

**Date:** June 4, 2013  
**To:** Honorable Mayor and City Council Members  
**From:** John Dunn, City Manager  
**Subject:** Budget Message – Fiscal Year 2013-14  
(Supplementing Preliminary Budget Message of May 8, 2013)

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### Introduction

Perhaps the most basic function of local self government is the provision of the “agora” (borrowing from the ancient Greeks), the place and structure for community decision making, creating our own little corner of the American democratic process. The result of this self-rule over time has led to the City’s provision of certain services for our citizens, services which individual citizens realistically cannot provide for themselves, but which are necessary for both survival and well-being. These include the protection of life and property through the provisions of police and fire, and traffic and building safety functions; the protection of public health through the provision of water, sanitary sewer and waste removal services; the provision for public conveyance and commerce through transportation systems; the provision of public facilities with community-use buildings, parks, playgrounds and ball fields; the provision of quality-of-life services such as recreation, education, art, cultural, and community cleanliness and attractiveness services. These City government services are both desirable and essential to the lives and the quality-of-life of our citizens.

Over the last several years, since the beginning of the Great Recession in 2008, the primary battle of the City of Seaside has been how best to preserve and continue the services which are so vital to our citizens and the life of our community.

We are still engaged in that battle. Over the past four years the City has gone from 173 to 119 employees, losing a third of our work force. The City, and particularly our employees, have valiantly attempted to maintain our services, yet we must recognize that there are many functions that are no longer maintained at previous levels of quality, timeliness and completeness.

Today, the result of this battle is a City still fighting to produce a balanced budget. A balanced budget is more necessary than ever due to our minimal reserves, and a City staff which is “stretched thin” given the quality of the services we attempt to deliver for our citizens.

### The 2013-2014 City Budget

The central issue of the budget placed before the City Council is the need to either produce the revenue necessary for a balanced budget or, conversely, to reduce the City’s expenses through program/personnel reduction to the level of the reasonably-assured income.

This issue was certainly brought out in the discussion of the potential budget balancing proposal at the May 28th City Council budget study session, which consisted of the following:

What can we do to Balance the Budget?

Increase Revenues:

• Increase present revenue estimates	\$200,000
• Adopt increased fees and charges	\$350,000
• Adopt Stormwater Fee	\$0
○ Beginning July 1, 2014	
• Revenue ballot measure	\$0
○ Discuss at Strategic Planning	
• Economic Development	\$0
○ Included in proposed budget	
• Police Services contract with Pacific Grove	\$300,000
○ If there is no contract, current revenues will decrease by \$150,000	
<b>Total Increases</b>	<b>\$850,000</b>

Decrease Expenditures:

• Program Priority System re-examined	
○ No program elimination at this time	\$0
○ Program reduction recommended	\$100,000
• No funding for previously authorized positions	\$0
• No funding to increase Fire Chief to $\frac{3}{4}$ time	\$0
<b>Total Decreases</b>	<b>\$100,000</b>

Summary

• Increased Revenues	\$850,000
• Decreased Expenditures	<u>\$100,000</u>
<b>Total Changes</b>	<b>\$950,000</b>

Difference	<u>\$7,693</u>
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<b>Preliminary Budget Deficit</b>	<b><u>\$957,693</u></b>
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The Two Projected Revenues of Greatest Concern Were:

Adopt increased fees and charges	\$350,000
Police Services contract with Pacific Grove	\$300,000

Fees and Charges

All of us, the Council, the staff, and the public, were at a disadvantage at the May 28<sup>th</sup> study session in that we had not received the Consultant’s report as yet, and certainly we had not had the opportunity to examine it, so the estimate could have seemed high or even presumptuous.

Fortunately, we have now received the report and have provided copies to the Council and the public (through the City website).

The study’s recommendations are broken down into seven categories, as follows:

Department/Division	Estimated Annual Current Fee Revenue	Eligible Cost Recovery from User/Regulatory Fee Revenue	Current Cost Recovery Percentage	Estimated Annual Recommended Fee Revenue	Recommended Cost Recovery Percentage
RMS-Building Division	\$105,000	\$388,000	27%	\$319,000	82%
RMS-Planning Division	\$136,000	\$272,000	50%	\$272,000	100%
RMS-Engineering Div.	\$58,000	\$104,000	56%	\$104,000	100%
RMS-Recreation Div.	\$326,000	\$1,472,000	22%	\$326,000	22%
Fire Department	\$98,000	\$177,000	55%	\$177,000	100%
Police Department	\$45,000	\$85,000	53%	\$85,000	100%
Police-Animal Control	\$5,000	\$12,000	42%	\$6,000	50%
Total	\$773,000	\$2,510,000	31%	\$1,289,000	51%

Summarizing the above chart:

100% potential cost recovery – fees and charges, etc.	\$2,510,000
2013-2014 current estimated revenue from fees and charges	- \$ 773,000
Maximum potential increase	<u>\$1,737,000</u>

Proposed (consultant) cost recovery – 51%	\$1,289,000
2013-2014 current estimated revenue from fees and charges	- \$ 773,000
Proposed revenue increase	<u>\$ 516,000</u>

(\$156,000 more than the May 28<sup>th</sup> estimate of \$350,000)

At the June 6<sup>th</sup> and June 20<sup>th</sup> City Council meetings or, as shortly thereafter as possible, we would hope to have the fees and charges considered and adopted, to give the City the best estimate of revenue from this source, without speculation.

Potential Contract with the City of Pacific Grove for the Provision of Police Services

The second major potential budget balancing figure was the estimated income/cost savings which could result from the City of Seaside providing Police services to the City of Pacific Grove. At the present time Seaside provides, through contract, Police Chief and Police Sergeant Services to Pacific Grove, an arrangement which has worked out well for both cities. Recently, however, the City of Pacific Grove has asked three agencies – the Cities of Monterey and Seaside and the County Sheriff’s Department – to submit formal contract proposals to them for the provision of Police Services, retaining the option that they might continue to provide their

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own police services. Therefore, they will have four options available to them, which they hope to review at their City Council meeting of June 19, 2013.

As of the time of this writing Seaside staff has just completed working on our City's contract proposal. As earlier indicated, the City's contract proposal must be reviewed and approved by the Seaside City Council, before it can be submitted to the City of Pacific Grove. That item has been placed on the June 6<sup>th</sup> City Council agenda, item 9E, concurrent with the budget discussion.

In view of these circumstances there are two possibilities for the City of Seaside.

1. The City staff has submitted the contract proposal for initial review and approval by the Seaside City Council and, if approved, the proposal would be submitted to the Pacific Grove City Council. The proposal as presently calculated would give the City of Seaside new revenue and/or cost savings of \$697,881 per year; deducting the approximately \$150,000 a year for the present contract, which would be discontinued, would give a net gain of \$547,881 per year.
2. The City could choose not to submit a contract proposal, or the Pacific Grove City Council could choose not to accept the contract proposal, in which case there would be the loss of the present contract, currently providing approximately \$150,000 per year to the City.

Therefore, the present situation is that the City, in these Police services contract discussions, could go from a net gain of \$547,881 (estimated), to a net loss of \$150,000 (actual). On this matter of potentially great impact on the City's budget, none of us know for certain at this time what the outcome will be.

This obviously represents a dilemma for our budget preparation, review and adoption process. How best to handle this dilemma is the question before us.

#### Proposed Program Reductions

At the May 22<sup>nd</sup> City Council Budget Study Session, the staff was asked to review the Program Priority list the City developed five years ago, to determine if any programs could be eliminated. The City Manager and Department Heads did this re-examination and determined that, though no program could be recommended for elimination, a careful examination of all programs should take place to eliminate at least \$100,000 from the budget. The City staff did that, producing the following list of recommended program reductions: though these program reductions do not result in the reduction of any regular, full-time employee, they will result in some cases in the reduction of hours for part-time employees.

**PROPOSED PROGRAM REDUCTIONS**

		<u>Detail</u>	<u>Total by Program</u>
Fire Administration	Equipment Repair	\$ 200	
	Consumables	\$ 1,000	
	Meetings/Travel	\$ 250	\$ 1,450
Fire Prevention	Dues/Memberships	\$ 250	\$ 250
Fire Operations	Consumables	\$ 1,500	\$ 1,500
Disaster Preparedness	Consumables	\$ 800	\$ 800
<b>Fire Total</b>		<b>\$ 4,000</b>	<b>\$ 4,000</b>
Intersession Camp	Part-Time Staffing	\$ 27,730	\$ 27,730
Swimming Pool	Part-Time Staffing	\$ 22,700	\$ 22,700
<b>Recreation Total</b>		<b>\$ 50,430</b>	<b>\$ 50,430</b>
Personnel	Consultant Services	\$ 4,000	\$ 4,000
<b>Administrative Services Total</b>		<b>\$ 4,000</b>	<b>\$ 4,000</b>
Police Investigations	Vehicle Lease (to be paid with asset forfeiture)	\$ 14,000	\$ 14,000
Police Administration	Administrative Analyst Savings (3 Mos.) <sup>1</sup>	\$ 24,000	\$ 24,000
Police Patrol	Officer Savings (1 Month) <sup>1</sup>	\$ 12,000	\$ 12,000
<b>Police Total</b>		<b>\$ 50,000</b>	<b>\$ 50,000</b>
<b>Total Proposed Program Reductions From Preliminary Budget</b>		<b><u>\$ 108,430</u></b>	<b><u>\$ 108,430</u></b>

<sup>1</sup> Currently vacant position. Additional time needed to complete recruitment.

Some thoughts on good budgeting practice

Rule 1 in budget preparation is not to be overly optimistic. That is why the “finance director’s rule” is to be conservative on revenue estimates, and this rule has served the City well over the years by its application. However, even with the assuredness of definite numbers, all budgets for a future time period are educated guesses, ranging from a “very high probability” of being achieved to, for some items, a lesser probability.

Rule 2, a corollary, is to be as realistic and honest as you can be, with the absolute knowledge that things will change, that the unforeseen will happen, and that no one has the perfect capacity to see the future. Therefore budget preparers operate somewhere in-between the “best” and the “worse” case scenarios, trying to find the most likely and realistic outcome.

In the case of the budget for this coming year, at the time of this writing, the City has two major budget unknowns, what action the City Council will take on the “fees and charges” proposed revenue increases, and what action our City Council and the Pacific Grove City Council will take on the possible provision of Police services to the City of Pacific Grove.

However, though we now have greater specification than before, this has been the budget dilemma from the beginning of this budget season, how to close a nearly \$1,000,000 revenue-expenditure gap, within the context of making a herculean effort to preserve all-already-reduced municipal services and to preserve our existing work force, those who provide these services.

But ultimately a choice must be made between doing what we think is best for the City and its citizens, or for the sake of the City's fiscal integrity, living within our means. With a healthy reserve, with a robust economy, the City decision-makers would have some room for trade-offs between these two choices, but with inadequate reserves, as is the present case, flexibility erodes and only stark choices remain.

As said above, one shouldn't plan ahead based only on best case-scenarios, nor should one take precipitous action based on a hypothetical worse-case-scenario.

It is in this context that the following alternative recommendations are proposed for your discussion and deliberation.

**City Manager's Recommendation:**

That the General Fund operating budget, as set forth in the preliminary budget and as modified below, and the Capital Outlay and Capital Improvement budgets from all funds, and the one-time funds spending proposals, be approved as presented, incorporating any changes made by the Council. If sufficient funds are subsequently found then, in this priority, the Associate Planner position would be added, and the Fire Chief would go from one-half to three-quarters time and compensation.

If by July or August it is apparent that the estimated revenues are to be substantially less than those set forth below, then the City Manager would return to the City Council with proposed program/personnel cuts equal to the loss of projected revenue by the two items discussed above (fees and charges and Pacific Grove Police services contract), for the purpose of creating a balanced budget.

Recommended modifications from the preliminary budget:

Increase present revenue estimates	\$200,000
Adopt increased fees and charges	\$500,000
Approve providing Police services to Pacific Grove (net)	<u>\$547,881</u>
Total projected revenue increases	\$1,247,881
Proposed program reductions	<u>\$ 108,430</u>
Total changes	<u>\$1,356,311</u>
Added to reserves	<u>\$1,356,311</u>

This is as compared to a projected preliminary budget deficit of \$957,693.

**Alternative Recommendation:**

That the General Fund operating budget, as set forth in the preliminary budget and as modified above, and the Capital Outlay and Capital Improvement budgets from all funds, and the one-time funds spending proposals, be approved as presented incorporating any changes made by the City Council. (The above is the same as the first recommendation, except that it does not include the Associate Planner or the Fire Chief; what follows is different from the recommendation above).

The City Council could direct at the June 6<sup>th</sup> meeting that a budget be prepared for City Council review and adoption at the June 20<sup>th</sup> meeting that involves no speculation as to what the Council might do on raising fees and charges or what the Seaside and Pacific Grove City Councils' might do in relation to the Police services contract. The budget/revenue situation assumes no increase in fees and charges and assumes no Police services contract with Pacific Grove.

Increase present revenue estimates	\$200,000
Reduce revenue estimates for loss of current Pacific Grove contracts	(\$150,000)
Adopt increased fees and charges	-0-
Approve providing Police services to Pacific Grove	<u>-0-</u>
Total projected revenue increases	\$ 50,000
Proposed program reductions	<u>\$108,430</u>
Total changes	<u>\$158,430</u>
<b>Remaining Deficit</b>	<b><u>\$799,263</u></b>

This would mean a projected budget deficit of \$799,263, which would be the approximate equivalent of 5.4 public safety or 8 non-public safety positions, since after the budget scrutiny and reductions of the past several years, personnel reductions are the only real opportunity left for cost savings.

Rationale – Further Explanation

The first recommendation to the City Council is the favored recommendation, as it would be decision-making based on the then-known facts. On the other hand, if the City Council were uncomfortable on adopting a budget based on what might happen, the second recommendation would be the only alternative available to us.

The second recommendation above would raise a number of policy issues which would have to be addressed before or during the program/personnel reductions, issues such as: should the cuts be made even-handedly across the board in the “shared sacrifice” mode or should they exclude public safety, placing a greater burden on the non-public safety functions, financial, engineering, planning, economic development, building, public works (streets, parks) and recreation functions?

Either of the above recommendations, enabling a balanced budget, would best ensure that the portion of the one-time monies recommended to be put into the City’s reserve fund would not be

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converted into covering expenditures for ongoing operational programs, a concern expressed at the Council study session.

Details on the one-time-funds proposed spending and the Capital Outlay and the Capital Improvements programs are in the accompanying report by Deputy City Manager-Administrative Services, Daphne Hodgson.

### Summary

As previously stated in the preliminary budget message, this has been a very difficult budget year for all of us because of the projected budget deficit, because of our strong desire to protect our present service program and personnel if possible, and because two potential and major revenue sources are not as yet resolved matters.

In closing, I would again like to thank those who have so diligently assisted in this process, Deputy City Manager-Administrative Services Daphne Hodgson, Financial Services Manager Lisa Saldana, Deputy City Manager-Resource Management Diana Ingersoll, Police Chief Vicki Myers, Fire Chief Brian Dempsey, Senior Administrative Assistant Rosa Salcedo, and the several departmental personnel who provided invaluable assistance to the Department Heads. I would also like to thank the City Council for joining with us in struggling through this difficult issue.



JD:rs