WOODLAND CITY COUNCIL
COMMUNITY AND SENIOR CENTER
2001 EAST STREET
WOODLAND, CALIFORNIA

SPECIAL MEETING/STUDY SESSION

MARCH 29, 2011

6:00 P.M.

6:00 A. CALL TO ORDER

B. ROLL CALL

C. PLEDGE OF ALLEGIANCE

6:05 D. COMMUNICATIONS - PUBLIC COMMENT

6:10 E. COMMUNICATIONS – COUNCIL/STAFF COMMENTS

6:15 F. REPORTS OF THE CITY MANAGER

1. Status of the FY 2012 Budget

8:00 G. ADJOURN

I declare under penalty of perjury that the foregoing Agenda for the special meeting of the City Council of the City of Woodland scheduled for March 29, 2011 was posted on Marcgh 23, 2011 in the outside display case at City Hall, 300 First Street, Woodland, CA, and was available to the public during normal business hours.

Ana B. Gonzalez
City Clerk

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City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: March 29, 2011

SUBJECT: Status of the FY 2012 Budget

Report in Brief

Staff has completed the initial development of the FY 2012 budget for all funds. While the City continues to face fiscal challenges, the slight improvement in the economy, downsizing of the organization and implementation of strategies to improve efficiency appears to be helping the City to avoid consideration of significant expenditure and service level reductions as has been necessary since 2008. Nonetheless, the FY 2012 budget will require difficult decisions and organizational restructuring in order to place the City on a path to long term fiscal stability. The FY 2012 budget includes $700,000 in unanticipated costs, including increases to pension contributions, health insurance, emergency communications and cemetery maintenance. The pension increase requires the City Manager and City Council to articulate the need for changes to the compensation of City employees which will focus on addressing the cost increases for pensions and benefits. These steps are necessary in all funds in order for the City to generate healthy reserves, provide basic services and generate the capital necessary to repair/replace public infrastructure.

The information presented in this report will review revenue and expenditure assumptions in all funds. Strategies to facilitate long term fiscal stability in each fund will be summarized. The General Fund discussion will include a summary of a restructuring plan intended to take advantage of the 25% reduction of the City's workforce by consolidating departments and divisions.

Staff recommends that the City Council receive the status report on the FY 2012 operating budget and provide comments, suggestions and direction in response to the information as described herein.

Background

On June 22, 2010, the City Council adopted the FY 2011 General Fund budget that included strategies to close a $5.8 million budgetary shortfall. In summary, the shortfall was addressed through revenue enhancements made possible by the passage of the quarter-cent sales tax measure (Measure V) on June 8, 2010 and significant expenditure savings through service level reductions, an early retirement program and layoff of 5.5 employees. These reductions came after two consecutive years of significant cutbacks, salary reduction programs and use of one time revenues.

On March 15, 2011, the City Council approved Mid-Year Budget Adjustments for all City funds. These adjustments primarily consisted of changes to operating accounts and did not include major revisions to expenditure and revenue estimates that required consideration of service level reductions. The Council's consideration of the Mid-Year Adjustments did include the acknowledgement that FY 2010 General Fund revenues were well below estimates which generated the need to utilize approximately $963,000 of the reserve fund balance. This situation requires the City to consider strategies to recover the reserves in order to remain in compliance with the City's Budget and Fiscal Policy.

Long term financial plans are the cornerstone of the City's Budget and Fiscal Policy. Long term financial planning has been implemented through the projection of revenues and expenditures for each of the City's major funds, including the General Fund, utility enterprise funds and redevelopment. The planning period forecasts revenues and expenditures based on financial assumptions that factor trends and other relevant data.

Since the onset of the current recessionary economy, developing financial assumptions has been challenging if not impossible. General Fund revenues have declined so far, so fast that staff has been unable to accurately forecast income. Sources of revenues that are driven by economic conditions such as sales tax and development fees have been extremely volatile and have declined as much as 20% over a single year period. Even property taxes, usually a stable source of income, are expected to decline nearly 5% in FY 2011 compared to FY 2010 based on projections from the County Assessor.

Enterprise funds and other fund revenues are also challenged although in slightly different ways. Water and Sewer enterprise fund revenues must account for the increasingly complex and highly regulatory operations of these critical public utilities. In addition, these revenues must account for financing requirements so that the City can issue bonds to replace/repair critical infrastructure and implement costly projects such as Surface Water and Meter Installation. The complexity of these projects requires a certain degree of flexibility that can cause assumptions to be revised.

On the expenditure side, staff has had to account for meeting labor agreement conditions, increases in benefits costs and inflationary adjustment in other normal operating expenses. Woodland has implemented nearly all of the usual and customary strategies to reduce expenses, including a hiring freeze, elimination of vacant positions, reduction or elimination of training/conferences, Golden Handshake retirement incentives, program/service consolidation, furloughs and sharing of benefit cost increases with employees. Some of these strategies were initially considered as short-term with the assumption that the economic downturn would either not get any worse or end quickly.

Finance staff and the City Manager's Office have concluded that the current economic downturn **is not short term, will not end quickly and will continue for the next 5-8 years, at a minimum.** While it is possible that conditions should not deteriorate further, most economists believe that the recovery will be slow and steady to the point that it will be barely noticeable. These conditions need to be factored into the FY 2012 budget process and revised 10-year Financial Plans for all funds.

The passage of Measure V also generates conditions and challenges for the General Fund that must be addressed. This quarter-cent sales tax should generate nearly $8.3 million from its actual implementation on October 1, 2010 through its sunset exactly four years later on September 30, 2014. The revenue will enable certain programs and services originally slated for elimination during FY 2010 to continue; however community and Council expectations have expressed to the City Manager that the same services need to continue at the levels funded by the sales tax measure after the measure sunsets.

The Council also believes that the passage of Measure V strongly suggests that Woodland residents do not want any more service level reductions. Woodland residents voted to assess themselves an additional quarter-cent in the midst of a recession in order to preserve the level of certain critical services such as the Library, public safety, Senior Center and parks. The concept associated with the sales tax measure is that the additional revenue would be a temporary adjustment that will allow the City to revise its fiscal priorities as the economy recovers.

In order for this to occur, it is imperative that the City organization commit to a series of actions that will change how the organization conducts business. Some of these actions were presented in the FY 2011 summary of organizational initiatives, such as restructuring the organization and developing alternate methods of service delivery. Other actions include changes to how employees are compensated and the level of cost of living adjustments that can be expected throughout the course of the slow economic recovery.

On many occasions, the City Manager and City Council have acknowledged that Woodland's employees are its Number One asset. This acknowledgement remains true at the present time.

During the last three years, the City and its employees, through their bargaining units, have implemented retirement incentives, furloughs and shared benefit cost increases. City staff has accepted new work assignments on short notice in order to blunt the impact of the current economic downturn. Despite the loss of over 100 positions over the last three years, only 5 full-time employees and one part-time employee have been involuntarily discharged through layoffs. While the last three years have been very stressful and challenging to all employees, Woodland has avoided the dozens of layoffs and double-digit percentage compensation reductions that the employees of other government agencies, including Yolo County and the State, have had to endure.

It is absolutely critical for all City funds to reflect the current status of the economy and other fiscal conditions as described herein in the preparation of the 2012 budget. Therefore, the City Manager's Office in collaboration with the Finance Division has developed revenue and expenditure assumptions for all funds and issued express instructions to all Departments in association with the preparation of the FY 2012 budget. These assumptions are explained in the following section of the report.

REVENUE ASSUMPTIONS

General Fund Revenue Assumptions

- **Property Taxes:** 2% increase in FY 2012. This assumption reflects the fact that the FY 2011 assumption of a 7.5% decrease from FY 2010 actually ended up at 4.7%. In addition, the residential development in process with Standard Pacific within the Spring Lake Specific Plan Area and Pulte at Gibson/Ogden should help this revenue source to stabilize.

- **Sales Taxes (excluding Measure V):** 2% growth in FY 2012. This assumption reflects very slow growth although it is important to note that **any** growth is a positive development given the recent history.

- **Transient Occupancy Tax (TOT):** 4% increase in FY 2012. This assumption reflects the modest recovery and some work between staff and youth and adult sports organizations to market Woodland hotels to visitors/participants who attend events at the Community Sports Park.

- **Document Stamp Tax:** Assumes no increase for FY 2012.

- **Sales Tax – Measure V:** 2% increase for FY 2012. This assumption is consistent with the sales tax assumption above.

- **Fee Revenues:** There is an overall 2% increase that reflects some fees remaining flat while others have slight increases.

- **Fines, Service Charges, Revenue from Other Sources, Sales & Donations:** 2% increase.

- **Other Miscellaneous (including indirect charges):** 5.6% annual increase.

Water Fund Revenue Assumptions

- **Water Fees:** Assumes the 20% fee increase approved by the City Council through the Proposition 218 process in November 2009 and necessary to support the financing of critical capital projects.

Sewer Fund Revenue Assumptions

- **Sewer Fees:** Assumes the currently adopted rates adjusted for the CPI factor.

Combined Transportation Funds

- **Net Transportation Development Act (TDA) Revenue:** Assumes no increase from FY 2011. However, this source of revenue is expected to decrease by $350,000 to $400,000 as soon as FY 2013 when TDA funds are reallocated by the by the Yolo County Transportation District for the first priority which is transit.

- **Gas Tax:** Assumes a 2% increase.

- **Gas Tax Swap (Previously Prop 42):** Assumes a 3% increase.

Redevelopment Agency

- **Tax Increment:** Assumes a 2% increase **if the Governor's proposed elimination of redevelopment is avoided. Otherwise, the Agency will cease to exist as it is today.**

EXPENDITURE ASSUMPTIONS

General Expenditure Assumptions – All Funds

- **Personnel Costs**
  Salaries: Increase of 1% in FY 2012 (reduced by assumed FY 2011 retirements).
  Pension Benefits: **18% increase** for public safety and **12% increase** for miscellaneous employees based on actual updated costs received from Cal PERS.
  Medical Benefits: **18% increase** beginning on January 1, 2012 based on actual costs received from providers and medical plan changes previously negotiated.

  Other Benefits: 8% increase in FY 2012.
  Overtime: Unchanged from 2011.

- **Discretionary expenditures –** Reflects the following historical trends:

  Professional/Contract services: Generally remain flat.
  Meetings/Education: no increases.

- **Non-Discretionary expenditures –** The following assumptions reflect current agreements and historical trends:

  YECA contract: 3% annual increase and additional $150,000 annual charge for Animal Service calls.
  Utilities: 5% annual increase.
  Technology charges: 5.6% annual increase.
  Vehicle maintenance: 3% annual increase.

Water Fund Expenditure Assumptions

- **Debt Financing:** Assumes expenditure of previously issued bond funds and new financing to support scheduled capital projects.

- **Unfunded Capital Projects:** The current 10-year Financial Plan shows that there is a total of **$112,563,383** in unfunded projects with **$103,058,383** estimated for Surface Water and **$9,505,000** for various other projects; **this situation needs to be factored into the FY 2012 budget.**

Sewer Fund Assumptions

- **Bond Funds:** Assumes some expenditure of Bond funds that may be unexpended from FY 2011.

- **Unfunded Capital Projects:** The current 10-year Financial Plan shows that there is a total of **$13,475,000** in unfunded projects; **beginning to address this situation needs to be factored into the FY 2012 budget.**

- **Sludge Management:** Staff has identified the development of a plan to address sludge management based on conditions imposed by regulatory agencies.

Combined Transportation Funds

- **Review of Expenditure Reduction Options:** The following areas will need to be reviewed for expenditure reduction opportunities in order to offset the future loss of TDA funds and Council priorities for the use of Measure E funds as described herein.

    - Sign Maintenance **– Reduce or eliminate**
    - Local Street Lights **Reduce or eliminate**
    - Signal Maintenance - **Reduce**
    - Arterial Road Street Lights - **Reduce**
    - Traffic Engineering Support for Enforcement **– Reduce or eliminate**

Redevelopment Agency Assumptions

- **Redevelopment Bond Funds:** RDA Bond funds will be used to fund certain reimbursable costs for the Yolo Superior Courts project. In addition, bond funds will be used to support other potential projects based on the potential loss of redevelopment as proposed in the State budget. Additional discussion of this issue will be conducted on April 5.

- **Redevelopment Operating Funds:** Assumptions associated with these funds are being reevaluated based on the elimination of redevelopment as proposed in the State budget and potential alternative being developed by the League of California Cities and the California Redevelopment Association.

- **Housing Set Aside Funds:** There is a potential for expenditure of Housing Set Aside funds if certain initiatives are approved for implementation by the RDA Board. In FY 2011, the Board allocated a significant portion of the fund balance of this fund to home loans, so available amounts will be carefully reviewed prior to approval.

SUMMARY

General Fund: Revenue estimates for the General Fund based on the assumptions described herein are **$36,866,392.** Expenditure estimates based on the assumptions and departmental requests are **$38,024,251** which would result in an imbalance of **$1,157,859** without implementing additional cost reduction measures. The primary reason for the imbalance is the inclusion of $700,000 in unanticipated cost increases for pensions, health insurance, emergency communications and cemetery maintenance.

Budget review meetings conducted by the City Manager's budget review team and each department has identified reduction strategies primarily associated with vacant positions and organizational restructuring that will reduce expenditures to the point of achieving a balanced budget. However, additional measures must be considered in order to fill vacant positions in public safety and the Library and recover all or part of the General Fund reserves lost in FY 2010. Staff believes these measures can be implemented without impacting service levels; however, the measures will impact employee compensation by addressing pension costs and are subject to the meet and confer process.

Utility Enterprise Funds: The utility enterprise funds are balanced with healthy reserves for FY 2012. However, the long term stability of these funds will remain challenged due to the infrastructure needs projected in the capital program. The strategies that will be discussed to address pension costs will be the primary tool to facilitate stability in the utility enterprise funds.

Combined Transportation Funds: The combined transportation funds are balanced for FY 2012 primarily because the significant loss of TDA funds originally forecasted for next year has not occurred. However, staff continues to believe that TDA funds will eventually be reallocated to expanded transit services and the City Council's most recent decisions for the allocation of Measure E funds will eventually require the reduction of street maintenance programs, signals and street light services unless alternative revenue sources are identified. Additional discussion of this issue is provided later in this report.

Redevelopment Funds: As expressed previously herein, detailed discussion of redevelopment is impacted by the State budget and the Governor's proposed elimination of redevelopment agencies. The April 5 Council/Redevelopment Board agenda will include discussion of the RDA bond. Further discussion of RDA operating funds should be delayed until alternatives proposed by the League and

California Redevelopment Association are considered. However, if the State proposal to eliminate redevelopment agencies is implemented, up to six staff could face layoffs since the funding to support the positions would not be available and the General Fund cannot be a source for the backfill at the present time.

Discussion

The following section will present actions that should be considered for the City funds described herein. These actions will support the City's need to achieve long term fiscal stability.

Organizational Restructuring

It has been expressed several times over the last three years that the City organization must be restructured in order to become fiscally sustainable over the long term. Staff had previously hesitated in proposing major long term changes because of the unpredictable economic conditions. Until conditions stabilized, staff felt it was better to implement interim measures and wait for more permanent solutions until the economy ended its near "free fall" and righted itself to the point that it might stabilize.

Staff believes that the economy has become more stable and the near "free fall" has settled. Based on this assumption, it is reasonable and necessary to implement an organizational restructuring plan that will facilitate long term fiscal stability. Discussion of the organizational restructuring plan will be presented to help explain the actions that need to be considered to balance the FY 2012 General Fund budget; these actions will also improve fiscal stability in all City funds.

Community Development Department Restructuring

The Community Development Department has been without leadership at the executive level since the retirement of Barry Munowitch in August 2009. Since that time, the day to day operation of CDD has been under the direction of Deputy Director Paul Siegel and the City Manager has been responsible for providing policy direction based on priorities and as time would allow. While this has certainly not been the most effective arrangement, staff felt it was adequate given the level of development activity and concern for additional reductions that may be required in response to declining revenues. In fact, CDD has implemented over $1.2 million in expenditure reductions and lost several positions since 2008.

Staff now believes that the current arrangement is no longer feasible. The lack of focused leadership at the executive level for CDD has had an adverse impact on the Department's operations, development activity and capital projects. CDD is in the process of adapting its work processes in order to account for the loss of positions and the use of new technology. While there is an honest effort to accomplish this, effective implementation of new processes takes time. In addition, the new demands on the engineering side of the operation generated by the increased infrastructure projects and the Surface Water Project requires a high level of leadership and management abilities. At this time staff has concluded that CDD needs an executive level professional with a solid background in engineering and development who can integrate planning, engineering and building into a cohesive and results oriented organization.

Therefore, the FY 2012 budget proposes a restructuring of Community Development that includes the following elements:

- Consolidating all engineering programs, including capital projects and utility engineering, under one Engineering Division within the Community Development Department;
- Delete the Deputy Director position and reestablish the Chief Building Official position;
- Eliminate the Building Services Manager position which will result in the layoff of the incumbent;
- Commence the process to hire a proven manager and leader with experience in development, planning, building and engineering to lead the organization and play a key role in the Surface Water Project.

The beginning steps of this process have been discussed. Director of Public Works Greg Meyer has been engaged in discussion regarding the engineering consolidation and is supportive of this move. Greg has already made several outstanding contributions to the Surface Water Project and will remain engaged in that effort although at a lesser capacity. Paul Siegel has been informed of the plan to re-establish the Chief Building Official. If the Council is supportive of this action, efforts will be implemented to attract a proven leader/manager with experience in engineering, planning and building to lead the Community Development Department. Staff believes that existing resources within the General Fund and Utility Enterprise Funds can be reallocated to support this action.

Public Safety Consolidation

Following the retirement of Fire Chief Tod Reddish, proposals were received from West Sacramento and Davis/UC Davis for an interim consolidation of Fire management programs. Interim Fire Chief Rick Sander was asked to form a committee of Woodland Fire Department staff to review the proposals and provide comments and a recommendation. In addition, staff received and reviewed proposals from qualified consultants for a Regional Fire Consolidation Study based on a collaborative Request For Proposal developed by UC Davis. The Fire Consolidation Study will also provide an organizational assessment of the participating Fire departments in order to fully evaluate the impact of regional consolidation.

The review of the interim consolidation proposals and the Fire Consolidation Study proposals caused the Fire Department committee to conclude that there was little advantage to either the West Sacramento or Davis/UC Davis proposals. Both proposals would add costs to the operation of the Fire Department while providing some level of organizational assessment. The conclusion of the Fire Department staff committee was that the best alternative was to continue the management of the Fire Department under Interim Chief Sander and await the results of the Fire Consolidation Study.

While in agreement with the conclusion that the interim proposals offer little advantage and added costs, a fourth option has been developed. This option involves the consolidation of the Police and Fire Departments under a single Public Safety Department with Chief of Police Dan Bellini as the leader. This action places a long tenured, public safety professional as the leader of a consolidated department for at least an interim period while the Fire Consolidation Study is completed. If the Study demonstrates that the consolidation of the regional fire departments is feasible with significant advantages in savings and efficiency, then Chief Bellini and the Fire staff will lead that transition if such a move is approved by the City Council. If the Study fails to demonstrate the feasibility of a regional Fire consolidation, than the City will have the option of continuing with a single Public Safety Department or returning to separate Police and Fire departments.

The concept of a consolidated Public Safety Department was discussed with the Fire staff members who reviewed the interim proposals. While it is safe to say that the option has generated lots of questions, some concerns as to the effectiveness of the Chief of Police's ability to contribute to the mission of the Fire Department and Chief Bellini's comparatively short time as a department head, the concerns regarding community/organizational loyalty are eliminated. In addition, the consolidated Public Safety organization would re-establish the Deputy Fire Chief position that would operate the Fire "Division" of the consolidated Public Safety Department similar to the role played by Captain Bierwirth in the Police Department.

The City Council, community members and City employees may have questions regarding the legal issues associated with combining public safety functions under a single executive. In anticipation of such concerns, the City Attorney prepared a memo analyzing this strategy. The memo included as Attachment No. 1. The conclusion of the City Attorney's analysis is that the City has the discretion to reorganize its Fire Department to become a division of a Public Safety Department, the duties of the Fire Chief may be transferred to a Public Safety Director and Deputy Fire Chief and the Public Safety Director must be a peace officer with the same qualifications as a Chief of Police.

It is important to note that consolidated public safety departments have been implemented in California and throughout the United States. One example of a California agency is the City of Sunnyvale. There are many cities in the Midwestern region, including Kalamazoo, Michigan and Woodbury, Minnesota.

This option would not have been considered without the strong support and confidence in Chief Bellini. In addition to his excellent performance as a law enforcement professional, Chief Bellini has also shown himself as an excellent team player. He is very conscious of his role as a member of the City's executive team to look at the welfare of the entire organization **<u>in addition to</u>** the Police Department and not solely focused on the Police Department. Chief Bellini enjoys a high level of support within the Police Department and the entire City organization because of this broad focus.

<u>Identification of Core Recreation Services</u>

Assigning Chief Bellini the responsibility to manage a consolidated Public Safety Department necessitates relieving him and his management staff of the responsibility to manage the Recreation

Division. As part of this effort, executive and management staff has engaged Recreation staff in a review of all recreation programs in order to evaluate the feasibility of delivering these services through alternate means. This is a first step in determining where the Recreation Division should be assigned within the organization and if resources can be redirected to address other youth and family services priorities.

This process is ongoing. A final decision as to where within the City organization the Recreation Division should be assigned has not been completed. However, the consolidation of public safety programs does require the Recreation Division to be reassigned to another functional area. Therefore, the Chief of Police and Police Department Management Analyst will not be responsible for the oversight of the Recreation Division assuming the consolidation of public safety is implemented.

As the Council is aware, there have been efforts implemented over the last two years to develop programs and services that specifically focus on youth and family services that will prevent youth violence. The need for and interest in such services has been identified by Council members and civic leaders who have attended dozens of community meetings held in church halls, neighborhood locations, the Community and Senior Center and schools. With the fiscal challenges faced by the City, identifying new resources to address this need has been impossible. As an alternative, staff has utilized the process of identifying core recreation services as a means of determining the feasibility of redirecting resources to develop collaborative youth and family resources. This process has resulted in the identification of certain recreation programs and services the City is currently offering that could be offered by other community resources. These services include:

- All recreation classes offered through contract instructors with the exception of the “Stepping Out” program that serves special needs youth;

- Certain special events;

- Maxwell afterschool program;

- Summer Day Camp;

- Summer Time Fun Clubs;

- Winter Youth Basketball.

It is important to note that the action described herein does not propose to immediately cease offering the above activities or eliminate these activities from the community. The proposed action is to actively facilitate the transition of these activities from the City to another community provider over time. Transitioning from directly providing these programs and services to facilitating and supporting the activities being offered by another community provider would allow the reallocation of approximately $130,000 to a collaborative youth and family services program. Given the fiscal challenges faced by the City at the present time, staff believes there is no other alternative. If the

Council is supportive of the concept, staff will develop a structured program for further review and a transition plan.

Development of a structured program and the transition of the recreation programs to alternative services delivery should be discussed with the Parks and Recreation Commission prior to any additional actions. The Commission may have concerns regarding the transition of certain programs and services as well as the timing to implement such a transition. Seeking the Commission's comments as part of this process is critical to its implementation.

Implementation of the restructuring plan described herein will allow the City to take maximum advantage of vacant position and revised alignments to achieve up to $940,000 in savings. The following specific actions to generate expenditure savings are briefly summarized:

Building and Fire Prevention Consolidation: Reestablishment of the Chief Building Official position and the Public Safety consolidation will enable the Chief Building Official to assume leadership of a consolidated Building and Fire Safety Division. This consolidation would place the responsibility of enforcing building and fire safety codes under the Chief Building Official. If implemented, this consolidation would allow the Fire Marshall position (Battalion Chief) to be eliminated and reassign the fire inspection staff to the consolidated Building and Fire Division. The elimination of the Fire Marshall position would result in the layoff of the incumbent. Total savings associated with this action, if combined with the previously mentioned elimination of the Building Services Manager, is approximately $297,000.

Public Safety Administration: The Public Safety consolidation provides an opportunity to more efficiently manage administrative functions such as budget management and training. Staff believes that more efficient management will allow the vacant Fire Training Officer (Battalion Chief) position to be eliminated and the Administrative Clerk assigned to support this function to be transferred to a vacant position in Finance. Budget administration and training will be shared between the two management analysts assigned to the currently separate Police and Fire Departments. The total savings associated with this action is approximately $237,000.

In addition, the reestablishment of the Deputy Chief position in lieu of a Fire Chief will provide a net savings of $30,000.

Finally, the consolidation of Public Safety and restructuring of Community Development presents an opportunity to co-locate similar functions and eliminate the need for a City building. The reductions in Fire administration will allow the remaining staff to move into available offices within the Police building on Lincoln Avenue. Merging all engineering divisions and, if necessary, co-locating engineering positions at the Municipal Service Center will enable the remaining CDD staff to move into the City Hall building. The current Fire Administration area would be modified to become the Permit Center as it has a counter area that could be utilized for that purpose. This would effectively relieve the need for the City Hall Annex building at 520 Court Street and reduce an annual General Fund expenditure of $38,000. In addition, this move would eliminate future costs to replace building components such as the heating/air conditioning system and the roof.

The total General Fund expenditure savings associated with consolidating public safety administration is $305,000.

Remaining Vacant Positions: There are currently 3.5 General Fund positions vacant which would generate approximately $338,000 in savings. These positions include:

- Two Police Officers
- Children's Librarian
- 50% FTE of a Parks Maintenance Worker

Other Potential Savings: Staff believes that additional savings of $290,000 can be generated by additional review of operating accounts within the fleet services and technology areas. Additional work will be required to verify this assumption. If this is correct, the total General Fund savings identified as described herein is approximately $1.23 million. This amount slightly offsets the deficit described for the General Fund within the Background section of this report.

Balancing the FY 2012 General Fund budget as described herein is a good start. However, it is not enough given the FY 2010 deficit and the impacts associated with program/service areas that were specifically identified as priorities by the advisory measures approved last year in association with the sales tax measure. Staff believes that additional savings need to be identified and reallocated to address the following areas:

- Hire the three additional firefighters to necessary maintain four engine companies;
- Fill the Police Officer vacancies;
- Fill the Children's Librarian vacancy
- Identify General Fund resources to recover the lost fund balance from FY 2010.

The resources necessary to hire the firefighters, police officers and Children's Librarian is estimated at $635,000. These vacant positions have been identified because of the relationship to the sales tax advisory measures; therefore, staff believes the positions are a very high priority.

Hiring the firefighter positions is necessary to maintain the present level of four fire engine companies without over-expending overtime. These positions will be combined with a focused training program that will allow firefighters to "act" in higher classifications in order to minimize the need for overtime and keep this expenditure at the budgeted level of $400,000.

Filling the police officer vacancies are necessary to maintain staffing levels for patrol without reducing in other areas such as investigations or special units. Reductions in investigations and special units such as traffic and gang violence suppression will reduce the ability for the Police Department to implement proactive crime reduction actions.

The Children's Librarian position provides a core service that sustains the Library's focus on education. This position also supports the general operation of the Library which is important because of the staff reductions that has impacted this service since 2005.

Pension Reform: As presented herein, there are no additional resources available to fill these high priority positions. At this time the only strategy staff believes is feasible to implement this action is to seek an agreement with the City's bargaining units to eliminate the Employer Paid Member Contribution for the pension program and have each employee cover that obligation. If this was implemented effective with the FY 2012 budget, the General Fund could achieve an estimated savings of $957,000. These savings could be reallocated to fund the above positions and allocate nearly $400,000 to the General Fund reserves which would, combined with the anticipated contribution for the current fiscal year, make up approximately two-thirds of the FY 2010 deficit.

Eliminating the Employer Paid Member Contribution was discussed during the October 12 Study Session on fiscal issues. At that time, staff indicated that this action could be implemented over a two-year period beginning in FY 2013. However, the PERS increases for FY 2012 were significantly more than anticipated and all indications are that these costs will continue to rise. In addition, the growing public concern associated with public employee compensation in general and pension reform in particular cannot be ignored.

The City Council and City Manager are well aware of the national and statewide interest in this issue and concrete actions should be taken as soon as possible that demonstrates State and local government's acknowledgement of public concerns. Staff believes that ending the current Employer Paid Member Contribution is a logical first step in implementing pension reform at the local level and relieving taxpayers of a significant expense that can be reallocated to services that benefit the entire community.

In addition to ending Employer Paid Member Contribution, gaining the agreement from bargaining units to establish a "second tier" pension program is critical to containing future costs. The second tier would modify the pension program as follows:

- Public Safety would be changed from 3% at 50 to 2% at 50;
- Miscellaneous employees would be changed from 2.7% at 55 to 2% at 60

If the City Council is supportive of such action, the City Manager will formally request all bargaining units to meet and confer on this matter as soon as possible. Every effort will be made to work with the bargaining units in a manner that achieves the necessary reductions.

Utility Enterprise Funds

The restructuring described herein will also favorably impact the utility enterprise funds. However, the most favorable impact on the fiscal stability of the Utility Enterprise Funds would be the elimination of the Employer Paid Member Contribution. In addition to the $957,000 savings in the General Fund, approximately $600,000 would be saved in the Utility Enterprise Funds. These savings would significantly improve the general financial health of the water and sewer programs by allowing resources to be reallocated for capital projects and bonding capacity and, in the long run, lowering potential rate increases.

Combined Transportation Funds

Restructuring and eliminating the Employer Paid Member Contribution will also support fiscal stability in the Combined Transportation Funds. However, staff believes and has previously expressed to the City Council that the looming threat associated with the reallocation of TDA funds from local street maintenance programs to mass transit services provided by the Yolo County Transportation District will require the consideration of very unpleasant alternatives.

Previous trends showing the accelerated loss of transportation funds have been discussed with the City Council in association with the 10-year financial plan for transportation programs. To address this trend, staff has discussed the use of Measure E funds to "backfill" the loss of TDA funds when that occurs. However, the most recent Council approved allocation of Measure E funds which reduced the share allocated to roads combined with the $19 million reduction due to updated estimates requires a close examination of potential impacts. The following reductions were presented on May 25 and are listed in priority order to give the Council and the community a sense of the potential impacts if TDA funding was reduced and there was no backfill available to offset the loss. The impacts are listed in the order which reductions could be made based upon their regulatory requirements and the potential liability to the City. The costs shown are estimates.

1. ***General Budget* –** Reduce training budgets to minimum required to maintain certifications, reduce contract services where possible, reduce small tools budgets and reduce traffic engineering support/response to public requests during the summer months. (Savings – $45,000)

2. ***Sign Maintenance* –** Eliminate all maintenance and repair of green street name signs, brown and blue guide signs, no parking signs, red curb, bike lane lines, bike legends and fog lines. This includes graffiti cleaning and replacement of signs that are in disrepair or are missing. Knockdowns of signs in these categories will be removed and will not be repaired or replaced. All public requests for curb painting, sign installation and other non-regulatory requests will be denied. (Savings - $175,000)

   Potential Consequences **–** Faded, missing and damaged signage will not be repaired or replaced. There may be an increase in potential liability due to faded street name signs and Fire and Police responses. Additionally there are implications regarding parking enforcement revenues if parking restriction signs are not maintained.

3. ***Local Road Street Lights –*** Approximately 2,000 non L&L funded street lights located on collector and local streets (83% of the lights) will be turned off. Only emergency response to knockdowns or critical situations will be supported on these roadways. This reduction is proposed because street lighting is considered a convenience and not a requirement. (Savings – $300,000)

   Potential Consequences **–** Crime, vandalism, nighttime vehicle accidents and pedestrian injuries may increase.

4. ***Signal Maintenance –*** Reduced maintenance at traffic signals. Eliminate all non-essential maintenance, system upgrades, training and supplies, postpone the planned traffic signal maintenance management program (QuicNet) upgrade, denial of all special requests from the public that are not deemed life/safety issues, eliminate crucial training, reduced stocking of essential supplies and eliminate the loop replacement program. (Savings – $110,000)

   Potential Consequences – Basic required maintenance will be performed; however, special projects/requests, upgrades and unplanned work would be unfunded. Some maintenance projects may be delayed due to the lack of staff and supplies. As essential supplies will no longer be stocked, signals may be placed in, and left on, all red flash for extended periods while materials are acquired. Engineering response to and support of public requests will be reduced.

   It should be noted that this means all operational/non-safety requests would be unfunded. An example of this would be when a traffic detection loop is broken and the signal timing is set to fixed timing, staff would not be able to address the issue.

5. ***Arterial Road Street Lights –*** Approximately 400 non L&L funded street lights located on arterial streets (17% of the lights) will be turned off (except for street lights at signalized intersections). Only emergency response to knockdowns or critical situations will be supported on these roadways. This reduction is proposed because street lighting is considered a convenience and not a requirement. (Savings – $64,000)

   Potential Consequences – Crime and vandalism may increase. Residents may feel less comfortable out at night which may affect revenue to businesses. There is a potential increase in nighttime vehicle accidents and pedestrian injuries.

6. ***Traffic Engineering Support for Enforcement–*** Reduced support for Police Department traffic and enforcement. Eliminate speed zone surveying, engineering support for challenged tickets and special information requests. (Savings - $5,000)

   Potential Consequences – Streets with invalid/outdated speed zone surveys would be classified as speed traps and would become unenforceable. Engineering regularly supplies code information and completes research in support of officers defending tickets that are challenged; this service would be reduced or eliminated.

If Measure E funds are unavailable, staff will need to find an alternative funding source in order to maintain local streets and roads at the current level. Increasing Measure E to the allocation required to avoid all or some of the reductions described herein will have impacts to the capital program.

As a short term strategy, staff has developed a Measure E reserve fund generated from previous Measure E allocations that were not fully expended. There is approximately $900,000 in the reserve fund. The reserve fund would provide approximately two years of additional time to develop an alternative if additional Measure E funds are not available.

Concluding Comments

The information provided herein is intended to provide the City Council with a status report on the FY 2012 budget. It is important for staff to receive comments from the Council regarding the following issues as presented herein:

- Organizational Restructuring;
- Maintaining the currently vacant positions in public safety and the Library;
- Seeking a Meet and Confer process with bargaining units to discuss elimination of the Employer Paid Member Contribution as the first step in implementing pension reform;
- Acknowledgement of the potential impacts to the Transportation Program

Staff believes that the City organization is resilient and determined to work through the City's fiscal challenges while still providing the best possible services to the community. This has not or will be easy. Despite the challenges, staff will continue to find ways of conducting the City's business in the most efficient and effective manner possible.

<u>Fiscal Impact</u>

The information described herein is intended to address a current General Fund deficit of $1,157,859 through a combination of restructuring and other cost saving measures. Implementing the first action for a pension reform program will generate General Fund savings of $957,000 and total savings for all City funds of $1,672,800 by eliminating the Employer Paid Member Contribution. This action would fund certain high priority positions and contribute funds to recover the previous loss of City reserves.

Public Contact

Posting of the City Council agenda. The City Manager also conducted City wide employee meetings on March 23.

Recommendation for Action

Staff recommends that the City Council receive the status report on the FY 2012 operating budget and provide comments, suggestions and direction in response to the information as described herein.

____
Mark G. Deven
City Manager

Attachments

MEMORANDUM

ATTORNEY WORK PRODUCT
ATTORNEY-CLIENT PRIVILEGE

TO: Mark Deven, City Manager

FROM: Best Best & Krieger LLP

DATE: December 31, 2010

RE: Forming a Public Safety Department

BACKGROUND INFORMATION

The City is currently evaluating a number of potential internal reorganization plans. One plan would combine the Police and Fire Departments into the Public Safety Department. As the City's Fire Chief recently retired, the City's current Police Chief would become the Director of Public Safety. The City would then appoint a Deputy Fire Chief who would be responsible for the day-to-day operations of the Fire Division of the Public Safety Department. The current Police Chief would be responsible for the day-to-day operations of the Police Division of the Public Safety Department, in addition to whatever additional administrative responsibilities he holds as Public Safety Director.

The City is aware that a number of California Government Code provisions require cities to maintain a fire departments and appoint fire chiefs to run those departments. You asked us to prepare a memorandum discussing what limitations these provisions placed on the City's reorganization plan.

ISSUES

1. Do Government Code sections 36501, 38611 and/or 38630[1] prevent the City from forming a Public Safety Department or require the City to appoint a Fire Chief?

2. If not, do these sections restrict or limit the City's ability to form or operate a Public Safety Department?

[1] Unless otherwise noted, all statutory references are to the Government Code.

BRIEF ANSWERS

1. No, the law does not seem to preclude the City from reorganizing public safety functions under the leadership of the Police Chief. There is implicit authority for cities to structure their fire departments as part of a "consolidated public safety agency" (i.e., the Public Safety Department), with a"chief, director or chief executive officer" running the consolidated public safety agency.

2. No, the City just needs to make sure that the head of the Public Safety Department, is a peace officer. He or she must also have the same qualifications, rights, responsibilities and privileges as a police chief. In this case, appointing the current Police Chief as Public Safety Director would satisfy this requirement.

ANALYSIS

A. CITY MAY FORM A DEPARTMENT OF PUBLIC SAFETY

General law cities must establish a fire department. (§ 38611.) This fire department "shall be under the charge of a chief who shall have had previous training and experience as a fireman." (§ 38611.) In addition, the "government" of a general law city is vested in part in a fire chief. (§ 36501(e).) A city within the boundaries of a fire protection district is not subject to these requirements. (§ 38611.)

No court has considered whether a municipal fire department must be a separate city department or whether the fire chief must be a separate position. However, courts have at least recognized that "[w]hile Government Code section 38611 requires general law cities to establish fire departments, … decisions regarding its management and operations are left to the legislative discretion of the city." (*New Hampshire Insur. Co. v. City of Madera* (1983) 144 Cal.App.3d 298, 307.) The *Madera* case involved a claim that the city had provided inadequate fire protection. The court refused to hold the city liable due to statutory immunities that shield cities from liability for failing to provide sufficient fire protection. (§§ 850.2, 850.4.) In addition, the court noted that section 38611 did not remove these immunities because while section 38611 required the city to establish a fire department, management and operational decisions regarding the department are left to the city's discretion.

In addition, section 38630 implicitly recognizes that cities may combine their fire and police departments into a public safety department. Section 38630 provides that in "municipalities which provide for police and other emergency services through a consolidated public safety agency which includes traditional law enforcement, fire protection, and other emergency services, the chief, director, or chief executive officer of such an agency shall control the agency." This clause was added to section 38630 in 1998 by SB 1452. As discussed below, this bill was adopted to ensure that directors of consolidated public safety agencies had the same qualifications as police chiefs.

The legislative history of SB 1452 recognizes the prevalence of consolidated public safety agencies. "Over the years, in an effort to save money, smaller municipalities have begun consolidating their police and fire departments into a single 'Public Safety' agency. The public safety agency is responsible for providing both traditional police services and fire prevention services for the city." (Assem. Com. on Public Safety, Analysis of Sen. Bill No. 1452 (1997-1998 Reg. Sess.) Jun. 29, 1998.) While section 38630 does not explicitly authorize the City to create a Public Safety Department, it recognizes that it may do so by implication. If "consolidated public safety agencies" were impermissible, this portion of section 38630 would be meaningless.

In this case, while there is no direct authority explicitly permitting the City to combine its Police and Fire Departments into a Public Safety Department, the City appears to have the ability to do so. As noted above, courts have recognized in other contexts that while section 38611 requires the City to have a fire department, its management and operation are within the City's discretion. In addition, section 38630 implicitly recognizes that cities may create public safety departments.

B. THE CITY IS NOT REQUIRED TO APPOINT A FIRE CHIEF

The potentially more difficult question is whether the City most have a separate, independent Fire Chief. As noted above, section 36501 partially vests the "government" of a general law city in a fire chief. In addition, section 38611 provides that the fire department is managed by the chief who must have previous experience and training as a firefighter.

Similar to whether the City can create a Public Safety Department, there is no direct authority allowing or prohibiting the City from transferring all of the Fire Chief's duties to the Public Safety Director. However, under section 38630, it is clear that the Public Safety Director controls the Public Safety Department. As discussed more fully below, it is also clear that the Public Safety Director must have a police officer background. Therefore, the City is not required to have an independent Fire Chief with independent authority over the Fire Division. By statute, the Public Safety Director controls the Public Safety Department.

While section 38630 clarifies that the Public Safety Director controls the Public Safety Department, it does not indicate whether the City may transfer all of the Fire Chief's duties to the Public Safety Director. However, as a general rule, the City may delegate any duty or a portion of any duty imposed on a City officer by state law to any officer charged with the "performance of duties of the same character in that city." (§ 34004.) In this case, two City officers will exercise the traditional duties of the Fire Chief: (1) the Public Safety Director and (2) the Deputy Fire Chief. Under section 34004, the City may most likely delegate the Fire Chief's administrative duties to the Public Safety Director while delegating the Chief's operational duties to the Deputy Fire Chief.[2] This approach is consistent with the approach taken in other general law cities that use a public safety department. (See Ceres Municipal Code, § 2.20.050 [creating officer of Public Safety Commander/Fire with responsibility for "management, administration and provision of fire protective and prevention services" subject to the Director of Public Safety's supervision].)

[2] This arrangement is consistent with section 38611's requirement that the fire chief have firefighter experience. Here, the Deputy Fire Chief would have the necessary experience to oversee the Fire Division's operational duties.

C. PUBLIC SAFETY DIRECTOR MUST BE THE POLICE CHIEF

If the City decides to create a Public Safety Department, it should be aware that the Director of Public Safety must have a police officer background. (§ 38630.) In addition to clarifying what a "consolidated public safety agency" is, SB 1452 amended section 38630 to require that the directors of these agencies have the same qualifications as police chiefs. Section 38630 actually requires that the director of a consolidated public safety agency be "a peace officer, and shall meet all of the same requirements imposed by law, regulation, or POST guidelines and recommendations as a chief of police, and he or she shall have all of the same rights, responsibilities, and privileges as does a chief of police."

This requirement was added because some public safety directors were not peace officers. Under various statutory provisions, the "chief of police" has important discretionary duties. For example, he or she issues concealed weapons permits. The author of SB 1452 was concerned that public safety directors who were not qualified to be police officers would become de facto police chiefs.[3] (Assem. Com. on Public Safety, Analysis of Sen. Bill No. 1452 (1997-1998 Reg. Sess.) Jun. 29, 1998.) In this case, if the City appoints the current Police Chief as the Public Safety Director, this requirement is not an issue.

CONCLUSION

We hope this memorandum has been helpful in explaining the issues associated with the reorganizing the City's Police and Fire Departments into a Public Safety Department. As discussed above, the City can create a Public Safety Department and may delegate the overall management of the Fire Division to the Public Safety Director. It may also delegate responsibility for the day-to-day operations of the Fire Division to the Deputy Fire Chief. Lastly, it is actually required to appoint the current Police Chief or someone with similar qualifications as the Public Safety Director.

Below is a bullet-point summary of these requirements and our recommendations:

- The City has the discretion to reorganize its Fire Department as the Fire Division of the Public Safety Department.
- The City may transfer the Fire Chief's "duties" by ordinance to the Public Safety Director and Deputy Fire Chief.
- The Public Safety Director must be a peace officer and have the same qualifications, rights and responsibilities as a police chief.

Please do not hesitate to contact us for more information.

ANDY MORRIS
JOSH NELSON

[3] The author did not express a similar concern with public safety directors becoming de facto fire chiefs.