



AGENDA

SPECIAL JOINT MEETING

CAPITOLA CITY COUNCIL/REDEVELOPMENT AGENCY AND FINANCE ADVISORY COMMITTEE

JOINT STUDY SESSION

Wednesday, October 12, 2011 - 6:00 p.m.
City Council Chambers, 420 Capitola Avenue, Capitola

1. ROLL CALL AND PLEDGE OF ALLEGIANCE

Council Members/Directors Stephanie Harlan, Michael Termini, Kirby Nicol, Sam Storey, and Mayor/Chairperson Dennis Norton

Finance Advisory Committee Members: Chair Robert "Bob" Begun, Vice Chair Christine Buechting, Jacques Bertrand, Debbie Johnson, Kirby Nicol, Michael Termini, Troy (TJ) Welch, and Gary Wetsel

2. JOINT STUDY SESSION

Joint Study Session to discuss the City's Long Range Fiscal Strategy. Staff recommendation: receive report regarding long term fiscal issues by the Finance Advisory Committee and the City Manager/RDA Executive Director and provide direction to staff.

3. ADJOURNMENT

The City Council/Redevelopment Agency to adjourn to its next Regular Joint Meeting to be held on Thursday, October 13, 2011, at 7:00 p.m., in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

The Finance Advisory Committee to adjourn to its next Regular Meeting to be held on Tuesday, October 18, 2011, at 6:00 p.m., in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

**This Joint Study Session will NOT
be televised or video-streamed on the Internet**

If you require special assistance in order to attend the meeting, including needs addressed by ADA, please notify the City at 831-475-7300 at least 3 days prior to meeting.



**CITY COUNCIL/REDEVELOPMENT AGENCY/
FINANCE ADVISORY COMMITTEE
AGENDA REPORT**

SPECIAL MEETING OF OCTOBER 12, 2011

FROM: CITY MANAGER'S DEPARTMENT
DATE: OCTOBER 7, 2011
SUBJECT: LONG RANGE FISCAL STRATEGY WORKSHOP

Recommended Action: By motion, that the City Council:

1. Receive a report regarding long term fiscal issues by the Finance Advisory Committee (FAC).
 2. If the Council is interested in further considering options outlined in the Attachment, direct staff to return in one month with a more detailed analysis of the options, including implementation actions that would be required.
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BACKGROUND

During last year's budget hearings, the City Council received an outline of several long term fiscal challenges the City of Capitola will face over the next ten years. Existing vacancies in key positions, limited funding available for capital improvements and underfunded reserve accounts, coupled with expiring revenue sources suggest the City may need to look critically at its revenue and expenditure to develop a long term sustainable strategy.

The Finance Advisory Committee (FAC) has been working with the City Manager to help quantify the nature of the challenge the City faces and identify possible solutions to that challenge.

DISCUSSION

This summer the FAC sent a memo to the City Council outlining the long term revenue and expenditure gap the City potentially faces over the next 10 years. That memo quantified a one-time issue of around \$3 million and an annual long term shortfall of between \$1.8 M and \$2.8 M comprised of the following:

One Time Items	Amount
Restore Contingency Reserve	\$1,500,000
Pacific Cove Relocation	\$1,500,000
	\$3,000,000
Ongoing Items	Annual Amount
Existing critical staffing vacancies	\$850,000
Additional funding to maintain pavement standards	\$450,000
Expiration of Measure D/RDA	\$500,000
Subtotal	\$1,800,000
Future Capital Projects ¹	\$1,000,000
Total	\$2,800,000

¹ Future capital projects include rough estimate of city costs, spread over 20 years, to build: library, city hall, police station, flood mitigation, parking structure, new parks.

In an effort to identify potential solutions to this long term fiscal challenge, the FAC developed a comprehensive list of revenue enhancements and expenditure reductions which could be considered to close the long term fiscal gap the City faces. Each FAC member then ranked the items; those rankings were compiled and averaged by staff and are included in Attachment 1.

It should be noted that the \$2.8 million gap identified above uses the current year budget as its starting point. It is possible the long-term budget gap facing the City could be greater, or smaller, than this depending on a number of factors beyond the City's control such as the regional economic climate, changes at a state-level that affect local finance, or other as-yet unanticipated changes.

That said, it would take virtually all of the ideas presented in Attachment 1 to generate \$2.8 million. It is highly unlikely the City will implement all of the new revenue/expenditure concepts. Accordingly, the need to set priorities, and use any added revenues for the most important services and facilities, will remain; and it is likely there will continue to be unfunded community goals. The need to continually evaluate service and facility priorities is a healthy one: it makes us better stewards of the public resources that have been entrusted to us.

Evaluating the Options

Each individual member ranked the various concepts, and the results of those rankings are presented in Attachment 1. Staff has outlined a short discussion regarding potential challenges or issues associated with the top five ranked items, and select other lower-ranked items.

1. Community Grants

Capitola reduced its community grant allocation by 50% in the current fiscal year, subject to flood reimbursements. Pursuant to Council direction, full funding for community grants is automatically restored should the City receive \$500,000 in flood reimbursements.

The Community Grant process has proven a challenging process to change. Nearly all municipalities throughout the region have researched modifications to the process, however outside of a common application process, few changes have been made in the last decade.

Jurisdiction	Peak Contribution	Current Year Contribution	Change
Santa Cruz	\$2,025,586 (2002)	\$1,034,622	-48.9%
Watsonville	\$387,820 (2008)	\$250,024	-34.7%
Scotts Valley	\$45,000	\$45,000	0%
Capitola	\$275,00	\$275,000 (subject to flood reimbursement)	0% or -50%

2. Bottom Up Budgeting Process

Staff welcomes any review of the budget to help develop mechanisms for additional savings. However, for last 3 years, there has been a nearly continuous effort by the entire City organization to find opportunities to reduce costs. The following highlights the most significant of these:

- Elimination of Planner and Finance Technician positions (ongoing)
- Holding Police Captain, Finance Director, two Public Works crew, Community Service Officer, one Records Clerk positions² vacant (one-time)
- Reclassification of Building Inspector and Public Works Maintenance Crew positions (ongoing)
- Reduction in overall contract expenditures of over \$300,000 through renegotiations or consolidation of responsibilities (ongoing)
- Elimination of Paid Officer Reserve Program (ongoing)
- Reduced total management compensation by \$27,000 (City Manger, Police Chief, Public Works and Planning directors) (ongoing)

² Second vacant Records Clerk position filled with Administrative Analyst position

As staff begins preparing the 2012/13 Budget, we will continue to look closely for added efficiency and productivity improvements. However, given the extensive budget reduction actions that have already been approved by the Council, significant added cost savings in the future are unlikely without deeper service reductions, or significant changes in service delivery mechanisms.

3. Additional Hotels

The City has few sites over which it has direct control. Specifically the City owns property at: McGregor Drive, the City Hall/Pacific Cove site, and the Rispin site, all of which have been considered for hotel projects in the past. As we have experienced, joint private-public partnerships can be challenging. Nevertheless pending Council direction, future hotel projects could be considered on City-owned property.

Alternatively, the City can attempt to stimulate private sector hotel development by developing clear zoning regulations which encourage the development of hotels. Such measure can include:

- Develop a very clear/financially feasible beach hotel project in the context of the General Plan/LCP update,
- Develop a “hotel incentive zone” in General Plan

4. Prioritize Services and Service Levels

The establishment of the City’s service priorities is an important step in developing a long term strategy for fiscal health. Concepts for doing so will be developed as part of the 2012-13 budget process, during the establishment of the Budget Principles.

5. Benchmarking Staff Compensation Packages

Current agreements with the various employee groups will expire at the end of June 2012. That negotiation process will be an opportunity to work cooperatively with the various groups to find solutions to fiscal issues.

Staff Comments on Select Other Items

TOT, Sales Tax, 911 Tax, Street Sweeping Fee – If the Council is interested in considering these concepts further, staff recommends returning to the Council within one month with a more detailed analysis, including voter approval requirements and other implementation actions. It seems unlikely every item would be approved by voters in the near term. The sales tax extension nets the most revenue to the City, while the TOT increase may be in line with future development plans.

Annexations – Staff suggests this is a good long term issue, but one which should probably be considered in the context of the General Plan update through consideration of a change in the City’s Sphere of Influence and later initiated as a project after the adoption of the General Plan.

Parking District and Library Mello Roos – Staff suggests these items are best considered in the context of the specific project they are intended to support.

FISCAL IMPACT

NA

ATTACHMENTS

1. Ranked list of FAC revenue/expenditure concepts
2. FAC member rankings of revenue/expenditure concepts
3. DRAFT FAC Report – PowerPoint slides

Report Prepared By: Jamie Goldstein
City Manager/Executive Director

Reviewed and Forwarded by
City Manager/Executive Director:

FAC Long Term Revenue/Expenditure Concepts

Rating Scale

- 5 = Highest priority concept, devote resources to implement as soon as possible
- 4 = High priority project, consider devoting resources to implement in future budgets
- 3 = Medium priority project, consider implementing when resources allow
- 2 = Low priority concept, only considered in the long term
- 1 = Concept should not be pursued

Avg Rating	Variance	Revenue Concepts	Potential Revenue	Timeline	Explanation/Details
4.5	0.8	Cut Community Grants	\$275,000.00	Immediate	
4.4	1.7	Bottom up Budget Process	UK*	Immediate	
4.4	0.7	Additional Hotels	\$500,000-\$1,000,000	Long Term	Potential TOT, significant revenue source
4.1	0.4	Prioritize service and service levels	UK	Near Term	
4.1	0.8	Benchmarking staff compensation pkgs	UK	Near Term	Top 50 staff positions
4.0	0.9	Split Community Grants into categories	\$0-\$275,000	Immediate	Support programs that directly benefit Capitola at higher rate
4.0	1.0	Additional Events (chippino feed)	\$1,000-\$10,000	Immediate	Under \$5,000 from each special event
3.9	1.6	Review Organizational Structure	Limited	Near Term	Span of control and staffing levels
3.9	1.6	Annex areas within Sphere of influence	UK	Long Term	Potentially significant for areas with development/redevelopment potential
3.8	1.9	Additional Retail Business	1% ^ in sales = \$100k	Long Term	Peak sales tax \$1,500,000 higher than current
3.8	2.2	Change TOT Tax from 10% to 12%	\$200,000.00	Near Term	County is currently 10%, requires vote
3.7	2.3	Two tiered Pension	\$0 - \$400,000	Near Term	1% reduction in City cost = \$80,000/yr, requires 25 years to completely implement
3.6	2.0	Increase Rec Fees (10%)	\$75,000.00	Near Term	Rec Fees were raised in 2010, fee increase could result in decreased participation
3.5	1.3	Early retirement Program	Limited	Immediate	Short term revenue possible if positions held vacant
3.5	1.3	Adjust City Fee Schedule	\$5,000	Immediate	1% increase equals ~ \$1,000 in increased revenue
3.4	2.0	Negotiate contract reductions with contractors	Limited	Immediate	City has previously sought to reduce contracts wherever possible
3.4	2.5	Extend Sales Tax Measure (2017)	\$900,000.00	Near Term	Near-term to consider vote, longer term change
3.1	1.6	Accident Recovery	\$5,000	Near Term	For Non-Residents Paid by Insurance, probably limited revenue, similar to DUI cost recovery
2.9	1.4	911 Fee	\$150,000- \$250,000	Near Term	Requires vote
2.9	1.6	Mello-Roos District (Library)	\$100,000-\$250,000	Long Term	Vote of affected properties
2.8	1.4	Personnel Training & Competitive Bidding	UK	Immediate	
2.6	2.0	Create Parking District	\$75,000 -\$100,000	Long Term	Vote of affected properties
2.6	3.4	Reissuing debt to lower interest rate	Limited	Immediate	Given limited term of debt, and balance, unlikely to be significant expense reduction
2.6	1.4	Cell Tower lease on City property	\$15,000-\$45,000	Near Term	No current cell provider seeking space
2.5	2.0	Street Sweeping Fee	\$175,000.00	Near Term	May requires vote
2.5	2.6	Create a preferred supplier list	\$0-10,000	Immediate	City has existing reduced rates with office suppliers. More may be possible w/added staff time
2.0	2.0	Pay Reductions	\$0 - \$400,000	Immediate	1% reduction in City cost = \$80,000/yr
1.8	1.9	Impound Yard	0	Near Term	Previously considered by staff and dismissed as not cost effective
1.4	1.0	Medical Marijuana Dispensary Tax	\$100,000 - \$300,000	Near Term	Council previously declined proposal for dispensary.

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KN	DJ	MT	CB	RB	JB	GW	TJ	Avg Rating	Revenue Concepts
5	5	3	5	5	3	5	5	4.5	Cut Community Grants
5	4	5	5	1	5	5	5	4.4	Bottom up Budget Process
5	5	5	4	5	3	3	5	4.4	Additional Hotels
5	5	3	4	4	4	4	4	4.1	Prioritize service and service levels
5	5	4	2.5	4	4	5	3	4.1	Benchmarking staff compensation pkgs
5	5	2	4	4	4	4		4.0	Split Community Grants into categories
5	5	3	4	4	4	2	5	4.0	Additional Events (chippino feed)
5	5	2	3	2	5	5	4	3.9	Review Organizational Structure
1	4	4	4	5	5	3	5	3.9	Annex areas within Sphere of influence
5	2	4	4	1	5	4	5	3.8	Additional Retail Business
5	2	4	5	5	5	1	3	3.8	Change TOT Tax from 10% to 12%
5	5	2	2.5	5	5	4	1	3.7	Two tiered Pension
2	5	3	5	5	2	5	2	3.6	Increase Rec Fees (10%)
5	2	4	3	2	5	4	3	3.5	Early retirement Program
2	2	4	4	5	5	3	3	3.5	Adjust City Fee Schedule
2	5	4	1	5	3	4		3.4	Negotiate contract reductions with contractors
1	3	1	5	5	4	5	3	3.4	Extend Sales Tax Measure (2017)
3	4	4	5	2	4	1	2	3.1	Accident Recovery
3	2	3	4	1	5	2	3	2.9	911 Fee
5	2	4	2	4	3	1	2	2.9	Mello-Roos District (Library)
3	2	3	2	5	1	4	2	2.8	Personnel Training & Competitive Bidding
1	3	5	1	1	3	3	4	2.6	Create Parking District
1	5	1	1	5	4	1		2.6	Reissuing debt to lower interest rate
4	3	1	2	3	1	4		2.6	Cell Tower lease on City property
1	3	2	4	1	5	3	1	2.5	Street Sweeping Fee
1	5	3	1		1	4		2.5	Create a preferred supplier list
3	5	1	1	1	3	1	1	2.0	Pay Reductions
1	5	3	1	1	1	1	1	1.8	Impound Yard
1	3	1	1	1	3	1	0	1.4	Medical Marijuana Dispensary Tax

DRAFT

ATTACHMENT 3

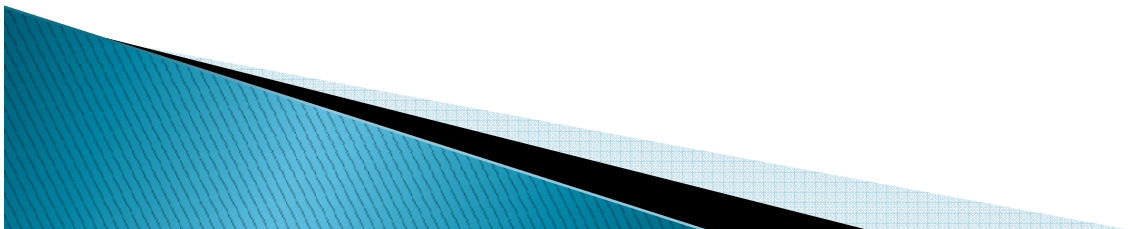
City of Capitola Finance Advisory Committee

Joint Meeting with
City of Capitola Council
October 12, 2011

Finance Advisory Committee Charter

Basic Premise

“The Finance Advisory Committee works closely with the City Manager to investigate and develop recommendations on projects or policies identified by the City Council and/or the City Manager. The overall fiscal well being of the City is the guiding principle of the Advisory Committee.”



Background to Joint Meeting

- ▶ In June FAC presented recommendations to close budget gap in the 2011–2012 City Budget.
- ▶ More in–depth study needed to identify and quantify both immediate and longer–term financial CHALLENGES to achieve sound financial management
- ▶ We identified and quantifying current, short–term and longer–term “unfunded” items.
 - A long term annual shortfall of between \$1.8 M and \$2.8 M to address “unfunded” items
- ▶ FAC worked with the City Manager to provide realistic recommendations to; increase revenues or decrease spending to address the CHALLENGES noted.

City of Capitola Financial Planning

Sizing of the Challenge

A	B	C	D	E
Approved Budget 2011/2012	Unfunded Future Liabilities	2017 Revenue Changes	Challenge	AREAS OF POTENTIAL RECOMMENDATIONS
REVENUE			EXPAND REVENUE TO MEET EXPENSE DEMANDS	Expand Revenue Sources *TOT - Additional Hotels * Expand taxable commerce Create a healthy environment to promote business: -Zoning - Pro business - Progressive government - Clean & well maintained City
EXPENSE			REDUCE EXPENSES BASED UPON REDUCTION PROGRAMS	Zero based budgeting Restructuring Outsourcing 2 Tier retirement plans
\$840K	Unbudgeted Operating Expenses Staffing -\$550K Police/\$250 PW		\$840 K	Defer until budget can accommodate
\$1.5 M	PCMHP Relocation		\$1.5 M	Short-term borrowing Repay with expense savings
	Library \$ Measue D Expiration - \$1 M		\$1.8 to \$2.8 M Per Year	Allocate \$2.3 M annually to reserve for unfunded future liabilities
	PARKING \$ POB Debt Expiration = \$680K			
	CONTINGENCY \$1.0 Net = \$330K/yr.			
	ROAD/SIDEWALK REPAIRS \$4.0 M			
	CITY HALL/POLICE STATION \$ 2.6 M			
	FLOOD ABATEMENT \$2.5 M			
	RECREATION/PARKS \$1.0 M			
	FACILITIES - JADE ST./ETC. \$1.5 M			
	Future PC MHP \$1.0 M			
	Total Est. \$25.1M			

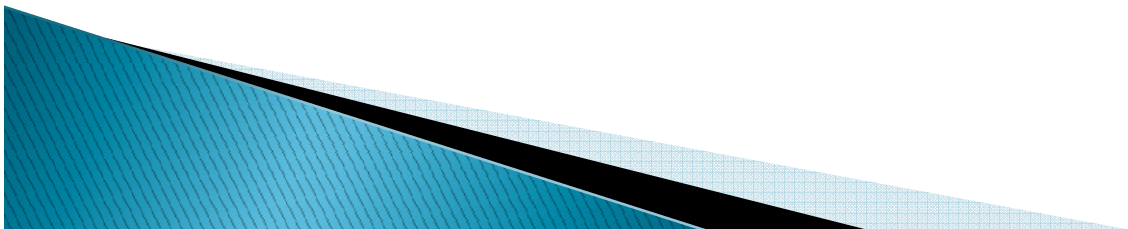
Quantifying the Challenge

One Time

▶ Restore Contingency Reserve	\$1,500,000
▶ Pacific Cove Relocation	<u>~\$1,500,000</u>
	\$3,000,000

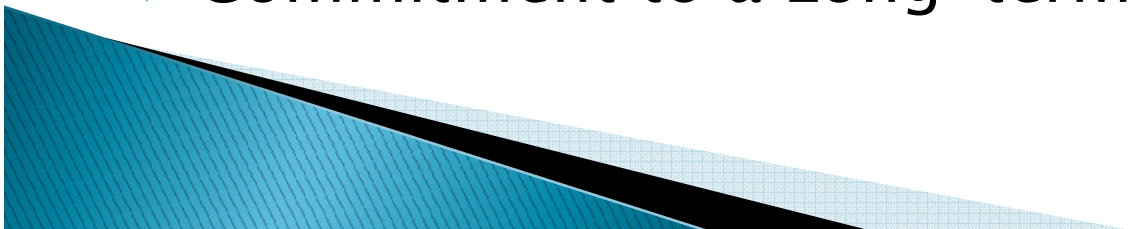
Ongoing - per year

▶ Deferred Operating Expenses	\$850,000
▶ Pavement Management	\$450,000
▶ Measure D/RDA expiration	\$500,000
▶ Annual reserve for unfunded Capitol projects [$>$ \$25 million in projects]	<u>\$1,000,000</u>
	\$2,800,000



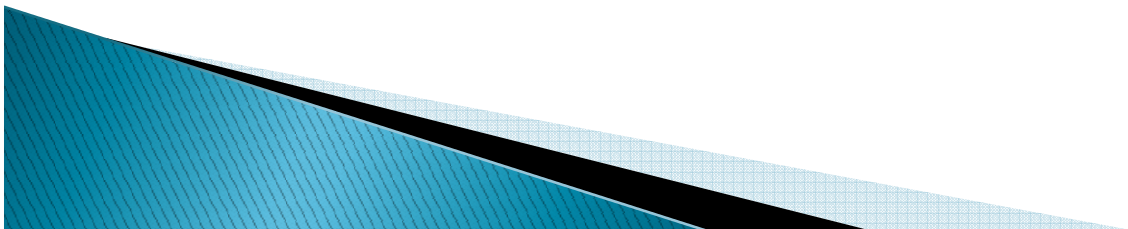
Meeting the Challenge

- ▶ Quantify the CHALLENGE (Previous slide)
- ▶ There is not
 - One solution
 - A short-term fix
- ▶ Solutions must involve revenue increases and cost reductions
- ▶ A long-term sound fiscal plan will help to demonstrate this City's on-going commitment to sustainable fiscal practices and wise use of public funds
- ▶ Commitment to a Long-term Plan is mandatory



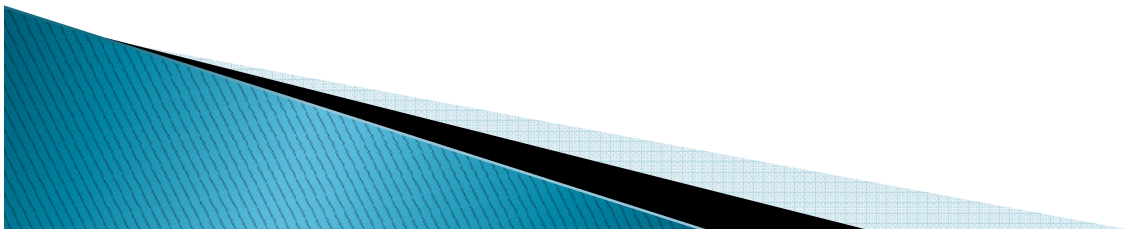
The Challenge

- ▶ Today every level of Government is facing a significant fiscal challenge
- ▶ Voters demand fiscal responsibility from government as witnessed in ballot box
- ▶ Voter focus is on cost reduction and voter approval is required for increased taxes
- ▶ We have the chance to lead in Santa Cruz County!



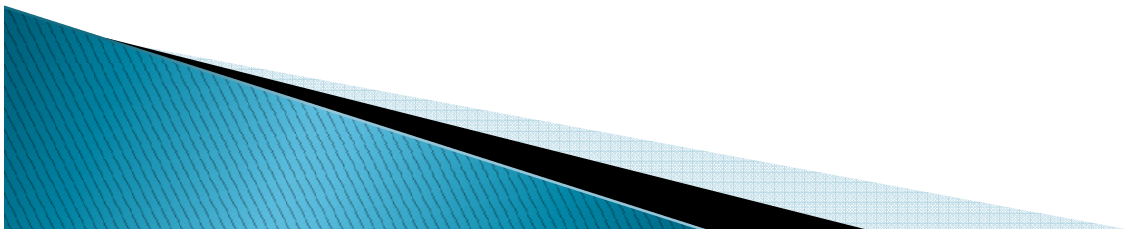
Potential Expense Savings Opportunities

- ▶ All items rated 1–5 by all members of the FAC
- ▶ Average rating of 4 or above
 - Cut/split community grants \$0 – \$275,000
 - Bottoms Up Budget process Unknown
 - Additional hotels \$500,000–\$1,000,000
 - Prioritize service/levels Unknown
 - Benchmark staff compensation Unknown
 - Two–tier pension (increases over time) \$0 – \$400,000



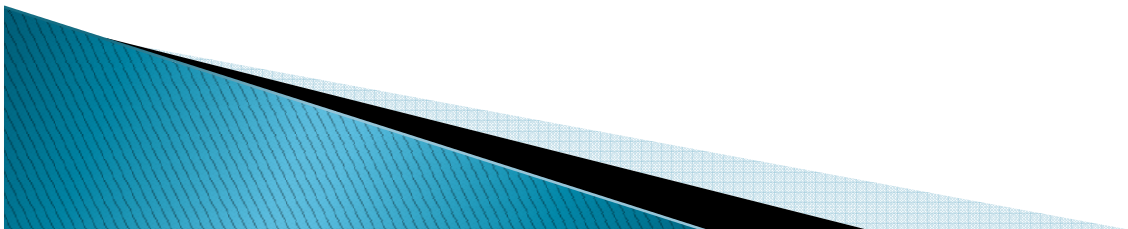
Potential Expense Savings Opportunities, Cont'd

- ▶ Average rating over 3
 - Review organization structure Unknown
 - Early retirement program Unknown
 - Negotiate contract reductions Unknown



Potential Additional Revenue Opportunities

- ▶ Average rating of 3 or above
 - Additional retail business > 1% taxable = \$100K
 - Additional events (clambake) \$1K – \$10K
 - Annex areas in sphere of influence Unknown
 - Extend sales tax measure \$900,000
 - Increase recreation fees (10%) \$75,000
 - Increase city fee schedule \$5,000
 - Increase TOT 10% to 12% \$200,000
 - Accident recovery \$5,000
 - Mello-Roos (library) \$100K – \$250K



FAC Long Term Revenue/Expenditure Concepts

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1.4	1.0	Medical Marijuana Dispensary Tax	\$100,000 - \$300,000	Near Term	Council previously declined proposal for dispensary.

Next Steps

- ▶ Seek Staff recommendations
 - Quantify (refine) potential revenue or expense savings in each of next 5 years
 - Identify requirements (voter approval, time and manpower requirements , etc.)
- ▶ Develop a Long-term plan
 - Staff
 - FAC
 - Council – review & approval
- ▶ Implementation: identify responsibilities and timeline.
- ▶ Adopt Long-term plan – Council
- ▶ Semiannual review
 - FAC
 - Council