

## MEMORANDUM

**TO:** CITY COUNCIL

**FROM:** JIM BERGMAN, CITY MANAGER  
DEBBIE MALICOAT, DIRECTOR OF ADMINISTRATIVE SERVICES

**SUBJECT:** CONSIDERATION OF BUDGET PRIORITIES

**DATE:** FEBRUARY 13, 2018

### **SUMMARY OF ACTION:**

Provide direction on City Council priorities for the FY 2018-20 Biennial Budget.

### **IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

There is no direct financial impact of the action other than the staff time required to prepare the report, however based on the General Fund 10 Year Fiscal Forecast, significant financial impacts are projected to the City's budget.

### **RECOMMENDATION:**

It is recommended the City Council provide direction on priorities for the FY 2018-20 Biennial Budget.

### **BACKGROUND:**

The City's budget provides funding for all City services, infrastructure investments and activities performed during each fiscal year. The City Council discussed the results of the General Fund 10-Year Fiscal Forecast on January 23, 2018, which indicated that the City's expenditures are expected to exceed revenues and without intervention, all Fund Balance would be depleted within five years.

Most of the projected funding gap between expenditures and revenues comes from two external sources, a budget request from the Five Cities Fire Authority (FCFA) and pension cost increases from the California Public Employees Retirement System (CalPERS). The CalPERS situation that has resulted in unfunded liabilities due to the decisions by the State and by most cities to enhance pension benefits decades ago, poor market performance especially during the dotcom bust and great recession, and the inability to modify the statewide pension system is predicted to change local governments in California dramatically (see Attachment 1 for a range of recent articles and reports).

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The FCFA request is discretionary, however, the CalPERS payment is essentially a requirement that will be significant, long lasting, and more than likely require major changes to the way the City conducts business in the future. The length of the impact can be best summed up by the words of high level representatives from CalPERS and the Department of Finance at a recent conference – “You (the cities) just have to hang on for a decade...or two.” The needed changes to operations due to rising pension costs will occur even though the City to this point has worked to place itself in a positive financial position. This was accomplished through a fiscally conservative approach to policies that continues to this day - mainly a reduction in staff throughout the organization to allow requisite service levels to remain.

**DISCUSSION:**

Proposed Budget Concepts

Based on the information presented in the 10-Year General Fund Forecast, the next step in the budget development process is to identify priorities that essentially inform staff of the boundaries of opportunities for increasing revenues, decreasing expenditures or, some combination of the two.

Staff proposes the following concepts for developing a draft 2018-2020 budget:

1. Correct and reverse the expenditure/revenue gap within two years by making services more efficient, more effectively recovering the true cost of services, and/or reducing non-core and non-essential services and attempting to shift the provision of these wanted and needed public services to entities that are better able to perform them.
2. Increase revenues through strategic economic development efforts that encourage development of numerous vacant and underutilized parcels to not only fulfill desired retail and service needs of the community but also to ensure wise fiscal benefits to the City to fund inevitable cost increases of providing core and essential services.
3. Reduce exposure to volatility of pension payments from potential future actions by CalPERS such as further reduction of the discount rate or re-amortization of unfunded liabilities.
4. Once long-term economic and fiscal sustainability is achieved, start to build a community vision of future wants (i.e. long-term use of Camp Arroyo Grande, better sports facilities and fields, etc.) and identify new revenue sources to build and support these efforts such as increased taxes or bond measures.

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**ANALYSIS OF ISSUES:**

Core and Essential Services vs Non-Core and Non-Essential Service

There are two methods that are frequently used to correct budget deficits by decreasing expenditures – across-the-board cuts to all departments and operations or strategically reducing services by differentiating between core and essential services and those that are not core and not essential. Staff proposes the second option due to several advantages of setting priorities based upon the concept of core and essential services including:

- Setting a rational framework for decision-making that reaches beyond mere popularity of specific programs and ultimately aligning what services citizens expect with what their city can afford
- Gaining a better understanding of what services local governments are legally obligated to provide
- Fully understanding what services and to what extent residents expect specific services
- Defining specific direct and indirect impacts to residents from specific services

Staff suggests the following as core and essential services and looks for direction from the Council to validate or modify these assumptions:

**BUSINESS OF GOVERNMENT**

- High level of stewardship of Public resources and money
- Transparency of Government (Open government practices, meetings, decision-making)
- Professional management of personnel
- Fair and open elections

**PUBLIC HEALTH**

- Provision of safe drinking water in amounts and sources that allows for reliable quantities during droughts
- Provision of a fire hydrant system to allow for adequate fire suppression
- Provision of sanitary sewer system and treatment of wastewater

**PUBLIC SAFETY**

- First Preventers
  - Engineering services to prevent flooding, landslides, and uncontrolled traffic and to limit future city expenses caused by development proposals
  - Maintenance of drainage basins and storm water conveyances
  - Building permits and inspections to ensure structures meet basic life safety standards

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- Reasonable planning and zoning regulations and enforcement to avoid decreases in property values due to incompatible uses and substandard development
- Upkeep of public property to avoid injuries and cost from claims and lawsuits
- First Responders
  - Police
    - Police Administration
    - 24/7 Patrol Services with 3 officers on patrol during most hours
    - Records and Property and Evidence
    - Traffic and parking enforcement during peak times and in key areas such as schools and highly traveled commercial areas
    - Detective services
    - School Resource Officer
    - Fleet management
  - Fire
    - 24/7 Fire and emergency response services within 6 minutes of a call
    - Fire prevention services (commercial safety inspections, weed and vegetation abatement and enforcement)
    - Fire investigations
    - Fleet management
  - Public Works
    - Maintenance and emergency repair of previous investments in vital public infrastructure
    - Fleet management

**GENERAL WELFARE**

- Transportation Systems
  - Maintenance of
    - Roads at the Pavement Condition Index adopted by the Council
    - Bike lanes
    - Sidewalks
    - Signals and striping
    - Street lights
    - Medians
- Parks and Open Space
  - Upkeep and maintenance (fire/fuel hazard reduction) of current passive parklands and open space

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- Community Appearance
  - General cleanliness
    - Street sweeping
    - Litter removal
    - Public trashcans
    - Graffiti removal and enforcement
    - Street trees
  
- Mandated responsibilities from the State and other Governments

**Important but not Necessarily Essential Services**

The following are services currently provided by the City through property, sales and other taxes and fees. These services are considered important but not necessarily essential.

- **Parks**
  - Playgrounds
  - Sport Facilities
    - Baseball and softball fields
    - Soccer fields
    - Football fields
    - Pickleball courts
    - Tennis courts
    - Basketball courts
    - Horse shoes
  - Sport Facilities Support Services
    - Scheduling of field use for sports leagues
    - Arrangement for referees for sports leagues
    - Lighting of fields for night use by sports leagues
  - Specialty Parks
    - Community garden
    - Dog park
  - Community Facilities
    - Woman's Center
    - BBQ and picnic areas
  
- **Recreation**
  - Child Care and Development Services
    - Daycare
    - Pre-school
    - Summer camps
  - Community Events
    - Father Daughter Date Night
    - Family Egg Hunt and Festival
    - Halloween Maze
    - Etc.

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- **Issues of Statewide or County Concern**
  - Human Services
    - Sheltering of people
    - Food service programs
    - Mental health
    - Legal services

If the approach is used, staff is prepared to seek community input on these service categories through a survey in order to give feedback to staff and the Council of these assumptions.

Existing and Proposed Additional Priorities

The last priorities adopted by the Council can be summarized as:

- Improve financial sustainability through economic development
- Support City infrastructure
- Improve cost-recovery on services
- Retain and attract employees
- Make decision about Brisco Interchange project
- Increase water security
- Enhance parking
- Maintain cost-effective fire service

Due to the very real and significant increase in pension costs and in order to implement the proposed budget development framework, it is recommended that priorities for the upcoming budget include goals that are more sharply defined and linked to quantifiable objectives. Staff suggests:

1. Within two years, reverse the expense/revenue gap by doing the following:
  - a. Within the first year of the budget, reverse the gap between expenditures and revenues to result in approximately \$157,000 surplus to be added to the reserves. This equates to reducing expenses by \$450,000.
  - b. By the end of the second year of the budget, reverse the gap between expenditures and revenues to result in a \$1,386,000 surplus to be added to the reserves. This equates to further reducing expenses by \$450,000.
  - c. Goals a and b shall be accomplished by:
    - i. Focusing City resources first to services identified as “Core and Essential” and fund these services to fully meet adopted City policies.
    - ii. Ensuring that Core and Essential services are “Right Sized” based upon accepted metrics of service outcomes.

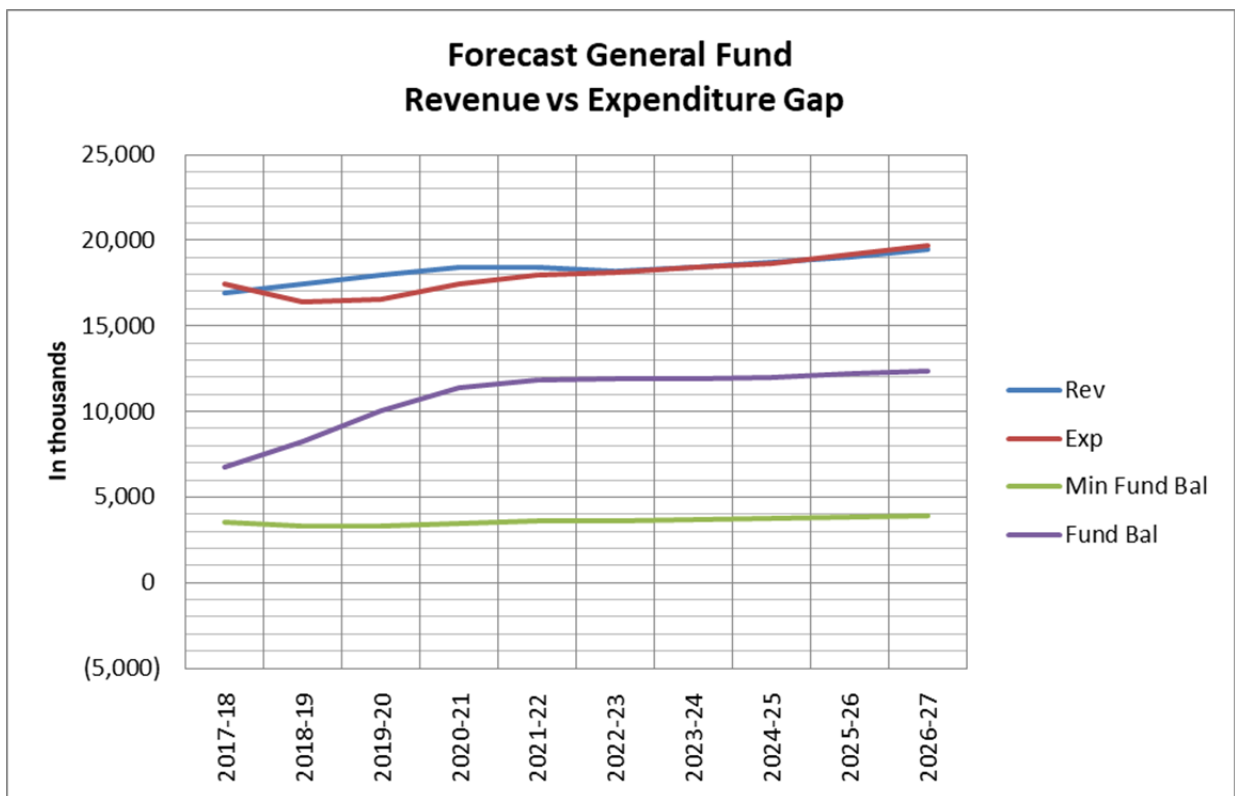
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- iii. Analyzing “non-core and non-essential” services and make budget recommendations of how the City can more efficiently provide the service, find another entity to provide the service, or find additional revenues to support the service.

2. Increase revenues by:

- a. Analyzing City costs to provide services and consider achieving full cost recovery for a wider range of services
- b. Encouraging economic development in order to achieve identified service outcomes for core and essential services (This will require the addition of \$180,000 in revenue above and beyond normal assumptions starting in year three growing to total new revenue of \$390,000 by year 10).

Achieving Goals 1 and 2 above would result in closing the revenue/expenditure gap in a sustainable manner, as depicted below.



- 3. Reduce exposure to volatility of pension payments by the end of year two by:
  - a. Analyzing and making recommendations on tools such as pension prepayments and Section 115 Trusts.
- 4. Begin to study options to develop new revenue sources such as a future tax measure for new or expanded services.

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**ALTERNATIVES:**

- Provide direction on City Council priorities for the FY 2018-20 Biennial Budget
- Do not provide direction on City Council priorities for the FY 2018-20 Biennial Budget

**ADVANTAGES:**

Providing direction will assist staff in developing a Biennial Budget that is responsive to the City Council and community priorities, while maintaining economic feasibility.

**DISADVANTAGES:**

There are no disadvantages to providing information for the community, City Council and staff regarding the City Council's budget priorities.

**ENVIRONMENTAL REVIEW:**

No environmental review is required for this item.

**PUBLIC NOTIFICATION AND COMMENTS:**

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachment:

1. Internet links to an assortment of recent articles and studies related to CalPERS pension costs



## ATTACHMENT 1

Assortment of recent articles and studies related to CalPERS pension costs

<http://www.sacbee.com/news/politics-government/the-state-worker/article198062129.html>

[http://www.cacities.org/Resources-Documents/Policy-Advocacy-Section/Hot-Issues/Retirement-System-Sustainability/League-Pension-Survey-\(web\)-FINAL.aspx](http://www.cacities.org/Resources-Documents/Policy-Advocacy-Section/Hot-Issues/Retirement-System-Sustainability/League-Pension-Survey-(web)-FINAL.aspx)

<https://californiapolicycenter.org/much-will-cities-counties-pay-calpers/>

<https://siepr.stanford.edu/sites/default/files/publications/17-023.pdf>

<https://calmatters.org/articles/commentary-surging-pension-costs-push-california-cities-toward-bankruptcy/>

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