

## REPORT TO THE CITY COUNCIL

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**DATE:** June 20, 2017

**TITLE:** Independent Findings and Analysis Provided by the City's Independent Financial Advisor, Urban Futures, Inc., Identifying Potential Budget Reduction Impacts from the Loss of Funding Provided by Measure A (2009 Utility Users Tax) and Measure G (2010 Public Safety Parcel Tax) Should the Tax Measures Sunset

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### **RECOMMENDATION:**

Receive and file the independent findings and analysis provided by the City's independent financial advisor, Urban Futures Inc., identifying potential budget reduction impacts that could arise from the loss of revenue provided by Measure A (2009 Utility Users Tax) and Measure G (2010 Public Safety Parcel Tax) should the tax measures sunset.

### **BACKGROUND:**

In May 2009, Desert Hot Springs voters approved Measure A, a modernization and expansion of the City's Utility Users Tax, by over 74% of the vote. The enactment of Measure A allowed the City to expand public safety services and maintain a balanced budget in a period of economic recession and rising crime. In June 2010, Desert Hot Springs voters enacted Measure G by over 82% of the vote, extending the city's Public Safety Parcel Tax to ensure the provision of adequate public safety services throughout the City, including newly annexed territory.

Since 2012, the City's independent financial advisor, Urban Futures Inc., has provided the City Council and Executive Management Staff with annual updates on its current financial position as well as a five-year forecast for the City's General Fund. This year, we are pleased to report that prior findings of fiscal distress have been effectively implemented by the associated recommendations to address the City's fiscal challenges. As a result, the City has weathered the storm of the Great Recession while building up its once depleted reserves. While the City has been successful in implementing budget sustainability recommendations, it has come at the cost of some City services being reduced, a 25% reduction in compensation to all full-time staff, including Public Safety Staff, and the elimination of financial assistance to outside organizations. These steps were necessary to ensure the City could maintain very basic service levels and to ensure the City could weather the next recession.

Going forward, should the City face another significant threat to its financial stability, similar cuts will not be available because they have already been implemented. Therefore, we must look ahead with the assumption we will face another recession, as statistics have shown that such recessions occur in California roughly every eight years. Further, we must plan now for service level impacts should Measures A & G sunset in 2020 without voter approval of an extension.

Measure A and Measure G collectively provide approximately \$5 million annually in City funding. By law, these voter-approved funds are set aside in a separate Public Safety Fund (Fund 245) to be specifically utilized for Public Safety services in Desert Hot Springs. Both Measure A and Measure G are set to expire in 2020. Should these measures expire, an estimated \$5 million dollars will be lost annually in Public Safety Funding for Police Officers and Emergency Dispatch Operators, investigating and preventing crime, anti-gang/anti-drug

enforcement operations, rapid emergency response times, graffiti removal, animal control, code enforcement, and other support services.

#### **DISCUSSION:**

Over the past decade, the State has taken millions of dollars from the City of Desert Hot Springs revenues, including the most recent elimination of \$1.5 million annually in redevelopment funding. These State cuts have further exacerbated the fiscal challenges the City faced during the 2008-2011 Great Recession. Additional factors, outside of the City's control, such as the worst economy in decades, resulted in reduced revenues to the City which created a funding gap of as much as \$3 million dollars. To maintain core services and continue providing critical public safety services, the City drew upon its emergency reserve fund and declared two fiscal emergencies. Additionally, to address the fiscal emergencies and avoid bankruptcy, the City has slashed its budget by implementing pension reform, reducing employee benefits and holidays, cutting its City Hall staff by over 50%, reducing employee salaries by 22.5% to 30%, and reducing training and all other non-essential spending. While enacting these measures, the City also made significant efforts to improve transparency in financial and governmental activities.

At this point, it is impossible for the General Fund to absorb additional losses of revenue without triggering drastic budget reductions equal to the amount of lost funding. The \$5 million dollars the City receives from voter-approved Measures A and G represents approximately one-third of all City revenues; loss of this revenue will necessitate an immediate reduction in City services equivalent to \$5 million. Police and other safety services represent over 56% (\$8.9 million) of the City's \$15.8 million annual operating budget (over half of the City's annual operating budget). Significant reductions to police protection in the community are unavoidable if funds from Measures A and G are lost.

The following is a Fiscal Impact Analysis of the potential public safety program and service cuts that would be required should the City lose revenues from Measures A and G:

<b>\$2,865,000</b>	Layoff (11) Police Officers and (14) Non-Sworn and City Employees
<b>\$747,000</b>	Close Senior Center, Health & Wellness Center, and Cabot's Pueblo Museum
<b>\$615,000</b>	Eliminate Animal Control, Graffiti Abatement and Trash Abatement Programs
<b>\$920,000</b>	Other City Department Cuts
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<b>\$5,147,000</b>	<b>TOTAL CUTS</b>

#### **POLICE AND PUBLIC SAFETY SERVICE IMPACTS**

To address a one-third loss of City revenues, an immediate and severe reduction in police staffing would be required. The department is currently budgeted for 38 full-time staff members. The revenue loss would require the layoff of 11 Police Officers and other police department staff during a period when the City is making progress on lowering our crime rates, amid rising homelessness and state policies that continue to put more offenders back on our streets. These cuts would significantly decrease the City's ability to train, recruit and retain experienced police officers and would negatively affect and diminish every aspect of public safety services provided to the community, including neighborhood patrol services, emergency response times, and crime investigations. The Police department is currently budgeted for the staffing of 30 full-time sworn Officers. However, the actual current number of sworn personnel is fewer, as there are 4 vacancies due to the challenge of filling positions at a lower pay scale than nearby agencies and 5 Officers out on job related injuries. The layoff of 11 Police Officers would result in an over 36% reduction of safety personnel. DHSPD is already understaffed and functioning with one-third fewer police officers than cities of similar size, per national standards. None of these actions and public safety reductions are acceptable, however, they are provided as an indicator as to the depth of program reductions that would be required in the absence of funding from Measures A and G revenues.

## **FIRE SERVICE IMPACTS**

The City contracts for Fire Services with the Riverside County Fire Department. Unlike Police Services, basic Fire Services (i.e., Fire Stations) are not scalable. While a Police patrol shift can function (albeit possibly poorly) with reduced staffing, a Fire Station cannot function because a Captain, Engineer and Firefighter/Paramedic are the minimum requirements to safely operate all commonly used fire apparatus' (engine or truck). Thus, losing the ability to staff just one required position can cause the closure of an entire fire station for one shift. Desert Hot Springs' main Fire Station is the third-busiest in the county. Minimum required staffing levels must be maintained in order to provide adequate fire protection and emergency response services.

## **COMMUNITY DEVELOPMENT, PUBLIC WORKS AND ADMINISTRATIVE SERVICE IMPACTS**

Due to the smaller budgets, the loss of \$5 million in funding from Measures A and G would be truly catastrophic for the City's other primary services such as Community Development and Public Works. To address the lost funding, an immediate layoff of 10 employees within these departments, as well as the associated administrative support services would be required. With only 21 full-time personnel currently staffed in these areas, these layoffs would result in a 47% reduction in staffing, making the delivery of such services highly irregular or near non-existent. Community Development services such as Planning, Building, and Engineering, would need to be operated by contract staff exclusively for a limited number of hours per week. The staffing needed to support the current City functions would be adversely affected. For example, the Administrative Services Department currently operating with 9 employees would be reduced by 4 employees, equating to a 44% reduction in staff. Accounts Payable, Receivables, Risk Management, and Information Technology would suffer and the City would risk falling behind on mandated audits and budget requirements.

In addition to staffing reductions, the City would need to eliminate a host of functions supporting fiscal stability and accountability. These would include eliminating all funding and activities related to Economic Development and Community Revitalization, terminating the City's participation in regional organizations (e.g., Coachella Valley Association of Governments, Southern California Association of Governments, and League of California Cities), and eliminating various activities that support Public Information Outreach and Community Affairs, such as video taping of City Council Meetings and maintenance of the City's website. The City would also need to eliminate all graffiti abatement and trash abatement services.

**YOUTH, FAMILY & SENIOR SERVICE IMPACTS** The loss of \$5 million in funding from Measures A and G would not provide the opportunity to maintain current funding levels for services that provide opportunities for the youth, family and seniors in Desert Hot Springs. These services are costly because they are provided at dedicated facilities that have built-in operating costs just to keep the doors open, with dedicated staff hired by contract (as opposed to city employees). To help address a one-third loss of City revenue, the only option would appear to be a permanent closure of three facilities: (1) the Community Health and Wellness Center, (2) the Desert Hot Springs Senior Center, and (3) the Cabot's Pueblo Museum.

As a final note, it is important to point out the proposed path forward represents a prudent "first pass" at defining the budget impacts of a major loss in funding from Measures A and G. Any actual budget reduction decisions, if necessary, will not be made by the City Council until the measures are scheduled to sunset in 2020 and the FY 2020-21 budget is adopted. The reductions contained in this analysis will not be utilized for any negative messaging should the Council decide to place successor measures on the ballot prior to FY 2020-2021; rather, this information will be used to answer any questions from the public on the impacts of the loss of funding from Measures A and G.

**FISCAL IMPACT:**

The loss of funding from Measures A and G is estimated to be approximately \$5 million annually and would trigger equivalent reductions in City Operations, Programs, and Services beginning in the Fiscal Year 2020-21.