

Budget Task Force

Final Report

Presented to the Arcata City Council
June 3, 2015

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I

PREFACE

In the spring of 2014 City of Arcata staff reported to City Council that Arcata faced a small budgetary structural deficit in the current fiscal year that was projected to grow to a deficit of \$641,000 in FY 2015/2016 and to \$720,000 in FY 2016/2017. Staff also noted that the City reserve balance for the current year was projected to be 12.96% of total general fund expenditures, falling to 9% in FY 2015/2016 and 3% in FY 2016/2017, well below the 20% reserve policy adopted by the City Council.

In addition to measures taken by City staff to address the deficit, it was recommended that a Budget Task Force (BTF) be created to assist the City Council in prioritizing programs and services along with identifying opportunities for revenue enhancement. On 10/15/2014 City Council authorized the creation of the BTF (appendix A). In a joint study session with the City Council on 2/23/2015, the BTF was directed to pursue the following:

- Recommending a long-term strategy to help prevent similar issues in the future.
- Recommending strategies for reducing expenditures.
- Recommending strategies for increasing revenues.
- Commenting on the City reorganization plan.
- Developing an educational component for the public on the above topics.

The Council did not set priorities on what, if any, City services would be limited or curtailed. Between December of 2014 and May of 2015 the BTF met with the City Manager, City Council, heads of all City departments, and other staff members to better understand the way the City conducts business, provides services, and spends taxpayer money.

Through the course of these meetings the BTF learned that given the time constraints of the process and the complexities of the issues it was unrealistic to issue specific, detailed findings on individual programs and expenditures. However, enough data was acquired and analyzed to create the following general findings and recommendations. The BTF urges the City Council to consider these findings and to direct the City Manager and City staff to implement these recommendations.

II

OVERVIEW

The Budget Task Force (BTF) has prepared this report for the City Council's consideration as measures to resolve an imminent budgetary structural deficit. The BTF considered information provided by City staff, direction of the Council, and conversations with stakeholders – the citizens, business owners, and others whose quality of life is affected in part by the quality of service provided by the City. The BTF resolved on several policy recommendations, as well as specific measures that should be reviewed for their effectiveness and should be implemented if found useful.

In forming our recommendations, the BTF encourages the Council to consider how to best provide services to stakeholders in a fiscally sound manner. We are a small city with big dreams, which requires a commitment to the financial responsibilities needed to achieve those dreams. We encourage a balanced approach of reducing costs and raising revenues. Expense reduction should be garnered through improved efficiencies and decreased non-essential services where necessary, while maintaining the staffing levels needed to provide those services. Revenues should be raised through a combination of improving the economic climate to support the private market, better balancing of fees charged for services rendered, and looking for new sources of funds.

Notwithstanding efforts to increase revenue and decrease expenditures, the BTF recognizes that employee benefit costs are the single largest impact on the expenditure budget. The Council should prioritize solutions that have the greatest impact on costs for PERS and health care costs.

The BTF wanted to provide a timely report to the Council, prior to the beginning of the 2015/2016 fiscal year. As a result, analysis on the effectiveness of our recommendations is limited. We encourage the Council to vet our ideas with the City Manager and City staff, relying on Staff to analyze and propose the practicality and effectiveness of these ideas. We encourage the Council to reconvene a BTF as needed to review and comment on proposals for resolving the structural deficit as they develop.

The BTF thanks the Council for the opportunity to lend our diverse and robust knowledge, skills, and experience to this task. We appreciate the service the employees of the City provide its citizens, and we are grateful to provide our service in return.

III

SUMMARY OF THE PROBLEM & THE TASK FORCE APPROACH

The City’s General Fund is currently in the early stages of a structural budgetary deficit. A structural deficit is a deficit caused by an underlying imbalance in revenues and expenditures. Also called a permanent deficit, it is distinguished from a cyclical or other temporary deficit by its root causes. A temporary deficit may be caused by a dip in the market, for example, and will resolve without intervention when the market picks up. A structural deficit will not resolve itself, and must be managed to address the underlying cause.

While the City has faced fiscal challenges in recent years, notably the Great Recession of 2008, revenues over the past five years have recovered (Figure 1). Over the same period General Fund expenses, including rising Public Employees Retirement System (PERS) contributions, health care contributions, other employee costs, unfunded capital improvements, the demise of the Redevelopment Agency, and implementation of the high energy users tax, have grown. During this same period expenses for materials, debt service, and capital outlay have remained fairly consistent (Figure 2). While the City’s revenues have recovered expenditure increases outpace revenue growth, causing a structural deficit in the City’s General Fund (Figure 3).

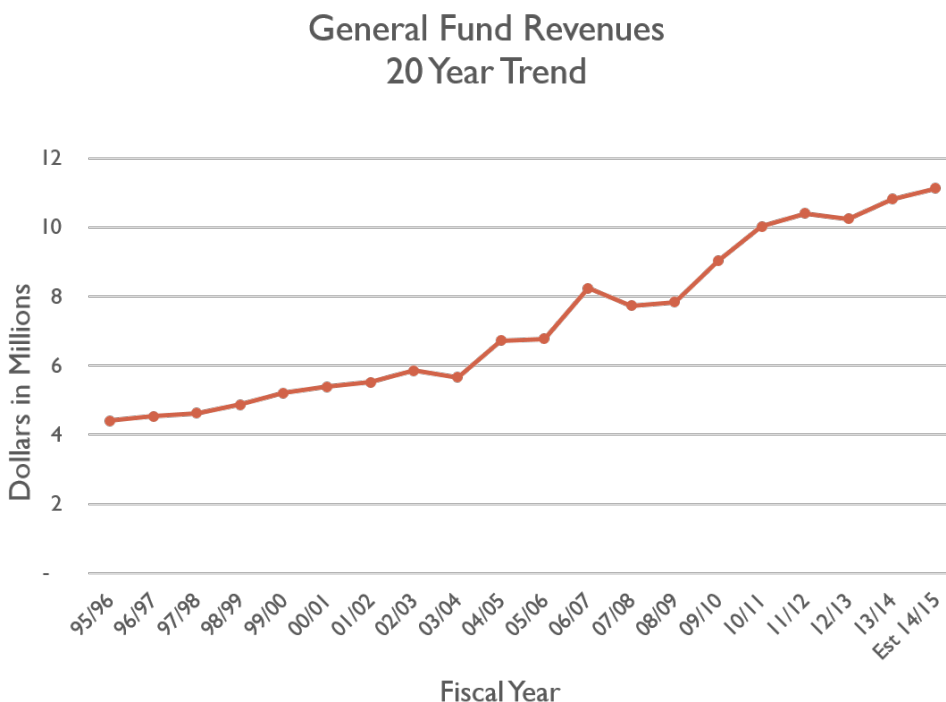
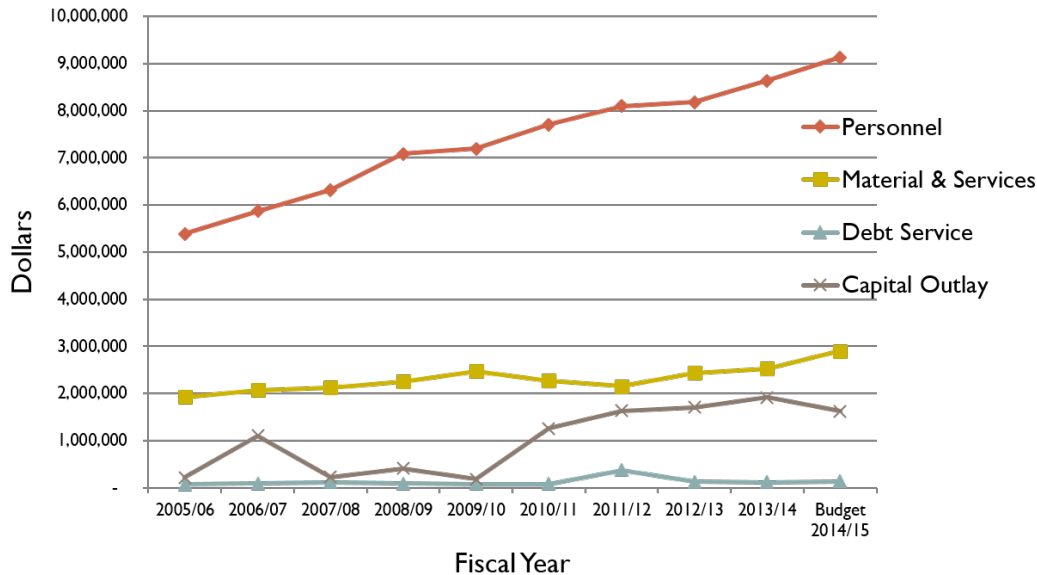


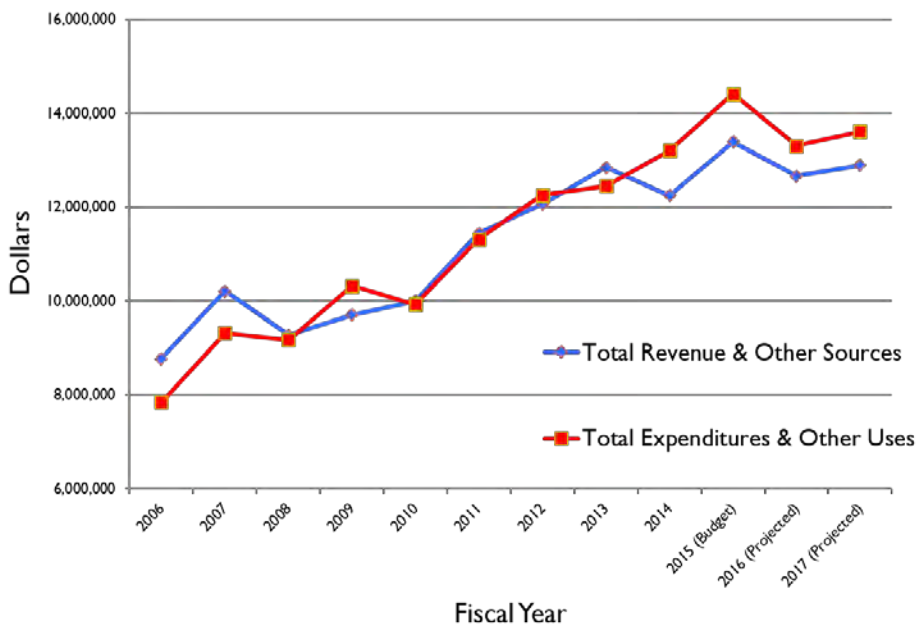
Figure 1 – General Fund 20-year Revenue Trend:
Actual revenues over the past twenty years are shown as points. Fiscal Year 2014/15 revenue is estimated.

General Fund Expenditures by Type 10 Year Comparison

**Figure 2 -
General Fund
10-year
Expenditures by
Type:**
Personnel costs
have increased
steadily over
time, whereas
materials,
debt service, and
capital outlay
remain fairly
constant.



General Fund Revenue & Other Sources vs Expenditures & Other Uses



**Figure 3 -
General Fund
Revenue vs.
Expense:**
Expenses exceed
revenues.

While total expenditure growth is manifold and complex, it is dominated by employee costs. Notably, benefits related to health care and PERS have grown rapidly (Figures 4 and 5, respectively). The number of City employees has grown by 16 during the 2006 to 2013 Fiscal Year period, and employee costs account for roughly 2/3 of General Fund expenditures annually. Due to these factors rising benefit costs predominate the deficit effect. In addition to health insurance premiums, which are increasing by double digits yearly, the cost for PERS retirement has increased dramatically for every city in California. The increase in retirement costs was brought about by two main reasons: the substantial decline in the value of the investment market during the Great Recession, along with funding the cost of numerous retirement plan enhancements that were made during good times when the State indicated that plans were “super-funded”. For fiscal year 2014/15 the City of Arcata will incur retirement costs of approximately \$1,840,000, of which \$1,162,000 comes from the general fund.

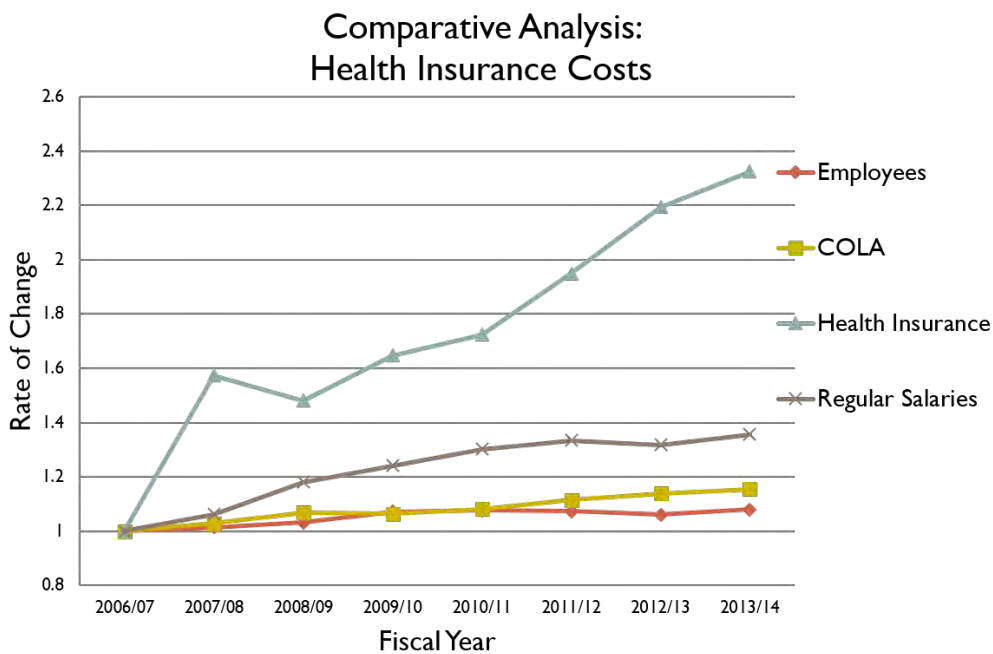
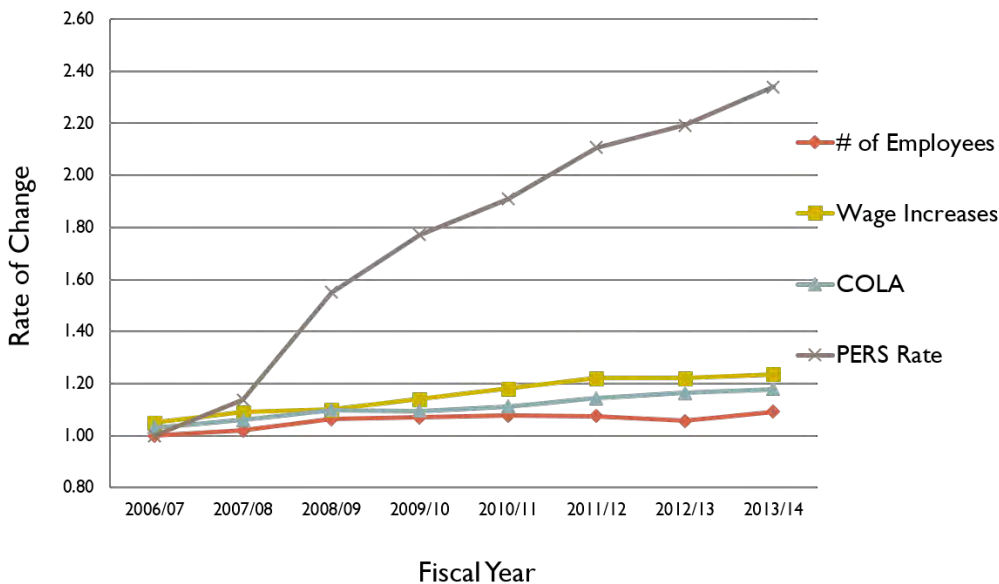


Figure 4 – Health Insurance Growth Rate from FY 2006 to 2013: Relative to the flat growth of number of employees, health care costs have had dramatic growth.

PERS Rates: Comparative Analysis: Miscellaneous Employees

Figure 5 - Retirement Cost Growth Rate from FY 2006 to 2013: Relative to the flat growth of number of employees, PERS costs have had dramatic growth.



The increased cost of retirement was addressed by the State of California in fiscal year 2012 by passage of the Public Employees’ Pension Reform Act (PEPRA), which reduced retirement benefits for new members and made other changes for many other members. This change in retirement benefits, which results in significantly lower City retirement contributions, will be beneficial to the City as older “classic” members, those covered by more generous pension programs, retire, and new employees are hired to replace them.

As an example of the significant rate increases the City has incurred, Figure 5 compares the increase of the employer PERS rate for miscellaneous employees compared with regular salaries, cost of living, and the number of employees. Similar rate increases have been seen for sworn employees. Recently, in order to increase the funding status and to ensure future benefits, CalPERS has made changes to its actuarial assumptions and methodology. As a result of these changes the City anticipates that its rates will increase substantially for “classic” members. Increases will be phased in beginning in 2016/17 when rates are expected to increase by approximately 8% for both safety and miscellaneous members, reaching as much as 25% increases by fiscal year 2020/21.

In its simplest form, a budget has inputs and outputs, or revenues and expenses. A deficit can be resolved by increasing inputs or decreasing outputs. The solution to the structural deficit lies in managing inputs and outputs in a few basic categories. The City’s inputs are primarily taxes, largely sales and related transactions taxes (Figures 6 and 7, respectively).

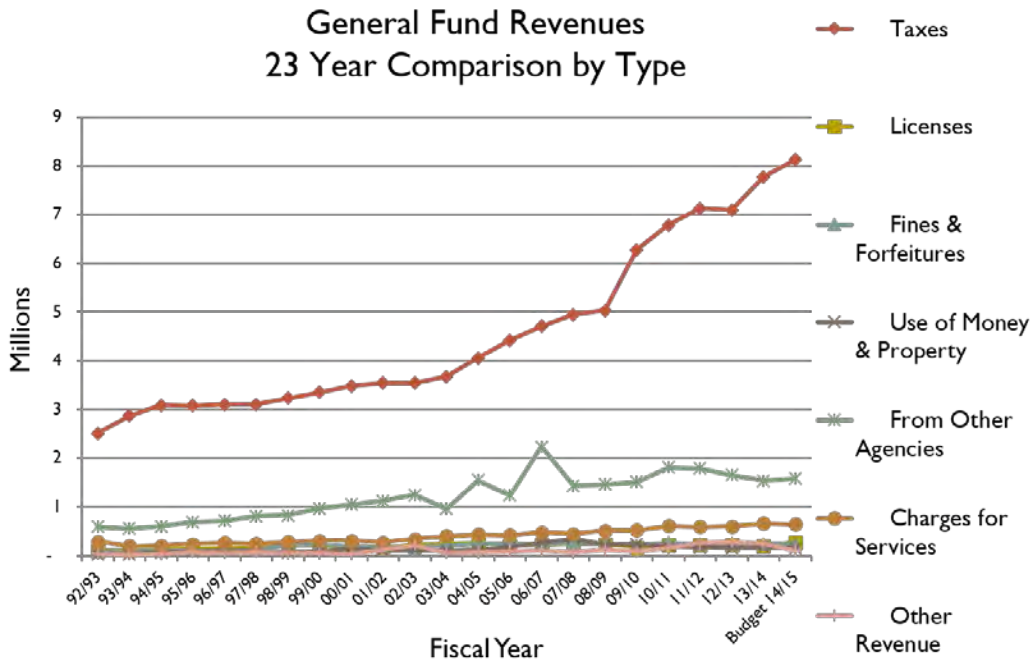
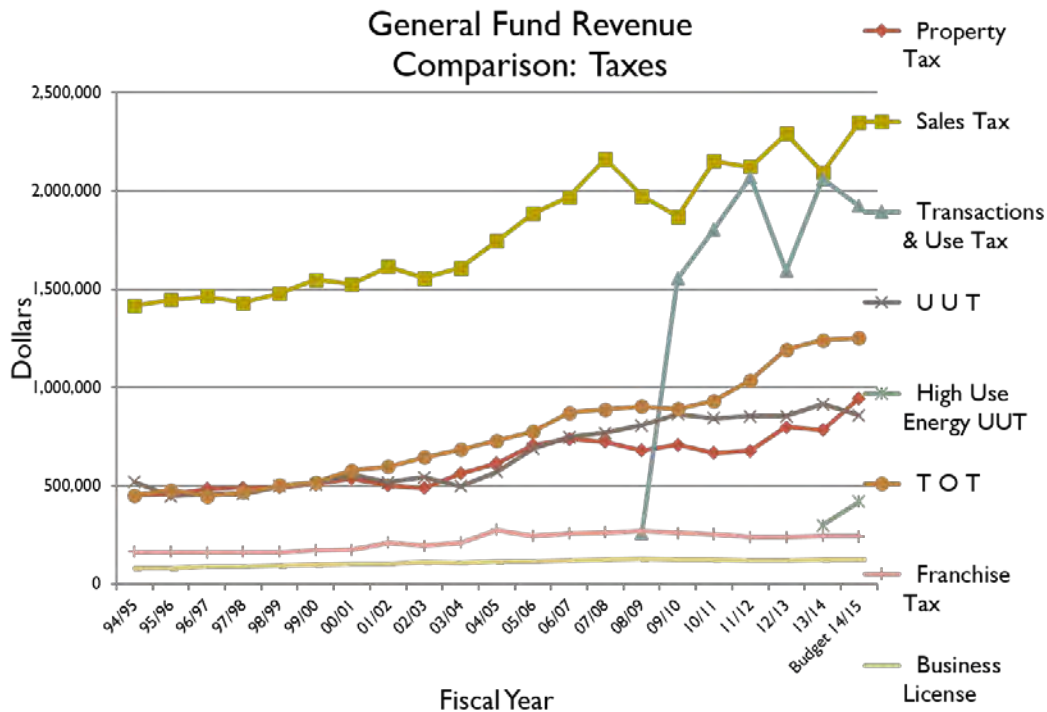


Figure 6 - General Fund Revenue Sources: Taxes predominate sources.

Figure 7 - Tax Revenue by Type: Sales and related transaction taxes predominate.



The City of Arcata is facing a continuing structural deficit largely driven by personnel costs associated with benefits that are outpacing revenues. General Fund reserves have been rapidly depleted to cover this structural imbalance.

The BTF used the following guiding criteria in drafting this report:

- Recommendations should have a real and significant impact on the problem of the structural deficit.
- Recommendations that address short-term budgetary issues may also aide the structural issue when combined with other solutions.
- Recommendations should be general courses of action that staff and the Council should flesh out and analyze prior to implementation.

While it is important to work on as many solutions as can be managed, efforts should be made to prioritize those items garnering the largest net effect. Several of the recommendations here involve long-range planning and implementation, while many would be easy to implement but have less effect. Clearly the focus of early efforts should be on high yield solutions.

Ultimately, due to the constraints of time limiting the BTF's knowledge and understanding of nuanced impacts of specific recommendations, the Council should direct the City Manager and City staff to analyze the practicability and feasibility of specific recommendations. Staff should be challenged to address the general recommendations of this report with detailed analysis. Ongoing and frequent status reports on the progress resolving the structural deficit should be required. The BTF should be re-convened as necessary to review staff recommendations and progress, and to advise the Council.

In sum, the City Council, City Manager, and City staff are challenged to take a long view of the solutions to this complex problem.

IV

FINDINGS AND RECOMMENDATIONS: LONG TERM STRATEGIES

Arcata has long been a leader in the region in terms of innovation, creating a broad and sustainable tax base and progressive community projects that help the City to thrive. These qualities must be tempered with the day-to-day operation of the City, providing that needed infrastructure and core programs be maintained to allow innovation to flourish. The long term health of the City must, at its most basic level, maintain and invest in core services, while also investing in progressive development that allows the local economy to thrive. It is with these principles in mind that the following long term strategies for addressing the structural deficit are offered.

A. COMMUNITY DEVELOPMENT

FINDING:

A diverse and sustainable tax base is key to weathering difficult financial times and to advancing in good financial times. This allows infrastructure and amenities to be created in good times and to be maintained in bad. Arcata is uniquely positioned in the region to serve as a tourist destination and “home base” for North Coast tourism. Arcata has a long history of nurturing unique business startups of a wide variety, and has transitioned better than surrounding communities from a resource extraction based economy to a more diverse economy. This diversification in growth, leading to a diverse and growing tax base, must be encouraged for Arcata to prosper.

RECOMMENDATION:

On every project undertaken the City Council should direct staff to evaluate how the project fosters smart, fiscally responsible, and sustainable economic growth in the City. When possible projects should be altered to accommodate infrastructure desirable to such growth. The City should streamline the procedures needed for new residential, commercial, and manufacturing development. Understanding that precise methods will change over time, and that many of these projects span years and potential high and low economic points, City Council should direct Community Development to identify and foster such growth through good times and bad. City Staff should actively pursue startup businesses and relocated businesses to Arcata who are compatible with this sustainable, responsible growth model.

B. GRANT FUNDED PROJECTS

FINDING:

Grant funded projects can seem like “free money” that will help to bolster either the infrastructure or the amenities of the City at little to no expense. Some grant funded projects also require General Fund support. Staff time spent on these projects, even if it can be financially charged to the grant funding source, means that staff time will not be spent focusing on existing or core projects. New projects which have grant funding often have ongoing General Fund costs for maintenance and operation. Some grant funded projects seem like very good ideas in the context of the fact that they are grant funded but would likely be less seriously considered if they received General Fund support.

RECOMMENDATION:

Every grant funded project must be evaluated for realistic ongoing maintenance and operation costs. An ongoing funding source for those costs must be identified and accounted for in future budgets. Projects where long term maintenance and operation funding sources cannot be identified should not be approved by the Council. In difficult financial times projects that do not directly relate to core functions should face additional scrutiny to ensure that they do not take staff time away from necessary core projects. In difficult financial times Council should direct staff to pursue only grant funded projects related to core functions, not amenities.

C. PERS RETIREMENT OBLIGATIONS

FINDING:

Due to a variety of factors, the cost of City contributions to the PERS retirement system have grown by about 238% since FY 2006/2007, and payments to PERS will continue to rise dramatically between now and 2022. Those rates are projected to fall again in 2023 before beginning another steady rise until the full effects of the Public Employee’s Pension Reform Act (PEPRA) are in place in 2037. “Side Fund” payments totaling \$3.6 million will be due to PERS, in increasing amounts per year, between now and 2021.

RECOMMENDATION:

To provide a smoothing effect on these rising payments and to better be able to project annual budgets through this period, the City Council should consider the issuance of pension obligation bonds that cover this time period. The City Council should also strongly consider what strategies to put in place to cover the rising PERS obligations projected for 2029 through 2036, including but not limited to pension obligation bonds.

D. USE OF RESERVE FUNDS

FINDING:

Per City Council resolution 089-38 adopted on December 3, 2008 the City is to maintain a financial reserve of at least 20% of the General Fund budget. In the past reserve funds have been drawn down to significantly below 20%. Reserve funds can be used in several ways, such as: being drawn on to smooth out cash flow issues with the understanding that they will be replenished in a timely fashion; being used for an unforeseen one-time emergency where replenishment is not readily available; and being used to cover failed income projections or project over-runs, where the source of replenishment is not readily available.

RECOMMENDATION:

In an effort to be completely transparent, the decision to use General Fund reserves should be voted on in City Council meetings that are open to the public and only after public notice is made and comments received. Requests for reserve funds should be accompanied by a complete City staff report detailing why the request is being made, implications of granting or not granting the request, and projections for replenishing reserve funds. The above process should be codified in the City Council Protocol Manual.

V

**FINDINGS AND RECOMMENDATIONS:
STRATEGIES FOR REDUCING EXPENDITURES**

The Budget Task Force was able to gain significant knowledge about City operations, revenues, and expenditures, but acknowledges that evaluating and presenting specific choices rests with City staff. With that in mind the following findings and recommendations are offered.

A. CITY COMMITTEES

FINDING:

The City currently has fourteen (14) standing citizen committees, resulting in at least as many meetings per month. These committees, while providing some benefits, require significant amounts of staff time in the preparation for and running of the meetings. Some of these committees may be less relevant than they once were.

RECOMMENDATION:

City Council should direct staff to examine the current state of the various committees. Staff should be directed to eliminate and/or consolidate committees whenever possible, and to hold meetings as infrequently as practical, to free staff time for core duties. The preparation of committee Annual Reports to Council and Annual Study Sessions with Council should be consolidated and streamlined when possible to save staff time.

B. EMPLOYEE AND CITY COUNCIL BENEFITS COSTS

FINDING:

Personnel costs account for about 66% of annual General Fund expenditures. Since FY 2005/2006 employee costs have risen about 70%, from about \$5.3 million to about \$9.1 million, while the number of General Fund employees has risen from 63 to 79. A significant contributing factor to the 70% rise in employee and City Council costs has been health care and retirement. In that time period health care costs have risen about 230% and PERS retirement costs have risen about 235%.

Pending any legislation at the State level the PERS formulas, and hence costs, for existing employees and City Council cannot be changed. The Public Employee’s Pension Reform Act (PEPRA) has already changed the formulation for new hires to a much more sustainable level. Health care coverage is codified in the collective bargaining agreements of the various employee groups and cannot be unilaterally changed.

RECOMMENDATION:

With the above limitations in mind City Council should address those benefits costs that they can. The City should consider a change in its health care plan to a Redwood Empire Municipal Insurance Fund (REMIF) plan providing that benefits keep Arcata at a competitive advantage in the local market. The City should consider altering benefits for Council members in the future. The City should not take advantage of any potential future, more generous PERS retirement formulas.

C. EMPLOYEE AND CITY COUNCIL TRAVEL

FINDING:

Employee work related travel was budgeted at about \$115,500 in FY 2014/2015.

RECOMMENDATION:

All non-essential employee and City Council travel should be curtailed until City reserves have been replenished.

D. DISPATCHING SERVICES

FINDING:

Both the Arcata Police Department (APD) and the Humboldt State University Police Department (HSUPD) staff dispatch centers 24 hours a day, 7 days a week. The two departments share a geographical area and have compatible dispatching and record keeping software systems. The Arcata Fire Department (AFD) formerly received dispatching services from APD but is currently dispatched through CalFire in Fortuna. AFD shares some of their geographical area of operation with APD, with the rest of their area being adjacent.

RECOMMENDATION:

Council should direct APD staff to explore agreements with HSUPD and/or AFD to provide dispatching services for those agencies. Such an agreement should only be made if it provides efficiency of service for APD, results in cost savings, remains operationally controlled by APD, and does not negatively affect the current level of service provided by APD dispatch.

E. ENERGY EFFICIENCY

FINDING:

Having City facilities be as energy efficient as possible not only saves the City money on energy costs but serves as a good example of conservation to the people of Arcata.

RECOMMENDATION:

Council should direct staff to continue to explore energy efficiency in the long term and, provided it does not require significant capital outlay, in the short term.

F. PROJECT CONTINGENCIES AND ADD-ONS

FINDING:

Outside contractors that bid on City projects already include budget over-run contingencies into their bid, and the City often also has a budget contingency on these projects. The approval of additional costs on City projects is often done on City Council consent calendars, discouraging the public from offering input.

RECOMMENDATION:

On City projects that are sent out for bid any internal City contingency funds should not be announced in an effort to prevent the contractor from assuming these funds are available for the project. Funding additions for ongoing projects should be moved from the City Council consent calendar to the open agenda to allow for staff reports and public input.

G. CENTRAL GARAGE

FINDING:

The current accounting system for charges to the Central Garage from various City departments does not allow for precise tracking of expenditures and payments into vehicle replacement funds. Operation and maintenance funds and vehicle replacement funds are co-mingled, and individual departments do not have a good idea of what individual services cost. Due to the lack of specificity, the individual departments have a difficult time tracking their expenses, and hence have less control over managing those expenses and planning for future capital purchases.

RECOMMENDATIONS:

City Council should direct staff to develop individual accounts for Operation & Maintenance (O&M) and for Vehicle Replacement for each department. Each department should be responsible for properly budgeting for these two accounts annually, and the Finance Department with cooperation from the departments must reconcile shortages or surpluses at the end of the year. Central Garage O&M expenses should be communicated to individual departments monthly. Departments should consult with Central Garage on vehicle purchases but ultimately should be allowed to choose the equipment most suited to their needs.

H. SPECIAL USE GROUP PROJECTS

FINDING:

Certain amenities in the City cater to specific use groups, such as the Arcata Skate Park or the Ridge Trail. These examples have used privately raised funds to assist in their acquisition and construction but have ongoing maintenance costs that are covered by the City.

RECOMMENDATION:

All new City amenities that cater to specific use groups, for example, a Dog Park, should utilize privately generated funding to cover development and construction costs. Every effort should be made to also fund an endowment to fund ongoing operation and maintenance.

VI

FINDINGS AND RECOMMENDATIONS: STRATEGIES FOR INCREASING REVENUES

Through presentations by City staff and many additional questions posed by Budget Task Force members, a general picture of City revenues was obtained. As with reductions in expenditures, the BTF recognizes that City staff possess the knowledge and experience to know what revenues can be adjusted legally, what comparable local entities charge for services, what the market will bear, and what increased revenues might ultimately hurt the City in terms of prolonged economic growth. The BTF urges the City Council to direct City staff to explore the below options for increased revenues.

The BTF stresses that increased revenues from these sources cannot come at the cost of making the City less desirable as a place to live, recreate, and do business, and cannot negatively affect future economic development.

A. FEES AND FINES COLLECTED BY CITY DEPARTMENTS

FINDING:

Fees for service generate about 5% of General Fund revenues, fines and forfeits about 2%, and licenses and permits about 2%. The City possesses numerous properties available to the public for rental, and provides many programs for which it charges fees for use. The City receives revenues from civil actions such as parking citations, party disturbances, and delinquent business licenses. The City receives payment for services such as building and inspection fees. By California State law a governmental entity cannot charge more for a service than the actual cost of providing that service.

The BTF recognizes that individually raising the above fees and fines amounts to very little but that collectively significant budget relief can be found.

RECOMMENDATION:

City Council should direct staff to examine the potential for increased revenues in all areas of City business provided that the increased revenues do not overtly penalize or make the City a less desirable place to live, recreate, and do business. Areas to be examined include, but are not limited to:

- Fines for parking citations.
- Park, building, and facility rental fees.
- Grazing fees.
- Rental fees on City owned houses.

- Vending permit fees.
- GIS map service fees.
- Special event fees.
- Party disturbance fees.
- Penalties for failure to license a business.
- Fees for recreation programs.

B. TAXES

FINDING:

Taxes make up, by far, the largest portion of General Fund revenues, accounting for about 62%. In the past the citizens of Arcata have shown a willingness to increase their tax burden in exchange for real and tangible services being provided. Any proposed raise in taxes must be approved by the voters, with the earliest opportunity to do so being 2016, and must be carefully evaluated prior to being set forth. Any adjustment downwards of any existing City taxes will result in significant budget shortfalls and significant cuts to City services.

RECOMMENDATION:

City Council should work with staff and the City Attorney to evaluate the state of current City taxes and examine if increases are feasible. Council should make this evaluation in the context of long term economic development and the taxes currently assessed throughout the region. The taxes to be reviewed include the Transient Occupancy Tax, the Utility Users Tax, and the Transactions and Use Tax. It is crucial to the financial health of the City that the Utility Users tax be renewed in 2016 when it next comes up for a vote.

C. EXCESS USE OF POLICE SERVICES

FINDING:

Certain businesses and residences within the City demand a disproportionate amount of calls for service to the Police Department. Arcata Police already charges a fee for service for excessive responses to alarm calls, which does not appear to deter citizens from the use of alarms. The City of Eureka has recently implemented a fee for response to high-call locations. Fees for high-call volume locations could raise revenues to a small extent and would be good public policy in that it might encourage these locations to remediate the issues that result in these calls.

RECOMMENDATION:

City Council should direct the Police Department to identify those locations that require significantly more than the average of police responses per year and explore the possibility of charging fees for excessive responses to those locations.

D. SALE OF SURPLUS PROPERTY

FINDING:

The BTF has reviewed the inventory of about 174 City-owned real properties and recognizes that only a few are considered “surplus” and available for sale. The BTF further recognizes that the sale of such properties does not address the ongoing structural deficit in the General Fund, but does find that the sale of property may be useful in replenishing depleted City reserves.

RECOMMENDATION:

City Council should encourage staff to continue and increase efforts to sell real and other properties, such as surplus vehicles and equipment, in a timely manner.

E. MAXIMIZING THE USE OF CITY FACILITIES

FINDING:

Arcata is the hub for arts and entertainment in the region, attracting Arcata and Humboldt County residents as well as visitors from throughout the country and the world. The City possesses a wide variety of facilities, indoor and outdoor, suitable for a wide variety of events, which are not utilized to their capacity. By actively improving, marketing, and making available these facilities the City could raise direct revenue through fees as well as the multiplier effect of money spent by visitors who might not otherwise spend their time and money in Arcata.

RECOMMENDATION:

City Council should direct staff to actively market City facilities and to foster relationships with business, producing, and presenting organizations. Staff should consider some basic improvements to facilities that might make them more desirable, and hence raise revenue. Staff should think outside of the traditional uses of these facilities, but should not market them in a way as to compete with existing, privately owned Arcata venues. Some areas to explore include:

- Working with new and existing partners, such as Arcata Main Street and the Chamber of Commerce, to host new and different events in City facilities.
- Using existing facilities to help incubate small business start-ups.
- Actively marketing facilities to outside producers on a pure fee-for-service basis. Make available, with reasonable protections, areas that have not traditionally been used, such as the Arcata Ballpark, Redwood Park, and the Arcata Marsh.
- Installing commercial dishwashers at the D Street Neighborhood Center and Arcata Community Center to better attract events.
- Partnering to provide “eco-accommodations” in appropriate areas.
- Installing of more gateway banners to advertise local events.
- Working with concessionaires in appropriate parks and facilities to increase revenues and taxes.
- Studying the Arcata Plaza to identify existing areas or reasonable changes that can be made for use by existing plaza businesses or other vendors.

F. MOVING PUBLIC WORKS

FINDING:

Public Works recently moved offices out of City Hall and to the former Redevelopment offices adjacent to the Intermodal Transit Facility.

RECOMMENDATION:

City Council should direct staff to explore the feasibility of moving Public Works back to City Hall and the potential income that might result from renting the former Redevelopment office to an outside entity.

G. VACATION RENTALS

FINDING:

An increasing number of residential properties in Arcata are being used as temporary or vacation rentals. This reduces inventory, raising the cost of rental stock throughout the City, and the Transient Occupancy Taxes that should be collected through these rentals may not be fully captured. Business license tax certificates are required for the operation of such rentals.

RECOMMENDATION:

City Council should direct City staff to explore these issues and should consider working with partners such as Arcata Main Street or the Chamber of Commerce to identify these properties and to develop a strategy for ensuring compliance with existing law that will help to generate revenue.

VII

CITY REORGANIZATION PLAN

CITY RESTRUCTURING

FINDING:

City staff and the City Manager have evaluated overall City Department structure with an eye towards both efficiency in the delivery of services and towards eliminating full time equivalent positions that can be consolidated through this re-structuring. The City Manager has proposed a plan whereby 4.5 full time equivalent positions are eliminated in departments other than Police, and the Chief of Police has proposed an additional 2 full time non-sworn equivalent positions, resulting in significant savings.

RECOMMENDATION:

City Council should encourage the City Manager's restructuring plan. Positions that can be consolidated, eliminated, or expanded in scope should always be considered so long as City services are not substantially impacted. If City services would be impacted by these proposed moves additional scrutiny should be given to the proposal, and Council along with City staff must prioritize the importance of City services. Council should encourage continued review and evaluation of staffing levels in all City departments. Reductions in staffing levels should be considered whenever feasible without affecting essential or core City services.

VIII

EDUCATIONAL COMPONENT

It was the consensus opinion of the BTF that desire for an educational component of their mission as set forth by the City Council, consisting of actively seeking input from the public to prioritize services and goals, was not practical given the short time frame to complete the final report.

The BTF feels that making this report widely available to the citizens of Arcata and placing the review of the report on the open calendar for a City Council meeting meets the educational component that was requested.

The BTF recommends that the City Council and City staff make an ongoing effort to educate the citizens of Arcata not just about the work documented in this report but on all fiscal matters in the hope that a fully informed citizenry will understand, participate in, and help prioritize the importance of City fiscal health.

IX

CONCLUSION

The BTF finds that the City of Arcata is generally managed in an efficient manner and provides City services thoroughly and professionally. The task of finding savings and new revenues has been difficult in that personnel costs, vital in the direct providing of services and due to legal constraints difficult to modify, make up the majority of the General Fund budget.

The BTF understands that City staff are well positioned to address the general ideas set forth in this report, and that it is the responsibility of the City Council and the City Manager to direct City staff ensure this takes place.

APENDIX A

BUDGET TASK FORCE CREATION AND MEMBERSHIP

On 10/08/2014 Janet Luzzi, City Finance Director and at the time serving as Interim City Manager, proposed the Budget Task Force to City Council. As originally proposed the BTF was to consist of seven (7) members, a number raised to nine (9) members in an effort to gather a wider range of expertise and opinion. On 10/15/2014 the City Council authorized the creation of the task force with the following objective:

The objective of the Budget Task Force is to prepare a written report to the City Council of recommended courses of action that could be considered and utilized by the City to eliminate the structural deficit in the General Fund.

The BTF was created with six (6) members from the community at large and three (3) from City staff. Community members submitted applications between 11/01/2014 and 11/30/2014. The community members appointed represented many years of City management, private sector management, and community involvement experience. Members from employee groups were nominated by their respective employee groups. The members were approved by City Council on 12/03/2014.

Janet Luzzi, City Finance Director, served as the Staff Liaison, and Kara Newman, Deputy City Clerk and Administrative Assistant to the City Manager's Office, served as the Secretary. The BTF consisted of:

- Kash Boodjeh, Chair
- Hollie_Hall, Vice-chair
- Robin Hashem
- Dan Hauser
- Phyllis Helligas
- Michael Machi
- Loretta Arbuckle, Operating Engineers
- Richard Bergstresser, Arcata Police Association
- David Loya, Management / Confidential Employees
- Saskia Burnett, alternate, Operating Engineers

APPENDIX B

BUDGET TASK FORCE MEETING SUMMARIES

The BTF met with the heads of all City departments and other employees, learning details of how the City functions, the current and projected state of City finances, labor costs and details, the distinction between General Fund obligations and funding sources as opposed to dedicated and grant funds, and other items. Department heads were asked to identify potential sources of revenue and to identify primary functions and ancillary functions of their departments. Following are brief summaries of meeting dates and the topics covered at those meetings:

December 15, 2014

This was the first meeting of the BTF and served as an organizational meeting. Finance Director Luzzi and City Manager Karen Diemer presented the projected structural deficit in the upcoming years and explained some distinctions between the General Fund and other funding sources. Diemer discussed the structural review of City staff that was underway and spoke about current and anticipated vacancies.

January 12, 2015

This meeting proved an overview of City finances, revenue sources, and deficit areas. Finance Director Luzzi explained that the City Council was asking the Task Force to help prioritize City services and to make recommendations about budget reductions. It was pointed out that the Task Force would be working concurrently with but independent of the City organizational structure review.

Luzzi then presented the Task Force with the distinctions between the General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds. Revenue sources were detailed. Budget overview principles and assumptions for upcoming budgets were discussed for various areas of City finances. The schedule for preparation of the upcoming Fiscal Year (FY) 2016/2017 budget was discussed.

Luzzi presented some of the items that got the City into the position it was currently in, discussing the recession of 2008, the loss of the redevelopment agency, rising health care and pension costs, and implementation of the Excessive Energy Use Tax. Revenues and expenditures were discussed in detail. Prior actions taken to address General Fund deficits since 2008 were discussed.

January 26, 2015

6/3/2015

This was the first meeting that detailed the operations and expenditures of specific City departments. In addition to staff presentations numerous questions were asked by Task Force members with answers provided, and some follow up information not immediately available was requested.

City Manager Diemer discussed the General Fund expenditures in the City Manager's office, noting that the office had been reorganized in 2014 but that she was still evaluating the structure of the office. She clarified that the IT Department receives oversight through the City Manager's office but the IT budget is separate and charged off to other departments depending on usage.

Police Chief Tom Chapman and Administrative Analyst Eileen Verbeck provided an overview of departmental activities and explained the distinctions between the three primary budget divisions of Public Safety, Parking, and Animal Control. The impact of the Transactions and Use Tax (TUT), implemented in 2008, on departmental staffing and operations was discussed. Chapman noted that the TUT allowed the Police Department to provide the level of service that it appears the community expects and demands.

Director of Community Development Larry Oetker discussed the Planning Department and Building Division. Oetker explained the permitting process and the fees charged for permitting, and explained that the department kept pace with the building boom of 2002-2008 but that the economic crisis of 2008 led to greatly reduced building, permits, and revenues. He commented that large commercial and residential projects fluctuate in terms of when they are started and completed, making revenue projections for permit fees difficult. Oetker explained that permit streamlining was already in process, and noted that new parcel and/or building permits, once completed, result in additional City revenues.

Finance Office Manager Chris Harris pointed out that the great majority of that offices expenses go to salaries and benefits. She stated that materials and supplies budgets were at a bare minimum, and that the office had already saved on personnel costs by changing the cashier position to part-time.

February 9, 2015

This was the second meeting that detailed the operations and expenditures of specific City departments. In addition to staff presentations numerous questions were asked by Task Force members with answers provided, and some follow up information not immediately available was requested.

Director of Public Works Robert "Doby" Class gave an overview of Public Works and stated that efficiency was being sought in the review of development projects and by designing more projects using City staff instead of outside contractors. Class said that other efficiencies could be found by fixing infrastructure, sound engineering, and picking projects at the appropriate time. Class and Superintendent Poulton both addressed the Central Garage and how it interacts with other departments.

Director of Environmental Services Mark Andre discussed Natural Resources and Water. Andre discussed the details of storm water management and related fees and grant-funded capital outlays, and talked about some city properties that generate revenue in the form of grazing fees and rentals. Andre mentioned that every acquisition of property by the City must include a finding about future costs of ownership. He stated that the City continues to implement energy saving measures, though this is a relatively small budgetary activity. Andre said that when there are project cost overruns they are dealt with internally, without requesting funding from another source.

Recreation Division Manager Heather Stevens stated that both revenue and usage of Recreation programs was up, with fees covering about half of the staff time budgeted. She mentioned that Recreation has been increasing programs and revenue while decreasing its dependency on General Fund money.

February 23, 2015

Following the initial round of information gathering from City departments detailed above the Task Force had a study session with City Council to discuss goals. The Council declined to set priorities for the Task Force regarding the relative importance of the full range of City services should cuts to those services be considered. There was discussion about how the City had come to be in the situation of facing a structural deficit.

By the end of the session Council requested that the task Force report on the following items:

- Recommending a long-term strategy to help prevent similar issues in the future.
- Strategies for reducing expenditures.
- Strategies for increasing revenues.
- Commenting on the City reorganization plan.
- Developing an educational component for the public on the above topics.

March 9, 2015

This meeting focused on more in-depth fact finding and analysis of some specific areas of the General Fund.

Staff costs, which account for about 66% of the General Fund, and specifically retirement and health costs, were discussed. It was noted that benefits to City employees cannot be changed outside of the relative collective bargaining agreements in place, but agreed that any efficiencies that can be identified should be explored and implemented. Luzzi mentioned that the City is looking into an alternate health care plan that might be able to reduce costs.

The benefits of lease-purchase versus outright purchasing of City vehicles was discussed, as well as the place that Arcata Mad River Transit plays in the City budget. Superintendent Poulton went into greater detail about how Central Garage expenses are tracked and charged. There was discussion about how reserves in past years had been allocated, and what shortfalls in the budget they had been used to fill.

City Manager Diemer then detailed her proposal for restructuring of City departments with the goal of increased efficiency, avoiding duplication of services, and consolidating job functions, with the end result of saving 4.5 Full Time Equivalent (FTE) positions.

March 23, 2015

This meeting focused on the depletion of General Fund reserves since 2008, ideas for revenue generation, City Council raises, City Committees and their costs to the City, and a strategy for developing the final report.

By the close of the meeting the Task Force had agreed that: City Council raises, though negligible in dollar figures, were not consistent with the current financial state of the City; that City staff be directed to identify \$200,000 of potential increased revenue; and that City staff investigate the consolidation or elimination of City Committees.

April 6, 2015

This meeting again focused on specific areas of interest to the Task Force and served to provide a basis for the direction of the final report.

Finance Director Luzzi stated that the current budget process showed a FY 15/16 deficit of \$100,000, which showed significant progress. It was widely agreed, however, that in light of costs projected to increase significantly in the future the Task Force should continue to pursue structural savings in the upcoming and future budgets. Luzzi also stated that the board of the Redwood Empire Municipal Insurance Fund (REMIF) had just agreed to pursue an alternate health care plan, possibly resulting in no increase for the upcoming year and future savings.

The issue of a county wide dispatch system for emergency services was discussed in depth with Chief Chapman. The result of the discussion was that there would be significant short-term costs before any long-term savings were realized and that there were significant technical, cultural, and personnel issues to be dealt with prior to any such consolidation. Smaller scale consolidation was also discussed and shown to have some potential.

Previously the option of allowing a round-up option on City water bills, with revenue going to the City, had been discussed. A Staff report showed that, after implementation costs and with the use of additional staff time, the revenue would be insignificant, in the range of \$2,000.

The inventory of City-owned property was discussed and a list of those properties reviewed. While the Task Force agreed that there were only a few properties that could be considered available for sale, and that any sale would provide one-time relief and not address structural deficit issues, significant conversation about the costs of future acquisitions, and how they may affect future budgets, did take place. There was additional discussion about City Committees, revenue generation, and the form of the final report.

April 20, 2015

This meeting focused on the final report and some additional details. Finance Director Luzzi provided a handout showing the likely City contribution increases to PERS retirement funds projected through 2030, showing the “hills and valleys” of City contributions before eventual settling in the distant future. Luzzi discussed the particulars of pension obligation bonds.

The intent and actual obligations of Measure G funds was discussed, with the understanding that per the measure these funds go to the General Fund without specific purpose, but that the voters in 2008 passed it based on the need for Public Works and Police. The Task Force then discussed recommendations which had been compiled over the course of the various meetings, with an eye towards the final report.

May 4, 2015

This meeting was devoted to review of the draft version of the final report.

May 11, 2015

This final meeting of the Budget Task Force was devoted to finalizing this report.