

REPORT TO THE CITY COUNCIL



DATE: August 5, 2014

TITLE: Resolution Determining and Declaring that a Fiscal Emergency Exists in the City of Desert Hot Springs

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RECOMMENDATION

- 1) Open the Public Hearing;
- 2) Take Testimony;
- 3) Close the Public Hearing; and
- 4) Adopt (which requires a unanimous vote) a resolution of the City Council determining and declaring that a fiscal emergency exists in the City of Desert Hot Springs.

DISCUSSION

Due to a confluence of a host of circumstances, the City has suffered from significant financial hardships in the last few years which have contributed to the City's current fiscal emergency situation.

On February 1, 2012, the State of California officially dissolved all redevelopment agencies within the State, including the former Desert Hot Springs Redevelopment Agency, thereby eliminating the production of redevelopment funds that were used for economic development purposes. Redevelopment formerly produced revenue for the Redevelopment Agency to develop or provide financial assistance to the private sector to develop uses that generated tax revenue such as sales tax revenue, which the City was able to use to pay for general municipal services and develop, install and maintain public improvements. The impact of the elimination of redevelopment funding for local economic development was magnified since it also coincided with the national economic "Great Recession."

The City Council previously declared a Fiscal Emergency on November 19, 2013, after which employee benefits and holidays were reduced, City staff positions were, and continue to be, eliminated (City Hall staff has now been reduced by more than 70%), reduced most employee salaries by 22% - 35%, eliminated some consulting contracts, and cut some non-essential spending. However, since the declaration of the prior fiscal emergency, there have been increased costs relating to the California Public Employees' Retirement System (CalPERS), the Skyborne Fire Station, the Police Officers Association lawsuit and other ongoing litigation costs.

The City has also been awaiting State approval to sell certain properties owned by the Successor Agency to the Former Desert Hot Springs Redevelopment Agency, which has prohibited the influx of revenue from the proceeds of the sale of the subject properties and development of the subject properties. The delay in this process has, in effect, hindered feasible efforts by the City to generate economic development to increase sales tax revenue to pay for general municipal services and the development, installation and maintenance of public improvements. Moreover, the most recent evaluation of the City's share of property taxes by the County of Riverside has negatively affected tax revenue due to the Successor Agency and consequently, the City.

The City's Fiscal Year 2014-15 budget eliminated many important programs and projects. Maintenance of many City properties, plant and equipment continues to be deferred. There is a travel and training moratorium for all City staff, other than that mandated by law or funded by non-general fund revenues.

It became necessary for City Council to identify \$1,600,000.00 in cuts in Fiscal Year 2014-15 in order to maintain the minimum acceptable level of general fund cash of \$1,500,000.00 as of June 30, 2015. This money is necessary to make payroll and pay bills between July 1, 2015 and late January, 2016. The City receives a large infusion of cash, from the County of Riverside, in late January and late May each fiscal year. This is the minimum to keep "the doors open and the lights on". Without this \$1.5 million dollar balance in general fund cash, the City will become fiscally insolvent.

There is only \$10,000 budgeted for contingencies in Fiscal Year 2014/15. Prudent financial management dictates that reserves be increased in case of emergencies such as a devastating earthquake, flood, fire, public safety emergency, etc.

The City's need for additional revenue is immediate and will become ever more pressing during this Fiscal Year and in the next fiscal year. However, in order to mitigate the City's dire financial situation's threat to the public health, safety and welfare, staff believes it is necessary for the City Council to declare a fiscal emergency for all legal purposes, including, without limitation, Article XIII C, Section 2(b) of the California Constitution and Section 3504.5 of the Government Code. This will ensure that the City has the resources and opportunities available to the City which staff believes are necessary to preserve and protect public health, safety and welfare for the benefit of the City's residents, property owners, business owners, and visiting public.

In summary, staff believes that the recitals set forth above in the attached resolution support the determination and declaration that a bona fide Fiscal Emergency exists in the City of Desert Hot Springs.

If the resolution is approved (which requires a unanimous vote of the City Council), staff will be directed to investigate and recommend further actions necessary to increase revenue and mitigate revenue losses. The City Manager, or designee, Director of Finance and Administration and City Attorney will also be authorized to take any and all further actions, and execute any and all documents, that may be necessary to carry out the intent and purpose of this Resolution.

FISCAL IMPACT

The declaration of fiscal emergency will allow the City increased flexibility to deal with its current fiscal crisis.

EXHIBITS

- 1) Proposed Resolution – Fiscal Emergency