Dear Mayor Clyde, Council Members Albert, Haffa, Smith and Williamson:

Our staff and I are pleased to present the proposed Fiscal Year (FY) 2021-22 City budget. After completing three consecutive biennial budget cycles, we are temporarily returning to an annual budget cycle as a result of the pandemic-imposed challenges to reliably project Monterey’s near-term economic condition, uncertain macro-economic circumstances (i.e., federal stimulus), and our City’s corresponding service levels. As we are drafting the budget message, we are still operating in a statewide system of restrictive tiers affecting Monterey’s economy.

Unlike many other cities in the State of California, Monterey’s main economy - our hotels, conference businesses and restaurants - has been hit disproportionately hard. The California State Auditor estimates that cities will see reductions in revenues to the tune of 62% of hotel tax revenues (the City of Monterey’s largest source of revenue), a 12% drop in sales tax revenues, and business license tax drop of 7%. Monterey’s losses between March 2020 and June 2021 are estimated to be around approximately $32 million, and the same report by the State Auditor ranks Monterey among the 11 cities in the State most financially impacted by the pandemic due to our reliance on General Fund revenues tied to tourism and general consumer activity. According to the Monterey County Convention and Visitors Bureau (MCCVB), Monterey County’s tourism industry lost approximately $1.8 billion in 2020 from a height of $3.2 billion in 2019.

Destination Analysts, a tourism market research firm and a respected benchmark reporting institution within the hospitality industry, estimates a three to four-year recovery period until the hospitality industry returns to pre-
pandemic travel and occupancy demand. Monterey relies on both leisure and group/business travel (the latter will be slower to recover). With the lingering ambiguity of the travel market in mind, and realizing that the City’s revenues and service levels are intricately interwoven with the hospitality industry, we feel it is appropriate to switch to an annual budget temporarily.

**March 2020 Through June 2021**

"You may say to yourself: "Well, how did I get here?" ~ David Byrne

For the first time in generations (to be precise, for the first time since the 1918 influenza pandemic), a deadly pandemic impacted lives and economies across the globe. Practically overnight, the United States economy went from full employment in February 2020 to a record high of unemployment in April 2020. In less than 45 days, the unemployment rate rose to 14.8% and over 22 million Americans were without jobs.

"The COVID-19 pandemic has impacted economic sectors disparately. The leisure and hospitality sector lost the largest number of jobs since January 2020, and persons last employed in this sector have consistently exhibited some of the highest unemployment rates throughout the pandemic. Additionally, the education and services sector and the government sector have exhibited the second and third-largest losses in jobs since January 2020, despite relatively low unemployment rates among persons last employed in these sectors." (Congressional Research Service, ‘Unemployment Rates during the Pandemic, Page 2, May 20, 2021).

Monterey’s three main economic pillars of hospitality, education, and the government sectors were impacted and directly affected the City’s revenues. City estimates track that hospitality-dependent businesses laid off more than 7,000 employees in the City of Monterey alone. The Monterey Bay Aquarium, one of the City’s largest employers and sales tax revenue generators, closed for over a year and laid off 40% of their workforce. Hotels closed or operated with severely restricted capacities. Restaurants and non-essential businesses closed - and the Del Monte Shopping Center was no exception. Anchor stores such as Macy’s and Apple were shut down for months. PF Chang’s closed for good. In fact, 10 of the top 25 sales tax revenue generators (pre-COVID) were shut down for extended periods of time (some for more than one year), including the Alvarado Street Brewery, Apple, Fish Hopper, Hyatt Regency Monterey, InterContinental Monterey, Lallapalloza, Macy’s, Monterey Bay Aquarium, Monterey Plaza Hotel & Spa, and Portola Hotel & Spa. Another six of the top 25 sales tax revenue generators are automobile and transportation businesses (auto dealerships and gas stations), which also saw drops in revenue due to a drop in travel. While local schools, Monterey Peninsula College, and the Middlebury Institute of International Studies at Monterey, as well as federal institutions such as the Defense Language Institute and the Naval Postgraduate...
School continued to teach courses virtually, the loss of students living in Monterey was apparent and resulted in further economic losses.

The economic impacts on Monterey and especially on the City’s finances were enormous. If there was one piece of 2020 economic good news, it was the following: on February 18, 2020, and 24 days before the City declared a local emergency caused by COVID-19, the City Council had allocated an additional $2.0 million to the Economic Uncertainty Reserve, achieving for the first time in Monterey’s history a fund balance equivalent to 13.7% of the General Fund operations, or $13.7 million. We went into fiscal devastation with our reserves filled at the required levels! However, we also learned that the defined reserve levels were not sufficient to face the fiscal crisis of 2020.

By April/May 2020 the City of Monterey’s immediate and devastating losses in Transient Occupancy Tax (TOT, also known as hotel tax) and sales tax required drastic and bold actions by the City Council.

A comprehensive budgetary rescue package pursued one main goal: to preserve the fiscal sustainability of our core functions in public safety, public works and general government. Council suspended the existing capital project funding including City Capital Improvement Projects (CIP) and the Neighborhood and Community Improvement Program (NCIP), which infused $10.6 million ($1.27 from City CIP and $9.33 million from NCIP) into the General Fund. Council also suspended the FY21 NCIP project cycle. Additionally, due to the COVID-19 mandated closures of so many City facilities such as Sports Center, Library, Recreation Centers, Conference Center, parking garages, etc., Council was forced to eliminate 102 positions, issuing layoff notices to 82 employees. We now know that without these difficult layoffs in June, the City would have burned through its reserves in November 2020.

During the 15-month closure of the Monterey Conference Center, staff worked to gain GBAC STAR Facility accreditation from the Global Biorisk Advisory Council, with a goal of bringing back group business to Monterey.
The revised budget for FY 2020-21, presented in June 2020 included a variety of budget reductions to address a $21 million shortfall in COVID-19 caused losses in revenues. The layoffs ($8.2 million), the suspension of the NCIP and CIP ($4 million), additional position reductions (attrition/retirements) ($2.07 million), program cuts across all Departments ($5.1 million), employee salary concessions ($0.75 million), several one-time suspensions of annual budget expenses ($2.1 million) plus a one-time use of $1.5 million from our reserves helped bridge the budget gap.

During the past 15 months, the City team was able to implement a variety of public works projects, which were mainly road resurfacing projects taking advantage of lower traffic volumes. These projects helped employ dozens if not hundreds of contractor employees in varying trades.

Also, in the past 15 months, City staff adapted almost immediately to the new working conditions. Home offices were created in bedrooms, garages and on patios. Due to the City’s investment in technology, within hours of the shelter-in-place orders, employees were able to respond to constituents and conduct business by phone, email, and videoconference. Many other employees were required to be onsite or in the field in order to provide essential City services. These employees were required to follow new health and safety protocols, including daily screening, social distancing, and working with masks and other PPE. The City continued its core services, and provided unique services during the pandemic, which included:

- **Emergency Management**: Emergency Management: The Emergency Operations Center (EOC) continued to operate with daily and weekly meetings, organized mask distribution, provided handwashing stations and portable restrooms to individuals experiencing homelessness, coordinated with CalOES, managed the City’s supply of Personal Protective Equipment (PPE), set-up the Monterey Conference Center as a regional shelter and Federal Emergency Management Agency (FEMA) Evacuation Center, and set up the Hilltop Park Center as a shelter location for City employees. The Fire and Police Department provided mutual aid throughout California during one of the worst wildfire seasons in Monterey County history (River, Carmel, and Dolan Fires).

- **Fire**: In addition to its typical call volume, the Fire Department was deployed to fires as far as Humboldt and Los Angeles counties. The Department also managed dozens of vaccine clinics, administering over 4,400 COVID-19 vaccines. The City of Monterey is the only city in the Tri-County Area providing vaccines directly to the public.

- **Police**: During the COVID-19 pandemic, the Police Department took steps to enforce mask orders and beach closures during the height of the pandemic. In addition, the Department responded respectfully and appropriately to ensure a safe and peaceful Black Lives Matter protest in Monterey.
• **Public Works**: As already mentioned, several projects were completed during the year, including resurfacing projects throughout Downtown Monterey. The list of completed projects also includes boiler replacements in the Conference Center, a new pool deck for the Sports Center as well as various other small building maintenance projects.

• **Community Development**: Providing online processing of permits, conducting massive code compliance checks of public health orders, and ensuring safety for residents, employees, and visitors alike.

• **Library Services**: On June 11, 2020, the Monterey Public Library was the first library in the county to offer curbside/sidewalk service during the pandemic, checking out over 103,000 materials to over 34,000 patrons since the service began.

• **Community Outreach**: The City developed health and safety outreach campaigns surrounding COVID-19, including mask wearing and vaccination clinics. Before the Shelter-in-Place Orders took place, staff began daily media briefings, now held bi-weekly, demonstrating the City’s commitment to public transparency during the pandemic. Over 160 media briefings have been held, with journalists from the *Monterey Herald, Monterey County Weekly*, KION-TV, and KAZU-FM attending regularly.

• **Parks and Recreation**: Less than 24 hours after the State’s Shelter-in-Place Order in March 2020, the Parks and Recreation Department launched “Operation Outreach” to connect with seniors in the community. Together with library staff, thousands of calls were made in order to connect with seniors. We succeeded in letting them know what was going on and that they were not forgotten. The Department also coordinated weekly food and produce distribution events at El Estero Park Center, in collaboration with the Food Bank for Monterey County and the California National Guard. Weekly, between 200 to 300 families were serviced! In addition, four meals each week were distributed to dozens of seniors through a partnership with Meals on Wheels of the Monterey Peninsula.

Our public works employees and public safety employees were working their shifts, including the daily cleaning and sanitation of our police station and our many public restrooms, ensuring that the City remained safe and functional, 24/7. My thanks go to our entire team. Everyone deserves credit!
Looking forward to our FY 2021-22, we are now in a phase where the vaccinations are working to significantly lessen the devastating impacts of the COVID-19 virus. Today, in June 2021, our City is visibly recovering. Visitors are back in town frequenting spots such as Old Fisherman’s Wharf, Cannery Row and the Monterey Bay Aquarium, resulting in increased revenues in the Parking Division.

The Del Monte Shopping Center is fully opened. The Monterey Sports Center is open again and we are allowed to welcome a limited number of our members back. The Economic Uncertainty Reserve is still at $12.2 million, representing roughly 15% of our future General Fund.

With that in mind, our proposed budget is based on optimism paired with lessons learned from the past 15 months.

**Guiding Principles**

Subsequently, our proposed budget represents our best projection of the path forward. The presented budget is reflective of the following guiding principles:

- Present a balanced budget;
- Accept the lessons learned that the course of the pandemic remains unpredictable; and the need to remain cautious;
- Provide conservative revenue estimates based on a variety of reliable sources and data points;
- Limit expenditures to things we “must do” to ensure functional, compliant and safe municipal operations;
  - First, maintain current service and staffing levels
  - Then, restore service levels in accordance with public health guidelines in
    - Library
    - Sports Center
    - Scholze (Senior) Center
    - Hilltop Park Center
    - El Estero Park Center
    - Recreation Programs (Field Sports, Camps, Facility Reservations)
    - Conference Center
- Restore funding for the NCIP program based on new, ongoing revenues;
- Restore funding for vehicle and equipment depreciation;
- Restore funding for Other Post-Employment Benefits (OPEB) to ensure sufficient resources are set-aside to meet obligations to our City’s workers;
• Allocate funding into greenbelt fuel reduction programs;
• Invest in necessary improvements for our information technology systems;
• Fund MCCVB at 6% to ensure hospitality industry will recover sooner than anticipated;
• Allocate $6.5 million in American Rescue Plan Act funding into the General Fund in FY 2021-22 to cover pandemic-related revenue losses; and,
• Preserve existing reserve levels given the continued uncertainty that remains.

It is important to acknowledge that we are able to propose a balanced budget because of the one-time infusion of revenues under the American Rescue Plan Act (ARPA) passed by Congress on March 11, 2021. Because these federal resources are one-time, we must carefully monitor the City’s General Fund revenue growth over the next fiscal year to ensure that sufficient ongoing funding is available to support service restorations in FY 2022-23 and beyond. The federal rescue funds are covering less than 20% of the revenues lost between March 2020 and June 2021.

Monterey’s $6.5 million portion of the ARPA will be fully incorporated into our operating budget. Only through this funding are we able to reopen, in limited capacities, our library, sports center, senior center, two out of three recreation centers and our conference center. Stated differently: the revenues expected for FY 2021-22 will not allow us to open the library, sports center, and other services if it were not for the ARPA funding. Even with these funds, we still cannot afford a full return of some of our cherished services. The loss of the ARPA funding in FY 2022-23 (next budget) will undoubtedly cause service challenges in the future; but, we are optimistic that continued reopening of the national and local economy will return Monterey’s revenues to a pre-pandemic level. We also expect that our Sports Center membership numbers will continue to increase, thus reducing the financial support necessary to operate it. We will continue to monitor our revenues closely.

Our revenue estimates for FY 2021-22 take into account the return of travelers and tourism, the partial return of conference center business and the change in consumer behavior by switching from closed brick-and-mortar stores to more and more online ordering.

Due to the largely per capita formula by which ARPA funds were allocated, cities like Monterey that provide services to a large number of non-residents and visitors are benefitting less from the federal funding. Unfortunately, for communities more adversely impacted by the pandemic such as Monterey, this meant that those cities will not receive sufficient “rescue” funds to replenish their pandemic-related revenue loss. As stated earlier and shown below, Monterey is expected to receive less than 20% of revenues lost. Meanwhile, some communities in the Monterey Bay Area are receiving more than 1,000% of lost revenues in the form of federal rescue funding. While many cities in California are contemplating how to spend these “surplus” revenues, Monterey will be using those funds towards reopening the library, sports center, and other services.

Cannery Row, the No. 1 tourist destination on the Central Coast, typically attracts 4-5 million visitors annually. Above, Cannery Row is devoid of tourists on a sunny day in December 2020.
The per capita formula highlights what we already knew; Monterey’s service levels and expenses are significantly higher than other cities, and are largely funded by our hospitality revenues.

**The “Wisdom” of our Sales Tax and Hotel Tax Measures**

Measure P/S, in combination with funds from Measure X and SB1, will continue to allow the City to invest into our road infrastructure. Since the start of this program in 2014, we were able to improve the overall road condition index from a low 51 to 69. 71% of our streets are now rated as “Very Good.” We will see continued pavement activities in our neighborhoods throughout FY 2021-22. City staff remain grateful to our community for approving local tax measures.

Two additional tax measures in the current budget cycle will help us during our economic recovery. A ½ cent sales tax measure (Measure G), as well as a 2% tax measure (Measure Y) to increase the Transient Occupancy Tax from 10% to 12%, were overwhelmingly approved by Monterey’s voters.

The pandemic influenced our sales tax income significantly. Pre-pandemic, approximately 62% of Monterey sales tax revenues were paid by non-residents. During the stay-at-home-orders many businesses, restaurants, stores, etc. closed and many consumers shifted consumer spending towards online retailers. Monterey was no exception, and as a result, we have seen significant losses in sales tax revenue. Currently, the State collects the sales tax from purchases made online and then redistributes it through a complex formula based on the County-wide pool allocation. Measured from the Fourth Quarter (Q4) 2019 to (Q4) 2020, Monterey’s sales tax revenues declined by more than 43%. Because online sales tax revenues are distributed as a pro-rata share of the total point of sale purchases within the County, Monterey’s share of the total pool allocation also declined from 12% to 8% of the total pool receipts, a somewhat unfavorable trend given the growth in online retail transactions.

Our analysis of the quarterly sales tax collection data shows a direct nexus between actions by public health officials, infection rates, vaccination rates and consumer behavior. Monterey’s top 25 sales tax producers shifted during the pandemic, confirming the hurt experienced within our hospitality industry (particularly catering,
Restoring City Services in the Sports Center, Recreation, Conference Center and Library

In Spring 2020, COVID-19 forced the public health officials to impose severe restrictions affecting all aspects of our lives. In response to the restrictions caused by the pandemic, the City Council took bold action to ensure the continued operation of many municipal services within public safety and public works.

In order to ensure the financial survival of the City, 102 positions, 82 of those filled, were proposed for layoff. Ultimately, on June 2, 2020, the City laid off 73 employees working in the library, recreation, sports center, conference center and other areas and eliminated 19 vacant positions. NCIP projects and CIP projects were defunded to help offset the imploding revenues. Our revised budget in June 2020 further froze vacant positions, reduced operating expenditures, and applied a variety of one-time measures to stabilize our on-going operations.

The proposed budget for FY 2021-22 plans to reopen, in accordance with public health guidelines, almost all previously closed facilities. Our reopening strategies are driven by the different missions of the facilities as well as customer demand.

For example, we do not expect that all members of our Sports Center will return during the next 12 months - instead, our revenue projections are assuming a loss of 50% of our visitors. Our underlying operational and staffing model has to be a flexible one until we have reached a level of predictability of our newly defined customer base.

Our Recreation team has already restarted several popular programs, including pre-school classes, which are so essential to many working parents. Monterey’s recreational infrastructure also includes five recreation centers: Archer Center is leased to “First Night Monterey,” leaving Hilltop Park Center, Scholze Center, El Estero Park Center and Casanova Oak Knoll Park Center.

Our intent is to carefully manage the reopening of three recreation centers by ensuring that center after center operates at full capacity. This will help minimize the need to fiscally support the operations since our fee recovery rates do not fully cover the costs of operations.

With that in mind, we are anticipating to first utilize Hilltop Park Center and El Estero Park Center. The reopening of Casanova-Oak Knoll center will depend on demand for programming and subsequent sign ups of similar programs across the City.
Our Scholze Center services hundreds of our Senior citizens. We are planning to open the center, as soon as public health guidelines permit, at its previous staffing level. In partnership with the Alliance of Aging, we will look at new collaboration models.

Recreational programming is returning as well, and we are in the process of hiring dozens of recreational part-time personnel to help us with our classes, camps and other summer activities.

The Conference Center staff will be responsive to the demands of meeting planners—we know that many competitors of our conference center are offering free room rentals for meeting space. As conferences return, our staff needs to be there to provide excellent services, however, we anticipate a need to financially support the expected ‘losses’ due to the competitive meeting room rate market.

The Monterey Public Library is California’s first library! Opened in 1849, our budget proposal reflects the Library Board of Trustees’ funding request for FY 2021-22. I’d like to thank the Library Board of Trustees for their measured budget proposal. The reopening strategy for the library is thoughtful and considers the wishes of the library patrons as well as expected health and cleanliness standards. We expect the library to be open from Tuesday through to Saturday, allowing 40 hours of public access. And our bookmobile will once again provide services to underserved neighborhoods and senior residences where access to books may be limited.

**Budget Summary**

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 City’s workforce 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 Monterey Jazz Festival, AT&T Pebble Beach Pro-Am, Car Week, Big Sur Marathon and Half Marathon, races at Laguna Seca Raceway, as well as numerous other events, attract visitors from the Bay Area and beyond. Iconic places
like Cannery Row, the Monterey Bay National Marine Sanctuary 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. Transient Occupancy 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 and Community Improvement Program (NCIP), which since inception, has funded 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.

The City’s proposed General Fund budget is $81.0 million in FY 2021-22, including transfers out to other funds. The balance of the budget for all other funds is $65.7 million, including transfers out. All other funds include special revenues, internal services, enterprises and debt service funds.

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<th>Operating Budget ($ million)</th>
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<td>FY 2021-22</td>
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<tr>
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<tr>
<td>Other Funds</td>
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<td><strong>Total</strong></td>
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FY 2020-21 General Fund expenditures of $81.0 million (including transfers) captures all known growth in expenditures, including: 1) increased pension expense due to growing amortization of our unfunded liabilities; 2), increased utility costs; 3) increased costs of various insurance premiums (General Liability, Property, Workers’ Compensation, etc.); and, 4) captures all wage increases that were previously deferred into FY 2021-22 through agreement with our labor partners, as applicable.

There are no additional wage increases in FY 2021-22 as all labor groups agreed to extend their June 30, 2021 expiring labor contracts for one year without additional increases, for a new expiration date of June 30, 2022.

With a moderate improvement in TOT tax revenues forecasted for next year and with an infusion of one-time aid through the ARPA, the FY 2021-22 budget is able to provide the following service restorations:

- Restore 6.5 FTE at the Sports Center to meet increasing user demands, expand hours of operation, as well as resume aquatics, group exercise, camps, and other programs;
- Restore 2.75 FTE in the Recreation Division to reopen the Scholze Park (Senior Center), resume programming in other facilities, and restore capacity by reclassifying two positions;
- Restore 5.75 FTE in the Library Department to resume in-building services at the Library, expand hours of operations to 40 hours per week, 5 days per week (10 a.m. to 6 p.m. Tuesday through Saturday), resume bookmobile operations, and deliver programs at the library;
- Add $0.5 million in Police Department for new Records Management Software to bring us into compliance with State and Federal Law, and increasing training funds for police officers;
- Change one public safety position in the Police Department to fund an additional social worker as part of response to certain calls for help; this will enhance the capabilities of our existing successful Multi-Disciplinary Outreach Team, which already includes team members of Adult Protective Services, Monterey County Behavioral Health, Montage Health, and other providers;
• Restore 2.0 FTE in the Police Department to bring back the Assistant Police Chief position and one Police Officer and prepare for return of events and tourism;

• Change one public safety position in the Police Department to fund an additional social worker as part of response to certain calls for help;

• Resume Neighborhood and Community Improvement Program (NCIP) funding based on 16% of Transient Occupancy Tax ($3.3M);

• Allocate $500,000 to Capital Improvement Program (CIP) funding, of which $300,000 will be allocated to Greenbelt Fuel Reduction;

• Restore 3.75 FTE in Conference Center to resume group sales and operational efforts;

• Restore 1.5 FTE in Marina;

• Upgrade the Sustainability Coordinator position to Sustainability Manager in order to account for unfunded State mandates through SB 1383;

• Restore 1.0 FTE in Housing in order to support housing assistance programs;

• Reopen Colton Hall Museum utilizing part-time staff; and

• Allocate funding to City memberships in regional groups such as MBEP.

5-Year Forecast / Trends / Long-Term Planning
It is a particularly challenging time to make forecasts about Monterey’s future tax receipts and service levels given the uncertainty around tourism and its related revenue streams, including TOT and sales taxes. As such, these estimates should be considered preliminary and should be re-evaluated during FY 2021-22 as the economy reopens and data is collected.

That said, consistent with past forecasts, the City’s 5-year forecast currently shows operating deficits over the next several years due to projected cost increases (such as rising costs for pension, insurance premiums, contract services, equipment and vehicles) outpacing growth in revenues. This forecasted operating deficit is anticipated despite expected growth in revenues from the ½ cent sales tax measure (Measure G), as well as a 2% tax measure (Measure Y). Further, this forecasted operating deficits exists despite reductions in expenditures - with only 427.5 FTE (i.e. service levels) proposed in the Position Control. This is still 63.75 FTE less than pre-pandemic staffing levels.

Staying on this course of expenditure growth outpacing revenue growth will erode City reserve balances and/or service levels absent corrective actions. We will continue to balance the City’s checkbook by aligning income and expenses.

This forecast scenario assumes that General Fund revenues slowly return to their pre-pandemic levels over the next three to five fiscal years, which requires a continued and steady reopening of the economy. The forecast does not assume any additional pandemic related shutdowns or a recession. Moreover, it does not include a long list of outstanding service needs such as deferred maintenance, facility needs (i.e. upgrades, expansions), outstanding liabilities costs and unfunded City initiatives. Expenditure assumptions are generally 2.5% overall with adjustments in specific areas, such as increases in pension liability payments, general liability and worker’s compensation premiums and contract services.

The forecast below shows a five-year cumulative deficit of $9.2 million.
As of 6/30/2021, Revenues for the Fiscal Year 2021-22 proposed budget are $72.5 million, with ARPA Funds of $6.5 million. The Total Revenue forecast for FY 2022-23 is $81.3 million, and the forecast for subsequent years is as follows: $83.1 million for FY 2023-24, $85.2 million for FY 2024-25, and $87.4 million for FY 2025-26. Expenses are estimated to be $78.8 million for FY 2022-23, with forecasts of $81.5 million for FY 2023-24, $83.8 million for FY 2024-25, and $85.9 million for FY 2025-26. The Revenue Over/(Under) Expenses for FY 2022-23 is projected to be $0.2 million, with forecasts of -$0.3 million for FY 2023-24, -$0.6 million for FY 2024-25, and -$0.6 million for FY 2025-26.

Transfer In for the proposed budget is $0.7 million, with forecasts of $0.7 million for FY 2022-23, $0.7 million for FY 2023-24, and $0.7 million for FY 2024-25. Transfer Out for Other is -$0.2 million for FY 2022-23, -$0.2 million for FY 2023-24, and -$0.2 million for FY 2024-25. Transfer Out for Debt is -$0.5 million for FY 2022-23, -$0.5 million for FY 2023-24, and -$0.5 million for FY 2024-25. Transfer Out for Capital is -$1.5 million for FY 2022-23, -$1.5 million for FY 2023-24, and -$1.5 million for FY 2024-25. The total transfer, debt, and CIP for FY 2022-23 is -$1.5 million, with forecasts of -$1.5 million for FY 2023-24, -$1.5 million for FY 2024-25, and -$1.4 million for FY 2025-26.

The Operating Surplus/Deficit for FY 2022-23 is -$1.3 million, with forecasts of -$1.8 million for FY 2023-24, -$2.2 million for FY 2024-25, and -$2.0 million for FY 2025-26.

Note: The FY 2021-22 Proposed Budget is used as a baseline for forecasting expenditures. Importantly, the forecast does not assume a return to pre-pandemic FTE levels. TOT and Sales Tax revenues can be highly volatile and will need to be validated and/or adjusted during the forecast period accordingly.

Our long-term planning includes launching our Fiscal Health Response Plan and implementing its four strategies, known as CORE:

- Change the way we do business to be more streamlined.
- Operational service reductions where appropriate.
- Revenue enhancements through economic development, fees, taxes, cost recoveries.
- Employee contracts that attract and retain talent and are financially sustainable.

During FY 2021-22, Staff and Council will continue to look for cost recovery opportunities from various service contracts and fee updates.

**5-Year Forecast - Reserves**

Revenues and fund balances are critical components of fiscal health and sustainability. The estimated Economic Uncertainty Reserve for 6/30/2021 is $12.2 million or 15.5%, which is less than two months of General Fund operations. Per City policy, the unassigned fund balance may be appropriated within the subsequent year’s operating budget to provide for one-time, non-recurring needs, if available.

The pandemic has underscored the importance of maintaining a healthy reserve. For cities that are highly dependent on economically sensitive consumer activities such as tourism, an even greater reserve may be necessary in order to weather natural business cycles. Accordingly, staff plans to come back to Council with recommendations for increasing the Economic Uncertainty Reserve goal.
The 5-year forecast for reserves shows declining balances due to the forecasted operating deficits. It is critical to implement fiscal solutions sooner rather than later to avoid diminishing our reserves.

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<th>Econ Uncert Reserve as % of GF Budget</th>
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<th>FY 2023-24</th>
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<td>15.5%</td>
<td>14.0%</td>
<td>11.0%</td>
<td>8.4%</td>
<td>5.9%</td>
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</table>

**General Fund Revenues**

The total General Fund proposed FY 2021-22 revenue is $79.02 million (excluding transfers), a 16.3% increase from the FY 2020-21 Adopted Budget, but still nearly 10% below pre-pandemic revenues adjusted for ARPA funding (FY 2018-19 General Fund revenues of $80.57 million). The Top 5 revenues in FY 2021-22 are TOT, fees & charges, property tax, sales tax and intergovernmental revenues. It is important to note that the vast majority of intergovernmental revenues are due to the one-time $6.5 million in ARPA funding, which is not anticipated in future years. As demonstrated in the chart below, the top 5 General Fund revenues make up more than 80% of the total General Fund revenues.

**Transient Occupancy Taxes:**

TOT remains the largest revenue source for the City and was also the most heavily impacted by the COVID pandemic. To forecast TOT revenues for FY 2021-22, the City relied on forecast models from the Monterey County Convention & Visitors Bureau (MCCVB) and STR, a nationally recognized hotel data analytics firm. These outside experts analyzed possible TOT revenue outcomes, all of which are highly dependent upon tourism and conference activities. The FY 2021-22 budget assumes a steady reopening of the Monterey economy for the
duration of the fiscal year, but not a full return to pre-pandemic TOT levels. Preliminary TOT revenues for April and May 2021 are trending favorable, but will need to be monitored closely.

Fees & Charges:

- Administrative Support Fees - Represent recovery of General Fund internal overhead and central service costs for support to other funding sources.
- Police Fees - Police Report fees and DUI Response Recovery.
- Public Works Fees - Damage to City property and service fees for banner display.
- Community Development Fees - Plan check, inspections and zoning fees.
- Conference Center Fees - Monterey Conference Center is fully operational and contributes $2.2 million in combined annual revenues.
- Parks and Recreation Fees - For FY 2021-22, staff is proposing Sports Center revenues of approximately $1.3 million to reflect a phased re-opening of the facility and services. Preliminary April and May 2021 revenue data are favorable; however, achieving this revenue result will require a carefully managed marketing plan.
- Fire Service Fees - Fire regional service contract revenues are incorporated for the executed amended contracts and those currently under negotiation. As the City Council is aware, fire contracts are carefully analyzed by our partnering agencies, including the cities of Carmel-by-the-Sea, Pacific Grove, and Sand City, and the Monterey Peninsula Airport District. Cal Fire remains a competitor for fire contract services.
- Other fees and charges include Library fees and City Clerk fees.

Property Taxes:

The Monterey County Assessor projects that the City’s assessed valuation will increase by approximately 3.75% in FY 2021-22. The year-over-year change in the assessed value of property is limited to 2% pursuant to California Constitution, article XIII A, section 2(b). Assessed valuation can increase beyond the 2% cap only if
an existing property changes ownership or if a new development comes online. For FY 2021-22 the California Board of Equalization has instructed County Assessors to use an inflation factor of just 1.036%, about half the inflation factor increases that have occurred over the last four years (2%). Property taxes have historically been a stable revenue source for Monterey.

Sales Taxes:

While General Fund sales tax revenues of $7.06 million for FY 2021-22 (excluding Measure G) are expected to increase relative to the FY 2020-21 forecast revenues ($5.79 million), overall sales tax receipts remain well below pre-pandemic levels. As discussed earlier, staff continues to monitor the impact that online shopping and the pool allocation formula will have on the City’s General Fund sales tax revenues. The Sales Tax category also includes Prop 172 sales tax revenues (Local Public Safety Protection and Improvement Act of 1993) of $0.3 million and Measure G (½ cent add-on sales tax) revenues of $4.60 million.

Intergovernmental Revenues:

Intergovernmental revenues of $7.74 million in the General Fund include approximately $6.5 million in one-time ARPA funding.
General Fund Expenditures

The total General Fund proposed FY 2021-22 expenditures are $78.8 million (excluding transfers), an 8% increase from the FY 2020-21 Adopted Budget. Adjusting for expenditures for ARPA funding, the FY2021-22 proposed budget is approximately 8% less than actual expenditures in the General Fund for the FY2019-20. The budgetary cost savings is still concentrated in salaries and benefits due to the reduction of 59.5 Full-Time Equivalent (FTE) employees during FY 2019-20 and FY 2020-21 in response to the COVID pandemic and related revenue losses. Expenses increased in the categories of salaries and benefits, pension, utility, maintenance cost and risk insurance premiums. Rising pension costs continue to impact the budget acutely. Legal settlements combined with increasing risk fund reserves have impacted the City’s budget as well.

As shown in the chart below, approximately 77% of the City’s General Fund expenditures (excluding transfers) goes toward salaries and benefits. As such, managing the pace at which services are restored as the pandemic recedes in FY 2021-22 and beyond is critical to ensure the long-term fiscal sustainability of city services.

The Proposed Budget is able to restore some services due to an expected increase in TOT tax revenues as tourism and events return to Monterey and because of one-time funding under the ARPA ($6.5 million). The loss of ARPA funding in FY 2022-23 and beyond (currently no indication that Congress will issue further stimulus), may require the City to consider corrective cost containment actions in the absence of equivalent revenue growth in future budget years.

Good news, the City spending continues to focus on direct service delivery, with **90% in direct service programs** and only **10% in general government** (such as city council, city manager) as shown in the chart below.
The City’s pension expense for unfunded actuarial accrued liabilities (UAAL) is expected to increase approximately 21% over the next four years, from $13.64 million in FY 2021-22 (actual) to $16.50 million in FY 2024-25 if actuarial assumptions (including the expected rate of return on investments) are achieved. This rate of cost increase outpaces both inflation and historical growth in General Fund revenues. As shown in the chart below, the City’s UAAL pension expense is expected to level-off in FY 2025-26 as certain liabilities are retired, but cost pressures remain. The potential for future market corrections and/or losses could drive these projected UAL expenses significantly higher and must be monitored carefully.


While the City picks up the majority of pension-related costs, it is important to point out that Monterey’s active workers also contribute toward their pension benefit as detailed in the table below.
<table>
<thead>
<tr>
<th>Group</th>
<th>FY22 Employee Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PEPRA (50% of Normal Cost)</strong></td>
<td></td>
</tr>
<tr>
<td>Fire</td>
<td>13.0%</td>
</tr>
<tr>
<td>Police</td>
<td>13.0%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Classic</strong></td>
<td></td>
</tr>
<tr>
<td>Fire</td>
<td>14.0%</td>
</tr>
<tr>
<td>Police</td>
<td>12.0%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>11.0%</td>
</tr>
</tbody>
</table>
Position Control Summary

Overall, the proposed citywide position control list (PCL) for full-time and regular part-time (RPT) remains at 427.75 full-time equivalents (FTE). During the course of the current FY 2020-21, Council authorized various positions which updated the PCL. In this proposed FY 2021-22 budget, the PCL was further updated to especially support the increased CIP and Presidio Municipal Services Agency (PMSA) service demands, police and fire staffing needs, and human resources department to support safety and recruitment efforts. In the PCL section of this budget, a full schedule is provided which details each proposed change. Position changes pending employee union approval are marked “pending approval” on the PCL.
**Special Revenue Funds**

**Presidio Public Works Authority Fund 650**

The Presidio Public Works Authority Fund accounts for the operational activities, capital projects and revenues associated with the municipal services contract between the City and the U.S. Army at the Presidio of Monterey under an Intergovernmental Support Agreement (IGSA). Services provided to the Army include maintenance of buildings, streets, sewers, storm drains and water systems, and other special projects. Activities under the contract have been expanded under the IGSA to include maintenance services and staffing at the U.S. Army Signal Activity (USASA) / Naval Research Laboratory at Camp Roberts. The operating budget for this fund is $13.8 million in FY 2021-22.

**Sewer Line Maintenance Fund 279**

The Sewer Line Maintenance Fund will generate an estimated $2.4 million in fees in FY 2021-22 and is expected to use approximately $0.3 million in Fund Balance, to cover the annual budget of $2.7 million with debt service. As operating expenditures and debt service exceed annual fee revenues, a Sewer Fee Study and fee increase may be required within the next few years.

**Storm Water Utility Fund 280**

The Storm Water Utility Fund will generate an estimated $1.1 million in fees during FY 2021-22, which falls short of the $1.3 million in estimated expenditures. Accumulated fund balance from prior years, will be used to cover the remaining operating deficit in this fund of approximately $0.2 million. As the City’s storm water obligations grow over time, we will need to develop the revenue stream to support the imposed mandates.

**Street Infrastructure and Rehabilitation Funds 251 / 252 / 257 / 258**

The Street Infrastructure and Rehabilitation Fund (Measure P & S) will generate an estimated $9.2 million in voter-approved special tax revenue funds for street repair and maintenance. In November 2018, voters overwhelmingly approved Measure S, which extended the special tax by eight years. Other street funding includes: gas tax ($0.7 million), State’s Road Repair and Accountability Act of 2017 (RMRA) ($0.5 million) and TMC Transportation Safety & Investment Plan (Measure X) ($0.9 million).
Marina Fund 600
The Marina Fund’s proposed budget for FY 2021-22 is $1.9 million, which includes debt service for state loans in the amount of $1.1M. Total estimated revenues for FY 2021-22 are expected to be $3.1 million. The surplus generated in this fund is used to pay for capital projects at the Marina.

Tidelands Fund 807
The City of Monterey was granted tidelands and submerged lands in trust by the State of California. Under the statute, Trust lands may be used for commerce, navigation, fisheries and recreation. The Tidelands Fund proposed budget for FY 2021-22 totals $3.3 million, which includes the reimbursements to the General Fund for support costs such as property management, public safety services and administrative support costs. In addition, the Tidelands fund will transfer approximately $0.25 million in FY 2021-22 to reimburse the General Fund for parks and wharf maintenance costs. Total estimated revenues for FY 2021-22, primarily from leases and harbor fees, are expected to be $2.7 million. Unobligated fund balance from prior years will be used in FY 2021-22 to cover the projected operating deficit.

Taking climate change, sea level rise and the costs to preserve or relocate our infrastructure under consideration, the fund management of the tideland revenues will be a critical component for our future City Council’s abilities to react.

Parking Fund 625
The Parking Fund’s proposed operating budget for FY 2021-22 is $8.8 million, which includes $1.3 million in debt repayment to the General Fund. The Parking Fund will transfer approximately $0.28 million to the General Fund in FY 2021-22 as reimbursement for parks and street maintenance services.

The proposed revenue for FY 2021-22 is $8.4 million. The projected operating deficit is anticipated to be covered by unobligated fund balance accumulated from prior years in the Parking Fund. Should parking revenues exceed budget estimates, any surplus generated will be used to pay for capital projects within the parking facilities.

During FY 2018-19, Council authorized simplifying the two outstanding advances between the General Fund and Parking Fund. In doing so, the Parking Fund loan to the General Fund of $5.65 million for the Conference Center Rehabilitation Project was offset against, the General Fund loan to the Parking Fund related to the Custom House garage lease payments which had a residual balance of $12.6 million. The annual $1.3 million debt repayment from the Parking Fund to the General Fund will continue until July 2024.
Housing & CDBG Funds 268 / 270 / 274 / 278
The Housing & Community Development Block Grant (CDBG) Fund’s proposed budget for FY 2021-22 totals $1.7 million. Included is $260k in estimated entitlement funds from CDBG/HUD, approximately $900k in projected program income (funds that are generated from Hotel Pacific ground rent, ground leases, pay off of rehabilitation loans, and the sale of City owned deed restricted units). The City will leverage these funds with approximately $500k in projected program income from Successor Housing Agency funds and approximately $100k in HOME Investment Partnerships Program funds to help meet the housing and community services needs of low income and disadvantaged households. These funds include staff and administrative costs related to managing the various programs.

Reserves: Emergency / Capital Renewals / Other

The City maintains a number of reserves to protect against uncertainty and prudently plan for the future.

Reserve for Economic Uncertainty – The City has a policy reserve goal of 16.6% of the General Fund annual operating budget. The pandemic has underscored the importance of maintaining a healthy reserve. For cities that are highly dependent on economically sensitive revenues such as tourism, an even greater reserve may be necessary in order to weather natural business cycles. Accordingly, staff plans to come back to Council with recommendations for increasing the Economic Uncertainty Reserve goal. The Economic Uncertainty estimated 6/30/2021 balance is $12.2 million or 15.5%, which is less than two months of General Fund operations. The proposed FY 2021-22 budget does not include any use of the Economic Uncertainty Reserve and staff recommends that any unobligated General Fund surplus be added to the reserve at year end.

Workers Compensation and General Liability Reserves (Funds 715 / 716) -- The City maintains reserves in the Self-insurance Funds for general liability and workers’ compensation. Our reserve balances are the available cash, less the cost of expected future claims. Both reserve funds have been impacted due to recent claims.

Currently, the General Liability reserve balance meets actuarial requirements of a 70% confidence level, with a reserve balance of $1.5 million; however, it is $200k deficient from our policy requirements. The General Liability policy is 70% confidence level plus $1 million of City self-insurance retention.

The Workers Compensation Fund maintains approximately $8 million of cash. Taking into account the expected future claims, the Workers Compensation Fund has an estimated reserve deficit of $1.9 million. The City is working diligently to improve our workers’ compensation program with focus on effective return-to-work programs.

Vehicle Replacement Fund 705 – The City also maintains a Vehicle Replacement Fund to accumulate funds for scheduled replacement of vehicles. The current balance in the fund is $3.5 million. For FY 2021-22, the City
will replace 17 vehicles at an estimated cost of $0.87 million, which includes the replacement of one (1) tractor. However, there is a need to replace two (2) fire engines in the next five years, and the City will need to debt finance those purchases because the Vehicle Replacement Fund has insufficient funding.

Information Services Fund 710 – The Information Technology Reserve Fund has been established for critical information system and technology projects including communications systems, which are capital in nature. Technology can change rapidly within the information systems sphere and often comes at a large cost. Updating City technology is critical to improving customer service, streamlining City operations, and ensuring City services are provided on a reliable and secure technology infrastructure. This Reserve helps the City keep pace with information technology and take advantage of improvement/efficiency opportunities in this area. The 6/30/2020 balance in the fund was $2.1 million. The 5-year outlook of technology needs exceeds $5 million.

The Road Ahead

Looking ahead to the next 12 months, we need to continue to show restraint in not trying to compete with other cities in the Monterey Bay Region, who have received American Rescue Plan funding exceeding their COVID-19 related revenue losses of up to 1,000% (as stated earlier, Monterey is receiving less than 20% of revenue losses). There will be discussions about new regional programs tackling a variety of issues ranging from homelessness housing projects to publicly funded housing projects. Monterey’s time to financially collaborate with our regional partners will come - it is not within the coming years.

We also need to understand that our pre-pandemic fiscal challenges and obligations are still in place. We still have a significant backlog in maintaining or rebuilding our City facilities such as a new library, public safety building and fire station(s). We still have to fund the increasing CalPERS pension obligations. And, in order to retain or attract a qualified workforce, we need to remain competitive within our labor market. Today, we already have challenges hiring and retaining talent.

In the next few years, we have to jointly figure out how we continue to balance the City’s checkbook. It is critical that we achieve financial sustainability in order to preserve Monterey’s exceptional quality of life.

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 workforce, 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. We remain steadfast in engaging with our neighborhoods, businesses, visitors and regional partners to preserve Monterey’s quality of life. We Colton Hall.
encourage public engagement through in-person events, surveys/polls, and subscriptions to the Monterey City Budget Updates. Also, in 2019, we launched 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. Subscribe to City budget updates, read the City Finance 101 and contribute your voice to the important matters at www.monterey.org/lets-do-it.

Our staff and I want to express our appreciation to the Mayor and the City Council for their leadership in setting priorities that are incorporated in this proposed budget and to all the staff who worked diligently, collaboratively and with fiscal stewardship in developing this proposed budget.

I recommend the adoption of this proposed budget so that we can continue Council’s mission to provide visionary policy and legislative leadership that assures a safe, healthy and economically vibrant community.

Monterey’s history is California’s history – as the first city, first library, first theater, and first newspaper. Monterey 250 marks our tremendous legacy. Monterey is a 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.

We are proud. Working together, we can make it happen. Let’s do it!

Respectfully Submitted,

Hans Uslar
City Manager