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Finance Committee Discusses State of City Finances – Meeting Two

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Finance Committee Discusses State of City Finances – Meeting Two 4.14/5 (82.86%) 7 votes

Transcript of meeting...

The Desert Hot Springs Finance Committee met again on Thursday, July 26, 2013 at 6:00 p.m. at the Carl May Center in Desert Hot Springs where committee members reviewed recommendations of an analysis of city finances by Michael Bush of Urban Futures.

The discussion focused on spending cuts and new taxes for Desert Hot Springs for the 2013/2014 fiscal year.

The following transcript is a summary produced from an audio recording of the meeting. The transcription avoids exact quotes but care has been taken from the recording to capture each speakers' comments.

The meeting was attended by the finance committee members and the general public. Also in attendance were members of the Desert Hot Springs Police Officers Association and city administrative employees. Following is the transcript.

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Councilwoman Jan Pye – Call the meeting to order and turn it over to Mr. Girardi.

John Gerardi – We will ask the one question we have to ask the council members on this sub committee and then we will get into the meeting. But first, I'd like to cover the three basic ground rules for tonight's meeting.

- We are not here to discuss the recent news coverage about the city manager.
- There is to be no speech making. Everyone should stay focused.
- Anyone that makes a speech will be told to leave if the committee agrees.

As an outline for this meeting, we will be going through the Urban Futures report presented by the city's financial consultant Michael Bush. We will review the Urban Futures recommendations and use the report as an outline for the meeting and our starting point.

Two white boards have been set up to create two lists. The first list we cover cost reductions and the second list will cover revenue enhancements.

Now, to the question we must ask of the two council members sitting here on this sub-committee tonight. The reason for asking this question is to make sure there is basic agreement with the premise of this committee and that this committee has some chance of its recommendations being followed by the city council. Here is the question.

Do you believe that the City is facing a financial situation that may very well hurt the long term viability of the City? As you are aware, there is mutual agreement between the citizen's finance committee and the City's hired consultant (Urban Futures) that the City cannot continue on the financial course presently set and difficult decisions need to be made, both in regards to lowering expenses and increasing revenues. The reason we ask this question is that if there are not at least three members on the Council who acknowledge this fact, there is really no need for this committee or for this committee to make any recommendations.

Mayor Parks, Councilwoman Pye do you believe that?

Mayor Yvonne Parks – We do have \$2 million in reserves at this point so we have to take that into account. We also have to realize that right now we are leading the Coachella Valley in sales tax growth and property value growth. What we have to do is make it through 2014. We have to weather the storm.

Councilwoman Jan Pye – The answer is yes. The very first meeting I said I was serious and we use Urban Futures. People talk about these meetings being a waste of time. I feel my time has been wasted. I asked for a list (of recommendations) and I have not gotten it.

Girardi – Thank you. I think that answers the question.

Joe McKee – I would like to interject here on just one point. We did make recommendations before the city council voted on the budget. They were that the council immediately implements a 10% salary cut for all city employees and that the council use no more than 1/3 of the city's reserves in the present fiscal year. There were recommendations but our frustration is our recommendations were not given to the city council to review when it voted on the budget.

Tim Brophey – I agree with Joe except that some of our recommendations did make it into the city council packet.

McKee – That is correct, some of the recommendations made it into the council but not the recommendation that salaries be cut by 10%.

Girardi – Okay, let's begin. What we are looking for is a short and long term solution. As we do that, let's keep in mind what Urban Futures said on page 13 of the report. Reading from the report,

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- **Recommendation 1:** *Adopt a budget philosophy to provide a meaningful and easy to understand framework for maintaining financial discipline. Present a report to the City Council on the financial results of the policies at least once a year. Present an updated five-year forecast to the City Council at least two times a year.*
- *The City does not have sufficient resources to fill the ongoing structural deficit and will not be able to maintain current levels of services and costs.*
- *While the City has had unrestricted fund balance to fill a large portion of the gap in the past few years, that balance has now been largely spent. The City does not have sufficient one-time monies from other sources at its disposal to fill the gap.*
- *Without new revenue, significant reductions in expenditures will be required to meet the limitations of available revenue.*

Adopting a budget philosophy is the first thing we want to recommend to the council. Urban Futures said the city must have a structurally balanced budget and the city does not have that. The second thing the city needs is a multi-year forecast. And I guess a third would be that every decision made by the council must be weighed against the next five year forecast.

The job of this committee is to verbalize this and write it down.

Richard Cromwell – We need to take a fresh look. Use the budget as a guide but the city can't spend what it does not have.

Girardi – This is policy stuff, I agree. We need to adopt these basic budget principals and recommend to the council that it adopt them.

Courtney Moe – A multi-year budget is important.

Girardi – A two year budget and a five year forecast.

Todd McCance – Why are we waiting until now to do a forecast? Why wasn't this done already?

Dean Gray – I'm sorry, Mr. McCance. You were not at the prior meetings. We went over that before and to go into that now is looking backward and leads to political speeches. It is a good question but I think we should stay focused on what we have to do now and not be looking backward in this meeting.

Brophy – We must pay attention to a tier of needs like revenue enhancements.

Girardi – We will get to that later. Let's wrap up the budget principals discussion first. Adding to the list of budget principals that should be adopted.

- We should not rely on one-time revenues to balance the budget.
- The city must establish reserves in all other fund balances and not take from those other funds to augment the general fund. We must keep an eye on the other funds.
- Fees charged by the city must cover the cost of the city providing the service.
- Capital projects with ongoing costs that exceed \$50,000 per year must make sure ongoing revenue to support the new project is available.
- Grants should be sought but they should not be used for ongoing operating expenses of the city. They should be tied to a specific project.
- There should be no new debt that is more than one year out given the present debt position of the city.

McKee – We should add one more item to the list and that would be that an analysis of other like cities should be done on a regular basis. This periodic comparison will make sure salaries and other costs are kept in line. This should be a formal process.

Courtney Moe – It seems to me bedroom communities have this problem that has been imposed on us by outside conditions. If you want to call the city's present situation a crisis or a budget problem we have to recognize that underlying factor.

Gray – Mr. Moe, with all due respect, that is looking backwards and I understand you were not at previous meetings but responding briefly to your statement, I disagree. We can find other cities that have faced similar tough outside factors and have not ended up in a fiscal crisis.

Girardi – Yes, this discussion is going backwards. We need to keep looking for something we can solve today.

Gray – I'm merely responding to the statement Mr. Moe made.

Brophy – Mr. Gray you have to stop it.

(At this point the conversation got heated. Girardi stood up, raised his voice and asked Gray if he wanted him

to take a vote of the committee to see if he should be removed from the meeting. Gray said if political speeches are not going to be allowed it needs to apply to everyone, otherwise misstatements must be corrected. Several people started talking at once. It is not possible to transcribe the comments with so many people talking at once. Gray remained seated. Eventually Girardi gave up and pulled the conversation back on subject, moving forward.)

Girardi –We don't have time to go into how we got to this point. We need to stay focused.

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Scheduled Budget Deficit

A second recommendation of Urban Futures is on page 18. It basically says there must be significant changes in spending and revenue. The report recommends significant immediate spending cuts.

- *Recommendation 2: Initiate significant immediate changes to the expenditure and revenue base, with major reductions in spending taking effect in FY 2012/13 increasing into FY 2013/14.*
- *Personnel costs currently constitute approximately 75% of all General Fund expenditures. Therefore, personnel costs will need to be reduced in order to create a stabilized budget.*
- *Public safety comprises 85% of the General Fund personnel expenditures, requiring cost reductions in public safety to reduce the deficit.*
- *Recommendation: Initiate significant immediate changes to the expenditure and revenue base, with major reductions in spending taking effect in FY 2012/13 increasing into FY 2013/14.*

As you can see, Urban Futures actually recommended this to the council for the 2012/13 fiscal year but that year is already gone (Urban Futures representative Michael Bush expressed frustration that his recommendations had not been given to the city council in 2012. They were eventually provided in May 2013).

The report identifies that personnel costs are 75% of all city costs and that those costs must be cut. This committee already recommended an immediate 10% across the board salary cut for all employees.

(City manager Rick Daniels responded negatively to the committee's suggestion for salary cuts and was quoted in *The Desert Sun* saying they would be discriminatory against employees that were in a minority group and other protected classes of employees such as Hispanics, woman and those with particular religious beliefs).

Brophey – I just want to say that if we are going to recommend salary cuts that there also be a plan to restore any money the employees give up. But it makes me sick to say that I agree with making these salary cuts.

Gray – I'm not sure I agree that we have to restore what salaries were given up and what I see is needed is to also look at the positions in the city where employees are being kept around at high salaries that do not fit their new job classifications. We have some employees that were in top positions but when redevelopment went away were given new positions with a lower title but their salary was never adjusted downward.

McCance – We also need to look at the positions and what is being produced in those positions. We have an economic development consultant that has cost us \$120,000 a year but has only brought in \$16,000 a year in new sales tax to the city.

John Furbee – I think we have to keep Michael Bracken (economic development consultant) around at all costs. It does not matter what we pay him. He is doing a fabulous job.

Gray – Mr. Furbee, I apologize. I am not sure I agree with that. Is it the job of city government to promote the

economy? I don't believe that government can solve the problems of business in the private sector. I'm sure some disagree with me and believe that government is the solution for all these kinds of things. Usually the government solution ends up costing more and the people getting less. We might need to let the private sector have that responsibility, save the cost and lower taxes to make the city more attractive to new development.

Cromwell – I agree.

McCance – I agree. Why pay someone more than they are bringing into the city?

Girardi – We are not going to get into that kind of detail. Those are policy decisions for the council. The council members are the ones that have to take a look at whether the expense of an effort is worth the money being spent. That kind of discussion goes beyond what we can recommend in this committee.

Moe – What you have to do is ask each department head to come in with a number. It may not be best to just cut 10% of salaries everywhere. There may be a move that can be made in a department that does not involve salaries.

Walt Meyers – This is not a big job for the city manager to come up with this. They have the numbers. At most the city staff should be able to come back in two or three weeks with numbers that fit the recommendations of this committee.

McKee – We need to take a look at the city contracts also. That may take a bit more time.

Gray – We also need to look at how effective these contracts are and compare them to what we are spending. The city can't afford to keep throwing away money.

Girardi – I agree with Dean that we have to look at effectiveness.

Brophy – I don't think we have to go out to new bid on all of these contracts. You can just ask existing contractors to voluntarily reduce what they are already charging.

Girardi – Urban Futures also recommended combining departments on page 28.

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Councilmember Jan Pye (left) and Mayor Yvonne
Parks (right) get Mooned (center)

Parks – All those departments are already combined under one person, Martin (Magana).

Girardi – Then that eliminates that recommendation.

Gray – Are we willing to compare salaries in our city to salaries in other cities? If we look at a city that pays \$80,000 for a position and we pay \$180,000 for that position shouldn't our city be making that adjustment? Is that something we are going to recommend to the council?

Girardi – That is what Joe said when he suggested we have comparisons to other cities on a periodic and formalized basis.

Gray – Great. That's good. Thanks.

Girardi – Next we have to see if we at least investigate contracting with the Sheriff for police services. The Urban Futures report identified public safety expense as the largest item on the budget.

Walt Meyers – The county will low ball you in the first year to give you a savings and then once your police

department is dismantled they will hit you with increases because they know it will be too expensive to put your police department back together.

Cromwell – Can we consolidate with Palm Springs and Cathedral City.

Meyers – We already looked at that. Our cost would go up in that arrangement.

Girardi – Urban Futures in its third recommendation said to look at internal service funds.

Recommendation 3: *Conduct an analysis of each internal service fund to determine funding requirements for the services and equipment paid for out of each of those funds and create a five-year forecast for each ISF. Set rates to departments based on a cost allocation study and funding requirements for each ISF. Shift any excess balances into unrestricted fund balance to build the General Fund reserve. Any shortages may negatively impact the General Fund further.*

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Joe McKee

McKee – Internal service funds should be folded into the general fund so expenses for repairs come out of the general fund. The city has these set up as coming out of a separate fund. A repair to a sink, for example, is part of ongoing operations costs.

Girardi – Urban Futures said there are other areas we need to look at. One is the escalation in employee pension costs for the city. That is one page 16.

Reading from the report (section 3).

The City's costs for employee retirement have increased from \$1 million in FY 2006/07 to nearly \$1.9 million in FY 2011/12. By FY 2013/14 the annual cost will be over \$2.2 million. To put this into perspective, the City was spending about 9% of its General Fund budget on retirement costs in FY 2006/07. In FY 2011/12 it will need to spend 13% of the budget on those costs. With the newly approved actuarial assumptions by the CalPERS Board, pension costs in FY 2015/16 could require 20% of the budget for retirement obligations.

McKee – Have we looked at employee benefit spiking. Part of the reason employee pension costs have gone up so much in the past is because of spiking where the last year of an employees salary is raised because to increase the retirement benefit. Pension is based on the most recent highest salary. This committee needs to look at this area. With Urban Futures saying future pension costs will consume 20% of the budget makes this a big future problem.

Amy Aguer (city interim finance director) – Governor Brown has corrected some of that problem already. There is at least partial good news.

Gray – So if I understand this a newer employee will get lower pension benefits? The ongoing cost to the city will be less? This is where we could consider employee buyouts.

Aguer – Except our finances are not in the position to do employee buy-outs.

Girardi – We also lose institutional knowledge of city employees.

Gray – We've fired most of the employees with institutional knowledge. That's already a problem. Our institutional knowledge is with former employees working at other cities.

Girardi – Let's move on to revenues. They are shown on Page 21. Here is Urban Futures recommendation. Reading from the report,

Recommendation 4: Determine the City Council's interest in asking the voters to approve new or increased taxes. Once that is ascertained, develop an action plan and schedule to seek voter approval of new revenues.

I have two problems when it comes to this recommendation. First, we already tried this. We raised taxes a few years back and we are here in this problem. Second, if you go with more money does it just turn into more spending like it did before?

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Meyers – We are already paying two or three taxes for police now. Why not go after the tax on vacant parcels. That does not affect anyone but speculators.

Brophey – Vacant parcel cost \$8 and I as a homeowner pay \$120. That's not fair. The vacant parcel owners say they do not have a cost of service but that is not true. We have all kinds of service issues with vacant parcels. Plus with their costs so low they don't have any skin in the game. They get to sit and wait for their property value to go up with no cost of the speculation.

Gray – This is exactly the same argument that was rejected a few years back. Why do we think the same people that are in charge now are going to make a different decision on this issue this time? One of them even made a big issue about it in her campaign ads and used this to accuse her opponent of wanting to raise taxes on homeowners which was not true.

Girardi – We all remember that. We can't go back to the past.

Gray – But you look at the past and you have to ask is the same thing going to happen on the parcel tax. Do we have the same condition? One of the people in this room is the person that fought so hard against this idea and will have to vote on it again if this goes to the council as a recommendation.

Girardi – Stop it. Do you want us to have us ask you to leave this meeting? One more time and...

Brophy – We have to look seriously at a 911 fee (fee to be added to property tax bill). We can't ignore that costs for having dispatch in Cathedral City is an expense that is going to keep going up. We have to move dispatch back across the freeway.

Parks – We are in the process of doing a user fee analysis to see what we can recover from fees. That should be back from the consultant soon and I will be interested to see what kind of revenue we can get from new fees.

We also have Desert Hot Springs leading in increased home values and that is going to bring in more money.

Girardi – That increase in home values only brings in \$69,000 against a \$2 million problem.

Cliff Lavy – This is not a big thing and is not going to make much of a difference in the budget but it is an example of many little things that do add up. At Mission Springs Park even though MSWD requires water at certain times to prevent evaporation the city is watering the parks in the heat of the day.

Also, inspection of rental properties has never been implemented even though it was passed by the council. I'm a landlord and I've been waiting for the city to come and inspect my property under the safe housing program. I talked to Jim Knabb (Community Services Officer) and he said they are holding off on that. They are not doing the inspections or the classes. We could be collecting the fees from inspections right now. The inspections will also help where we have a lot of substandard housing.

Gray – I say we table any talk about new or increased taxes until cuts are made. Cuts must be made first.

Girardi – I agree with you. The public may not accept a tax until they see city hall has made real progress to cut spending and the spending cuts have got to be real. It has to be in that order.

Margo – How can people be expected to pay more when they don't see that they are getting anything for it? Look at the condition of the city. We can't even get code to stop people parking cars on their lawns. Many of the houses have yards in really bad shape.

Cliff – We also have a lot of code cases we are dismissing without issuing a fine after we have already gone and done all the case work. We have experienced all the costs but never recovered them. The enforcement mechanism is in place but we are instead dismissing cases.

Gray – This city is going to have to have a good message about city management. If we have an honest message the public will believe it and understand. The message has to be cuts first.

Girardi – I agree with you but the cuts must be real. The only thing to do if the public is going to accept it is to make the cuts, real cuts, first.

Gray – It's been nine months that this committee has been saying this. Enough time has gone by to conceive and bear a child. An entire new generation has been born and nothing has happened. It is time to make cuts.

Girardi – Everyone here is in agreement. That is why we talked about cuts first in this meeting. We make the recommendations to the council and then we have to see if the council will go with them.

Parks – I'm interested to see the results of the user fee study.

Girardi – A fee study may bring in some money but not nearly enough to solve the problem. Without a tax measure your revenue options are very limited.

Meyers – And grants are not the way to build a city either. They are one time.

Parks – But you get those grants and then hope you get more revenue later.

Girardi – The "more revenue" never comes in later. The city gets used to operating on grants and at the point you don't get a grant look what happens. This budget situation is partly a result of that. Look at the grants that were expected last year but did not come in.

Joe McKee – What is needed is to shave every cost. We can't just shave around the edges. We are not doing this with tax increases. You have to do what Dean is saying and make cuts first.

Tim Brophey – I agree.

(General murmur of committee in agreement but unable to capture individual comments in transcript)

Meyers – But we have to start with a balanced budget, spend no more than we are taking in.

Cromwell – It is pretty easy to pass the budget like the council did and then come to this committee after the fact. They really don't have to listen to us now.

Gray – Let's be honest. The city needs to immediately make the cuts. There was an urgency to pass the budget that they said did not allow our recommendations to be considered. The urgency for cuts seems to be what this committee is recommending.

Girardi – It is four minutes to eight o'clock. It is time for the meeting to end.

Pye – I have taken notes and will give them to you (John Girardi) to review. Then you can tweak them as a

committee and once they are done I will give them to every council member.

Meeting adjourned at 8:00 p.m.

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