



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

AGENDA REPORT

TO: HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: City Manager James J. Colangelo
Director of Management and Budget James L. Becklenberg

MEETING DATE: February 20, 2008

SUBJECT: Consider Police and Fire Department budget strategies and financial framework for FY 2008/09 Budget.
On January 23, 2008, the City Council began considering strategies for balancing the FY 2008/09 budget and the five-year financial forecast. With this item, the City will consider additional budget strategies and the results the strategies produce for the long-term financial health of the community.

RECOMMENDATION:

1. Approve recommended budget strategies for the Police and Fire Departments in addition to the strategies affecting other services approved at the January 23, 2008 City Council meeting.
2. Approve assumption for the five-year forecast that includes more conservative General Fund revenue growth that is more reflective of moderate recession with flat revenues than previously presented forecasts which assumed modest revenue growth similar to that which the City has experienced in recent years.
3. Direct staff to include the approved strategies and economic assumptions for revenues into a proposed FY 2008/09 budget for the City Council's consideration in April 2008.

EXECUTIVE SUMMARY:

On January 23rd, the City Council approved an approach to achieving a \$2.9 million goal. The approach includes broad-based departmental budget reductions totaling \$2.3 million, revenue strategies totaling \$0.3 million, and a plan to delay a capital maintenance program that comprised the remainder of the \$2.9 million goal. The Council's approval of strategies at the January 23rd meeting excluded specific recommendations for the Police and Fire Departments. The Council appointed a subcommittee to further analyze options and potential service impacts for these departments, with direction to report back to the City Council at the February 20th meeting. The purpose of the discussion at this meeting is to consider the appropriate share of the \$2.9 million reductions for the Police and Fire Departments, and to consider the results of the entire package of strategies on the City's five-year financial forecast.

In the Police Department, the subcommittee arrived at a recommendation that will achieve \$410,000 savings through reduced staffing levels. The strategy avoids employee layoffs and will implement a new administrative mechanism that will shorten the time that authorized positions are vacant, thereby reducing the variability of police staffing levels in the future.

After discussing potential Fire service model alternatives, the subcommittee recommendation for the Fire Department varies only slightly from the strategies discussed on January 23rd. The recommendation requires transition to a “constant staffing” model – described further in subsequent section of the report -- that would not reduce standard service levels and would enable significant savings through the elimination of three firefighter positions. Based on knowledge of firefighter recruitment activity among other agencies in the region, staff is relatively confident that the laid off firefighters could obtain similar employment at potentially higher salaries without much difficulty.

Compared to the Fire Department recommendation presented on January 23rd, this recommendation differs in that the part-time Fire Prevention Officer and \$20,000 of funding for the part-time firefighter program would be preserved. Instead, one full-time Office Assistant position would be eliminated. The Fire Department would receive administrative support from the citywide pool of Office Assistants located at City Hall.

The report also includes an updated five-year forecast that incorporates the recommended strategies and updated revenue assumptions. Forecasts presented previously to the City Council assumed that the Pacific Grove economy would remain relatively stable, reflecting revenue growth patterns of the last three years (approximately 3-4% growth annually). The forecasts have not assumed recessionary conditions. At its February 7th meeting, the Budget and Finance Committee strongly recommended that revenues modeled in the five-year forecast reflect the likely prospect of a moderate recession. The Committee supported assumptions for two years (FY 2008/09 and FY 2009/10) without growth in total General Fund revenues followed by a return to positive, but very restrained growth (2.6%-2.8% per year). As the chart below suggests, the combination of the recommended budget strategies and the revised revenue assumptions yield a financial future that gradually improves over the next few years. Once reserve targets are met, the City Council would have some resources to restore services or for new investment in the community or the organization. Of course any additional revenues, whether through economic development, from new taxes, or from further cost savings could accelerate the restoration of fund balance and enable new investment or restoration of services faster.

At its February 7th meeting, the Budget and Finance Committee also discussed and recommended approval of the recommended strategies for all departments, along with the recommended new revenue strategies related to golf annual cards and long-range planning

The remainder of the report further explains the recommended budget reductions in Police and Fire and also provides additional information on the five-year forecast. Attachments to the report include a.) an updated summary of all recommended budget strategies with new information about staffing levels and preliminary department costs for 2008/09, and b.) a more detailed version of the five-year forecast with specific revenue and projected departmental expenditure budget information.

BACKGROUND:

Since November 2007, following the failure of three tax measures placed on the ballot to preserve City services, the City Council and staff have been developing strategies to place the City on a sustainable financial path without taxes. On December 12, 2007, the Council set a target of \$2.6 million that could be reached through spending reductions and revenue increases. The target includes the amounts necessary to close the existing budget gap for existing services (\$1.6 million annually), restore reserves to healthier levels (\$0.5 million for three years), pay down long-standing debts to other City funds (\$0.2 million for three years), and implement a preventive capital maintenance program to protect community infrastructure (\$0.3 million annually). The target was subsequently adjusted to \$2.9 million to include: a.) funding necessary for the true long-term costs of fire incident-command services that are now being subsidized by the City of Monterey and, b) for participation in a regional purchase of emergency communication equipment to replace existing equipment that does not meet new federal mandates.

On January 23rd, the City Council approved an approach to achieving the \$2.9 million goal that included broad-based departmental budget reductions totaling \$2.3 million, revenue strategies totaling \$0.3 million, and a plan to delay a capital maintenance program that comprised the remainder of the \$2.9 million goal. The spending reductions (updated for new Police and Fire recommendations which adjust total savings to \$2.2 million) are distributed across departments in the following way:

Department	Amount of cost reduction	As % of FY 2007/08 General Fund budget	Positions (FTE) eliminated	Potential layoffs (FTE)
Fire	\$182,000	6%	4.50	3.00
Police	\$410,000	9%	4.75	1.00
Administration	\$296,000	15%	4.00	0.00
Public Works	\$410,000	20%	4.00	2.00
Recreation	\$325,000	34%	3.00	0.00
Library	\$473,000	50%	6.75	3.00
Museum	\$148,000	52%	3.00	0.00
Community Development	0	0%	0	0
City Council	0	0%	0	0
City Attorney	0	0%	0	0
Total	\$2,224,000	16%	30.00	9.0

The recommendations approved on January 23rd also include a proposal to raise an additional \$190,000 from the golf revenues for the General Fund and a long-range planning fee that would be charged as a surcharge on community development permits and could generate \$104,000.

A list of specific reductions planned for each department is attached to this report. The Council's approval of strategies at the January 23rd meeting excluded specific recommendations for the Police and Fire Departments. The Council appointed a subcommittee to further analyze

options and potential service impacts for these departments, with direction to report back to the City Council at this meeting.

DISCUSSION:

A City Council subcommittee comprised of Mayor Pro Tempore Scott Miller and Council member Dan Davis met with staff, including the Police and Fire Chiefs, to analyze potential reductions in public safety department budgets. The committee aimed to achieve significant savings while limiting the impacts on core safety services and minimizing employee layoffs and disruptions to employees’ careers.

Police strategies

In the Police Department, the subcommittee arrived at a recommendation that will achieve \$410,000 savings through reduced staffing levels. The strategy avoids employee layoffs and will implement a new administrative mechanism that will shorten the time that authorized positions are vacant, thereby reducing the variability of police staffing levels in the future. The recommended strategy for the Police Department is shown below:

Positions eliminated	Net savings (08/09 est.)	% of 07/08 budget	Full-time positions (FTE) eliminated	Part-time positions (FTE) eliminated	Layoffs (FTE) potentially required
Total	\$410,000	9%	4.75	0.00	0.00
Police Sergeant	\$136,000		1.00	0.00	0.00
Police Officer	\$98,000		1.00	0.00	0.00
Police Officer	\$98,000		1.00	0.00	0.00
Police Officer (preserve 25% funding for overhire)	\$67,000		0.75	0.00	0.00
Police Services Technician	\$61,000		1.00	0.00	0.00
<i>Cost for part-time Admin. Sergeant (offsetting)</i>	-\$50,000				

The Police Department currently has 26 authorized sworn officer positions, with 25 funded by the General Fund and one funded with an ongoing, relatively stable grant. The approach shown above would reduce the authorized staffing level to 22 officers. The Police department has four existing or pending separations from service that will occur before July 1, 2008, so layoffs would not be required. The approach would preserve budget and position authority for 0.25% of another officer, which will enable an “overhire” program, which is intended to address the ubiquitous problem in law enforcement related to replacing officers who have separated service. The traditional approach of beginning the recruitment and training processes for a new officer only upon separation of a departing officer can leave an operational vacancy of at least one year. The overhire mechanism would provide funding and authority to hire a replacement officer upon notice that an existing officer is planning to retire or separate from service.

While layoffs will not be necessary, the recommended strategies will have significant detrimental effects on the department’s ability to prevent and solve crime. With fewer officers, the emphasis will be on preserving emergency response (9-1-1) services. There will no longer be

a School Resource Officer assignment to help educate children about crime and pre-empt unsafe behavior, nor will there be a dedicated traffic enforcement officer to focus on traffic safety and enforcement. Further, unless the department is fully staffed, detective services will be severely limited, which means that only the most severe crimes would be investigated; other incidents would receive attention only as officers are available and not needed for patrol.

Fire strategies

Strategies for Fire Department budget reductions recommended by the City Council subcommittee and staff are displayed below.

Positions eliminated/programs reduced	Net savings (08/09 est.)	% of 07/08 budget	Full-time positions (FTE) eliminated	Part-time positions (FTE) eliminated	Layoffs (FTE) potentially required
Total	\$182,000	6%	4.50	0.50	3.00
Firefighter	\$81,000		1.00	0.00	1.00
Firefighter	\$81,000		1.00	0.00	1.00
Firefighter	\$81,000		1.00	0.00	1.00
Office Assistant II	\$54,000		1.00	0.00	0.00
Reduce reserve Firefighter program	\$20,000		0.00	0.00	0.00
Office Assistant (PT)	\$15,000		0.00	0.50	0.00
<i>Overtime cost (offsetting)</i>	<i>-\$150,000</i>				

The prospect of consolidating fire administrative services is a key consideration for Fire department budget planning, and is in fact a premise for the strategies discussed and recommended by the City Council subcommittee. Like many smaller communities, economic realities and demands for technical sophistication are challenging the cost effectiveness of maintaining an autonomous Fire Department in Pacific Grove. Recruiting and retaining the most qualified firefighters and chief officers, especially those in areas with high costs-of-living such as Pacific Grove, will grow increasingly challenging as the retirement of the baby-boomer generation accelerates.

While Council will receive much more information on consolidation before official action is taken, **it is important to acknowledge that current Fire Department staffing and service models are premised upon the plan for consolidation.** Staff believes that both the current staffing model and the one that would result from the recommended recommendations would not be feasible in the long-term. If Council decides that consolidation is not appropriate for Pacific Grove, staff would return with analysis and cost proposals for continuing as an independent department serving only Pacific Grove.

The focus of the recommendation presented on January 23rd, eliminating three firefighter positions which would save approximately \$243,000 annually, remains unchanged from the January 23rd discussion. This option would avoid service impacts in the short-term by transitioning to a model referred to as “constant staffing.” This model would enable the City to keep only enough firefighters to provide minimum staffing on all shifts (four firefighters on each of three shifts). To avoid service impacts, off-duty firefighters would have to be called in whenever even a single firefighter is absent from work. This approach would likely require

additional overtime costs of approximately \$150,000 annually. The difference between the savings from eliminating three positions and the additional overtime costs would amount to approximately \$93,000 in net savings. As there are currently no vacant full-time positions in the Fire Department, this strategy could require three full-time employee layoffs. Based on knowledge of firefighter recruitment activity among other agencies in the region, staff is relatively confident that the laid off firefighters could obtain similar employment at potentially higher salaries without much difficulty.

To avoid further reductions in full-time firefighter staff and generate the savings needed, the staff and Council subcommittee recommend eliminating the full-time and part-time Office Assistant positions (\$54,000 and \$15,000 savings, respectively), and approximately half of the funding for the paid-on-call part-time Firefighter program (\$20,000). Without the administrative staff, the Fire Department will rely more heavily on the recently created citywide pool of Office Assistants for administrative support.

Economic Assumptions and the Five-Year Forecast

To this point, budget reduction strategies have been shown as reductions from the FY 2007/08 budget. For this report, these strategies are built into preliminary costs for FY 2008/09 and an updated five-year forecast. These cost estimates suggest that the strategies will generate the amount of savings that had been targeted. In fact, when the effects of the staffing reorganization are included, the savings even exceeds the targeted amount.

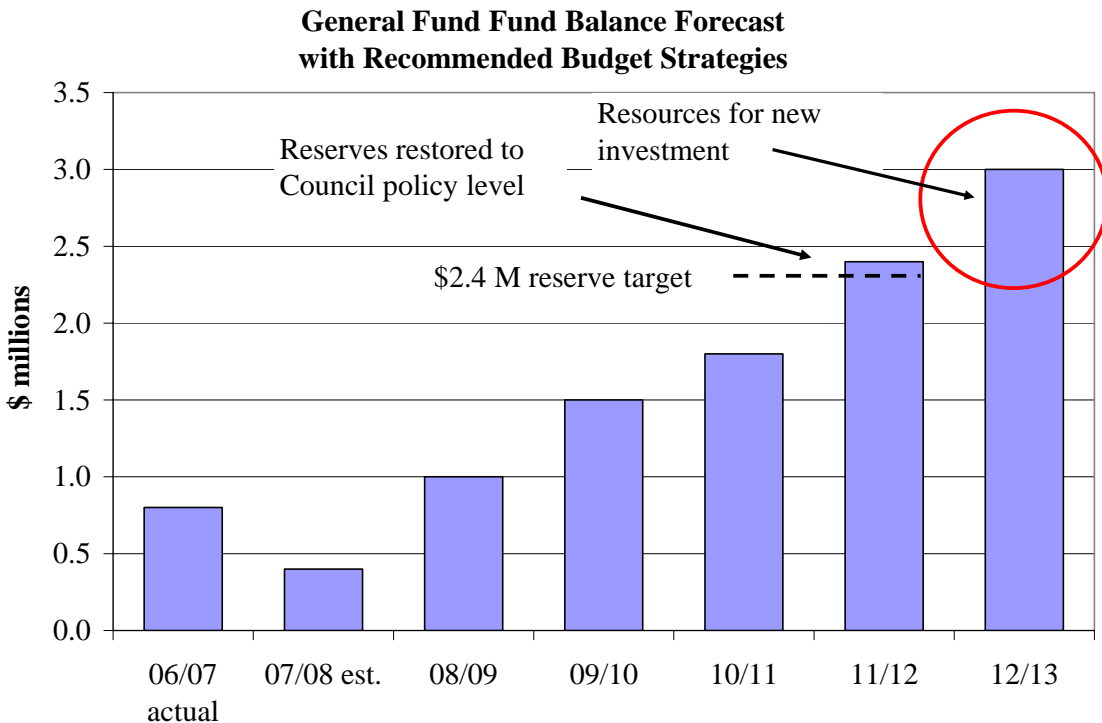
The forecast also includes updated revenue assumptions. Forecasts presented previously to the City Council have assumed that the Pacific Grove economy would remain relatively stable, reflecting revenue growth patterns of the last three years (approximately 3-4% growth annually). The forecasts have not assumed recessionary conditions. At its February 6th meeting, the Budget and Finance Committee strongly recommended that revenues modeled in the five-year forecast. The Committee supported assumptions for two years (FY 2008/09 and FY 2009/10) without growth in total General Fund revenues followed by a return to positive, but very restrained growth (2.6%-2.8% per year). A summarized version of the updated forecast, which includes the recommended budget strategies and revised economic assumptions for revenues is shown below:

Five-Year Forecast
(\$ millions)

(\$ Millions)	07/08	08/09*	09/10	10/11	11/12	12/13
Revenues	15.3	15.6	15.7	16.1	16.6	17.0
Expenditures	-15.7	-14.9	-15.2	-15.8	-16.0	-16.4
Net Results of Operations	-0.4	0.6	0.5	0.3	0.6	0.6
Beginning Fund Balance	0.8	0.4	1.0	1.5	1.8	2.4
Ending Fund Balance	0.4	1.0	1.5	1.8	2.4	3.0

* The "base" for FY 08/09 revenues includes the \$190,000 in additional Golf revenues and \$104,000 from a new long-range planning fee. When these revenues are added to the FY 2007/08 revenues for comparison with FY 2008/09, the result is "flat" revenues from one year to the next.

The line labeled "Net Results of Operations" in the table above shows the projected annual difference between revenue and expenditures. It shows that in the current year, despite the savings from the reorganization and position vacancies, staff is estimating a revenue shortfall of approximately \$400,000, which will have to be made up from fund balance. In FY 2008/09, as a result of the budget strategies, net results of operations will be *positive* \$700,000, which would add this amount to fund balance. The remaining years of the forecast suggest that revenues will exceed expenditures every year, which will gradually restore the fund balance to \$3.1 million over a five-year period as shown in the following chart:



The updated forecast suggests that the reserve levels will be restored to levels required by City Council policy by the end of FY 2011/12, which is one year later than the forecast presented on January 23rd suggested. The change is largely caused by the revised (lower) revenue assumptions. Once reserve targets are met, the City Council would have some resources to restore services or for new investment in the community or the organization. Of course any additional revenues, whether through economic development or from new taxes, or further cost savings could accelerate the restoration of fund balance and enable new investment or restoration of services faster.

NEXT STEP:

- Staff will incorporate approved strategies into the proposed FY 2008/09 budget, for presentation to the City Council in mid-April.

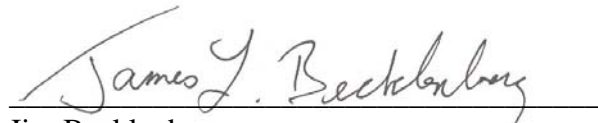
FISCAL IMPACT:

Recommended strategies will generate \$2.2 million in cost savings and \$294,000 in new revenues that will stabilize the City's financial condition and set a course for better financial health.

ATTACHMENTS:

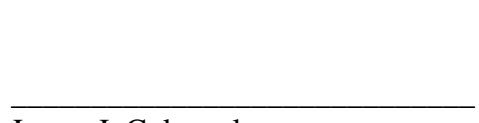
- Summary of recommended budget strategies and explanation of departmental impacts
- General Fund five-year forecast with additional revenue and expenditure detail
- Memos from Police and Fire chiefs regarding and potential service impacts of budget reductions.

RESPECTFULLY SUBMITTED:



Jim Becklenberg
DIRECTOR OF MANAGEMENT AND BUDGET

REVIEWED BY:



James J. Colangelo
CITY MANAGER