

REPORT TO THE CITY COUNCIL



DATE: September 24, 2013

TITLE: Citizen's Finance Committee Recommendations to the City Council Regarding the FY 2013/14 Budget

PREPARED BY: The Citizen's Finance Committee

RECOMMENDATION

Receive the recommendations from the Citizen's Finance Committee.

DISCUSSION

The City Council asked the Citizen's Finance Committee "CFC" to make recommendations regarding the fiscal year 2013/14 budget and to bring those recommendations back to the City Council. The CFC is made up of Mayor Parks, Councilor Jan Pye, residents of the city and property owners in the city. The CFC agreed to work from the Urban Futures report presented by consultant Michael Busch. The committee discussed various items. Recommendations were added to the list of reductions and revenue enchantments based on a consensus of the CFC.

After reviewing the 2013-14 fiscal year budget, the committee expressed concern at the structural deficit projected in the City's general and other funds. In regards to the general fund, budgeted revenues are projected at \$16.3 million and expenses are budgeted at \$18.3 million. This leaves a \$2.0 million deficit. To "balance" the budget, the City will have to use one-time general fund reserves.

The City will use a majority of its available cash balance this fiscal year, if these budget numbers become reality. This will reduce the City's ability to pay future expenditures, such as payroll and other operating costs. Another note of concern, were the approximately \$900,000 in projected one-time revenues that were included in the \$16.2 million of revenues. In the Committees' opinion, the projected \$900,000 in revenues is highly suspect. The Committee does not believe these revenues will be realized and should not have been budgeted. The structural imbalance in the general fund will be greater than currently expected, if these projected revenues are not received. This approach will severely deplete the general fund reserves, possibly violating the City's policy of maintaining general fund reserves at 10% of general fund expenditures.

It was also noted that several other City funds currently have negative fund balances that need to be addressed for the City to achieve fiscal stability.

With these concerns noted, the CFC respectfully submits the following recommendations for consideration:

Policy Recommendations:

1. The City Council needs to establish, in order to obtain fiscal stability, a long-range financial plan to ride out the current economic downturn facing the City. In this regard, instead of using a majority of the general fund reserves this fiscal year, the CFC recommends that the Council establish a longer-term financial plan over the next three years. The CFC recommends that the City use no more than 1/3 of the City's current general fund reserves, each year over the next three years, if needed.

The CFC recommends reducing the FY 2013/14 General Fund budget by a target of approximately 6% to comply with this recommendation. The Committee believes this will give the City's revenue base time to grow and stabilize. Quite honestly, three years may not be enough, but it will buy time to make adjustments. It is certainly a better approach than spending a majority of the reserves in the current fiscal year.

2. Establish minimum acceptable reserves for all funds, including but not limited to Internal Service Funds (insurance & equipment replacement). It is also recommended that the Citizen's Finance Committee and the City Finance Director conduct a review of the current reserve levels of all funds to determine appropriate balances needed for each fund.
3. Do not issue debt with a maturity of greater than one year for General Fund items.
4. Revenues should cover the costs of programs provided by the City. *(It was explained that City staff are currently working with a consultant to complete a Cost Recovery Fee Study.)*
5. Capital Improvement Projects, with ongoing future costs of \$50,000, or more, per year must have designated revenues to cover these costs. These ongoing operational, maintenance, and replacement costs should include accelerators, such as inflation, so they are realistic. City Council must verify that these identified revenues are valid.

Budget Philosophy:

1. The annual budgets for all City funds should be structurally balanced throughout the budget process. Ongoing revenue should be equal to, or exceed operating expenditures, in both the proposed and adopted budgets. If a structural imbalance occurs, a plan should be developed and implemented to bring the budget back into structural balance.
2. To insure that current budget decisions consider future financial implications the City should prepare multi-year financial forecasts on a regular basis. These would include a:
 - a. Two-year rolling budget
 - b. Five-year rolling forecasting

Both the two-year rolling budget and five-year rolling forecast should be updated quarterly to reflect projected changes in revenues and expenditures. Both of these documents should be presented to the Council for discussion and analysis, and to provide information to the public.

3. One-time revenue should be used for one-time expenditures, such as specific Projects or be placed into Reserves. Over the past few years the City has depended on one-time revenues to balance the budget. This is not a sound financial management practice. On-going, continuing expenditures must be funded from an on-going, continuing revenue source.
4. A comparison / analysis of services provided by the City and costs to residents should be completed comparing cities of similar size and median income to DHS.

Cost Reductions:

In order to achieve the 6% overall reduction in general fund expenditures, the CFC recommends the following options:

1. Initiate significant, immediate changes to planned expenditures.

2. Consider a 10% staff furlough with corresponding 10% pay cut. For example, City Hall staff would work four 9-hour shifts, instead of four 10-hour shifts. Reduce the amount of overtime being paid. A complete review of all staff scheduling, in all departments and contracts, of the City to be reviewed as to areas where overtime can be reduced and/or eliminated, including, but not limited to, Public Safety.
3. Personnel costs - Salary-step adjustments: Currently the majority of City salary schedules have only five-to-six steps. Therefore, it only takes four years, or so, for the average employee to achieve top step. It is recommended that the City implement a ten-to-fifteen salary-step schedule that would be effective over six-to-nine years.
4. Evaluate and renegotiate positions / functions / contracts. The City should consider the declaration of a "Fiscal Emergency", considering how far into the current budget cycle we are, and move on this review immediately.
5. Have Department Heads, under the guidance of the Interim City Manager "ICM", create a balanced budget. This would include establishing a dollar amount for each department and then allowing the department head to prioritize expenditures within their areas of responsibility. For example, the Police Department has a budget of \$X,XXX,XXX. It would be up to the management of the Police Department to prioritize their most important needs to meet the balanced-budget goal, while recognizing the City Councils' high priority placed on public safety.
6. Consolidate departments - *The Committee discussed this in some detail before learning of another department head resignation and the hiring of the ICM. We would recommend that all such changes in department consolidations, personnel positions and assignments be evaluated by the ICM and that he determine what changes need to be implemented.*
7. Review and evaluate the City policy regarding personal use of City vehicles. The City Council should also address Department Head local travel, as well, suggesting that City vehicles be utilized wherever possible.
8. Travel allowance recommendation: There were two alternative recommendations given by the committee since consensus could not be reached.
 - a. Reduce allowance to \$300 for the Mayor and \$200 for Council Members. (or)
 - b. Council should reduce their overall budget by 6%.

Whatever cuts that need to be made should be the decision of Council.

9. Evaluate the cost / benefit of contracting all City services, including public safety.
10. Review and Evaluate bringing Code Enforcement in-house. *(It was determined that using contract Code Enforcement would generate the greatest cost savings for the City. A new code enforcement contract was approved at the 9/3/13 Council meeting.)*
11. Evaluate Request for Proposal "RFP" process for effectiveness and efficiency.
12. If PERS rates go down due to Super Funding, any savings should be placed into Restricted Reserves for pension liabilities.
13. Evaluate all utility usage for all City departments.

14. Review and Evaluate use of solar panel programs to bring down utility costs. The City received a grant from the AQMD to install solar panels. Consider an “RFP” for engineering assistance to the City.

Revenue Enhancements:

1. Consider potential tax measures. For example:
 - a. Poll the community in regards to:
 - i. What City services are they willing to pay for or lose?
 - ii. Would residents be willing to pay a City-wide sales tax @ ½% or 1% or parcel tax?
 - iii. Expanding the Utilities Users Tax to include sewer and sanitation.
 - b. Educate the Community regarding future benefits of service vs. cost to provide such services.
 - c. Index any revenues measures, to inflation, to match future increases in costs.
2. Make the parcel tax equitable for property owners with vacant land. *(This will require a change to the voter-approved measure.)*
3. Review and evaluate the process currently being utilized in collecting Business License fees. *(It is our understanding City staff is working on capturing fees for Business Licenses, Fire User fees & Code Enforcement.)*
4. Review and evaluate a 911 Fee – using cost recovery principles, once and / or if, dispatch is brought in-house.
5. Complete a Cost Recovery Fee study. *(It was explained that City staff are currently working with a consultant to complete a Cost Recovery Fee Study.)*
6. Enforce the already existing inspection program – bring properties up to code. Add uncollected code enforcement costs to the tax rolls of the respective properties.
7. Review and evaluate creating a “Renter Fee” / “Door Tax” for rental properties.

FISCAL IMPACT

The fiscal impact of these recommendations would depend upon the action taken by the City Council. These recommendations would cut expenses and increase revenues in FY 2013/14. Although it is recognized, that being this far into the Fiscal Year, the savings would need to be reevaluated against the currently adopted Budget expected outcomes.