Financing City Services Task Force
Final Report
3/19/10

Introduction

In September 2008 the City Council established the Financing City Services Task Force. The Task Force's initial charge was to develop a plan to supplement the loss of the one million dollars collected by a Fire Assessment. The five-year, property owner approved assessment was due to expire on July 1, 2009. The City did not pursue a continuation of the Fire Assessment since the public input provided to the consultants who studied fire options for the City found little support for continuing the assessment. The City of Pacifica was in a situation similar to that of many cities across the State that were confronting extreme hardships, and in an attempt to build revenues during the economic downturn many cities were placing a variety of measures on the ballot. On November 3, 2009 over 100 local measures were placed on the ballot including 57 for city taxes, fees and bonds for cities, counties and schools.

The Task Force met from October 2008 until February 2009 to review a variety of revenue generating options and data from a community survey. Based on the survey data and revenue projections, the Taskforce recommended that the Council send a Sales Tax Measure to the voters in a Special Election in May 2009. Simultaneously, the State of California moved to increase the Sales Tax and placed a measure on the ballot. Neither the State nor the Pacifica sales tax measures were approved by the voters at the election.

On July 13, 2009, the mission of the Financing City Service Task Force was revised by the City Council with the adoption of Resolution No. 51-2009. That resolution set out the objectives for the Task Force as:

1. Work with staff to review service levels and expenditures;
2. Explore ways to reduce costs and achieve efficiencies in City operations;
3. Examine revenues and explore the need for additional or revised methods to finance City services;
4. Develop and recommend to the City Council a Five Year Financial Plan that will incorporate the results of the Task Force's review of expenditures and revenues and establish a method for resolving the structural deficit.

The Council also continued the membership of all those who were currently on the Task Force and assigned Councilmember Lancelle and Mayor ProTem Nihart as Council representatives on the Task Force. Members of the original Task Force who remained on the Task Force include: Bruce Banco, Bill Bent, Mary Ellen Carroll, Greg Cochran, Suzan Getchell-Wallace, Karen Ervin, Omar Saleh, Pete Shoemaker and Sue Vaterlaus. Pete Shoemaker serves as Chair and Mary Ellen Carroll serves as Vice Chair.

During that same timeframe the Council also created an Economic Development Committee (EDC) with Objectives that focused on strengthening the economy of the City. Those objectives are:

1. To work with the City Manager to review and develop plans to improve customer service in departments that work with existing and new businesses;
2. Help businesses in existing districts to organize and implement plans for improvement;
3. Devise and implement a plan for outreach and marketing of Pacifica to potential new businesses.

This Committee is seen as a complement to the work of the Financing City Services Task Force since the EDC will be working to increase the long term financial stability of the city and community.

Background

After the May 2009 defeat of the Sale Tax measure, the City finalized the Fiscal Year 2009-2010 Budget without the $1,000,000 that would have been generated by the measure. In order to balance the 09-10 Budget the Council made cuts of $2,604,840 and used approximately $2.9 million of reserves. The City also met with each of the City's ten labor groups to explain the budget deficit and ask for assistance in bridging the shortfall.

At the completion of the 09/10 Budget process, it was clear that a long-range plan was needed to resolve a structural deficit that was approximately $2,800,000 per year for a total five year deficit of $14,000,000. This was the result of annual revenues being less than expenditures, the loss of the fire assessment and costs associated with negotiated labor contracts. As was done in the 09/10 Budget, and in prior years, the structural deficit has been covered by the use of reserves.

This continuing practice is what led the Council to start this process to develop a Five Year Financial Plan that sought solutions to the issue. Projections show that the gap between revenues and expenses will continue and that reserves will be exhausted in Fiscal Year 2011-12. The City's current reserve is far below the recommended 20% of General Fund revenues ($23.7 million revenues = $6 million reserves) and leaves the City with no funds for an emergency. See chart XX Reserve Balances

Facing one of the greatest economic downturns since the Great Depression cities across the state and country are finding it necessary to reduce costs. Pacifica has a fiduciary responsibility to reduce its budget to a point at which revenues equal or exceed expenditures.

Process

The Task Force has met twice a month, with the exception of October and November, since August 2009 and expects to issue its report in March 2010. The Task Force began by reviewing the City's budget. The Task Force spent time discussing each of the different funds in the budget especially the sources of revenue for each and in some cases the restrictions on expenditures. With an overview of all funds in the budget, the Task Force moved on to a review of each departmental budget. The department budgets were presented by each Department Director and included information on services provided by each department, staffing levels, reductions taken to date and ideas for future savings. All the materials from each Department presentation are on the City's website at www.cityofpacifica.org . Following the presentations the Task Force members conducted a line by line review of department expenses.

In addition, individual Task Force members asked for additional information on stimulus funding, staffing levels, benefits, compensation, purchasing, contracting for legal services and other functions, property tax shifts over the past 10 years, labor agreements and examples of what other cities are doing to balance their budgets. The handouts are part of the materials on the website. The Task Force also welcomed public comment and City employees, union representatives and community members

have been in the audience at of each of the meetings, adding insight and comments to the Task Force process.

After review of all the material, the Task Force began a general discussion on expenditures and revenues and explored options to use that might resolve the structural deficit over the five year timeframe. The Task Force focused on three expenditure categories:

1) Costs associated with supplies and services
2) Personnel costs including salaries, benefits and retirement (pension)
3) Service levels and ways to reduce those levels (layoffs or formula reductions by department - % in general fund less revenue generated)

In the revenue review, the Task Force explored several of the options from the original 2008 revenue ideas:

1) Increasing the Transient Occupation Tax (TOT) from 10% to 12%
2) Utilizing a Public Safety property assessment
3) Restructuring the Utility Users Tax to lower the 6.5% (electric and gas) and add telecommunications to the tax.

Recommendation

The Task Force is unanimous in our appreciation and respect for all the city departments and the excellent job they do on a very limited budget. The assigned task was to find "fat" in the budget and to put it simply, there was none to be found. The very good news is that we have city workers who are dedicated and very creative in doing a lot with what they have, but of course the challenge is to find ways to reduce costs. Since the budgets for the department are currently very lean, it became obvious to the Task Force that there were no easy solutions.

Our top priorities were to maintain services and minimize layoffs as much as possible. We feel that the best way to achieve this is through teamwork. When essential city services are cut drastically at a time when they are most needed, they may end up costing the community more in the long run. For example, economic downturns often lead families to increase their use of public services. We felt that it is in the best interest of the community to preserve city services and prevent the corresponding job layoffs first and foremost.

By all sectors of the community coming together to share in the solution, and everyone contributing something, we can minimize the impact to all of us and keep the bulk of our city services intact. In order to avoid an expected $14 million shortfall over the next five years and put our city on a sustainable financial path, we recommend implementing the following:

Option A: Expenditure and Revenue Adjustments

Since the largest and fastest-growing component of the City's budget is salary and benefits costs, we recommend that the City ask all employee labor groups, in their appropriate negotiations, to make adjustments which will lower these anticipated costs over the next five years. These adjustments comprise a number of possible items (a list is included in the attachments) and may include a freeze on wages and a freeze in the City's contribution rate to retirement benefits. We estimate that these two alone will save about $8.5 million over the five-year span.

We also recommend that the City put the following revenue-generating measures before the voters, at the specified time:

1) Increase the TOT (hotel tax) from 10 to 12%
Election of November 2010, estimated 5-year revenue of ~~$72,000~~ $640,000 (rev 4/28/10)
2) Public Safety Assessment
Property owners vote in Spring 2011, estimated 4-year revenue of $4,000,000
3) Revised Utility Users Tax (UUT)
Election of November 2012, estimated 3-year revenue of $2,000,000

The total savings + revenue would equal approximately $14,000,000 in five years, solving our budget deficit, giving us a reserve of over $600,000 and putting us on a surplus-building path. This recommendation also fulfills the Task Force's philosophy of preserving service levels and jobs in order to maintain a livable community.

We realize that each of the steps above requires the consensus of many people and labor groups, and that it is very likely that not all of them will come to pass as envisioned. To the extent that the City needs to make additional budget cuts, we recommend that it be done in the following way:

Option B: Mandated Percent Reductions in Departments

The City Manager has put together a formula that considers each department's percentage of the General Fund **adjusted for revenue credit**. We feel that this is the best assessment of each department's proportional share. The amount of budget reduction needed should be allocated to each department according to this formula, with each department determining how to meet its targeted reduction amount.

Option C: Service Reduction Options

This is the option of last resort and only to be considered if the first two do not achieve the needed reductions. This option targets specific city jobs to be eliminated as outlined by the City Manager. The actual positions from the list to be eliminated will be developed in response to the evolving budget situation and will be structured to have the least impact on vital city services.

While three separate options have been identified the intent of the Task Force is for the options to be used inter-changeably as needed. As an example, if Plan A does not generate all of the anticipated savings or revenues Plan B could be used to recover the remaining amount or if ultimately necessary portions of Plan C could be added so that the total amount needed could be achieved over the five year timeframe. The Task Forces could assign additional portions to pursue as a part of its annual review discussed in Next Steps.

Next Steps

After completion of the report by the Task Force, it will be presented to the City Council in a joint Study Session with the Task Force. Following that presentation the report will be considered by the Council at a regular Council meeting. Once the City Council has accepted the report, the final document will be shared with the community, unions and employees via meetings. The idea is to make sure everyone

has a chance to see the report and understand the options that are presented. This will be particularly important in building community understanding of the items that require a vote.

The Task Force will meet annually over the next five years to analyze the progress that has been made and assess whether additional recommendations to the Council are needed to continue progress on resolving the structural deficit.

Attachments

1. **Five Year Reduction Strategies** – this details the components of the three Options discussed in the report.

2. **Service Reduction Options** – this lists the positions that are proposed for elimination under Option C.

3. **Graph on Status Quo** – this graph shows the gap between the revenues and expenditures if no action is taken.

4. **Graph on Recommended Option** – this graph shows the results of the Task Force recommendations with Revenue exceeding Expenditures in Budget Year 13/14.

5. **Graph on Reserves under Status Quo** – this graph shows the reserve levels if no action is taken with reserves being depleted after Budget year 10/11.

6. **Graph on Reserves under Recommended Option** – this graph shows the reserve levels if the recommended option is implemented.

7. **Negotiated Labor Items** – this is a list of possible cost saving items that the Task Force suggests the City Council consider in negotiations with City Labor Unions.

All material presented to the Task Force is available on the City website. Go to www.cityofpacifica.org and click on the heading Financing City Services Task Force Report on the right side of the page under City Focus

Five Year Reduction Strategies
Financing City Services Task Force
April 28, 2010

Option A

Expenditure and Revenue Adjustments		
5 year Deficit		$ 13,885,432
Expenditures		
Salary freeze for 5 years		$ 6,405,371
Retirement freeze in City contribution		$ 2,048,245
	Total	$ 8,453,616
	Difference	$ (5,431,816)
Revenue		
Increase TOT		$ 640,000
On ballot in Nov 2010		
Collection begins in July 2011		
2% increase from 10% to 12%		
Amount per year - $160,000		
Public Safety Assessment		$ 4,000,000
Property Owners Vote - Spring 2011		
Collected with Property Taxes in 2011 - 12		
Approximately $85 per parcel for residential		
Amount per year - approximately $1,000,000		
Revised Utility Users Tax (UUT)		$ 2,000,000
On ballot in Nov 2012		
Amount per year - approximately $800,000		
Lower gas & electric and include telecommunications		
Collection begins January 2013		
	Total	$ 6,640,000
	Difference	$ 1,208,184

Option B

Mandated Percent Reductions in Departments $ 14,000,000
$2,800,000 per year - total cut made in first year
Cut amount could also be based on supplementary amount to other options
Based on % of the General Fund after credit for revenue
Credit given for revenue directly attributed to dept

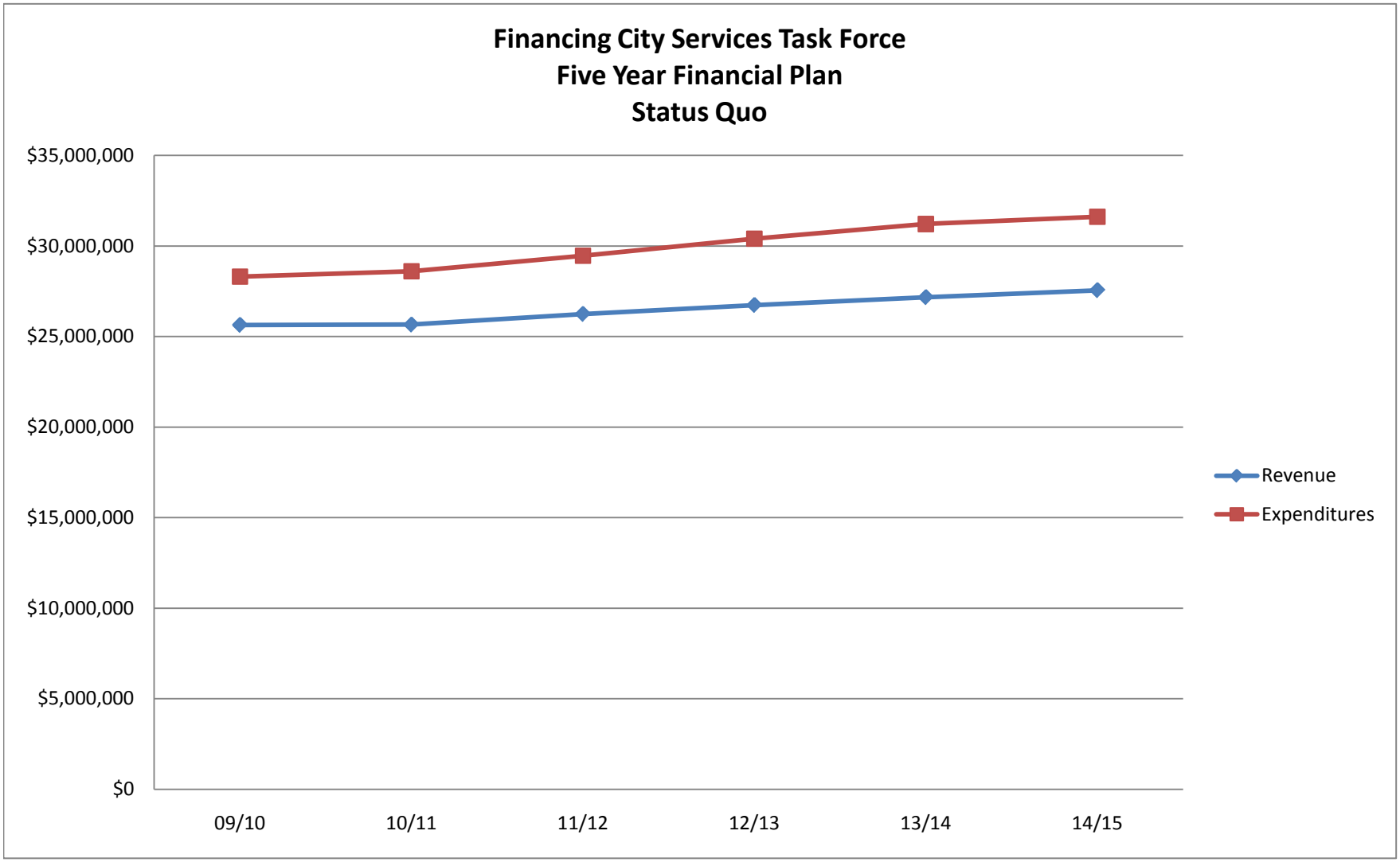
	% Gen Fund	Amount	09/10 Budget	% of budget
CITY COUNCIL	0.68%	$ 19,017	$ 157,500	12.07%
CITY ADMINISTRATION	2.45%	$ 68,471	$ 512,650	13.36%
HUMAN RESOURCES	2.16%	$ 60,607	$ 463,840	13.07%
CITY ATTORNEY	4.72%	$ 132,177	$ 599,940	22.03%
FINANCE	5.81%	$ 162,617	$ 1,284,700	12.66%
POLICE	42.22%	$ 1,182,079	$ 9,466,930	12.49%
FIRE	27.70%	$ 775,668	$ 6,020,330	12.88%
PLANNING	2.51%	$ 70,292	$ 1,222,311	5.75%
PUBLIC WORKS	8.13%	$ 227,741	$ 2,367,433	9.62%
PB&R	3.62%	$ 101,331	$ 3,792,432	2.67%
NON-DEPARTMENTAL	0.00%	$ -		
OTHER	0.00%	$ -		

Option C

Service Reduction Option $ 6,370,075
Eliminate 17 positions across departments
See detail sheet for identified positions
Saves $1,274,015 per year

Service Reduction Option
3/12/2010

Department	Position	# of Positions	Total Comp	Total
City Admin	Clerk II	0.5	$39,000	$39,000
HR	Clerk II	0.5	$39,000	$39,000
PBR	Rec Supervisor	1	$140,235	$140,235
PBR	Food Services	1	$81,000	$81,000
Police	Police Capt	1	$260,000	$260,000
Police	Evidence Supervisor	1	$130,000	$130,000
Police	Police Records Sup	1	$115,000	$115,000
Fire	Firefighter	3	$160,000	$480,000
Planning	Mgmt Analyst	1	$130,780	$130,780
Planning	Asst Planner	1	$108,000	$108,000
PW	Tree Trimmer	2	$82,000	$164,000
PW	Asst Tree Trimmer	2	$91,000	$182,000
PW	Sr Tree Trimmer	1		
PW	Equipment Operator	1	$95,000	$95,000
	Total	17	subtotal	$1,964,015
	Less Contracts:			
	Street Sweeping			$300,000
	Tree Trimming			$390,000
			Total	$1,274,015


Financing City Services Task Force
Five Year Financial Plan
Status Quo
$35,000,000
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$25,000,000
$20,000,000
$15,000,000
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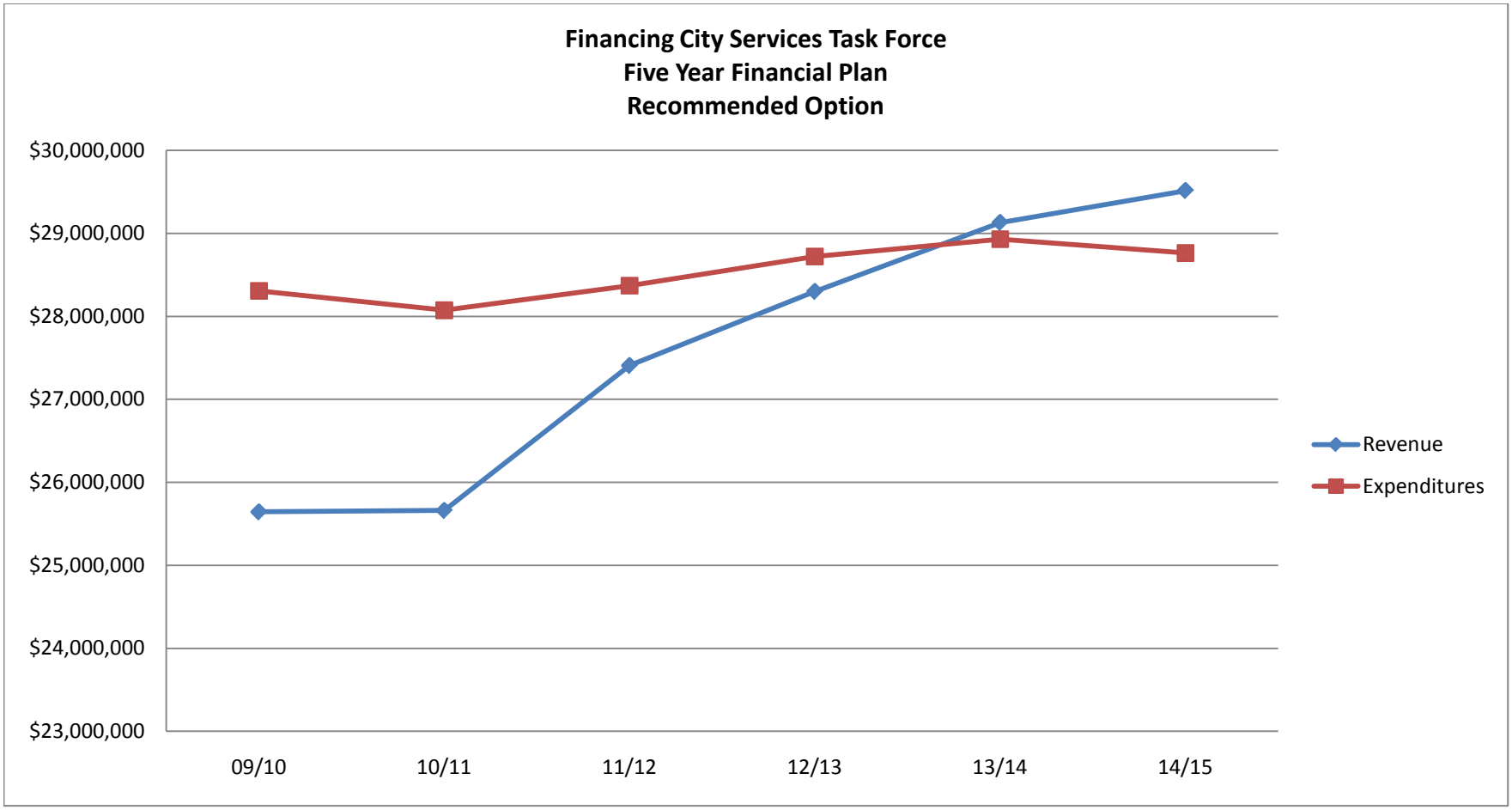
10/11
11/12
12/13
13/14
14/15
Revenue
Expenditures


Financing City Services Task Force
Five Year Financial Plan
Recommended Option
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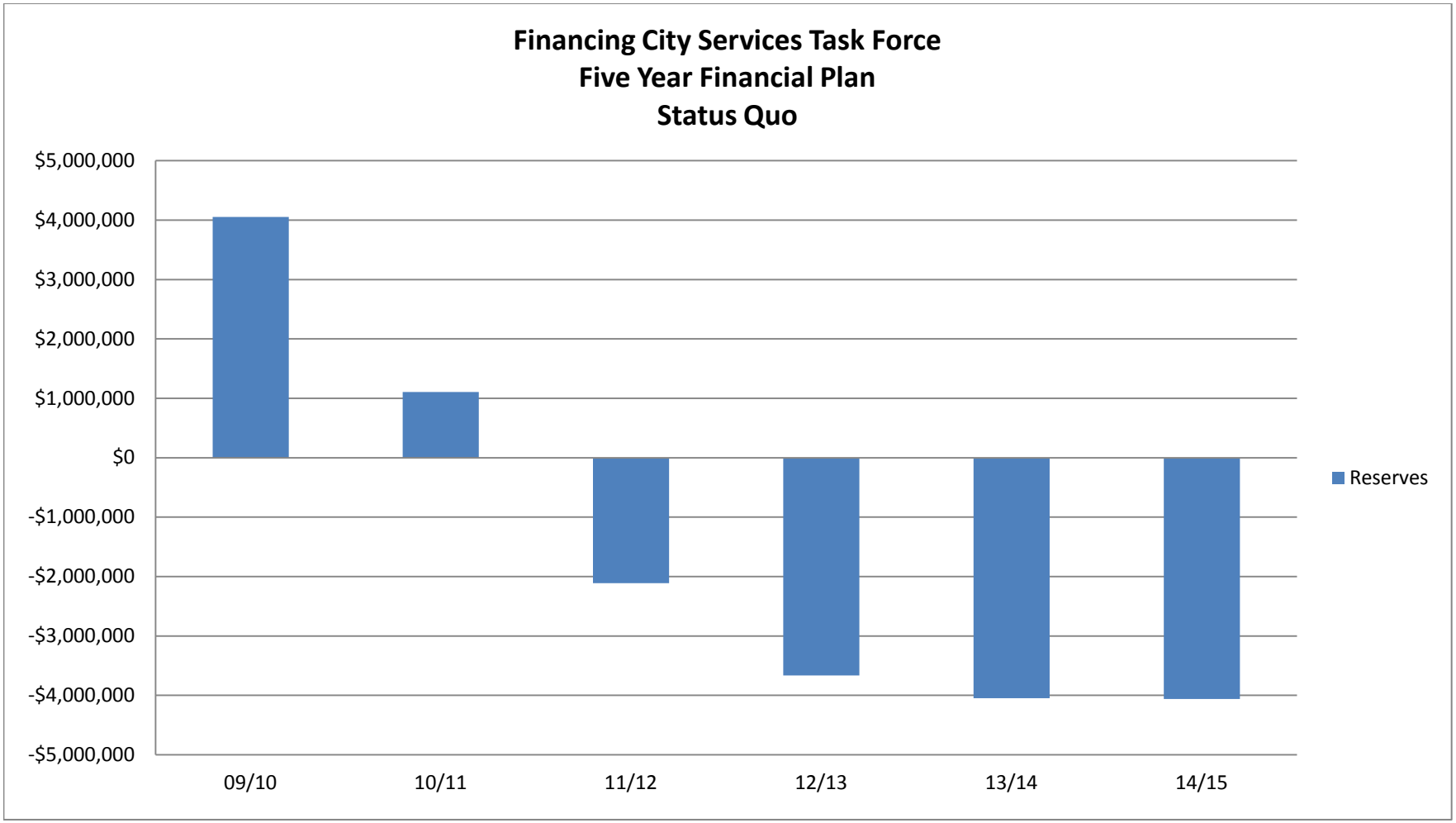
13/14
14/15
Revenue
Expenditures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Five Year Financial Plan
Status Quo
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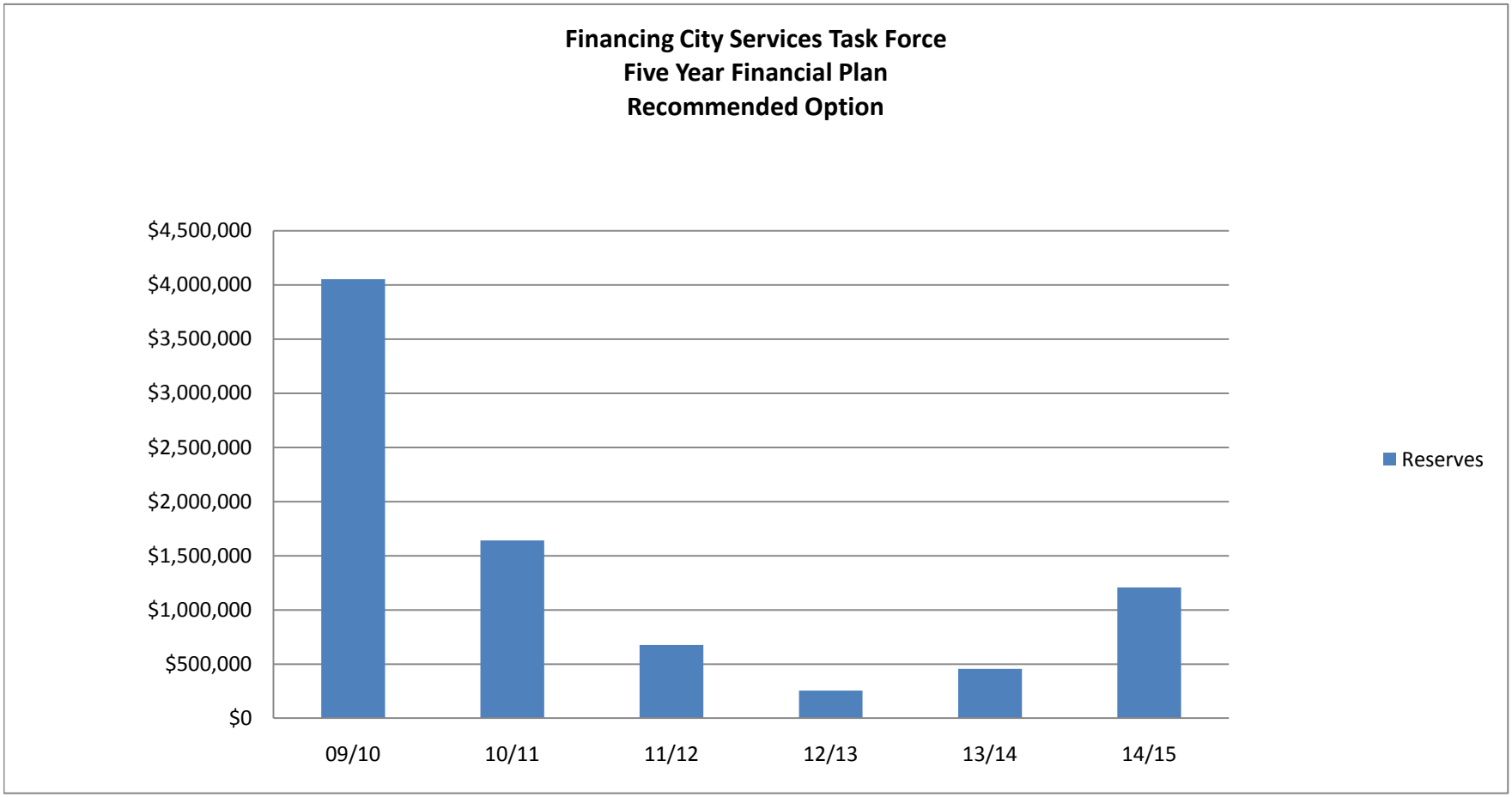
12/13
13/14
14/15
Reserves


Financing City Services Task Force
Five Year Financial Plan
Recommended Option
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$4,000,000
$3,500,000
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$1,500,000
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09/10
10/11
11/12
12/13
13/14
14/15
Reserves

Negotiated Labor Items

Reduce Staffing and Levels of Service:

- Hiring Freeze
- Defer Personal Actions (e.g. promotions, reclassifications)
- Close facilities or reduce hours of operations
- Merge operations with other public agencies
- Contract out services
- Merge agency functions (example: Admin. Services)
- Encourage reductions to Part-time service
- Early retirement/Voluntary Separation
  - Additional service credit/Cash/Insurance Benefits
- Furloughs
  - Voluntary/Mandatory
- Layoffs
- Reduction in Hours

Reduce Payroll Costs:

- Defer Wage Increases (including merit increases)
- Reduce salaries (reduce entry level range/step)
- Reduce/Freeze, Modify Benefits/Insurance contributions or coverage
  - Cafeteria Plan cash provisions
  - Impose waiting periods for participation
  - Cap contributions for medical, dental
    - and other benefits (employee pays difference)
- Reduce/Freeze or Modify
  - Premium pay/Bi lingual pay/Longevity pay
  - Standby/callback
  - Overtime beyond FLSA statutory mandates
  - Accrual or accrual Rates of Paid Leaves
  - Holiday and Holiday in lieu pay
  - Administrative Leave
  - Uniform Allowance
  - Vehicle Use (city provided vehicle)
- Eliminate survey based salary increases
- Retirement cost sharing – freeze city's contribution
- Retirement – establish second tier of benefits
- Retirement - eliminate supplemental or enhanced options
- Flexible schedule–paid time for fitness, 9/80 or 4/10 work week