

# Budget Policy Issues

This section of the budget document brings forth a series of high level budget policy issues that set the context for the overall budget. The City Council decisions on these issues impact the entire budget, and set a context which all operations are confined. It is recommended that these issues be addressed first, before going on to the more detailed line items within each operating area. The issues listed below are addressed individually in the following pages:

- Budget Policy Issue #1: Community Vision
- Budget Policy Issue #2: Replenishment of Reserves
- Budget Policy Issue #3: Infrastructure Funding
- Budget Policy Issue #4: Redevelopment Loan
- Budget Policy Issue #5: Funding Retiree Medical
- Budget Policy Issue #6: Employee Compensation
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- Budget Policy Issue #9: Revenue Options
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- Budget Policy Issue #13: Lighting Districts
- Budget Policy Issue #14: Street Sweeping

# Budget Policy Issue #1

## Community Vision

The City Council has requested that a Community Visioning process be conducted this summer.

### **Recommendation:**

Include \$20,000 in the revised budget for FY 2013-14 to cover the cost of hiring an experienced facilitator for the visioning process.

### **Discussion:**

A community visioning process is intended to bring together all segments of a community to identify problems, evaluate changing conditions, and build collective approaches to improve the quality of life in the community. Successful efforts engage all segments of the community, including those who are already participating in municipal activities, and those who are not as involved.

#### *What is the role of the facilitator?*

A facilitator is someone with experience and expertise in helping participants come together in an organized way to achieve the desired product. When choosing a facilitator it is important to place the emphasis on the candidate's skills in helping people of divergent backgrounds engage and come together around common concerns and values, rather than his/her particular knowledge of the City of Ojai. This could mean that the facilitator is not a local resident.

The facilitator may have a template for the process that has been tested and fine tuned through use in different kinds of communities. The facilitator also documents the process.

*What is the product?*

The products of a visioning process vary widely. There is often a vision statement that reflects the common view of the future arrived at through the process. Sometimes there are specific action items or measurable goals which are intended to implement the vision. Part of the process of selecting a facilitator will include consideration of the types of output they recommend and feel will be useful to the community.

# Budget Policy Issue #2

## Replenishment of Reserves

The Statement of Financial Principles establishes a "minimum reserve" equal to 50% of the *General Fund* expenditures for each fiscal year.

### Recommendations:

Rely on Redevelopment Loan Repayments and Libbey Bowl Pledge payments to increase reserves.

### Discussion:

#### Status of Available Reserves

It is important to have a reasonable "rainy day fund" to cover unanticipated expenses such as those caused by a natural disaster, economic downturn or other calamity. By the end of FY 2013-14 we expect the *General Fund* to have a balance of \$1,842,654 and the Libbey Bowl Fund to have a balance of \$1,290,464. These two amounts together constitute our "rainy day fund".

However, several funds have accumulated negative balances over the years. Money reserved in the *General Fund* to cover these negative balances is not actually available for emergencies and should not be counted toward the minimum reserve requirement. The cumulated amount of loans to the Plaza Maintenance Fund, Street Lighting Fund and Successor Agency is estimated to be \$509,660 by the end of FY2013-14.

## Potential Increases to Reserves

### Redevelopment Loan Payments

In addition, it appears that the City Loan to the RDA will be approved at some amount, if not the full amount approved by the Oversight Board, and that a payment could still be available in FY 2013-14. Because of uncertainty no loan repayment revenue has been projected in the budget.

### Libbey Bowl Pledges

Finally, reserves were loaned to the Libbey Bowl construction project, and unsecured pledges are due during the course of the year. These revenues are projected, but not allocated to the General Fund.

## Potential Ending Reserve Balance

If the sources described above come in as projected reserves will be equal to 35% of General Fund expenditures

### GENERAL FUND RESERVES ESTIMATED By the end of FY 2014-15

Available Reserves			
General Fund		\$1,842,731	
Libbey Bowl Fund		\$1,315,000	
Street Lighting Fund		(\$261,093)	
Paza Maintenance Fund		(\$214,970)	
Successor Agency Fund		<u>(\$1,507)</u>	
	Total	\$2,680,161	32%
Potential Additions			
RDA Loan Repayment		<u>\$185,260</u>	
		\$185,260	
Potential Reserves		\$2,865,421	34%

# Budget Policy Issue #3

## Infrastructure Funding

One of the highest priorities established in the City Council goal setting process is to provide high quality infrastructure. To achieve this, an increasing portion of Transient Occupancy Tax (TOT) revenues are being allocated directly to the Capital Improvement Fund.

### Recommendation:

Continue to increase the amount of TOT revenue allocated to the Capital Improvement Fund:

FY 2011-12		\$300,000
FY 2012-13	13.57%	\$329,969
FY 2013-14	17.50%	\$479,092
FY 2014-15	20.0%	\$567,532

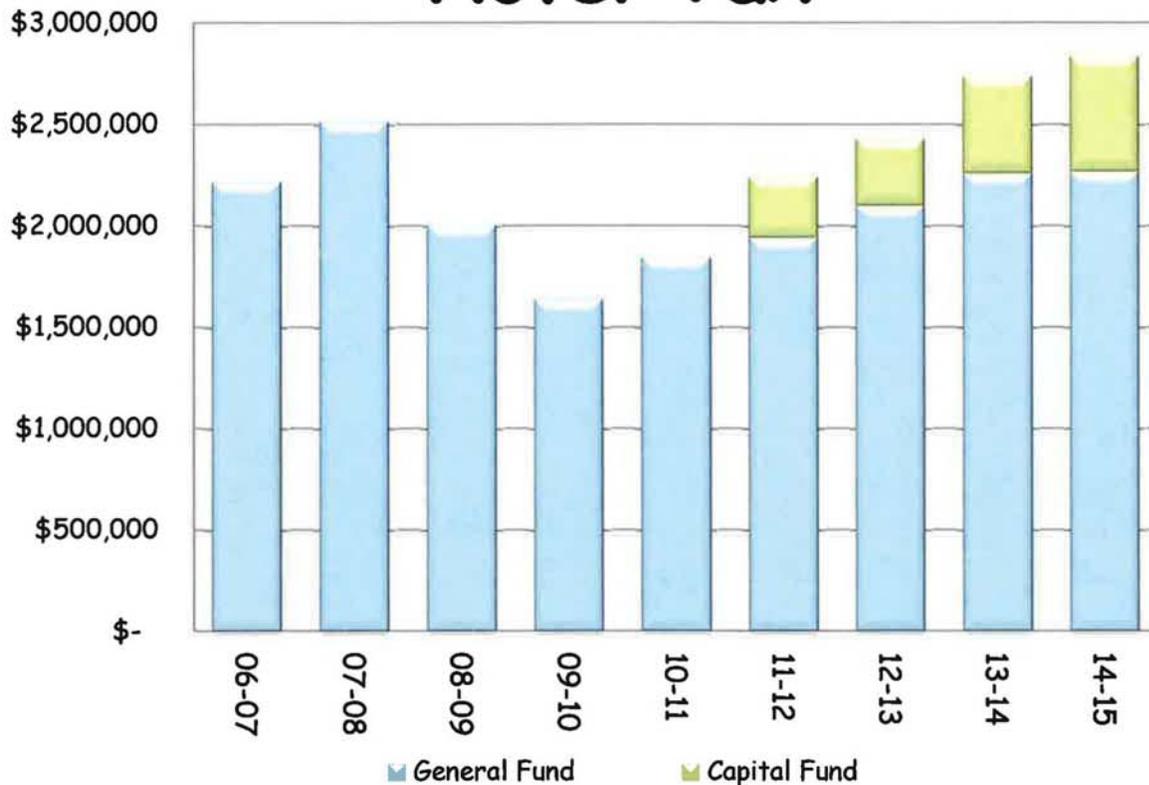
### Discussion:

Ojai suffers from significant deferred maintenance to its streets, sidewalks, parks and public facilities. It will take a determined multi-year effort to reverse this situation. Only now, in the third year of allocating significant portions of TOT to the Five Year Capital Improvement Fund (CIP), will the effort become noticeable. Therefore, the Five Year Capital Improvement Plan assumes that TOT allocations will increase annually until they reach 25% of TOT. Even at this level the deferred maintenance is not eradicated. However, significant progress will be made, especially if we continue to supplement these allocations with grant contributions.

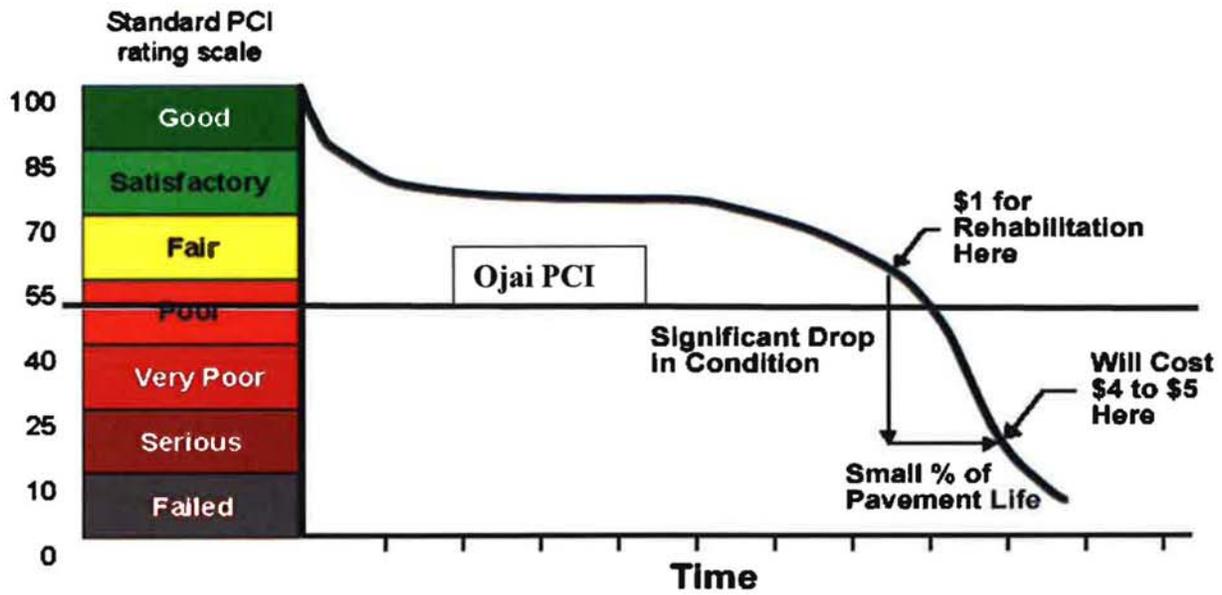
If the City Council continues to give infrastructure a high priority, and builds up and sustains the TOT funding, we will move from a City with poor quality public facilities to a City with first class infrastructure. As shown in the chart on the

next page, TOT was hit hard during the recession. As a result the operations were scaled back to bear bones. The price of funding infrastructure is that we must continue to keep operations very lean, and allocate TOT growth to funding the CIP.

## Hotel Tax



In 2011 the estimated pavement condition index (PCI) of Ojai's roads was estimated to be 55. The pavement management expert told us at the time that it would take \$9.5 million to bring it up to a "satisfactory" rating.



City Council has given a number of infrastructure issues a high priority in its goal setting process. These include:

- Road Paving
- Cross Walk Safety
- Utility Saving Projects
- Recreation Facilities
- Tree Planting
- Facility Repairs
- Plaza Maintenance

Projects relating to all of these items are included in the Five Year Capital Improvement Program.

# Budget Policy Issue #4

## Redevelopment Loan

The Department of Finance has approved the first repayment, in the amount of \$353,680, of the loan from the City to the former Redevelopment Agency. In doing so, they are requiring that we recalculate the loan using an extremely low interest rate retrospectively. This reduces the loan from \$5.2 million to \$2.2 million. Some of the money will go to the successor housing agency and the balance will go to the City.

### **Recommendation:**

Hold the portion of the repayment that goes to the City (\$185,260) in reserve, pending future decisions by the Oversight Board and Department of Finance about use of tax increment funds.

### **Discussion:**

Prior to the dissolution of the Redevelopment Agency, the State took money from redevelopment agencies to balance its budget. This left the agency unable to pay all of its bills; so, agencies were allowed to advance money from their housing funds. Now the State is requiring City's to repay those loans to their housing funds from any RDA loan payments they receive from the tax increment.

Under State Law the repayments must be allocated as follows:

	<b>Housing Loan Repayment</b>	<b>Housing Set Aside</b>	<b>City General Fund</b>
FY 2014-15	\$122,105	\$46,315	\$185,260
FY 2015-16		\$70,736	\$282,944
FY 2016-17		\$70,736	\$282,944
FY 2017-18		\$70,736	\$282,944
FY 2018-19		\$70,736	\$282,944
FY 2019-20		\$70,736	\$282,944
FY 2020-21		\$15,584	\$62,336

This assumes that the Department of Finance continues to approve the loan repayments each year.

The proposed budget assumes that \$250,000 per year of administrative costs can be charged to the Successor Agency. The Department of Finance has approved the first allocation which covers half that amount. However, they have challenged the reasonableness of this allocation, and may not approve the all of the second half. Therefore, it is recommended that the City portion of the first payment be held in reserve until the Oversight Board and Department of Finance make final determinations on that question.

# Budget Policy Issue #5

## Funding Retiree Medical

The City has provided retiree medical benefits to current and future retirees. These benefits are not funded during the time of employment. Therefore the City has been proceeding on a "pay as you go" basis each year. The number and amount of payments will grow over time, and put pressure on the budget.

### Recommendation:

Establish an interest bearing trust fund for retiree medical benefits, and include \$100,000 in the revised budget for FY 2013-14 as a partial contribution toward future benefits.

### Discussion:

The current unfunded liability for retiree medical is \$7,743,353. In spite of major restructuring approved by City Council, this amount will grow as employees, who are vested in the old plan, retire and will be added to the list. In the long run, the amount will go down only as the number of participants drops due to mortality.

The City has been paying for these benefits on a "pay as you go" basis. The estimated pay-as-you-go cost for FY 2014-15 is \$172,992. An actuarial evaluation was conducted in 2012. It estimated that the annual required contribution was \$599,508, which includes the amortization of the unfunded portion over 30 years.

The City can also choose to partially prefund the liability by paying an amount greater than \$172,992, but less than \$599,508.

In the long run "pay as you go" is more expensive than prefunding because money deposited into a trust fund gains reasonable rates of interest. Trust Funds are available through PERS, PARS and other municipal benefit providers. These funds

are very flexible and allow for partial prefunding, suspension of funding, and/or draw down of funding for approved benefits over time. It would be financially prudent to start setting aside as much as possible when we can, even if it is less than the amount needed to fully fund.

This action now will benefit the City in the long run by taking pressure off the General Fund at a time when other issues such as retirement rates are increasing.

# Budget Policy Issue #6

## Employee Compensation

The Federal and State framework for employee benefits is changing rapidly. Generally we expect minor impacts for the next two years and increasing impacts starting in FY 2015-16, especially as it relates to retirement funding. In the more distant future, after about ten years, the actions being taken at the Federal, State and City levels will reduce benefit costs.

### Recommendations

Continue to monitor benefit changes and options for mitigating the impact on operations of the City.

### Discussion:

Retirement and health care costs are escalating for a variety of reasons. The main actions at the Federal and State level are:

- The Affordable Health Care Act
- State Pension Reform, and
- Public Employee Retirement System Actuarial Changes

The Affordable Health Care Act has a requirement that employers provide a minimum level of health insurance to full time employees. The process for monitoring hours worked to determine who must be covered is convoluted, but we do not think that we will be required to provide insurance to any employees who do not currently receive that benefit. There are other requirements that come on line in future years which we are continuing to monitor.

State pension reform establishes a new lower tier retirement scheme for those hired after January 1, 2013 (with some exceptions). This will help in the long term, but has little impact in the near future.

Recent and proposed PERS actuarial changes have been adopted or are under consideration for several reasons.

- Due to the losses during the recession, and the need to increase the funding level of the system overall, PERS adopted a plan that will raise rates substantially over a five year period starting in FY 2015-16. The attached chart shows that the average employer rate for miscellaneous employees will go from 17.8% in FY 15-16 to 23.0% in FY 19-20, and the percentage increases somewhat gradually for the next five years.
- A separate discussion is ongoing about the need to increase rates even more because of the longer life expectancy of younger employees.
- A third issue is that investment earning rates are less than projected, and the assumption could be lowered, putting a larger burden on employers.

At the City level, Council has taken action to reduce retiree health benefits. According to our actuary the future cost for retiree medical benefits for newly hired employees has been reduced from \$8,500 to \$1,000 per employee. Also a lower tier retirement was adopted, but has been supplanted by the State pension reform. In the short term retiree health costs will increase due to retirement of Council members and employees who fall under the old system. For example the Council retiree medical cost is going from \$36,740 to \$39,307 this year.

# Budget Policy Issue #7

## Fee Update

Although we have reviewed our fees on an annual basis, changes have been somewhat ad hoc, and have not been driven by fact based formulas and policies. A fact driven calculation and related policy for setting fees will keep the fee structure current and fair.

### **Recommendation:**

Approve policies for calculating and setting fees for services provided by the City.

### **Discussion:**

A number of factors should be considered when setting fees for services:

**Full cost of providing the service:** The cost of providing a service is generally based on time it takes one or more employees to provide the service plus overhead. This cost can and should be calculated, and automatically updated annually.

**Private versus community benefit:** Cities generally attempt to obtain full cost recovery for services that benefit private individuals. This often is applied to planning and building fees. When there is a community benefit fees are often set at a lower rate. Typically recreation programs for adults cover the direct costs of the program, but not the administrative time of the department or cost of the facilities, which are considered a benefit to taxpayers. Youth recreation programs may be further discounted because of the community benefits of having our children engaged in constructive activities.

**Incentives:** Sometimes fees are reduced to incentivize desired behaviors. For example fees to install solar panels have been waived entirely for one year. Some building fees were cut to reduce the incidence of doing work without a permit.

Comparisons: Fees that are out of line with the industry norms are not well accepted even if justified by actual cost. It is reasonable to compare the full cost recovery fee with the costs typically charged by other jurisdictions as a reference point.

We are making a concerted effort this year to develop and provide the calculation of the full cost recovery fee for as many fees as possible. Once this is done we are also developing proposed policies which articulate when and why the full cost recovery fee will be charged, or when and why and by how much the fee should be reduced to a lower rate.

# Budget Policy Issue #8

## Equipment Replacement

The Statement of Financial Principles includes a requirement that the City will provide funding for capital equipment replacement, including vehicles, technology, and other equipment needed to achieve greater efficiency in operations. A financial mechanism is to be established to set aside money over time to fund replacements.

### Recommendations:

- Transfer money from each operating division that has major pieces of equipment to the "Equipment Replacement Account" on an annual basis in order to fund timely replacement of equipment. The total transfer for FY 2014-15 is \$55,176.

### Discussion:

In order to promote efficiency and assure that there are adequate funds for timely replacement of major equipment, it is necessary to set aside money in an equipment replacement account on an annual basis. The City has not undertaken this practice in the past. As a result replacements are undertaken on a haphazard, unscheduled basis. This leads to unnecessary downtime, high maintenance costs, and use of ineffective equipment.

As a starting point, we developed a very preliminary replacement schedule for vehicles in FY 2013-14. The same first step is repeated in the proposed budget. This schedule will require significant refinement. However, it provides a reasonable starting point to achieve the desired best practice. In the long run the discipline of planning for long term replacements should result in a host of other improved fleet management practices and the associated efficiencies. The same approach can be employed for technology and other types of more expensive equipment.

# Budget Policy Issue #9

## Revenue Options

The City Council has looked at revenues as well as expenditures as part of the budget process. In recent years some revenues have been increased and some decreased.

### **Recommendation:**

No increased revenues have been included in the proposed budget.

### **Discussion:**

The following list includes revenue sources that have been increased, are proposed to be increased, or could be considered in the future. Service level reductions are also addressed.

### ***Recently Increased***

**Trolley Fees:** Fees were doubled in 2012 to help sustain services. We are talking with the Ojai Valley Inn about the options to extend regular Trolley service to the Inn.

**Libbey Bowl Facility Fee:** In the long term agreement the facility fee is \$2 for both profit and non-profit events. This should result in collection of the amount needed for the long term maintenance of the facility. The fee is being deposited into a fund that can only be used for that purpose.

**Tourism Business Improvement District (TBID):** An assessment equal to 1% of gross receipts was approved by an overwhelming majority of the operators to provide funds for marketing starting in November 2012.

**Plaza Maintenance District:** The property owners in the Arcade Plaza Assessment District area approved a stepped increase of 5% per year for five years to increase maintenance efforts in the Arcade.

**Farmer's Market Rent:** A fee of \$50 per market day was approved by City Council in early 2013. It is to be contributed to the Plaza Maintenance District to offset the impact of market users.

### ***Revenue Reductions***

**Community Development Fees:** In FY 2012-13 certain fees for minor projects were reduced to provide an incentive for owners to get permits. This is continued this year to include fixed fees for simple discretionary projects in order to reduce the risk and increase certainty for applicants.

**Recreation Non-Resident Fee:** A reduction and restructuring of this fee was approved in FY 2013-14 so that we have enough participation to make classes and programs viable.

### ***Potential Future Revenues***

**Street Lighting District:** A recent internal review of the Street Lighting Fund resulted in a determination that park lights should be paid by the City rather than the homeowners. Therefore no fee increase is proposed at this time.

**Development Impact Fees:** Generally improvements required by Community Development are undertaken with the property developer. Another approach is to charge a mitigation fee which is accumulated with other fees to undertake a larger project. For example, rather than try to implement the "Complete Streets Policy" in a disjointed way, one property at a time, the City could enact a complete streets mitigation fee as a way to fund complete streets projects on a larger scale.

**Cemetery Niche Wall:** The Cemetery fund is slowly declining. One potential strategy to raise money is to use some of the balance to build an attractive niche wall to hold ashes of deceased community members. This should be pursued if the projected profit makes it cost effective.

**Other Taxes:** Municipalities are authorized to increase transient occupancy tax, sales tax, utility users' tax, business license tax, and some other taxes with the consent of the voters. If the tax is undesignated it requires a majority approval at an election where council members are selected. If it is restricted to a specific purpose (i.e. police, roads, etc.) it requires a two-thirds vote at any election.

# Budget Policy Issue #10

## Cultural Services Funding

The Museum has requested \$50,000 in financial assistance again in FY 2014-15. Commissions are funded at last year's level in the proposed budget, but some Commissions are expected to request consideration of increased budgets in FY 2014-15.

### Recommendation:

The proposed budget for FY 2014-15 includes a \$50,000 reserve that can be used to fund the Museum or increases to the budgets of the Commissions.

### Discussion:

The Museum, the Arts Commission, and the Historic Preservation Commission have all submitted funding requests. These requests need to be considered and evaluated as part of the budget review process. These are all very beneficial programs. However, it may be time to start discussing the need to leverage City contributions toward cultural services with grants and donations.

As an analogy, the City is increasing its allocation of general fund money to capital improvements. At the same time, the City has stepped up its efforts to obtain grants and contributions from other outside sources. As a result, our level of grant funding and the varied sources of cash and in-kind contributions have increased.

This seems also to be the case with the Museum which has traditionally relied heavily on memberships and private donations. It seems entirely feasible that the Arts Commission and Historic Preservation Commission could leverage their tax dollars in a similar way.

# Budget Policy Issue #11

## Website & Social Media

The City Council has directed that we investigate options for improving the City website and using social media.

### **Recommendation:**

It is recommended that \$20,000 be included in the revised budget for FY 2013-14 to cover the cost of improvements to the website and/or use of social media.

### **Discussion:**

The City website is one of the most important tools we have for informing and communicating with the public. The current format has been in place for a long time and should be examined to determine how it can be refreshed and made more current and useful.

Some cities are using social media as an additional means to update and communicate with the public. We are currently using Facebook to publicize recreation programs, and the Historic Preservation Commission is experimenting with Facebook as well. The scope of this project includes analysis of ways to use social media as well as development of policies controlling how it is used by representatives of the City

# Budget Policy Issue #12

## Community Development Staffing

The City Council has asked for a review of the use of consultants especially as it relates to the Community Development Department.

### Recommendation:

Continue the current staffing model in FY 2014-15, and retain a multi-disciplinary consulting team for Neighborhood Planning. The FY 2013-14 revised budget includes \$30,000 for Neighborhood Planning.

### Discussion:

#### *Neighborhood Planning*

Neighborhood Planning was delayed first because we wanted to involve the new Community Development Director in the process, and second because we were waiting to see if we get a Sustainable Communities grant which would substantially expand the scope of the project. When we do embark on the Neighborhood Planning process we should use a multi-disciplinary consulting firm to complete a tightly defined scope of work on a set time frame. We are much more likely to be successful with a consulting team than with adding an additional staff position because:

- We are unlikely to find a single candidate who possesses all of the skill sets needed to do the job right.
- In house staff tends to be distracted by other department needs.
- A consultant is highly incentivized by the fee structure to complete the work in scope and on time.

*Planning Division Options*

Because of the high volume of work and the need for more in-house resources, the staffing of the Planning Division went from a half time City Planner in 2010 (Option 1), to a full time Community Development Director in 2012 (Option 2), to a full time director plus a part time Assistant Planner in 2013 (Option 3). During this time, partly due to an increase in the volume of work, there has still been a need to use some level of consulting services to supplement staff. If the Assistant Planner were to be increased from part-time to full time (Option 4) we would not need this supplemental assistance unless there is a significant increase in entitlement activity. The cost estimate assumes that the trust fund deposits from applicants will be used to reimburse staff costs when working on their applications. The estimated cost of this change is \$48,000.

Planning Division (All options assume \$16,000 in trust fund reimbursements)			
Option 1	Option 2	Option 3-current	Option 4
0.5 City Planner	1.0 CDD Director	1.0 CDD Director	1.0 CDD Director
		0.5 Assistant Planner	1.0 Assistant Planner
0.5 Planning Tech.	0.5 Planning Tech	0.5 Planning Tech.	0.5 Planning Tech.
Planning Consultant	Planning Consultant	Planning Consultant	
\$126,000	\$216,000	\$265,000	\$308,000

*Building Division Options*

The Building Division has several main functions:

- Plan Checking
- Inspection
- Code Enforcement

Larger cities often employ civil engineers for plan checking, and expect the building official to have a college degree in a related field as well as extensive experience in the construction industry. Building inspectors must have working knowledge of building, plumbing, electrical and mechanical trades, as well as State Codes, including energy and accessibility requirements. In small cities it is very difficult to find a single employee that spans this scope of work.

For many years the City contracted for plan checking, and hired a Building Official/Code Enforcement Officer with extensive experience in the trades. The

cost for contract plan checking has averaged \$30,000 per year (Option 1). Recently, since the retirement of the Building Official/Code Enforcement Officer, the City has contracted to cover those duties as well. This later arrangement has been somewhat more effective and considerably less expensive (Option 2). In both options the Planning and Building Technician spends half their time on building and code enforcement matters.

Code enforcement requires knowledge and skills similar to those of a building inspector, but requires the ability to properly document and build a case that may be prosecuted if not otherwise resolved. In the past, the City had employed a part time code enforcement officer to focus on this function. The cost of a half time code enforcement officer is added to the fully contracted model (Option 3) and the former model (option 4).

Building Division			
Option 1	Option 2-current	Option 3	Option 4
1.0 Building Official/ Inspection /Code	Contract Building Official	Contract Building Official	1.0 Building Official/ Inspector
	Contract Inspection/Code	Contract Inspection/Code	
		0.5 Code Enforcement	0.5 Code Enforcement
0.5 Building Tech.	0.5 Building Tech.	0.5 Building Tech.	0.5 Building Tech.
Contract Plan Check			Contract Plan Check
\$224,000	\$136,000	\$183,000	\$271,000

# Budget Policy Issue #13

## Lighting Districts

The lighting districts have accumulated \$261,092 in debt as of June 30, 2013 to the *General Fund*. A recent internal review revealed that some of the meters being charged to the fund serve park lights that are not part of the District. By eliminating these meters we are able to balance the Lighting District Budget this year.

### Recommendations

- The Lighting Districts' budget for FY 2014-15 is balanced within existing rates.
- In the past some charges to the Lighting District budget were inappropriate and should be reversed. (This will slightly set-back efforts to achieve 50% reserves in the *General Fund*)
- We will continue to evaluate street lights based on safety, energy efficiency, and dark sky considerations.

### Discussion:

Our presentation of reserves in the budget is complicated by loans that have been made to other funds in the past. For example, the *General Fund* may have a fairly high, unallocated balance. However, if the Lighting Fund shows a negative balance, the difference is really being covered by the *General Fund* and that amount is not available as a reserve.

Clearing up the status of the Lighting Fund, together with actions taken to resolve negative balances in other funds will make our financial presentation more transparent.

# Budget Policy Issue #14

## **Street Sweeping**

The City Council has directed that consideration be given to establishing no parking zones on street sweeping days. This could involve changes to the solid waste contract, installation of signs, and deployment of enforcement staff. In 2011 it was estimated that a pilot program on the most severely impacted streets would cost \$13,000.

### **Recommendation:**

The proposed budget does not include funding for Street Sweeping signage and enforcement. The signage costs could be taken from the Capital Improvement Fund if Council decides to proceed with the project.

### **Discussion:**

In 2011 the City Council reviewed options for posting and enforcing no parking on street sweeping days. Generally such posting only occurs in more dense areas where there are a large number of cars routinely parked on the street. The Public Works Department identified the streets with the most severe parking issues and proposed a pilot program on those streets.

The project is under review and a preliminary report will be made during the budget review process.