



STAFF REPORT

Office of the City Manager

DATE: January 15, 2019

TO: Honorable Mayor and City Council

FROM: Dominic Lazzaretto, City Manager
By: Michael Bruckner, Assistant to the City Manager
Laena Shakarian, Management Aide

SUBJECT: REPORT, DISCUSSION AND DIRECTION REGARDING THE CITIZEN'S FINANCIAL ADVISORY COMMITTEE FINAL REPORT
Recommendation: Receive and File Report and Direct Staff to Implement Recommendations

SUMMARY

On February 20, 2018, the City Council adopted Resolution No. 7202 establishing a Citizen's Financial Advisory Committee ("Committee") to review the City's long-range financial forecast and provide recommendations for potential cost containment and/or revenue enhancement strategies to address the City's projected \$8.0 million structural deficit in the General Fund. The Committee was to submit a report to the City Council no later than 60 calendar days following their final meeting. After meeting for five months, on December 13, 2018, the Committee unanimously approved a Final Report ("Report") for submission to the City Council for its review and consideration.

This Report is a comprehensive fiscal sustainability plan with 15 specific recommendations, including 10 primary recommendations for immediate consideration along with an additional five contingency recommendations should additional cost containment and/or revenue enhancements be necessary. Most significantly, the Committee is recommending that City services be maintained at current levels and that the City Council declare a fiscal emergency and place a ¾ cent sales tax measure on the ballot as quickly as possible but preferably no later than June 2019. The Committee believes that locally-controlled revenue is of paramount importance to the long-term sustainability of the City's General Fund. Therefore, it is recommended that the City Council receive and file the Citizen's Financial Advisory Committee Final Report and direct staff to implement its recommendations.

BACKGROUND

Like most other municipalities in California, the City of Arcadia is facing a dire fiscal outlook. The adopted Fiscal Year 2018-19 General Fund Operating Budget shows a deficit of \$3.1 million. The structural imbalance is projected to increase to approximately \$8.0 million per year by Fiscal Year 2024-25 and the General Fund operating reserve is projected to decline from \$8.3 million in Fiscal Year 2017-18 to approximately \$500,000 by the end of Fiscal Year 2019-20. Rising costs of services, primarily driven by increasing pension costs, are threatening to crowd out resources available for important City services like police, fire, street maintenance, parks, and the library. In order to ensure that 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 City has historically operated on limited resources while ensuring the quality of life Arcadians have come to expect is maintained. 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. 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. Even though the City has remained fiscally accountable, due to recent policy changes from the California Public Employees' Retirement System ("PERS"), the City is facing financial uncertainty. While current service levels are sufficient to address the needs of the community, the City can no longer guarantee these services over the long-term given the current financial picture. Unless immediate action is taken, there will have to be significant cuts to important City services that will reduce neighborhood police patrols, 911 emergency response times, fire protection and life-saving services, recreation and library programs, road quality, and infrastructure maintenance and improvements.

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 Citizen's 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 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. On February 20, 2018, the City Council adopted Resolution No. 7202 establishing a Citizen's Financial Advisory Committee. The Committee is comprised of Arcadia residents with a strong background in corporate and municipal finance, public and private accounting, real-estate, and pension fund management.

DISCUSSION

As defined in Resolution No. 7202, the purpose of the Citizen's Financial Advisory Committee is to provide recommendations to the City Council for cost containment and/or revenue enhancements. The Committee adopted the following as its four guiding principles as the basis for its analysis and recommendations:

1. The Committee will provide recommendations that are realistic, practical, and smart.
2. The Committee believes that services 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.

In order to ensure that important City services that Arcadia residents rely on are maintained, the Committee independently analyzed financial projections and evaluated various options to ensure the long-term sustainability of the City's General Fund. The Committee discussed a wide range of topics, including policy options, revenue enhancements, cost cutting measures, and service delivery alternatives that aligned with City Council goals and the Committee's adopted guiding principles.

After its deliberations, it was the consensus of the Committee to provide the City Council with both short-term and long-term recommendations. In total, the Report contains 15 recommendations for the City Council to consider, 10 of which should be considered immediately, along with another five contingency recommendations if additional cost containment and/or revenue enhancement strategies are necessary. 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.

The Committee's primary findings and recommendations include several policy options for the City Council to consider but, most significantly, the Committee is recommending that City services be maintained at current levels and that the City Council declare a fiscal emergency and 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's rationale behind the sales tax measure is two-fold. First, Arcadia is a regional destination shopping center and the vast majority of the City's sales tax revenue is paid by out-of-town shoppers. Alternatively, increasing the City's property tax would be paid entirely by Arcadia residents. Second, the Committee was concerned that another taxing agency like Los

Angeles County could use the local portion of Arcadia's sales tax increment for another initiative that does not directly benefit Arcadia residents. The Committee believes that a locally-controlled sales tax is the best solution to address the City's structural deficit.

At the September 27, 2018, Citizen's Financial Advisory Committee 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. This item was received by the City Council on October 16, 2018, whereby the City Council directed staff to bring back an item recommending that the City Council declare a fiscal emergency and place a $\frac{3}{4}$ cent sales increase measure on future ballot. This item is tentatively scheduled for the February 5, 2019, City Council meeting.

The Committee also believes that addressing the City's unfunded actuarial accrued liability ("UAAL") pension costs is paramount to the City's long-term sustainability. The Committee is recommending 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 UAAL. 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, recommendations, and eventual implementation of these cost-saving measures.

In addition to the actions outlined, the Committee is further recommending the following actions:

- The City retain the services of a consultant to prepare a detailed cost analysis of the City's productive hourly rates and user fees and adopt a User Fee Cost Recovery Level policy to provide guidance on the appropriate levels of cost recovery for fee based activities. It is estimated that this recommendation will generate \$250,000 to \$500,000 annually.
- The City Council authorize the City Manager to request during the next period of labor negotiations that sworn public safety employees in the Classic Plan increase their member contribution from 9% to 12%. It is estimated that that this policy change would save the City approximately \$386,000 in pension costs annually.
- That action be taken to adjust the City's overnight parking fees and to charge for the Vacant Home Registry program. This action would generate approximately \$53,500 in one-time revenue and \$134,700 in ongoing revenue.
- Eliminate two City pool vehicles at the end of their useful life and do not replace them. 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, saving about \$9,000 annually in ongoing maintenance costs.

- Review and update the City's Investment Policy to allow for higher yielding investment options that are allowed under state law but are not authorized under the current policy. It is estimated that this change will generate an additional \$25,000 to \$40,000 annually.
- No changes to Utility Users Tax ("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.

ENVIRONMENTAL ANALYSIS

The proposed action does not constitute a project under the California Environmental Quality Act ("CEQA"), and it can be seen with certainty that it will have no impact on the environment. Thus, this matter is exempt under CEQA.

FISCAL IMPACT

The fiscal impact of each specific recommendation is outlined in the Report. The overall fiscal impact will be determined based on the specific recommendations the City Council elects to implement. The proposed $\frac{3}{4}$ cent sales tax measure is estimated to generate approximately \$8.6 million annually. At a minimum, the remaining recommendations would create savings or additional revenue enhancements that would total \$804,700, plus additional one-time savings. 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.

RECOMMENDATION

It is recommended that the City Council receive and file the Citizen's Financial Advisory Committee Final Report and direct staff to implement all of its primary recommendations. It is also recommended that the City Council extend the term of the Citizen's Financial Advisory Committee and direct them to focus on identifying the best means of addressing pension liabilities in the short- and long-term.