



**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:** December 12, 2007

**SUBJECT:** Consider Updated Budget Information and a Process for Making Decisions for Long-Term Financial Health  
*The FY 2007/08 budget anticipated a large budget deficit beginning in FY 2008/09. After several more City Council discussions since adoption of the budget and a tax election, the City Council must consider options for balancing the budget for the long-term.*

**RECOMMENDATIONS:**

1. Provide preliminary direction to staff regarding budget goals for FY 2008/09.
2. Provide input to staff on any cost reduction or revenue enhancement options that a) Council does not want to explore further or b) options not included in the report that Council would like developed for further discussion.
3. Direct staff to schedule two community budget meetings for early January to provide information and hear community input on budget strategies, and then to return to the City Council in late January with recommendations for City Council consideration.

**EXECUTIVE SUMMARY:**

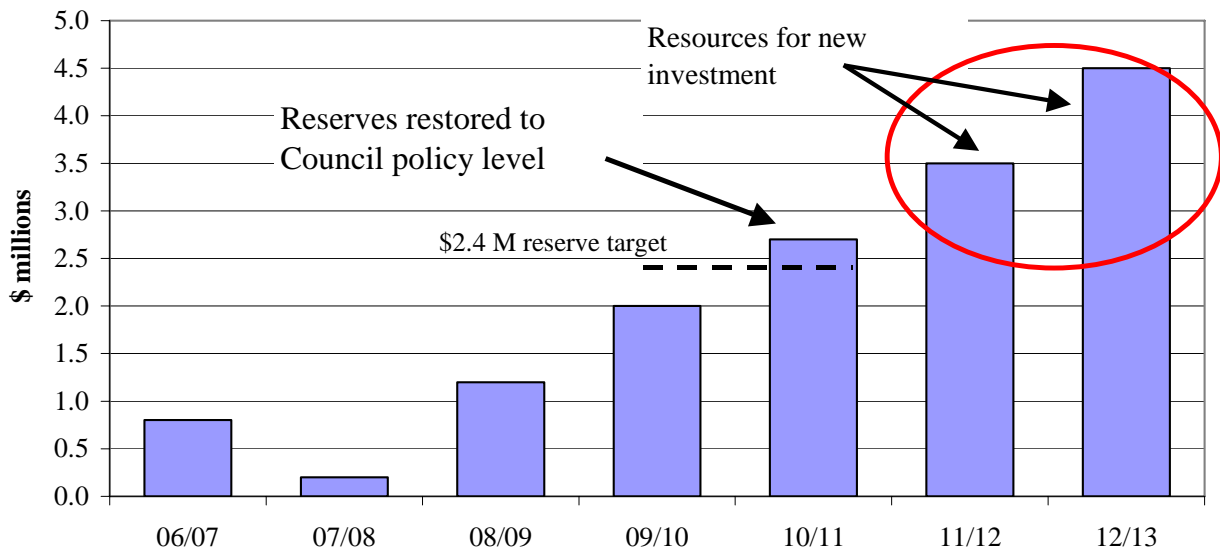
The City has grappled with a structural budget deficit for several years. Each year passes with a patchwork of unsustainable fixes that rely on the use of fund balance, staffing vacancies, and budget reductions that have retained employees but eroded the capacity to ensure responsible maintenance and custody of the community's assets. The FY 2007/08 budget began to restore these capacities, through investments in risk management and basic maintenance of storm water infrastructure and our urban forest. The financial forecast adopted with the budget projected a deficit of approximately \$800,000 for the next five years. Instead of proceeding to reduce the budget further to close the future gap, which would have required major service reductions, the City Council chose to solicit community feedback about the community's willingness to pay for existing services. This dialogue took the form of community meetings, a professional public opinion survey, and an ultimately unsuccessful election for new taxes.

The City must now balance the budget without new taxes. This process should create an organization distinguished by excellence and efficiency, even if the range of services delivered is

narrower than before. Financial sustainability requires that we spend less money than we take in every year. It means we should have reserves to provide a buffer against severe economic downturns or state raids on city coffers, and to provide a measure of security for sustaining services during a natural disaster. A financially healthy city cultivates modest resources, even beyond normal reserves, that can be used to capitalize on opportunities or invest in community improvements.

**Our current economic forecast that shows we could spend the remainder of the City’s fund balance within one year. In contrast, this report suggests that we need to make decisions to live within our means permanently.** For example, a goal to cut \$2.6 million from the budget on an ongoing basis – raising new revenues would have the same effect – could restore the City’s reserves to a healthy level and eliminate deficits in all City funds within three years. It would provide resources to establish preventive maintenance programs for City infrastructure, and eventually provide resources to restore services that may have been eliminated or new investment in community improvements such as downtown revitalization or park improvements. The effects of a \$2.6 million solution on fund balance are shown in the graph below:

**General Fund Fund Balance Forecast  
with \$2.6 M of Ongoing Cost Reductions and/or New Revenues**



The graph also shows that we have a steep hurdle to clear before we can realize the financial benefits of living within our means. The adopted budget anticipated a modest operating surplus this year of approximately \$100,000. Due to a slowing economy, a change in policy direction regarding parking meters, and corrections to our franchise revenue base, staff has reduced General Fund revenue projections by \$1.4 million. In addition, the City will likely have to pay approximately \$600,000 in the current year to liquidate accrued leave balances for employees separating from City service. To balance the anticipated revenue shortfall and one-time leave liquidation costs, staff is holding positions vacant and saving money wherever possible. Savings from vacancies, the recent staffing reorganization, and other anticipated savings will amount to approximately \$1.1 million. In the absence of further cost cutting strategies this year, this savings is not enough to offset the negative factors. We would need to spend some fund balance to balance the budget, which could nearly deplete the remaining fund balance. While this is a

very serious risk, staff feels that it may be a reasonable risk if part of a decisive strategy to reduce costs and restore the fund balance rapidly in the future.

Staff recommends that the City Council set a target of \$2.6 million as the “gap” to close with service cost reductions and revenue enhancements. This amount is comprised of the following components, which are explained in more detail in the report:

<u>Need</u>	<u>Amount</u>
Current operations gap	\$1,600,000
Restore reserves (3-year plan to restore to targeted levels)	\$500,000
Eliminate deficits in funds dependent on the General Fund (transfers to other funds for 3 years)	\$200,000
Capital maintenance program	\$300,000
<b>Total needed annually</b>	<b>\$2,600,000</b>

Closing a \$2.6 million gap will be very difficult. In recent years, the City has reduced staffing levels and cut budgets for materials and supplies to minimal levels. The reorganization had difficult impacts on employees, but is intended to save money without affecting services. On the revenue side, the Council has reviewed and increased fees where sensible. There are no easy solutions left. The report includes cost reduction and revenue enhancement options totaling \$4.5 million. If implemented, they will likely affect the safety, character, and appearance of the community. They also could require layoffs, which are very disruptive to the organization and affected employees’ families.

Staff recommends that the Council not make decisions at this meeting. Rather, we are seeking feedback on the appropriate goals for the budget process:

- Are the components of the \$2.6 million target appropriate? Should we look for more? Less?
- Is a multi-year approach that relies on a portion of fund balance for FY 2007/08 appropriate?
- Are any of the cost reduction or revenue enhancement strategies unacceptable from the outset, such that they should not be considered? Are there other significant options staff has not identified that Council would like to have explored
- What is the appropriate role for the public in these decisions?

Staff anticipates returning to the Council after the desired public discussion process with recommendations for Council action, most likely in late January.

**DISCUSSION:**

The remainder of this report further explains the changes in revenue and cost estimates for the current year, updates the five-year financial forecast, discusses the needs that comprise the total \$2.6 million funding gap, and describes some initial options the City Council could choose as part of a plan to close the gap.

*Revenue update:* Staff reported to the City Council on October 3, 2007 that General Fund revenues for the current fiscal year were expected to be significantly lower than the amounts projected in the spring of 2007 when the budget was prepared. The decreased projections, from \$16.7 million in the adopted budget to \$15.8 million in October, were largely attributable to the slowdown in the real estate market, which affects property-related tax revenues and development fees, and a change in direction regarding the expansion of parking meters.

At this time of the fiscal year, we still have very little current-year information on two of our largest revenues, property and sales tax. However, with several months of returns for locally controlled revenues, staff is more confident about current-year revenue prospects than in October. Unfortunately, the outlook continues to worsen. With additional analysis and a more conservative eye in light of economic uncertainty, staff expects that revenues will total \$15.3 million for FY 2007/08, which is \$0.5 million lower than the amount projected in October and \$1.4 million (or 8.3%) lower than the amount originally budgeted for the year. Projection changes are shown in the table below.

### FY 2007/08 General Fund Revenue Projections

	2007/08 Budget	2007/08 October estimate	2007/08 November estimate	Difference from October estimate
Property tax	\$3,912,500	\$3,722,038	<b>\$3,722,038</b>	\$0
Real Estate Transfer Tax	90,000	60,000	<b>60,000</b>	0
Sales and Use Tax	1,696,000	1,768,023	<b>1,768,023</b>	0
Business License Tax	304,500	300,580	<b>300,580</b>	0
Franchise Taxes	849,200	813,405	<b>614,638</b>	-198,767
Utility User Taxes	1,423,000	1,402,058	<b>1,402,058</b>	0
Transient Occupancy Tax	3,245,000	3,348,135	<b>3,348,135</b>	0
Motor Vehicle-in Lieu fee (VLF)	1,260,000	1,186,687	<b>1,186,687</b>	0
Parking revenue	889,350	397,524	<b>371,193</b>	-26,331
Development revenues	813,000	725,000	<b>696,600</b>	-28,400
Police program revenues	132,000	97,000	<b>97,000</b>	0
Fire program revenues	203,000	203,000	<b>203,000</b>	0
Public works program revenues	97,000	97,000	<b>67,000</b>	-30,000
Museum and Lighthouse revenues	80,000	60,000	<b>5,000</b>	-55,000
Library program revenues	39,000	39,000	<b>39,000</b>	0
Recreation program revenues	435,600	435,600	<b>347,600</b>	-88,000
Miscellaneous revenues	205,100	182,100	<b>122,100</b>	-60,000
Interest earnings	50,000	-2,776	<b>-2,776</b>	0
Transfer from Golf Enterprise Fund	400,000	400,000	<b>400,000</b>	0
Transfers in from other funds	526,166	526,166	<b>526,166</b>	0
<b>Revenues total</b>	<b>16,650,416</b>	<b>15,760,540</b>	<b>15,274,042</b>	<b>-486,498</b>

The most significant change in the revenue budget is the estimate for franchise taxes. The \$198,767 decreased estimate is attributable to a potential over-payment and subsequent over-estimate of garbage franchise fees. The franchisee has paid taxes equal to 15% of revenues for at least several years. Preliminary analysis of the franchise agreement suggests that the payment should equal 10% of gross revenues. Staff is discussing this question with the franchisee. If neither party is able to document the basis for 15% fee, the City could lose one-third of this

revenue source (the difference between 10% and 15% of gross revenues), which would translate to a loss of \$153,000 annually. Additionally in the franchise tax category, the City is expecting to receive \$40,000 from a new franchise agreement with Cal-American Water expected to be effective January 1, 2008. While this is welcome revenue, it falls short of the original estimate of \$64,000. These changes, plus other minor adjustments, account for the \$198,767 decrease for franchise tax revenues.

Based on construction activity through October, estimates for Community development revenues are projected to come in \$26,000 lower than previously projects. Also based on collections so far, parking revenues and Public Works program revenues will not meet original expectations. Also notable, museum donations, originally budgeted at \$60,000 and intended to enable reduction of General Fund support for the Museum without requiring an admission fee, have generated approximately \$1,200 so far, prompting a reduction in expectations from \$60,000 to \$5,000. The \$88,000 decrease in projections for Recreation revenues reflects the plan to contract for youth sports and other activities. While the change will cause a reduction in gross revenues, the City will experience cost savings of a similar amount, effectively offsetting the revenue loss. Finally, the \$60,000 decrease in the "miscellaneous revenue" category is driven by a decrease of the same amount for lease revenue at the City-owned Bath House. While negotiations continue for restaurant uses at the facility, staff feels it may be prudent, if slightly conservative, to remove this revenue from the forecast for the current year.

*Expenditure update:* To combat the severe decreases in estimated revenues outlined above, the City Manager implemented a hiring freeze in September to capture the budget savings from unfilled positions. Staff estimates that through December 2007 the hiring freeze will have saved approximately \$220,000. Continuing the freeze, with the exception of completing the organizational restructuring that was approved in October, is estimated to generate an additional \$400,000, for a total vacancy savings of \$620,000. Savings from the second half of the fiscal year is greater than that from the first half because it includes positions recently vacated independent of the reorganization.

When completed, the reorganization is expected to lower ongoing costs by slightly more than \$500,000 per year. Since the organizational changes take effect during the first part of January 2008, staff estimates they could generate approximately \$260,000 during the current fiscal year. While the City will begin realizing the ongoing savings inherent in the reorganization, it will incur significant one-time costs associated with payments to employees for accrued leave balances. Current information regarding employees who may separate from service this year suggests that the City could owe approximately \$550,000 in these payments.

Beyond vacancy savings and accrued leave payments, staff is tracking several other issues that will provide either additional savings or cost more than anticipated originally. These items total additional savings of \$225,000:

- Based on current litigation activity, staff estimates that legal services will cost approximately \$100,000 more than originally budgeted, increasing the City Attorney's budget to \$384,350. This amount would be approximately \$30,000 more than the amount spent for this function last fiscal year.

- Costs in the Police Department are expected to be \$120,000 lower than budgeted. This is the amount required to lease parking meters in the Central Avenue corridor, which had been anticipated in the budget but is no longer planned.
- Costs in the Fire Department are expected to be \$40,000 higher than originally budgeted due to a budgeting error of omitting costs payable to the City of Monterey for Fire Department Management Services.
- At this point in the year, staff estimates that approximately \$200,000 could be saved from the forestry budget. The program emphasis for FY 2007/08 is the inventory and management plan for managing trees in the public right-of-way; the full amount of resources for operations will not be needed this year.
- Based on current estimates, staff feels that the General Fund could transfer \$200,000 to the Storm Water Fund instead of \$250,000 as originally planned, while not affecting planned operations for the year. This would save \$50,000.
- The savings from a smaller transfer to the Storm Water fund could be partially offset by the need to transfer \$20,000 more to the Public Safety Augmentation fund, which pays for 9-1-1 services. The City receives the bill for annual services after the budget is adopted. Since the bill for these services came in higher than budgeted, a larger transfer is needed to avoid over-spending in this fund.

The following table summarizes the expenditure budget update:

FY 2007/08 adopted budget	\$16,499,044
Estimated savings from staffing vacancies	-626,000
Estimated savings from staffing reorganization	-259,189
Estimated additional costs for payments to employees for accrued leave at separation from the City	+553,000
Other required adjustments and anticipated savings (net)	-225,000
Updated expenditure estimate	\$15,941,855

The estimated \$557,189 savings expected in the current year will not be enough to offset the estimated \$1,376,374 decrease in estimated revenue. Therefore, as the table below shows, the City could end the fiscal year having spent nearly \$700,000 more than will be received in revenue. This outcome would leave the City with only \$176,000 in General Fund fund balance, which would provide virtually no ability to respond to future revenue shortfalls or unexpected costs. The next sections of this report will outline potential actions that could reduce or close the budget gap in the current year.

**FY 2007/08 Updated Estimates, Before Policy Decisions to Reduce the Deficit**  
(\$ Thousands)

	June 2007 budget	Est. savings from vacancies	Est. savings from Reorg.	Estimated costs for accrued leave payments	Other savings / adjustments	December 2007 estimate
Beginning fund balance	\$960					\$844
Revenues	16,650					15,274
Expenditures	-16,499	626	259	-553	225	-15,942
<b>Net results of operations</b>	151					-668
Ending fund balance	\$1,111					\$176

*Forecast Update:* In October, staff presented a forecast that suggested a \$2 million structural budget gap, meaning that the projected difference between revenues and expenditures over a multi-year period is relatively consistent; it is not cyclical or temporary. The City Manager’s reorganization provided ongoing, multi-year savings and reduced the projected gap by approximately \$500,000. **Based on the latest revenue projections, the structural gap is now projected to be approximately \$1.6 million, as shown in the “net results” row in the table below.** Without the savings from the reorganization, the gap would have been \$2.1 million.

Updated Financial Forecast, December 2007  
(\$ millions)

	FY 07/08 adopted budget	FY 07/08 updated	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13
Beginning fund balance	960	\$844	\$177	-\$1,205	-\$2,822	-\$4,581	-\$6,266
Revenues	16,650	15,274	15,785	16,210	16,642	17,119	17,609
Expenditures	16,499	-15,941	-17,167	-17,827	-18,401	-18,804	-19,210
<b>Net results of operations</b>	<b>151</b>	<b>-667</b>	<b>-1,382</b>	<b>-1,617</b>	<b>-1,759</b>	<b>-1,685</b>	<b>-1,601</b>
Ending fund balance	\$1,111	\$177	-\$1,205	-\$2,822	-\$4,581	-\$6,266	-\$7,867

The table illustrates how the budget gap jumps from \$0.7 million in the current year to \$1.4 million next year, FY 2008/09. Since the FY 2007/08 figure includes the one-time savings generated by staffing vacancies and other projected savings, the clearer comparison may be that between the adopted budget, in which the City anticipated a \$151,000 surplus and projected budget for the same services and staffing in FY 2008/09, which shows a \$1,382,000 deficit. This spike is attributable to the following factors:

1. *Return to full retirement cost obligations:* The savings generated by the issuance of Pension Obligation Bonds (POBs) expires in FY 2008/09, when the full and permanent level of annual debt service, approximately \$1,500,000 per year, is owed. Since the savings from issuing the bonds was front-loaded, with a payment of only \$42,000 owed in FY 2006/07 and \$925,000 in FY 2007/08, the payment of \$1,495,000 in FY 2008/09 plus the normal payment to CALPERS will return the City to a level of retirement costs only slightly higher than the level paid to PERS in FY 2005/06. Nevertheless, the \$570,000 increase (most of which is paid from the General Fund) from the FY 2007/08 level is significant.
2. *Assuming full-funding of FY 2007/08 authorized positions:* Strategies for the FY 2007/08 budget include “de-funding” several positions: two Police Officers, 25% of the Museum Director position, and the Office Assistant position in the Recreation Department. While the FY 2007/08 budget suspends funding for these positions in order to balance the budget, they have not been eliminated as authorized positions. Therefore, barring a decision to permanently eliminate the positions, they are assumed to be funded in FY

2008/09. Full funding for these positions will cost approximately \$286,000 in FY 2008/09.

3. *Plan to recruit and retain Police Officers:* The City Council approved a contract with the Police Officers' Association that will increase Officer salaries to the market average for area Police Departments over a four-year period. The plan is estimated to cost \$233,000 in FY 2008/09.
4. *Weaker-than-expected revenue growth:* The current-year revenue challenges previously described in this report directly affect the revenue expected to be available for services in the future. As such, the nearly \$500,000 revenue decrease in estimated revenue carries over to the future years of the forecast, and explains the remainder of the increasing budget gap.

Other key forecast assumptions included in the five-year forecast include:

- The economy will remain relatively stable, albeit sluggish, in FY 2007/08 and throughout the five-year period. If the economy experiences either a sharp upturn or downturn, actual financial health will be significantly different than this forecast suggests. Total revenues are projected to grow by 2.9% in FY 2008/09, and 1.9% in FY 2009/10, and 2.9% in the final three years of the forecast.
- The forecast assumes no additional services or staff beyond those adopted as part of the FY 2007/08 budget.
- The forecast assumes no salary increases for employees except for routine step increases and those included in a three-year plan to adjust police salaries to the market average. Costs (expenditures plus transfers to other funds) are projected to increase each year at the following rates:
  - FY 2008/09: 10.18%
  - FY 2009/10: 3.8%
  - FY 2010/11: 3.2%
  - FY 2011/12: 2.2%
  - FY 2012/13: 2.2%
- Commitments for all current and anticipated debt service are included.

### **Choices for the Future:**

**Simply stated, without corrective action, the City will spend the rest of its reserves (i.e., fund balance) within the next year. The City must avoid bankruptcy and insolvency, and find a way to live within its means on an ongoing basis. Having exhausted most non-tax revenue increases and tried unsuccessfully to pass taxes to pay for services, we are forced to look to drastic cost reduction options, which must include severe service and staffing reductions.**

*How much do we need?* The financial forecast shows that the budget gap we face for continuing current services is approximately \$1.6 million. Staff recommends that the City Council consider several additional needs that it considers necessary for a financially healthy City. These needs include a plan to restore General Fund reserves, a plan to eliminate deficits in other funds that are dependent on the General Fund, and funding for an annual investment in maintaining streets, parks, and public buildings. **Together, these needs suggest a target for cost reduction and new revenues of \$2.6 million, as described below.**

### Recommended Target for Cost Savings and New Revenues

<u>Need</u>	<u>Amount</u>
Current operations gap	\$1,600,000
Restore reserves (3-year plan to restore to targeted levels)	\$500,000
Eliminate deficits in funds dependent on the General Fund (transfers to other funds for 3 years)	\$200,000
Capital maintenance program	\$300,000
<b>Total needed annually</b>	<b>\$2,600,000</b>

- *Current operations gap:* The projected difference between annual income and costs for existing city services. This amount, \$1.6 million, is the amount required to balance the budget for existing services on an ongoing basis.
- *Restore reserves:* The City maintains two budget reserves: 1.) The Interim Tax Reserve, which is intended to reserve \$750,000 to provide working capital throughout the year during routine cash-flow shortages caused by uneven revenue disbursements from the state; and 2.) The Contingency Reserve, which is intended to reserve an amount equal to 10% of the prior year's General Fund revenues. Based on FY 2007/08 projected revenues, reserves should total approximately \$2,300,000. **Even if the budget is balanced in the current year,** reserve levels at the end of the current year will be \$844,000, leaving a reserve deficit of approximately \$1,500,000. If Council decides to spend a portion of remaining balance to jump-start ongoing cost reductions, the reserve deficit could be even more. Staff estimates that contributing \$500,000 annually for three to four years will restore leave balances to the more healthy level designated by City Council policy.

Maintaining reserves closer to the level required by City Council policy is very important, given the risks the City faces. These include natural disasters, sharp economic downturns, sudden revenue losses caused by State or Federal legislative action, or other unexpected costs. In fact the State currently faces a \$10 billion budget gap, which is larger than the gap it faced several years ago when the State raided City property tax funds to help balance its budget. Without adequate reserves, sudden service and staffing reductions could be the City Council's only viable response to sudden revenue disruption.

- *Eliminate deficits in funds dependent on the General Fund:* The City maintains funds beyond the General Fund for various purposes. A common purpose is to receive inter-fund transfers and account for specific costs borne by all operating funds, such as

workers' compensation and liability insurance. Another purpose is to account for debt service, as is the case for the Civic Center fund. Since the General Fund is by far the largest operating fund, responsibility for these funds ultimately lies with the General Fund. Many of these funds accumulated deficit fund balances several years ago. Despite progress toward curing these deficits in recent years, transfers from the General fund will continue to be necessary for a few years. Staff recommends a target of \$200,000 annually for three years to transfer to these non-General funds.

- *Capital maintenance program:* Currently the City is mostly reactive in its maintenance efforts. For example, we only treat streets when they fail (i.e., cracks or potholes). Just as with home or auto maintenance, it is far more expensive to wait for failures to occur than to provide preventive maintenance on a routine basis. Routine, preventive maintenance practices will ensure high quality streets, parks, and public buildings at a lower cost over time. Professional surveys of streets and facilities will be required to determine the appropriate annual amounts for individual categories of asset maintenance. Nevertheless, given the long list of deferred maintenance of which staff is aware, we recommend a target of \$300,000 per year for this purpose.

With \$2.6 million of cost reductions and/or new revenues, the trend in the annual difference between income and costs (net results of operations) would reverse. Prudent reserves could be restored, and after several years the City would likely be financially healthy and have some resources that could be applied to new initiatives, such as capital improvements or other community enhancements. The table below shows the potential effects of the \$2.6 million on fund balance. Actual results would likely be slightly more favorable, as the graph assumes that no further action is taken in the current year to close the projected gap and avoid consuming fund balance.

#### *How can we close the gap?*

This section introduces options for reducing costs and enhancing revenues that total almost \$4.5 million. The annual savings figures are intended to suggest annual, ongoing savings that could occur every year; they do not include offsetting one-time costs such as leave accrual liquidation. The amounts listed for FY 2007/08 savings assume that the strategy would be effective April 1, 2008. The FY 2007/08 savings estimates *do* include related, offsetting costs for accrued leave liquidation if employee layoffs would be required.

The options summarized in the table below, are intended to begin conversations about how to live within our means. Staff intends for them to be refined or modified with input from the City Council and the community. Descriptions of the options and their related service consequences can be found following the table.

## Preliminary Options for Cost Reduction and Revenue Enhancement

Ref. #	Option	FY 2008/09 Est. savings	FY 2007/08 potential (assumes April 1 implementation) Est. savings
<b><u>Expenditure reductions</u></b>			
1	Eliminate one Business Manager position	\$52,000	\$25,000
2	Eliminate one Office Assistant II position	\$31,000	\$15,000
3	Eliminate City Council salaries	\$39,000	\$10,000
4	Close City Hall on alternate Fridays (with 10% employee pay cut)	\$350,000	\$85,000
5	Eliminate General Fund support for the Library	\$951,000	\$160,000
6	Eliminate General Fund Support for the Museum	\$249,000	\$90,000
7	Fire services - option #1: eliminate 3 Firefighter positions/cover shifts with overtime	\$95,000	\$5,000
8	Fire services - option #2: eliminate 3 Firefighter positions/no overtime backfill	\$245,000	\$40,000
9	Fire services - option #3: eliminate 3 Firefighter positions/no overtime backfill and eliminate Assistant Fire Chief position	\$370,000	-\$30,000
10	Police services - option #1: Eliminate one Police Officer position	\$97,000	\$14,000
11	Police services - option #2: Eliminate two Police Officer positions and 1 Police Services Technician position	\$256,000	\$44,000
12	Police services - option #3: Eliminate three Police Officer positions and 1 Police Services Technician	\$353,000	\$58,000
13	Public Works services option #1: Eliminate Customer Services Manager position and part-time maintenance worker; reduce maintenance supplies budget by \$10,000	\$122,000	-\$25,000
14	Public Works services option #2: Eliminate Customer Services Manager position and 2 Maintenance Worker positions; eliminate 2 part-time Maint. Worker positions; reduce maintenance supplies budget by \$15,000	\$260,000	-\$25,000
15	Public Works services option #3: Eliminate Customer Services Manager position and 2 Maintenance Worker positions; eliminate 2 part-time Maint. Worker positions; reduce maintenance supplies budget by \$150,000	\$410,000	-\$25,000
16	Continue deferring maintenance; do not establish capital maintenance program	\$300,000	\$0
<b>Cost reduction subtotal</b>		<b>\$3,105,000</b>	<b>\$388,000</b>

<b>Revenue options</b>			
17	Parking meters on Central Ave. (net)	\$105,000	\$0
18	Parking meters along Oceanview/Lovers' Point (net)	\$247,000	\$0
19	Parking meters in City-owned parking lots (net)	\$236,000	\$50,000
20	Parking meters downtown (net)	\$495,000	\$125,000
21	Discontinue annual card rate at golf course; transfer additional revenue to General Fund	\$190,000	\$40,000
22	Long-range planning fee (15% surcharge on other CDD permits)	\$104,000	\$44,000
	<b>New revenue subtotal</b>	<b>\$1,377,000</b>	<b>\$259,000</b>
	<b>TOTAL SOLUTION OPTIONS</b>	<b>\$4,482,000</b>	<b>\$647,000</b>

#### Descriptions of options and service consequences

1. *Eliminate one business manager position (\$52,000 annual savings):* This position was created as part of the recently approved reorganization. As designed, the incumbent would have responsibility for the Recreation and Golf Departments, as well as developing a citywide facilities management and a Capital Improvement Plan (CIP). The total cost for the position, estimated to be \$120,000 annually, is to be shared between the General Fund and the Golf Enterprise Fund. It is currently vacant, with recruitment to begin in January 2008. If the position is eliminated, the management responsibilities would have to be shifted to another existing manager, and other initiatives, such as CIP, would be delayed.
2. *Eliminate one Office Assistant II position (\$31,000 savings):* This position was created as part of the recently approved reorganization. As designed, it will be one of four customer service representatives at City Hall, located in either the Community Development Department or Finance. It is currently vacant, with recruitment currently underway. If the position is eliminated, staff will be unable to deliver the heightened level of customer service that was a primary goal of centralizing administration. Customers may experience delays on the phone or waiting for service at City Hall. Staff may be less prompt in processing licenses, permits, payments, and notices of potential City action.
3. *Eliminate City Council salaries (\$39,000 savings):* Prompted as an option by a City Council member, this option would eliminate the part-time salaries paid to City Council members (\$5,040 per year) and the Mayor (\$8,400 per year).
4. *Close City Hall on alternate Fridays (\$350,000 savings):* This option would save money by imposing a furlough on City employees. The regular schedule for all employees, with the exception of those in Police, Fire, and Golf Departments, would be adjusted to a 9-day/72-hour pay period, as opposed to the current 10-day/80-hour pay period. The effect of the reduced schedule would be to reduce regular pay to affected employees by 10%. This option could save money, but could also create a hardship for employees. If the furlough prompts additional employee turnover, payments associated with accrued leave could offset a portion

or all of the intended savings. The hardship may be felt most acutely by overtime-exempt managers, whose workload would not decrease, but would receive less pay.

5. *Eliminate General Fund support for the Pacific Grove Public Library (\$951,000 savings):* This option would eliminate virtually the entire budget for the library. The library's budget currently includes approximately \$50,000 from other funds that support particular functions within the library. Staff is examining these funds and the underlying documentation of donations to confirm the purposes for the donations. It is possible that donations previously placed into funds restricted for capital purposes or books were actually intended for library operations. If this is the case, these resources could support library operations for a period of months. When other available City funding is exhausted, the library could remain open only if other, non-General Fund resources could be developed for this purpose. To date, staff has not identified another agency or entity that could assume the financial responsibilities for the library. If the library closed, Pacific Grove residents could access library materials at other libraries in Monterey County.
6. *Eliminate General Fund support for the Pacific Grove Museum of Natural History (\$249,000 savings):* This option would eliminate virtually the entire budget for the Museum. The Museum's budget currently includes approximately \$80,000 from the Museum Improvement Fund, but these funds are ostensibly restricted to capital improvements and/or special exhibits, and may not be used for operations. Nevertheless, staff is examining the underlying documentation of donations to confirm the intended purposes for the donations. It is possible that donations previously placed into the Museum Improvement Fund were actually intended for museum operations. If such resources are found, they could potentially support museum operations for a period of months. When other available City funding is exhausted, the museum could remain open only if other, non-General Fund resources could be developed for this purpose.

#### **Fire service reduction options:**

**Background:** The Fire department currently has 17 authorized Firefighter positions (including the Fire Chief and Assistant Fire Chief). 15 positions are assigned among three shifts, providing five firefighters per shift. Circumstances such as vacation, illness, or offsite training usually prohibit full staffing of any shift, leaving four or fewer to staff a shift. Four firefighters are the minimum required to meet the OSHA and fire industry standards for staffing. Therefore, under the current model, when more than one firefighter is absent, an off-duty firefighter must be called in and paid overtime wages to fill the shift. **All options for significant savings in the Fire Department require reducing the complement of firefighters from 17 to 14 (excluding senior management), which would leave each shift with only the minimum staffing of four firefighters per shift.**

7. *Eliminate three firefighter positions/backfill absences with overtime (3 layoffs required):* Eliminating three firefighter positions would save approximately \$245,000 annually. 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 assumes 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 \$95,000 in net savings.

Each firefighter has additional responsibilities supporting community safety programs, such as the Community Emergency Response Team (CERT) and PGUSD student CPR training programs. Eliminating 20% of line staff would likely require cessation of non-essential programs.

8. *Eliminate three firefighter positions/do not backfill absences with overtime (3 layoffs required):* This option would generate \$245,000 annually by eliminating three firefighter positions. The difference from Option #7 is that instead of calling in an off-duty firefighter when a regularly scheduled employee is on vacation, ill, or training, the City would staff the shift with a minimum of three firefighters and not incur the additional overtime costs.

Savings notwithstanding, this model assumes significant risk to the City, residents of Pacific Grove, and firefighters. During periods with three firefighters on duty, the City could staff only one engine company, and could therefore not comply with OSHA's two-in-two-out requirement or be able to respond to simultaneous calls. During FY 2006/07, the Fire Department experienced 111 incidents of simultaneous calls. A single engine response model would represent a significant risk to public safety. Staff recommends that it only be considered as part of consolidated fire services with other agencies.

9. *Eliminate three firefighter positions/do not backfill absences with overtime, and eliminate the Assistant Fire Chief position (\$370,000 savings, 4 layoffs required):* In addition to the impacts of Option #8, this option would eliminate the Fire Department's primary capacity to manage staff training, which is critical as the City faces significant turnover in coming years. The strategy would also limit the City's ability to integrate new safety standards and emerging federal and state laws into operating procedures, thereby exposing the City to potential legal liability. If this option were adopted, the City would have to reconsider its ability to provide management services to Carmel, thereby jeopardizing approximately \$110,000 in revenue. The potential savings in staff costs from this option is offset by \$50,000 of potential costs required to reclassify other positions to accommodate some of the Assistant Fire Chief duties.

### **Police service reduction options:**

**Background:** The City currently has 25 authorized sworn police positions. This authorized staffing level provides for one Chief, two Commanders (with broad supervision responsibilities), three detective assignments, one school resource officer assignment, one traffic enforcement (motorcycle) assignment, one community services and training officer, with the remaining 16 officers assigned to patrol. The model allows for four patrol officers assigned to each of four shifts. Dynamics of scheduling (allowing for normal vacation, sick leave, etc.) yields a typical staffing level of three officers on each patrol shift. Patrol, which

includes response to emergency calls for service, is the highest priority for Police Departments.

When budget reductions are required, strategies usually involve moving officers from other assignments to patrol assure effective basic emergency response. However, while a department may continue to respond to emergencies, it can lose its ability to work proactively to prevent crime. Crime could therefore increase, even if the department is adequately staffed in patrol.

Practical realities of day-to-day operations already place severe strains on this model. With the exception of approximately one month last summer, the City has not been able to fully staff the Police Department. Despite ongoing recruitment efforts, actual staffing has hovered at approximately 22-23 officers in recent years. This has meant that the lowest priority assignments, dedicated traffic enforcement and school resource officer, are already unfilled. Additionally, while not desirable, there is a normal level of officer unavailability due to prolonged injuries, other leaves of absence, vacation, and training, that reduces the effective staffing level from 25 to approximately 20.

Objective data provides a perspective on “normal” staffing levels. Each year, the FBI publishes comparative staffing data for police agencies across the country. For Pacific Grove’s region and population category, the average police officer staffing level, is 1.5 per 1,000 residents. Pacific Grove currently has 23 officers, which equates to 1.5 per 1,000 residents. This calculation does not consider additional demands placed on the City of Pacific Grove by the fluctuating tourism economy.

10. *Eliminate one Police Officer position (\$97,000 savings, no layoff required):* Reducing the authorized staffing level from 25 to 24 officers would mean the elimination of the lowest priority officer assignment, which is the School Resource Officer (SRO) assignment, from the police services model. While this assignment is currently unoccupied, it is an important component of crime prevention strategies. The SRO works in Pacific Grove’s schools to educate students about safety and crime prevention, works to solve conflicts before they escalate into violence or other crime, and help youth build positive relationships with law enforcement agencies. This option would not require an employee layoff.
11. *Eliminate two Police Officer positions and one police services technician position (\$256,000 savings, no layoffs required):* This option includes the reduction described in Option #10. It additionally eliminates the next-lowest priority officer assignment: the dedicated traffic enforcement (motorcycle). Due to existing staffing challenges, the assignment is position is currently unoccupied. It is an important component of the City’s traffic safety efforts. The assignment enables the City to dedicate the efforts of an officer to traffic education and enforcement, which can foster safer driving habits and therefore fewer accidents, in the community. The Police Services Technician (PST) role in the police department is a non-sworn position that provides 24-hour direct service to the public by staffing the front counter. PSTs’ answer questions from the public, help residents file police reports, and assist sworn staff with duties at the police station, and perform other administrative work. Eliminating one (of five) PST could cause additional overtime costs and require the Records Supervisor

to cover front desk duties more frequently, thereby delaying higher-skilled administrative work for the department.

12. *Eliminate three Police Officer positions and one Police Services Technician (\$353,000 savings, one layoff required):* This option requires the reductions outlined in Option #11, and additionally eliminates another sworn officer. The next assignment staff would recommend for elimination would be the Administrative Sergeant. This assignment is responsible for managing the rigorous training programs required for Police Officers. It also supervises the parking enforcement and animal control programs, coordinates public safety plans for community events, and manages the Neighborhood Watch program associated with the Citizens' Police Academy. The position also frequently fills in or backs up patrol duties. In the event this assignment is eliminated most of these duties will not be performed, and the City will accept more risk that Officers will not have adequate training and the City may not recover as much expense reimbursement for required training as it currently does when the training program has adequate management attention.

#### **Public Works service reductions:**

The top priority for the Public Works Department is maintaining safety of the City's streets, parks, buildings, sewers, and equipment. After safety priorities are addressed, the department performs maintenance that enhances the aesthetics of the community. At current staffing levels, Public Works employees rarely have time or resources to focus on the aesthetic matters because the list of basic safety maintenance needs is so long. Staff would manage budget reductions in the Public Works Department with the goal of preserving core safety maintenance activities. To accomplish this goal, preventive maintenance cycles and responses to citizen concerns – not regarding immediate safety threats – will be delayed as resources are eliminated.

13. *Eliminate the Customer Service Manager position and a part-time Maintenance Worker position and reduce the maintenance supplies budget by \$10,000. (\$122,000 savings, 2 layoffs required):* The Customer Service Manager Position in the Public Works Department works primarily in the field, addressing citizen concerns about trees, drainage, roadway hazards, and all other matters regarding public rights-of-way. He also conducts inspections for all public works permits for activities such as encroachment in the right-of-way, excavation, and sewer lateral repairs. If the position were eliminated, these duties would be distributed among field crew supervisors, resulting in slower response to calls for service and delayed inspections. Reducing the maintenance supplies budget will limit the amount of pothole-patching and street striping, and sign replacement that crews can complete.
14. *Eliminate the Customer Service Manager position, two full-time Maintenance Worker positions, two part-time Maintenance Worker positions and reduce the maintenance supplies budget by \$15,000. (\$260,000 savings, 3 layoffs required):* This option would include the reductions in Option #13 and additionally eliminate two full-time maintenance worker positions. Reducing Maintenance Worker positions will limit maintenance of streets,

buildings, and parks to only essential maintenance services. Routine maintenance would be less frequent. Examples include:

- Parks would be mowed bi-weekly instead of weekly.
- Weeding and building repairs will be performed only for hazardous conditions.
- Crew will patch potholes on a monthly instead of weekly basis.
- Construction inspections will likely require one week's notice instead of one day's notice.
- City Hall building maintenance tasks will be performed 2-3 times per week instead of daily.
- Oceanview Blvd. turnouts will be maintained only for safety hazards, not aesthetics.

15. *Eliminate the Customer Service Manager position, two full-time Maintenance Worker positions, two part-time Maintenance Worker positions and **reduce the maintenance supplies budget by \$150,000.** (\$260,000 savings, 3 layoffs required):* This option includes the reductions from Option #14, and additionally eliminates funding for \$100,000 from planned forestry work (e.g., tree pruning, maintenance, and planting) that would have been completed by contract and \$50,000 from the storm water management program budget. The City is required to inspect certain types of businesses annually for to determine compliance with State and Federal requirements. This work is planned to be performed by contract. If this reduction strategy is adopted, City staff will perform the inspections. Since the inspections are mandatory, this will take priority over other maintenance tasks, thereby exacerbating the maintenance delays described in previous options.

16. *Continue deferring maintenance; do not establish a preventive maintenance program (\$300,000, no layoffs required):* The \$2.6 million target staff is recommending the City achieve includes \$300,000 additional (new) funding to establish routine, preventive maintenance of City street, buildings, parks, etc. Given the severity of the potential reductions outlined above for Public Works, staff is including the option of removing this component from the \$2.6 million goal, effectively "saving" \$300,000 toward the goal.

*Options #17-20, expand parking meters program:*

The City currently operates parking meters on the streets in the area of the American Tin Cannery. These meters generate approximately \$2,000 per meter per year. This option would expand the meter program into other areas of town. Potential areas for expansion along with potential revenue are shown below:

Parking meters on Central Ave. (net)	\$105,000
Parking meters along Oceanview/Lovers' Point (net)	\$247,000
Parking meters in City parking lots (net)	\$236,000
Parking meters downtown (net)	\$495,000

The revenue estimates assume the technology used in the City's current meters, which provides the City considerable flexibility in setting rates (or allowing free parking) for different time

periods, depending on demand and enforcement goals. The vendor from whom the City leases existing meters has told the City that meters could be installed within 45 days of signing a contract for the meters. Since the Central Avenue corridor falls in the Coastal zone, meters in this location and along Oceanview Blvd. would require Coastal Commission approval. For this reason, staff recommends not including these meters as a near-term solution.

*Option #21: Discontinue annual card pricing option at Pacific Grove Golf Course (\$190,000):*

This option would raise additional golf fee revenue that could be transferred to the General Fund to support General Fund services.

Total rounds FY 2006/07                      77,242

Annual card play FY 2006/07	Rounds	Revenue
9-hole card	11,054	
18-hole card	17,181	
<b>Total</b>	<b>28,235</b>	<b>\$269,499</b>

**If annual cards are discontinued:**

Assumption: 60% decrease in rounds from previous card holders.

	Rounds	Rate	Revenue
9-hole	4,422	\$12	\$53,059
18-hole	6,872	\$20	\$137,448
<b>Total</b>	<b>11,294</b>		<b>\$190,507</b>

Assumption: Half of lost rounds replaced by daily (full) fee player.

	Rounds	Rate	Revenue
9-hole	3,316	\$20	\$66,324
18-hole	5,154	\$40	\$206,172
<b>Total</b>	<b>8,471</b>		<b>\$272,496</b>

Total revenue if cards discontinued    \$463,003  
**Additional revenue    \$193,504**

*Option #22: Long-range planning fee (\$104,000 annually):* The reorganization plan included a Senior Planner whose focus will be on long-range planning: updating the City’s General Plan, developing a Local Coastal Plan, and updating zoning ordinances. Currently the position is to be paid for with General Fund resources. The City could establish a long-range planning fee, which is typically structured as a surcharge on development permits and/or other development charges. Based on FY 2007/08 estimated development fee revenue of \$696,600, a surcharge of 15% would generate \$104,400, which would approximately cover the cost of the Senior Planner position.

*Other potential revenue sources:* Other revenues the City could pursue include taxes that could be placed on future election ballots and property-based fees. State law allows cities to establish fees, per Prop. 218, for specific services, provided that the fee level relates directly to the service for which it is assessed and that the proposed fee survives a protest process by fee payers. Staff believes such a fee could possibly fund the storm water management program, street maintenance, or the forestry program. These fees would likely take 6-12 months to develop, so staff discourages their inclusion in the current discussion. If Prop. 218 fees and/or taxes are adopted in the future, their revenues could expedite the goals outlined at the front of this report or free up funding other emerging priorities.

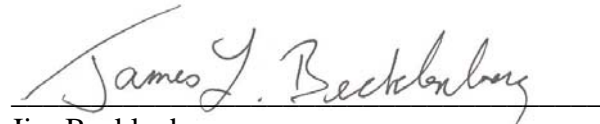
**FISCAL IMPACT:**

None.

**ATTACHMENTS:**

None.

RESPECTFULLY SUBMITTED:



Jim Becklenberg  
DIRECTOR OF MANAGEMENT AND BUDGET

REVIEWED BY:



Digitally signed: I have reviewed this document

James J. Colangelo  
CITY MANAGER