

SECTION A
INTRODUCTION

City Manager's Transmittal



July 6, 2010

Honorable Mayor and City Council:

We hereby submit the adopted budget for the 2010-11 Fiscal Year.

Looking ahead to the 2010-11 budget from the 2009-10 mid-year budget review, a significant shortfall was anticipated. During the Spring of 2010, the City Council reviewed department activities and potential new revenue sources in order to give direction on 2010-11 budget preparation. Ultimately, the proposed budget relies heavily upon maintaining General Funded vacant positions throughout the organization as well as a program of early retirement incentives for individuals in key positions, which will create opportunities for reorganizations. Public Safety activities continue to represent the highest priority, and budget reductions are not expected to impact those department's abilities to keep the community safe. However, reductions to the Sequoia Park Zoo and to the City of Eureka Adult Recreation programs will be felt in the community. Finally, a tax measure will be presented to voters in November 2010, however the proposed budget does not include any revenues from the new tax.

Key Budget Principles

The 2010-11 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 levels
- Fees for services will be adjusted based on the cost of service provision
- Potential revenue from the Supplemental Transaction & Use Tax, to be voted on in November 2010, will not be considered as an available resource
- 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
- Public Safety funding will be preserved to the extent possible

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 Budgets for the 2010-11 fiscal year 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, departments are carrying out programs to meet council and general plan goals in the areas of:

- Economic Development
- Downtown and Waterfront Development
- Housing and Neighborhood Improvements
- Public Safety
- Transportation Management

Financial Condition Summary

Financial Outlook

The major economic concern relates to low sales tax revenues. The FY2010-11 sales tax revenue is projected to be almost \$1.5 Million less than fiscal year 2007-08, although recent indicators seem to signal that retail sales are beginning to rebound. In addition, local governments across the state fear further state raids on local revenues. In May 2010, the Eureka Redevelopment Agency was forced to make a payment of over \$1.6 Million to the state. This action was a direct hit on our local economy, removing funds that would otherwise have been used by the Redevelopment Agency to make improvements to the community.

While investment income is not a major revenue source for Eureka, our portfolio earnings are at historic lows, based on lower interest rates. As an example, the interest rate paid by LAIF, (Local Agency Investment Fund) dropped from 4.18% in March 2008 to 1.91% at March 2009 and further to .57% in March 2010.

The unemployment rate in Humboldt County is at 10.9%, and the most recent month's information about new unemployment claims shows an increase of 12% over the previous month – a number that matches the previous all-time high set in July 2009. Building permits doubled from April to May 2010, but are still at less than half of the average for this time of year. The number of new Help Wanted ads also dropped dramatically. Taken together these three indicators tell us that the County is still experiencing the worst of the recession.



Compared to the prior year, all but two of the Humboldt economic index values show improvement with home sales the most improved, with a 41% increase to the index value, followed by electricity, which is considered to be an indicator of manufacturing activity, with a 31% increase to the index value. Hospitality and retail sales show very small improvement with increases of 1.1% and .9%. Most problematic, the index values for employment and manufacturing show decreases of 3.1% and .2%.

The home sales index clearly pulled up the composite index, which shows a 6.2% increase over the prior year. It remains to be seen how the April expiration of the First Time Home Buyers Credit will impact home sale activity and prices.

Budget Content

In preparing their fiscal plans for the coming year, departments were directed to prepare their budget requests at a level that would maintain current services. The draft budget included revenues of approximately \$19.7 Million and expenditures of approximately \$24.3 Million resulting in a deficit of over \$4.5 Million. If revenues were allocated to strictly by program priority, the available revenues were only enough to pay for Police and Fire services. In that it is not possible to eliminate all other General Fund services, council was given a number of options to consider as ways to close the gap in the budget. The budget reductions council selected include:

- Eliminate funding for Community Groups: Humboldt Senior Resource Center and RSVP totaling \$40,000
- Reductions to Capital Outlay requests in the General Fund totaling \$75,000
- Increased revenue from Charges for Services of \$25,000
- Reduce contribution to Internal Service Fund for Equipment Operations, and delay vehicle replacements (except for police patrol vehicles) for savings of \$480,000
- Reorganize Recreation Division and eliminate adult sports – saves \$125,000
- Sequoia Park Zoo: Increased Foundation support, Increased admission fees and expenditure reductions totaling \$115,000
- Storm Water program reductions – eliminate residential street sweeping \$60,000
- Cost reductions in Streets/Alley maintenance programs \$50,000
- Reorganize the Facility Maintenance division via early retirement - saves \$150,000
- Reorganize the Engineering Department via early retirement – saves \$100,000
- Reduce contribution to Fire & Police Retirement Fund – change to “pay-as-you-go” funding – one-time savings of \$332,000
- Maintain three vacant firefighter positions – saves \$290,000
- Maintain various vacant positions in the Eureka Police Department – saves \$560,000
- Maintain non-public safety vacancies - \$20,000
- Early retirement in Fire Department – saves \$250,000
- Early retirements in Police Department – saves \$200,000
- Reorganization in Police Department – saves \$150,000
- Use grant funding for two police officer positions – saves \$200,000

While the proposed budget does include reductions to the public safety departments, Police and Fire services still represent 71.2% of the City's General Fund Budget.

In an effort to clarify the sources of funding for City Hall programs including Mayor, Council, Clerk, City Manager, City Attorney, Finance, Human Resources, Facilities Maintenance and



certain non-departmental costs, a new Internal Service Fund was created, *the Internal Operations Fund*, and these departments were removed from the General Fund. New internal charges to departments in all funds represent the allocation of these costs. This new view presents a more realistic and complete picture of the cost of services. In addition, costs for the Engineering Department are being directly charged to Enterprise funds, instead of being allocated via the cost allocation plan; again, this change was made to present information in a way that is clearer and more understandable to readers of the City's budget. As is the case when any structural change to the budget is made, comparing certain year-over-year changes will be difficult for a few years. For this reason, it is only after very careful consideration that such changes are made, and it is staff's hope that the rewards outweigh the temporary inconvenience.

It should be understood that the full benefit from early retirements and departmental or divisional reorganizations may not be felt in FY2010-11, as it will take some time to make these changes.

Financial Plan Overview

As discussed in greater detail below, the 2010-11 Budget reflects significant changes in expenditure levels from 2009-10. The total Proposed Operating Budget is \$47.2 million for 2010-11 (a 3.9% decrease from the 2009-10 adopted budget, as summarized below in thousands).

General Fund Highlighted

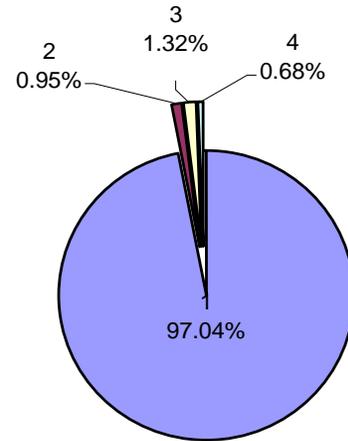
The General Fund is the primary funding source for the delivery of essential City services, ranging from public safety to planning. Unlike our enterprise operations - such as water, sewer, or building regulation, that are somewhat able to set fees at levels necessary to recover their costs - General Fund programs have limited sources of non-tax funding available to them.

Expenditures: As summarized below, significant changes are proposed in the operating budget for fiscal year 2010-11. Total General Fund appropriations for operations are \$20.4 million, which represents a decrease in the operating expenditure budget of 9.3% from the prior fiscal year. However, if operating costs for City Hall departments had not been moved out to the new Internal Service fund, General Fund operating costs would be showing a 5% increase instead. The increase can be attributed to wage increases for the four groups of represented employees. For FY2010-11, there are no wage increases planned for unrepresented employees.

City Manager's Transmittal



General Fund Appropriations (in thousands)	2008-09 Actual	2009-10 Revised	2010-11 Proposed
Operating Budgets	\$ 21,673	\$ 22,557	\$ 20,457
Debt Service	228	198	201
Capital Projects	244	256	279
Transfers	152	45	143
Total General Fund	\$ 22,297	\$ 23,056	\$ 21,080



The projected General Fund unreserved Working Capital at June 30, 2011, is slightly over \$950,000, or approximately 4.6% of the total General Fund operating budget.

This balance provides a small cushion in case department reorganizations or early retirements are not accomplished as quickly as hoped or to provide the ability to respond to unforeseen emergencies or opportunities. The projected reserve is well below the City's stated goal for the General Fund operating reserve of approximately \$3.4 million.

Revenues: The Adopted 2010-11 Budget relies on revenue projections which indicate the amount of resources available to be allocated to city services over the coming year. Forecasts of the major General Fund Revenues, Sales Tax and Property Tax, were based on recommendations from the City's tax compliance consultant.

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

- Sales tax is expected to remain flat for one more year before beginning to rebound
- Property values in Eureka will not be reduced
- 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.
- Increases to various City fees and charges, based on cost of service, will be approved, implemented, and will achieve the revenue targets. Revenues from "charges for services" are projected to increase by approximately 9% over the previous year's budgeted amounts, when revenues from cost allocation are removed from the calculation. Some of the most significant increases can be seen in the Community Development Department and also at the Sequoia Park Zoo. The Zoo is expecting an increase in visitors due to their newest exhibit, the Red Pandas.
- The City Council voted to ask Eureka citizens for an additional half percent of sales tax.



This tax will be called the Supplemental Transaction and Use Tax (STUT). If passed, the STUT is expected to generate an additional \$3.4 Million per year, a great deal of which may be paid by non-resident visitors to the City.

- An interfund advance to the Eureka Redevelopment Agency was paid back to the General Fund in FY2009-10. For the last few years, this note was providing annual payments of approximately \$1 Million. With the note paid back, the annual installments are no longer being made, resulting in a decrease of annual available resources.

Overall the FY2010-11 General Fund revenue of \$20,088,331 represents a 16.7% decrease from the previous year, with the decrease related to the creation of the new internal service fund of \$1,537,144 removed from the calculation.

Operating Program Expenditures

Service Enhancements

The City of Eureka has traditionally delivered a high level of basic services to the community. Despite the overall budget situation, several service enhancement requests were included in the adopted budget. These include:

- \$9,148 to re-establish the position of Assistant Finance Director. This position is funded in the new Internal Service Fund and is allocated approximately 60% to the General Fund.
- \$43,468 to adjust the pay range for the Information Services Analyst II and the Information Services Manager. These positions are funded in the Information Technology Fund and are allocated approximately 70% to the General Fund.
- \$22,953 for debt service on a capital lease to replace the City Hall roof. This roof leaks and if not repaired, may cause more extensive and expensive damage to the building.
- \$148,063 for protective equipment for the Fire Department – this item pending a grant award for 90% of the cost, meaning that the actual cost to the city, if purchased, would be \$14,806.
- \$13,294 in the budget of the City Clerk for the Agenda Management System. This would be funded in the Internal Service Fund and allocated approximately 60% to the General Fund.
- \$7,000 split evenly between the Finance Department and the Personnel Department for training on the Incode system. This would be funded in the Internal Service Fund and allocated approximately 60% to the General Fund.
- \$25,800 in the Airport Fund for repairs to the Bed & Breakfast, professional services related to the lease and staff training.
- \$14,950 for temporary help with delinquent account collections in the Water fund and \$14,694 for temporary help with delinquent account collections in the Wastewater fund (this will include extra help in the office and extra help in the field – locking and unlocking meters)
- \$50,000 for additional work on the SCADA system in the Water fund



- \$18,162 to upgrade a Utility worker to a Utility Tech in the Wastewater fund
- \$9,340 to fund staffing changes in the Building Fund
- \$22,700 for capital improvements to the Golf Course in the Golf Fund
- \$13,152 to fund transitional staffing in the Housing/Redevelopment Funds. A long-time employee plans to retire and this amount will pay for the position to be filled even though the departing employee has several months of vacation payout. There is no provision for a training overlap.

Issues and initiatives for the coming year

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 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, however the economic reality may somewhat limit our ability to provide the breadth and depth of services that we would wish to, at least in the near term.

- **Critical Future of the General Fund.** For the fourth consecutive year, the City's budget has been balanced utilizing "one-time" solutions such as making reduced contributions to internal service funds and making a reduced contribution to the LERS pension fund. This year, the City reached the point at which these solutions are no longer able to close the gap. Further, departments can no longer absorb the across-the-board cuts used in prior years and still carry out their programs. For the first time, targeted cuts were made and specific services eliminated including adult sports and residential street sweeping. The early retirements of key employees will also bring change to the city organization, the exact nature of which is not yet known, but could include such things as contracting for professional engineering and contracting for fire management services from Humboldt Fire District.
- **Wages** The Koff classification and compensation study, completed in FY2006-07, was implemented for four of the City's five employee groups: EPOA, EFL, EFOL and ECEA. The Unrepresented 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. During FY2009-10, the represented groups made concessions and in some cases, wage increases originally scheduled to occur on January 1, 2010 were delayed. The proposed 2010-11 budget includes increases for EPOA and ECEA on July 1, 2010, at half of the amount of the final increase of the staggered Koff implementation. The second half of the final increase is scheduled to occur on July 1, 2011.
- **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. Moreover, the effect on PERS rates from the financial industry crisis of 2008-09 will be reflected in PERS rates two years in the future. PERS rates for FY2010-11 will be 34.196% for Fire, 36.4% for Police and 18.9% for non-public safety employees. The City may consider a tiered retirement benefit for future employees as a way to mitigate retirement benefit costs.
- **Health Insurance Costs.** The City's health insurance premium increased by approximately 17% for the employee groups covered by REMIF and by 10% for



employees covered by Teamsters. The proposed budget includes the City paying the REMIF increase and, as part of the wage concession, the City picked up 100% of the Teamsters increase.

- **Problem Oriented Policing** This program, long desired by council members, staff and citizens, is funded for \$732,264 in the proposed FY2010-11 budget.
- **Water and Sewer Utilities** June 30, 2009 marked the end of a five-year utility rate cycle. Rate studies for both systems were completed by consultants in Fall 2009. The high rate increases were unpopular with the community and council appointed an ad hoc citizen committee to review the work of staff and consultants. The ad hoc committee worked from February 2010 through June 2010 and will submit their report to council in July 2010. New utility rates should be implemented during the Fall of 2010.
- **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. The Redevelopment Agency conducted a survey of Eureka businesses this year in order to better identify their strengths, weaknesses and needs. A bright spot for business was the reopening of the Eureka Inn in the early part of 2010.
- **Eureka Redevelopment Agency** The Redevelopment Agency issued \$10 Million in bonds in January 2010. The funds were intended for the C Street Market Square project and also to pay off the "Halvorsen" note to the City. A long-range financial plan for the agency, looking to the end of the agency in 2026-27, indicates that unless property values again increase as dramatically as they did prior to the recession of 2008, the agency may have reached its debt capacity, even though it may legally continue to borrow through 2016-17.
- **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. Although, the proposed budget does include projected debt service on a capital lease to fund replacement of the City Hall roof.
- **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 2010-11.

Capital Improvement Program

this section of the budget message is still under construction



Summary

I want to thank the Finance Department staff for their fine work and for the many hours spent in preparing this budget document. 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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Sherry DeStefano, Accountant II
Russell Shorey, Accountant II, and Acting Finance Office Manager
Kim Oswald, Administrative Service Assistant
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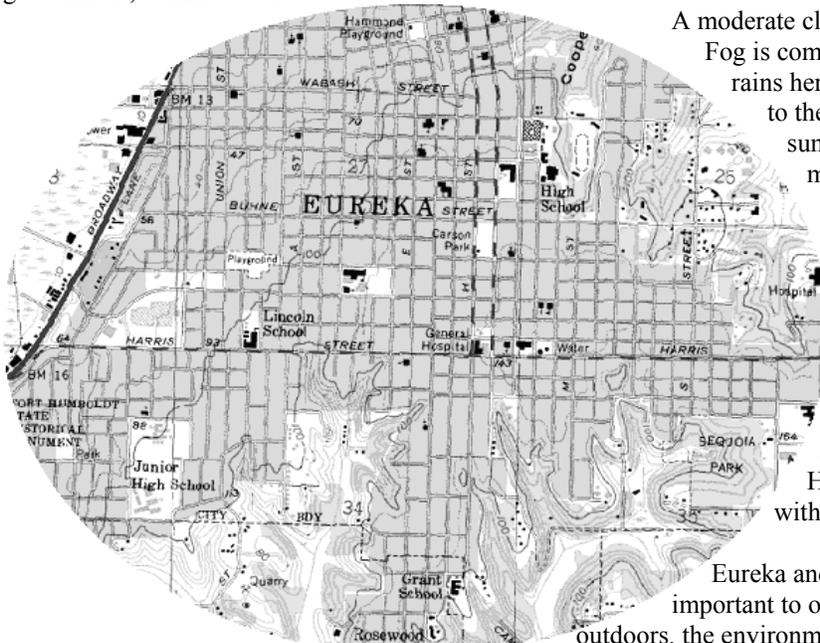
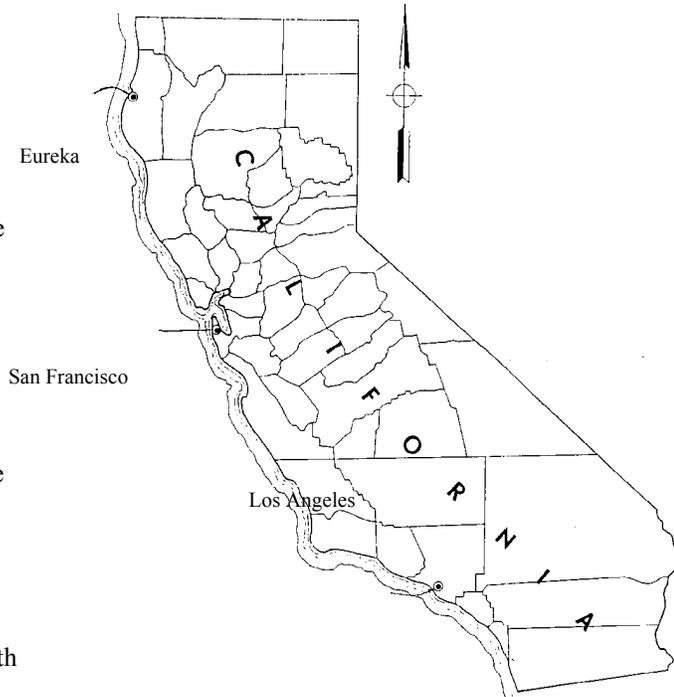
Community Profile



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.