

SECTION A
INTRODUCTION

City Manager's Transmittal



June 19, 2007

Honorable Mayor and City Council:

We are pleased to submit the Proposed Budget for the 2007-08 Fiscal Year. The City of Eureka's Budget for the 2007-08 fiscal year is balanced, as required by the California State Constitution, City Charter and Municipal Code. In terms of this budget, the term "balanced" means that expenditures will be funded by a combination of revenues and use of reserves. The total budgeted appropriation of nearly \$61.7 million supports operating programs, debt service and Capital Improvement Plan (CIP) projects.

The 2007-08 Proposed Budget reflects slow growth in the City's economy, similar to that currently occurring at the state and national levels. This modest revenue growth, combined with a draw down of reserves, will allow Eureka to meet its most pressing needs for the 2007-08 fiscal year. The operating programs are designed to maintain current service levels, with very few service enhancements. Departments' budget requests were thoroughly scrutinized, and the proposed 2007-08 City-wide operating budget has decreased by 2% from the current 2006-07 revised budget. The Capital Improvement Program (CIP) project budget primarily is intended to maintain or rehabilitate existing city infrastructure and facilities, as opposed to addressing new ones.

Key Budget Principles

The 2007-08 budget is based on policies developed to maintain the stewardship of public funds and reflects the City's commitment to prudent financial planning. The overarching principles which guided development of the proposed budget are:

- Basic services will be maintained at current levels and will be adequately funded.
- Program costs will be developed to reflect a true picture of the cost of operation.
- Revenues will be estimated at realistic to guardedly optimistic levels.
- Fees for services will be adjusted based on the cost of service provision
- The recommended budget will comply with provisions of the State Constitution, City Charter, and Municipal Code.

Basis of Budgeting

The basis of budgeting is explained here to assist readers of the budget document, and to provide a bridge between the budget presentation in this document and the accounting presentation in the Comprehensive Annual Financial Report (CAFR). The City's governmental funds consist of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds for both the City and Redevelopment Agency. Governmental fund budgets are developed using the modified accrual basis of accounting. To summarize, under this basis, revenues are estimated for the fiscal year if they are susceptible to accrual, e.g. amounts can be determined and will be collected within the current period. Principal and interest on general long-term debt are budgeted as expenditures when due, whereas other expenditures are



budgeted for liabilities expected to be incurred during the current period.

Proprietary fund budgets are adopted using the full accrual basis of accounting whereby revenues are recognized when earned, and expenses are recognized when incurred. The City's Enterprise Fund types consist of the Water, Sewer, Transit, Harbor, Building and Golf Course funds. Principal and interest on long-term debt are budgeted as expenses within the proprietary debt service funds.

City Council Goals & Objectives

All of the proposed Program and Capital Budget for the 2007-08 fiscal years are integral to the accomplishment of the City Council's long-term goals for the City of Eureka. Those goals encompass quality of life, safety within the community, and continued financial stability. As our city moves into the future, we plan to:

A) Economic Development

1. Work under the principles of Prosperity!, and support Humboldt County's identified industry clusters.
2. Focus on economic development that attracts, expands, and retains businesses that maintain our quality of life in Humboldt County.
3. Lead our region by supporting economic development solutions.
4. Achieve consistent increases in the number of living-wage employers.
5. Increase the resilience of our city budget to state takeaways and other fluctuations in outside funding sources.
6. Become the visitor-serving hub of the region.
7. Become the information and technology capitol of the region.
8. Make every effort to improve transportation access to and from our region.
9. Keep sufficient land and infrastructure dedicated for high wage employers, including light industry and manufacturing.

B) Downtown and Waterfront Development

1. Attract city residents downtown by enhancing the exciting mix of restaurants, retail, water access, and housing on our Waterfront.
2. Attract vibrant commercial businesses to our downtown corridor that can play a vital role in our downtown economy.
3. Establish a comprehensive Historical Preservation Plan.



4. Encourage the construction of housing capable of attracting new residents downtown.
5. Make downtown living attractive and exciting by enhancing residential services, such as development of a downtown grocery store.
6. Create an exciting theater district in downtown Eureka capable of supporting a wide variety of performances and attracting visitors from out of the area.
7. Adopt an effective parking plan that supports the needs of downtown residents and retail businesses.
8. Support re-opening and successful operation of The Eureka Inn.

C) Housing and Neighborhood Improvements

1. Create partnerships with the private sector to help successfully meet our housing needs.
2. Increase affordable housing opportunities in Eureka.
3. Continue redevelopment programs that encourage the upgrade of existing housing units.
4. Promote the development of new mixed use housing units in Eureka.
5. Preserve Eureka as an affordable place to live that offers a variety of options for first-time home buyers.
6. Create a simple, customer-friendly permitting process that meets the needs of our customers.
7. Continue to encourage Eureka's homeowners to enhance their property.
8. Pro-actively educate citizens about the value and importance of protecting the historical assets in our community.
9. Establish clear, objective design standards that are supported by our community.
10. Strengthen neighborhood groups dedicated to community improvement.

D) Public Safety

1. Make the City of Eureka a safe place to live by focusing on the elimination of threatening behavior, violence, and drugs.
2. Support public and private efforts to improve street lighting in Eureka.
3. Continue to foster and maintain positive and productive relationships with allied fire agencies and other emergency organizations.
4. Lead a regional effort to consolidate public safety services.
5. Maintain effective fire prevention and emergency response standards.
6. Develop multi-discipline/multi-agency regional training facilities within the City limits in an effort to enhance our ability to adequately train personnel.
7. Develop a long-term plan for Public Safety facilities, equipment, and infrastructure upgrade, including seismic upgrading.

E) Transportation Management

1. Adopt traffic calming measures that enhance our neighborhoods.
2. Promote bicycle and pedestrian use of our city streets.
3. Continue promoting the safe and efficient flow of traffic in the City of Eureka.
4. Promote the Eureka Street Tree Plan, and encourage both the public and private planting and maintenance of trees.
5. Encourage Humboldt County officials to partner with us to improve traffic flow into Eureka from residential areas directly outside our city limits.
6. Slow traffic in our neighborhoods and on side streets.
7. Reduce traffic accident rates in the City of Eureka.



Financial Condition Summary

Financial Outlook

The national economy is reporting very slow growth, however consumer spending, at the national and state levels, and in Humboldt County, remains strong. The state of California's employment and manufacturing are stable, although the housing market is a question mark due to an expected tightening of lending standards due to the sub-prime lending crisis.

Humboldt County's economy is mixed, with some economic indicators showing strength and others falling or remaining unchanged. The Humboldt State University composite economic index, which includes home sales, retail sales, the hospitality industry, electricity consumption, county employment and manufacturing, is showing a 1.6% increase over the previous year. Retail sales are up 14.3% over the previous year; the number of home sales increased by 6.5% over the previous year, however the median home price has fallen by \$25,000 in the same time period. Manufacturing is up 5.4% although lumber remains historically weak and downward trending. Employment in the county is stable; up 1.1% from last year, with the current county-wide unemployment rate of 5.1% considered to be a fairly favorable level, historically. Hospitality is down a troubling 3.7% for the year, with month-to-month decreases of 5% and 2.4% in the last two months. It appears that the industry is entering a weak spell, possibly related to the price of gasoline. Eureka typically has one of the highest gasoline prices in the state, according to AAA. In April, 2007, the average price for a gallon of gas was \$3.47. Finally, electricity consumption is down 13.5% compared to the previous year. While this indicator usually correlates with economic activity, increases in energy efficiency and conservation have turned it into a rather ambiguous indicator, so that while a decrease may or may not indicate a slowdown of economic activity, an increase in consumption would still strongly imply an increase in economic activity.

Through all this, the City of Eureka's economic condition has not experienced conspicuous change. Fortunately, the city's most significant general fund revenue, sales tax, is tied to retail sales, the most favorable of the economic indicators. However it should be noted that retail sales can also be volatile it will be important to conduct ongoing monitoring.

Our residential property tax base is stable. While home prices have leveled off, the gain in annual property tax based on high sales prices in recent years is permanent. The April 2007 median home price in Humboldt County is \$325,500 which is a 9.5% percent decrease from the same period last year (adjusted for inflation). Statewide, the median home price was \$580,090 which represents a 3.2 percent increase over the same period last year.

The city's 3% utility users' tax was approved by the voters in November 2006 to continue for four more years, providing over \$1million annually to the general fund. However, it passed narrowly, and it is also important to note that the utility user tax revenue will not grow at an equal pace with expenditures. The switch in popularity from land lines to cell phones will tend to flatten the growth of this revenue.

Overall the economy in Eureka is healthy. However, reassessment of annual revenues needed to sustain current service levels will occur each year. While we are currently projecting modest gains in local business and development activities that provide a basis for continued revenue performance at modestly increased levels, this could change depending on which direction the economy goes. To summarize: in the coming fiscal year, the economic picture for Eureka, as well as the nation, is uncertain.



The following budget information is a summary designed to focus thought and reaction to the fact that we are facing a continued disparity between revenues and expenditures that must result in declining reserves or reduced services. The proposed budget does not address staffing needs in the fire department, the community policing program, catching up on deferred maintenance of city buildings, recruitment and retention difficulties, or other needs expressed by the departments in their budget requests. In addition, we have equipment replacement needs with no identifiable recurring source to pay for them. Our investment in new technology is limited because we lack sufficient funding to invest and have few personnel to manage it. Training for staff is held to a minimum.

Today we are doing a lot more with fewer people, and in many cases doing it better. But after years of reducing the size of the organization and throttling back operating costs, it's important to recognize we have now crossed the threshold of cost effectiveness, and the diminution of services is inevitable. Many of our service levels have started to deteriorate past the point of community acceptability.

Put simply, the problems we are now facing can no longer be solved by continuing to tighten down spending. Without adequate funding for the services and programs the Council deems essential, the organization will begin to limp along and decline in its effectiveness to serve the community. The Council is encouraged to focus its attention on resolving the revenue disparity problem. It has caused us to deplete our reserves to a minimum level and in future years, depletion of reserves will not be an available option for funding services.

Budget Content

In preparing their fiscal plans for the coming year, departments were directed in the 2007-08 budget instructions to maintain 2006-07 budget levels and focus their efforts on basic services, limiting any service requests to only those which were necessary to deliver basic services to the community. These "flat" budgets incorporated no increases other than those driven by Memorandum of Understandings (MOU) with the City's bargaining units and outside contracts. As departments identified other essential operating cost increases, those items were evaluated and only absolutely essential increases were incorporated into the final proposed budget. After years of constrained budgets, many departments found that some increases were critical to their ability to maintain basic services at the FY 2006-07 levels.

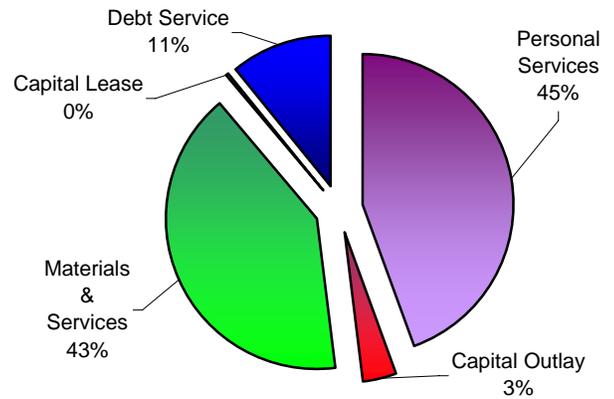
The recommended budget is consistent with the City Council priorities. Funding for public safety comprises 53.9% (\$12.2 Million) of the City's General Fund Budget. A range of other City services comprise the balance of the City's budget.

Financial Plan Overview

As discussed in greater detail below, the 2007-08 Budget reflects minor changes in expenditure levels from 2006-07. The total Proposed Operating Budget is \$48.6 million for 2007-08 (a .5% decrease from the current 2006-07 revised budget, as summarized below in thousands). The \$290,000 decrease in operating budgets is made up of minor increases or decreases for most departments with more significant changes in public safety (a \$437,000 increase) and redevelopment (a \$1.6 million decrease).



(in thousands)	2005-06 Actual	2006-07 Revised	2007-08 Budget
Personal Services	\$18,740	\$20,466	\$21,644
Capital Outlay	693	1,776	1,700
Materials/Services	18,122	21,948	19,918
Capital Lease	408	235	10
Operating Budgets	\$37,963	\$44,425	\$43,272
Debt Service	3,977	4,464	5,326
Total Operating Programs with Debt Service	\$41,940	\$48,889	\$48,598

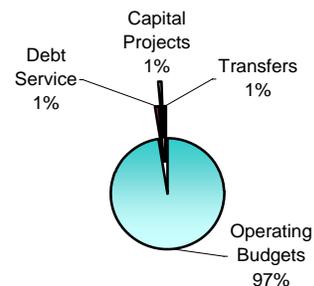


General Fund Highlighted

The General Fund is the primary funding source for the delivery of essential City services, ranging from public safety to recreation. Unlike our enterprise operations - such as water, sewer, or building regulation, that are able to set fees at levels necessary to recover their costs - General Fund programs have no other source of funding available to them.

Expenditures: As summarized below, very modest changes are proposed in the operating budget for fiscal year 2007-08. Total General Fund appropriations for operations are \$22.4 million, which represents an increase in the operating expenditure budget of 2% from the prior fiscal year. The increase in debt service is attributable to a capital lease used to finance work on city hall which included a new boiler and remodeling work on the first floor.

General Fund Appropriations (in thousands)	2005-06 Actual	2006-07 Revised	2007-08 Budget
Operating Budgets	\$ 22,318,833	\$ 21,692,637	\$ 22,165,939
Debt Service	90,338	132,834	256,019
Capital Projects	113,353	1,569,702	230,980
Transfers	1,673,674	190,368	145,753
Total General Fund	\$ 24,196,198	\$ 23,585,541	\$ 22,798,691



In reviewing the proposed changes to the 2007-08 operating budgets, special attention was paid to the financial position of the General Fund, which is the mainstay of the City's financial resources. Provided in Section D is a summary of projected changes in the General Fund's financial position. These changes in financial position have been based on realistic revenue projections and the proposed 2007-08 operating budgets. As reflected in the summary, General Fund resources will be \$0.76 million below the amount necessary to meet current year obligations during 2007-08.

The estimated General Fund unreserved Working Capital at June 30, 2008, is \$1.7 million, or seven percent of the total General Fund operating budget, which is significantly lower than the City's stated goal (*the City's stated goal is 60 days of operating expenditures, or approximately*

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\$3.6 million). In the budget for 2007-08 no transfers were made to the General Fund operating reserves. General Fund reserves are expected to trend downward as expenditure growth outpaces revenue growth.

A balanced 2007-08 General Fund budget has been achieved as a result of a number of factors, including minimal changes to basic operational costs, continuation of the maintenance deferral of years past, reductions to reserves and conservative increases in available resources. The following is a listing of the significant budget adjustments:

- **Increased Tax Revenues (\$1.2 million)** City revenues are projected conservatively each year using several techniques including historical trends, professional advice and the study of economic indicators. As detailed below, General Fund tax revenues are expected to increase by approximately \$1.2 million in Fiscal Year 2007-08, most coming from the City's Sales and Use Tax (\$862,000).
- **Reduced contribution to Police and Fire Pension Fund (\$60,680)** This year, we are proposing to repay a withdrawal of \$316,800 from this fund made in FY2004-05. The total principal and interest amounts to \$364,320, which is \$60,680 less than the usual \$425,000 annual contribution.
- **Use of General Fund Reserves to Balance Recurring Revenues and Expenditures (\$549,950)**. Due to the fact that General Fund recurring sources are not increasing at the same pace as recurring uses, reserves will again be used to bring this fund into balance. Each department manager maintained their budget requests at 2006-07 level. Increases to recurring expenditures were in areas outside our control such as retirement and health insurance costs. Fund reserves are estimated to be \$1.7 million dollars at the close of the 2007-08 fiscal year which is \$549,950 less than reserves estimated for the end of the 2006-07.
- **Use of Internal Services Reserves to reduce current year General Fund contributions (\$529,906)** The General Fund's share of the overall contribution to the Information Technology (IT) Operating Fund is about 75%, based on the allocation bases for the different components of the budget. In order to hold down the General Fund cost, the IT fund balance will be allowed to fall to approximately \$23,000, with this year's expenditures paid for by a draw-down of existing fund reserves. In addition, the Equipment Operations fund balance is being allowed to fall by approximately \$440,000 for the same reason.
- **Interest payment from Eureka Redevelopment Agency (\$243,470)** General fund miscellaneous revenues will increase by \$243,470 due to actual receipt of interest payments on advances to the Eureka Redevelopment Agency.
- **Personnel "Freeze"** All personnel position allocations are frozen at adopted budget levels and will not be increased without City Council approval.

Revenues: The Proposed 2007-08 Budget relies on revenue projections made regarding the performance of the economy over the next year. The forecasts take into consideration local historical data and local conditions, such as economic development, trends, demographic changes and favorable land economies.

Various revenue scenarios were considered during the preparation of the 2007-08 Budget which varied depending on the performance of the State and national economy, as well as local



economic conditions. The following assumptions regarding revenue projections are reflected in the budget:

- **There will be no major changes in the structure of existing local government revenues. Allocation of local revenues will be affected by State legislative decisions.**
- **Council approved rate increases in the Water and Wastewater Operating Funds have been implemented.**
- **Council approved fee increases will be implemented in recreation and facility rentals; community development; public works and engineering; dog licensing and other city services.**
- **Sales tax will increase due to continued strength in the retail sector.**

The City experienced significant revenue losses since the beginning of the 1990's as a result of the recession and the revenue "**takeaways**" by the State and County. We hope that the passage of Proposition 1A has put an end to this era.

General Fund recurring resources will increase by .7 percent in the year ahead, from \$20.9 million to \$21.7 million. The Sales and Use Tax continues to be the General Fund's largest source of revenue, generating \$9.6 million in 2006-07 and is expected to increase 5% to \$10.2 million in Fiscal Year 2007-08. Property Tax revenues are expected to increase by 7%, totaling \$1.6 million in 2007-08. The Motor Vehicle in-lieu tax is projected at \$.2 million in 2007-08. The Transient Occupancy Tax yield is expected to increase by \$100,000 generating \$1.6 million in fiscal year 2007-08. The City's Utility Users' Tax is expected to increase by 4.6% and provide \$1,300,000 to the City's General Fund. Revenues from franchise fees are expected to generate \$730,000 during FY 2007-08. A decrease of 24% is due to the fact that the new franchise agreement with Suddenlink failed to produce excess revenues as expected.

Operating Program Expenditures

Service Enhancements

The City of Eureka has traditionally delivered a high level of basic services to the community. Despite the status of the City's overall budget situation, the needs of the City and its residents must be addressed. A minimal number of service enhancements are presented for consideration in this year's budget. Funding is included for items directly or indirectly related to long-term council goals. All of the service enhancements included in this proposal are one-time expenditures for supplies or equipment and no additional positions are included in the proposal.

The following list includes proposed service enhancements:

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General Fund

- **City Clerk.** Service enhancement includes an increase of \$24,100 for supplies, shelving and contract services related to archiving of historical documents.
- **Non-Departmental.** Service enhancement includes an increase of \$10,000 to contract with an actuary to make calculations required to implement Governmental Accountant Standards Board pronouncement #45.
- **Police.** Service enhancement includes an increase of \$22,300. \$3,000 is for a public education project and \$19,300 is for telephone lines.
- **Fire.** Service enhancements include an increase of \$7,500. \$4,000 is in the area of Fire Prevention and will pay for costs associated with a Code Adoption Process. \$3,500 is in the area of Fire Administration and is to be used for High Tank Communication Vault Equipment.
- **Public Works.** Service enhancements include an increase of \$30,511 to be used in the area of Recreation – Youth. The funds will be used for preschool program supplies and staffing and an after school program coordinator. These costs are partially offset by grant revenues.
- **Public Works.** Service enhancements also include an increase of \$4,646 to pay for reclassification of a Maintenance Worker I/II to a Senior Maintenance Worker. An equal amount will appear in the Water Fund.

Enterprise Funds

Expenses within the Enterprise Funds have been retained at their FY 2006-07 levels with a few proposed service enhancements.

- **Water Fund.** Service enhancements include the capital purchases of cement mixers, a concrete saw, a pickup truck, various water system components and software; the total of these is \$86,000. Additionally, \$4,646 represents the other half of the funding for the Maintenance Worker reclassification.
- **Wastewater Fund.** Service enhancements include the capital purchases of a freight container, rods, cutter heads, a ¼ ton service truck, equipment for odor control, a spare Flyght pump, a vactor hose, a televising camera and software. These items are for the wastewater collection program and total \$110,500. The wastewater treatment program service enhancements include capital purchases for a bush hog, a portable gas detector, pumps and a variable speed drive. These total \$81,000. Finally, a service enhancement for \$2,000 is included for staff training.

Internal Service Funds

Expenditures within the Internal Service Funds have been retained at their FY 2006-07 levels



with one proposed service enhancement.

- **Equipment Operations.** Service enhancements include the capital purchase of a mobil track PC for field inspections.

Financial Issues FY 2007-08

The City continually strives to improve the level and quality of service provided to its citizenry as has been demonstrated through the various on-going service levels contained with this FY 2007-08 budget. In future years, the City's goals and objectives will continue to be reflective of the desire to improve the quality of life for Eureka's citizens.

- **Critical Future of the General Fund.** Although this year we will adopt a balanced General Fund budget (recurring revenues plus reserves of \$484,557 equal recurring expenditures), this has not been the case for several consecutive prior years. We need to continually remind ourselves that simply making ends meet one year to the next is not the same thing as sufficiently financing this organization's future.

The full financial picture is made up of several components: contingency reserves that cushion annual fluctuations in revenue collections, sufficient Working Capital to protect against disaster and uncertainty, ongoing and consistent capital planning and improvements, adequate funding of liabilities, and competitive compensation for our workforce. For the continuation of the most important services to this community, our long-term General Fund financial planning must include revenue enhancement, expenditures reduction through selective service reductions, increased efficiencies, or some combination of these.

- Propositions 62 and 218, with their requirement for voter approval of nearly all fees and taxes, have created severe restriction on our ability to offset growth in the cost of doing business. Based on strategic planning discussions with the City Council, the need to plan for future reductions in State resources and continually increasing costs within the General Fund and their projected budget consequences must be considered during the 2007-08 year.
- **Utility Users Tax Retained.** The General Fund has relied on this revenue since its original passage in 1994. The narrow passage of the renewal of this tax in the November 2006 election is a wake-up call to the city. During the next four years, we should improve communication with voters so that the next renewal may be by a more comfortable margin.
- **Retirement Benefit Costs** Retirement rates were expected to stabilize in 2007-08 and in fact, the rate for Fire Department employees fell by a fraction of a percent from 30.832% to 30.817%. However, the rates for Police and general service employees both increased slightly (30.049% to 32.290% for Police and 16.028% to 16.928% for general services). The dollar amount of the CalPERS increase to the General Fund over the previous year is \$283,638 and is partially attributable to the rates being applied to increased base pay.
- **Health Insurance Costs.** The City's health insurance premium due to REMIF increased by a modest 3.7%. A plan change during the year moved Police and Fire employees to the



REMIF plan, joining unrepresented employees. The public safety members will pay an 8% “initiation fee” to join REMIF and so next year, when that cost drops off, it will potentially offset any rate increases. The increase within all city funds in 2007-08 was \$361,262, with \$232,897 in the General Fund.

- **Street & Road Maintenance.** In the FY 2006-07 budget message, it was stated that one of the greatest challenges facing us is the need to maintain the City’s street and road infrastructure. The city is faced with the need to fund approximately \$1.5 million per year related to street maintenance. This equates to the portion of the operating budget that has been funded historically with “one-time” funding rather than with operating revenue. It is staff’s belief that based on revenue and expenditure trends, the Eureka economy, and prudent budget development and monitoring, minimal funding will be available for street and sidewalk maintenance. The situation has not improved in the past year.
- **Harbor Fund.** During fiscal year 1999-00, the City completed the \$10 million Small Boat Basin project, resulting in a state-of-the-art facility which greatly enhances Eureka’s waterfront. As a result, however, the Humboldt Bay Enterprise Fund, which funds harbor operations, continues to be in a deficit position and requires regular General Fund subsidy. This is due to a combination of lost revenues while the project was being constructed, debt service, reserve contributions and the perpetual 15% revenue pass-thru to the State of California required by the State loan used to finance the project. It is anticipated that over the course of several years, this deficit will be eliminated by increased fees. For the coming year, monthly moorage fees were increased from \$70 to \$85 and this increase, combined with increased occupancy, is projected to produce an additional \$80 thousand per year in revenue.
- **Federal and State Government Actions.** While past actions by the State including ERAF and the “Triple-flip”, remain in force and continue to reduce local government revenue, Proposition 1A should protect local governments from future similar intrusions. Management will continue to monitor the actions of State government officials. For the coming year, the State is expected to take an action that will add approximately \$200,000 to the city’s General fund by reimbursing for law enforcement booking fees.
- **Business Development and Retention.** We continue to work in partnership with the business community, strengthening our formal and informal ties to local commerce, to develop our community’s business potential. We emphasize assistance for businesses within our community equally with retention efforts for businesses considering relocation outside of Eureka.
- **Technology.** Intensified deployment of technology will continue to be an important priority for the City. Technology may provide the last and best opportunity for departments to find savings through efficiencies. A major step in this direction was made this year with the implementation of the automated (water) meter reading project. Additionally, the city completed phase one of a multi-phase project to upgrade and modernize the public safety internal network infrastructure at the Police Department. We are currently in full swing with the planning and implementation of phase two of this project, which includes providing IT support services to the Police Department, consolidating the two separate networks into one network, and upgrading the EPD data



center. Finally, the city is continuing to carefully explore the feasibility of expanding the availability of information to field employees in real-time through the extension of our data center into the field via a municipal wireless infrastructure. This project is in its infancy, and will include exploring the feasibility of implementing a Wi-Fi component to support public access the internet.

- **Infrastructure Construction and Improvements.** With the exception of the water and wastewater capital improvements we continue this year, we fall far short of meeting the City's infrastructure needs. Most available funding continues to find application in operational budgeting areas, meaning that the rate of decline in the usefulness of our City's infrastructure base has outpaced our ability to carry out needed capital upgrading and replacement.
- **Personnel Allocation "Freeze".** In an effort to maintain budget expenditure appropriations, the personnel "freeze" approved by the City Council in 2005-06 budget year will continue into 2007-08. Any changes to allocated positions will require City Council approval.

Capital Improvement Program

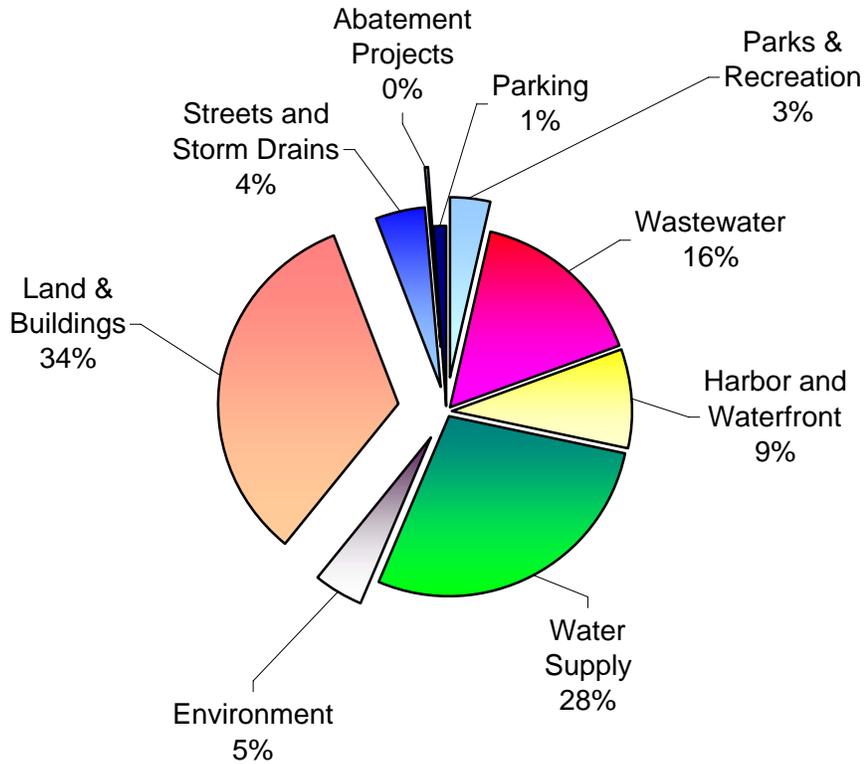
Recommended expenditures for Capital Improvement Program funded projects total in excess of \$8 million for next year. A list of the Capital Improvement Plan (CIP) projects is provided in Section H.

The following is a brief summary of major funded capital projects included in the Proposed Budget for Fiscal Year 2006-07(expressed in thousands). Redevelopment Owner Participation Agreements and special projects are not included:

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(in thousands)	2006-07 Estimated Actual	2007-08 Budget
Parks & Recreation	\$429	\$286
Wastewater	2,693	1,309
Harbor and Waterfront	2,454	734
Water Supply	2,558	2,299
Environment	2	373
Land & Buildings	1,496	2,728
Streets and Storm Drains	733	365
Abatement Projects	0	25
Parking	150	100
Totals	\$10,515	\$8,219





Summary

I want to thank the Finance Department staff for their fine work and countless hours spent in preparing this budget document, and for ensuring that it meets the highest standards in the profession. This document is the product of a first-rate and dedicated staff throughout the City organization. Despite our fiscal challenges, we remain focused on high-quality service provision to the citizens of Eureka. I appreciate the Council's vision and continued support of the organization as we fulfill that vision.

Respectfully submitted,

David W. Tyson
City Manager

The hard work and dedication to excellence by the City's budget team is hereby acknowledged.

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Sanna Wood, Finance Office Manager
Lynn Ellingwood, Information Services Manager
Gary Chapman, Accountant I
Sherry De Stefano, Accountant I
Kim Oswald, Administrative Service Assistant
Steven Miller, Central Services Assistant

Budget Summary For FY 2007-08 All Funds

Listed below are the resources and uses of all budgeted City Governmental, Proprietary and Trust funds. Intergovernmental Revenues decreased with new grant funds coming in for streets and roads and other capital improvement projects. Internal service fund charges increased Charges for Services. Miscellaneous Revenues are anticipated to decrease because of lower expenditures in economic development funds. Increases in Operating Transfers In/Out include transfers between funds and use of reserve funds. Changes in expenditures include general maintenance in enterprise funds, reductions in capital outlay, and increases in projects such as the Mad River Pipeline water project and the Trickling Filter Cover improvements at the wastewater plant. Fund balances have decreased in the General Fund as well in enterprise funds such as the Harbor Fund. Fund balances also remain low in the Redevelopment Project Fund.

	<u>2005-06 Actual</u>	<u>2006-07 Budget</u>	<u>2006-07 Estimated Actual</u>	<u>2007-08 Budget</u>
REVENUES AND OTHER FINANCING SOURCES				
Taxes	\$17,882,638	\$18,057,549	\$18,597,679	\$19,566,000
Licenses/Permits/Franchises	\$1,170,774	\$1,275,094	\$1,065,000	\$1,115,200
Intergovernmental	6,631,414	7,110,891	6,313,481	6,787,257
Charges for Services	14,931,720	14,558,629	14,041,289	13,012,309
Cost Allocation Charges	1,498,547	1,969,342	1,969,342	1,866,609
Fines & Forfeits	247,256	220,015	205,381	280,000
Miscellaneous	6,229,961	3,182,210	6,051,482	5,316,132
Operating Transfers In	8,540,237	9,795,325	3,848,027	4,392,060
Other Financing Sources				
Total Revenues and Other Financing Sources	<u>\$57,132,547</u>	<u>\$56,169,055</u>	<u>52,091,681</u>	<u>52,335,567</u>
Beginning Fund Balances			<u>24,166,049</u>	<u>15,695,732</u>
Total Available Resources			<u>\$76,257,730</u>	<u>\$68,031,300</u>
EXPENDITURES AND OTHER FINANCING USES				
Operating Budgets	\$37,963,016	\$44,355,261	\$42,019,832	\$43,272,500
Debt Service	3,976,816	4,463,650	4,242,223	5,326,181
Capital and Special Projects	3,829,397	18,741,025	10,451,917	8,218,623
Operating Transfers Out	10,425,435	5,911,292	3,848,027	4,392,060
Reserve Contributions				550,000
Total Expenditures and Other Financing Uses	<u>\$56,194,665</u>	<u>\$73,471,228</u>	<u>60,561,999</u>	<u>61,759,364</u>
Ending Fund Balances			<u>43,577,892</u>	<u>34,154,097</u>
Total Commitments and Fund Balances			<u>\$104,139,891</u>	<u>\$95,913,461</u>

Addendum to the City Manager's Transmittal



Summary of the Actions of the City Council Adopting the FY08 City budget
July 3, 2007

The City Manager's Proposed Budget included total revenue of \$52,335,567, total expenditures of \$61,759,364 and total FTE of 283.08.

The budget as approved by the City Council includes total revenue of \$52,365,967, total expenditures of \$61,896,604 and total FTE of 283.33.

Following are details of the changes:

Classification and Compensation. An additional \$50,092 in wages and benefits is requested to fund the recommended salary increases related to position reclassifications recommended by Koff & Associates in the Class & Comp study and approved by the City Council. This addition also includes funding for Fire Department backfill for vacancies created by the departure of the Assistant Fire Chief and Captain II. The funding distribution for these changes is: General Fund \$36,163; Information Tech. Operating Fund \$10,818; and Equipment Operations Fund \$3,111.

Harbor Funding. An additional appropriation of \$15,738 in Harbor Operating Fund is recommended to fund debt service. This represents a correction to the proposed budget amount.

Zoo Funding Appropriate \$41,410 for Zoo operations in the General Fund. This amount represents funding for personnel and if approved, will provide improved education programs at the zoo. The new or expanded programs will generate approximately \$30,400 in additional program revenue, making the net increase for this item \$11,010.

Fire Classroom To complete the Fire Classroom, an additional one-time appropriation of \$30,000 is requested. These funds will be used to landscape (\$5,000), fence (\$10,000), equip(\$5,000) and reimburse HROP.

The table below provides a summary of proposed budget, the changes detailed above and the adopted budget.

Budget Summary for FY 2007-08 All Funds



	<u>2007-08 Proposed Budget</u>	<u>Changes</u>	<u>2007-08 Adopted Budget</u>
REVENUES AND OTHER FINANCING SOURCES			
Taxes	\$19,566,000		\$19,566,000
Licenses/Permits/Franchises	\$1,115,200		\$1,115,200
Intergovernmental	6,787,257		6,787,257
Charges for Services	13,012,309		13,012,309
Cost Allocation Charges	1,866,609		1,866,609
Fines & Forfeits	280,000		280,000
Miscellaneous	5,316,132	30,400	5,346,532
Operating Transfers In	4,392,060		4,392,060
Other Financing Sources			
Total Revenues and Other Financing Sources	<u>52,335,567</u>		<u>52,365,967</u>
Beginning Fund Balances	<u>15,695,732</u>		<u>15,695,732</u>
Total Available Resources	<u>\$68,031,300</u>		<u>\$68,061,700</u>
EXPENDITURES AND OTHER FINANCING USES			
Operating Budgets	\$43,272,500	\$91,502	\$43,364,002
Debt Service	5,326,181	15,738	5,341,919
Capital and Special Projects	8,218,623	30,000	8,248,623
Operating Transfers Out	4,392,060		4,392,060
Reserve Contributions	550,000		550,000
Total Expenditures and Other Financing Uses	<u>61,759,364</u>		<u>61,896,604</u>
Ending Fund Balances	<u>34,154,097</u>		<u>34,154,097</u>
Total Commitments and Fund Balances	<u>\$95,913,461</u>		<u>\$96,050,701</u>



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March 6, 2007



Mark Alvarado
CSMFO President



Agnes Walker, Chair
Budgeting & Financial Management



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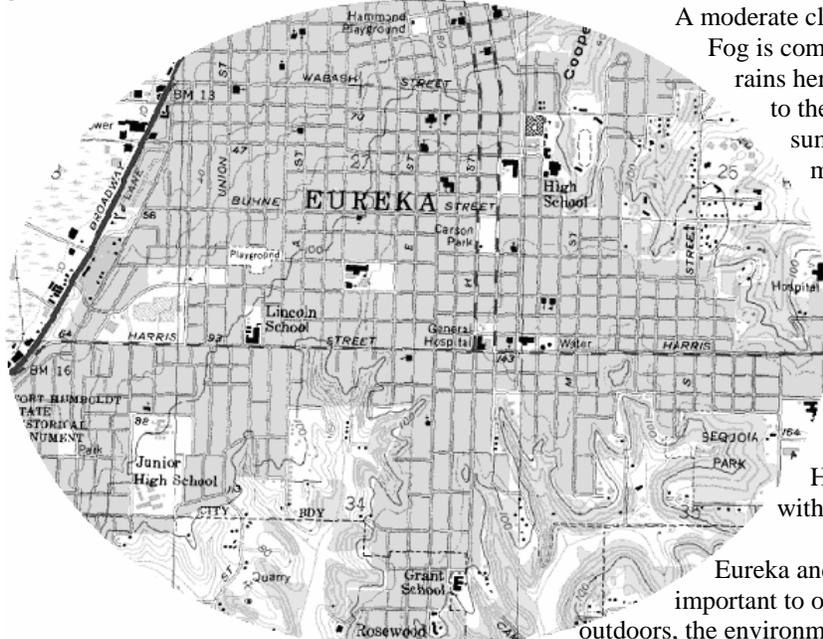
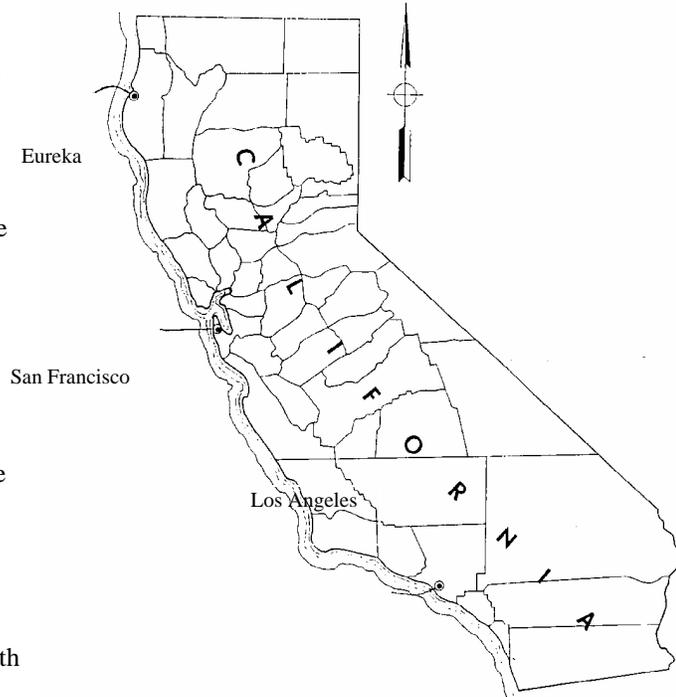
Community Profile



Bustling into Western history during the famous California Gold Rush, the City of Eureka thrived for many years on the area's rich abundance of redwood timber. Quickly establishing itself as the commercial hub of the North Coast, Eureka fused a stunning array of Victorian architecture with the rugged beauty of the Northwest to create a truly unique community.

Today, Eureka is an established *State Historical Landmark* due to the presence of so many examples of Victorian and other "period" architecture. Many of these homes and buildings have been preserved and painstakingly restored. Eureka still maintains the highest level of Victorian homes per capita in California.

Eureka is located on Humboldt Bay, with the Pacific Ocean to the west and mountains and forests to the east, north, and south. It is the North Coast's largest coastal town north of San Francisco and the central location for the area's government, commerce and culture.



A moderate climate prevails, summer and winter. Fog is common. Bring your umbrella, because it rains here - fall, winter, and spring. Due to the geographical diversity of the area, summer temperatures in the nearby mountains and in Southern Humboldt County, just minutes from Eureka, range into the 90's.

Eureka's population is approximately 27,052. Another 14,000 reside immediately adjacent to the city limits. Hence, the greater Eureka population is approximately 41,000. About 100,000 people, or 85 percent of Humboldt County's total population, live within a 20-mile radius of Eureka.

Eureka and the nearby cities reflect what is important to our community - family, work, the outdoors, the environment, the arts, and community service.

In Humboldt County the lifestyle is relaxed. Many residents live in rural settings, away from neighbors, yet within minutes of jobs, schools, rivers, woods, and the beach. Traffic jams and crowded beaches don't exist and natural beauty is available at every turn.

Community Profile



Shopping, services, and recreation are abundant in Eureka. As “the hub city” for Northwestern California, Eureka offers a broad range of cultural resources and amenities such as museums, libraries, parks, galleries, theaters, fitness and recreational facilities along with retail outlets, medical care, automotive services, restaurants, accommodations, professional, and technical services.

Fun and fitness are valued in Humboldt County, but activities aren’t limited to golf, tennis, dancing, swimming, bicycling, organized sports, or classes. National and state parks, National Forests, acreage managed by the Bureau of Land Management, and proximity to rivers and wilderness areas provide terrific hiking, hunting, fishing, sailing, rafting, and camping. The Eureka area is also especially attractive to recreational and sports enthusiasts, boasting some of the most exciting ocean and river fishing in the world.

Eureka’s visitors enjoy friendly and unpretentious attitudes among the people they meet.

People are generous here and many examples of this generosity and commitment to community exist in Eureka, where people live and work together to build community assets.

The raw pioneer spirit that grabbed opportunity at every chance has evolved into a more sophisticated version - a version that looks at the new century demands of tomorrow. Our residents are active in business and government giving the community a vision of the future. City and community leaders along with governmental agencies are setting a swift and concerted pace on behalf of the community to achieve exceptional progress. They acknowledge that the whole is greater than the sum of the parts because Eureka is a place where voices and viewpoints are heard.