



**City of
Arcadia**

Citizen's Financial Advisory Committee Final Report

December 13, 2018

ArcadiaCA.gov/CFAC



Citizen's Financial Advisory Committee

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Executive Summary

This Report is submitted on behalf of the Citizen's Financial Advisory Committee (Committee). The Committee is an independent ad-hoc advisory body of civic volunteers empaneled by the City Council to review the City's General Fund long-range financial forecast and provide recommendations to the City Council for cost containment and/or revenue enhancements.

Unfortunately, through no fault of its own—and like other cities in California—the City of Arcadia is facing a fiscal emergency. Although the local, state, and national economies remain strong, Arcadia is at a crossroads and urgent action is needed to maintain local public safety and quality of life services. Rising costs of services are threatening to crowd out resources available for vital City services like police, fire, street maintenance, parks, and the library. In order to ensure that important City services that Arcadia residents rely on are maintained, over the course of several months, the Committee independently analyzed financial projections and evaluated various options to ensure the long-term sustainability of the City's General Fund.

The adopted Fiscal Year 2018-19 General Fund Operating Budget shows a deficit of \$3.1 million. This is based on total sources (revenues) of \$64.4 million against total uses (expenditures and transfers) of \$67.5 million to support City operations. The structural imbalance is projected to increase to approximately \$8.0 million per year by Fiscal Year 2024-25 unless significant reductions in services are enacted and/or new ongoing revenue streams are identified. The City of Arcadia strives to deliver high-quality essential services such as police and fire protection, keeping public areas safe, clean and well-lit, and repairing streets and roads, at a fair and reasonable cost to the public; however, without action, the level of services the community currently enjoys is in jeopardy.

In keeping with Arcadia's strong tradition of careful spending and responsible stewardship of taxpayer dollars, since 1998, the City has reduced its operating costs by \$3.4 million and implemented pension and benefit reforms in 2011, one of the first cities in California to do so. In addition to these efforts, the City has taken steps to control costs, including annual budgetary adjustments, rigorous competitive bidding practices, and efficiencies through innovation over time. While costs are projected to rise over the next several years, it is important to note that the City continues to operate with staffing levels well below pre-recession levels while still maintaining the same level and quality of service to its residents. Even with these practical and ongoing approaches to effective municipal management, the City's long-range financial forecast is concerning.

Recent policy changes at the state level have created increasing fiscal stress on cities throughout the state, and Arcadia is not immune to these effects. It is no secret that the California Public Employees' Retirement System (PERS) is the single biggest cost driver in municipal finance today. While the merit and efficacy of the pension challenge is certainly open to further debate, this Report focuses on practical solutions to address the problems as the Committee knows them to be today. The Findings & Recommendations in this Report are designed to address the acute and near-term challenges identified in the City's General Fund forecast; however, the Committee recognizes that additional research and

policy discussion is required in order to deliver a comprehensive approach to the City's unfunded pension and other post-employment benefit liabilities.

The Findings & Recommendations in this Report lead to one invariable conclusion: more locally-controlled revenue is needed to address the City's budgetary shortfall. The Committee reviewed all possible scenarios, including a 12.5% reduction in City services to close the budget gap. The impact on services that are important to the Arcadia community, particularly police and fire, is simply too great and cannot be overstated. Public safety services comprise over 60% of the General Fund budget. A commensurate reduction would eliminate 13.0 full-time equivalent police officers and 10.0 full-time equivalent fire personnel, including firefighter/paramedics, firefighter engineers, fire captains, and a deputy fire chief. In addition, Fire Station 107 located in north Arcadia and closest to the City's urban wildland interface would be closed indefinitely. **With property crime continuing to be a concern and the recent devastating effects of wildfires seen throughout the state—including southern California and even suburban areas—the City can ill afford a reduction in neighborhood patrols and lifesaving response times. The City must expand locally-controlled revenue to address these needs.**

In a study conducted by FM3 Research in October of 2017, 70% of Arcadia residents said the City offered excellent or good City services and almost 80% agreed that Arcadia provides a better quality of life than other nearby communities. When residents were asked to rank their priorities, addressing property crime and maintaining public safety programs were at the top. Residents identified the following priorities:

- Preventing and investigating property crimes, like theft and burglaries;
- Maintaining 911 emergency response times;
- Maintaining local fire and police protection and paramedic services;
- Requiring all funds remain local in Arcadia; and
- Maintaining financial viability of the City.

As previously mentioned, without additional revenue, cuts may need to be made in public safety services due to the percentage of the General Fund budget these services comprise.

Prioritizing police, fire, and other emergency response programs at the expense of other General Fund services would result in the elimination of the Library and Museum Services and Recreation and Community Services departments—all services which contribute to the community's quality of life. Even with the shutting of the Arcadia Public Library, Gilb Museum, Lauber Museum Education Center, Community Center, and recreational services at the Dana Middle School gym, the budget shortfall was still \$2.0 million in the out-years of the forecast. Additional budget cuts to public safety, infrastructure improvements, road maintenance, and other necessary services would further erode the quality of life that makes Arcadia a "Community of Homes." While this Report does provide recommendations for efficiencies and cost saving measures impacting service delivery, the only viable long-term solution to

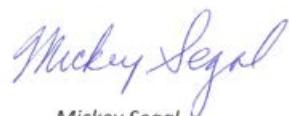
address the City's structural imbalance in the General Fund must come from the revenue side of the equation.

To that end, this Report contains a thorough analysis of revenue enhancement opportunities in order to fully understand the impacts to the community. After careful review and consideration, the Committee ultimately decided to recommend increasing the City's sales tax rate by $\frac{3}{4}$ of one cent. In addition to being a premier community in Los Angeles County, Arcadia has the added benefit of being a regional shopping center due to the Westfield Santa Anita Mall, and other regional attractions like Santa Anita Park and the Los Angeles County Arboretum and Botanic Garden. Tourists and consumers from around the greater San Gabriel Valley visit Arcadia to stay, dine, and shop. A voter-approved increase to the City's local sales tax would not only generate sufficient revenue to cover the City's structural imbalance in the General Fund but visitors to our community would pay the vast majority of this revenue, ensuring out of town residents pay their fair share. All of this revenue would be locally controlled and none of it could be taken by Sacramento, which is a significant benefit to the community. **The Committee strongly recommends that the City Council use whatever additional proceeds it has available now or in the future to address the recommendations outlined in this Report.**

Another major concern highlighted in this Report is the very real probability that another taxing agency like Los Angeles County could propose its own funding measure, having the net effect of seizing the remaining local sales tax increment available to communities like Arcadia—diverting revenue away from the City in order to fund regional initiatives that are not controlled by our community and do not directly benefit Arcadia residents. The City of Arcadia has a long-history of civic pride in its ability to self-govern. The City values its authority to exercise local control and to protect and enhance the quality of life for Arcadia residents. Preserving and maintaining locally generated revenue is vitally important to the long-term health of the City.

In total, this Report contains 15 recommendations for the City Council to consider, 10 of which should be considered immediately, along with another 5 recommendations if additional cost containment and/or revenue enhancement strategies are necessary. The Findings & Recommendations contained herein are realistic, practical, and smart, and are consistent with the Guiding Principles that the Committee adopted in order to accomplish the objective that the City Council chartered.

The Committee would like to thank the Arcadia City Council and City staff for the opportunity to provide a community voice and taxpayer perspective on the opportunities and challenges faced by us all. The Committee's perspective on priorities and solutions are designed to help guide the City's efforts to continue to maintain local police, fire, and quality of life services in a fiscally responsible and sustainable manner. Therefore, on behalf of the residents of the City of Arcadia, we are pleased to submit this Report for your consideration.



Mickey Segal

Chair



Howard Ursettie

Vice Chair



Jessica Louie

Committee Member

Robert Miller

Committee Member



Tommy Thai

Committee Member

Background

Consistent with the City of Arcadia's responsible, conservative fiscal management, over the years, the City has taken several steps to manage costs without compromising the quality of services it provides. Under the leadership of the Arcadia City Council, successive Councils have been diligent at maintaining the City's long-term viability and, where appropriate, have made necessary and appropriate policy changes to adjust course to ensure fiscal solvency. This includes engaging with civic leaders and resident volunteers to ensure that the community's voice is heard on important matters. Faithful to these values, the City Council created the first Citizen's Financial Advisory Committee in August 1998 to review the City's financial practices. The final report from the first Committee was delivered to the City Council in November 1998, and contained various recommendations, most of which were adopted by the City Council. The recommendations proposed by the first Committee were made to enhance the financial policies of the City at the time.

In response to economic activity, service delivery alternatives, and the changing needs of the Arcadia community, the City has taken several proactive steps to control costs over time. The City has strived to maintain and in some instances expand the already high level of service in Arcadia, but with consideration for cost effectiveness and efficiency. The City has historically operated on limited yet sufficient resources to ensure the quality of life Arcadians have come to expect and appreciate. Since 1998, the City has taken a number of actions to reduce the cost of its operations by nearly \$3.4 million without sacrificing the quality of service to the community. A summary of these actions are listed in Table 1 below.

Table 1: Cost Saving Measures

Reduction	Department	Fiscal Year	Savings
Eliminate 9.0 FTE Firefighters	Fire	FY 1998	(\$1,910,100)
Eliminate 1.0 FTE Division Chief	Fire	FY 2005	(\$244,000)
Eliminate 1.0 FTE Library Technician	Library	FY 2007	(\$66,000)
Eliminate 1.0 FTE Management Analyst	Admin. Services	FY 2008	(\$106,400)
Eliminate 5.0 FTE Police Officers	Police	FY 2008	(\$751,800)
Eliminate 1.0 FTE Maintenance Contract Officer	Public Works Services	FY 2010	(\$107,000)
Eliminate 1.0 FTE Police Sergeant	Police	FY 2011	(\$176,600)
TOTAL			(\$3,361,900)

In addition to changes in service delivery, the City implemented pension and benefit reforms in 2011, one of the first cities in the state to do so. The City recognized the need for pension reform in order to provide essential services while keeping the cost of providing services affordable. Even though the City

has remained fiscally accountable while providing important community services, due to recent policy changes from the California Public Employees' Retirement System (PERS) the City is facing financial uncertainty due to increasing fiscal stress. Despite the major reforms put in place by the City in 2011 and then by state in 2013, in December 2016, the PERS Board of Administration approved lowering the pension fund's discount rate assumption, reducing the expected long-term rate of return from 7.5% to 7.0%, which will increase employer contributions to the fund. In order to mitigate the shock to employers, PERS proposed a three-year phase in of costs that began this Fiscal Year 2018-19.

Lowering the discount rate means pension plans will see increases in both the normal costs (the costs of pension benefits accruing in one year for active members) and the accrued liabilities. This reduction in assumed earning rates puts significant upward pressure on employer contributions to make retirement funding more sustainable. Similarly, PERS has modified actuarial assumptions to encapsulate longer life expectancies, which also leads to increased costs to employers. PERS is also requiring cities to begin paying down their respective unfunded liabilities, which was exacerbated by not only the policy changes previously mentioned, but also by enhanced benefits, social engineered investment strategies, the great recession, and poor market performance and returns. As a result, retirement costs are expected to continue increasing substantially for the next few years and then stay at those heightened levels for a generation before finally returning to more sustainable levels. **In sum, these policy changes along with having sufficient resources to fund the City's ongoing capital improvement and equipment replacement needs have created an \$8.0 million annual operating deficit for the foreseeable future.**

Understanding the magnitude of the impact on service delivery potential for the community, at the December 5, 2017, City Council meeting, the City Council requested that the City Manager bring forward a discussion item to create an independent Ad Hoc Citizens' Committee to review and make recommendations regarding the City's long-term financial outlook. Information was provided to the City Council at the February 6, 2018, City Council meeting, and following discussion the City Manager was directed to prepare a Resolution establishing a second Citizen's Financial Advisory Committee to review the City's long-range financial forecast and provide recommendations to the City Council for cost containment and/or revenue enhancement strategies. Due to the specialized nature of this Committee, all five members have relevant backgrounds in finance. The Committee held its first meeting on July 24, 2018.

Guiding Principles

The Citizen's Financial Advisory Committee adopted the following as its four guiding principles at its meeting on August 15, 2018:

1. The Committee will provide recommendations that are realistic, practical, and smart.
2. The Committee believes that service levels for the City of Arcadia should be maintained.
3. The Committee will explore service delivery alternatives that maintain quality but also ensure long-term fiscal solvency.

4. The Committee will explore revenue enhancements that are sustainable, viable, and effective with minimal impact to Arcadia residents.

Research & Analysis¹

The Citizen's Financial Advisory Committee met for a total of ten meetings from July 24, 2018 to December 13, 2018.

July 24, 2018, Citizen's Financial Advisory Committee Meeting

The Committee held its first meeting on July 24, 2018. At this meeting, the Committee appointed Committee Member Mickey Segal as the Committee Chair and Committee Member Howard Ursettie as the Committee Vice Chair. As part of the orientation, the Committee was provided with an overview of their goals, objectives, and overall timeline. In addition, the Committee received an overview of the City of Arcadia's organizational structure, which included information regarding the City's Boards and Commissions, population, City staff statistics, employee organizations, and labor agreements. The Committee reviewed information regarding the City's financial structure, which included detailed information on the different types of funds, along with the adopted budget and fund forecasts.

August 2, 2018, Citizen's Financial Advisory Committee Meeting

The Committee received an overview of the City of Arcadia's future budget challenges, which included information regarding the City's escalating pension costs and growing liability for Other Post-Employment Benefits (OPEB). The Committee studied how pension costs are calculated in addition to the City's various options, which included making Additional Discretionary Payments (ADPs), shortening the unfunded actuarial accrued liability amortization period, establishing a Pension Obligation Trust Fund, issuing Pension Obligation Bonds, and increasing employee cost sharing.

August 15, 2018, Citizen's Financial Advisory Committee Meeting

The Committee continued its review of the City of Arcadia's future budget challenges, which included information regarding Other Post-Employment Benefits (OPEB), and an overview of the Capital Improvement Fund and the Equipment Replacement Fund. In addition, the Committee studied the City's options for Capital Improvement Fund and Equipment Replacement Fund savings, which included deferring maintenance, reviewing the maintenance/replacement schedule to ensure compliance with current standards and best practices, applying for grants, vehicle leasing options, and rideshare alternatives.

August 23, 2018, Citizen's Financial Advisory Committee Meeting

The Committee reviewed the City of Arcadia's General Fund key revenue sources, which include Property Tax, Sales Tax, Transient Occupancy Tax, Property Transfer Tax, Utility Users' Tax, Public Safety

¹ All tables and charts are in millions unless otherwise noted.

Augmentation Fund, and Franchise Tax. The Committee also received information on legislation and court cases relating to sales and use tax, and additional revenue enhancement options.

September 6, 2018, Citizen's Financial Advisory Committee Meeting

The Committee was provided an overview of the City of Arcadia's investment policy guidelines, performance history, and potential investment policy changes to be considered. These potential investment policy changes included the following: require only one NRSRO rating for all securities, remove "AA" rating requirement for 5-year Corporate Bonds, Remove FDIC insurance requirement for Negotiable CDs, and increase the percentage limitation to 30%. The Committee also received an overview of General Fund revenue enhancement options, which included the following: taxes, property assessment, property related fees, Franchise Tax, user fees, and fines and penalties. The Committee was presented with recommended policy guidelines for a full cost of services study for all City fees, which included the following: include possible fees for services we don't currently charge for, review the City's cost allocation plan, update the City's methodology for calculating fees, and recommend the adoption of a User Fee Cost Recovery Level Policy.

September 27, 2018, Citizen's Financial Advisory Committee Meeting

At this meeting, the Committee reviewed the City of Arcadia's expenditures, ongoing cost saving activities, and service reduction scenarios. This included an overview of current and historical General Fund budget trends, showing budgeted versus actual expenditures. In addition, the Committee received an overview of cost saving activities implemented by each department as well as an additional 12.5% potential service reduction in order to balance the structural deficit through service reductions. The service reduction scenario would eliminate 55.6 full-time employee positions and cutbacks to capital improvement projects equaling \$8.2 million, with an impact on performance in service quality, safety and reliability, cycle times, and customer satisfaction. Afterward, a motion was made by Committee Chair Segal, seconded by Vice Chair Ursettie, and passed unanimously to communicate the Committee's preliminary finding declaring the City to be under a state of fiscal emergency and to place a $\frac{3}{4}$ cent Sales Tax Measure on the March 5, 2019, ballot.

October 16, 2018, Citizen's Financial Advisory Committee Meeting

At this meeting, the Committee reviewed the City of Arcadia's expenditures and recommendations for service reductions. This included recommendations for citywide cost saving activities and service delivery changes. The Committee had an opportunity to review their progress report and preliminary recommendations to the City Council. It was the consensus of the Committee to include in the preliminary recommendation to the City Council to begin planning for a special election as quickly as possible, preferably no later than June 2019.

October 25, 2018, Citizen's Financial Advisory Committee Meeting

The Committee analyzed the impact of revenue enhancements and cost saving scenarios using the 10-year General Fund financial forecast model. After deliberating, the Committee decided to make two tiers of recommendations. The first tier recommendations are items that the City Council should

immediately consider, and the second tier items are additional revenue enhancements and service delivery changes should additional resources be required. A detailed listing can be found in the Findings & Recommendations section of this Report.

November 7, 2018, Citizen's Financial Advisory Committee Meeting

At this meeting, Stuart Bennett, Senior Pension Actuary at CalPERS, presented to the Committee regarding the following: CalPERS Actuarial Assumptions Policy, CalPERS Unfunded Termination Liability, CalPERS Actuarial Amortization Policy, CalPERS Discount Rate Policy, and the CalPERS Member Enrollment Policy. Afterwards, Michael Busch, Chief Executive Officer at Urban Futures, Inc. and his associates presented to the Committee regarding the following: Urban Futures' approach to pension liabilities, explanation of the City of Arcadia's pension liability, pension liability management, addressing the risks of pension obligation bonds, and pension obligation bond savings potential. At the conclusion of the presentation, a motion was made by Committee Chair Segal, seconded by Vice Chair Ursettie, and passed unanimously to further study the topic of pension obligation bonds versus other financial models to resolve the City's unfunded actuarial accrued liability. The Committee also had an opportunity to review and provide feedback on their draft recommendations.

December 13, 2018, Citizen's Financial Advisory Committee Meeting

At this meeting, the Committee reviewed the draft Report, provided commentary and suggested edits which were incorporated in the Final Report. The Final Report is tentatively scheduled to be presented to the City Council at its meeting on January 15, 2019.

Future Budget Challenges

The adopted Fiscal Year 2018-19 General Fund Operating Budget includes total sources (revenue) of \$64.4 million and total uses (expenditures and transfers) of \$67.5 million, which is a net deficit of \$3.1 million. The General Fund estimated beginning fund balance of \$8.2 million is projected to decrease to \$5.1 million by the end of the current year as shown in Table 2 below.

Table 2: FY 2018-19 Adopted Budget

Beginning Fund Balance	\$8,292,381
Revenue & Sources	\$64,389,800
Expenditures & Uses	\$63,288,600
Net Operating Income	\$1,101,200
Transfer to Equipment Replacement Fund	(\$1,800,000)
Transfer to Capital Improvement Fund	(\$2,400,000)
Subtotal Operating Balance	(\$3,098,800)
Ending Fund Balance	\$5,193,581

The adopted Fiscal Year 2018-19 budget also reflects the true rate of transfer to the Capital Improvement and Equipment Replacement funds, showing a significant increase in comparison to prior year transfer amounts. The true rate was estimated using historical spending patterns and future known budgeted outlays shown in the five-year expenditure plans of the Capital Improvement and Equipment Replacement funds as illustrated further in this section. This was done to account for and ensure that both funds have sufficient balances available for critical infrastructure improvements and replacement of equipment in future years. In previous years, the City adopted a more traditional “pay-as-you-go” approach, using prior year budget savings to fund future needs.

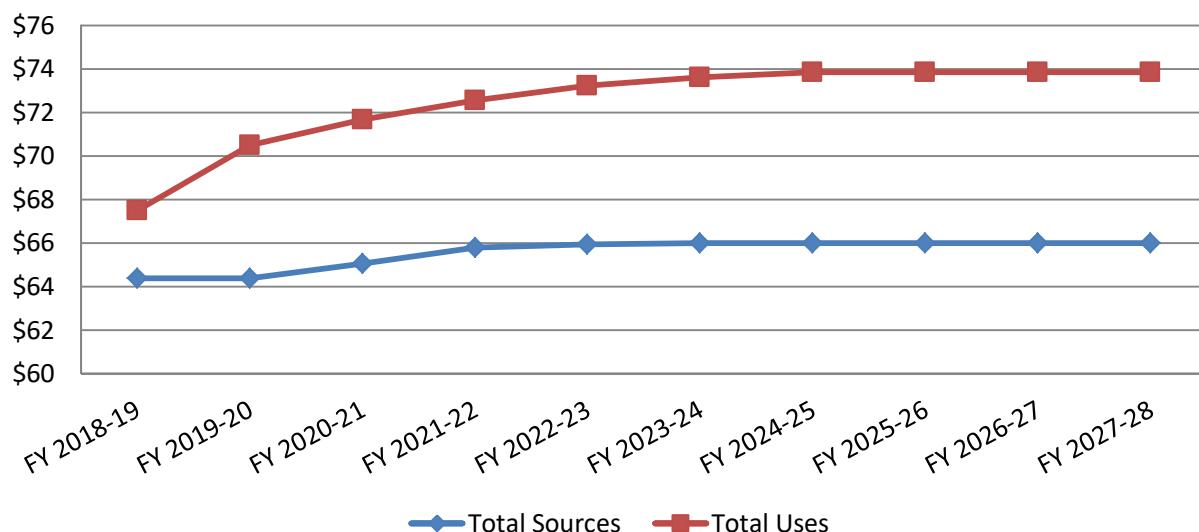
The three-year General Fund operating budget outlook shows an even starker picture. As shown in Table 3 below, the projected Fiscal Year 2019-20 beginning General Fund operating balance of \$5.2 million is projected to be reduced to \$511,000 by the end of that fiscal year based on current revenue and expenditure estimates, including transfers to the Capital Improvement and Equipment Replacement funds. Per City Council direction, the City also maintains an Emergency Reserve at 20% of annual operating expenditures, which is currently fully funded; however, the Emergency Reserve was set up and intended for one-time emergency needs, and is not sufficient to finance ongoing expenditures.

Table 3: 3-Year General Fund Operating Outlook

	FY 2017-18 Actuals	FY 2018-19 Adopted	FY 2019-20 Projected
Beginning Fund Balance	\$8,166,120	\$8,292,381	\$5,193,581
Revenue & Sources	\$61,960,725	\$64,389,800	\$65,818,400
Expenditures & Uses	\$59,034,464	\$63,288,600	\$66,301,100
Net Operating Income	\$2,926,261	\$1,450,200	(\$482,700)
Transfer to Equipment Replacement Fund	(\$1,400,000)	(\$1,800,000)	(\$1,800,000)
Transfer to Capital Improvement Fund	(\$1,400,000)	(\$2,400,000)	(\$2,400,000)
Subtotal Operating Balance	\$126,261	(\$3,098,800)	(\$4,682,700)
Ending Fund Balance	\$8,292,381	\$5,193,581	\$510,881

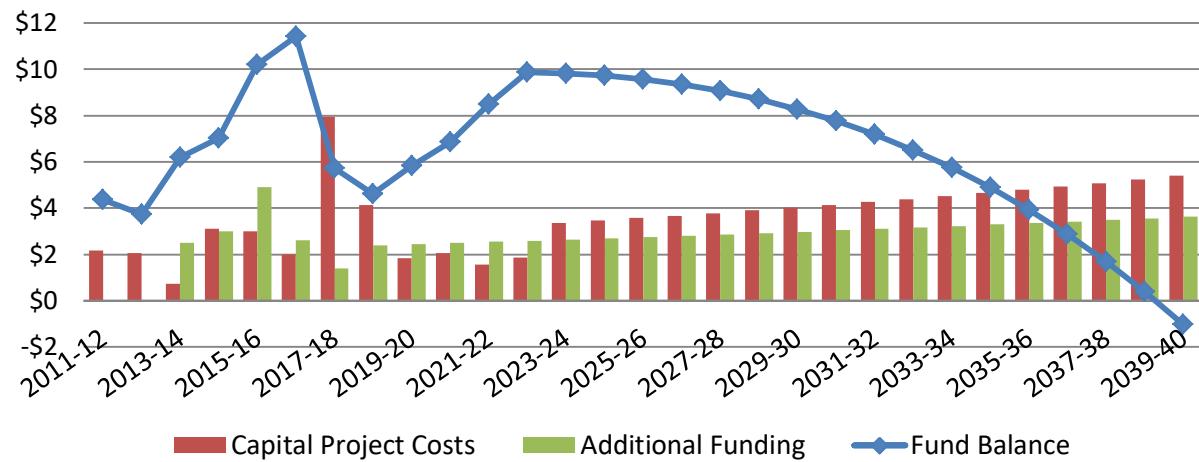
As part of the City’s annual budget review process, a ten-year snapshot is created to forecast General Fund revenues and expenditures. The chart on the next page shows the full nature of the structural imbalance in the City General Fund. Total uses exceed total sources in the General Fund by \$3.1 million beginning in Fiscal Year 2018-19 and rise to \$8.0 million in Fiscal Year 2024-25 before leveling off for the next few years. These primary cost drivers in the forecast are not only the true rate of transfers in the Capital Improvement and Equipment Replacement funds, but also the rising cost of services due to increased pension costs that will be discussed further in this Report.

FY 2018-19 - FY 2027-28 General Fund Forecast



In addition to the General Fund Forecast, the City also provides fund balance forecasts for the Capital Improvement and Equipment Replacement funds. The chart below is a 30-year projection of the Capital Improvement Fund balance. The projection assumes annual funding of \$2.4 million from the General Fund, inflated at 2% growth during the duration of the forecast, along with average expenditures over the previous 5 years that are inflated at an annual rate of 3% to account for expected cost increases.

Capital Improvement Fund Balance Forecast



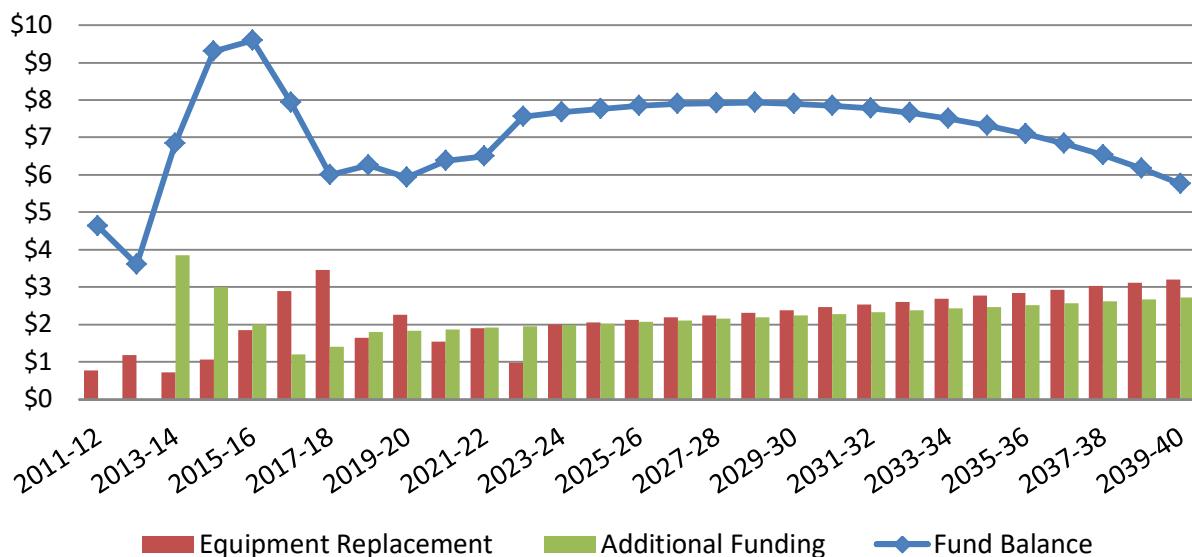
The Capital Improvement Fund also receives parimutuel revenues from Santa Anita Park which average about \$700,000 a year annually. There are also some modest interest earnings that are allocated to the fund as well and have been accounted for with a 2% growth factor. The City does receive some limited intergovernmental revenue and grant funds for certain projects; however, these are infrequent and are

not typically available for general infrastructure needs. As the chart above shows, while the fund maintains a positive balance for several years, it will eventually be depleted even with the current true rate of transfer assumed in the forecast.

Furthermore, it is also important to note that current projections do not include nearly \$63.4 million in unfunded capital improvement projects, which include a citywide Parks Master Plan, downtown parking lot development, right-of-way and streetscape improvements, and parking lot resurfacing projects. In addition, due to recent changes in state law for storm water management, the City is required to implement enhanced watershed management programs to eliminate pollutant discharge into our local water supply. Estimates for these requirements range from \$122 million to \$354 million. In November 2018, Los Angeles County voters approved a parcel tax to help offset the costs for storm water management compliance; however, it remains unclear how much of this funding will be allocated to cities for improvement projects. Any unfunded projects would likely need to be supported by the City's Capital Improvement Fund.

Like the Capital Improvement Fund, the Equipment Replacement Fund faces a similar long-term challenge. This fund is used primarily to purchase City vehicles, including police patrol cars and fire trucks, along with heavy equipment used by the Public Works Department to provide needed maintenance and infrastructure maintenance. The assumptions in this forecast are similar to the Capital Improvement fund, which includes the 5-year average expenditure inflated using a 3% growth factor, and 2% growth factor for transfer payments and interest earnings. It is important to note that the ongoing positive fund balance shown in the chart above is strictly dependent of the continuous annual \$1.8 million transfer from the General Fund as the Equipment Fund and, unlike the Capital, does not have a dedicated revenue stream.

Equipment Replacement Fund Balance Forecast

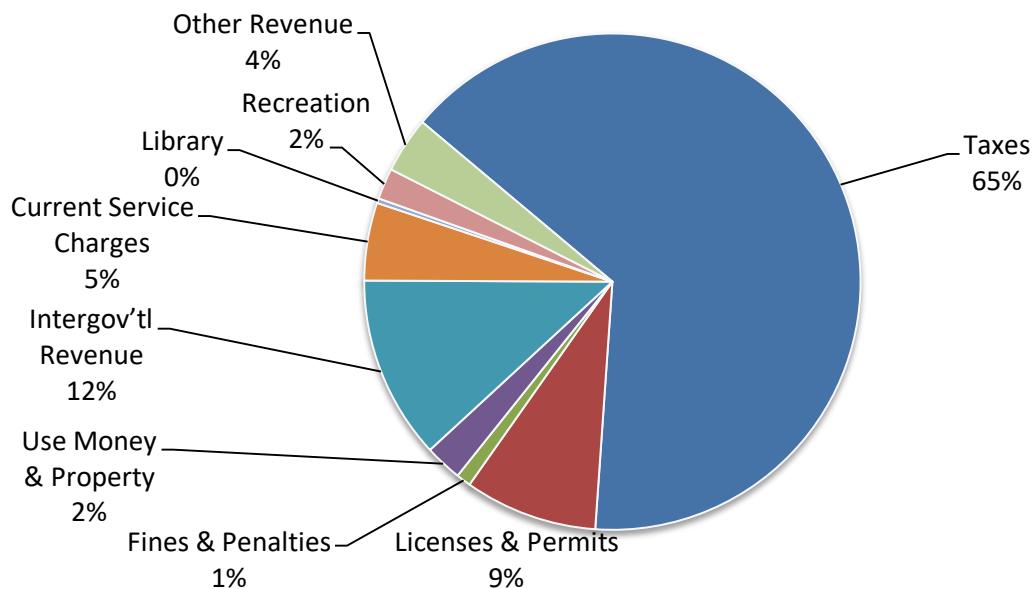


Revenues

The Committee reviewed all General Fund revenue sources to understand their properties, limitations, and enhancement options. As a full-service chartered City, Arcadia provides all essential services ranging from police and fire, water and sewer, traffic management and infrastructure maintenance, business licensing, recreation programming, and library and museum services. The benefits of residing in a full-service City include local control and higher quality service due to the capability for enhanced in-house coordination and tailored services to meet community needs.

The majority of the City's core essential services are funded by General Fund revenue, which consists of nine categories: Taxes, Licenses and Permits, Fines and Penalties, Use of Money and Property, Intergovernmental Revenue, Current Service Charges, Library, Recreation, and Other Revenue. For Fiscal Year 2018-19, total General Fund revenues were approximately \$64.4 million, a 3.4% increase from the prior year. The chart below shows Fiscal Year 2018-19 General Fund revenue by category and a breakdown of revenue of other sources.

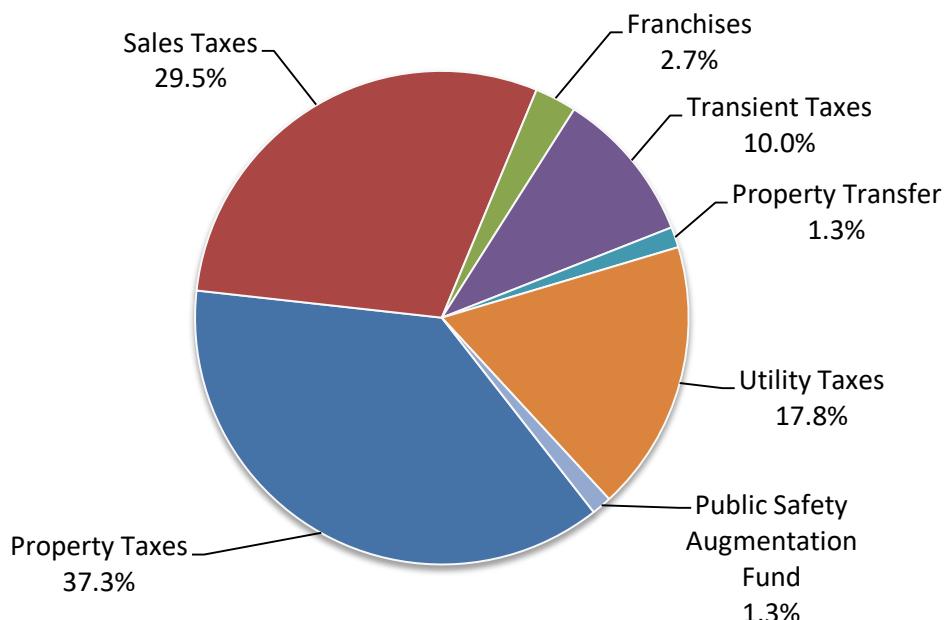
FY 2018-19 General Fund Revenue by Category



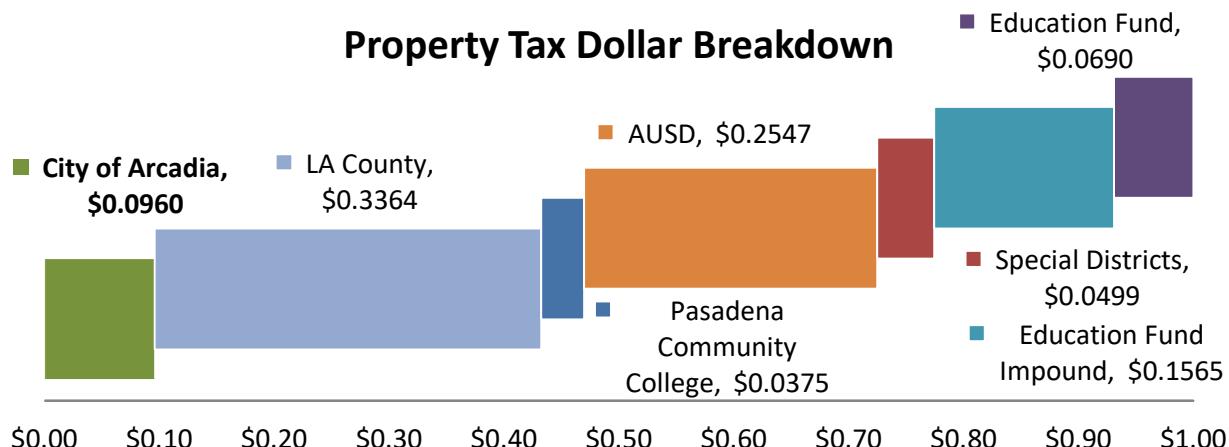
The largest revenue source to the City is from local taxes, which accounts for 65% of total revenue in the General Fund. The tax category includes Property Tax, Sales Tax, Transient Occupancy Tax, Property Transfer Tax, Utility Users' Tax, and Franchise Tax. Of the different taxes, Property and Sales taxes generate the majority of tax revenue at 39.6% and 29.1% respectively, totaling 68.7% of total tax revenue in the amount of \$27.3 million in Fiscal Year 2018-19. Arcadia continues to experience strong housing valuation and high consumer confidence as a result of its diverse local economy, including

Westfield Santa Anita Mall, Santa Anita Park, and Rusnak Mercedes, which are regional venues and shopping opportunities in the greater San Gabriel Valley and Los Angeles County.

FY 2018-19 General Fund Tax Revenue



The City's Property Tax is the single largest source of revenue to the General Fund. While it is widely assumed Arcadia's high property values make the City "rich," in fact, only 9.6 cents of every Property Tax dollar makes its way to the City's General Fund. The vast majority of property taxes are split between the County of Los Angeles, 33.6 cents, the Arcadia Unified School District, 25.5 cents, state education taxes, 22.5 cents, and other special districts and Pasadena area community colleges at 8.7 cents as shown on the chart below. In this example, a property assessed at \$1,000,000 would pay the Proposition 13 rate of 1% or \$10,000 in total property taxes. Of the total \$10,000 paid in property taxes, only \$960 would flow directly to the City.



The remaining revenue categories account for 35% of the total General Fund revenue. The flow of revenue in these categories is more dependent on consumer activity, and while the City has some control over the price charged for services, overall revenue is driven by market demand. For example, revenue in License and Permits decreased in the prior fiscal year, primarily due to a reduction of residential development activities at the tail end of the housing boom. The Committee, therefore, focused on evaluating available options in the tax revenue category and ranked revenue enhancement alternatives, also taking into consideration the amount of revenue it would generate, the approval requirements, and who pays, all in accordance with the Committee's guiding principles.

As part of its guiding principles, the Committee chose to explore revenue enhancements that are sustainable, viable, and effective with minimal impact to Arcadia residents. Further, the Committee believes that any revenue enhancements should effectively address the structural imbalance in the City's General Fund. Table 4 below shows revenue enhancement alternatives that the Committee considered in determining its recommendations. Of all the revenue options available, only Sales Tax and Property Tax increases could sufficiently address the City's projected shortfall. Of those two sources, only the Sales Tax increase is paid by a majority of non-residents, with a Property Tax increase affecting each property owner in Arcadia.

Table 4: Revenue Enhancement Options

Tax/Fee	Increase	Revenue	Authority	Majority Paid By
Sales Tax	$\frac{3}{4}$ of a cent	\$8.6 million	Voters	Non-Residents
Transient Occupancy Tax	Each 1.0%	\$320,000	Voters	Non-Residents
User Fees	Variable	\$250K - \$500K	City Council	Both
Property Tax	0.05%	\$8.3 million	Voters	Residents
Utility User Tax	Each 1.0%	\$1.0 million	Voters	Residents
Franchise Tax	Each 1.0%	\$225,000	City Council	Residents
Fines & Penalties	Variable	\$100K - \$250K	City Council	Residents

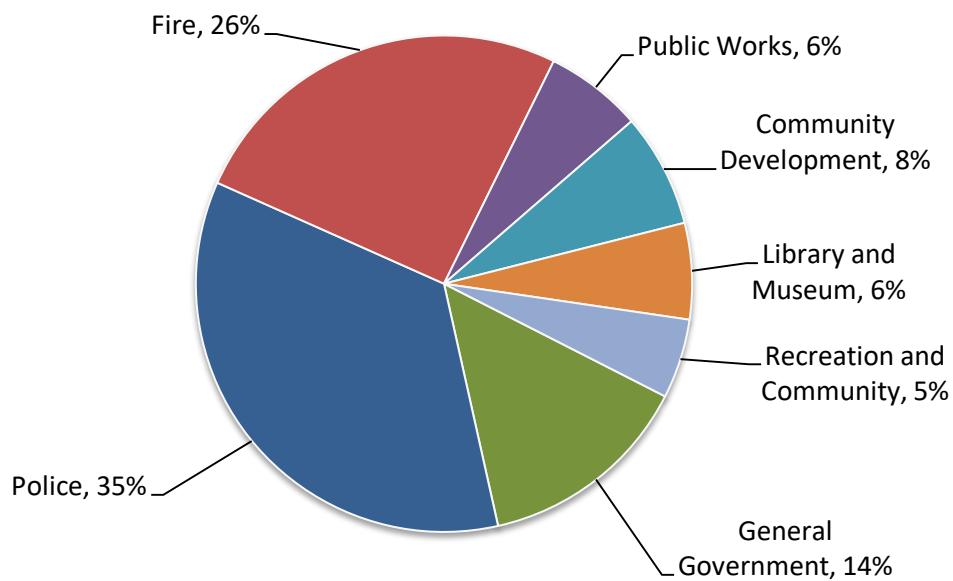
Additional information regarding the Committee's deliberations regarding revenue enhancement alternatives can be found in the Findings & Recommendations section of this report.

Expenditures

The City of Arcadia continues to meet its goal of delivering high-quality essential services such as police and fire protection, keeping public areas safe, clean and well-lit, and repairing streets and roads. Over the course of several meetings, the Committee conducted a comprehensive review of the City's General Fund expenditures to identify potential service delivery alternatives and cost saving measures to help address the City's structural imbalance and improve long-term financial stability.

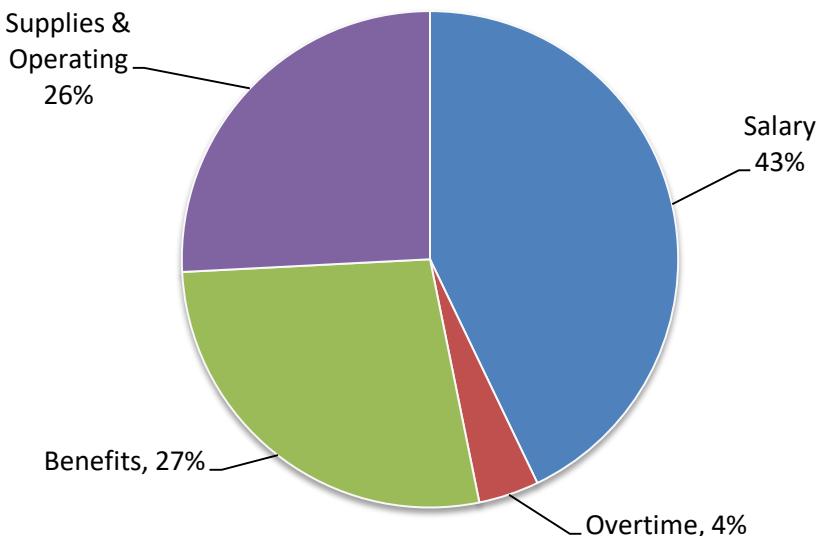
For Fiscal Year 2018-19, General Fund operating expenditures—net of transfers—are budgeted at \$62.4 million, an increase of 3.6% from the previous fiscal year. This increase is mostly associated with labor agreement contracts, rising pension costs, and a number of new programs and expenditures that were approved by the City Council to respond to emerging operational needs. Consistent with the expenditure breakdown of most full-service agencies, as shown in the chart below, Arcadia's public safety operations comprise the majority of total General Fund outlays with Police accounting for 35% and Fire for 26%, for a combined total of 61% of all General Fund expenditures. Other departmental categories constitute 39% of total expenditures and include General Government (City Manager & City Council), Development Services, Public Works, Library and Museum Services, and Recreation and Community Services.

FY 2018-19 General Fund Expenditures by Department



The chart on the next page shows the composition of General Fund expenditures by categories including employee salaries, benefits, overtime, and other supplies and operating services. Typical of the public sector and consistent with the expenditure breakdown of many other full-service cities, salaries and benefits make up the majority of total expenditures at 70%. In order to generate any real savings in these two categories, the City would ultimately need to reduce its workforce which would have a detrimental impact on service delivery to the community.

FY 2018-19 General Fund Expenditures by Category



The estimated shortfall in the General Fund will rise to approximately \$8.0 million. In order to balance the budget without additional revenue, each department will need to cut approximately 12.5% from their operational budgets. The table below shows service reductions totaling \$8.2 million. If implemented, the resulting reductions would eliminate 55.6 full-time employee positions, with significant impact to service quality and performance, decreasing public safety and increasing liability, and a decline in resident satisfaction.

Table 5: Service Delivery Reductions (12.5%)

	FTE	Personnel	Operations	Total
Police	-23.50	\$(2,593,968)	\$(238,540)	(2,832,508)
Fire	-10.00	(2,313,871)	\$-	(2,313,871)
Library & Museum Services	-4.75	\$(482,383)	\$(14,617)	\$(497,000)
Recreation & Community Services	-6.35	\$(82,600)	\$(337,600)	\$(420,200)
Public Works	-3.00	\$(276,000)	\$(257,700)	\$(533,700)
Development Services	-4.00	\$(434,161)	\$(245,880)	\$(680,041)
City Council/City Manager	-1.00	\$(54,173)	\$(218,000)	\$(272,173)
Administrative Services	-3.00	\$(274,500)	\$(140,000)	\$(414,500)
General City	0.00	\$-	\$(250,363)	\$(250,363)
TOTAL	-55.60	\$(6,511,656)	\$(1,702,700)	\$(8,214,356)

The largest cost savings from service reduction would be from public safety departments as they comprise most of the General Fund budget. By eliminating 23.5 full-time equivalent positions in the Police Department, \$2.8 million could be saved; however, there will be less neighborhood patrols, more opportunities for crime to go unnoticed, less traffic enforcement, and prolonged emergency response time. Likewise, closing Fire Station 107 would yield a savings of \$2.3 million by eliminating 10.0 full-time equivalent positions. In terms of service impact, first responder capability will decrease resulting in slower response times and less service coverage for fire, emergency medical service (EMS), and other emergency incidents. Although public safety was identified as a community priority, reducing personnel and services in other departments would not yield comparable cost savings simply due to differences in the number of employees in other departments. Public safety is a 24-hour operation and is staffed at commensurate levels.

Reductions in the Library and Museum and Recreation and Community Services departments would have an immediate impact on the quality of life and character of the City. By eliminating 11.1 full-time equivalent positions, a savings of \$917,200 will be realized at the cost of fewer resources available to the community for special events, including popular programs like Movies and Summer Concerts, Snow Fest, and the Senior Recognition Lunch. Wilderness Park would be closed during the winter months, and the Library would see reduced operating hours by closing on Monday, and reduced morning and evening hours. Further, the Library would see reductions in books, resources, and other popular educational materials. Popular adult and children reading programs would be eliminated as well.

Additional budget cuts to Development Services and Public Works would see the elimination of 7.0 full-time equivalent positions for a savings of \$1.2 million. In Development Services, the resulting reduction will eliminate the City's economic development program, including business assistance, retention, attraction, and also result in longer delays in code enforcement to correct neighborhood beautification issues. Further delays in permit processing and building inspections will affect development projects, slowing growth in the local economy and negatively impacting Arcadia's reputation as a business friendly community.

Reductions in Public Works programs will collectively reduce the level of citywide maintenance with a visible decline in beautification and a commensurate increase in trash nuisance in City streets. Street sweeping will be reduced to every other week and result in increased buildup of trash and debris along City streets, and more pollutants in City storm drains. The tree trimming cycle will be lengthened from four years to eight years, potentially increasing property damage and claims from fallen branches. Sidewalk repairs will be delayed, creating nuisance and potentially increasing trip and fall incidents. Construction inspections for citywide Capital Improvement Projects will be outsourced, which may result in delays towards project completion.

Similarly, a reduction in City administration and internal service delivery that help support efficient operations would eliminate 4.0 full-time positions and save \$937,036. These actions will eliminate community-wide special events including the Mayor's Breakfast, Silver Circle Volunteer Recognition Dinner, and Christmas Tree Lighting events. Outreach and communication efforts would be eliminated

or reduced including the cancellation of the monthly Hot Sheet, resulting in decreased resident satisfaction and missed opportunities to build public trust between the community and its government. Reductions in the City Clerk's Office and legal services contracts may result in the City paying claims it would otherwise litigate for better results.

In the Administrative Services Department, important internal service functions like recruitment and retention of a qualified workforce, benefits administration, and financial management will be impacted, likely increasing workload for existing staff and wait times for City departments that affect overall employee and organizational performance. Further, the elimination of employee wellness and ergonomic programs may lead to additional workers compensation claims and increasing health care costs. The Department is also responsible for managing the City's information technology services contract, and a reduction will decrease on-site tech support, impacting overall City business functions and delaying service delivery.

The Committee also considered service prioritization as an alternative to a 12.5% cut across all departmental services. In the table below, a potential scenario is illustrated to show the deficit balance should two departments, the Library and Museum Services and Recreation and Community Services departments be closed indefinitely. By eliminating the two departments, the City would save approximately \$7.4 million, closing the projected budget deficit to only \$600,000; however, these departments generate revenue through the programs, classes and services they offer. As a result, the General Fund would lose approximately \$1.4 million in ongoing revenue, which increases the projected deficit to \$2.0 million.

Table 6: Service Delivery Prioritization

Projected Deficit	(\$8,000,000)
Eliminate Recreation and Community Services Department	\$3,400,000
Eliminate Library and Museum Services Department	\$4,000,000
Projected Deficit After Savings	(\$600,000)
Loss of Revenue from Departments	(\$1,400,000)
Projected Deficit After Revenue Loss	(\$2,000,000)
Alternative Additional Budget Reductions:	
Close Fire Station 107, Eliminate 10.0 FTE	\$2,313,000
Eliminate 13.0 FTE Police Officers	\$1,967,000

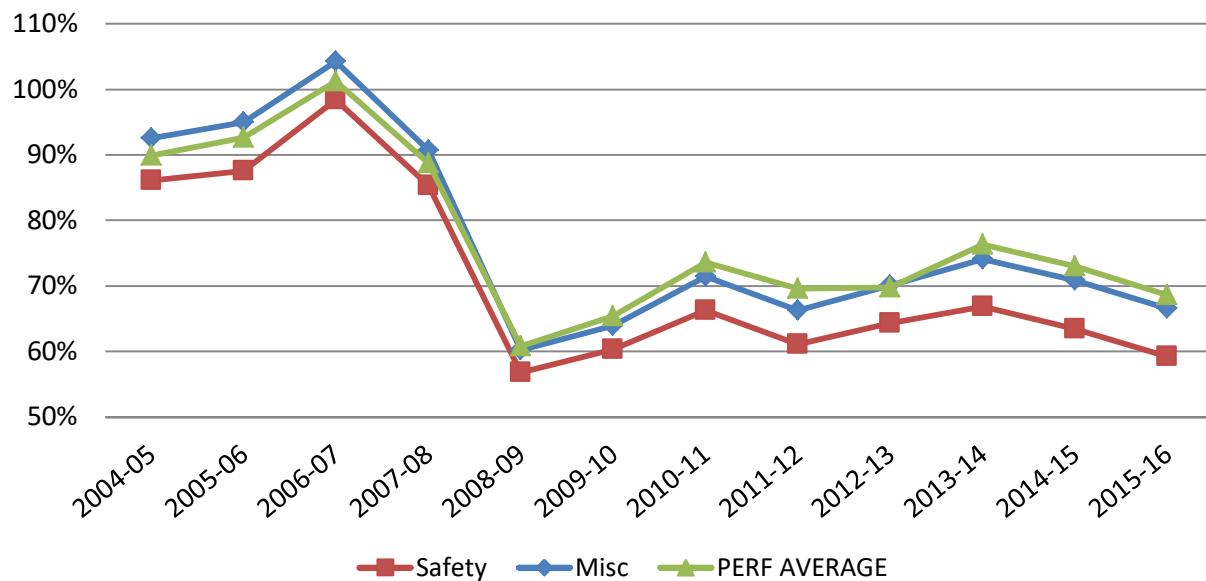
As the table above shows, closing the Library and Museum Services and Recreation and Community Services departments would still require an additional \$2.0 million in cost saving actions, equivalent to closing Fire Station 107 and eliminating 10.0 full-time equivalent positions in the Fire Department or taking 13.0 full-time equivalent Police Officers off City streets. Additional services prioritization efforts would not generate the savings sufficient to close the structural imbalance in the General Fund.

Pensions and Other Post-Employment Benefits

Like most municipalities in California, the City of Arcadia is a member of the California Public Employees Retirement System (PERS). As a member agency, the City relies on PERS to invest its retirement funds to ensure that sufficient earnings are available to pay current and future retirees. For decades PERS was seen as a model public employee pension system, consistently out-performing the market and enjoying a funding status well in excess of 90%. At one point PERS was super-funded, meaning the fund balance had more assets than liabilities. Because of its super-funded status, PERS began offering enhanced benefit formulas that allowed cities to offer better retirement benefits in-lieu of enhanced pay as a means of attracting and retaining a qualified workforce.

Then the music stopped. The bursting of the Dot.com bubble, socially engineered investment strategies, and the Great Recession caused significant losses in the fund. In a matter of two years from 2007 to 2009, PERS lost nearly 40% of its value. In response to these staggering losses, PERS began requiring member agencies to increase their employer contributions into the fund, which created significant fiscal stress on cities already grappling with the effects of the recession. Cities, including Arcadia, began deferring maintenance and eliminating positions.

PERS Funding Status



The need for pension reform had become apparent and the City of Arcadia adopted Resolution No. 6788 in 2011 which established a second, lower tier benefit for new City employees hired after October 2011. The change also required all employees to contribute more to their respective pensions through a new cost-sharing arrangement, and created a three-year highest average for final compensation instead of the single highest year. While these changes helped slow the rate of growth in retirement costs over the long-term, the effects of the savings would not be realized for a generation or more. In response to

growing concern over state's retirement fund liabilities, in 2012 the California Assembly passed the California Public Employees' Pension Reform Act of 2013 (PEPRA), which was signed into law by Governor Brown and took effect on January 1, 2013. PEPRA redefined the define benefit formula for all new employees hired by member agencies after January 1, 2013. In addition to entirely new benefit plans, PEPRA included changes in pensionable earnings, limits on pensionable earnings, and new requirements for employee and employer cost-sharing, which is now a 50/50 split of the normal cost for all employees in the plan.

In addition to statewide changes, PERS also began a series of policy changes to their actuarial assumptions in order to help ensure the funds long-term solvency. In 2012, the PERS Board approved lowering the discount rate, the assumed rate of return from 7.75% to 7.5%, which means that the fund expects to earn less in the future. Further, in 2013, PERS implemented new "smoothing policies" which changed its amortization period for gains and losses from 30 years to 20 years. Next, in 2014, PERS updated their demographic assumptions to show that retirees are living longer than previously expected. And, finally, in 2016, PERS lowered the discount rate further from 7.5% to 7.0%. All these policy changes, combined with unprecedented market losses, created significant unfunded actuarial accrued liabilities for member agencies like Arcadia.

Projected Escalating PERS Costs



As the chart above shows, the effects of these policy changes are significant and have created tremendous pressure on the City's budget. In Fiscal Year 2013-14, the City contributed approximately \$9 million in PERS costs. This figure is expected to increase to nearly \$21 million in Fiscal Year 2024-25. In order to allow cities time to adjust to the increasing costs by phasing in the costs over a five year period

which began in Fiscal Year 2018-19. As the “phase-in” period ramps up, it is expected that Arcadia will be affected in the form of \$1.8 million annually through Fiscal Year 2024-25. Once fully implemented these heightened levels of employer contributions will be sustained for the foreseeable future.

In addition to escalating pension costs, the City also has a significant unfunded liability for retiree medical costs, otherwise referred to as Other Post-Employment Benefits (OPEB). The City has historically paid its OPEB expenses under a pay-as-you-go model instead of as they are accrued. This has resulted in the accumulation of an unfunded liability for future retiree medical benefits. With the understanding that the 100% paid retiree medical benefit is not sustainable, in similar fashion to the pension reform that took place in 2011, the City also made changes to this benefit in order reduce future liabilities with the goal of attaining a program that is viable for the long term.

Effectively, all employees that were hired prior to July 1, 2011 and retires with the City after January 1, 2012, who meet all qualifications for the benefit (e.g. - 10 years of sick leave time on the books), would receive a monthly benefit allowance of \$1,011. This amount is fixed and would only change if the City agrees through labor negotiation. Those that were hired after the noted July date would only receive a minimum contribution, referred to as the Public Employees’ Medical & Hospital Act (PEMHCA) contribution, of \$133 per month as of 2018. This amount is adjusted annually base on an inflationary adjustment that is determined by PERS.

Table 7: Other Post Employment Benefit (OPEB) Funding Ratio

Total OPEB Liability, valuation as of 6/30/17	\$19,707,399
Market Value of Trust Assets	\$3,088,069
Unfunded Accrued Liability	\$16,619,330
Funded Ratio	15.7%
Fiscal Year 2018-19 OPEB Expenditures	
Retiree Medical Costs (PayGo)	\$812,700
OPEB Trust Annual Required Contribution	\$911,600
TOTAL	\$1,724,300

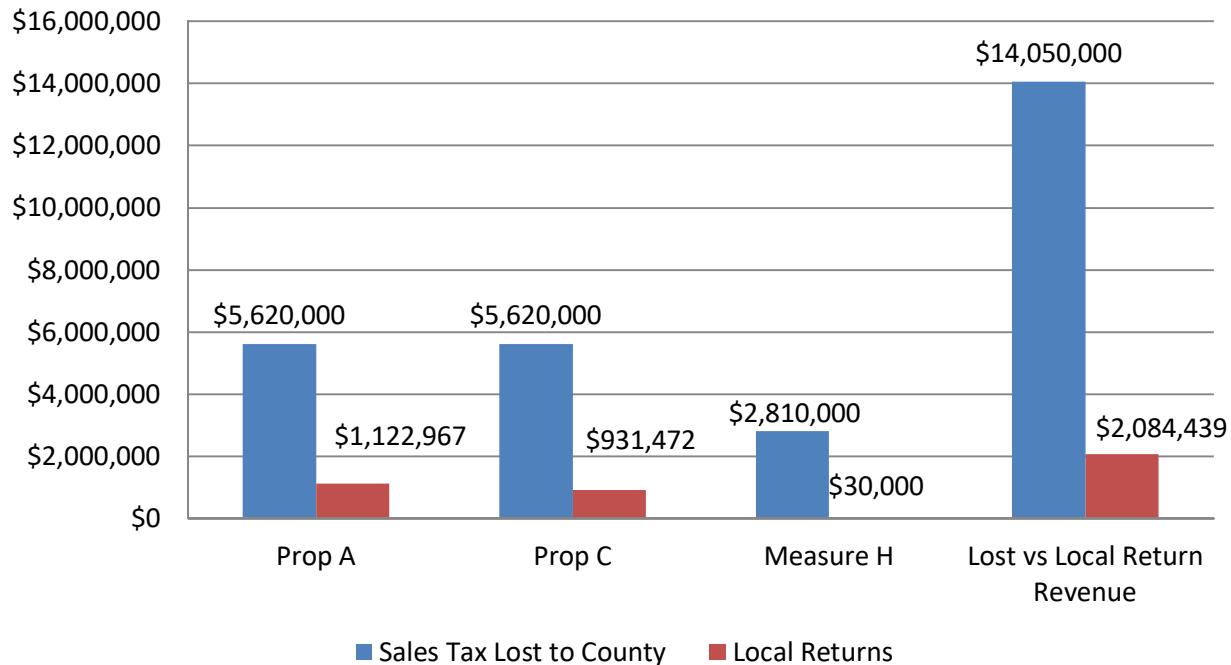
In addition to the reform that took place in 2011, in Fiscal Year 2015-16, the City Council created an irrevocable IRS Section 115 Trust for OPEB and prefunded it with a contribution of \$1.3 million from excess reserves. Although the City is not mandated to make payments to an OPEB trust, unlike a trust for pensions, the City has made a concerted effort to not only continue to pay current retiree medical costs under the pay-as-you-go model but is also making the annual required contribution for the OPEB trust. Nevertheless, the OPEB trust is only funded at 15.7%.

Local Control

Like many Charter Cities, the City of Arcadia has a long-history of civic pride in its ability to self-govern. The City values its authority to exercise local control and to protect and enhance the quality of life for Arcadia residents. This includes the City's strong opposition to the preemption of local authority by state or federal legislation, or ballot proposition that imposes costly mandates or erodes discretionary decision-making at the local level. Of major concern to cities throughout California, including Arcadia, is the imposition of sales taxes by local taxing authorities (e.g. The County of Los Angeles, Metropolitan Transportation Authority, etc.) that use the ballot box to fund their initiatives at the expense of Arcadia taxpayers. These takeaways have caused irreparable harm to the City's ability to raise revenue to address local community concerns.

Of particular concern to the Committee were local measures that force the City to be a net donor to regional initiatives that do not provide direct or proportional benefits to Arcadia residents. These measures include Proposition A (1980) and Proposition C (1990) two half-cent sales tax measures (totaling 1.0 cents) sponsored by the Metropolitan Transportation Authority and approved by Los Angeles County voters to finance transit development, including improving transit, paratransit, and related transportation infrastructure. Another example is Measure H (2017), a 0.25 cent sales tax measure sponsored by the County of Los Angeles and approved by voters of the same to fund homeless services and prevention efforts. All told, these measures generate approximately \$14.0 million in sales tax revenue yet only return \$2.0 million back to the City of Arcadia.

Prop. A & C, and Measure H Revenue vs. Local Return



The passage of Measure H is of most concern to the Committee as the 0.25 cent measure was not exempt from the City's local share. Before Measure H was adopted, Arcadia voters had the option to raise the sales tax by 1.0 cents. With the passage of Measure H, the maximum increase allowed is now 0.75 cents. The Committee is aware and concerned that other local taxing jurisdictions could propose similar measures further eroding Arcadia's ability to keep this important revenue source local instead of funding costly initiatives that do not directly benefit our community.

Conclusion

The City of Arcadia is on an unsustainable path. While the City continues to be well-managed and service levels are sufficient to address the needs of the community, the City can no longer guarantee these services over the long-term. In Fiscal Year 2018-19, the City Council, for the first time in many years, adopted a deficit budget, dipping into reserves in order to sustain City operations and needed infrastructure and equipment improvements. The deficit this fiscal year is \$3.1 million and it is expected to grow to \$8.0 million in Fiscal year 2024-25, primarily driven by rising pension costs which are the result of policy changes at the state level.

Arcadia residents expect and deserve a community that is a desirable place to live, visit, and do business. Residents take pride in calling Arcadia home because of the quality of life we all enjoy. Arcadia is a City that works and we want to keep it that way. Unless immediate action is taken to change course, without additional revenue to support City operations, there will have to be significant cuts to the City's workforce that will reduce neighborhood police patrols, 911 emergency response times, fire protection and lifesaving services, recreational and cultural enrichment opportunities, road quality, and infrastructure maintenance and improvements.

Findings & Recommendations

The Committee made its final findings and recommendations at the November 7, 2018 meeting. During its deliberations, the Committee discussed a wide range of topics, including policy options, revenue enhancements, and service delivery alternatives that aligned with City Council goals and the Committee's adopted guiding principles, most notably that service levels should be maintained, and if additional revenues are sought that non-residents should be assessed first. The Committee's consensus was also to provide the City Council with both short-term and long-term recommendations. The short-term recommendations are items that the Committee believes require immediate City Council action, while the long-term recommendations are policy options for the City Council to consider should additional revenue enhancements and/or service delivery alternatives be necessary to balance the City's budget.

Recommendation # 1 – Maintain Current Service Levels & Continue to Explore Efficiencies (Potential Savings: Unknown)

On August 15, 2018, the Committee adopted several guiding principles to help inform its decision-making process in determining how best to balance the rising costs of service while still providing for an

exceptional quality of life for all Arcadia residents. Over several meetings, the Committee reviewed City programs and services, cost drivers, and the performance impacts to essential City services if additional funding was not identified to maintain current service levels. The Committee finds that a 12.5% service reduction in the General Fund is not in the best interest of the community. The Committee further finds that prioritizing public safety services at the expense of other important City programs may have detrimental effect to the quality of life the community currently enjoys. Therefore, the Committee recommends that current service levels be maintained. The Committee also recommends that where sufficient and appropriate, the City look for ways to be more efficient and effective in its service delivery model, by either employing new technologies or outsourcing services that provide the same level and quality of service to the community.

Recommendation # 2 – Sales Tax Measure (Revenue: \$8.6 million)

At the September 27, 2018 meeting, the Committee adopted a preliminary finding and recommendation urging the City Council to declare a fiscal emergency and begin preparing for a ballot measure to raise the City's sales tax. The motion was made by Committee Chair Segal, seconded by Vice Chair Ursettie, and passed unanimously by the Committee to place an item on the October 16, 2018 City Council Meeting Agenda communicating the Committee's preliminary finding declaring the City to be under a state of fiscal emergency and to place a $\frac{3}{4}$ cent sales tax measure on the ballot as quickly as possible but preferably no later than June 2019.

The Committee is concerned that expenditure reductions and service delivery alternatives to reduce costs would not be sufficient to address the structural imbalance in the City's long-term financial forecast. Further, the Committee believes that current service levels should be maintained. A voter-approved increase to the City's local sales tax would not only generate sufficient revenue to cover the City's structural imbalance in the General Fund but visitors to Arcadia would pay the vast majority of this revenue, ensuring out of town residents pay their fair share. The Committee is additionally concerned that the County of Los Angeles or other taxing agency would place a competing sales tax measure on the ballot at a future election that would undermine the City's local control of this important source of revenue. It is estimated that an additional $\frac{3}{4}$ cent Sales Tax would generate approximately \$8.6 million in additional revenue.

The preliminary finding and recommendation was transmitted to the City Council at its regular meeting on October 16, 2018, where the City Council by majority vote adopted the Committee's recommendation.

Recommendation # 3 – PERS Unfunded Liability Repayment Study & Continued Citizen Oversight (Potential Savings: Unknown)

On November 7, 2018, the Committee received a presentation from PERS regarding the City's unfunded actuarial accrued liability (UAAL). Along with recent PERS board decisions to lower the pension fund's discount rate from 7.5% to 7.0%, the UAAL represents the most significant financial challenge to the City's long-term financial stability. Recent policy changes to financial modeling and accounting methods

at PERS have created opportunities for cities to better understand the cost drivers that are affecting rising pension liabilities. For the first time, cities are able to see which plans, actuarial changes, and policy alternatives are driving costs. This has created opportunities for cities to pay down or refinance the most expensive portions of the City's pension plans. **The Committee strongly recommends that the City Council use whatever additional proceeds it has available now or in the future to address the various recommendations outlined in this Report, with keen focus toward paying down the unfunded pension liabilities as quickly as possible. Paying down pension obligations will have the largest overall impact to savings in the long-term, which will provide additional capacity to address other cost concerns in the City.**

The Committee also received a presentation from a financial advisory firm that outlined several repayment and refinancing strategies that could potentially generate millions of dollars in pension cost savings over a 25 year period. The Committee finds that there are opportunities to effectively manage the pension bubble while ensuring long-term financial stability; however, more research and analysis is required before the Committee can reach a final conclusion. Therefore, the Committee recommends that the City Council, without delay, direct the City Manager to retain the services of a financial advisory services firm to study the efficacy of repaying or refinancing some or all of the City's unfunded actuarial accrued liability. The Committee also recommends that the City Council either extend the duration of the Citizen's Financial Advisory Committee or empanel a new board to oversee the research, analysis, recommendation, and eventual implementation of these cost saving measures.

Recommendation # 4 – User Fee Study and Cost Recovery Level Policy (Revenue: \$250,000 - \$500,000)

As part of its thorough review of the City's finances, the Committee discussed the City's user fees and how best to align the City's costs for services with City Council goals and equity considerations. After carefully reviewing the City's current user fee schedule, the Committee recommends that the City retain the services of a consultant to prepare a detailed cost analysis of the City's productive hourly rates and user fees. The objective is to ensure that the City is fully accounting for all of its costs and recovering adequate revenues to reimburse the City for its expenses. The scope of the study would include but not be limited to the following:

- Reviewing the City's current fee schedules;
- Calculating the total cost of fee generating services;
- Developing a fee schedule that fully accounts for the range of services that the City provides, including new fees;
- Resident versus non-resident fee structures;
- Surveying other cities and the marketplace for services; and,

- Providing recommendations or methodologies on how to adjust fees annually.

In addition, the Committee recommends that the City Council adopt a User Fee Cost Recovery Level policy to provide guidance on the appropriate levels of cost recovery for fee based activities based on the following considerations:

- Communitywide vs. Private Benefit
- Service Recipient vs. Service Driver
- Consistency with City Council Goals and Policies
- Elasticity of Demand for Services
- Availability of Services from the Private Sector

Depending upon the consultant's findings and policy guidelines adopted by the City Council, it is estimated that adjusting the City's user fees, charging fees for all practical services, and adjusting fees on an annual basis would generate approximately \$250,000 - \$500,000 annually in additional revenue to the City.

Recommendation # 5 – Classic Employee PERS Cost Share Rate Adjustment (Savings: \$386,000)

The Committee finds that controlling the City's long-term pension costs is vital to ensuring the long-term financial stability of the City. While the City of Arcadia has taken great strides in its pension reform efforts, the Committee finds that additional cost savings could be realized by increasing the sworn public safety employee's share of the PERS contribution from 9% to 12%. This change would only affect City employees that are in the "Classic" plan, which includes all public safety employees hired before 2011. The "Classic" Miscellaneous employees are currently contributing the maximum employee contribution rate of 8%. The Committee recognizes that this item is subject to bargaining and is not an item that the City Council can legislate; however, the Committee is recommending that the City Council authorize the City Manager to request this concession during the next period of labor negotiations. It is estimated that that this policy change would save the City approximately \$386,000 in costs. It should be noted; however, that as City employees in the "Classic" plan retire and new employees are hired under the current PEPRA plan that these returns will diminish over time. Conversely, those new PEPRA employees would be under a lower pension benefit plan with less financial impact in the long-term. Nevertheless, there is an immediate and real cost savings to the City by recommending this cost sharing adjustment.

Recommendation # 6 – Overnight Parking Permit Fees (Revenue: \$124,000)

In addition to taking a comprehensive look at the City's user fees, the Committee recommends that immediate action be taken to adjust the City's overnight parking fees and to charge for the Vacant Home Registry program. The current fee for overnight parking is \$84 and approximately 4,860 permits are sold

annually. Staff is in the process of reviewing what other cities charge for overnight parking, but if the fee was raised to \$110 it would generate an additional \$124,000 annually in overnight parking permit fees.

Recommendation # 7 – Vacant Home Registry Fees (One-Time Revenue: \$53,500, Ongoing Revenue: \$10,700)

In addition to overnight parking, the Committee recommends that the City charge a fee for the Vacant Home Registry program. Currently, no fee is charged; however, staff reviewed the costs associated with administering the program and is recommending a one-time fee of \$500 per home, with an annual maintenance fee of \$100 per year as long as the home remains unoccupied. Currently, there are 107 homes on the list of unoccupied residences; however, there could be more homes that may be required to register. If all homes were assessed at the rates described above, it would generate \$53,500 in one-time revenue with an additional \$10,700 in annual revenue. The total revenue for the program would be \$64,200, which is an amount sufficient to cover 100% of the City's costs for administering the registry. It should also be noted that if the fee is set too high, residents may be discouraged from voluntarily registering their property. Further, as homes become occupied they will be removed from the registry, which may create some volatility in this revenue stream.

Recommendation # 8 – City Pool Vehicles and Replacement Cycle Mileage (One-Time Savings: \$98,400, Ongoing Savings: \$9,000)

As part of the Committee's review of service delivery alternatives and cost saving measures, the Committee requested information regarding utilization of City pool vehicles, replacement cycles, and the possibility of leasing fleet vehicles and outsourcing fleet maintenance. After careful review and analysis of the City's fleet and maintenance costs, the Committee recommends that two City pool vehicles be retired at the end of their useful life and not be replaced. This will generate a one-time cost savings of \$98,400 in the equipment replacement fund. In addition, the Committee is recommending increasing the vehicle replacement cycle mileage for passenger vehicles from 100,000 miles to 150,000 miles. This will have two effects: 1. It will slow the burn rate in the equipment replacement fund which will help the funds long-term sustainability, and 2. It will save approximately \$9,000 in acquisition costs when additional maintenance for increased lifespan is accounted for. The City is currently evaluating proposals that could result in significant cost savings for fleet acquisition and maintenance. The City Council will be provided with future updates as they become available.

Recommendation # 9 – Investment Policy Review (Revenue: \$25,000 - \$40,000)

The Committee recognizes that like virtually all public agencies, the City's ability to invest its reserves in interest bearing accounts and instruments is highly regulated by state law. In addition to state guidelines, the City has its own Investment Policy to ensure the safety of public funds while seeking maximum yield and preserving liquidity. The Committee finds that the City's investment strategy is in compliance with all applicable state laws and, in some instances, goes further in its policy prescriptions than is reasonably necessary. With the era of low interest rates seemingly at an end, the Committee

recommends that the City take advantage of higher yielding investments that are allowed under state law, but are not currently authorized under the City's current Investment Policy. The Committee further recommends that staff prepare amendments to the City's Investment Policy to allow for higher yield investment opportunities, and that the City Council review the City's investment portfolio on a quarterly basis. While it is difficult to predict market performance, it is estimated that additional higher yielding instruments could generate an additional \$25,000 - \$40,000 in revenue.

Recommendation # 10 – Maintain Utility Users Tax Rate (Revenue: No Change)

Since 1978, the City of Arcadia has collected a Utility Users Tax (UUT) at a rate that was significantly lower than the amount authorized in the City's Municipal Code. In response to changes in technology, in June 2009, nearly 77% of Arcadia residents approved Measure A, an initiative sponsored by the City to broaden the types of services and technologies that are covered by the UUT, but without changing the tax rates on residents that were established in the 1980s. In 2013, the City Council, by Resolution, approved an increase to the UUT from 5% to 7% on water, gas, and electric bills which generated an additional \$2 million per year to help address shortfalls in the City's Capital Improvement and Equipment Replacement funds. In June 2016, Arcadia residents overwhelmingly rejected an initiative, 64% to 36%, to repeal the City's UUT which helped support the City's essential service needs. The Committee finds that the UUT is a necessary and vital source of revenue to the City. Therefore, the Committee recommends no changes to UUT rates for the foreseeable future, but would support lowering the UUT once the City's fiscal challenges have been sufficiently addressed and if adequate surplus revenue is available to compensate for the UUTs decline.

Contingency Recommendations

In addition to its findings and recommendations to address the City's current fiscal challenges, the Committee took a longer view at the City's financial forecast to develop additional revenue enhancements and service delivery alternatives should future challenges arise. Below are a series of contingency recommendations for the City Council to consider as possible alternatives if necessary.

Recommendation # 11 – Additional Revenue Enhancements (Revenue: \$1.05 million)

The Committee finds that there are additional revenue enhancement opportunities for the City Council to consider in addition to increasing the sales tax. These include Property Transfer Tax, Transient Occupancy Tax, and Franchise Fee adjustments. All told, these additional revenue enhancements have the potential of increasing revenue to the City by a minimum of \$1.05 million per year.

Property Transfer Tax – The Property Transfer Tax is a charge that is levied on every property transfer that occurs. The general rule is that the seller, those leaving the City, is responsible for paying the tax but this is subject to negotiation between the buyer and seller. The City and County currently assesses a combined rate of \$1.10 per \$1,000 of the sale value of the property. This amount is shared equally between both jurisdictions (\$0.55 per \$1,000). Arcadia has one of the lowest rates in Los Angeles

County. With support from the County, other cities have raised their rates ranging from \$2.20 to \$4.50 per \$1,000. Some Bay Area cities have gone even further, raising their rates to \$12.00 to \$15.00 per \$1,000. An updated County rate of \$1.10 per \$1,000, the maximum allowed, is then added on to these figures. The Committee finds that Arcadia is still a low property taxing community. The Committee further finds that the Property Transfer Tax is a revenue source that could be adjusted without placing the City at a competitive disadvantage to other neighboring communities. The Committee, therefore, recommends that the City Council consider raising the Property Transfer Tax should the need for additional revenue arise. It is estimated that for each additional dollar added to the rate, \$505,000 in revenue will be generated.

Transient Occupancy Tax – The Transient Occupancy Tax (TOT), also known as the hotel tax, is collected by hotel operators from each guest. The City's current TOT rate is 10% which is on the lower end of the TOT rates in surrounding cities. Some neighboring communities have rates as high as 15% and these rates increase closer to downtown Los Angeles and beachside communities. Because this rate is paid by visitors to the City, the Committee finds that raising the rate would have no direct impact on Arcadia residents. Every 1% increase to the TOT would generate an additional \$320,000 in revenue. The Committee recommends an adjustment of at least 2%, generating \$640,000 in additional revenue.

Franchise Fees – Charter cities like Arcadia have authority to impose additional franchise fees by City Council resolution or ordinance. Charter cities are not preempted by provisions of the public utilities code in granting and charging franchise fees to utilities (expect for telephone and cable). The City currently assesses a 2% franchise fee on electricity and gas utilities, raising \$450,000 annually in franchise fee revenue. For each additional 1% increase in rates, \$225,000 in revenue could be added under the existing franchise agreement. There are additional franchise agreements that the City could enter in to, such as waste hauling, however it should be noted that franchise fees are generally passed on to the consumer, either directly or indirectly, through higher rates for services. The Committee recommends exploring increasing the current franchise fee, in addition to evaluating the increase in revenue generated by a waste hauling franchise fee.

Recommendation # 12 – Street Sweeping Service Adjustments (Savings: \$181,300)

The Committee reviewed service delivery alternatives for every City department. The Public Works Services department is responsible for providing street sweeping services in the City. Currently, the City provides street sweeping services on a weekly basis. The Committee finds that while weekly street sweeping services are a preferred service level, however, there are possible alternative schedules that will reduce costs and still provide sufficiently clean streets and gutters. The Committee, therefore, recommends this proposed service level adjustment that would save approximately \$181,300 in annual costs. It should be noted that changes to the street sweeping service may likely cause more trash, debris, and pollutants to accumulate in City streets and storm drains.

Recommendation # 13 – Gilb Museum Fundraising Model (Potential Savings/Revenue: \$250,000)

The City of Arcadia is one of only a handful of communities its size that operates a full-service museum. While the Gilb Family and the Friends of the Museum do support the museum in many significant ways, the cost to operate the facility is supported by the City's General Fund. The Committee finds that the Gilb Museum of Arcadia Heritage is a treasured community asset and should be preserved, but there are alternative operating models that should be considered to fund and/or operate the museum. The Committee recommends that the City explore alternative models to fund museum operations, and pursue more aggressive fundraising opportunities. In addition, the Committee recommends that alternative operating models be explored, including privatizing operations or using a community volunteer model.

Recommendation # 14 – Par 3 Golf Course Alternative Use (Potential Revenue: Unknown)

The Arcadia Par 3 Golf Course is owned by the City of Arcadia and leased to a third party vendor for operations and maintenance of the facility. The golf course is approximately 26 acres and is open for business 12 hours per day nearly 360 days per year, yet the City only receives approximately \$150,000 per year in rent from the operator. The Committee finds that while the Par 3 Golf Course is a sufficient use of the facility, there is potentially more profit maximizing uses for the site. The Committee recognizes that the City Council has just entered into a new lease for the facility; however, the Committee recommends that the City study alternative uses for the site that may include residential, commercial, mixed-use, or other recreational amenities that provided either a greater community benefit and/or revenue to the City.

Recommendation # 15 – Community Facilities District Impact Fees (Potential Revenue: Unknown)

The Mello-Roos Community Facilities Act of 1982 permits any county, city, special district, school district or joint powers of authority to establish a Community Facilities District (CFD), which allows for the financing of public services and facilities. The services and improvements that CFDs can finance include streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities. Establishing a CFD would allow the City to issue bonds to finance infrastructure improvements or capital acquisitions. The debt service on the bonds would be paid by a special assessment on the properties within the district. In order to establish a CFD, it must be approved by a two-thirds margin of qualified voters in the district. If there are fewer than twelve registered voters within the district, the vote may be passed by current landowners. The Committee finds CFD financing to be an appropriate mechanism to offset the cost of increasing capital costs and infrastructure improvements for new projects; however, its application would likely be limited to developments in Downtown Arcadia or at Santa Anita Park. Therefore, the Committee

recommends that the City Council consider the use of Community Facilities Districts as a funding mechanism for infrastructure improvements and capital costs where appropriate.

Committee Commentary

The members of the Citizen's Financial Advisory Committee would like to extend their appreciation to the Arcadia City Council for the opportunity to serve the community and participate in this important discussion regarding the future of the City we all cherish. We hope that you find these recommendations to be helpful in your policy deliberations moving forward. The Committee firmly believes that if its recommendations are implemented, the City of Arcadia will remain fiscally sound for the foreseeable future. While the circumstances that created this situation were beyond the control of the City Council, the solutions to tackling this complex challenge are well within its grasp.

The Committee would also like to extend its appreciation to all City staff that supported this body in its efforts, particularly City Manager Dominic Lazzaretto, Hue Quach, Shannon Huang, Michael Bruckner, Laena Shakarian, and Mandy Jiang. Their professionalism and dedication were instrumental in ensuring that the Committee had all the resources and information it needed to reach its conclusions. We thank them for their service.

Requesting Information

For general information regarding the Citizen's Financial Advisory Committee, please contact the City Manager's Office at (626) 574-5401 or visit the CFAC website at ArcadiaCA.gov/CFAC.

Appendix A: Summary of Research & Analysis

1998 Citizen's Financial Advisory Committee Report	City of Arcadia Statement of Investment Policy
Administrative Services Department Service Delivery Alternatives	City of Arcadia Top Sales Tax Producers
Arcadia Association of Realtors Property Transfer Tax Feedback	City of Arcadia Vehicle Replacement Schedule
Arcadia Par 3 School District Map	City of Beverly Hills Pension Reform Summary
California Debt and Investment Advisory Commission Local Agency Investment Guidelines	City of Beverly Hills Section 115 Trust Staff Report
CalPERS Asset Allocation	Comparable Pension Contributions by City
CalPERS Unfunded Liability Proposal – Lewis & Ellis	Comparable Tax Rates by City
CalPERS Unfunded Liability Proposal – Urban Futures	Comparable User Fee Schedules by City
Capital Improvement Fund Expenditure Reductions	Corporate Pension Plan Funding Ratios
City Clerk/City Attorney Service Delivery Alternatives	Development Services Service Delivery Alternatives
City Manager/City Council Service Delivery Alternatives	Equine Sales & Use Tax Information
City of Arcadia Administrative Pool Vehicle Analysis	Equipment Replacement Fund Expenditure Reductions
City of Arcadia Cost Allocation Plan Worksheet	Fire Department Service Delivery Alternatives
City of Arcadia Fleet Management Analysis	FY 2017 Comprehensive Annual Financial Report
City of Arcadia General Fund Contract Cost Detail	FY 2017-18 Operating Budget
City of Arcadia Gilb Museum Staffing	FY 2018-19 Budget Adoption Presentation
City of Arcadia Illegal Building Activity and Penalties	FY 2018-19 Budget Staff Report
City of Arcadia Investment Performance Review Ending for Quarter Ending June 30, 2018	FY 2018-19 Operating Budget
City of Arcadia Investment Report – July 2018	FY 2018-23 Capital Improvement & Equipment Plan
City of Arcadia Paid Parking Revenue Analysis	Grant Writing Costs Survey
City of Arcadia Par 3 Golf Course Staff Report	Historical Ballot Measure Analysis
City of Arcadia Paramedic Membership Program	Historical Property Sales by Classification
City of Arcadia Resolution Approving Memoranda of Understanding Establishing Compensation and Related Benefits for the Represented Employee Groups	Keeneland Racetrack Annual Sales Figure
City of Arcadia Resolution Establishing Compensation and Related Benefits for City Council, Executive Management, Management, and Unrepresented Confidential Employees	Library and Museum Services Service Delivery Alternatives
	November 2018 Ballot Measures – Los Angeles County
	November 2018 Ballot Measures – Statewide
	Police Department Service Delivery Alternatives
	Public Works Services Service Delivery Alternatives
	Recreation and Community Services Service Delivery Alternatives
	Restricted and Unrestricted Funds
	Revenue Enhancement Rankings by Amount
	State of California Government Code Investment Guidelines
	Thoroughbred Sales Market Information
	Urban Futures Unfunded Liability Presentation

