



# CITY MANAGER'S BUDGET MESSAGE



THE CITY OF  
**MONTEREY**  
FY 2023 - 24 OPERATING BUDGET



To: Honorable Mayor and City Council Members, Residents, and City Staff  
From: City Manager  
Date: June 06, 2023  
Subject: Fiscal Year 2023-24 Annual Operating Budget Message

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Dear Mayor Williamson and Councilmembers Barber, Garcia, Haffa and Smith:

Our Staff and I are pleased to present to the City Council of Monterey a balanced budget, which is reflective of our City's and City Council's Vision, Mission, Value Drivers, and Strategic Priorities. The budget, approved by the City Council on June 6, 2023, represents the first budget approval after the official declaration of the end of the Federal COVID-19 Public Health Emergency (PHE) Declaration. It is based on cautious-yet-optimistic projections of our revenues, and a steady and systematic approach on managing the City's expenses, which represents a solid, reasonable, and sustainable plan for Monterey's fiscal future.

### **A Look Back**

The City's finances have never experienced such devastating losses in hotel tax, sales tax, and other revenues as we did the past three years, forcing us to fiscally survive through massive cost reduction measures, including difficult layoffs, de-appropriation of already funded infrastructure projects and severe budget cuts across all City departments. At the end of Fiscal Year (FY) 2020-21 Monterey's losses totaled over \$32 million. With the rollout of vaccines and implementation of science-based pandemic control measures, businesses were able to return to almost normal operations and Monterey's economy rebounded faster than predicted. It was a real bounce-back.



Steinbeck bust with pandemic mask, Cannery Row

In 2021 and 2022, leisure travel resumed quickly, filling our hotels and motels with visitors paying record-breaking Average Daily Rates (ADR). While the occupancy of the hotels is still trending slightly below pre-pandemic levels, higher room rates, in combination with a voter-approved Transient Occupancy Tax (TOT) measure, increased the City's tax revenues, substantially replenishing our City budget. The return of visitors, including the Monterey Peninsula's drive market (living within a four-hour drive) of more than 16 million people, helped boost sales tax, our second-largest revenue source. 62% of Monterey's sales tax is contributed by non-residents. People went outdoors again, enjoyed our beautiful coast and world-class attractions, and spent money along the way.





Parks staff preparing for the Horticulture Faire and Plant Exchange

Subsequently, FY 2022-23 showed a continuation of this trend. Additionally, shoppers returned to brick-and-mortar stores, and higher gas prices resulted in higher sales tax revenues in that sector. Furthermore, federal and state stimulus funding strongly influenced consumer behavior. The labor shortage in all sectors affected everyone. With respect to the business of running a municipality, we discovered that our organization carried a vacancy rate of 55 to 60 positions throughout that year and that rate continues today. Thanks to higher revenues, fiscal discipline across all departments, and salary savings, the City's FY 2022-23 finished with a positive ending balance.

Today, and as presented at the April 26, 2023 City Council Study Session, the City of Monterey is entering a period of relative stability in terms of City revenues and expenditures within the General Fund. The expectation of 'relative stability' is just that – a form of hope manifesting itself in our estimates and projections.

### **A Need to Maintain Fiscal Discipline**

The City continues to face a litany of major long-term expenses that have been severely underfunded. This includes over \$130 million in unfunded City infrastructure improvements, and the City's unfunded pension liability, which has fluctuated between \$140 million to \$170 million over the past two years. This fiscal year, for example, CalPERS required the City to contribute an estimated \$600,000 more in pension costs than what was projected. The City needs to continue to address its unfunded pension liability. If we do not do this today, the cost of paying off the City's debt will be a burden on future generations of Montereyans, resulting in reduced services or increased taxes. The good news is that CalPERS projections will be normalizing by 2035 as new pension funding mechanisms (PEPRA), as well as other measures, will result in positive changes and stabilization of rates.

Our past and current City Councils must be commended for making difficult fiscal decisions in recent years to limit spending and increase revenues. Our City must continue to chip away at these issues by maintaining fiscal discipline for many years to come.

### **Continued Successful Implementation of the Fiscal Health Response Plan**

The City's Fiscal Health Response Plan, launched in FY 2018-19, emphasized the need for the City of Monterey to implement strategies to balance the City's checkbook and solve long-term funding needs. We will need to continue analyzing our service levels and adjust them where appropriate. We continue to look at our internal processes to streamline and optimize. We will continue to adjust our workforce, compensation and benefit structure as well as pension obligations. Lastly, we will look at our revenues. The defined "CORE" strategy is as follows:

- Change the way we do business to be more streamlined.
- Operational reductions or services provided by someone else, where appropriate.
- Revue enhancements through economic development, fees, taxes, cost recoveries.
- Employee contracts that attract and retain talent and are financially sustainable.

In order to continue addressing the City's fiscal health, the City must continue to maintain fiscal discipline through careful spending and appropriate revenue enhancements. Decades of generous spending maneuvered the City into an unsustainable fiscal situation, resulting in a lack of adequate funds to repair or replace deteriorating City facilities (underfunded by at least \$130 million), and a massive unfunded pension liability (at least \$140 million). According to the California State Auditor, the City of Monterey ranks among 431 cities as the worst (tied) in future pension costs, 14th worst in pension costs, 26th worst in pension obligations, and 39th worst in pension funding. Having stated that, we expect next year's analysis by the California State Auditor to be an improvement given Council's responsible approach to managing taxpayer dollars.

The defined CORE strategy of the Fiscal Health Response Plan

- C** Change the way we do business to be more streamlined.
- O** Operational reductions or services provided by someone else, where appropriate.
- R** Revenue enhancements through economic development, fees, taxes.
- E** Employee contracts that attract and retain talent and are financially sustainable.

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The Fiscal Health Response Plan Defined CORE Strategy

Based on various successful factors, specifically the above-mentioned implementation of the philosophies of the Fiscal Health Response Plan, on June 6th, 2023 the City Council approved, several new Fiscal Reserve Policies with associated recommended annual funding levels. Our single largest reserve fund is the Fund for Economic Uncertainty and will be funded at 20% of the overall General Fund revenues. The establishment of a Pension Reserve Policy will create a mid-term to long-term fiscal security plan. Other reserve policies adopted by the City Council include the Conference Center Reserve Policy, Sports Center Facilities Reserve Policy, Technology Infrastructure Reserve Policy, Sea Level Rise Reserve Policy, City Facilities Reserve Policy, Library Facility and Maintenance Reserve Policy, Public Safety Facility and Maintenance Reserve Policy and Parking Garage Facilities Reserve Policy.

The potential nationwide recession and trickle-down effects of the State of California's budgetary deficit all contribute to economic uncertainty, which City staff continue to monitor.

City staff recognizes the difficulty of balancing the City's checkbook and its long-term fiscal health, given the community's ongoing needs and wants. Staff believes the proposed FY 2023-24 budget allows for the restoration of key services, funds the City Council's priorities, and sets aside necessary reserves while keeping the City of Monterey on the road toward enhanced fiscal sustainability.

### The Approach for FY 2023-24

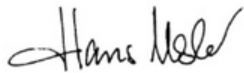
The proposed FY 2023-24 budget continues the City's steady approach to addressing these issues, by 1) investing in the City's reserves, 2) preparing for increasing City expenses, and 3) improving services to citizens through strategic changes to the Position Control List and continued restoration of City services based on demand and program needs.

Fiscal discipline must continue into future years in order for our city government to sustain existing services, provide fair compensation to our workforce, repair existing facilities, and stave off future cuts to services during economic downturns.

The City will continue to be a leaner organization by offering outstanding services to the community in a way that is customer-oriented, efficient, cost-effective, demand-driven, and reasonably priced, all while providing staff with competitive compensation.

My personal thanks goes to our entire City Council for acknowledging that visionary thinking goes hand-in-hand with fiscal prudence and balanced measures. I also want to express my heartfelt thanks to our employees - you are truly outstanding public servants committed to making Monterey the best place to live and work!

Anda!



Hans Uslar  
City Manager



Monterey Conference Center front with fountain and flags.