

# City Manager's Budget Message

Transmitted herewith is the proposed budget for Fiscal Year 2014-15. As in past years, we are attempting to be conservative and prudent with taxpayer money, while still addressing the social, environmental and economic needs of the community as reflected in the policies, goals and objectives set by the City Council. Over the past year we have seen very strong growth of transient occupancy tax, moderate improvement of retail sales, and stability in other sources of revenue. This has changed our financial picture as illustrated below:

	<u>During Recession</u>	<u>Proposed Budget</u>
Operations	Lean	Lean
Infrastructure	Deferred	Funded
Equipment	Unfunded	Partially Funded
Reserves	Depleted	Funded
Liabilities	Unfunded	Partially Funded
Debt	RDA Bond	None

Going forward we expect revenues to level off and at the same time to begin facing some new financial challenges. The Public Employees Retirement System has approved policies which will cause retirement contributions to increase over the five year period starting in FY 2015-16. At the same time, the cost of retiree medical benefits will continue to increase. Furthermore, as redevelopment winds down, less money will be available from tax increment for operations.

## **The Case for Keeping Operations Lean**

There are many good reasons to keep operations lean, particularly as it relates to limiting the number of full time employees.

First is the need to properly fund infrastructure. The Council has set aside increasing amounts of money each year over the past several years for roads and other infrastructure. The results of this are only now beginning to show through the current paving contract. If this practice is continued on an ongoing basis Ojai can be transformed from a nice but poorly maintained town, to a nice town with first class infrastructure. When the public spaces of a town are well maintained there tends to be a complimentary improvement in the maintenance of private property as well.

Second is the need to be prepared for known and unknown challenges that we will face in the future. The City Council has taken action to restructure retirements and retiree medical benefits to reduce long term liabilities. However, these changes will take a long time to have an effect, and in the meantime costs will rise. It is better to begin taking steps to fund these liabilities to reduce the pain in the future. Future City Councils will be in a much better position to address community needs if prefunding starts now. We also need to have fully funded reserves in order to weather unexpected events including: economic fluctuations; natural disasters; and lawsuits.

Third is the ability to be efficient and effective. Public employees are expensive, and failing to provide those that we have with tools and other equipment that will make them efficient would be foolish. We have taken first steps to provide for replacement of outdated and worn out equipment, but this need is only partially funded at this time.

Forth is our as yet untested ability to accomplish the City Council's environmental goals with existing staff. Although we have not increased staffing levels, we have restructured by eliminating one department head and one administrative position. The savings were used to fund a full time Community Development Director and a half time Assistant Planner. Because of turnover the full effect of this restructuring has not yet been achieved. This budget takes another step by replacing full time maintenance positions with a custodial contract. We need some full time maintenance employees who can work flexibly on a variety of projects as needed. However, for repetitive routine tasks it is often more efficient to use contract services.

Fifth is the benefit of using consultants strategically. Properly managed consultants are neither good nor bad. However, consultants use can be

deployed effectively or poorly. Fee related planning work tends to ebb and flow randomly. Staffing for peak levels is like building a church for Easter Sunday. You end up with expensive excess capacity. The most effective strategy is to use in house staff for normal flows of work, and to address peak loads with consultants. Projects like Neighborhood Planning are best performed by a multi-skilled team, with a tightly defined scope of work and set time frame. It is unlikely that we could find one staff person that possesses all the skill sets needed for the project. Furthermore, in house staff gets distracted by other departmental needs, and has more difficulty staying focused and on schedule.

### **The Proposed Budget**

The proposed budget is balanced and provides for \$12.2 million in expenditures. The *General Fund* contains money, most of which can be used for any governmental purpose. Most department operations are budgeted in the *General Fund*. The other funds contain money that is restricted for specific purposes. Particularly in the Public Works Department our employee's time is charged to the fund for which they are performing work. For example, a maintenance worker may spend parts of his or her day working on park maintenance, which is charged to the *General Fund*, plaza maintenance which is charged to the *Plaza Maintenance Fund*, and cemetery maintenance, which is charged to the *Cemetery Trust Fund*. Furthermore, where legally permitted, administrative overhead costs are allocated to funds based on their prior year's expenditures.

This structure is based on governmental accounting standards, and is necessary to assure that taxes are used for the intended purposes. This sometimes makes the document challenging to understand. In order to help readers understand the document we have included charts, graphs and comparisons. The charts and graphs are found behind tab 4, and the detail budget pages show actual for the prior year, the original budget for the current year, the revised budget for the current year, and the proposed budget.

The level of staffing and level of service in the operating divisions is slightly less in the proposed budget than it has been for several years. This reflects the strategic use of contractors for custodial services, plan check, building inspection and code enforcement. These functions can be performed more cost effectively with contract services than by replacing retired employees.

The efficiencies achieved by strategic contracting has freed up money for increased staffing of Community Development. This reflects the desire of the City Council to focus more effort on environmental issues. Because of recent turnover, this higher level of service has not been fully recognized. Also, we have created a Building Appeals Board that is more active than initially anticipated. However, most of this activity relates to City Council goals, such as the Second Unit Compliance Program.

### **City Council Goals**

On February 18 the City Council identified 19 goals to be accomplished during the current and upcoming budget years. These goals are all built into the budget as follows:

- 1) Directly Elected Mayor (\$500 election consulting covered under current budget)
- 2) Update Website (\$20,000 in FY 2013-14 Revised Budget)
- 3) Social Media/Outreach (included in Website budget)
- 4) Visioning/Goal Setting (\$10,000 included in FY 2013-14 Revised Budget)
- 5) Roadmap to Sustainability (included in Visioning budget)
- 6) Include planning applications, active building permits, and code enforcement activities on website (done)
- 7) Review use of consultants (See Budget Policy Issue #12)
- 8) Transient Rental Permit Process (to be handled by existing staff)
- 9) Telecommunications Ordinance (\$20,000 included in City Attorney FY 2013-14 Budget)
- 10) Street Sweeping (See Budget Policy Issue #14)
- 11) Mixed Use Commercial (to be handled with by existing staff)
- 12) Street Lights (See Budget Policy Issue #13)
- 13) Dark Sky Ordinance (to be handled by existing staff)
- 14) Building Height Limit (to be handled by existing staff)
- 15) Water Wise Landscaping (to be handled by existing staff)
- 16) Second Unit Policies (to be handled by existing staff)
- 17) Neighborhood Planning (\$30,000 included in FY 2013-14 Budget)
- 18) Leaf Blower Policy (to be handled by existing staff)
- 19) Commissioner Training (to be handled by existing staff)

### **Potential Future Issues**

There are some emerging issues starting in FY 2015-16 that should be considered as we look at the proposed budget for FY 20141-15. First, the Public Employees Retirement System has voted to begin ramping up rates starting in July 2015 to address losses during the recession, lower investment return assumptions, and longer life expectancies. Recent retirement reforms only apply to new hires that will not begin retiring in significant numbers for many years. Also, retiree medical cost will continue to rise as vested employees and officials retire. Again, reforms approved by Council apply to new hires and will change the trend in the long run. Finally, the State Department of Finance has questioned the amount of money we have charged to the Successor Agency for administration. While they have approved the allocation for July through December of 2014, it is unknown what will happen in subsequent periods.

### **Conclusion**

The financial status of the City has improved considerably as the recession has abated. This has provided the opportunity to address a longstanding deferral of maintenance of our infrastructure. City operations have been intentionally been kept lean. However, there are sufficient resources in the budget to achieve most of the goals articulated by the City Council. We are anticipating some budget stress in future years and are taking steps now to prepare for that time.

Respectfully Submitted,

Robert Clark  
City Manager