



CITY OF PACIFIC GROVE
300 Forest Avenue, Pacific Grove, California 93950

AGENDA REPORT

TO: HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: Director of Management and Budget Jim Becklenberg
MEETING DATE: January 3, 2006
SUBJECT: BUDGET UPDATE: COST-SAVINGS RECOMMENDATIONS
AND DEFINING THE BUDGET CHALLENGE

RECOMMENDATION:

- 1) **Approve strategies to close the FY 2006/07 budget gap.**
- 2) **Provide comments to staff on the composition of the ongoing budget gap, specifically under-funded services that may ultimately be desired for a sustainable community.**
- 3) **Provide comments to staff on the recommended FY 2007/08 budget process.**

EXECUTIVE SUMMARY:

On December 6, 2006, staff informed the City Council that General Fund revenues are projected to fall \$497,000 short of budgeted expenditures in the current fiscal year (FY), 2006/07. In addition to this operating gap, staff began a discussion of under-funded services that could add more than \$1,000,000 to the operating gap on an ongoing basis. Further, a \$1,300,000 difference between current reserves and the amount required by Council policy represents the “reserves gap,” which was the final component of the total budget gap presented on December 6, 2006.

This report recommends cost-saving measures totaling \$567,100, which could offset the \$497,000 estimated shortfall. More than half of these savings will result primarily from unplanned vacancies in the police department, which have limited the department’s ability to be proactive and to meet needs such as dedicated traffic enforcement. Other major savings in FY 2006/07 result from storm water work that cannot be accomplished due to delays in receiving the Federal storm water management permit, partial-year vacancies in other departments, and planned savings in contract and supplies costs.

The December 6, 2006 report highlighted just a few currently under-funded services, totaling \$1,200,000, to begin a discussion of funding needed for a sustainable community. In recent weeks the ad hoc Budget and Finance Committee discussed potential under-funded needs. The updated list, which is included in this report, totals approximately \$3,300,000.

Staff is preparing a letter to all residents and is planning two community meetings, tentatively scheduled for Wednesday, January 24 and Saturday, January 27, 2007, to build awareness in the

community about the City's budget challenges and options. Following these meetings, the process to develop the FY 2007/08 budget and the process for developing long-term solutions will proceed simultaneously. Staff anticipates returning to the City Council in February 2007 with preliminary recommendations for the FY 2007/08 budget.

DISCUSSION:

Closing the FY 2006/07 gap: In response to the \$497,000 budget gap for FY 2006/07 presented to the City Council on December 6, 2006, department heads identified the cost-saving measures (in Table #1 below) to insure that costs do not exceed expenditures in the current year. The City Manager considered all options that did not include reducing staff through layoffs, as layoffs may not be necessary to achieve current-year budget goals. These recommendations were presented to the Budget and Finance Committee of December 7 and unanimously recommended to the City Council.

Table #1: Recommended Savings Strategies for FY 2006/07

<u>Dept.</u>	<u>Savings strategy</u>	<u>Amount</u>	<u>Service impact(s)</u>
<u>Police</u>			
	Police officer vacancies	\$320,000	Very limited prevention work, focus on 911 call response, no school resource officer, no dedicated traffic enforcement, delayed investigations, unmet training needs
<u>Fire</u>			
	Eliminate Division Chief / Fire Marshal position	\$37,000	Incumbent is retiring. Part of proactive reorganization to save money and generate revenue without service disruptions.
<u>Public Works</u>			
	Savings from storm water work that can't be completed this year due to permitting delays	\$75,000	None; work could not have been completed
	Hold anticipated vacancy for B&G position in 4/07	\$14,000	Less maintenance of parks and public buildings until position is filled in FY 2007/08?
	Eliminate maintenance of ocean-front turnouts	\$6,000	Potholes/bumpier surface at ocean turnouts
	SUBTOTAL	\$95,000	
<u>Community Development</u>			
	Eliminate contract plan check	\$10,000	None anticipated, building activity has slowed
	Reduce equipment and supply	\$4,500	Computers repaired instead of replaced where possible
	SUBTOTAL	\$14,500	
<u>Recreation</u>			
	Hold Office Assistant position vacant	\$30,000	Remaining staff less productive due to logistical challenges associated with providing high-priority customer service at counter
	Eliminate Saturday Youth Center hours	\$2,600	Youth Center closed on Saturday
	Reduce one game in spring adult sports	\$1,200	One fewer game, savings in referee costs

	Reduce one game in winter youth basketball	\$1,500	One fewer game, savings in referee costs
	SUBTOTAL	\$35,300	

<u>Library</u>			
	Reduce electronic materials	\$800	Fewer materials available.
	Reduce supplies and equipment budget	\$1,500	None
	Eliminate part-time shelver position	\$8,000	Slower return of books to shelves
	Reduce part-time salary budget to intended level	\$25,000	None
	SUBTOTAL	\$35,300	

<u>Museum</u>			
	Reduce non-salary budget items	\$10,000	None, rely on Museum Improvement Fund to make up difference

<u>Administration</u>			
	Reduce contract services	\$20,000	Less ability to perform studies and obtain expert assistance

TOTAL	\$567,100		
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Additional savings in the current year beyond the projected revenue shortfall amount could begin to rebuild important reserves, thereby providing additional flexibility for balancing future years' budgets.

In future weeks, staff will work with the ad hoc Budget and Finance Committee to identify which of the FY 2006/07 savings measures could be appropriate for continuation in FY 2007/08. For example, the Fire Department savings generated from eliminating the Division Chief/Fire Marshal position would generate additional savings in FY 2007/08. It is part of a department reorganization strategy intended to ensure better service and generate revenue through fees for administrative services provided to the City of Carmel. Alternatively, intentionally holding Police Officer vacancies in order to save money in FY 2007/08 would amount to a planned reduction of police service levels. This type of decision would require City Council consideration.

Defining the long-term problem: Balancing current service costs with current revenues is the first step to financial sustainability. However, this limited definition of the budget "gap" neglects other aspects of a sustainable organization. To begin a discussion of funding needs for a sustainable community, the December 6, 2006 report highlighted just a few currently under-funded services, totaling \$1,200,000. This amount includes estimates for urban forest management (\$200,000 per year), code enforcement (\$200,000 per year), a federally required storm water management program (\$300,000), and a pavement/concrete management program (\$500,000).

In recent weeks the ad hoc Budget and Finance Committee developed a list of services that are currently under-funded or un-funded for the City Council's consideration. The tentative list, shown in Table #2, totals approximately \$3,300,000 in services that are currently under-funded.

Table #2: Under-funded Services

<u>Under-funded service</u>	<u>Annual Cost Estimate</u>	<u>Could be 100% fee or grant-supported?</u>
1. Urban forest management: Tree inventory, tree planting, tree maintenance, dead tree removal	\$200,000	NO
2. Storm water management program: Public education, developing and managing programs to limit illicit discharge and construction runoff	\$300,000	NO
3. Street maintenance: Annual investment in pavement management that maintains high-quality infrastructure at lower long-term cost	\$500,000	NO
4. Sidewalk maintenance: Annual investment in sidewalk, curb, and gutter repair (including ADA accessibility ramps)	\$65,000	NO
5. Rec. trail maintenance: Needs range from routine landscaping to sea wall improvements	\$150,000	NO
6. Restore hours at library to full-time: Add Sundays and two evenings	\$150,000	NO
7. Park maintenance: Landscaping, tree maintenance	\$150,000	NO
8. Maintain wage-competitiveness for police officers and firefighters with neighboring cities (15% increase)	\$900,000	NO
9. Long-range land-use planning program: General Plan update, zoning regulation updates,	\$200,000	YES
10. Faster construction plan-check and same/next day inspection	\$150,000	YES
11. Code enforcement program: Code violation notification, follow-up and remediation, and records management	\$200,000	YES
12. Facilities replacement program: Annual funding for planned replacement of vehicles, technology, and major public building maintenance (e.g., roofs, heating and cooling, flooring)	\$300,000	NO
TOTAL POTENTIAL ONGOING COST OF CURRENTLY UNDERFUNDED PROGRAMS	\$3,265,000	

The services in Table #2 represent potential annual costs for *ongoing* services, for the purpose of identifying the appropriate annual, ongoing funding need for city services. In addition to the ongoing costs, the Committee began identifying several capital improvement needs, such as Rec. Trail improvements, park restrooms, and street light upgrades. Staff is aware of additional

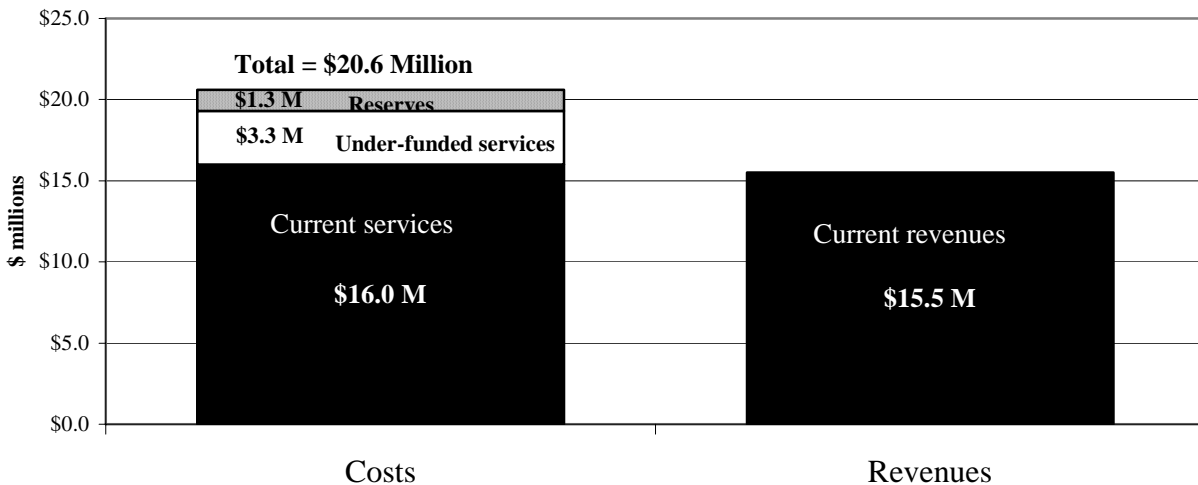
capital improvement needs, and will begin compiling a list of them, along with cost estimates and potential funding sources.

The column on the right-side of Table #2, labeled “Could be 100% fee or grant-supported?” provides a preliminary assessment of whether staff a given service could be fully implemented without a new or increased tax. If an item is marked “NO” in this column, then preliminary discussion suggests that 1) grant funding would not be reliable enough, or in large enough amount, to support the service on a perpetual basis, or 2) that fees at a reasonable level could likely not support the service entirely. A “YES” in this column suggests that fees for service could potentially support the full cost of the program. These labels notwithstanding, staff acknowledges that new programs may require a combination of tax revenue, fees, and and/or grants to implement and sustain. As service priorities emerge, staff will develop recommendations on the right mix of potential revenue sources for each need.

The list of under-funded services is not intended to suggest a plan or an immediate funding target. Rather, it may facilitate a discussion of the City’s role in securing a sustainable community and the level of ongoing funding that could ultimately be required. As the list evolves over time and priorities emerge, staff will develop program proposals with detailed cost estimates. The list of services, along with their potential aggregate cost, may also provide an illustration for community discussions regarding the magnitude of the challenge the City faces.

Chart #1 places the under-funded services listed above into context with projected FY 2007/08 revenues and the other funding needs outlined in the December 6 budget update. First, to preserve current service levels, the City must close the gap between ongoing service costs and ongoing revenues, which is estimated to be \$500,000 in FY 2007/08. To preserve current services and provide the under-funded, ongoing services mentioned above, the gap to close through budget cuts and revenue increases becomes \$3,800,000. If Council’s goal is to provide all services and restore reserves to levels required by policy, then an additional non-recurring savings or revenue of \$1,300,000 is required.

Chart #1: Defining the "Sustainable Pacific Grove" Budget Gap



Next steps: So far, the budget process has focused on understanding the condition of the General Fund, outlining the magnitude of the challenge for funding a sustainable community, and surfacing options for new revenues. Staff is developing information, some of which will be presented in conjunction with this report via Powerpoint presentation on January 3, 2007, on the nature of the City's revenues and how the City of Pacific Grove compares with neighboring jurisdictions with regard to taxes, spending, and staffing levels.

Council has directed staff to widen the communication of these issues to the community during January 2007. Information from this report and the December 6, 2006 budget update will be summarized for a letter to all Pacific Grove residents – to be mailed during the week of January 8, 2007 – alerting them to the City's budget challenges and advertising upcoming community meetings. The meetings are scheduled for Wednesday, January 24 at 7:00 pm and Saturday, January 27 at 11:00 am.

Community feedback will inform City Council discussions about the FY 2007/08 budget. They also mark the beginning of a distinct path, parallel to the FY 2007/08 budget process, toward decisions about major new revenues or restructuring current services. Staff recommends additional dialogue with residents in the form of professional surveying and/or polling about service priorities and the relative public support for specific new revenues and taxes. While staff currently has no consultant proposals, typical timelines for this work suggest that this work could occur in late February or early March 2007. The survey/polling results, along with community input from the public meetings, could inform City Council discussions in April, May, and June 2007 about whether to pursue ballot measures required for new taxes or begin restructuring services to accommodate Council's highest priorities. Either direction could then be fully implemented for the FY 2008/09 budget.

Staff recommends that the FY 2007/08 budget process proceed simultaneously with the long-term planning process described above. Staff would return to the City Council on February 7 with recommendations regarding those under-funded services that are determined to be sufficiently urgent or important enough to warrant inclusion in the FY 2007/08 budget. The costs for these services would be added to the projected FY 2007/08 shortfall of approximately \$500,000 for current services. Recommendations on February 7 would also include potential non-tax revenue strategies that could be implemented with the FY 2007/08 budget. These revenues could limit the need for budget reductions that could otherwise be required to balance revenues with costs and accommodate new priorities. Table #3 summarizes the recommended FY 2007/08 budget process and the process for developing long-term solutions.

Table #3: Recommended Budget and Long-Term Planning Processes
(Subject to change)

FY 2007/08 Budget Process		Long-Term Planning Process	
1. Budget and Finance Committee meeting to discuss priorities for FY 07/08 and non-tax revenue options	January 4, 2007	1. Letter to all residents about the City's budget challenges	Mid-January
2. City Council: Direction on strategic policy questions for FY 2007/08 budget	February 7, 2007	2. Community meetings to build awareness of budget challenge and discuss long-term solutions	January 24, 2007 January 27, 2007
3. Budget and Finance Committee meetings to develop revenue estimates and spending options	February 8, 2007	3. Community surveys/polling regarding service priorities and support for new revenues	March 2007
4. City Council: FY 2006/07 budget update (all funds) and Council direction on remaining FY 2007/08 policy questions	March 7, 2007	4. Report on community meetings and survey/polling results	April 4, 2007
5. City Council: City Manager's recommended budget presented	April 25, 2007 (SPECIAL MEETING)	5. City Council consideration of strategic direction: new revenues or restructure current services to achieve priorities (for implementation during FY 2007/08)	May 16, 2007
6. City Council: 1 st public hearing on FY 2007/08 budget	May 2, 2007	6. Staff recommendations and Council direction on specific new taxes or organizational restructuring	June 2007
7. City Council: 2 nd public hearing / adoption of FY 2007/08 budget	May 16, 2007	Information: Deadline for decision re: November 2007 regular election ballot	Mid-August 2007

Note: Additional meetings of the ad hoc Budget and Finance Committee will be called as necessary.

FISCAL IMPACT:

None

ATTACHMENTS:

None

RESPECTFULLY SUBMITTED:

James L. Becklenberg

Digitally Signed: I have authored this document

James L. Becklenberg

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CITY MANAGER