

CITY MANAGER'S



BUDGET MESSAGE

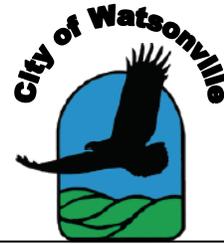
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City Manager's Biennial Budget Message

June 11, 2013

To the Honorable Mayor and City Council



"Opportunity through diversity;
unity through cooperation."

Introduction and Overview

Presented herein is the balanced 2013-14 & 2014-15 Final Biennial Budget for the City of Watsonville and the Successor Agency of the Redevelopment Agency of the City of Watsonville which includes the 2013-2014 Balanced Budget and projected 2014-15 Budget.

This comprehensive Biennial Budget for all funds is intended to serve as a policy document, a financial plan, a communications device, and an operations guide. This fiscally prudent and balanced budget reflects the goals within the Strategic Plan and the related **strategic goals and objectives** and the policies adopted by the City Council. Moreover, the City's strategic plan goals and objectives are aligned with the City of Watsonville's mission of "improving the economic vitality, safety and living environment for the culturally rich Watsonville community by providing leadership for the achievement of community goals and high quality, responsive public services."

Accordingly, this budget document is a planning tool, which focuses the City's limited resources to meeting the City Council's goals as laid out in their Strategic Plan while focusing in the framework provided by the City's mission. Those goals are:

- Protect Public Safety
- Increase Opportunities to Promote Economic Development and Increase Sales Tax Revenue
- Reduce Reliance on Reserve Funds
- Improve Communications
- Enhance the Community's Image

These principles were used to guide the creation of the *proposed* budget plan which followed the objectives listed below.

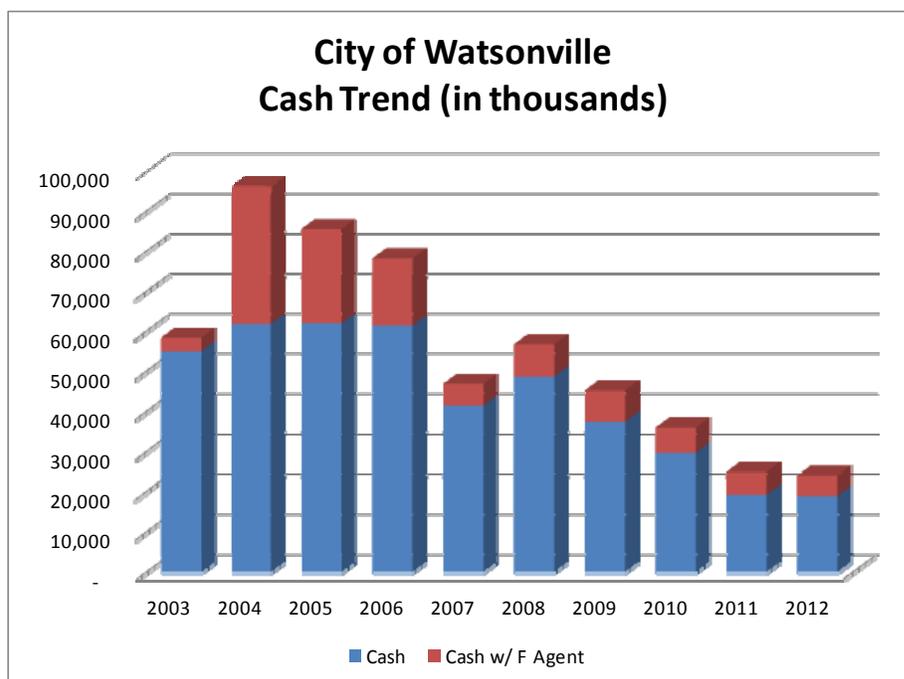
- Meet with all employee units and agree to employee compensation concessions allowing for minimal service reduction impacts
- Evaluate new opportunities to change how services are delivered
- Develop service reductions based on shortfalls from employee concessions and strategic changes in service deliveries
- Develop line item reductions where ever possible, including contractual services
- Consider and propose resource enhancement options

The City's *Proposed* Biennial 2013-14 & 2014-15 Budget was released on May 16th and the City is projected to have at least three public budget study sessions (May 21st, May 28th, and June 11th). The *Proposed* Budget for 2013-14 offsets the projected \$2.8 Million General Fund operating deficit (\$2.1 ongoing concessions, \$0.7 new reductions) and provides for the operations of all the City's programs and services (General Fund, Utilities, Airport, Library, Housing, etc). For more details, please review the City's detailed operating schedules for each fund, department and operation contained herein.

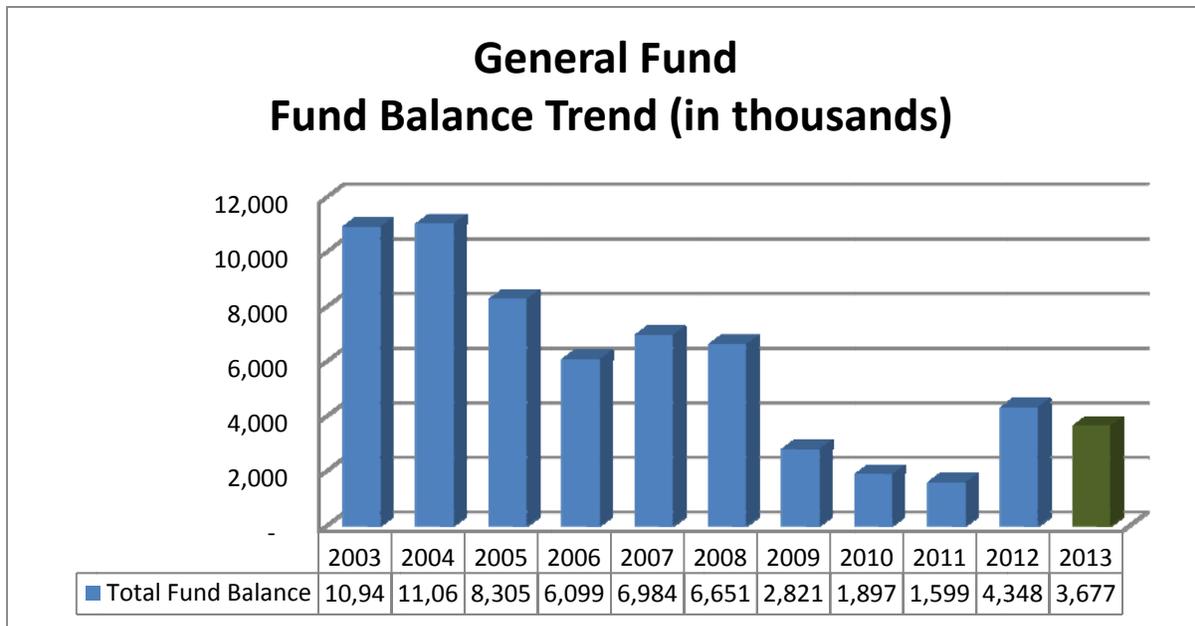
The Big Picture

The negative impacts from the great recession have impacted the City over the last five years. In fact, the City's operation's experienced spending deficits four out those five years. Although some cities in our region have experienced recovery and annual operating revenues are keeping pace with annual operating cost increases, Watsonville along with other rural communities are still experiencing difficulties. Revenues continue to be projected at around \$33 million per year, virtually the same level of revenue the City has achieved over the last five fiscal years. In this sense the recession is still with us. However, the City has achieved a balanced budget in FY 2011-12 and is projected to achieve the same in FY 2012-13 and the proposed FY 2013-14 budget. This has been accomplished due to the willingness of the City, its employees, and labor groups to continue implementation of ongoing cost containment strategies of furloughs and operational changes. Without this commitment by City, its employees, and labor groups, **the deficit facing the City would be \$3.1 million (\$2.1 in the General Fund)** and would require major service reductions.

As previously indicated during the Audited Financial Statements presentation to the Council during the February 12, 2013 meeting; the City of Watsonville has experienced financial challenges which have resulted in reduction of cash reserves citywide and depletion of General Fund reserves. This decline can be seen the chart below.



In fact, General Fund reserves are projected to be lower at the end of FY 2013-14. The decline in cash and fund balance could be exacerbated by the recent demand for payment from the State Department of Finance (DOF) in the amount of \$4.6 million (more details about this are found the redevelopment section below).



Comparing the General Fund audited FY 2011-12 fund balance with other communities, the City's fund balance is way below the median and it is only slightly higher than Salinas.

Watsonville vs. Comparable Cities FY 2011-12

	Salinas	Scotts Valley	Santa Cruz	Gilroy	Monterey Hill	Morgan Hill	Median	Watsonville
GF Revenues and Other Sources	\$ 82,490	\$ 7,703	\$ 77,912	\$ 38,082	\$ 61,050	\$ 23,493	\$ 48,557	\$ 36,658
GF Expenditures	\$ 82,517	\$ 7,833	\$ 95,908	\$ 35,230	\$ 59,125	\$ 25,479	\$ 45,670	\$ 35,809
GF Fund Balance	\$ 7,833	\$ 6,749	\$ 25,531	\$ 25,482	\$ 33,831	\$ 7,282	\$ 18,140	\$ 4,348
		NP	NP					
Fund Balance, % GF Exp	9.50%	86.16%	26.62%	72.30%	57.22%	28.58%	42.90%	12.14%

A Balanced 2013-14 Budget

The City was faced with major General Fund cost increases for the last few fiscal years and was under the threat of major State Budget allocation reductions due to the State's ongoing multi-billion operating deficit. However, the City overcame these major obstacles. Some of these major financial obstacles included sharp increases in **public safety pension and salary costs**, **public safety overtime** levels beyond historical expectations, estimated **State of California budgetary cuts**, and **fuel and utility**

increases. Some of the same obstacles faced in prior years remain true during the upcoming FY 2013-14 Budget Year.

In prior years, a balanced budget was achieved through a combination employee concessions which reduced current salary levels and reformed the City's pension costs and benefits. The City is very thankful to its employees for their continued willingness to help maintain the current level of the community's service and for their help to achieve the City Council's objective of reducing layoffs through employee concessions. The City and its employees actually and boldly started down reduced employee compensation in 2008 before many government agencies recognized the coming financial devastation. The FY 2013-14 *Proposed Budget* continues with the same reductions implemented during in 2008 and avoids any layoffs.

One additional major reduction includes the decrease of social service grants by \$37,500 which will be used to purchase critically needed replacement police cars. In addition, the City continued to take defer major capital purchases and projects for 2013-14 in the General Fund. These reductions that led to a balanced budget were made possible through our community's support combined with the City Council's leadership and tireless and dedicated efforts by City staff.

State Budget & Redevelopment. Currently there are no new concrete developments at the State budget level that would impact the City. However, the dissolution of the redevelopment agency has had a significant impact over the last year. The city lost a significant amount of revenue for economic development estimated at \$5.2 million annually due to the dissolution of the redevelopment agency due to the implementation of ABx1 26. Based on this new law, the City chose to wind down the redevelopment agency activities and is acting as the Successor Agency. In this new role, City of Watsonville has faced numerous funding take aways from the State; including a major blow requiring it to pay back \$4.6 million for a loan repayment to the General Fund and Impact Fees Funds made in 2011. The loan and impact fees originally date back to 2006. City staff will continue monitoring the State's budget development and present updates to the Council through the City's budget process.

Summary of new and continued adopted operational changes & reductions

One of the major hurdles in achieving a balanced budget rests with bringing the Police labor groups to the table and having them agree to continue with concessions. Some of the concessions achieved in the past with all labor groups include the implementation of a reduced two-tier pension benefit program, deferring contractual salary increases, and increasing employee contributions into the pension system.

Exhibit 1 below summaries all the prior operational reductions in effect for the 2012-13 Fiscal Year (assuming agreement is reached by all units to remain at status quo).

2012-13 City Wide Service Level / Operational Reductions Which Would Continue in 2013-2014
Retain same Friday closures and during Thanksgiving, Christmas & New Years weeks
Employees increased compensation reduction to minimum 12% and remain on 4-day work week (includes Fire Chief, Police Chief and Deputy Police Chiefs)
City Council will remain at a 10% compensation reduction
Retain reductions in part-time/hourly staffing
<i>NO community service reductions in Fire, Police or Garbage pickup</i>
Reduction in Community & Social grant funding by 10%
Retain reduction in Hope Services funding by 20% (from 5 days to 4 days)
Retain reduction in the number of City Council Member district meetings
Retain reduction in Police Athletic League (PAL) funding
Reduction in 911 center Joint Powers Authority funding of 8%
Continue reduced maintenance of parks/public grounds & assume driving range maintenance

The reductions in the prior table are the continuation of many years of ongoing operation reductions that started as early as 2007, as shown in Exhibit 3 below.

Exhibit 2		
General Fund Reduction Plans since 2007	Timing	Estimated Annual Savings
Hiring freeze for all non-safety General Fund positions	Winter 2007	\$402k
Reduce Capital projects	Mid-Year 2008	\$133k
Freeze and eliminate various capital projects	June 2008	\$693k
Staffing reductions implemented	June 2008	\$1 million
Increase parking permits & fire false alarm fees; sold excess property	June 2008	\$120k
Reduced General Fund staffing	August 2008	\$75k
Reduced General Fund staffing	October 2008	\$120k
Holiday layoff plan from 12/22/08 through 1/05/09.	December 2008	Net \$440k
Administrative freeze on General Fund travel and training programs	January 2009	\$59k
Freeze additional position	January 2009	\$106k
Reduced General Fund staffing	February 2009	\$131k

Increase Parking Citation rates	March 2009	\$110k
Massive reduction plan for 2009-10: Up to 15% employee comp reduction, 3 layoffs & 20 unfunded positions; unfund all General Fund Capital Projects; reduction in Community/Social grants, 911 Center & Animal Services	June 2009	\$4.5 million
Additional eliminations of General Fund staffed positions & implemented a low-cost Voluntary Retirement program.	Fall 2009	
Additional reductions of General Fund staffing	February 2010	\$379k
Amendments to Vehicle Towing Services Ordinance	March 2010	\$183k
Reduced General Fund staffing, personnel costs and social service grants, continuing reductions from prior budget cycle	June 2010	\$1.5 million
Mid-year reduction plan	Feb/March 2011	\$301k
Further reduced General Fund staffing, personnel costs and social service grants along with city-wide consolidation and continuing reductions from the prior budget cycle	June 2011	\$1.93 million

It is the City's hope that its current forecasts will remain on target. If so, and if the housing market can continue to show signs of improvement; the City should be able to control its financial future without the threat of major on-going deficits. This would be a major improvement over the last 5 years.

Successes despite reduced operations

The City of Watsonville has had many positive highlights and notable achievements in its last 2 years, despite severe service level, compensation and staffing reductions along with structural changes. They are summarized beginning at the top of the next page under the appropriate strategic plan category.

ECONOMIC DEVELOPMENT

- ❑ Adopted the Updated 2030 General Plan
- ❑ Began implementation the Manabe/Ow Specific Plan by processing infrastructure design with Devcon construction.
- ❑ Completed Manabe Ow Specific Plan development of wetlands
- ❑ Nearing completion of Northstar Bio fuels processing plant
- ❑ Building under construction for Store More America and Arco convenience store and service station.
- ❑ Participated in Advisory Committee for the Association of Monterey Bay Area Governments (AMBAG) regional growth projection and traffic model and in the Blueprint process for implementation of SB375.
- ❑ Recruited new Biofuels Facility
- ❑ Facilitated Martinellis' in demolition and development of a new building at the former Birds-Eye Plant at 345

Harvest

- ❑ Recruited Coast Manufacturing to 355 Harvest
- ❑ Assisted Iowa Northern Railway in finding local office space
- ❑ Recruited Disk Golf Association to 73 Hangar Way
- ❑ Recruited Mica Cellars to 18 Hangar Way
- ❑ Recruited Metzlers Pure Mints to 59 Hangar Way (now under construction)
- ❑ Entered into Purchase and Sale Agreement with 7 Hills Development to facilitate development of a Walgreens on lower Main
- ❑ Assisted Fox Racing in their multi-million dollar expansion
- ❑ Hosted 2 annual Business Walks
- ❑ Maintained online social media presences including 3 Facebook pages (Grown In Watsonville, Historic Downtown Watsonville, In-N-Out in Watsonville), Twitter and LinkedIn
- ❑ Assisted Classic Cleaners in moving into 125 Hangar Way
- ❑ Created new banners for Downtown and developed tree lighting program
- ❑ Visited over 200 local businesses in regular business retention efforts
- ❑ Facilitated EPCDC in their kitchen incubator project
- ❑ Leased second floor space in Civic Plaza Building to Mid-Peninsula Housing Corporation Used GIS data and ortho-photography to identify areas for redevelopment and job creation.
- ❑ Created and maintained Major Projects, Enterprise Zone, Redevelopment Area, Community Enterprise Zone, Affordable Housing and Target Employment Area maps and databases.
- ❑ Assisted in data analysis for

Enterprise Zone annual reports.

SAFE & HEALTHY COMMUNITY

- ❑ Implement investigation techniques
 - Using various forms of digital evidence to follow-up
 - Developed a partnership for the accessibility of the Santa Cruz County Sheriff's Office photo database
 - Formed a partnership with Santa Cruz County's Latent Print program, expediting returns.
- ❑ Utilized our crime scene investigation unit on many cases, resulting in the collection of valuable evidence used to successfully convict felons.
- ❑ Investigated and solved multiple robbery and gang-related homicide cases.
- ❑ Successfully completed all POST required training on issues such as; Use of Force, Emergency Driving, Firearms Training, and other topics. This was accomplished before transitioning to emergency work schedule, which would no longer accommodate monthly training.
- ❑ Hired 4 new police officers

EDUCATIONAL ATTAINMENT

- ❑ Special Early Literacy stations have been added to the Freedom Branch Library for use by young children in gaining literacy and computer skills. These compliment the 10 stations at the Main Library.
- ❑ Continued to work with the PVUSD in placing student art throughout the children's department of the library.
- ❑ Continued to work with other local library jurisdictions to share resources and ideas. Plans are in

place to collaborate with the Santa Cruz City/County Library system on a Community reads project.

- ❑ Implemented multifamily residential program in collaboration with Ecology action Classes.
- ❑ Provided opportunities for participation in the Tech Xite, 43 children and family members participated in cultural and art activities

CITY'S IMAGE

- ❑ Continued the Historic Label Art Mural program
- ❑ Expansion of Strawberry Festival to include more community involvement
- ❑ Aided promotion of Watsonville as a destination through Sunset Magazine
- ❑ Continued existing communication tools within the community:
 - Expanded Chanel 70 to broadcast through AT&T
 - City Manager's Wingspan
 - Police Dept website
 - Grown in Watsonville Website
 - Launched a new webpage with connectivity to Twitter and Facebook
 - Developed a Public Services Announcements Campaign
- ❑ Continued a Public Art program in coordination with community members
- ❑ Continued "Snow Day" in the Plaza
- ❑ Continued implementation of a Foreclosure Ordinance, registering and assuring properties were well maintained
- ❑ Spearheaded the CASF consortium for the availability of high speed

Internet (Broadband) to more City businesses and residents

- ❑ Within Finance Revenue staff, handled over 54,000 phone calls
- ❑ Implemented the installation of Solar Panels in City Hall and Water Treatment Plant
- ❑ Within Finance Revenue staff, processed over 360,000 utility and accounts receivable bills
- ❑ Paid over 93% of invoices within 2 weeks of department approval.

COMMUNITY RESOURCE

- ❑ Extended the City's wireless access solution for both internal staff and external guests to the Water Resource Center and MSC Vehicle Maintenance shops.
- ❑ Extended the private wireless network to East Lake Shopping Village, Veteran's Hall, Pajaro Dunes Reservoir, and Emmet Courts Park so that police officers can have access to many of the data systems while out on patrol and to support other City infrastructure such as surveillance systems and automated water meter readings.
- ❑ Set up Computer Room, creating the City's first disaster recovery site.
- ❑ Used GIS data and maps to identify next outreach area for Neighborhood Services.
- ❑ Maintained Neighborhood Plan Areas that are used as a tool to notify residents within Neighborhood Plan Areas of events. Provide mailing labels for notifications.
- ❑ Used GIS to maintain maps and models for City of Watsonville Nature Center.

- ❑ Assisted in the implementation of infrastructure needed to support Neighborhood Services at their previous location, 37 Davis Ave.
- ❑ Provided early voting services to all City of Watsonville residents
- ❑ Facilitated a community service park clean-up project with Zion Camp volunteers.
- ❑ A Yoshino Cherry tree was planted in the City Plaza and a plaque installed a gift from the Japanese Government and the Watsonville-Santa Cruz Japanese American Citizens League.
- ❑ Provided numerous recreation and community opportunities by offering fitness classes, Sumba for fitness, and other recreational opportunities
- ❑ Produced 2 Parks and Community Services Department Recreation Guides per year.
- ❑ Maintained information current for community to access the birding festival and other community resources
- ❑ Successfully offered the new, initially grant funded Contigo family prevention/intervention program, for a period of two years and continued services after the grant period ended on December 2012.
- ❑

2013-14 & 2014-15 Budget Requirements & Document Organization

The City Manager's Budget Message sets the context for budget decisions and describes community and economic conditions affecting the budget. It outlines major initiatives underway and challenges for the coming year.

This budget document overall is divided into 4 sections; the introduction, department and division operations, the Capital Improvement Program, and the appendix.

The introduction presents an overall picture of the City and the budget. It includes an organizational chart, this budget message, a profile of our community, overview of this budget and the process to complete it; review of major resources and uses, program and operational matrix, summary information for the major fund types and concludes with a 5-year General Fund plan.

The department and division operations consist of the majority of the essential information presented in this document. For each department, the following information is provided:

- Department photo
- Organizational chart
- Department's purpose statement
- Key service level measures
- Recent accomplishments
- Goals and Objectives for the 2-year budget cycle
- Compliance with the General Plan
- Strategy Statement

- Line-item revenue and expenditure schedule

The revenue and expenditure schedule provides financial results for each line item for the audited Fiscal Year 2011-12 budget and projections for Fiscal Year 2012-13 and the adopted budget for Fiscal Year 2013-14 and projected budget for Fiscal Year 2014-15. This schedule also shows the current and projected positions for each of those respective fiscal years.

The Capital Improvements Program (CIP) is a 5-year plan that focuses on both the short-term and long-range plan for acquisition, improvement and/or renovation of City assets. The CIP is a dynamic document and is reviewed and updated annually. The first year of the five-year CIP is incorporated within the budget document, and will be appropriated accordingly. The remaining four years function as a project planning and budgeting tool. Only those projects that exceed \$5,000 are included in this plan. The program document reviews each new proposed public improvement project and lists the remaining capital maintenance, equipment or vehicle projects. This multi-year plan is certified by the City of Watsonville Planning Commission that the improvement projects are in compliance with the General Plan.

The final sections provide various supporting documents that include information about the City's long-term debt, authorized positions and strategic plan that was used as the basis for this Biennial Budget.

The Appendix includes supporting information such as information on the City's positions, long-term debt, and Charter, ordinances and resolutions legal requirements that pertain to the budget.

Two-Year Budget Process

The City of Watsonville continues to receive a national award for its use of a two-year budget process that clearly emphasizes long-range planning and effective program management. Significant features of the City's two-year Financial Plan include the integration of the City Council's Strategic Goals into the budget process and the extensive use of formal policies and measurable objectives. This financial plan includes an operating budget for two years and a capital improvement program for five years. While appropriations are only made for one year at a time, this plan is the foundation for preparing the budget in the second year.

The fundamental purpose of the City's biennial budget is to link what we want to accomplish for the community with the resources necessary to do so. This is accomplished by clearly setting major City goals and important objectives; establishing reasonable timeframes and organization responsibility for achieving them; and allocating resources for programs and projects.

To link important objectives with the necessary resources, the City's budget process calls for a strategic planning session at the start of the budget process. Accordingly, the City begins each biennial budget process with in-depth goal setting workshops where

the Council takes information presented for the fiscal outlook from the mid-year review, reviews the status of the major goals and objectives from the last cycle, discusses their individual goals and then formally ranks all the available goals to identify the primary goals to lead the City in the development of this plan for the next two fiscal years.

City Charter. Under the Charter of the City of Watsonville, sections 1103-1105 instruct that the City Manger must prepare and present a proposed budget for the ensuing fiscal year at least 30 days prior to the beginning of next fiscal year. The budget plan was presented during this process to the City Council on May 21, 2013. Specifically, the Charter requires that the final budget includes:

- (a) An itemized statement of estimated income and revenues from all sources for the year that the budget is to cover;
- (b) An itemized statement of the proposed expenditures recommended by the City Manager for each office, department, or agency for the year which the budget is to cover;
- (c) The probable amount required to be levied and raised by property taxation; and
- (d) Such other information as the City Manager may deem essential, or as the Council may require

The Charter requires that “the Council shall proceed to consider the proposed budget and may increase, decrease or omit any item or insert new items therein.” It further requires that a public hearing be held, grants the authority for Council to make any final modifications and then requires that prior to the beginning of the ensuing fiscal year, “the Council shall adopt the budget with revisions, if any.” The final 2013-2014 City Budget is planned for adoption on June 11, 2013.

Charter sections 1108-1110 provides the minimum information that this budget message or document must contain. Section 1108 states:

The budget message submitted by the City Manager to the Council shall be explanatory of the budget, shall contain an outline of the proposed financial policies of the City for the budget year and shall describe in connection therewith the important features of the budget plan. It shall set forth the reasons for salient changes from the previous year in cost and revenue items and shall explain any major changes in financial policy.

Section 1109-1110 creates the requirement to present a 5-year capital program and that those “public improvement” projects within the plan be submitted to the Planning Commission for their recommendation to the City Council. See appendix C for the complete Section 11 from the City Charter.

Fiscal year 2013-2014 (Year 1 - adopted). As noted above, the process begins with Council’s Strategic Plan to determine the major objectives for the next two years. The results of this plan are incorporated into the budget instructions issued to the operating departments, who are responsible for submitting initial budget proposals. After these proposals are comprehensively reviewed and a detailed financial forecast is prepared, the City Manager issues the Draft Biennial Budget for public comment. The City

Council public study sessions began on May 21, 2013 and concluded with the public hearing and Council adoption of the budget on June 11, 2013.

Fiscal year 2014-15 (Year 2 - projected). Before the beginning of the second year of the two-year cycle, the Council reviews progress during the first year, makes adjustments as necessary and approves appropriations for the second fiscal year.

Mid-year reviews. The Council formally reviews the City's financial condition and amends appropriations, if necessary, after the six-month period of each fiscal year. This review also includes an early look at the ensuing fiscal year.

Budget Amendments. The Charter section 1107 grants the Council the authority to amend or supplement the budget anytime after its adoption by majority vote of the Council members.

Fund Structure

Local government budgets are organized by funds in order to segregate and account for restricted resources. Each fund is a separate accounting entity.

General Fund. This fund provides the majority of resources for most of the services cities typically provide, including police, fire, parks and community services, library, street maintenance, development planning, building and code enforcement, and general government functions required to support direct services to the community.

Special Revenue funds. These funds are used to account for activities paid for by taxes or other designated revenue sources that have specific legal use limitations. As a group, financially it represents about a fifth of the total City's planned expenditures and debt service for Fiscal Year 2013-14. It includes funds and operations like the City's Successor Agency, collection of housing funds, Library fund, Gas Tax fund, Impact fee funds, and public safety funds.

Enterprise funds. These funds are used to account for self-supporting activities that provide services primarily through user charges. For Fiscal Year 2013-14, financially these funds are the largest with respects to expenditures and debt service and represent over 40% of the total budget. They encompass the following four operations; Airport, Water, Sewer and Solid Waste.

General Fund

The City's General Fund faced its first Fiscal Year of a balanced budget during FY 2011-12 after four straight Fiscal Years of substantial operational deficits. FY 2013-14 is projected to be balanced as well when eliminating one time capital outlays. This is due to the local revenue base showing signs of stabilization, and the specific financial reduction plan put in place over the last five Fiscal Years. In contrast costs keep increasing; those include a spike in Pension costs, Fire overtime exceeding historical levels, increases in health care benefits costs, and recent fuel and utility cost increases. All these costs increases for all units continue to be held at bay by ongoing concessions over the last five Fiscal Years. In general, costs in the General Fund are distributed with the majority of the funds being spent in safety Departments (police 45% and Fire 18%).

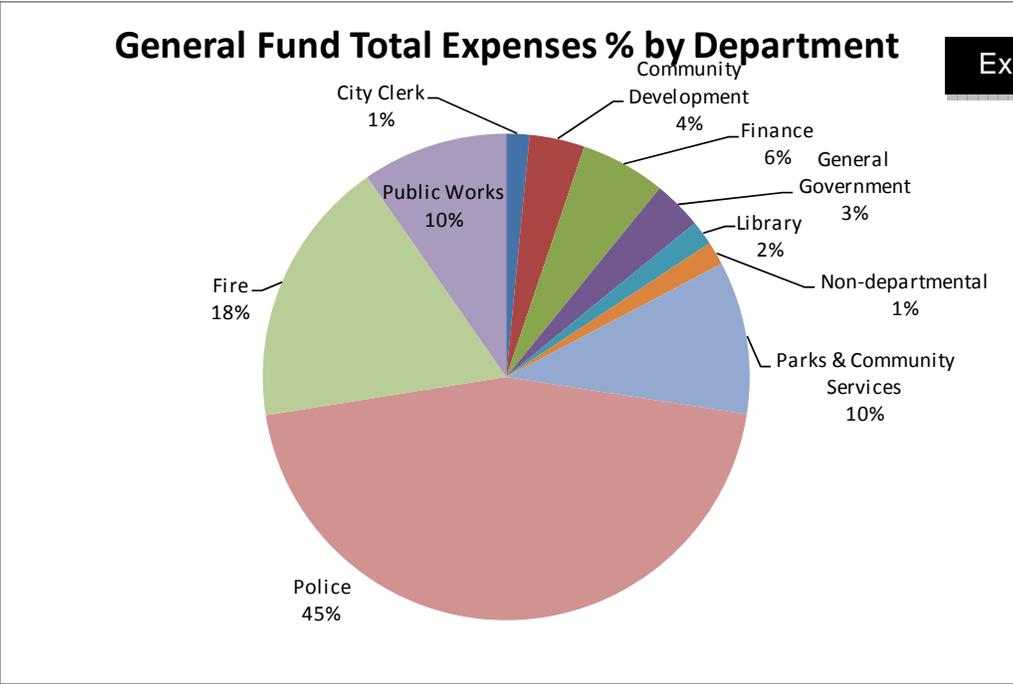


Exhibit 3

However, after comparing the General Fund expenditures net of non-discretionary departmental revenues, the General Fund Contribution percentage increases to 52% and 22% respectively. Therefore public safety accounts for 74% of total General Fund resources in the FY 2013-14 budget.

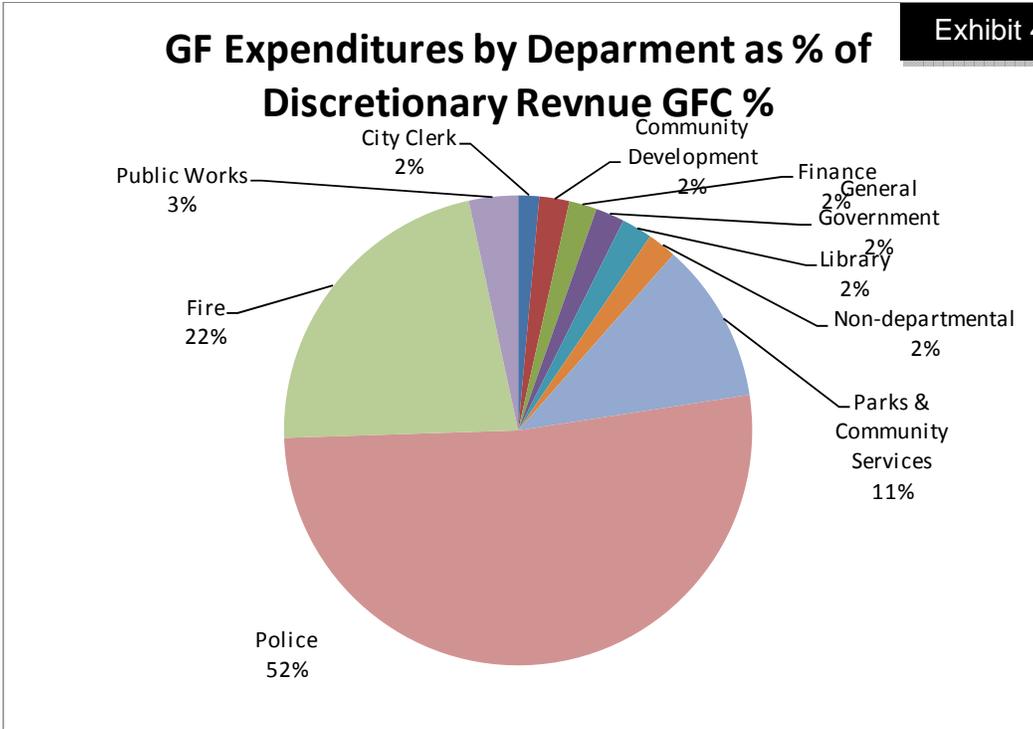


Exhibit 4

Pension Benefits. The City is a member of the State of California's Public Employee Retirement System (CalPERS). CalPERS was formed in 1932 and local government

entities were allowed to join in 1939, with the City of Watsonville joining 10 years later in 1949. CalPERS provides a “Defined Benefit” plan in which employees are guaranteed a certain continuous retirement benefit for their lifetime. Retirement benefits are generally broken into two categories, those for professional Fire and Police personnel (Safety) and those labeled by CalPERS as “Miscellaneous” (i.e., the remaining staff that includes customer service, street/facility maintenance, library, parks, recreation, mid-management, management and other support staff). Given the rising costs from last year in retirement benefits, the City implemented a second tier and later the State adopted what is known as pension reform effective January of 2013 (The City’s current plans were elevated to their higher benefit levels in 1999 and 2001. CalPERS retirement benefits for existing City employees are calculated for each group as shown in Exhibit 4.

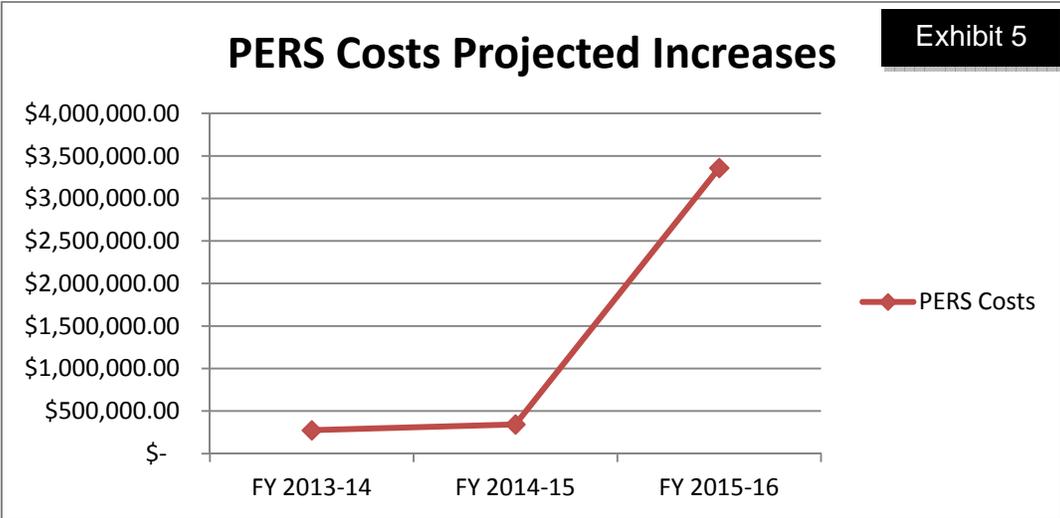
Exhibit 4

Category	Fire & Police			Miscellaneous employees		
	Tier 1	Tier2	Tier 3	Tier 1	Tier 2	Tier 3
Base retirement age to reach plan formula ⁽¹⁾	50	55	57	55	60	62
Service year multiplier	3%	3%	2.7%	2%	2%	2%
% of “Salary” for 30 years of service	90%	90%	81%	60%	60%	45%
Base salary used to arrive at retirement pay ⁽²⁾	Single year	Avg. of 3 years	Avg. of 3 years	Avg. of 3 years	Avg. of 3 years	Avg. of 3 years
(1) For newly hired employees Beginning January of 2013, base retirement age based on tier 3						

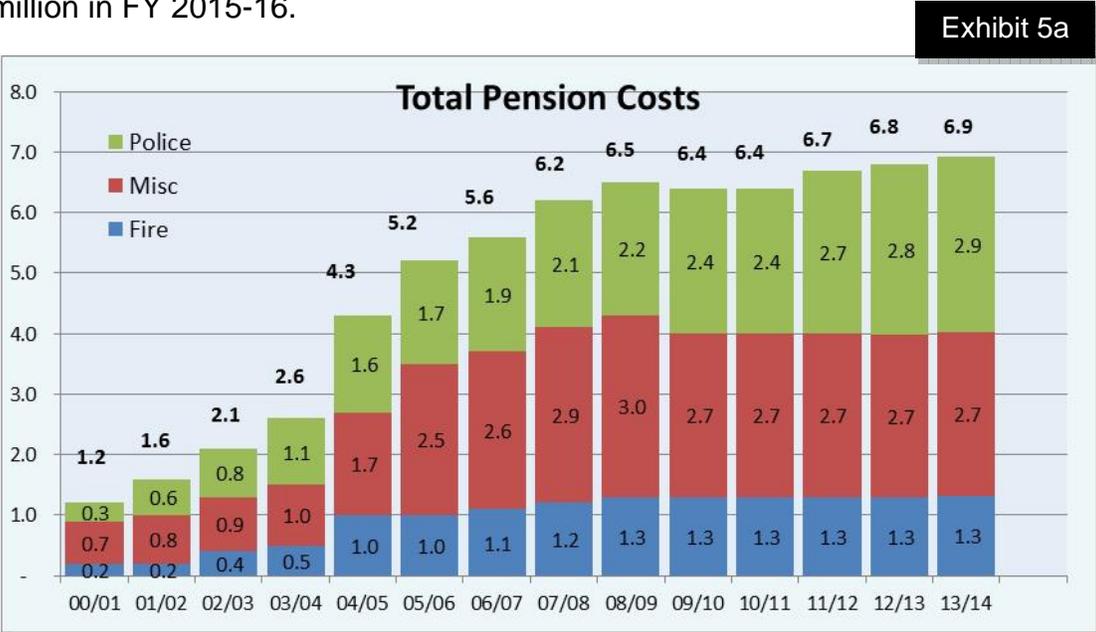
As detailed during the May 21st and June 11th budget staff reports, the City’s pension rates will increase by 0.64% for miscellaneous employees and 1.64% for safety employee in FY 2013-14. In FY 2014-15 there will be a slightly higher increase 0.95% and 1.85% for miscellaneous and safety employees respectively. However, beginning in FY 2015-16, costs may increase as much as 10%-16%. This sharp increase is due mainly to policy changes by CalPERS in the following areas:

- Change in the retirement formula to reduce the smoothing period from a rolling 30 years to a fixed 25 years
- Increase in the longevity of members
- Decrease of the discount rate by 0.25% (The Discount Rate is the annual projected earnings for PERS investments. Previously this rate was 7.75%, is currently 7.5% and will be reduced to 7.25 %.)

Exhibit 5 summarizes projected increases through FY 2015-16. It assumes FY 2015-16 increases will be at 13%.



The data contained in Exhibit 5 is calculated using only the Employer's rate and using the FY 2013-14 budgeted salaries as a basis. When pension benefit costs are combined with other negotiated employee benefits (health care, vacation/sick leaves, etc), future, projected public safety benefit costs could approach close to 50% of salary for safety employees. When compared against a standard 35% benefit threshold, this higher level of benefit costs creates an additional \$1.3 million in annual City costs (using a \$85,000 base salary for 100 public safety officers employed). These increases are on the historical increases the City has endured since 2000, when costs are at the low \$1.2 million. If projections in Exhibit 5 above are met, the PERS costs could increase to over \$10 million in FY 2015-16.



Two-tier plans. It was in the face of these extremely elevated benefit costs that all employee units and the City reached agreement to reform its retirement benefits

through a new and lower two-tier program. The City was not alone as other agencies throughout the State made an effort to curtail costs by rolling back benefits to lower levels for newly hired employees. It was estimated for each newly hired Fire or Police employees, this reduction will save the City approximately \$11.4k over a 12-month period.

Because the general/non-safety employees already have a lower level pension plan and generally have lower levels of turnover, moving to the lowest tier level was estimated to save only about \$14k annually after 5 years. Although not substantial annual savings, it does demonstrate the willingness of the City Council, Management and employees to look at all measures to reduce costs and demonstrate willingness for pension reform.

Public Safety Overtime. Public Safety overtime has been a topic of discussion over the last five fiscal years. Last year's report indicated police and fire overtime needed to be controlled. Police overtime improved while fire overtime improved at a lower level than expected; accordingly, balancing the budget was challenging. The chart below shows the historical overtime levels through FY 2011-12 and estimated 2012-13 figures and the 2013-14 budget.

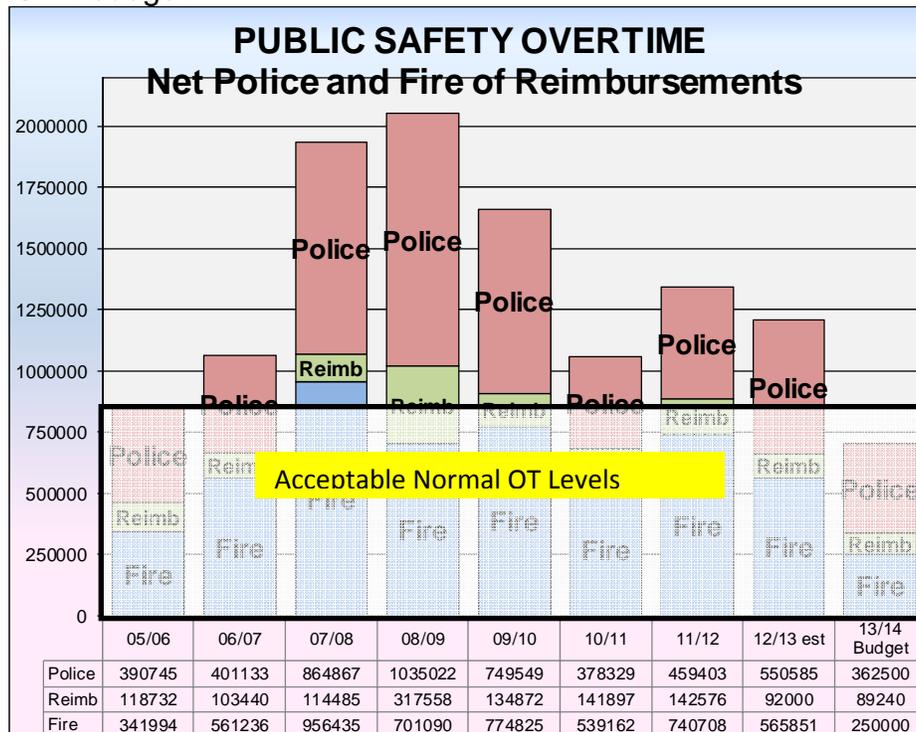


Exhibit 6

Given the dire financial situation the City is facing in future years, the new budget initially considered establishing a hard cap in overtime. However, after negotiations this cap was not implemented. If the cap would have been implemented it would have resulted in a \$250,000 annual overtime limit. This would have meant the Department would only have had 128 hours of allowed OT per month, per shift. As this maximum is reached monthly, down-staffing would occur in lieu of expending more OT in order to maintain the ninth firefighter on each shift. This reduction did not happen in the budget.

Also, in an effort to find ways to stabilize Fire costs, consolidation options were going to be considered as a continuation of the 2006 Blue Ribbon committee's recommendations. A request for proposal was issued with Council's authorization to explore opportunities for provision of the same level of services at more cost effective levels. However, this consolidation efforts were halted due to negotiations.

State Budgetary Proposals threaten the City & its General Fund. The State's deficit for Fiscal Year 2011-2012 was \$9.6 Billion. The State considered multiple options that would either have reduced the City's local resources or push down additional costs to the City. These included proposals to increase by over \$230,000 the City's costs to arrest and book individuals at the County Jail or that would have eliminated \$100,000 in funding for a Police Officer position. The biggest impact however was the threat to completely eliminate all Redevelopment Agencies throughout the State. Ultimately, the State did eliminate the Redevelopment Agency causing the City to lose a significant revenue source for economic development.

In addition to ongoing revenues being lost, the City is left with several negative unilateral financial decisions by the State Department of Finance (DOF) This State department is charge of overseeing the dissolution of agencies and has retroactively and unreasonably denied several valid obligations incurred under the previous law. The most notorious denial resulted in the demand for the City to pay \$4.6 million in a valid loan from the General Fund and Impact Fee funds for the construction of the City's Civic plaza and parking garage. The City is currently weighing its options on this invoice, but if it was paid as demanded, it could present a significant cash flow impact to the City.

To recap, the City is faced with separate and challenging financial pressures that demand continued City focus on providing long-term solutions. Employee concessions that included pension reform was critical to controlling future Pension Obligations costs and restructuring the City's service and support of Economic Development and Housing programs has prepared the City against reductions to our RDA. Finally, continued analysis and operational review will help provide additional tools to reduce public safety overtime.

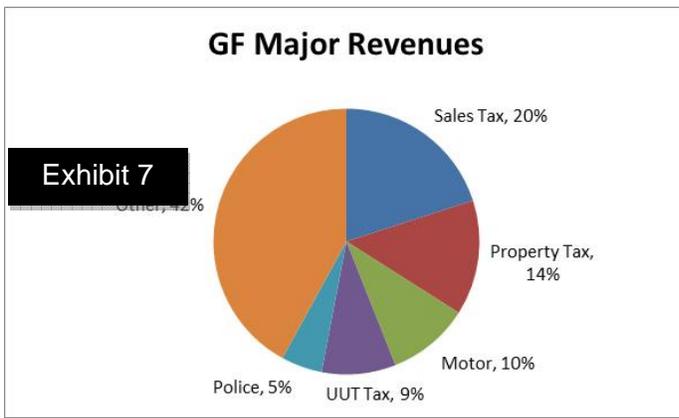


Exhibit 7

GENERAL FUND RESOURCES

The General Fund is the largest operating fund of the City. All discretionary resources are accounted for in this fund. Services provided by this revenue source include police, fire, general

administration, planning, public works, library and parks and community services. Exhibit 8 below shows the funds top 5 revenues performance from Fiscal Year 2003/04 through the projections for Fiscal Year 2012-13. For the next several fiscal years, the City's fiscal health will hinge on the actual collections keeping pace with staff's new projected resource levels.

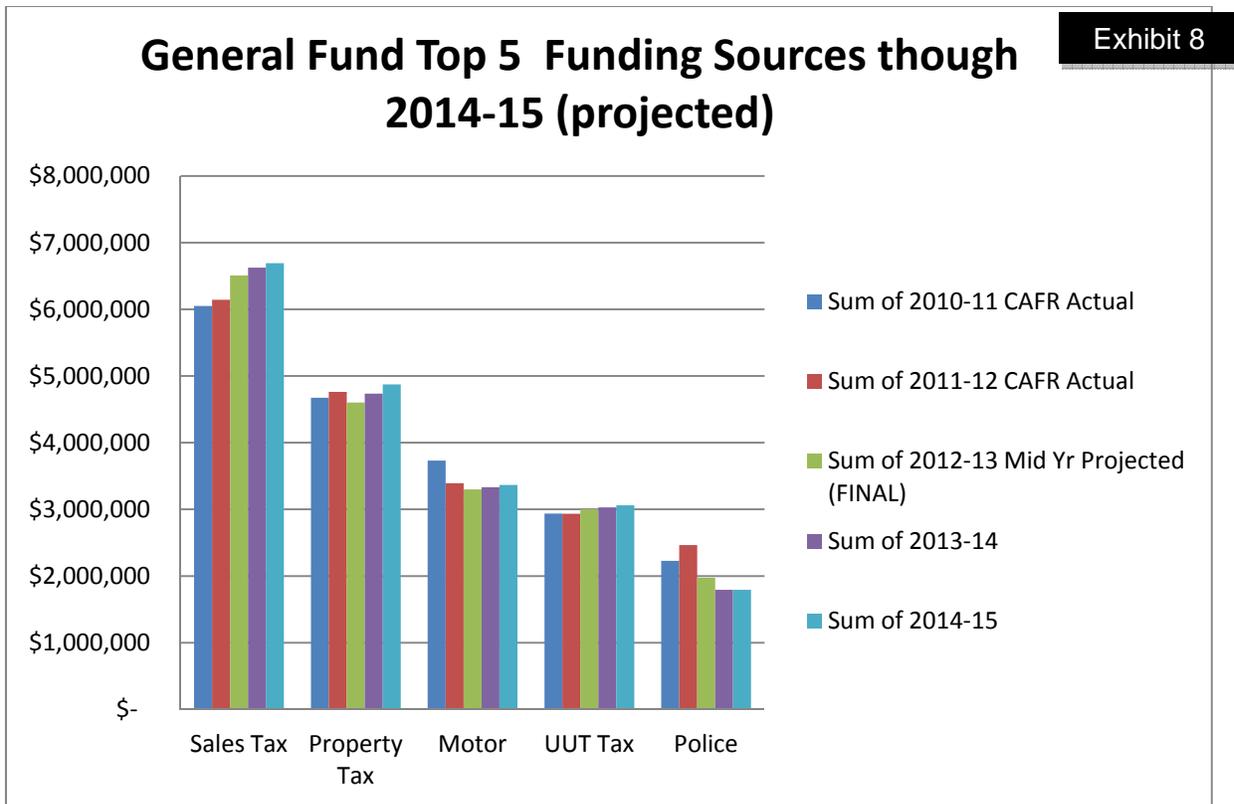
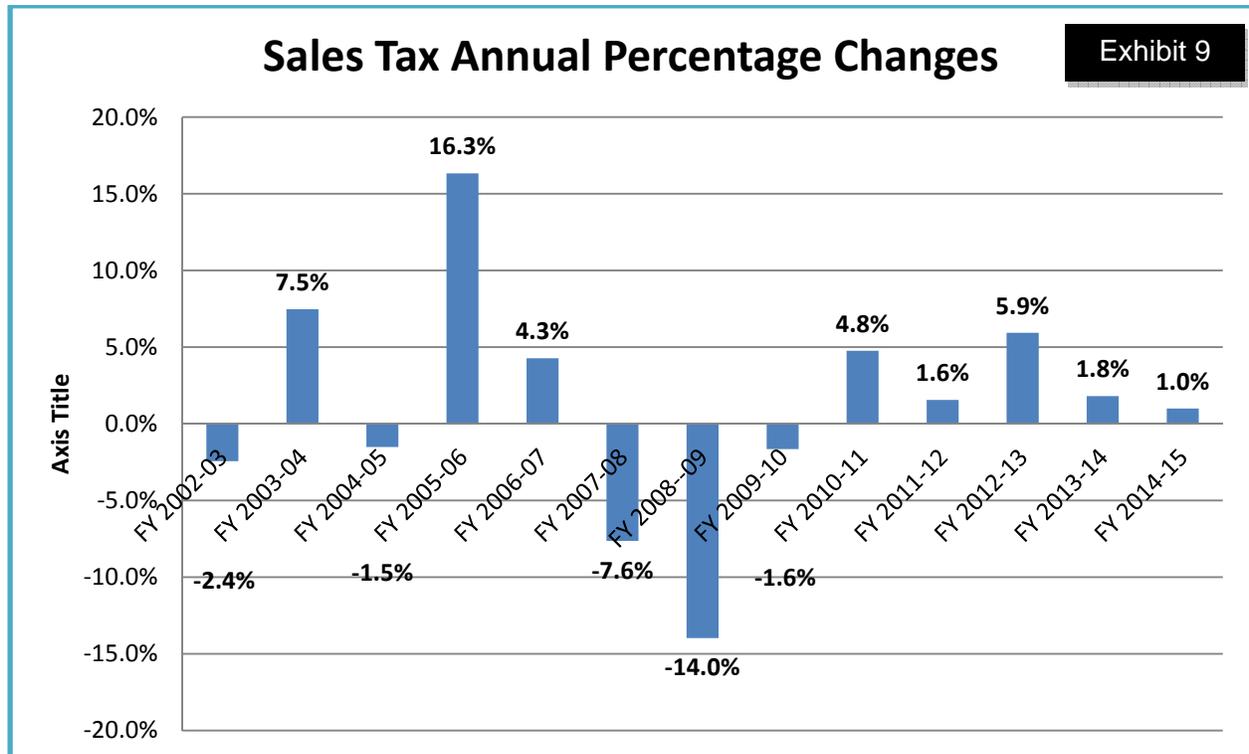


Exhibit 8

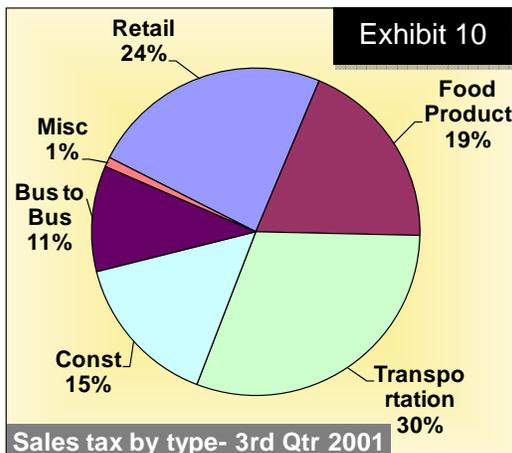
Sales tax. The sales tax revenue base was increased from 8% to 8.25% in the November 2006 election in which voters approved an increase in sales tax equivalent to a permanent reduction in a property tax known as the retirement tax. Sales tax is the General Fund's largest resource at 20% of total revenue (Exhibit 8). It tends to be the most volatile of the City's main revenues. And, as shown in Exhibit 9 at the top of the next page, it's annual receipts have been true to form with major annual swings year to year (as high as a 16.3% year-to-year growth and low of 14.0% year to year decline). Shortly after consumer spending began to pull back in the summer of 2007, actual receipts to the City also began to decline sharply. For the year ended June 30, 2010, actual receipts (after excluding the newly added ¼-cent special district tax) declined

only <1.6%>. This to a certain extent is not surprising given how low receipts had fell during the 2007-08 and 2008-09 Fiscal Years.

For the current year, the bulk of sales tax receipts are expected to show an increase of 5.9% compared to prior year. This is in line with prior forecasts. This goes to affirm prior estimates that sales tax receipts have reached the bottom of this recession. Locally, based on the estimate provided by Muni Services, we are forecasting only modest growth in the out years (between 1.0% to 2% growth, based on economic indicators).

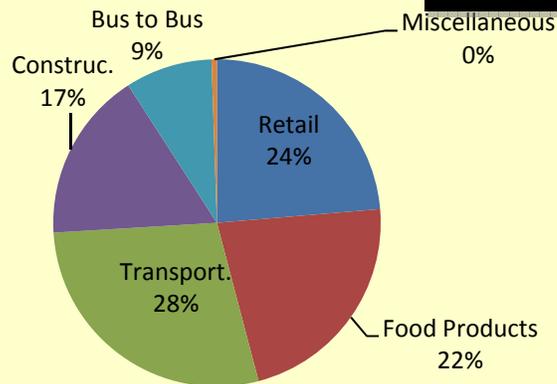


The diversification of taxable industries in the City has been a strength to help hedge against slowdowns in any one sector. The pie charts below show the difference in business segments that provide sales tax to the City between 2001 (Exhibit 10) and 2012 (Exhibit 11). This demonstrates that our overall sales tax base doesn't change much and that we are not dependent upon any single industry, allowing us to be better suited to withstand a slowdown in any one sector



Sales by Type 3rd Qtr 2012

Exhibit 11



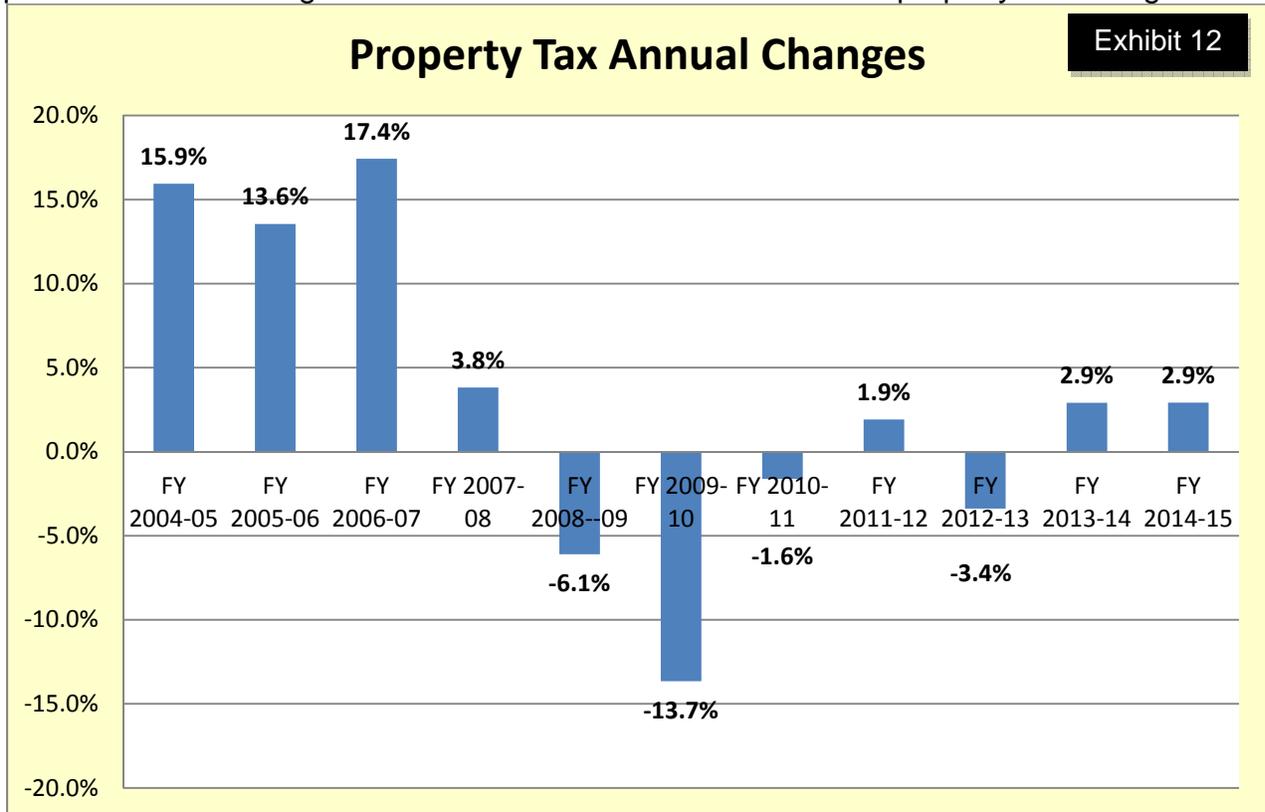
And although the current recession has reduced sales activity in many business sectors from the pull back in consumer spending, the City was fortunate to have new businesses combined with expansion, such as those listed below who are part of the City's top 100 sales tax generators (not all inclusive). This pattern along with projected strong consumer confidence in the region which projects the sales tax to grow up to 5% for other cities makes the City's estimated growth of 1%-2% realistic when compared to the local economy.

:

- Home Depot (first in the county)
- Target Expansion
- Safeway "Lifestyle"
- Dasher Technologies
- Continental Sales Company (5th ranked eyeglass manufacturer in the nation)
- United Agri Products (agricultural supplier)
- Ross Dress for Less
- Staples Office Superstore
- Romo's Auto Sales (expansion)
- Applebee's Grill & Bar
- Grocery Outlet
- Autozone
- Mi Pueblo Food Center
- Staples Office Super Store
- Kelly Moore Paints
- JG Prosser Enterprises
- Gamestop

Property tax. As the second largest revenue source, Property Tax has traditionally also been one of the most consistent and predictable. However, like anything associated with housing prices during the period leading up to and including the great recession, property tax growth and decline rates have been quite extreme and dramatic, swinging within a 4-year period from a high of 17.4% annual growth rate in Fiscal Year 2006-07 to a low of <13.7%> annual decline in Fiscal Year 2009-10. There was hope in FY 2011-12 as property taxes increased slightly but in FY 2012-13 there is a small projected decrease of 3.4%. However the future years look more promising. As

indicated by the MLS listings report, the overall inventory in Santa Cruz County has decreased by 1% leading to increased competition for homes and a corresponding increase in sale prices. Moreover, the closed sales from February of 2013 to March of 2013 have increased by 16% while the days on the market have decreased by 40%. All these economic indicators lead to believe property values will grow again in the foreseeable future, supporting the modest increase in property tax increase of 3% presented in this budget. Exhibit 12 shows the trends in annual property tax changes.

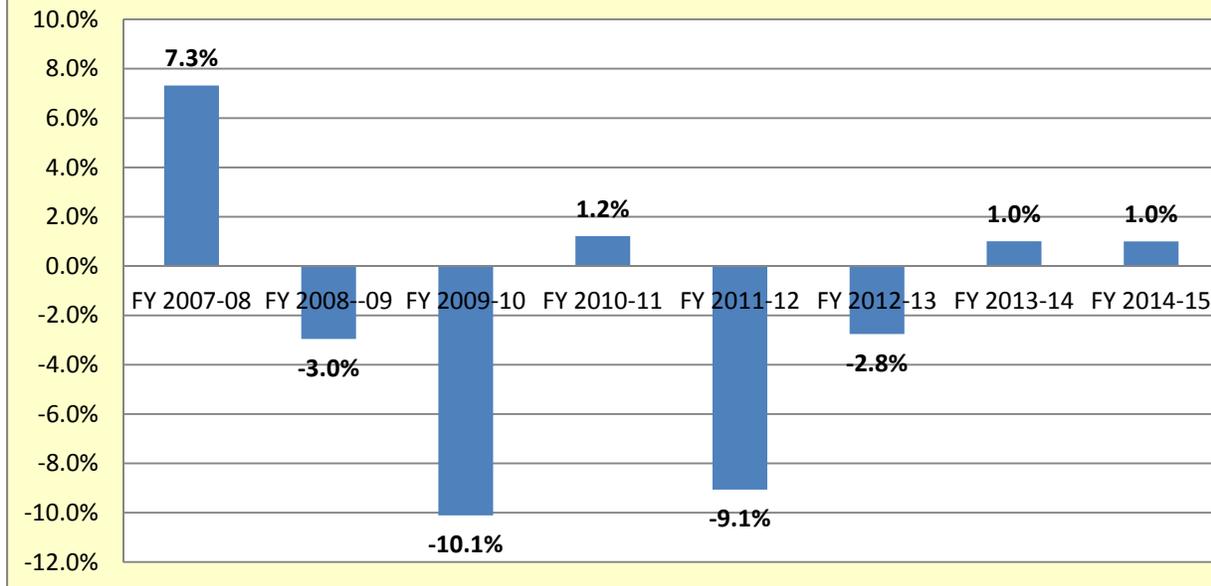


The County Assessor has determined the City’s property tax rates for Fiscal Year 2013-14 will grow for the first time in a long time at a conservative estimate of 3%. This goes in line with the City’s projections that the severe declines of the past few years may have reached an end.

Motor Vehicle in Lieu. The General Fund’s third largest resource appears to be in the end of three year trend of reductions. It is projected that it will modestly increase by 1% in each of the next two fiscal years. Out year projects are optimistic as the immediate future of new car sales (thus higher vehicle in lieu fees) appears to be on the rebound. Since 2005-06, the State has allocated 2/3 of cities motor vehicle license fees based on the growth rate of the community’s assessed valuation. This was part of what is known as the “Triple-Flip” and is scheduled to end during the spring of 2016.

Motor Vehicle in Lieu Trend

Exhibit 13



Utility User tax. Expected collections are on target for the current fiscal year (projected growth of 2.3% as compared to the June 2012). As the General Fund's fourth largest revenue, it has been very stable and predictable and follows energy prices.

Public Safety. This revenue base consists of Police and Fire department resources and is the only one of the General Fund's top revenues which is projected to decrease. This decrease is primarily due to the phase out of several grants plus the federal sequestration which took approximately \$183,000 in grant funds. This revenue is projected to decrease again in FY 2014-15 by approximately \$100,000.

Development fees. Expected collections are finally projected to finish with a positive growth rate of 3% per annum. This is following major annual declines that have averaged <20.7%> since Fiscal Year 2004-05 through Fiscal Year 2009-10 and small but steady increases in FY 2011-12 and 2012-13.

These revenues are closely tied to home sales which have seen an increase over the last couple of fiscal years. However, the shortage of inventory has slowed the potential for larger revenue growth. Developers are again jumping into building projects but shortage of developable land is proving to hamper the potential additional growth in this revenue.

Parks & Community Services. Expected collections are below targeted budget estimates, however, expenditures are equally decreased. Facility rental revenue and Sports programs are all lower than anticipated and likely a symptom of our community high unemployment rates and overall recessionary impact on disposable income.

Other revenue- lease revenue. Based on a City multi-year operational review and of the City-owned properties performed in 2011; the City established lease agreements with the utility funds. The review considered 41 sites (38 parcels) used by the funds and found that should the City follow comparable lease rates for this property, it could levy a

rate as high as \$137,312 per month. This lease fee is considered to increase at three percent per annum rate for both fiscal years in this budget. This continues to be a discounted market rate of 25% to arrive at a payment. This lease replaced the previous Franchise Fee charge between the City and its utility funds.

Other Budgetary changes

General Fund 8% property management rate. Last year budget actions included establishing a property management rate of 8% for the City to administer various property use agreements between the City's funds and third parties. For example, the City has performed these services on behalf of the Airport for years without additional compensation. In the last several years, various other property use agreements and their revenue streams were transferred to the Airport but continued to be administered by the City (lease administration including external reporting, monthly billing, lease monitoring and collecting payments). These additional services are not included in the base cost allocation formula that capture more generic services like payroll, personnel management, accounts payable, etc. This lease management fee has been eliminated in the current budget document.

Increase all Airport Hanger rates by 5% beyond CPI. *The Airport's hangar rates were increased by 7% during the midyear budget presentation.* Airport's operating revenues were projected to be less than projected operating expenditures (excluding depreciation) by approximately \$151,000. Although this was an improvement over the original approved budget by approximately \$23,000, the Airport's cash situation was still projected to deteriorate by approximately \$641,000 after adding capital expenditures. This would bring the total negative cash balance for the Airport to a negative \$4.5 million. Given this cash situation at the airport, it is important to improve its ongoing operating revenue plus put on hold major capital projects which may place additional strain on cash. Accordingly, as one of the measures taken by the Airport to improve its long term financial situation, the Airport Manager performed a comparison of the Municipal Airport Fee Schedule relative to airports in the Bay Area have indicated our fees are on the low end of the spectrum in terms of average price per square foot.

To address this challenge the City Council approved the following actions:

- Implement a phased rate adjustment of twenty-four percent over the next three years, 2013- 2016.
- Implement an immediate 7% rate adjustment for all T-hangars, Box Hangars and Corporate Hangars.
- The 7% consists of an approximately 2% CPI increase and a 5% rate adjustment. The increase is effective March 1, 2013 and runs for the remainder of 2012-2013 and 2013-2014.
- Effective July 1, 2014 the rate adjustment is CPI plus a rate adjustment not exceed 8% total increase.
- Effective July 1, 2015 the rate adjustment is CPI plus a rate adjustment not to exceed 9% total increase.
- Effective July 1, 2016 the rate adjustment reverts to the current CPI percentage.

- The effective rate over the three-year period is estimated to be approximately 24%.

Reductions to the annual CPI increase. The City's annual Consumer Price Index (CPI) rounding methodology was modified for all non-Utility (Water, Sewer & Solid Waste) fees. The change was limited to only those fees under \$5 and amounted to rounding up the new fee based on the annual CPI adjustment to the next 5-cent increment rather than the next whole dollar. In addition, the photocopy fee was reduced to a flat \$0.25 per page and is exempt from future CPI changes.

Adopt the FY 2013-2014 Strategic Plan. The City Council held public hearings on the development of the 2013-2015 Strategic Plan on May 14, 2013. The final plan was adopted on June 11, 2013 with the annual budget. As a normal part of this process, the City Council adopted the following top Goals for the next two year cycle:

- Protect Public Safety
- Increase Opportunities to Promote Economic Development and Increase Sales Tax Revenue
- Reduce Reliance on Reserve Funds
- Improve Communications
- Enhance the Community's Image

For more details, see the "Strategic Plan" section of this budget document.

Re-adopt the GASB 54 Fund Balance policy. Last year's adoption of the budget came with the adoption of GASB 54 policy. This budget adoption reaffirms the adoption of this policy. As explained in previous budget documents, this is a technical accounting change that was required as the result of Government Accounting Standards Board (GASB) Statement Number 54. It required all City Governments to adopt a policy creating various levels of Fund Balance reservations and designations within the Fund Balance section of the City's Comprehensive Annual Financial Report's Balance Sheet. Currently fund balance is classified as "reserved" or "unreserved." Unreserved fund balance may be further allocated into designated and undesignated. GASB 54 changed how fund balance is reported. The hierarchy classifications is as follows:

- **Non-spendable Fund balance** includes amounts not in spendable form, such as inventory, or amounts required to be maintained intact legally or contractually (e.g., inventory, pre-paid items, principal endowment).
- **Restricted Fund Balance** includes amounts constrained for a specific purpose by citizens or other external parties (e.g. Charter Reserve, Insurance Reserve, Debt Service, Capital Projects, State and Federal Grants).
- **Committed Fund Balance** includes amounts constrained for a specific purpose by the City Council, our highest level of decision making authority (e.g. Major Maintenance, Capital Replacement Reserve, and Emergency Reserve).
- **Assigned Fund Balance** includes general fund amounts constrained for a specific purpose by a governing board or by an official that has been delegated authority to assign amounts.

- **Unassigned Fund Balance** is the residual classification for the general fund.

“Total Annual Appropriations”. In 1979 and 1990, California Voters passed Proposition 4 and 111 respectively setting the process for limiting the amount of appropriations a State and Local government agency could expend during any one year. Each year, the City must adopt a resolution setting the subsequent year’s appropriation limit and ensure that the City’s appropriations are below this limit. The appropriations limit for any fiscal year is equal to the previous year’s limit, adjusted for the annual percentage change in population and the annual percentage change in either of two allowed demographic factors; (1) California per-capita personal income or (2) growth in non-residential property assessed valuation. An agency can alternate between either of these two later factors year to year. The table at the top of the next page contains the current and last 4 annual calculations.

The City continues to be far below the legal limit of appropriations and is in full compliance with this State statute, as demonstrated in the “Remaining Appropriation Capacity” line item for Fiscal Year 2013-14 within Exhibit 14 below.

City of Watsonville					Exhibit 14
5-year Gann/Proposition 4 Calculation					
	Fiscal Year 2009-2010	Fiscal Year 2010-2011	Fiscal Year 2011-2012	Fiscal Year 2012-13	Fiscal Year 2013-14
Beginning Appropriation Limit	\$ 112,619,878	\$ 113,714,735	\$ 112,233,876	\$ 112,761,432	\$ 113,970,900
Growth rates:					
Non-resident, New Construction Assessment Growth	<i>not used</i>	<i>not used</i>	<i>not used</i>	<i>not used</i>	1.833%
Per Capita Personal Income	0.620%	-2.540%	2.510%	1.077%	<i>not used</i>
Change in Population	0.350%	1.270%	-1.990%	1.0037%	0.000%
Total Growth Rate	1.00972170	0.98697742	1.00470051	1.01073000	1.01833000
Ending Appropriation Limit	<u>\$ 113,714,735</u>	<u>\$ 112,233,876</u>	<u>\$ 112,761,432</u>	<u>\$ 113,970,900</u>	<u>\$ 116,059,987</u>
City Appropriations subject to Limit					
Proposed General Fund Appropriations	\$ 32,677,473	\$ 32,530,175	\$ 32,937,470	\$ 33,396,628	\$ 33,116,950
Less Non-tax General Fund Revenues:					
Transfers In (non-tax)	(150,000)	(150,000)	(129,700)	(200,167)	(198,442)
Use of Money and Property	(873,000)	(717,000)	(1,790,400)	(2,006,700)	(1,830,417)
Fees	(9,464,473)	(10,296,956)	(9,970,469)	(8,860,992)	(8,660,675)
In-lieu Charges	(805,000)	(841,000)	-	-	-
Other non-tax revenue	-	-	-	-	-
City Appropriations subject to limit	<u>21,385,000</u>	<u>20,525,219</u>	<u>21,046,901</u>	<u>22,328,769</u>	<u>22,427,416</u>
Remaining Appropriation Capacity	<u>\$ 92,329,735</u>	<u>\$ 91,708,657</u>	<u>\$ 91,714,531</u>	<u>\$ 91,642,131</u>	<u>\$ 93,632,571</u>

CalPERS amendments. As part of expected employee concessions, employees agreed to pickup additional levels of pension costs. Accordingly, the State requires the City Council to adopt resolutions listing the specific changes to Government Code Section 20691 and electing to pay employer paid member contributions to CalPERS. These resolutions apply to the non-safety groups including the City Clerk, City Manager and all employees in the Confidential Unit, Management Unit, Mid-Management Unit, Operating Engineers Local Union #3, and Service Employees International Union (SEIU)-Local

521 Clerical Technical. The manner in which public safety employees are paying more of their pension costs does not require the changes to be confirmed by a resolution, but merely within the MOU which is expected to be adopted by the City Council in June 11, 2013.

Internal loan to “refinance” General Fund obligations to CalPERS. As part of a CalPERS action to consolidate plans with under 100 members with other agencies, the City’s Public Safety liabilities were each pooled by type with other agencies throughout the State. The liabilities at the time of the pooling for the City’s Fire and Police personnel were subsequently segregated and have an outstanding, combined balance of \$6,454,697 at June 30, 2011. These debt obligations will continue forward for another 13 years at interest rates that average 8.35% (between 7.882% and 8.788%). Current balances beginning in FY 2013-14 will be \$2,634,225 and \$2,933,067 for fire and police respectively.

Current market conditions and portfolio cash balances allowed this outstanding balance to essentially be refinanced through an internal loan at much lower interest rates. Traditionally, the City has refinanced debt through private placement loans or on the bond market. However, City staff have strategically planned for the opportunities to effectively refinance this and other prior loans using the City’s pooled money investment account. This action lowers the debt service rates while at the same time providing for a safe rate of return for the City’s pooled money account higher than other investment opportunities.

The original terms of the internal loan continue to be as follows:

- General Fund borrowed \$6,454,697 to fully defease the CalPERS public safety side funds.
- The interest rate would tied to the 12-month average portfolio rate with a cap of 3.00%
- Term would be 13 years with payments due at least once each June 30th
- No pre-payment penalty or reserve requirement
- No external insurance or reporting requirements.

The annual interest rate will be adjusted each July according to the City’s prior 12-month period’s average pooled money portfolio rate. This will allow the portfolio to achieve its earnings target with a maximum ceiling slightly above the current average 2.84% rate of a 10-year US Agency and US Treasury note. Prior portfolio loans included within the rate a 0.5% administrative rate payable to the General Fund. However, since payer and recipient of the administrative rate are both the General Fund, it was excluded from this loan.

The City’s Investment Policy allows the City to “purchase” such loans in excess of a 5-year period with City Council authorization. The pooled money account was recently used twice during 2010 to issue internal loans of \$2.8 million and \$1.3 million to the Water Enterprise Fund and the Airport Enterprise Fund to pay off their respective external debt issues. This proposed action was a planned purchase and therefore sufficient capacity remains available within the pooled money account for this

investment. With current yields at historical lows, the pooled money account will retain investments as they mature in order to payoff other debt issues held by the City to improve yields and lower the City's interest costs.

Instruct the County of Santa Cruz to levy and collect property tax. As provided by the City's Charter, annually the City must set the levy rate and instruct the County of Santa Cruz to levy, collect and remit to the Retirement Fund proceeds to support the General Fund for its employment retirement costs. The Charter states:

There shall be levied and collected... (2) a tax sufficient to meet all obligations of the City to the State Employees' Retirement System, or other system for the retirement of City employees, due and unpaid or to become due during the ensuing fiscal year (Section 1122, b2).

In the November 2006 general election, the voters of the City of Watsonville placed a cap on the annual levy of 0.077% (or \$77 per \$100,000 in assessed valuation) for the fiscal year beginning on July 1, 2007. This was done in tandem with voter approval for a ¼-cent increase in the City's Sales Tax rate in which the intent was to not impact the General Fund's ability to provide critical public services. The annual levy rate is projected to provide 45% of the total General Fund retirement costs and is therefore in compliance with the City Charter by not setting the levy at a rate that exceeds the anticipated costs.

Five-year Capital Improvement Plan

The Capital Improvements Program (CIP) is a 5-year plan that focuses on both the short term and long-range plan for acquisition, improvement and/or renovation of City assets. The CIP is a dynamic plan that is reviewed and updated annually. Projects are rated in the following classifications: Preserve Life, Safety or Investment (1A), Urgent (1B), Adding Value (2), and Not Recommended (3).

The first year of the five-year CIP is incorporated within the budget document, and will be appropriated accordingly. The remaining four years function as a project planning and budgeting tool. Only those projects that exceed \$5,000 are included in this plan.

The program document reviews each new proposed public improvement project and lists the remaining capital maintenance, equipment or vehicle projects. As required by the Charter, this multi-year plan, with regards to public improvement projects, was certified by the City of Watsonville Planning Commission that the improvement projects are in compliance with the General Plan. Exhibit 15 at the top of the next page summarizes the allocation of projects by fund for the next two fiscal years.

City of Watsonville FY 2013-14 & 14-15 Capital Projects Appropriation

Exhibit 15

Type		P			
Fund		(Multiple Items)			
			Values		
Fund Name	Title	Sum of FY 2013-14	Sum of FY 2014-15	Totals 2013-14 & 14-15	
☒ CDBG	Alley Improvements and Upgrades	\$ 50,000		\$	50,000
	Downtown Streetscape Improvement Proj	\$ 25,000		\$	25,000
☒ Gas Tax	Airport Blvd at Hwy 1 Rehabilitation	\$ 500,000		\$	500,000
☒ Impact Fee: Impervious	Salsipuedes Creek Capacity Enhancement and Restoration Project	\$ 160,000	\$ 100,000	\$	260,000
☒ Impact Fee: Storm Drain	Mata Way Storm Drain Improvements	\$ 90,000		\$	90,000
☒ Sewer	Arthur Rd/Clifford Ave Sewer Lateral Relocation	\$ 80,000		\$	80,000
☒ (blank)	Citywide Curb Ramp Program	\$ 175,000		\$	175,000
	Freedom Blvd Underground Utility Dist (East High to Marin)	\$ 1,231,000		\$	1,231,000
	School Crossing Upgrades 34 Locations	\$ 340,000		\$	340,000
	Freedom Blvd (Broadis to Alta Vista)		\$ 2,400,000	\$	2,400,000
	Main/Freedom Operational Improvements			\$	-
	Main Street 500 Block			\$	-
	E 5th from Main to Lincoln - road repair /install			\$	-
	Ohlone Parkway Impr -Phase 2			\$	-
	West Lake Ave - Main to Rodriquez			\$	-
	Pajaro Valley HS Connector Trail			\$	-
Grand Total		\$2,651,000	\$2,500,000	\$	5,151,000

Note the list above does not include any items outside of public improvement projects nor any General Fund Capital projects. The General Fund revenue is not sufficient at this time to fund requested projects. The list below in Exhibit 16 shows the requested projects for the General Fund, none of which are recommended for funding, except, for \$75,000 for acquisition of police vehicles. If funding was available, staff would have recommended up to \$1,098,500 in additional projects in the General Fund.

City of Watsonville FY 2013-14 & 14-15 General Fund Projects

Exhibit 16

			Values		
Fund Name	Title	Sum of FY 2013-14	Sum of FY 2014-15	Totals 2013-14 & 14-15	
☒ General Fund	City Plaza Electrical Design	\$ 20,000		\$	20,000
	Desk Officer Online Reporting System	\$ 18,500	\$ 7,000	\$	25,500
	Marinovich Siding Replacement	\$ 10,000		\$	10,000
	Paint PCS Administration Building	\$ 36,000		\$	36,000
	Patrol Vehicle Replacement	\$ 75,000	\$ 125,000	\$	200,000
	Prisoner Transport Vehicle	\$ 60,000		\$	60,000
	Repair Gutters at Station 2	\$ 10,000		\$	10,000
	Training Tower Roof Replacement and Drainage Repair	\$ 50,000		\$	50,000
	Windows at Station 1	\$ 60,000		\$	60,000
	Police EE Bathroom Floor Replacement	\$ 25,000		\$	25,000
	Replace 2 hinge doors w/ rollup doors on Tool Room @ Ramsey Park	\$ 10,000		\$	10,000
	Replace 2-30 ton Mammoth HVAC Units @ Police Bldg	\$ 200,000		\$	200,000
	Replace floor at Ramsey Park Family Center	\$ 85,000		\$	85,000
	Genie 45 ft Z lift -reconditioned	\$ 50,000		\$	50,000
	New roof for Watsonville Comm Center	\$ 75,000		\$	75,000
	Replace HVAC Units at Watsonville Comm Center	\$ 45,000		\$	45,000
	New roof for Ramsey Park Family Center	\$ 30,000		\$	30,000
	2 HVAC units for Callaghan Park	\$ 15,000		\$	15,000
	Paint exterior of Watsonville Comm Center		\$ 65,000	\$	65,000
	Paint exterior of Ramsey Park Family Center		\$ 50,000	\$	50,000
	Upgrade Plumbing @ City Hall & Police Bldg		\$ 7,000	\$	7,000
	Clean & Solder joints on Copper roof over elevator lobby		\$ 15,000	\$	15,000
	Pressure Wash beach St. Parking Garage		\$ 30,000	\$	30,000
Grand Total		\$874,500	\$299,000	\$	1,173,500

Note: The only project recommended for funding is \$37,500 for police cars

Otherwise, staff continues to defer replacement of major equipment, vehicles and facility repairs through increases in minor maintenance, reduced use or increasing the prior useful life standards. However, if a replacement becomes urgent, staff will develop options for the City Council to approve emergency appropriations for capital replacement or repairs.

As often can occur, Capital Projects within funds can result in net operating deficits. This is something Staff and Departments have worked to avoid. The proposed capital projects do not cause any funds to be in deficit. It is now the City's policy to only proceed with capital projects if sufficient funds are available on an ongoing basis or fund balance can be available for capital projects. The capital improvement plan presented with this budget meets those requirements. The tables below show a summary for the Enterprise Funds and the funding shortfall if all proposed projects were to be funded.

Exhibit 17

Cash Calculations for 720-Water Fund			Cash Calculations for 710- Sewer Fund		
13/14	Cash Est 7/1/13	\$ 1,492,661	13/14	Cash Est 7/1/13	\$ 2,674,191
13/14	Expenditures	(9,641,133)	13/14	Expenditures	(9,283,323)
13/14	Revenue	9,915,710	13/14	Revenue	10,644,119
13/14	CIP	(532,500)	13/14	CIP	(1,137,302)
14/15	Cash Est 7/1/14	\$ 1,234,738	14/15	Cash Est 7/1/14	\$ 2,897,685
	Unfunded CIP	\$ 10,073,000		Unfunded CIP	\$ 1,264,000

Cash Calculations for 730 - Airport			Cash Calculations for 740 - Solid Waste		
13/14	Cash Est 7/1/13	\$ (4,701,648)	13/14	Cash Est 7/1/13	\$ 2,692,509
13/14	Expenditures	(2,788,273)	13/14	Expenditures	(8,782,825)
13/14	Revenue	2,873,036	13/14	Revenue	9,404,400
13/14	CIP	(81,375)	13/14	CIP	(902,000)
14/15	Cash Est 7/1/14	\$ (4,698,260)	14/15	Cash Est 7/1/14	\$ 2,412,084
	Unfunded CIP	\$ 1,000,000		Unfunded CIP	\$ 7,174,000

Staff will continue to monitor grant awards and cash balances before proceeding with many of the projects. Most of the Special Revenue fund projects are Gas Tax and Impact Fee roadway projects. These projects will not be able to proceed until either grant awards are received or other funding sources become available. Impact fees are funded, for example, though development costs. So, until development activity resumes, many of the various impact fee projects will be put on hold.

Within the Enterprise Funds (Utility and Airport), the vast majority of the Capital Projects are made up of carryover Water projects that are unable to proceed due to inadequate

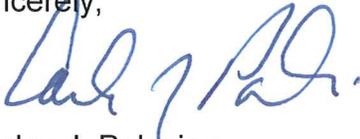
fund balances. As the council may recall, even with the 5-year utility rate increase implemented in 2012, the Water and Sewer funds will still be unable to adequately fund capital infrastructure projects by the end of the 5-year rate cycle (through June 2017). Again, many of Utility and Airport projects will be held until funding is available (including \$1.4 Million in Airport projects that are waiting funding by the FAA).

Acknowledgements

I want to thank each member of our City Council for their dedication and leadership as we continue to navigate through the worst economic times since the Great Depression. I want to also thank the City's Department Heads and senior staff who provide internal leadership, wisdom and continued flexibility in crafting solutions to balance our ever changing financial reductions against the community's service demands.

I want to especially thank the tremendous effort on the part of Administrative Services Director Ezequiel Vega and Assistant Finance Officer Bill Hays for their help and assistance with compiling the various components of our Adopted Biennial Budget for 2013-14 & 2014-15. I also want to thank Finance Analysts Marissa Duran and Patricia Rodriguez and the rest of the Finance staff who supported this process. This City is very fortunate to have this caliber of dedicated, intelligent and resourceful staff within its fold.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Carlos J. Palacios', written in a cursive style.

Carlos J. Palacios
City Manager