

*SECTION A*  
*INTRODUCTION*



# *Addendum to the City Manager's Transmittal*

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Summary of the Actions of the City Council Adopting the FY09 City budget July 16, 2008:

The City Manager's Proposed Budget included total revenues of \$71,766,760, total expenditures of \$77,917,060 and total FTE of 269.08.

The Budget as approved by the City Council includes total revenues of \$72,166,760, total expenditures of \$78,524,196 and total FTE of 277.08.

In the weeks following the City Manager's presentation of the Proposed Budget, the City Council conducted three study sessions (June 10, June 18, June 24) and a public hearing on July 16, 2008. Public testimony was heard at all three sessions. As a result of their deliberations, Council directed staff to make the following changes:

A total of 8 Public Safety positions were restored to the Budget: 2 Firefighters, 3 Police Officers, 2 Police Records Specialists and 1 Senior Police Services Officer. The Budget was increased by \$422,417.

The allocation of City Funds to outside groups was adjusted. This change affected the Convention and Visitors Bureau, the Chamber of Commerce, The Humboldt Senior Resources Center, RSVP, and the Clarke Museum. The net increase to the Budget as a result of these changes was \$29,088.

Funding for Council's changes will be provided by a reduction in Fire Department Overtime in the amount of \$75,000; a reduction in General Fund temporary salaries in the amount of \$50,000; a reduction in the Street Sweeping program in the amount of \$50,000; an increase in the loan payment from the Eureka Redevelopment Agency to the City of Eureka General Fund of \$100,000; a reduction in General Fund personal services brought about by the combination of implementing a voluntary work furlough program and other General Fund staffing reductions in the amount of \$200,000; and terminating outside security services for Old Town Security, producing a savings of \$75,000.

Other changes to the budget, suggested by staff as a result of new information and detection of errors or omissions in the Proposed Budget were approved by Council and include:

- An increase of \$23,965 in the cost of employee Dental/Vision benefits;
- An increase of \$22,300 in personal services costs to implement EFOL MOU;
- An increase in PERS costs for Fire Safety Members, based on MOU of \$7,930;
- An increase of \$25,000 in the Skate Park capital project, funded by a donation from Coast Central Credit Union;
- An increase of \$25,000 in the Environmental Program budget; the amount was inadvertently omitted from the Proposed Budget;

An increase of \$6,000 in personal services in the Gas Tax Fund to hire a temporary employee to perform Traffic Study work;  
 An increase of \$2000 in the Fire Department Training budget for EMT certifications; this was inadvertently omitted from the Proposed Budget;  
 An increase of \$36,130 in the Fire Department capital outlay budget for safety equipment inadvertently omitted from the Proposed budget;  
 An increase of \$5,000 to the City Attorney professional services budget for costs related to litigation;  
 An increase of \$5,042 in personal services in the Personnel Department for scheduled promotions inadvertently omitted from the Proposed Budget;  
 A net decrease of \$52,736 in personal services in the General Fund to correct errors in the proposed budget;  
 An increase of \$100,000 in Redevelopment Debt Service expenditures for the General Fund loan payment;  
 An increase of \$75,000 in Redevelopment expenditures for the Old Town Security;  
 And an increase of \$50,000 in Gas Tax Funds for temporary funding for Street Sweeping.  
 The table below provides a summary of the Proposed Budget, the changes described here, and the Adopted Budget.

Revenues and other financing sources

	<u>Proposed</u>	<u>Changes</u>	<u>Adopted</u>
Taxes	\$ 19,917,479		\$ 19,917,479
Licenses/Permits/Franchises	1,218,670		1,218,670
Intergovernmental	11,462,998		11,462,998
Charges for services	17,806,712		17,806,712
Fines & Forfeits	388,000		388,000
Miscellaneous	10,396,336	25,000	10,421,336
Other financing sources	<u>10,576,565</u>	<u>375,000</u>	<u>10,951,565</u>
Total revenues and other financing sources	71,766,760	400,000	72,166,760
Beginning fund balances	<u>15,357,117</u>		<u>15,357,117</u>
Total available resources	<u>\$ 87,123,877</u>		<u>\$ 87,523,877</u>

Expenditures and other financing uses

Operating budgets	\$ 45,547,036	407,136	\$ 45,954,172
Debt service	4,844,706	100,000	4,944,706
Capital and special projects	21,344,752	25,000	21,369,752
Reserve contributions	550,000	-	550,000
Transfers out	<u>5,630,566</u>	<u>75,000</u>	<u>5,705,566</u>
Total expenditures and other financing uses	77,917,060	607,136	78,524,196
Ending fund balances	<u>9,206,817</u>		<u>8,999,681</u>
Total commitments and fund balances	<u>\$ 87,123,877</u>		<u>\$ 87,523,877</u>

The Adopted FY2008-09 Budget relies more heavily on one-time resources to fund ongoing costs than previous budgets. However, because Public Safety funding is clearly an extremely high priority to the Council Members and their constituents, the budget was adopted along with a plan to address the structural imbalance. First, Council committed to engage in a planning exercise to prioritize services during the coming year. This exercise will assist in preparing a budget that dedicates more resources to the highest priority activities and help to determine an appropriate level of resources for activities of lower priority. Second, Council directed Staff to send two revenue measures to the November ballot. Eureka voters will decide on a 1% increase to the Transient Occupancy Tax, bringing it from 9% to 10%. Eureka voters will also decide on a ¼% Transaction and Use Tax, which is coupled with repeal of the City's 3% Utility Users' Tax.

# *City Manager's Transmittal*

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May 20, 2008

Honorable Mayor and City Council:

We are pleased to submit the Proposed Budget for the 2008-09 Fiscal Year. The City of Eureka's Budget for the 2008-09 fiscal year is balanced, as required by the California State Constitution, City Charter and Municipal Code. The term "balanced" means that expenditures will be funded by a combination of revenues and use of reserves. The total budgeted appropriation of \$77.9 million supports operating programs, debt service and Capital Improvement Plan (CIP) projects.

As council adopted the FY2007-08 budget, a number of key issues for the future were identified. These included: recruitment and retention of employees; Waterfront Maintenance & Development; Street and Road Maintenance; funding for Problem Oriented Policing and Fire Department critical issues; Transit Fund reliance on General Fund; Harbor Fund declining working capital; and others. The proposed FY2008-09 budget reflects significant movement on many of these issues and highlights our continued challenges on others.

## *Key Budget Principles*

The 2008-09 budget reflects the City's commitment to provide services. The overarching principles which guided development of the proposed budget are:

- 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.
- Service reductions will be made to minimize the impact on citizens
- The hiring freeze will remain in force

## *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 2008-09 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.



F) Additional high priority goals identified in Council's 2007-08 Strategic Visioning Process

1. Produce H & I Street corridor improvement plan
2. Plan for revenue enhancement
3. Implement a code enforcement program with funding
4. Implement Problem Oriented Policing

## *Financial Condition Summary*

### *Financial Outlook*

The major economic concerns facing our nation at this time are the struggling housing sector, the tightened credit market, volatile financial markets and high energy prices. These same factors play a part in the State budget crisis and in the City's financial condition.

The housing bubble that peaked in 2005 resulted in a revenue windfall for the City. Tax revenues increased due to the assessed values being adjusted based on the sale price plus the extra revenue of the supplemental tax paid for the year of the sale. Now that housing sales have slowed and the median price of a home has slipped, secured current tax revenues will flatten out and supplemental tax revenues will decrease.

The struggling housing sector has implications that reach further than the property tax rolls. Construction employment and construction material sales have weakened as well, with a negative effect on sales tax revenues.

While investment income is not a major revenue source for Eureka, our portfolio earnings are seeing a decrease based on lower interest rates. As an example, the interest rate paid by LAIF, (Local Agency Investment Fund) dropped a full percentage point between the first quarter of 2007 and 2008. The drop for the second quarter is expected to be larger.

Even while we are surrounded with economic uncertainty, Americans and Eurekaans continue to go shopping. Retail sales (with the exception of automobiles and construction materials) match prior year levels. The effect of the decreases in automobiles and construction materials is an overall decrease of 3.8% for the fourth quarter of 2007 (the most recent reporting period) compared to the fourth quarter of 2006. One year ago, while the first signs of economic distress were appearing, the retail sector was strong enough that we budgeted modest gains in sales tax. Because of this, the effect of the reductions on our budget was amplified.

The cost of energy has several impacts on the City budget. Our operating budgets must absorb the growing cost for gasoline and electricity. As consumers conserve energy, the City's revenues for Utility Users' Tax, sales tax and gas tax are all affected. Finally, the growing cost of energy may discourage or defeat Eureka businesses, impacting business license revenue and the overall economic vitality of the community.

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 2.2% decrease compared to the previous year. Retail sales are down 1.7% over the previous year. Not surprisingly, home sales continue to decline in both price and number. The April 2008 median home price fell to \$297,000 from \$325,000 in April 2007<sup>ii</sup> and some economists are predicting that this



trend will continue for several more years. Manufacturing is down 14.5% with a weak lumber market contributing to that statistic. The hospitality index is up an amazing 26.5%. Fortunately, the troubling dip noted in the Spring of 2007 was not indicative of a trend. The employment index is down 2.1% compared to last year. The current county-wide unemployment rate of 6.25% is up 1% from the same time last year although, for the first time since 2005, the county unemployment rate is below that of the state. While the unemployment rate is higher than ideal, the index of help wanted advertising rose 13.6% from February to March 2007, indicating anticipated future strength in the labor markets and possibly accelerating economic activity in the local economy.

Taken together, the economic indicators do not seem to point decisively in either direction. The proposed budget reflects this with conservative revenue projections and with further belt-tightening throughout the operating budgets.

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 has already resulted in depleted reserves and can now only be addressed through reduced services. The proposed budget does not address staffing needs in the fire department, the community policing program, or catching up on deferred maintenance of city buildings. 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.

In anticipation of the unpleasant reality of service reductions, council directed staff to begin exploring revenue enhancements.

At the present time, a wastewater rate study is underway, with the expectation of a rate increase sufficient to cover operating costs and some capital projects that are driven by regulatory demands and environmental needs. Ultimately, any proposed new wastewater user rate will be subject to the provisions of Proposition 218.

At Council's direction, staff contracted with a consultant to conduct a survey to test the acceptability of a Fire Suppression Assessment District to the City's property owners. The survey results were disappointing and indicate that public education about the needs and current resources of the Fire Department is vitally important before a revenue measure is placed on the ballot.

Also at Council's direction, a search for new revenue was also undertaken by the Finance Advisory Committee. This group worked with an HSU marketing professor and her students to test voter preference for a variety of funding methods to pay for an enhanced Problem Oriented Policing program. The survey response was more than sufficient to produce statistically valid data. The respondents did not demonstrate high support for any tax measure, although they did indicate that an increase in the Transient Occupancy Tax was preferable to other options.

Both surveys provide valuable information and will assist Council and staff in creating strategies for revenue generation in the coming year.

## *Budget Content*

In preparing their fiscal plans for the coming year, departments were directed to prepare their department requests based on a status-quo budget, maintaining current services. In addition, departments were asked to describe how they would implement a 20% cut in operating budget, if that were to be necessary, and how services would be impacted. The proposed budget

# City Manager's Transmittal



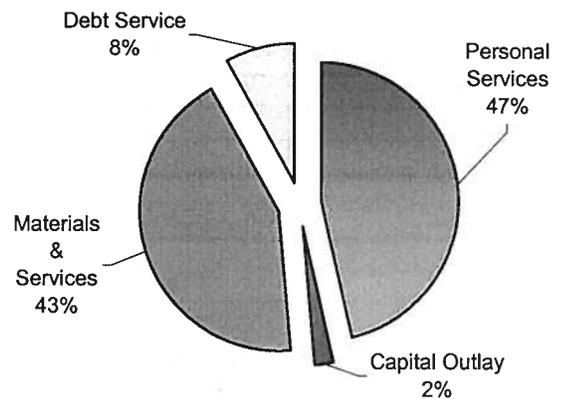
attempts to maintain the most essential services, although departments will be attempting to provide those services with fewer resources in terms of staff, supplies, training, etc.

The recommended budget is consistent with the City Council priorities. Funding for public safety comprises 57% (\$13.0 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 2008-09 Budget reflects significant changes in expenditure levels from 2007-08. The total Proposed Operating Budget is \$49.5 million for 2008-09 (a 5% decrease from the current 2007-08 revised budget, as summarized below in thousands).

(in thousands)	2006-07 Actual	2007-08 Revised	2008-09 Budget
Personal Services	\$20,264	\$22,280	\$23,029
Capital Outlay	877	1,891	1,052
Materials/Services	21,584	22,398	21,466
<b>Operating Budgets</b>	<b>\$42,725</b>	<b>\$46,569</b>	<b>\$45,547</b>
Debt Service	3,950	5,716	3,995
<b>Total Operating Programs with Debt Service</b>	<b>\$46,675</b>	<b>\$52,285</b>	<b>\$49,542</b>



## General Fund Highlighted

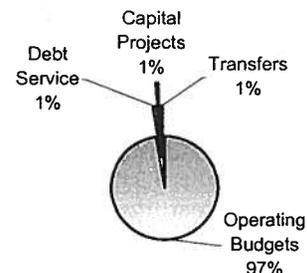
The General Fund is the primary funding source for the delivery of essential City services, ranging from public safety to recreation. Unlike our enterprise operations - such as water, sewer, or building regulation, that are somewhat able to set fees at levels necessary to recover their costs - General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

**Expenditures:** As summarized below, significant changes are proposed in the operating budget for fiscal year 2008-09. Total General Fund appropriations for operations are \$22.9 million, which represents a decrease in the operating expenditure budget of nearly 6% from the prior fiscal year.

# City Manager's Transmittal



General Fund Appropriations (in thousands)	2006-07 Actual	2007-08 Revised	2008-09 Budget
Operating Budgets	\$ 21,346,611	\$ 22,938,984	\$ 22,541,629
Debt Service	129,950	620,339	256,022
Capital Projects	1,286,393	473,862	52,972
Transfers	249,153	348,497	74,430
<b>Total General Fund</b>	<b>\$ 23,012,107</b>	<b>\$ 24,381,682</b>	<b>\$ 22,925,053</b>



In reviewing the proposed changes to the 2008-09 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 2008-09 operating budgets. As reflected in the summary, General Fund resources will be slightly over the amount necessary to meet current year obligations during 2008-09.

The estimated General Fund unreserved Working Capital at June 30, 2009, is slightly over \$600,000, or a little less than 3% of the total General Fund operating budget. A portion of this amount, while not legally reserved, is planned to pay for an MOU that council has not yet completed negotiating.

This level provides a small cushion in the event the revenue projections are high or to provide the ability to respond to unforeseen emergencies or opportunities. *The City's stated goal for the General Fund operating reserve is 60 days of operating expenditures, or approximately \$3.8 million.*

A balanced 2008-09 General Fund budget has been achieved as a result of a number of factors, including major changes to basic operational costs, continuation of the maintenance deferral of years past and reductions to reserves. The following is a listing of the significant budget adjustments:

- Reduced contributions to non-profit agencies (\$145,000)** The city contracts with the Convention and Visitors Bureau and with the Chamber of Commerce. The annual payment from the City to these agencies is based on Transient Occupancy Tax receipts. The proposed budget includes a 10% reduction to the contractual payment to mimic the reductions taken by City departments. The City has historically made contributions to a number of local non-profit agencies who do good work in the community. The proposed budget includes an appropriation for most of these agencies of an amount equal to one-quarter of the traditional amount. This will allow a few months for the organizations to search for other funding mechanisms.
- Reduced contribution to Police and Fire Pension Fund (\$255,000)** The actuarially determined amount for the contribution is \$521,067. The proposed budget includes a contribution of \$266,067. This is a matter of timing, as the pension liability must be funded and smaller contributions now mean larger contributions later since the funds will not earn interest.

# City Manager's Transmittal



- **Use of Internal Services Reserves to reduce current year General Fund contributions (\$491,296)** Contributions to the City's internal service funds, the IT Operations Fund, the Equipment Operations Fund and the Risk Management Fund were reduced. About three-quarters of this results in a savings to the General Fund as the services are allocated based on usage. The IT Operations Fund balance has now been completely used up and the City will have to "pay as we go" for future technology purchases. The other internal service funds have positive fund balances, but they are below recommended levels.
- **Principal payment from Eureka Redevelopment Agency (\$850,000)** General fund miscellaneous revenues will increase by \$850,000 due to actual receipt of a principal payment on advances to the Eureka Redevelopment Agency. The total amount of the advance was approximately \$4.8 million at June 30, 2007. So while this is not a "one-time" revenue, it is also not a sustainable revenue.
- **Personnel "Freeze" (\$952,000)** At the time this budget was prepared, there were 12 vacant General Fund positions. The proposed budget does not include funding for any of these positions to be filled in FY2008-09.
- **Zoo admission fee (\$100,000)** The Sequoia Park zoo has never charged an admission fee. The zoo represents almost 3% of the General Fund budget (\$670,472).
- **Reduced subsidy to Transit Fund (\$60,000)** The Transit Fund has been experiencing an operating loss for a number of years, resulting in a negative fund balance of approximately (\$125,000). A fare increase combined with cost controls is planned to eliminate the need for the General Fund subsidy.
- **Reduction in temporary and part-time staff** The Engineering Department is not funded for approximately \$28,000 for temporary employees upon whom they have previously relied for staff support. Temporary employees have also been reduced in Public Works. Two part-time positions (not vacant) will also be eliminated: one in Parks division and one in Finance, saving approximately \$41,000.

These and other operational reductions are reflected in the FY2008-09 Proposed Budget.

**Revenues:** The Proposed 2008-09 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 2008-09 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.**

# City Manager's Transmittal



- **Increases to various City fees and charges will be approved, implemented, and will achieve the revenue targets.**
- **Sales tax will experience slow growth**

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 tax revenues are being projected at 98.6% of the FY2007-08 amounts. This is reflective of sluggish sales tax and the downturn in the housing market combined with stable Transient Occupancy Tax and Utility Users' Tax revenues.

General Fund revenues from "charges for services" are projected to increase by approximately 12%, based on proposed fee increases, calculated to recover costs.

## *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 single Service Enhancement is proposed this year. Utility customers have expressed a desire to be able to pay their bills "online". This item will make that possible, and will reduce staffing needs in the Finance Department.

### *Enterprise Funds*

Expenses within the Enterprise Funds have been retained at their FY 2007-08 levels with a few proposed service enhancements.

- **Water and Wastewater Funds** Service enhancements include \$10,000 (one-time) to pay for the software and \$4,800 (annually) to pay for support for the Incode e-pay module. This will allow utility customers to pay their bills on the internet. The cost of this item is split evenly between water and wastewater. An additional cost of \$1.25 per transaction is proposed to be passed on to the utility customers.
- **Building Fund** Service enhancements include \$9,000 for consulting services. Several large projects are anticipated in the coming year which will require consultant review.
- **Humboldt Bay Fund** Additional appropriations are proposed for repair parts for heavy equipment which will be used for maintenance at C Street Plaza. \$2,000
- **Gas Tax Fund** Additional appropriations are proposed for LED Traffic signal light testing equipment and battery backup. \$30,000.



## *Financial issues for the future*

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 2008-09 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.** The FY2008-09 budget was balanced with a combination of service reductions selected for a minimum impact on Eureka citizens'; fee increases based on cost recovery; savings created through reduced contributions to Internal Service Funds; and the beginning of repayment of advances to the Eureka Redevelopment Agency. 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.
- **Wages** The Koff classification and compensation study, completed in FY2006-07, was implemented for three of the City's four employee groups: Police, Fire and ECEA. The unrepresented and confidential employees have not had a salary adjustment since January 1, 2007. In some cases, employees doing similar work in different employee groups are not earning the same salary.
- **Retirement Benefit Costs** Retirement costs were expected to stabilize eventually, after exhausting the super-funded status. Instead, the City is experiencing annual increases to the PERS rates for all employee groups.
- **Health Insurance Costs.** The City's health insurance premium due to REMIF represented one significant bright spot in the budget. Premiums decreased by 5.62% and the public safety "initiation fee" will expire.
- **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 \$85 to \$90, based upon analysis of what the market would bear. In addition, the Redevelopment Agency will provide approximately \$433,000 in subsidy to cover debt service and reserve requirements.

- **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.
- **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.
- **Hiring "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 2008-09.

## *Capital Improvement Program*

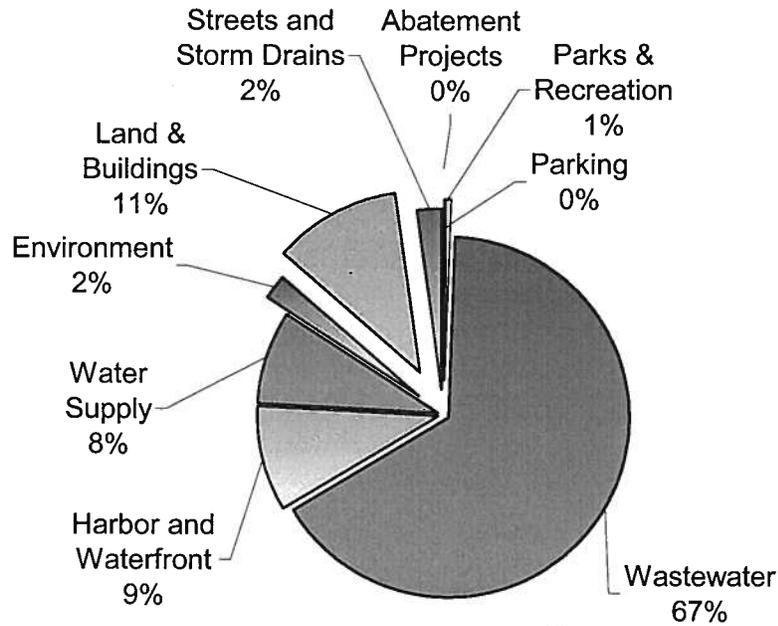
Recommended expenditures for Capital Improvement Program funded projects total in excess of \$20 million for next year. A list of the Capital Improvement Plan (CIP) projects is provided in Section H.

The following is a brief summary of major funded capital projects included in the Proposed Budget for Fiscal Year 2008-09 (expressed in thousands). Redevelopment Owner Participation Agreements and special projects are not included:

# City Manager's Transmittal



(In thousands)	2007-08 Estimated Actual	2008-09 Budget
Parks & Recreation	\$68	\$136
Wastewater	1,424	13,315
Harbor and Waterfront	504	1,904
Water Supply	723	1,675
Environment	18	454
Land & Buildings	1,191	2,284
Streets and Storm Drains	662	454
Abatement Projects	25	0
Parking	196	0
<b>Totals</b>	<b>\$4,811</b>	<b>\$20,222</b>





## 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,

A handwritten signature in black ink, appearing to read "David W. Tyson", is written over a horizontal line.

David W. Tyson  
City Manager

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

Valerie Warner, Finance Director  
Sanna Wood, Assistant Finance Director  
Lynn Ellingwood, Information Services Manager  
Gary Chapman, Accountant I  
Sherry De Stefano, Accountant I  
Russell Shorey, Accountant II  
Kim Oswald, Administrative Service Assistant  
Steven Miller, Central Services Assistant



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of Eureka  
California**

For the Fiscal Year Beginning

**July 1, 2007**

President

Executive Director

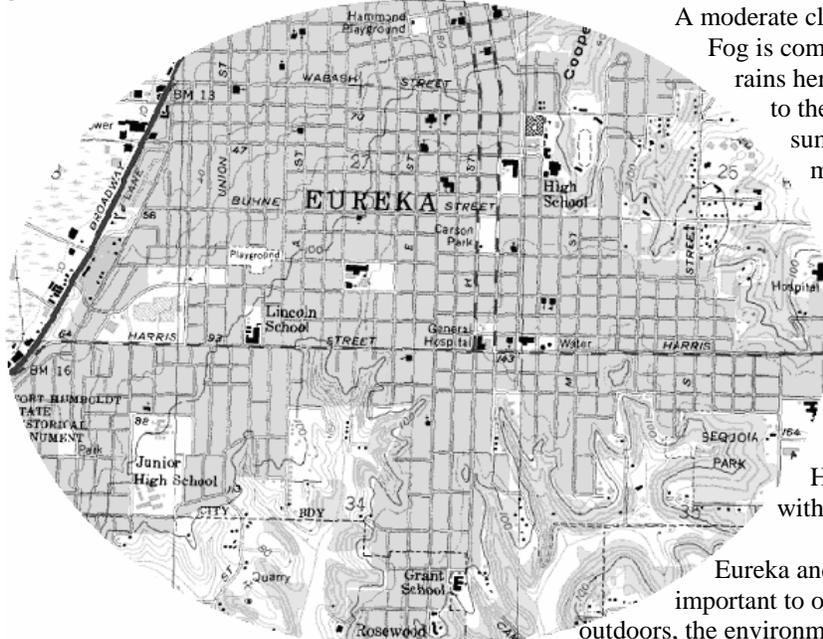
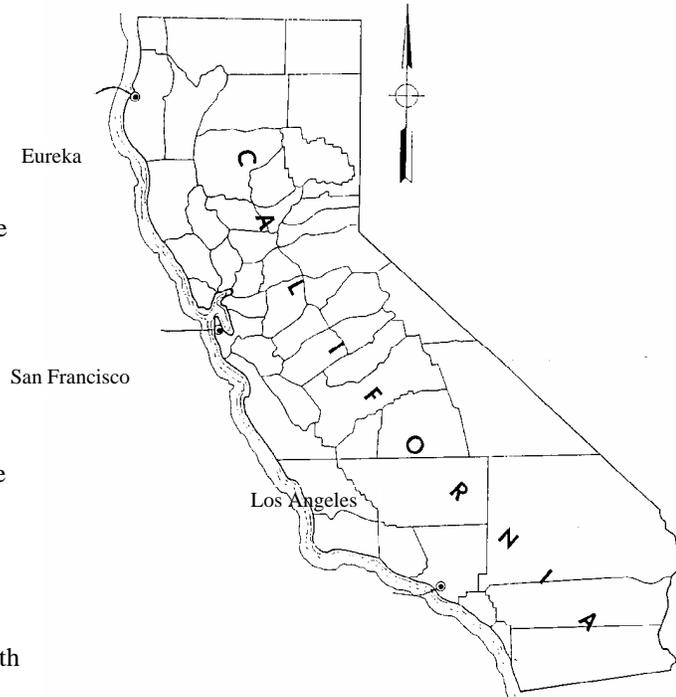
# Community Profile



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

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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.

