

SECTION A
INTRODUCTION



City Manager's Transmittal



June 6, 2011

Honorable Mayor and City Council:

We are pleased to submit the Proposed Budget for the 2011-12 Fiscal Year. This budget message outlines principles and important issues of the City's financial planning efforts. The 2011-12 Budget includes the recommended operating programs and Capital Improvement Plan (CIP) projects.

The budget serves as the primary programming tool for the implementation of the key policy documents which have been adopted by the City Council. Although the budget helps manage the City's immediate future--tying programs and service delivery activities to policies, goals, and fiscal resources--it is important to emphasize that managing programs and fiscal resources is an on-going process not confined to the City's formal budgetary process.

The adopted operating programs are designed to maintain existing service levels during a time of great fiscal uncertainty. Because of this, prior to even considering additional funding recommendations, existing budget levels were thoroughly scrutinized and, in very few cases, base budgets have been increase above Fiscal Year 2010-11 levels. On the capital side, the budget primarily consists of projects intended to maintain or rehabilitate existing City facilities, as opposed to addressing new ones.

Key Budget Principles

As in past years, the 2011-12 Budget is based on policies which govern the stewardship of public funds and reflect the City's commitment to balanced financial planning. While all the policies and objectives were utilized in composing the budget, there were several major principles which most influenced the shape of the financial plan. These are:

- ❖ The recommended Budget will balance Expenditures with Revenues, honestly and factually.
- ❖ Basic services will be maintained at current levels and will be adequately funded.
- ❖ Fund balances will be maintained at levels which will reasonably protect the City from future uncertainties.
- ❖ Revenues will be estimated at realistic levels.
- ❖ Program costs will be developed to reflect a true picture of the cost of operation.
- ❖ Personnel will not be laid off if at all possible.
- ❖ The recommended budget will comply with provisions of the State Constitution, City Charter, Municipal Code, and sound fiscal policy.

Such a set of budget principles stands in stark contrast to our experience with state and federal budgets, where political advantage takes precedence over sound fiscal practices. This budget follows principles that define sound fiscal practices.

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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 2011-12 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 City Council and general plan goals in the areas of:

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

Financial Condition Summary

Financial Outlook

As the FY 2011-12 shows the beginning of fiscal recovery, the overall economic outlook for the City of Eureka remains cautiously optimistic. Leading indicators, such as Sales Tax and Transient Occupancy Tax revenue, are showing signs of recovery and are projected to slightly increase over prior year levels. However, Property Tax and housing-related revenues are still lagging and offsetting the gains in other areas. Due to the high unemployment levels within Humboldt County and until the general public feels secure in their employment status, our recovery will remain weak.

As the City begins to rebuild itself financially, it will be imperative to fund the infrastructure of the organization first to insure long term stability. As mentioned throughout the budget

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document, due to the financial stress associated with the recession, a number of reserves have been tapped in the past and replacement funds minimized. As revenue increases over the coming years, the priority of restoring the City's reserves is paramount. Fiscal recovery should include the implementation of policies and practices that will help the City become more adaptable to changing conditions and to better withstand future economic downturns.

Working with the City's Finance Advisory Committee staff has begun the process of developing financial policies to assist in the City's long-term fiscal recovery. This set of policies will be designed to assist the City Council in the implementation of fiscal strategies and tactics that will rebuild the City's core service levels, bolster cash reserves, and ensure long-term fiscal solvency.

As the State continues to battle through its financial challenges, local governments await the impacts of the legislative actions that will occur over the coming months. The latest State Budget projections (known as the May Revise) includes the extension of several State imposed taxes, subject to voter approval this November, that are designed to provide funding for a variety of local programs. One of which is the funding for the State COPs grant program. The City of Eureka currently employs a police department position under this position. In the event the tax extensions do not occur, funding has been shifted to the General Fund in the Fiscal Year 2011-12 Budget. Additionally, if the tax extensions are not approved by the voters, the City will begin to pay booking fees when arrestees are booked into the County jail. The FY 2011-12 Police Department budget includes an allocation of \$282,700 for this purpose.

The most significant impact of the governor's budget proposal is the disestablishment of the Redevelopment Agency (RDA). Although many factions are supporting Redevelopment reform, rather than complete elimination, the May Revise continues to contemplate reform. The loss of the RDA will have profound impacts on the City in the form of job creation, economic development, low income housing programs, capital project funding and staffing levels. It is estimated that approximately 10 City jobs could be affected with the loss of the RDA as well several jobs across the community that support the various construction projects funded with RDA dollars. The FY 2011-12 RDA budget assumes the Agency will remain in tact, as there is no definitive legislation in place that states otherwise.

Budget Content

In preparing their fiscal plans for the coming year, Departments were directed in the 2011-12 budget instructions to, "**tighten their belts**", and focus their efforts on basic services, limiting any requests to only those which were necessary to deliver basic services to the community. These "flat budgets" incorporated no increases into their base budgets other than those driven by changes in 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 some were incorporated into the final proposed budget. After decades now of reduced budgets, many departments find that some increases were critical to their ability to maintain services at the FY 2010-11 levels.

The recommended budget is consistent with the City Council direction of keeping public safety as the number one budget priority with funding for public safety comprising over 71% or \$17.7 million of the City's General Fund budget. A range of other City services comprise the balance of the City's budget. Our budget balancing plan for FY 2011-12 continues several ongoing strategies which will contribute to the City's long-term financial stability, and options continue to be developed for bringing the budget into balance in future years.



Financial Plan Overview

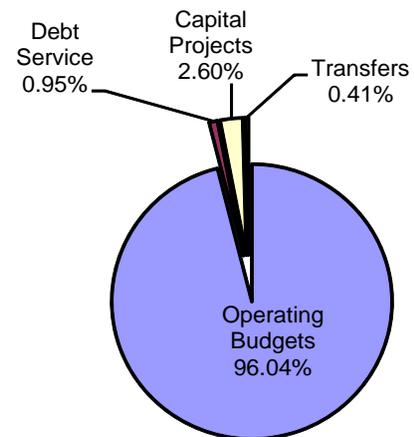
As discussed in greater detail in the budget document, the 2011-12 Budget reflects modest changes in expenditure levels from 2010-11 primarily due to the approval of Measure “O” in November, 2010. The total Proposed Operating Budget for the City is \$55 million for 2011-12 (a 2.9% increase from the 2010-11 adopted budget). A majority of the \$1.6 million increase in operating budgets is due to “Personnel Services” through increased costs in additional public safety personnel; health insurance and retirement rate increases. An over-all personnel “freeze” has assisted in maintaining expenditure levels within non-public safety departments.

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 in the Budget document very modest changes are proposed in the Budget for fiscal year 2011-12. Total General Fund appropriations are \$25 million for 2011-12, which represents an increase in the operating expenditure budget of approximately thirteen percent (13%) or \$2.8 million from the prior fiscal year. This increase is primarily a result of the increased public safety budgets after the passage of Measure “O”; previously negotiated employee salary and benefit cost increases; general increases to cost of goods and services; and limited number of recommended serve enhancements.

General Fund Appropriations (in thousands)	2009-10 Actual	2010-11 Revised	2011-12 Proposed
Operating Budgets	\$ 21,641	\$ 21,226	\$ 24,045
Debt Service	261	279	238
Capital Projects	155	24	650
Transfers	45	143	103
Total General Fund	\$ 22,102	\$ 21,672	\$ 25,036



The estimated General Fund unreserved fund balance at June 30, 2012, is \$2.3 million, or 9.2% of the total General Fund operating budget, which is lower than the City's stated goal (*the City's stated goal is 60 days of operating expenditures; 16.7%; or approximately \$4.1 million*); but significantly higher than the adopted Fiscal Year 2010-11 Budget amount of approximately \$1.1 million.

Revenues: The Adopted 2011-12 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; Transaction and Use Tax; and Property Tax, were based on recommendations from the City's tax compliance consultant.

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

- Sales tax is expected to remain relatively flat for one more year before beginning to rebound;
- Adopted by the voters in November 2010, Measure "O" funds added a ½-cent City Sales Tax. This general purpose revenue measure is projected to generate \$3.8 million in 2011-12. This funding enable the City to provide important and valued services to the community; for day-to-day operating programs and one-time capital improvements;
- 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

General Fund recurring resources are estimated to increase by nineteen percent (19%) in the year ahead, from \$20.68 million to \$24.58 million, with the largest portion of the increase coming from the new Measure "O" funds. The Sales and Use Tax continues to be the General Fund's largest source of revenue, generating \$8.87 million in 2010-11 and is expected to increase 1.52% to \$9 million in Fiscal Year 2011-12. Transaction and Use Tax revenues are anticipated to total \$5.7 million in Fiscal Year 2011-12 with \$3.8 million coming from the new Supplemental Transaction and Use Tax (Measure "O"). Property Tax revenues are expected to increase by less than 1%, totaling \$1,490,000 in 2011-12. The Motor Vehicle in-lieu tax is projected at \$2.08 million, an increase of \$16,000. The Transient Occupancy Tax yield is expected to increase slightly generating \$2 million in Fiscal Year 2011-12. Revenues from franchise fees are expected to generate \$868,000 during FY 2011-12.

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. The 2011-12 proposed budget includes funding to support those areas deemed critical to sustaining a healthy community and encouraging a prosperous future. This 2011-12 Budget proposes the following service enhancements:

Employee Retention. The Proposed 2011-12 Budget includes a partial implementation of the classification/compensation study (Koff Study) for the Unrepresented Employee group. While the represented employees negotiated the full implementation of the compensation study in 2007 this group of management, professional, technical, and confidential employees were not considered. This measure will assist in maintaining our current workforce as well as assist in recruitment. The estimated recurring cost of this recommendation is approximately \$80,000 in the General Fund or \$215,000 overall.

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Clean-up Eureka. Included in the proposed budget are a number of measures to assist in the clean-up of Eureka. These include the reinstatement of a limited street sweeping program (\$56,500 recurring cost); Seasonal Maintenance workers to improve the improvement of our streets, parks, and open space (\$60,000 one-time cost); a “pilot” program of contracting with County SWAP to have a dedicate team working in Eureka (\$33,000 one-time cost); and contracting for increased facilities maintenance (\$20,000 one-time cost).

Facilities Maintenance. The proposed budget includes a recommendation to paint the Adorni Center (\$50,000 one-time cost); and replace the roof on the Fire Headquarters (\$150,000 one-time cost).

Public Safety Training. The proposed budget recommends equipment and training materials to develop a Water Rescue Training module for the City’s Fire Department (\$41,000 one-time cost).

Public Safety Enhancement. The proposed budget includes funding to create a Youth and Family Services Program within the Police Department. The Youth and Family Services program will provide counseling, crisis intervention, and referral services to families experiencing conflicts which could result in calls to the department (\$97,000 recurring cost).

Adult Recreation Programs. The proposed budget includes a recommendation to reinstate all Adult Recreation programs cut in the 2010-11 Budget adoption. This proposal will result in no net increase General Fund cost as all expenses will be covered by fees.

Harbor Facilities Maintenance. The Harbor Facilities budget includes a recommendation to increase staffing by one maintenance employee. The cost of this employee has been included in the rents of the new Fishermen’s Building and Dock space.

Other Recommended Service Alternatives. The proposed budget also includes funding for: a position upgrade for the Administrative Assistant in the Community Development Department from part-time to full-time (\$34,000 recurring cost); a position upgrade for the shared Administrative Assistant in the Personnel/Finance Departments from part-time to full-time (\$33,000 recurring cost); an upgrade for the Engineering Technician who is expected to become a registered civil engineer this next fiscal year (\$5,000 recurring cost); recreation program management software (\$20,000 one-time cost); and the replacement of cardio equipment at the Adorni Recreation Facility (\$10,000 one-time cost).

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.** Although this year we will adopt a balanced General Fund budget (recurring revenues exceeding 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

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several components: contingency reserves that cushion annual fluctuations in revenue collections, sufficient fund balance to protect against disaster and uncertainty, ongoing and consistent capital planning and improvements, adequate funding of liabilities, and continuation of competitive compensation for our workforce. Based on current 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 2011-12 year. **City Council, City Staff and the community will engage in future strategic planning discussions based on five-year projections of revenues and expenditures prior to next year's budget deliberations.**

- **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 FY2011-12 will be nearing 40% for Fire and Police Safety employees and 20% for non-public safety employees. **The City will need to consider a tiered retirement benefit for future employees as a way to mitigate retirement benefit costs into the future.**
- **Health Insurance Costs.** The City's health insurance premium increased by approximately 9% for the employee groups covered by REMIF and by 10% for employees covered by Teamsters. **The City will need to negotiate an increased cost sharing of insurance premiums with its employees as a way to mitigate future increases in health premiums.**
- **Problem Oriented Policing.** This new program, long desired by council members, staff and citizens, is funded for \$723,593 in the proposed FY2011-12 budget.
- **Waterfront Maintenance and Development.** With the investment of nearly \$60 million during the past decade to develop the waterfront and boardwalk area in Eureka, it is critical that these beautiful additions to our community be maintained. To attract new construction and development investment in the future, this newest addition to downtown redevelopment must have adequate funding for personnel, equipment and materials.
- **Street & Road Maintenance.** Clearly, one of the greatest challenges facing us is the need to maintain the City's street and road infrastructure. In FY 2011-12 and beyond, the City is faced with the need to fund approximately \$2 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.
- **Federal and State Government Actions.** State government deficits will continue to affect counties and cities during the 2011-12 fiscal year and for several years to come. The trend toward greater and more frequent intrusions on local government finance has been firmly established by State elected officials in Sacramento. Recent legislation has delayed our receipt of sales tax revenues, taken funds away in the form of ERAF shifts, and produced reductions to VLF fee revenues. Again we find ourselves pitted against the State government and in competition for scarce economic resources. Add to the list of our obligations the need to vigilantly watch over the actions of State government officials who are, in the final analysis, unaccountable to our community.

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- **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 past year in order to better identify their strengths, weaknesses and needs.
- **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 2011-12.

Measure "O"

Adopted by the voters in November 2010, Measure "O" set an added ½-cent City Transaction and Use Tax. This general purpose revenue is projected to generate \$3.8 million in FY 2011-12. This funding enables the City to provide important and valued services to the community; for both day-to-day operating programs and one-time capital improvements. It is the City Council's obligation to prioritize the use of this resource; just as it is their job to prioritize the use of all City resources. For this reason it is important that as the City Council sets goals for the FY 2011-12 Budget, it also considers the prioritized use of the Measure "O" funds.

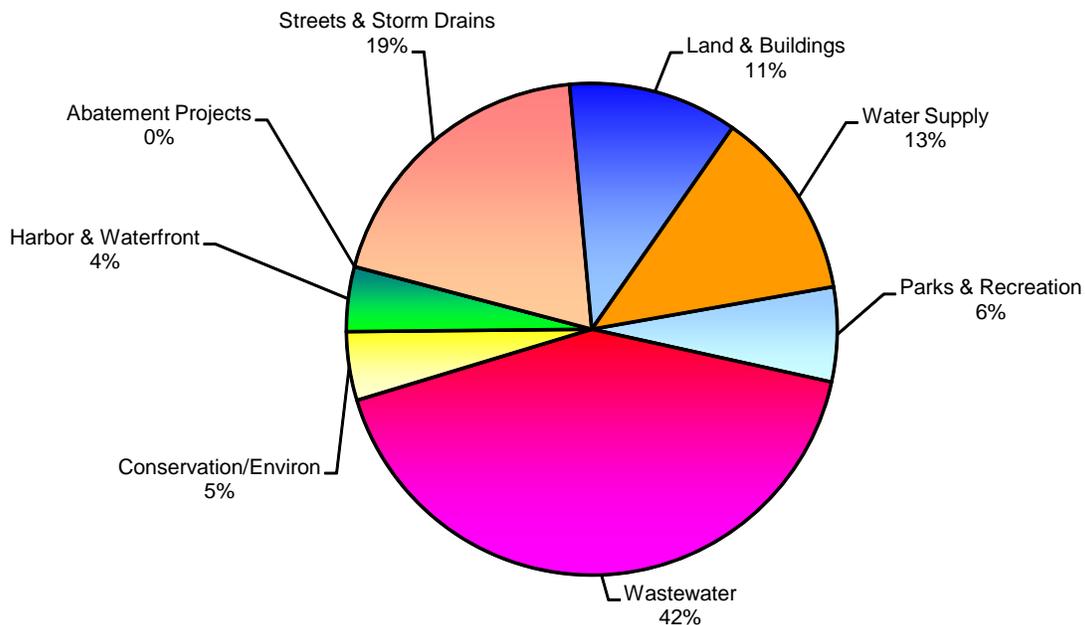
Along with the five-year sunset and requirements for annual audits and annual community reports on how much revenue is generated by the measure and how the funds are spent, Measure "O" also includes accountability and citizen oversight provisions. Measure "O" is a general purpose measure and so the proceeds are not restricted to specific purposes. This enables the City Council with flexibility to respond to new circumstances and challenges. However the ballot language of the Measure provided examples of the types of uses that would be funded through the Measure. These included: police, fire, street maintenance, environmental programs, zoo, parks, and recreation. Through this budgetary process the City Council will allocate Measure "O" funds to operating programs and capital improvements.



Capital Improvement Program

Recommended expenditures for Capital Improvement Program funded projects total in excess of \$13.4 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 2011-12 (expressed in thousands).

(In thousands)	2010-11 Estimated Actual	2011-12 Budget
Parks & Recreation	37	836
Wastewater	1,783	5,622
Conservation/Environ	123	606
Harbor & Waterfront	352	572
Abatement Projects	45	-
Streets & Storm Drains	1,556	2,611
Land & Buildings	3,663	1,497
Water Supply	77	1,680
Totals	7,636	13,424



City Manager's Transmittal



Summary

Although the City continues to operate in a challenging economic environment, we have made great strides in our financial sustainability journey. Our goal has been to develop a budget that will meet the needs of our community without compromising the future. The proposed budget positions the City with the necessary resources to adequately maintain existing infrastructure and facilities, preserve our long-term fiscal health by aligning revenues and costs, and begins the process of maintaining a prudent fund balance at policy levels.

While the good news is that our recommended budget is balanced, we must be mindful that there are a number of uncertainties still facing us. The “jobless recovery” currently underway is still putting a strain on our economy. The recovery itself is uneven and local governments are feeling its impacts in some of our lagging revenues. Even with the cooperation of our employees in containing personnel costs, we are faced with the prospect of benefit costs beyond our control and the problem of how to address these in the future. And finally the dire financial condition of the State is sure to have consequences, intended or unintended, on our City and local area. Nonetheless, we know that Eureka’s strong tradition of sound financial practices will allow us to successfully overcome any future challenges and maintain the quality of life that our community expects.

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 for your consideration,

David W. Tyson
City Manager

Preparing the FY 2011-12 Budget at the staff level was a team effort involving the time and talents of a wide variety of City employees. The task was made even more complicated by the addition of new elements of the budget process as well as having a new Finance Director and two new Accountants. Without the dedication of the following City staff members, this budget would not have been possible. I am extremely grateful for the hard work and dedication to excellence by the City's budget team.

*Paul Rodrigues, Finance Director
Russell Shorey, Assistant Finance Director
Lynn Ellingwood, Information Services Manager
Wendy Howard, Accountant II
Eric Neumann, Accountant II
Sherry De Stefano, Accountant II
Kim Oswald, Administrative Services Assistant
Stephen Miller, Central Services Assistant*

Community Profile

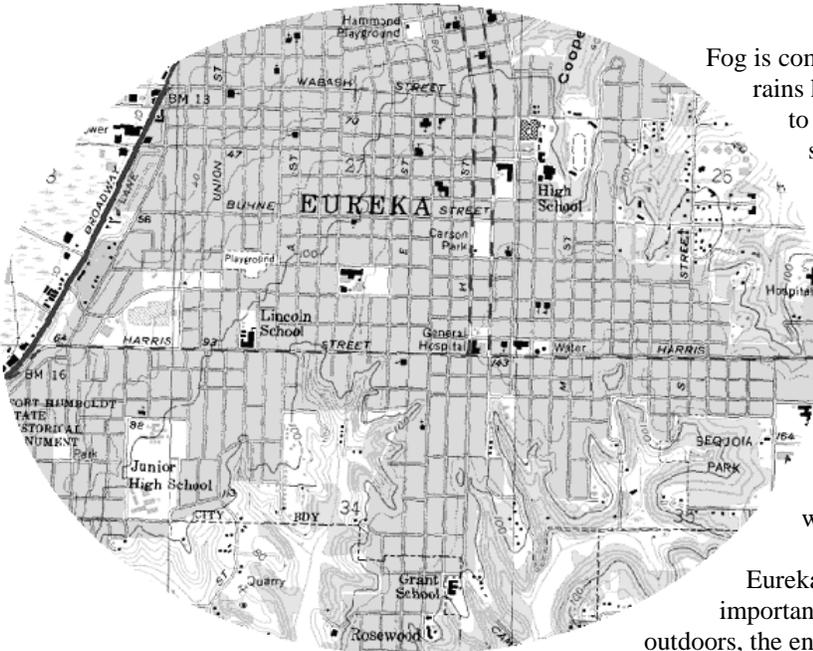
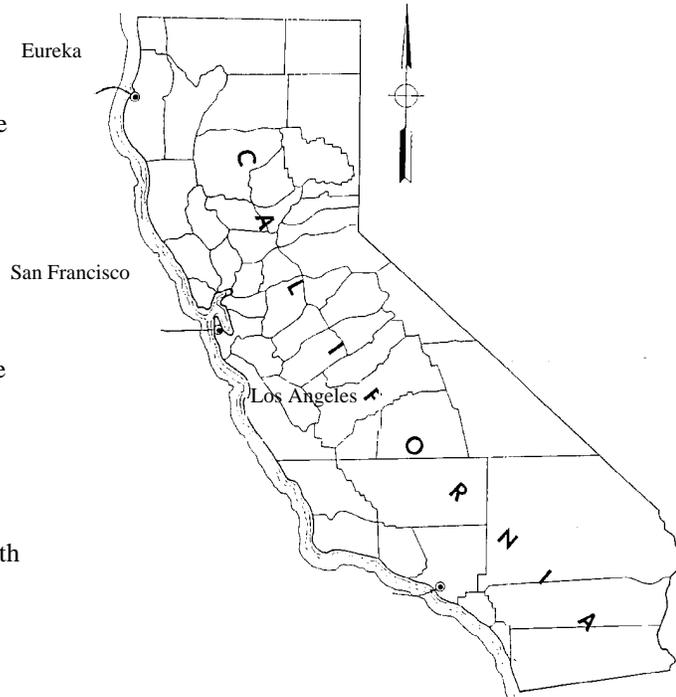


Bustling into Western history during the famous California Gold Rush, the City of Eureka thrived for many years on the area's rich abundance of redwood timber. Quickly establishing itself as the commercial hub of the North Coast, Eureka fused a stunning array of Victorian architecture with the rugged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