

# City Council Staff Report

## November 12, 2019



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[This Staff Report is being provided as an informational item only to accompany the budget slides. This Staff Report has been revised since it was first published on November 7th, 2019, because updated information became available. This updated information was incorporated into the presentation to the City Council on November 12<sup>th</sup>, 2019.](#)

From: Michael I. Cooke, Interim City Manager

Prepared by: Michael I. Cooke, Interim City Manager

Agendized by: Michael I. Cooke, Interim City Manager

### 1. ACTION RECOMMENDED:

Motion: Directing staff to conduct community engagement and solicit feedback on how to best address the City's long-term financial stability, including, but not limited to a potential local tax measure on the November 2020 ballot

### 2. SYNOPSIS:

Directing staff to conduct community engagement and solicit feedback on how to reduce expenses and increase revenues to address the City's long-term financial stability.

### 3. DISCUSSION OF ISSUE:

While revenues have increased over time, they have been unable to keep up with increased expenses<sup>1</sup>. During the adoption of this year's 2019-20 budget, the City Council was tasked with creating a balanced budget, reducing expenses by \$4,397,833. This year's balanced budget reversed a multi-year trend of deficit spending, as summarized by the following table:

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<sup>1</sup> For instance, in 2019-2020, CalPERS expenses increased \$531,244, there were \$467,500 of approved salary increases, and a transfer of \$273,569 to Fund 502 (Engineering) to cover the general costs of operation.

<b>Year</b>	<b>Restricted</b>	<b>Reserve to \$6.5 M</b>	<b>Unassigned</b>	<b>Total</b>
2013-14	\$2,109,159	\$4,390,841	\$8,429,457	\$14,929,457
2014-15	\$2,301,272	\$4,198,728	\$118,566	\$6,618,566
2015-16	\$2,460,759	\$4,039,241	\$2,633,002	\$9,133,002
2016-17	\$2,541,641	\$3,958,359	\$4,581,071	\$11,081,071
2017-18	\$2,765,399	\$3,734,601	\$3,354,531	\$9,854,531
2018-19	\$3,031,125	\$3,468,875	\$500,825	\$7,000,825
2019-20	\$3,031,125	\$3,468,875	\$502,426	\$7,002,426

In this year's Draft Memorandum of Internal Control (9/13/2019), the City's auditors, Maze and Associates, noted that the City had stopped dipping into its reserves but cautioned "...if deficit spending were to continue, it reduces the likelihood that the City will be able to continue as a going concern..."

While deficit spending ended this year, there are still some significant outstanding liabilities for the General Fund which must be addressed. These liabilities have an adverse impact on the City's fiscal outlook. For instance, the auditors note that there are deficits in the Engineering Fund 502 (\$2.5 million) and Landscape Assessment Fund (\$2.2 million). The Council must develop payment plans to eliminate these deficits over time.

Further, the City's reserve policy may require additional analysis. Right now, Council policy is to maintain reserves at a static \$6.5 million, of which seven percent (7%) of the total General Fund is "restricted." While there is no official goal for the size of a reserve, it is not uncommon for communities to adopt a reserve goal of 25% of General Fund expenditures. Utilizing a percentage allows the reserve to fluctuate over time based on the size of the General Fund. Turlock's reserve is currently 16% of the General Fund which does not account for the significant outstanding liabilities noted above.

**2019-2020 Budget Impacts**

In order to develop a balanced budget in 2019-20, sixteen (16) positions in the General Fund were defunded:

- five (5) Police Department
- three (3) Fire Department
- four (4) Development Services Department
- four (4) Parks, Recreation and Public Facilities Maintenance Department

Other cost cutting measures included, but were not limited to:

- Police: overtime reduced by \$285,000
- Fire: overtime reduced by \$400,000
- Purchases of vehicle and equipment temporarily deferred

- Police: reduced officers on patrol at certain times, reduced special assignments, reduction in responsiveness for non-emergency calls (particularly at end of shift), special events canceled (reduced community outreach), dispatch shortages, reduced traffic safety enforcement, probation and parole compliance.
- Fire: reduced daily staffing, use of two-man Light Rescue Vehicle (LRV), occasional station brownouts, limited support to Fire Marshal, adverse impacts to Development and Neighborhood Services
- Parks and Recreation: reduced park maintenance, reduced building maintenance, customer service counter closed daily from 8am-12pm
- Development Services: no traffic engineering, customer service counter closed daily from 8am-12pm

The adopted budget is a tight one and leaves little room for unexpected issues or discretionary activities. So far, due to fiscal discipline in all Departments, General Fund expenses have generally been tracking on target. See the following table for a snapshot:

<b>General Fund Expenses to Date Fiscal Year 2019-20</b>	
October 2019	33%
Administration	31%
Police	28%
Fire	30%
Planning	20%
Public Facilities	27%
Parks	29%
Recreation	34%
<b>Total General Fund</b>	<b>29%</b>

The Council needs to be aware, however, that in order to provide minimum services, the Police and Fire Chiefs have been using salary savings from vacant positions to pay additional overtime expenses to “backfill” the workload created by these vacancies. For instance, in the Fire Department, there is no recruitment for a permanent Chief. The resulting salary savings are being used to pay for overtime of frontline personnel to avoid station brownouts.

***Comparison Cities***

Over the years, the City has focused on creating a cost-efficient, full service local government agency without seeking supplemental sources of revenue. This has resulted in a number of cuts to services, particularly since the Great Recession, which are partially captured in Exhibit A.

The following table shows the General Fund expenditures for comparison cities in the region that are used to develop salary surveys and the like:

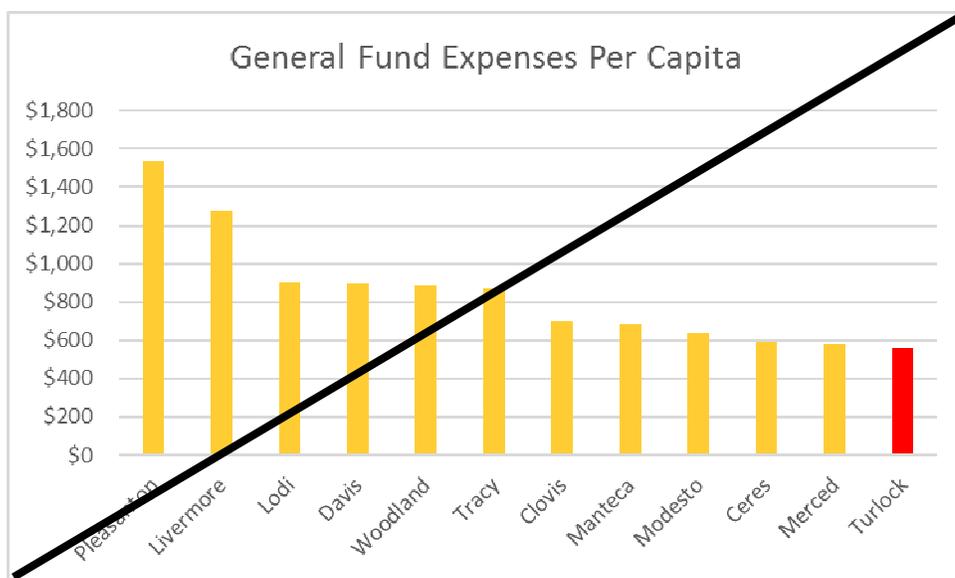
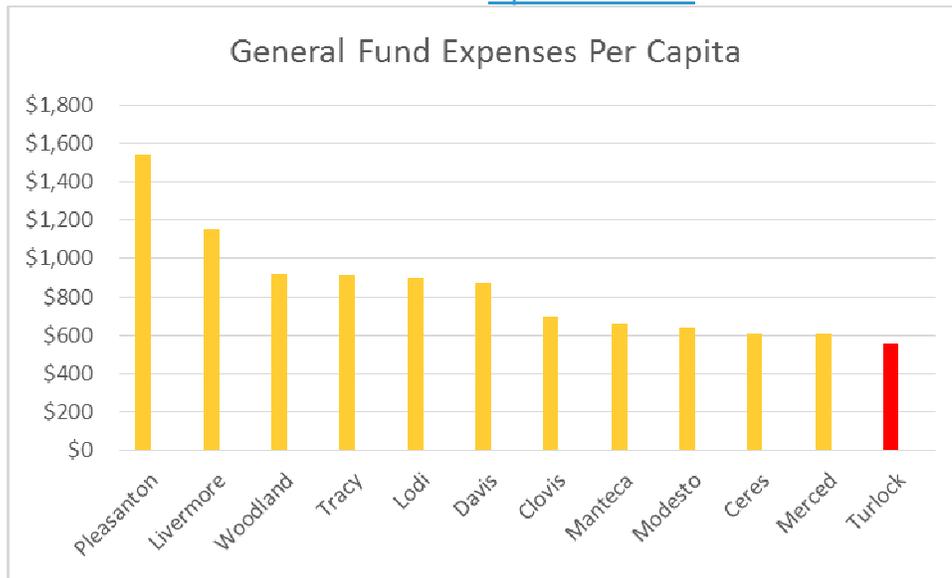
	<b>Total General Fund<sup>2</sup> Expenditures</b>	<b>Population</b>
<b>Modesto</b>	\$136,834,196	214,221
<b>Pleasanton</b>	\$127,854,638	83,007
<b>Livermore</b>	\$104,224,080	90,295
<b>Tracy</b>	\$83,244,543	90,889
<b>Clovis</b>	\$76,400,000	109,691
<b>Davis</b>	\$60,085,568	68,986
<b>Lodi</b>	\$59,328,360	65,884
<b>Woodland</b>	\$55,254,878	60,102
<b>Manteca</b>	\$52,508,952	79,268
<b>Merced</b>	\$50,322,408	83,081
<b>Turlock</b>	\$40,904,671	73,556
<b>Ceres</b>	\$28,700,676	47,166

The table above tends to show that the larger cities have larger General Fund budgets; this makes it a challenge to make comparisons between the agencies. Nevertheless, it is apparent that while Turlock’s General Fund budget is the second smallest in the group, it is not the second smallest city in terms of population. When each city’s budget is divided by its population, a more direct comparison is possible as it provides General Fund expenditures per capita.

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<sup>2</sup> To create an apples-to-apples comparison, “General Fund” includes special revenue funds from sales tax and similar measures approved by the voters. As an example, Manteca voters approved Measure M, a public safety sales tax, which adds \$7.3 million to the city’s annual revenue. It is accounted for in a separate fund but provides 18 police staff and 15 fire staff. Modesto has a utility users’ tax which goes directly to the General Fund.

[Updated Chart](#)



Turlock's General Fund expenses per capita are the lowest amongst comparison cities. While all employees constantly strive to reduce expenses, it is clear that Turlock is under-resourced compared to similar agencies. Further, to trim expenses, Turlock has made a number of decisions that are not sustainable and undermine the City's ability to be fiscally solvent in the long run. Examples include:

- Lack of capital and infrastructure investment: streets, government buildings, parks, and fire stations
- Reducing resources and customer service in Development Services; community and economic development is central to the City's financial success

- Failing to adequately segregate duties in Finance and Payroll due to a lack of staffing – this is an ongoing deficiency in the City’s audits
- Inadequate reserves
- Outstanding liabilities in the Engineering and Assessment District Funds

Oftentimes, local government is encouraged to balance budgets solely on the expense side of the equation, particularly through benefit reductions. While PERS and healthcare remain significant expenses for the General Fund, it must be considered that these benefits are negotiated through a collective bargaining process. Furthermore, Turlock must be competitive with comparison agencies to attract and retain good quality employees. The City is seeing the signs of an employee recruitment and retention problem, as employees sense that Turlock is moving towards insolvency. This further exacerbates the City’s ability to provide good levels of service which, in turn, adversely impacts the quality of life in our community.

If the City’s financial picture does not change significantly over the next 12-18 months, significant reductions in services may be necessary. With so much at stake, it is important that the community weigh in and provide input on what level of service they desire in their community.

### ***Revenue Generating Opportunities***

Through community outreach, staff and Council will continue to seek all means of reducing expenses and increasing operational efficiencies. Nevertheless, it is appropriate for the community to be given the opportunity to weigh in on their appetite for increasing revenues.

Twice this year, on March 26<sup>th</sup> and July 9<sup>th</sup>, the Council received presentations from the Administrative Services Director and City Manager on potential revenue generating options for the Council to consider. No action was taken on those occasions.

Apart from Clovis, [Livermore and Pleasanton](#), every comparison City has some type of special revenue measure to augment their General Fund expenditures.

These are summarized in the table below:

	Sales Tax Measure	Utility Users Tax	Cannabis Revenue	Special Revenue(s) Totals	Total General Fund Revenues
<b>Modesto</b>	\$ -	\$ 21,329,733	\$ 5,398,490	\$ 26,728,223	\$ 138,380,659
<b>Pleasanton<sup>3</sup></b>	\$ 7,326,000	\$ -	\$ -	\$ 7,326,000	\$ 127,571,158
<b>Livermore<sup>3</sup></b>	\$ 12,184,920	\$ -	\$ -	\$ 12,184,920	\$ 115,533,043
<b>Tracy</b>	\$ 7,550,250	\$ -	\$ -	\$ 7,550,250	\$ 79,054,970
<b>Clovis</b>	\$ -	\$ -	\$ -	\$ -	\$ 76,430,500
<b>Davis</b>	\$ 8,679,000	\$ -	\$ 620,000	\$ 9,299,000	\$ 61,966,054
<b>Lodi</b>	\$ 5,200,000	\$ -	\$ -	\$ 5,200,000	\$ 59,605,690
<b>Manteca</b>	\$ 7,300,000	\$ -	\$ -	\$ 7,300,000	\$ 54,226,076
<b>Woodland</b>	\$ 8,199,900	\$ -	\$ 185,120	\$ 8,385,020	\$ 53,080,707
<b>Merced</b>	\$ 6,840,027	\$ -	\$ -	\$ 6,840,027	\$ 48,854,908
<b>Turlock</b>	\$ -	\$ -	\$ -	\$ -	\$ 40,906,272
<b>Ceres</b>	\$ 3,559,388	\$ 1,496,400	\$ 2,035,000	\$ 7,090,788	\$ 27,914,334

When staff presented options for revenue generating measures in March and July, no council action was requested. As this time, however, it is recommended that the Council provide definitive direction to the City Manager to begin the preliminary work on pursuing a ballot measure for November 2020.

Such a ballot measure gives voters a voice in determining the level of services and quality of life they desire in Turlock.

Again, as part of the process of community engagement and revenue augmentation, staff will still work with the community on a more efficient organization and ideas for savings throughout all City departments. This exercise of community engagement will determine the best ideas for improvement, provide opportunities for public input, and give citizens a voice in the alternative futures for their community.

**4. BASIS FOR RECOMMENDATION:**

- A. While reducing expenses is a critical component in financial stability, a local tax measure would significantly improve the City's financial outlook.
- B. Significant service reductions have occurred over the past 10 years and more significantly in the past year. A ballot measure would afford Turlock

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<sup>3</sup> [The special sales tax revenues for Pleasanton and Livermore were estimates of their respective share of the 3% sales tax levied in Alameda County. In the cities' budgets, this revenue is not accounted for separately.](#)

voters the opportunity to make a conscious choice about the levels of service and quality of life they desire in their community.

**5. FISCAL IMPACT / BUDGET AMENDMENT:**

None at this preliminary stage, although there will be costs associated with any formal polling, placing a measure on the ballot, and engaging in public education. Such expenditures will be brought to the City Council for authorization pursuant to the City's purchasing rules and regulations.

**6. CITY MANAGER'S COMMENTS:**

Recommend Approval.

**7. ENVIRONMENTAL DETERMINATION:**

N/A

**8. ALTERNATIVES:**

A. Council may choose not to proceed with community engagement regarding the City's long-term financial stability. This is not recommended as it is vital the City Council gain community input on expense reductions, revenue augmentations, levels of service and quality of life.