Gonzales	8.25%
City of Greenfield	9.50%
City of King City	8.25%
City of Marina	8.75%
<b>City of Monterey</b>	<b>8.75%</b>
City of Pacific Grove	8.75%
City of Salinas	9.25%
City of Sand City	8.75%
City of Seaside	9.25%
City of Soledad	8.75%

# PROPERTY TAX

Did you know that only 20% of the property tax paid by property owners comes to the City general fund?

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## PROPERTY TAX ALLOCATION TO CITY OF MONTEREY



# NON-RESIDENT CONTRIBUTIONS TO CITY REVENUES

Monterey is home to around 28,500 residents living within about 13,500 households. Our community provides jobs for more than 25,500 people, of which one (1) out of five (5) actually live and work in Monterey. In other words, 80% of our work force commutes daily into our City. Monterey is a regional employment hub - the economic vitality of our City influences the economies of many other communities in our region. The Monterey Bay Aquarium alone attracts more than two (2) million visitors per year. Signature events such as the Jazz Festival, Car Week, Big Sur Marathon and Half Marathon, races at Laguna Seca, as well as numerous other events, attract visitors from the Bay Area and beyond. Iconic places like Cannery Row, our Bay and our Wharves are “must see” stops for many trips between San Diego and San Francisco.

It is no surprise, but tourist-related revenues contribute greatly to our successful economy. Hotel tax remains the City’s main source of revenue. Per our City Charter, 16% of the hotel tax is being allocated to our great Neighborhood Improvement Program (NIP) resulting since inception in hundreds of projects in our neighborhoods. Sales tax is also a strong revenue source - and, no surprise, 62% of the sales tax is generated by non-residents. The success of the hospitality industry translates into success for our region and our local economy.

## BY THE NUMBERS

Residents  
**28,000**

Households  
**13,500**

Live & work in Monterey  
**1 of 5**

% of Workforce commuting  
out of the area  
**80%**

% of hotel tax allocated to  
neighborhood improvements  
**16%**

## PAID BY NON-RESIDENTS

Hotel Tax **\$22M**

NIP **\$4M**

Sales Tax **\$6M**

Measure P **\$6M**

Parking Fees **\$9M**

Property Tax

Business License

Utility Users Tax

Licenses & Permits

Fees

Lease & Rents

## MONTEREY IS UNIQUE

Total Cities in CA **482**

Population between  
15k - 95k **254**

Coastal location **28**

#1 in terms of volume,  
complexity, and quality of  
services

**Monterey**  
uniquely includes  
Conference Center, Military  
Partnerships, Harbor and  
Marina, Sports Center, Urban  
Forestry, Parking Garages  
Museums, and more!

Stay involved. Be informed.  
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We remain steadfast in engaging with our neighborhoods,  
businesses, visitors and regional partners to  
preserve Monterey's quality of life.



IT'S ABOUT PRESERVING MONTEREY'S QUALITY OF LIFE!

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