



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 22, 2010

ITEM NUMBER: III-1

SUBJECT: ADOPTION OF FISCAL YEAR 2010-2011 OPERATING AND CAPITAL IMPROVEMENT BUDGET

DATE: JUNE 21, 2010

FROM: CITY MANAGER'S DEPARTMENT, FINANCE DEPARTMENT

PRESENTATION ALLAN L. ROEDER, CITY MANAGER

BY: BOBBY YOUNG, BUDGET & RESEARCH MANAGER

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OVERVIEW:

At your regular meeting of June 15, 2010, the City Council elected to continue consideration of the annual Operating and Capital Improvement budget to a Special Meeting on June 22, 2010. The continuance was approved to provide members of the City Council and the public more time to review and consider the proposed budget and for staff to complete responses to budget questions and suggestions from the public, employees and City Council.

The City Council and public have previously received a series of memorandums and reports regarding the budget. These include, but are not limited to the submitted Preliminary Budget and City Council Agenda Report for the May 11, 2010 City Council Study Session; formal presentation of the budget along with a presentation on revenue options and results of the prioritization of services survey results; follow up reports regarding revenue options and responses to suggestions from the Costa Mesa City Employees Association (CMCEA). In addition, Council Members Monahan and Mayor Pro Tem Leece have submitted additional comments/questions that are responded to in this report and other supporting documents.

Because there has been a good amount of information disseminated and many questions posed in addressing arguably the most difficult budget in the City's history, there is value to recapping the situation and what must be accomplished.

A final, adopted budget will require some combination of expenditure reductions, revenue increases or use of reserves to balance. The City has reduced reserves significantly over the prior two years as a result of the recession. Since FY 2008-09, reserves have been reduced over \$30 million. Likewise, significant budget cuts to operations and the capital improvement budget have been made over the same time. Reductions in the operating budget over the corresponding period amount to approximately \$24.1 million. An important component of the operating budget reductions have come from a reduction in personnel by way of a hiring freeze and early retirement incentives. These actions have resulted in a net reduction of 71 employees and a savings of \$5.2 million. In addition to the reduction in personnel, employee associations and the City agreed to reductions in current compensation amounting to 5% salary and 1% benefits resulting in \$3.5

million savings. Those reductions expire in September 2010 unless extended or otherwise a renegotiated. However, with economic conditions uncertain and revenues still lagging accordingly, the Preliminary Budget was faced with a projected \$16.4 million shortfall after having taken all of the aforementioned actions.

To address the \$16.4 million imbalance, it was necessary to have all City Departments reevaluate operations and identify additional budget reductions. This was done with the knowledge that further budget cuts would clearly impact the delivery of programs and services. Priority was given to meeting minimum County, State and Federal mandates, existing agreements and legal obligations, limiting liability exposure to the extent possible and retention of front line public safety services. The ultimate identification of \$8 million in proposed budget reductions generally follows these priorities. It is important to note, however, that many of the proposed reductions will still impact these priorities to some degree. Examples of the later include the elimination of 8 Community Service Specialist positions that support sworn law enforcement personnel; proposed reduction in Animal Control services; elimination of the Emergency Services Training Specialist and Emergency Medical Services Coordinator positions and other positions that support field operations. Even in those situations where reassignment of certain duties to remaining personnel are proposed, it is unrealistic to believe that 100% of those responsibilities can be addressed at current service levels with reduced staffing.

The remaining \$8 million imbalance is to be addressed through potential shifting of responsibilities to the Costa Mesa Redevelopment Agency (RDA) where legally permissible, through savings accrued by way of negotiations with the City's employee associations and updating the City's User fee schedule. The largest percentage of these savings is assumed to be by way of negotiations for salary and benefit reductions estimated at \$6.5 million. It bears repeating that such negotiations are subject to the Myers-Millias-Brown Act of the State of California which both the City and employee associations are required to follow. Until such time as negotiations are completed, User Fees updated and a determination established with respect to the RDA funding, use of reserves is proposed to address the \$8 million shortfall. Use of these reserves should not be considered as an option to reducing expenses or increasing revenues given the City's reduction of reserves over the past two years.

OPERATING BUDGET:

Following submission of the preliminary budget to the City Council and the public, there have been further adjustments to planned expenditures. Most significantly, the City was advised by the Newport Mesa Unified School District of its willingness to forgo lease payments from the City to the District for the Balearic Community Center for the upcoming fiscal year. This offer allows the Center to remain operational although it will not allow the City to continue with those programs operated from the Center that are presently subsidized from the City's General Fund. Further, minor adjustments have been made to the preliminary budget that does not have impacts on programs or services or staffing levels. The balance of the preliminary budget as submitted remains essentially as proposed in May 2010.

There are limited opportunities to retain specific positions and services if approval is granted to increase or implement specific fees. Those opportunities are as follows with further detail in the **Summary of Revenue Options** report.

- Emergency Medical Services Coordinator

This is an important, civilian position responsible for administration, training and quality control for the City Emergency Medical Services through the Fire Department. The position is solely dedicated to the provision of emergency medical care services. If the City Council is supportive of submitting emergency medical service billings through the City's ambulance provider for Medicare/Insurance reimbursement, this position will be necessary. As noted in the revenue report, revenue in excess of \$204,000 will be available net of the cost of this position. It is important to note that the revenue proposal is not the resident paramedic fee in use in most communities or previously as presented to the City Council. It is strictly the submission of EMS charges to coverage providers through the City's ambulance carrier – not directly to Costa Mesa residents.

- Animal Control Officer

The City presently has three (3) Animal Control Officers (ACO) and is proposing to eliminate one of those positions. If the City Council is supportive of increasing the current Animal Licensing Fee and a more aggressive licensing program instituted, revenue sufficient to avoid eliminating the position could be accomplished. This would require both an increase in the fee (to the same rate as the County of Orange) and a program to increase the number of licenses issued. If the fee is increased and there is no program implemented to insure all dogs are licensed, revenues will fall short of what is needed to fund this position.

In discussing this previously with City Council, discussion ensued regarding the “walling off of revenue” for specific programs. The concern is a valid one and a practice not recommend by management as it arbitrarily binds the hands of the City Council in establishing budget priorities. In the matter involving Animal Licenses, the public purpose behind licensing is the prevention of rabies and protection of the public from dangerous animals/wildlife and resolution of pet related problems (neighbor complaints regarding barking, etc.). Consequently, there is a nexus between Animal Licensing and Animal Control Services although, at present, Animal Licenses only brings in about 7% of the cost of Animal Control.

- Fire Protection Analyst

Currently there are two Fire Protection Analyst positions in the Fire Prevention Bureau. These positions currently provide a wide variety of tasks including plan checking, inspection of new construction and existing buildings, building occupancy and similar prevention responsibilities. The Fire Department has brought forward two proposed fees (Fire Prevention-Apartment Inspection and Fire Prevention – Business Inspection) that if approved will require retention of the second Fire Protection Analyst. As with the Animal Control Officer and Emergency Medical Services Coordinator, there is a direct nexus to the duties of this position and the fees proposed.

PHASING:

Management was requested at the last City Council meeting to consider how the budget might be phased so as to limit adverse impacts to the public and City personnel. Fundamentally, phasing certain aspects of the budget would involve linking the continuation of certain programs and services with anticipated revenue based on fee or tax increases. To a certain degree, the City

already does this as the operating budget is frequently revised throughout the course of the year based on changing circumstances. These occur as conditions change or after the fact (such as recognition of a grant funded effort). Phasing would represent a planned or scheduled adjustment to the operating budget based additional revenues.

In reviewing programs scheduled for reduction or discontinuation, those of a seasonal nature (such as the R.O.C.K.S. program and after-school sports) appear to be the better prospects for phasing than on-going operations – although there may be exceptions. This would involve retaining the programs in the budget but at a reduced funding level subject to additional revenues (either funding by program participants, schools, non-profits, corporate sponsors, etc.) to match to the City's appropriation. It would require staff to work with various user and community groups to identify funding on some form of matching basis. Each program will likely be different in terms of its funding basis. If required funding is not achieved on some matching basis, the program may not proceed either in part or in whole. As envisioned, programs to be phased would be required to come back to the City Council for separate authorization during the course of the fiscal year.

It should be recognized that programs which require a commitment of time to research and solicit community financial support for will be a challenge with substantially reduced staffing levels. While some staff time can be made available for these efforts, it will likely take committed community volunteers to substantially support an on-going effort of this nature.

SUMMARY:

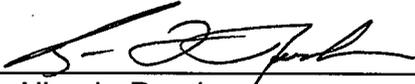
The preliminary FY 2010-2011 Operating & Capital Budget does not reflect “business as usual” in any respect. Serious reductions are proposed in terms of staffing, operations, programs, service levels, maintenance & repair and capital projects. These reductions are reflective of current economic conditions as well as the City's cost of providing services. On the later, every effort has been made to reduce operating expenses at the detail level – at a very substantial level for the third year in succession. On-going utilization of reserves to defer spending reductions is not a fiscally responsible position for the City to pursue. Reductions in staffing levels will have adverse impacts on both City employees and the public they serve.

The future direction for the budget will lay significantly with the economy, employee associations, City Council and the electorate. To the degree economic activity stabilizes and begins to return to more consistent levels, the City's basic revenues should stabilize as well. However, those sources of revenue are subject to decisions in the State Capital which controls the method of financing local government. Increasingly, decisions in Sacramento have a greater and greater impact on delivery of service at the local level.

Our employees are the City's most valuable resource. They provide virtually all City services and do so at a high level with a solid customer service attitude. Those are not factors that should be taken for granted nor are they qualities that are strictly reflective of compensation. Yet with almost 80% of the City's Operating Budget attributable to salaries & benefits, attention must be given to lowering the ongoing cost of providing services. This is not accomplished by eliminating positions and laying off personnel on a continuing basis – both actions adversely impact the public we serve as well as the employees we work alongside. It is absolutely essential that the City and its employee associations work together on both near-term and long-term strategies for reducing the cost of services. Such efforts – if undertaken now – can more easily be phased in over time.

Finally, it is important to recognize that the City's revenue structure has changed over the past 20 years without an increase in any major tax revenue. It has changed based on decisions in

Sacramento which have shifted numerous local revenues to the State over the same timeframe. It has changed based on consumer preferences & tastes, Internet shopping, changing demographics and other factors. It has changed as the result of private sector business decisions regarding outsourcing, manufacturing and new technology. However, the City still operates with a tax structure from the 1980's which is badly outdated and ill suited for funding a City in 2010. As with the cost of personnel and recovery of the economy, change is also necessary in the financial base to fund local services. This will require careful consideration by both the City Council and the electorate.



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