



# Council Agenda Report

From: Thomas Frutchey, City Manager  
Subject: Actions to Further Reduce and Prioritize Operating Costs  
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## Facts

### Impacts of the Pandemic

1. Unlike most local businesses and households, the City has never fully recovered from the Great Recession. Some services were deleted and have not been brought back (e.g., the City had to stop its after school programs at Oak Park and Centennial Park; similarly other programs are still operating at staffing and funding levels below what they had before the recession (e.g., the Police Department had 45 sworn officer positions in 2009 and only 39 total positions currently, some of which are normally vacant, due to natural turnover).
2. The Coronavirus (COVID-19) pandemic hit the City hard, imposing significant negative impacts on the economy nationally as well as locally, resulting in substantial revenue reductions at all levels of government. By necessity, this has impacted: 1) the nature and scope of the services the City can offer; 2) the employees, business, not-for-profits, and other who rely on the City; and 3) the City's long-term fiscal sustainability. During the spring and early summer, revenues were approximately \$3.2 million less than what was projected pre-pandemic.
3. The City also has an underlying structural deficit: demands for services, and the costs of those services, are both increasing faster than revenues.
4. On [June 16, 2020](#), City Council adopted a one-year budget for Fiscal Year 2020-21 that demonstrated the fiscal challenges the City is facing, including unfunded liabilities, insufficient investment in capital infrastructure (e.g., roads and public facilities), an outstanding and significant pension liability, and the half-cent supplemental sales tax sunset in 2024. These significant fiscal challenges, both near-term and long-term, have been further exacerbated by COVID-19.
5. Upon the onset of the pandemic, the City took a series of immediate actions, including: placing a hiring freeze on all vacant positions (with the exception of certain public safety positions), stopping all discretionary/non-essential purchases, and deferring or eliminating a number of capital projects. In the budget process, the City further reduced service levels by \$7.4 million in FY 2020-21 in order to maintain a reserve of 30% of operating expenditures.
6. Despite these efforts, the City expended approximately \$1.6 million more than the revenues received in FY 2019-20 and this year's budget anticipates utilization of and additional \$5.7 million of reserves to make up the difference between revenues and expenditures. This will result in a decrease in reserves from approximately \$18.1 million on July 1, 2020 to \$12.4 million on June 30, 2021.

### Sustained Underfunding of Highest Priority Services

7. Some communities are served by separate parks and recreation districts, fire districts, County libraries, or other special districts. Unlike these other cities, Paso Robles is a full-service city, not able to rely on any special districts or other agencies for local services.
8. To continue to provide the full range of needed services, given our fiscal challenges, Paso Robles has had to fund them all at below the community's desired levels and, in some cases, below accepted standards. For instance, even though National Fire Protection Association (NFPA) Standard 1710 specifies that an initial alarm deployment of 15 firefighters is necessary for low-hazard occupancies, 28 firefighters for medium-hazard occupancies, and 43 firefighters for high-hazard occupancies, our entire response capability is comprised of only 9 firefighters (including the Battalion Chief).

9. This means that the risk of a major problem is higher than is generally understood, and the costs that our residents have to absorb (due to delayed response times, bad roads causing damage to cars, etc.) are higher than should be expected. In addition, it means that the costs we will ultimately incur are greater (e.g., not fixing a street at the right time costs more in the long run).
10. The California Constitution, in Article XIII, Section 35 (2), specifies that public safety, broadly defined, is a city's highest priority function:
 

“The protection of the public safety is the first responsibility of local government and local officials have an obligation to give priority to the provision of adequate public safety services.”
11. The City has conducted several surveys and polls regarding resident views and needs over the past four years. The residents have clearly and repeatedly responded that public safety broadly defined—including police services, fire services, and street maintenance—are their highest priority services.
12. In August, the City Council placed a measure on the November ballot. Measure J-20 asks voters:
 

“To maintain essential/general services, such as fire protection/paramedic services; wildfire/natural disaster emergency preparedness; 911 emergency response times; public safety; equipping first responders; fixing streets/potholes; addressing homelessness; supporting local jobs/small businesses, shall the City of Paso Robles adopt a measure establishing a 1¢ sales tax providing approximately \$10,000,000 annually until ended by voters, requiring annual audits, independent citizen oversight, public spending disclosure, and all funds only for Paso Robles?”
13. Measure J-20, if approved, would generate approximately \$10 M per year. The City Council passed [Resolution #20-117](#) specifying that the priorities for those additional revenues will be police, fire, and streets.
14. Although final Council decisions as to the specific uses of the funds (should Measure J-20 pass) would not be made until next spring's budget deliberations, the general outlines can be anticipated:
 

Fire and Emergency Services – Proceeds would be utilized to maintain the 6 SAFER positions on the squad; hire three fire captains to fully staff Fire Station 3; hire three additional Firefighters to mitigate overtime costs; hire an administrative assistant; continue to reduce the community's exposure to wildland fires through annual vegetation management projects in the Salinas Riverbed and west of the City. Total annual costs: ~ \$2.1 M.

Police Services – Proceeds would be utilized to hire and train police officers at necessary levels to provide policing functions not able to be provided now. The staffing study identified a need for up to 52 sworn officers and 23.6 non-sworn positions (currently staffing levels for FY 2020-21 is 39 sworn officers and 18.5 non-sworn positions). Staffing at this level would provide the most efficient and effective use of resources and would position the Police Department to meet the public safety needs of the community. Additionally, supplemental tax proceeds would be used to augment police training in critical areas such as active shooter prevention and response, de-escalation techniques, and enhanced arrest and control tactics. Total annual costs: ~ \$4.5 M.

Streets Repair and Maintenance – Proceeds would be utilized to select high-priority street segments the repair of which cannot be achieved at the optimal time given the limited funds available from the current supplemental sales tax. It is expected that these projects would be highly visible and important to a larger segment of the community. It could be reconstruction work on a major street like Niblick Road, or it could be the rebuilding of an entire neighborhood area surrounding a school. Current Supplemental Sales Tax (SST) revenues are insufficient to address significant infrastructure improvements such as these given the funding required to simply keep pace with street maintenance on Paso's 350+ lane miles of roadway. Total annual costs: ~ \$5.0 M.
15. However, Measure J-20 may not pass. Given that possibility, key questions some residents are now asking include, “Given the identified needs, what will happen if the majority of voters don't vote to approve Measure J-20?”, and “How then will the City adjust its budget?”
16. On [September 1, 2020](#), City Council directed staff to return with two sets of information:
  1. What service and cost reductions will be needed if Measure J-20 does not pass? (Plan B); and

2. Regardless of whether Measure J-20 passes, how might the City continue to address budgetary shortfalls? (Plan A).
20. For Plan A, Council directed staff to analyze cost-reduction steps already underway and being discussed with labor groups (such as a Voluntary Retirement/ Resignation Program), as well as additional reductions in the amount of \$1.5 million to \$2.5 million this fiscal year. Council directed that lessor impacts be applied to police, fire, street, water, and sewer services. The analysis is to address the associated service level reductions. Given that we are three months into the fiscal year, this reduction would largely match those needed to minimize the use of reserves in future years if Measure J-20 does not pass. As a result, the rest of this report will focus on Plan B.
17. The *Analysis and Conclusions* Section of this staff report addresses both the public's questions and the Council's request.

**Options**

1. Take no action;
2. Direct the City Manager to: (a) continue budget and service re-prioritization and reduction efforts, including meet and confer sessions with the City's labor groups, to achieve changes made necessary by the pandemic, the structural deficit, and stated resident priorities; and (b) prepare for the potential implementation of Plan B in FY 2021-22;
3. Direct the City Manager to undertake the necessary steps, including meet and confer sessions with bargaining units, for the purpose of implementing part or all of Plan A now;
4. Receive and file information regarding Plans A and B; or
5. Provide alternative direction to staff.

**Analysis and Conclusions**

General Fund Budget Overview

For FY 2020-21, the City's General Fund budget includes an appropriation of \$46.3 million, of which 54% is associated with personnel costs, 24% with operating and maintenance and 20% with transfers to other funds (primarily transfers to the Capital Improvement Fund and Replacement Funds), as follows:

**Table 1- General Fund Expenditures by Category**

Expense Category	2020-21 Budget	% of Budget
Personnel Costs	\$ 25,175,100	54%
Operating Costs	11,111,100	24%
Debt Service	625,000	1%
Capital Outlay	10,000	<1%
Transfers Out	9,396,900	20%
Total	\$ 46,318,100	

The General Fund budget can be viewed by department; of which 55% is associated with public safety (i.e., police and emergency services) and capital improvements (e.g., street and road repair and maintenance) (24%+16%+15% in the table below). The Community Services Department comprises 15% of the General Fund budget, including the Library (at \$1.3 M, which is 3% of the overall general fund budget), Recreation (net costs of \$750,000; expenditures at 2% of the budget) and Parks/Facility Maintenance (\$4.9 M, or 10%). The remaining four departments comprise the remaining 30% of the General Fund budget, combined, at less than 10% each.

**Table 2- General Fund Expenditures by Department**

Department	2020-21 Budget	% of Budget	Full-Time Equivalent (FTE)	% of FTEs
Police	\$ 11,210,600	24%	58.4	34%
Emergency Services	7,388,300	16%	34.0	20%

Community Services	6,910,400	15%	37.0	21%
Capital Improvement Program	6,833,000	15%	n/a	n/a
Administrative Services	3,571,900	8%	9.0	5%
Community Development	3,280,800	7%	14.9	9%
Public Works (GF only)	3,195,100	7%	10.0	6%
City Manager's Office/City Council	2,576,000	5%	9.0	5%
All Other Expenses	1,352,000	3%	n/a	n/a
Total	<u>\$ 46,318,100</u>		<u>172.3</u>	

A majority of positions in the City are represented by one of three labor associations. Management employees and part-time employees are unrepresented:

**Table 3- General Fund Full-Time  
Equivalents by Employee Group**

<u>Employee Group</u>	<u>FTEs</u>	<u>% of Positions</u>
Unrepresented Management	28.4	16%
SEIU	58.2	34%
Police Officers Association	44.0	26%
Professional Firefighters	27.0	16%
Unrepresented Part-Time	14.7	9%
Total	<u>172.3</u>	

Cost and Service Reductions that Will Be Required if Measure J-20 Does Not Pass (Plan B)

The following assumptions were key in determining the budget reductions that would be necessary, starting in FY 2021-22:

- The local economy would be starting to recover, but recovery will start later and progress more slowly than originally hoped given the prolonged persistence of the pandemic and associated public health-related restrictions.
- Demands for services would remain constant or continue their long-term trend-lines of increasing.
- Most if not all increases in revenues will be absorbed by increases in costs of ongoing expenditures (increasing cost of materials, MOU commitments, increasing insurance premiums through CJPIA, etc.)
- The Council may not be likely to authorize any additional use of General Fund reserves to balance the budget, even though adopted policy would allow a reduction to 20% of budgeted expenditures. (Reserves are projected to decrease to \$12.4 M by June 30, 2021. A full \$5.7 M is anticipated to be pulled from reserves this year; at that rate, reserves would be depleted in just two more years.)
- The City would assume the full costs of the Fire Squad and its staff, as the SAFER grant funds are set to expire.

Based on these assumptions, a \$3.3 M budget deficit would need to be addressed. As a result, there will be challenging decisions for the Council and community to make regarding how to prioritize services.

The actions outlined below constitute only one broad scenario for the Council to consider. It is a starting point given Council's direction on September 1, 2020 to minimize impacts on police, fire, and streets (as well as water and wastewater, which are not General Fund programs) and given the broad array of federal and state requirements regarding the role of local government in protecting public safety. The scenario can be adjusted, based on further analysis, community input, the outcome of the November vote on Measure J-20, and the results of meet-and-confer sessions with representatives of employee groups.

Expenditure reductions have been developed and analyzed in both personnel services and non-personnel expenses. Reductions in personnel services would be made through a combination of position reductions and compensation reductions, over and above ongoing natural attrition and incentivized reductions. After the meet and confer process is completed, compensation reductions could be a mixture of salary cuts, furloughs, benefit reductions, and other measures. All would likely have direct implications for service quantity and quality.

Personnel reductions would be concentrated in the non-public safety functions provided by the General Fund (no reductions are anticipated in the enterprise funds: water, wastewater, and airport). Given that the budget for police and fire comprise roughly half of the General Fund budget, if all cost savings were achieved through position reductions, one out of every eight full-time-equivalent positions in those non-public safety departments would be deleted, a reduction of approximately 22.6 FTEs. Reorganizations in several functions would be necessary to maintain the functionality of the organizational structure. Those activities that generate revenues sufficient to cover their costs (e.g., building inspection) would not be impacted.

#### Regardless of Whether Measure J-20 passes, How Might the City Reduce Costs Now? (Plan A)

For this option, on September 1, Council directed staff to implement additional cost-reduction steps already planned and discussed with labor groups (such as a Voluntary Retirement/ Resignation Program to achieve personnel cost reductions), as well as additional reductions in the amount of \$1.5 million to \$2.5 million this fiscal year and the associated service level reductions that would be needed (with the lesser impacts being applied to police, fire, street, water and sewer services). Given that we are less than three full months into the fiscal year, this reduction would largely match those needed in order to minimize the use of reserves in future years if Measure J-20 does not pass, especially when the half-cent supplemental sales tax measure expires.

Given that achieving \$1.5-\$2.5 million in additional expenditure reductions this fiscal year (above and beyond the \$7.4 million reduction already incorporated into the FY 2020-21 budget adopted in June) would significantly reduce core community services prior to giving voters an opportunity to weigh in on Measure J-20 in November, the City could proceed now with the Voluntary Retirement/Resignation Incentive Program and continuing preparations to implement Plan B should that become necessary.

#### Alternatives

Most of the reductions outlined above in Plan B and Plan A would have significant negative impacts on services offered to the community and on City staff positions/employees. Some alternatives for consideration, also with potential downsides, include the following:

- Reevaluate reserves policy and consider a lower General Fund reserve level (\$3.5 M) – In June, Council adopted the FY 2020-21 budget with a 30% anticipated General Fund reserve level at fiscal year-end. This fiscally prudent decision recognizes the relatively small size of Paso's General Fund, and the high risk for potential natural disasters such as wildfires and earthquakes, which could require significant funds immediately. It also recognized the uncertainty around the duration and severity of the fiscal impacts of the pandemic, which remain unknown. Reducing General Fund reserve levels would leave the City much less prepared to weather prolonged pandemic impacts or another simultaneous emergency, and may require deeper cuts later if fiscal conditions worsen. However, reducing reserve levels would preserve approximately \$3.5 M of the key services outlined above. Reducing reserve levels would only be a short-term solution, estimated to help address a budget deficit for one or two fiscal years, at which point the broader structural misalignment between the City's level of revenues and level of services provided would still need to be addressed.
- Defer street repairs in the six-year street plan (\$57.1 M)  
The six-year street plan calls for \$57.1 M in street repairs through FY 2024-25. Approximately \$4-\$5 million annually comes from the half-cent supplemental sales tax that is in effect until 2024.

Each possible alternative has potential upsides and downsides. They are also not mutually exclusive, but could be initiated in combination with other approaches.

**Fiscal Impact**

Any additional reductions approved by Council in this year's budget would reduce the projected \$5.7 M draw down of reserves. The likely revenue impacts due to COVID-19 in FY 2020-21 are still unknown, as we are only two months into this fiscal year. That being said, major revenue reviews will be conducted in October 2020 and January 2021 to examine the actual revenues received in the preceding three months and six months, respectively, as well as part of the budget development process for FY 2021-2.

**Recommendation** (Option 2)

Direct the City Manager to: (a) continue budget and service re-prioritization and reduction efforts, including meet and confer sessions with the City's labor groups, to achieve changes made necessary by the pandemic, the structural deficit, and stated resident priorities; and (b) prepare for the potential implementation of Plan B in FY 2021-22.