City of Thousand Oaks

Finance Department
STAFF REPORT

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TO: Scott Mitnick, City Manager

FROM: John F. Adams, Finance Director

DATE: January 26, 2016

SUBJECT: **Fiscal Sustainability Study**

RECOMMENDATION:

1. Receive and file report.

2. Provide direction to develop a process to establish recommendations/options necessary to ensure long-term fiscal sustainability of the City.

FINANCIAL IMPACT:

No Additional Funding Requested. Staff time and costs to prepare Fiscal Sustainability Study were included in the Adopted FY 2015-16 General Fund Budget.

BACKGROUND:

Preparing a long-term fiscal sustainability report is a topic that is gaining interest and attention among California cities. However, the City has been doing long-term financial planning for many years, dating back over three decades. It was in the early 1990s when the City started to actively plan for its long-term financial future. The following provides an overview of some of the key highlights over the years:

Initial "Financial Element" Concept – 1990s

At the time when the City was in the middle of a significant "growth mode," in the mid 1990s, City Council contemplated pursuing a sixth optional General Plan Element which would focus on the City's finances and economic policies, especially as they related to land use and development. During the 1990s, a small number of "cutting edge" California cities developed and implemented a "Financial Element." In an effort to emulate this approach, the City prepared draft "Financial Element" outlines to help shape how the City's local economy should grow. However, nothing was adopted nor implemented.

“Financial Strategic Plan” Recommendation - 2000

As the City was approaching build out in early 2000, City Council assigned reconsideration of the “Financial Element” concept to the Community Budget Task Force (CBTF). During the course of several meetings, the CBTF expressed a desire to focus more on developing a “Financial Strategic Plan” (FSP) with respect to the City’s long-term revenues and expenditures. The goal of the FSP was to provide a proactive tool to ensure the long-term efficient and effective management of City services, finances, operations, facilities, and capital improvement projects. In addition, the FSP was to include a “Budget Model” for the General Fund which would forecast revenues and expenditures over a ten-year period based on careful analysis of historical data, General Plan build-out scenarios, and service level scenarios. By the end of 2000, City Council authorized preparation of a formal FSP.

Since few California cities had done this before, staff had to start from scratch. This involved extensive research and time. By the end of 2001, staff developed a rough FSP outline and received City Council authorization to solicit proposals for outside consultants to prepare the Plan. In June 2002, City Council awarded a contract to The Davis Company. Work took place from 2002 through 2004.

First Financial Strategic Plan Adopted - 2005

The first official ten-year FSP was completed on February 8, 2005, and approved by City Council on February 22, 2005. The timing was perfect since the City had, for all intents and purposes, reached residential development build-out, unknowingly was about to enter the worst national recession since the Great Depression of the 1930s, and would face unprecedented revenue take-aways by the national, State, and County governments, including the decision by the State of California to dissolve local Redevelopment Agencies in 2012.

The 2005 FSP acknowledged that Thousand Oaks was a “low tax City” that had shifted from a “growth-oriented” community to a “maintenance-oriented” community and highlighted how this shift would impact future revenue growth rates and the ability for the City to maintain existing service levels without additional revenue sources and/or service level reductions. In addition, a formal “Budget Model” was developed for staff to forecast long-term revenues and expenditures/expenses based on historical data, consultant provided information, General Plan build-out scenarios, and service levels.

Era of “Budget Awareness” – 2005 to 2007

The findings, conclusions, and recommendations of the 2005 FSP provided the impetus for the City to pause, reflect, and shift its view of the future and begin focusing on fiscal conservatism. With the adoption of the first long-term FSP in the region, the City focused on maintaining the quality of current services and programs with no new local revenues or taxes. While many agencies took advantage of this period of tremendous revenue growth and a favorable investment environment by enhancing pension plans with little thought as to the future financial sustainability of these pension plans, the City resisted this trend of retirement enhancements. The City also did not subsidize private development (such as providing property and/or Sales Tax rebates that were common at the time). At the same time, the City maintained positive labor relations with its employees. It was during this time that the City implemented a thoughtful and strategic approach to maintaining a community that had reached "build-out" and would not experience the revenue growth it had enjoyed in the past.

Era of "Budget Reductions" – 2008 to 2012

As the initial FSP approached its five-year mark, the City undertook a series of internal updates to the document. Several formal presentations were made to City Council by recognized professional experts including: "Demographics and the Markets" to better understand the aging and shifting local population of the Conejo Valley; "Past, Present, and Future Outlook of the City's Sales Tax Revenues"; and, "Ventura County Economic Outlook". In May 2008, the City prepared a detailed ten-year Capital Improvements Program (CIP) & 15 year Facilities Update Overview. In conjunction with the information and data shared from these recognized experts, the FSP underwent a comprehensive update in 2009.

As the City was conducting these long-term studies and reviews, the Great Recession and the global investment banking crisis was occurring, highlighting the importance of long-term financial strategic planning and the City's FSP. As national and State budgets were impacted, Washington and Sacramento implemented significant budget cuts and "take-aways" from cities. At the national level, the City experienced Community Development Block Grant (CDBG) grant reductions, which impacted low income residents and affordable housing projects. At the State level, significant local revenue reductions and take-aways occurred, including Redevelopment Property Tax Increment shift in revenue to the State and the eventual decision to dissolve local Redevelopment Agencies, suspension of State mandated funding, elimination of State library funding, and takeaway of Motor Vehicle License Fee revenues to name a few. At the County level, Ventura County terminated the long-standing County/City Library Funding Agreement. These actions resulted in a loss in revenue to the City of over $10 million annually.

The result of myriad significant revenue reductions by the end of 2012 was the elimination of 108 positions, or 18% of the Citywide workforce, and General Fund/Library Fund recurring expenditure reductions of $5.8 million, or 8% between FY 2008-09 and FY 2012-13.

Other budget reductions and cost saving strategies implemented during this time included:

- Salary freezes from July 2010 through July 2013
- Employees picking up the full 7% "Employee Share" of CalPERS

- Police “Reverse Contract” for service to unincorporated areas
- User Fees review to ensure full cost recovery
- Full cost allocation to all funds
- Process improvements/efficiencies/technologies
- Service level reductions
- Privatization (contracting out) certain services (e.g. street sweeping)
- Deferred maintenance of facilities
- Deferred/canceled future capital improvement projects
- Suspension of open space contribution/sports facilities and social services grants

<u>Era of “Adapting to the ‘New Normal’ ” – 2013 to Present</u>

Despite unprecedented challenges caused by the Great Recession, Federal government cutbacks, State government take-aways, including the dissolution of Redevelopment Agencies in 2012, and County of Ventura take-aways, the City has been able to weather these circumstances. In retrospect, the key to this success has been the combination of adhering to the FSP, and its regular updates, along with full compliance with the City’s formal financial and budget policies. Strong political leadership by City Council, prudent managerial leadership by City’s management, and faithful implementation by all City employees also played important roles.

The City has reached its “new normal” with limited capacity for further reductions in positions or expenditures. Further reductions would lead to more significant impacts to City operations, including actual elimination of services and/or programs.

<u>Financial Strategic Plan Update – 2014</u>

Although there was an unprecedented impact on the City’s budget, the City emerged from the Great Recession able to continue providing core services to local residents and businesses. Based on the new fiscal reality, staff updated the FSP in 2014 prior to the FY 2015-16 and FY 2016-17 budget kickoff. Many changes occurred since the last FSP Update in 2009, including an economy that started to rebound from the Great Recession and the aforementioned significant City revenue takeaways by federal, State, and County governments. The 2014 FSP Update built upon the initial model developed in 2005 by widening the scope of the “Budget Model” forecast beyond the General Fund to include Enterprise Funds, as well as Governmental Funds that might potentially impact the General Fund.

<u>FY 2015-16 & FY 2016-17 Budget Process</u>

The 2014 FSP Update was used during the FY 2015-16 and FY 2016-17 Budget process and identified challenges that various funds are currently facing, and/or are likely to encounter over the next ten years. Staff identified several areas of concern which were discussed with the City Council Finance/Audit Committee, City Council Capital Facilities Committee, various Visioning 2064 Committees, and full City Council during the budget study sessions.

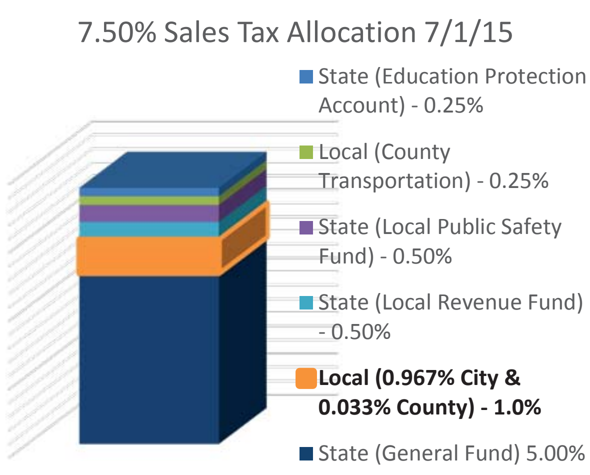
What was made clear during these meetings is that there are multiple public service and infrastructure concerns, such as the City's financial ability to maintain existing streets and roads at current pavement conditions as current recurring revenue is inadequate to maintain current pavement conditions into the future. The City has been at build out for several years and celebrated its 50th anniversary in 2014, resulting in infrastructure that is now declining and showing signs of deterioration. If not addressed proactively, the cost to maintain the City's public infrastructure will only rise and further strain the City's budget.

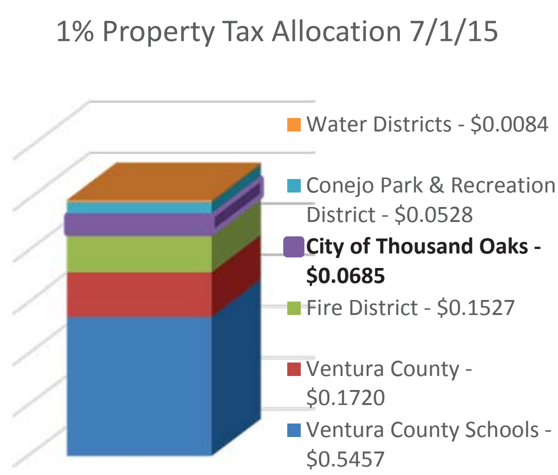
Overall, the City is in "good" fiscal health. The FSP played an important role in assuring that City Council adopted a structurally balanced General Fund Budget for FY 2015-16 and FY 2016-17. In an effort to continue prudent and sound financial management, it is important to take a proactive approach to ensure the City remains fiscally sustainable over the long-term. With this goal in mind, during the budget process City Council directed staff to return with a "Fiscal Sustainability Study" that would identify fiscal challenges and provide recommendations/options for City Council consideration.

DISCUSSION/ANALYSIS:

Although the Great Recession is behind us and the City's local economy is improving, it is not expected that the City will experience the historical annual revenue growth it did when it was a growth-oriented community. Thousand Oaks is a built-out, low-tax city that has undergone a series of significant budget, staffing, and service reductions over the past several years. It is also a municipality with a very limited ability to grow its local economy and/or raise local revenues. This situation results in an organization with recurring expenditures outpacing recurring revenues over the long-run.

The City incorporated without a general municipal property tax and the City's FY 2013-14 property tax rate of 1.053% is much less than the statewide average of 1.143%. This results in the City being largely reliant on Sales Tax to fund its municipal services. The City receives less than 1.0% of the 7.5% Sales Tax and has not enacted an "add-on" transaction and use tax.





As evidenced from the graphs on the previous page, the City receives very small portions of both property tax and Sales Tax collected within City limits and the majority of the revenue is shifted to the State and County. In looking toward the future, without a significant increase in revenue or new revenue sources, the City will have to make a series of tough public policy choices in order to provide the municipal services to its residents and businesses. These would likely include: additional service level reductions (with the possibility of actual service elimination), deferred maintenance, deferred and/or canceled capital improvement projects, and staffing reductions.

The following discussion contains a general overview of both the immediate and long-term challenges/focus areas and an analysis of some of the public policy choices City Council is faced with. The discussion is organized as follows:

1. **Review of the Fiscal Sustainability Study Process**

2. **Identification of Immediate Challenges/Focus Areas and Options**

   (Options/Strategies includes the description of the option, the amount of estimated revenue/savings, and staff's recommendation)

   a. **Improvement and Maintenance of Street and Road Infrastructure**

   b. **Operations and Maintenance of Street Lights and Traffic Signals**

   c. **Stormwater Permit Compliance Costs**

3. **Immediate Challenges/Focus Areas Summary**

4. **Identification of Long-term Challenges/Focus Areas and Options**

   (Options/Strategies includes the description of the option, the amount of estimated revenue/savings, and staff's recommendation)

   a. **Declining General Fund Fund Balance**

   b. **Operations, Maintenance, and Capital Improvements of Landscaping within the Landscaping Assessment District**

   c. **Operations and Maintenance of the Solid Waste Program**

5. **Long-term Challenges/Focus Areas Summary**

6. Overall Summary and Direction

Review of the Fiscal Sustainability Process

Based on the 2014 FSP Update and the direction from City Council, staff spent a significant amount of time during July and August 2015 performing analysis of each City fund. It was determined that the following funds were currently experiencing or projected to experience fiscal sustainability challenges:

Immediate Focus Areas

- Gas Tax (Streets) Fund
- Lighting Fund
- Stormwater Fund

Long-term Focus Areas

- General Fund
- Landscaping Fund
- Solid Waste Fund

Finance Department staff engaged staff from each department to brainstorm ideas and strategies to address the fiscal sustainability of these focus areas. Options examined included service reductions, expenditure reductions, revenue enhancements, partnering with both private and public agencies, and use of technology to improve processes.

Staff then met with the City Council Finance/Audit Committee on September 10, 2015, to provide an overview of the Fiscal Sustainability Study. Each strategy and option was presented to the Committee and the options presented in this report are those that the Committee recommended researching further. The following outlines these options by focus area and includes staff recommendations in order to achieve fiscal sustainability.

Immediate Challenges

As highlighted in the Background Section, the City has reached its "new normal" with limited capacity for further reductions in positions or expenditures without noticeable further reductions to City programs and/or services. In order to maintain existing programs, service levels, and quality of infrastructure, the following immediate challenges need to be addressed:

1. ***Improvement and Maintenance of Street and Road Infrastructure - $10.0M+***

   This estimate is based on the adopted FY 2015-16 & FY 2016-17 Capital Improvement Budget as outlined below. This highlights the deferred requirements due to insufficient funding in the Gas Tax Fund.

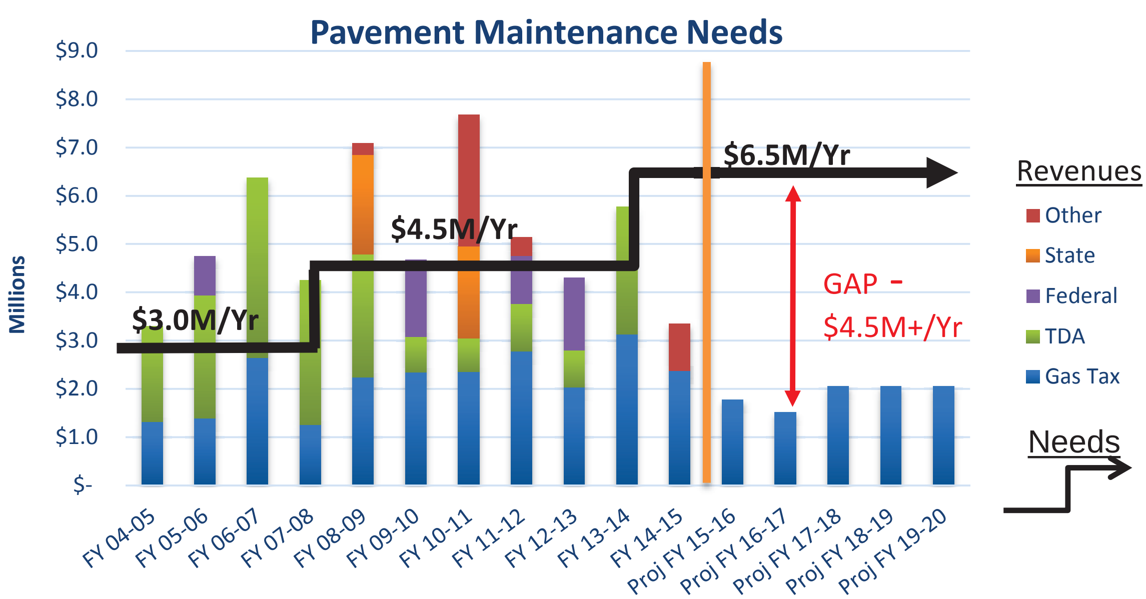
Deferred Requirements

	Project #	Project Name	Category	FY 2015-16	FY 2016-17	Total Deferred
1.	MI2526	Pavement Slurry Seal - Citywide	Street	$ -	$3,280,000	$ 3,280,000
2.	CI5231	Pavement Rehabilitation Citywide FYs 15-17	Street	50,000	5,476,000	5,526,000
3.	CI5124	Curb Ramps - Annual - FYs 15-17	Street	70,000	780,000	850,000
4.	MI2012	Concrete Replacement & Sidewalk Repair	Street	140,000	230,000	370,000
				$ 260,000	**$9,766,000**	**$10,026,000**

Issue:

The funding for street infrastructure capital improvement and maintenance projects has significantly declined. Historically, the City relied on several funding sources for street infrastructure projects including: State Gas Tax, Transportation Development Act (TDA) funds, developer fees, federal and State grants, local Redevelopment Agency (RDA) funds, and Verizon Fiber To The Premises (FTTP) revenue sources. Due to recent State legislation, the City is no longer able to use TDA funds toward street-related purposes. Federal and State one-time grants are not as available as they were in the past, and RDA funding has been eliminated. The elimination of these revenue sources has resulted in an immediate and ongoing challenge to adequately fund street infrastructure to continue existing levels of service.

Street improvement revenue has decreased from a high of $7.7 million in FY 2010-11 to a low of $1.5 million projected in FY 2016-17, representing an 81% reduction. The graph below shows the ten-year street improvement revenue history, projections through FY 2019-20, and street improvement needs:



The estimate for FY 2016-17 of $1.5 million is even lower than the $2.0 million presented at the January 12, 2016 City Council meeting as staff received revised revenue projections on January 13, 2016. This is a 25% revenue reduction to a budget that is already significantly underfunding street infrastructure maintenance and highlights how volatile and unreliable State Gas Tax revenue has become.

Per City's Pavement Management Program, in order to maintain existing pavement conditions, the City should be funding pavement rehabilitation at an approximate amount of $6.5 million per year for the next five years.

Additional Infrastructure Impacts:

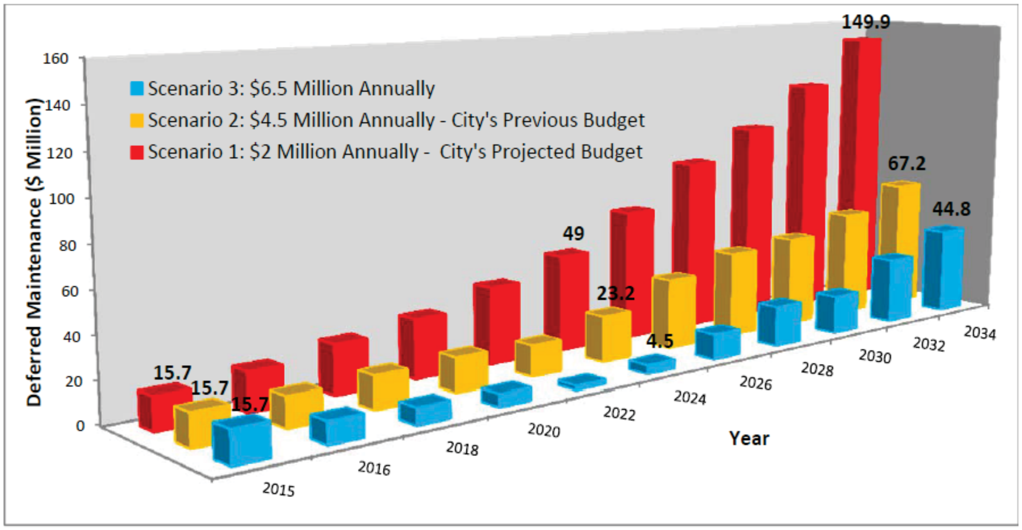
In addition, with the City at build-out, major land-use developments are no longer occurring leading to a decline in Developer Fee revenue that has traditionally assisted in funding needed infrastructure improvements. Developer Fee revenue has decreased from a high of $3.1 million in FY 2006-07 to $0.8 million in FY 2014-15, representing a 74% decrease. At a minimum, an additional $0.5 million is also needed each year to maintain sidewalks and other infrastructure.

Options:

The two-year budgetary shortfall is approximately $10.0 million. Staff analyzed the following options to address this challenge:

Option	***Description***	***Amount***	***Staff Recommended***
A.	Defer Maintenance	$6.5M	No
B.	Pavement Preservation Treatments	Varies	Yes
C.	In-Lieu Fees	$1.0M	Yes
D.	Street Assessment District	$4.5M	Yes
E.	General Sales Tax Measure	$14M	Yes
F.	State Fix Our Roads Coalition	$6.0M	Yes
G.	Governor's Transportation Package	$2.1M	Yes
H.	County Transportation Sales Tax Measure	$4.0M	(Only if passed)

A. Defer Maintenance – City would only perform as much street maintenance as there is revenue for. This would lead to a decline in the quality of street infrastructure, increased maintenance costs, increased frequency of potholes, and potentially increased liability claims as shown in the graph below. If maintenance is deferred, the cost would increase to $150 million in deferred maintenance.



B. **Pavement Preservation Treatments** – There are a variety of pavement rehabilitation options that staff can employ in order to help maintain existing streets and roads. As shown, the cost of the options varies; the higher the quality, the higher the cost. This was discussed in depth at the January 12, 2016 City Council meeting on the Pavement Management Program. Staff does not recommend continuing with the rubberized cape seal.

   i. Micro Surfacing – $2.50/Square Yard (SY)
   ii. Rubberized Slurry Seal – $4.30/SY
   iii. Rubberized Cape Seal – $7.40/SY
   iv. 1.75" Rubberized Overlay – $14.60/SY
   v. 2.00" Rubberized Overlay – $17.00/SY

C. **In-lieu Fees** – Approximately $1.0 million based on studies performed by other municipalities. As heavy duty trucks and buses regularly use City street infrastructure and contribute greatly to pavement deterioration, an in-lieu fee from refuse haulers and transit would reimburse the street infrastructure funds for local maintenance costs. This is not widely used by municipalities at this time. However, it is anticipated to be a more widely used option as cities continue to struggle with maintaining infrastructure.

D. **Street Assessment District** – Similar to landscaping and lighting districts, property owners have the option to vote to assess their property for the benefit of street infrastructure improvements. The amount generated in revenue would depend on the amount charged to individual parcels. There are approximately 43,000 parcels within City limits. In order to generate the full funding gap of $4.5 million, the average assessment would be $104.

E. **City General Sales Tax Measure** – Approximately $14 million total based on a ½ cent increase. Part of the Sales Tax add-on could be used to fund street and road maintenance. This would require a ballot measure and vote of the residents with a 50.1% approval rating needed to pass.

Options not under City's control:

F. **State Fix Our Roads Coalition** – Estimated $6.0 million per year for City street and road maintenance. Proponents support any package passed by State Legislature, which should raise at least $6.0 billion annually. This would be split 50% to the State and 50% to cities and counties.

At its September 15, 2015 meeting, City Council adopted a resolution urging the State to provide sustainable funding for street infrastructure and also authorized City membership in the State Fix Our Roads Coalition.

G. **Governor's Proposed Transportation Legislation** – $2.1 million per year for City. Governor Brown's package would allocate $1.05 billion to cities and counties.

H. **Ventura County Transportation Sales Tax** – 1/2 cent increase would bring approximately $4.0 million per year for the City. This would require a ballot measure and vote of Ventura County residents with a 2/3rds majority approval needed. As proposed, the majority of the revenue generated within City limits would be spent by Ventura County Transportation Commission outside the City limits.

Staff Recommendations:

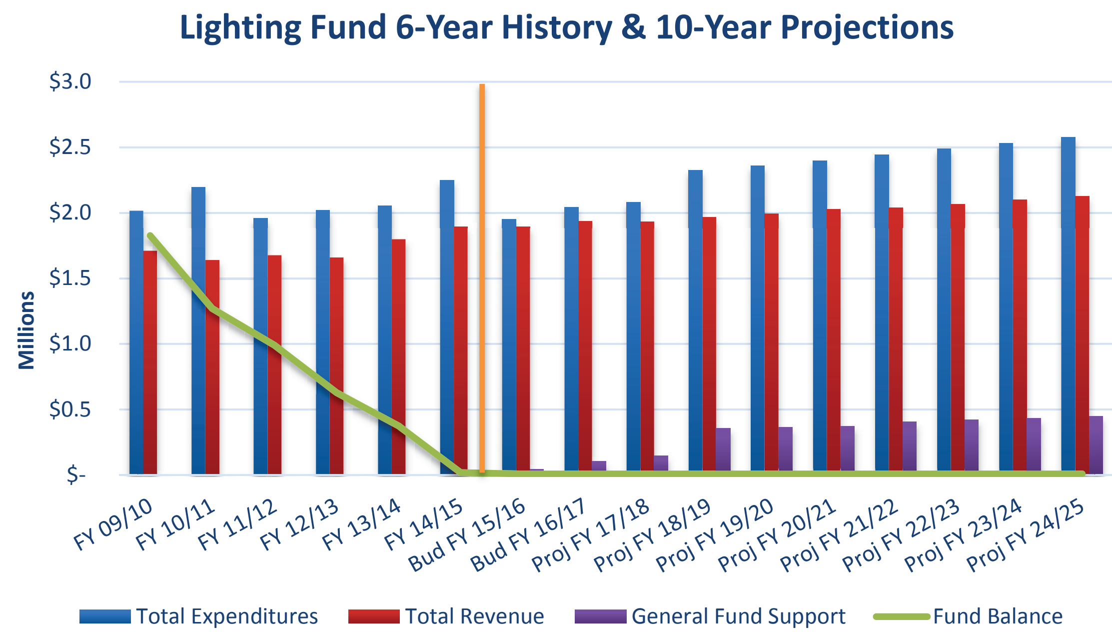
Utilize alternative pavement preservation treatments (B), evaluate and research In-lieu Fee (C), Street Assessment District (D), and City Sales Tax measure (E).

Support: Fix Our Roads Coalition (F), Governor's Transportation Package (G). (Only one of these options would be approved by the State).

2. ***Operations and Maintenance of Street Lights and Traffic Signals*** - ***$0.4M***

Issue:

Current funding levels for street lighting and traffic signals are inadequate to meet existing expenditure requirements. The Lighting Fund is projected to deplete available fund balance in FY 2015-16 due to recurring expenditures exceeding recurring revenues. The majority of expenditures are for electricity and maintenance for street lighting and traffic signals. The table below depicts the decline in fund balance over the past six years, as well as the projected support from the General Fund over the next ten years.



Options:

The ongoing shortfall is approximately $0.4 million. Staff analyzed the following options to address this challenge as presented below:

Option	***Description***	***Amount***	***Staff Recommended***
A.	Eliminate Battery Backup for Signals	$11,000	No
B.	Turn Off Half of Residential Street Lights	$165,000	No
C.	Perform Maintenance In-House	$80,000	No
D.	Re-ballot Lighting District	$510,000	Yes

A. Eliminate Battery Backup for Signals – Estimated $11,000 annual savings. The initial installation of the battery backups for traffic signals was grant funded. Life of the batteries is approximately 4-7 years. Most recently in August 2015, 65 incidents were recorded where the backups were employed, including Westlake and Thousand Oaks Boulevards.

B. Turn Off Half of Residential Street Lights – Estimated $165,000 annual savings. City will still incur a monthly base charge from Southern California Edison (SCE) even with street light turned off.

C. Perform Traffic Signal Maintenance In-House – Estimated $80,000 annual savings. Currently the City contracts for traffic signal maintenance at approximately $355,000 annually and provides all parts and materials with the contractor providing labor and vehicles. In order to move maintenance in-house, the City would hire two electrical technicians, purchase an aerial lift truck, and obtain insurance. Upfront costs would be approximately $165,000 for an aerial lift truck with ongoing personnel costs at approximately $250,000 annually.

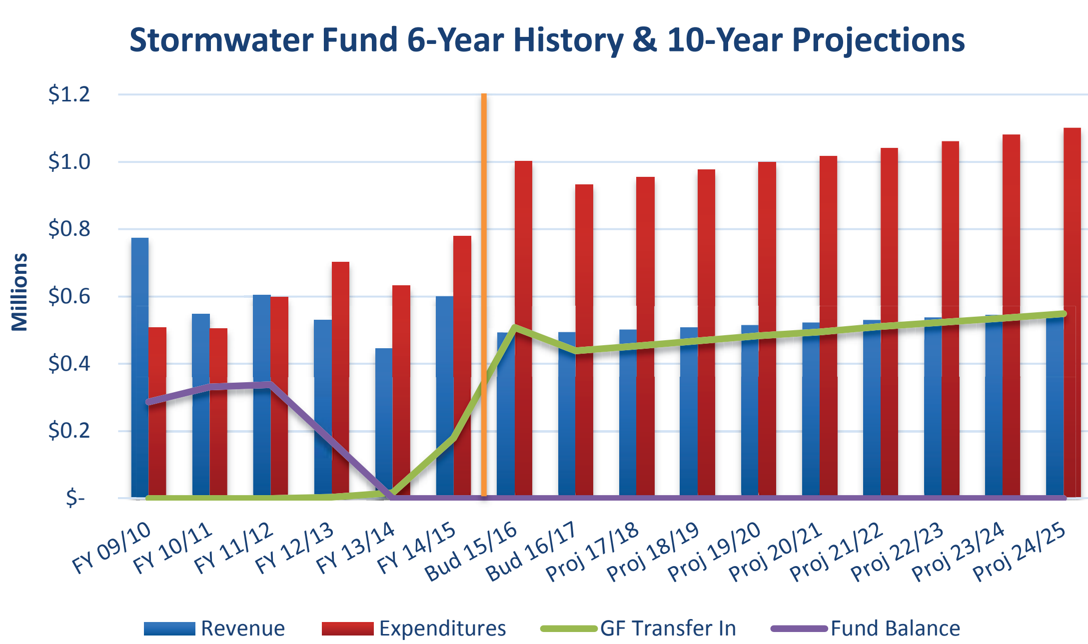
D. Re-ballot Lighting District – Estimated $510,000 annual increase in revenue. Current assessment is approximately $14/parcel/year with almost 100% of parcels Citywide located within the Lighting District. This requires a Proposition 218 ballot with at least 50.1% of those returning ballots to approve the measure. Annual assessments would increase from $14 to approximately $31/parcel/year. One-time costs to re-ballot the Lighting District are approximately $75,000.

Staff Recommendation:

Re-ballot Lighting District (D).

3. *Stormwater Permit Compliance Costs* - *$0.5M*

Issue:
The Stormwater Fund currently receives General Fund support to assist in Stormwater Permit compliance. Renewal of the Stormwater Permit next year is expected to result in increased future expenditures from development of a new enhanced watershed management plan, expanded water quality monitoring, and capital project costs for capture and infiltration of storm runoff. General Fund support for this program is anticipated to increase, as shown below.



Options:

The ongoing shortfall is approximately $0.5 million. Staff analyzed the following options to address this challenge as presented below:

Option	*Description*	*Amount*	*Staff Recommended*
A.	Minimum Permit Compliance/Labor	$100,000	Yes
B.	Increase in Reclaimed Water Sales	$100,000*	Yes
C.	Re-ballot Stormwater District	$173,000	Yes

*Not an ongoing revenue increase

A. Minimum Permit Compliance/Labor – Estimated $100,000 annual savings in salaries and benefits costs to the Stormwater Fund. The majority of the annual budget ($500,000) goes toward salaries and benefits costs to run the program. Staff believes the program can be operated with 20% fewer personnel assigned to it and while achieving minimum compliance with permit requirements. There would be no reduction in staffing levels as personnel would be allocated to other funds, such as Water, Wastewater, and/or General Fund, thus reallocating costs to the affected funds.

Options Not Under City's control:

B. Increase in Reclaimed Water Revenue – Estimated $100,000 increase in revenue due to higher reclaimed water sales based on the current agreement with Camrosa Water District. In anticipation of increased flow of water due to El Nino, reclaimed water sales would increase. This is not anticipated to be an ongoing revenue increase.

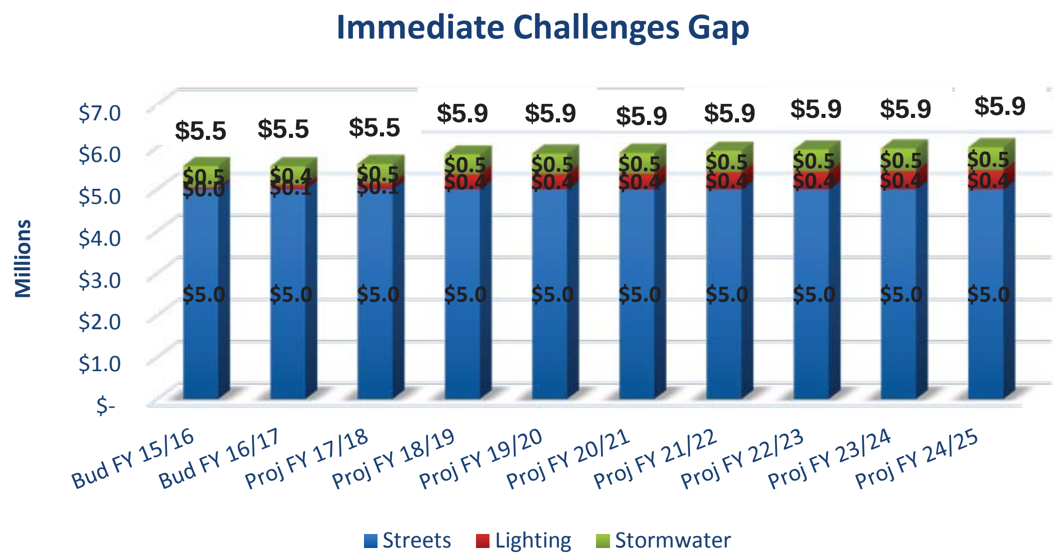
C. Re-ballot Stormwater District – Estimated $173,000 annual increase in revenue. The stormwater special assessment is a Countywide district. The estimated increase is based on the rate being doubled. This requires Ventura County to initiate and perform the balloting.

Staff Recommendation:

Minimum Permit Compliance/Labor (A), Increase in Reclaimed Water Sales (B), and support County Re-ballot District (C).

Immediate Challenges Summary

Based on the immediate challenges discussed above, the estimated annual funding gap averages $5.9 million for capital improvement projects, street maintenance, Stormwater Permit compliance, and street lighting as shown below.



The General Fund is already being impacted in the form of having to subsidize the Lighting and Stormwater Funds, which are operating with structural imbalances. Even if all the recommendations are made in the Stormwater Fund, it will still not be adequate to operate without General Fund support. Although the Lighting Fund can become fiscally sustainable on its own, this can really only be accomplished with a re-balloting of the special assessment.

The more significant challenge is the funding for street improvement and maintenance. Although there are several options outside of the City's control, which if successful, would be beneficial to the City's Pavement Management Program. Without new revenue sources, such as a local Sales Tax measure, the conditions of the City's streets will continue to deteriorate.

<u>Long-Term Challenges</u>

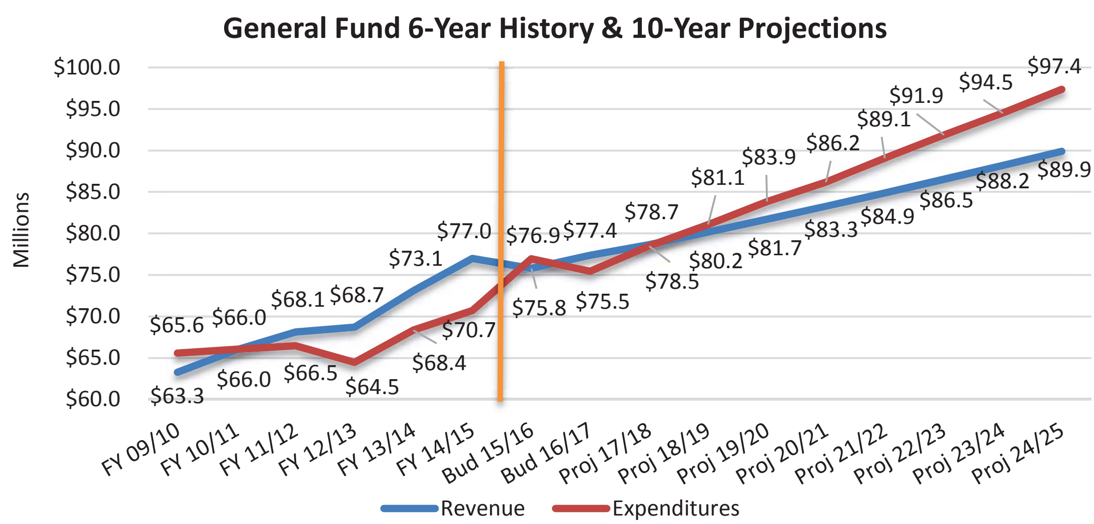
One of the advantages to preparing a FSP is the ability to proactively identify and address future challenges. The development of the 2014 FSP highlighted several long-term City challenges. Although not immediate challenges, beginning to address these focus areas now will contribute to the long-term fiscal sustainability of the City.

1. ***Declining General Fund Fund Balance – Estimated $0.9M FY 2018-19 & increasing thereafter to $7.5M in FY 2024-25***

   <u>Issue</u>:

   Although the General Fund is balanced for the FY 2015-16 & FY 2016-17 budget cycle and able to fund operations, capital improvements, and meet reserve requirements, the 2014 FSP Update projects this fund balance to decline beginning in FY 2018-19. This will limit the ability for the General Fund to continue subsidies to other funds and fund capital improvement projects.

Provided in the graph on the following page is the six-year history and ten-year projections of the General Fund. As depicted, over the past several years the General Fund has experienced revenues greater than expenditures after having several years of expenditures exceeding revenues during the Great Recession. With the City's limited ability to enact new revenue sources, the impacts of being a built-out City, and the subsidies required from other funds, the General Fund projections anticipate expenditures to exceed revenues beginning in FY 2018-19.



<u>General Fund Subsidies of Other Funds:</u>

Based on the Adopted FY 2015-2016 & FY 2016-2017 Operating Budget, the General Fund will continue to subsidize several funds, including Library Fund, Stormwater Fund, and Lighting Fund. The General Fund has traditionally supported the Library Fund, and has provided minimal support to the Stormwater Fund. General Fund support to the Lighting Fund is new with this budget cycle. The budgeted General Fund subsidy to the Library is currently $2.1 million. The annual subsidy to the Lighting and Stormwater funds is over $0.5 million. This level of support will only continue to increase in the future, if not addressed.

The Landscaping Fund and the Solid Waste Fund are currently operating with a structural deficit and are projected to use fund balance/reserves during the upcoming two-year budget cycle and beyond to balance their budgets. The anticipated future budget shortfall is more than $1.0 million between the two funds. Although this is not an immediate impact on the General Fund, it is likely that the General Fund will be required to provide a subsidy of these two funds. Therefore, it is imperative that the City be proactive in addressing these structural deficits in order to eliminate future impacts on the General Fund.

As previously discussed, the City's transition from a growth-oriented community to a maintenance-oriented community presents a rising challenge associated with maintaining an aging local public infrastructure system. The City's street infrastructure is estimated to require approximately $6.5 million annually in capital and maintenance expenditures in order to maintain existing levels of service. Historically, the City received sufficient Gas Tax, Developer Fees, Redevelopment (RDA) funds, and Federal/State grant revenue to maintain the City's streets. However, with Gas Tax revenues declining, Developer Fees nearly nonexistent, RDA funds eliminated, and State/Federal grant opportunities diminished, the City will continue to experience deferred maintenance related to street and sidewalk infrastructure, with estimates of approximately $10.0 million during this budget cycle alone. In order to maintain streets and roads at existing levels of service, alternative funding sources must be identified.

Options:

The ongoing shortfall is approximately $0.9 million increasing to $7.5 million. Staff analyzed several options to address this challenge including expenditure reductions and revenue enhancements.

Potential Revenue Enhancements

Revenue Option	*Description*	*Amount*	*Staff Recommended*
A.	New Economic Development	$1M+	Yes
B.	Sale of Existing City Property	Unknown	Varies
C.	User Fees – Full Cost Recovery	$3.7M	No
D.	Transient Occupancy Tax	$360K	Yes
E.	Business License	$36K	Yes
F.	Library Parcel Tax	$0.9M	No
G.	Establish New Utility Users Tax	$3M+	No
H.	City General Sales Tax Measure	$14M+	Yes
I.	Other Revenue Options	Unknown	Research

A. **New Economic Development** – Estimated over $1.0 million depending upon developments that occur. The following are a few of the major opportunity areas for economic development:

   i. Seventh Day Adventist Property
   ii. Thousand Oaks Boulevard Area
   iii. Old Kmart site
   iv. Kelley Road Properties (School District)
   v. Moradian Property

Development of existing properties may generate over $1 million annually in additional Sales Tax revenue. For example, development of the old Kmart site on Hampshire Road may generate over $0.5 million alone in Sales Tax revenue.

B. **Sale of Existing City Property –** One-time revenue varies. The City owns several parcels/buildings, most of which are currently in use. There is the ability for the City to sell the following parcels/buildings and gain one-time revenue from the sale.

   i. Westside Properties
   ii. Newbury Park Library
   iii. Lawrence Drive Parcel
   iv. Childcare Facility
   v. Equestrian Facility
   vi. Thousand Oaks Transportation Center
   vii. Cameron Center
   viii. Los Robles Greens Golf Course
   ix. Teen and Adult Community Centers
   x. City ownership of East Valley/Thousand Oaks Police Station
   xi. 401/403 Hillcrest

Although staff does not recommend selling City-owned facilities that are currently being used for governmental purposes, with the Childcare facility and Newbury Park Library located in prime commercial areas, there is the opportunity for the sale of these buildings contingent upon the agreement that a new City facility be built in a more suitable location within the City.

C. **User Fees – Full Cost Recovery -** Approximately $3.7 million increase in revenue. Currently there are several user fees that are below full cost recovery. Although the City may recover additional revenue by bringing all fees up to full cost recovery, City Council has historically applied “exceptions” to full cost recovery for several user fees, such as residential block party permits, that are primarily paid for by existing homeowners. The City also ensures that user fees are not significantly higher than the same fees in comparison agencies.

D. **Transient Occupancy Tax (TOT)** – Approximately $360,000 per 1% adjustment in rate (currently at 10%). The maximum rate a City can charge is 15%. The median rate in the state is 10%. This would require a local ballot measure with a majority approval required to pass.

E. **Business License** – Approximately $36,000 for 2% annual CPI increase. The City’s Business License Tax rates have not been updated in over 20 years and are generally based on gross receipts. The City can update the ordinance to add a 2% annual CPI increase in order to keep pace with inflation. Another option would be to overhaul the existing gross receipts structure.

F. **Library Parcel Tax** – Approximately $900,000 based on a $20/parcel/year tax. This would require a local ballot measure with a 2/3rds majority approval required to pass. The General Fund subsidy to the Library in FY 2015-16 is $2.1M. Obtaining 2/3rds majority approval for a tax is difficult and therefore not recommended in comparison with other options.

G. **Establish New Utility User Tax (UUT)** – A UUT may be imposed by a City on the consumption of utility services including electricity, gas, telephone, refuse collection, cable/video, water, etc. The rate of the tax and the use of revenue is determined by the City. The tax is levied on the consumer of the utility services. If the City were to charge a 5% UUT on electricity and gas services, the estimated revenue would be $3.0 annually. As of July 1, 2015, there were 158 California cities with a UUT ranging from 1% to 11%, and this applies to various local utilities. This would require a local ballot measure with a 50.1% majority approval to pass. The mean tax rate in the state is 5.4%.

H. **City General Sales Tax Measure** – At least $14 million based on a ½ cent increase. As a general measure, this could be used to fund a variety of important services, such as police, streets, open space acquisition/management, landscape areas, recreation, and libraries. This would require a local ballot measure and vote of the residents with a 50.1% approval rating needed to pass.

I. **Other Revenue Options** – There are several other revenue options the City could explore further, including establishing a parking tax and/or a child care tax. Although these are taxes that are established by other municipalities, these were not recommended to be explored further.

In addition, the City currently does not receive its full 1% Bradley Burns Sales Tax rate due to a longstanding agreement with the County whereby the County receives a portion. Staff is currently exploring the possibility of adjusting this amount.

<u>Staff Recommendations</u>:
Promote Economic Development (A); Explore adjusting TOT rate (D), Business License (E), and Sales Tax rate (H). Research Other Revenue Options (I).

Expenditure Reductions Options:

Expenditure Option	*Description*	*Staff Recommended*
A.	People Strategy – Organizational Restructuring	Yes
B.	Process Improvements/Efficiencies	Yes
C.	Technology/Automation	Yes
D.	Service Level Reductions	No
E.	Partnership Opportunities	Yes/No
F.	Contracting	Yes

A. **People Strategy – Organizational Restructuring** – The City has embarked on an organization-wide People Strategy to align staffing with future service needs of the community. The effort is designed to ensure the City's workforce is structured and prepared to continue to provide effective municipal services to the public. The aim is to prepare for the future by aligning efforts, optimizing talent in the organization, and developing a strong leadership base for the future.

B. **Process Improvements/Efficiencies** – The City is continuously evaluating its service delivery method to ensure the organization operates as efficiently and effectively as possible. Through these efforts, some processes have been eliminated entirely, duplication of efforts have been eliminated, and non-value added steps have been cut. Although difficult to quantify the savings, it is estimated at thousands annually. These efforts will continue in the future.

C. **Technology and Automation** – The City is continuously evaluating technology to determine what is available to assist in the delivery of municipal services in a more efficient manner. As an example, the City is in the process of implementing an electronic timekeeping system to eliminate paper, manual data entry of timesheets, duplication of efforts, and streamline the entire process. This technology will also offer the added benefit of job costing to assist staff in evaluating the time spent on projects and programs. Although difficult to quantify the savings, it is estimated at thousands annually. These efforts will continue in the foreseeable future.

D. **Service Level Reductions** – Service level reductions are a tool that can be utilized to reduce expenditures. However, service level reductions should be closely analyzed to be balanced with providing core services to the public at a level that is expected.

   Various service level reductions that could be considered include:

   i. Elimination of the annual Open Space transfer - $100K

   ii. Elimination of annual endowment fund grants (Sports Facilities/Social Services) - $200K

E. Partnership Opportunities – Public/Private and Public/Public – Other public agencies and private companies are a great resource and asset to the City in terms of providing services.

Staff has come up with the following possibilities:

i. Transfer ownership and responsibility of the Crossing Guard Program to CVUSD – $180,000 savings in crossing guard payroll costs.

ii. Responsibility of the Teen Center operations to CRPD – $600,000 savings in salaries and benefits and maintenance costs.

iii. Responsibility of the Adult Community Center to CRPD – $400,000 savings in salaries and benefits and maintenance costs.

iv. Responsibility of the Child Care Center to CVUSD – $140,000 savings in annual maintenance costs.

v. Elimination of the City's participation in the County Community Prosecution Program - $60K savings. Evaluation as to the value this provides residents should be considered.

Each option listed comes with its own pros and cons and could be very complex due to extensive history behind the current structure. More research and analysis is needed in order to further explore any of these options.

F. Contracting Public Services – There may be certain instances where it is more cost effective and beneficial for the City to contract out certain services. The City currently contracts with Ventura County to provide police services. This contract is evaluated every 5-10 years to determine if it still provides the City the best overall value to contract with Ventura County to provide police services, pursue a contract with Los Angeles County, or if it is more efficient and cost effective to operate our Police Department in-house. This analysis is currently taking place.

A few cities within the County contract for library services. Although this is a possibility for the City, passage of AB 438 in 2011 made it very difficult for cities to leave a county library system, as it requires notice of the contemplated action, and submittal of the question for voter approval. Although the City is already operating its own library system separate from the County, this approach to provide library services is not recommended.

In addition, the City receives fire services through the Ventura County Fire Protection District (VCFPD). The City does not pay directly for this service, as its residents do through their property taxes with VCFPD receiving a greater percentage of local property taxes than is expended within City limits. Although difficult to withdraw from VCFPD, the City may explore this option to ensure that local residents and businesses are receiving the level of service that they are paying for. Based on the 2007 Fire Services Review consultant report, the City is a major "donor" to VCFPD with Thousand Oaks residents subsidizing fire services provided to other parts of the County.

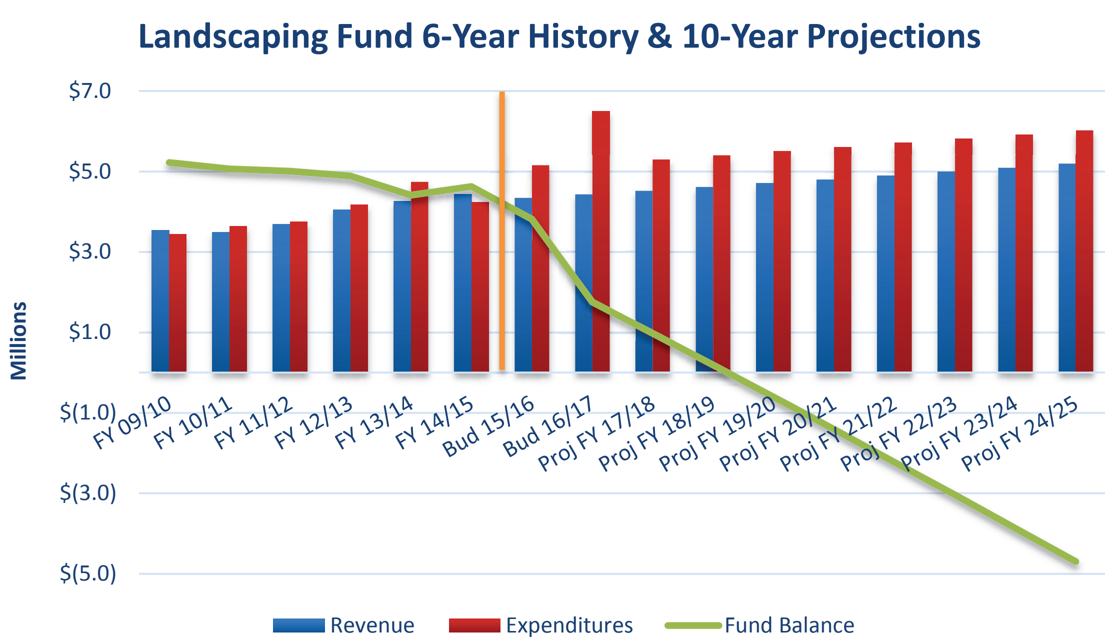
Staff Recommendations:

People Strategy (A), Process Improvements (B), Technology/Automation (C), Perform further analysis of Partnership Opportunities (E), Contracting (F).

2. ***Operations, Maintenance, and Capital Improvements of Landscaping Within the Landscaping Assessment District - $0.8M***.

Issue:

The Landscaping Fund is projected to have an ongoing structural imbalance due to recurring expenditures exceeding recurring revenues. The majority of expenditures are contract costs for maintenance, water, and salaries and benefits. The Landscaping Fund is projected to have adequate fund balance to cover the gap through FY 2018-19, as shown below. However, this is an area that should be addressed in the future.



Options:

The ongoing shortfall is approximately $0.8 million. Staff analyzed the following options to address this challenge as presented below:

Option	***Description***	***Amount***	***Staff Recommended***
A.	Drought Tolerant Landscaping	$320,000	Yes
B.	Defer Tree Trimming	$50,000	No
C.	Staffing Reduction	$89,000	No
D.	Re-Ballot Landscape District	$200,000	Yes
E.	Defer Capital Improvements	$200,000	No

A. Drought Tolerant Landscaping – Estimated $320,000 in annual savings assuming 25% water conservation. However, there would be up front costs for conversion of existing landscaping that would initially offset the savings.

B. Defer Tree Trimming – Estimated $50,000 in initial annual savings from short-term deferral of tree trimming maintenance costs. Less time would be spent on structural pruning of younger trees while hazardous conditions and height clearance problems would continue to be addressed. However, much like with deferring street maintenance, long-term maintenance costs would increase.

C. Staffing Reduction – Estimated $89,000 in annual savings. Reduction in staff would be over time through attrition going from 24 landscape maintenance positions to 20. The majority of the savings (75%) would be realized in the General Fund with 25% in the Landscape Fund. While staffing costs would be reduced in the Landscaping Fund, contracted services costs would increase and lead time on customer service requests and non-routine tasks would increase.

D. Re-Ballot Landscape District – Estimated $200,000 increase based on an approximate 6% increase in rates. Currently, the highest assessment is $416; this would increase to $441. The average assessment is $251; this would increase to $266. This requires a local Proposition 218 ballot with at least 50.1% of those returning ballots approving the measure. One-time cost to re-ballot the Landscape District is approximately $25,000.

E. Defer Capital Improvements – Estimated $200,000 annual savings in capital improvements expenditures. The City currently has an ongoing capital improvement project to upgrade existing landscaping. Deferral would lead to increased costs in the future and decrease in aesthetics.

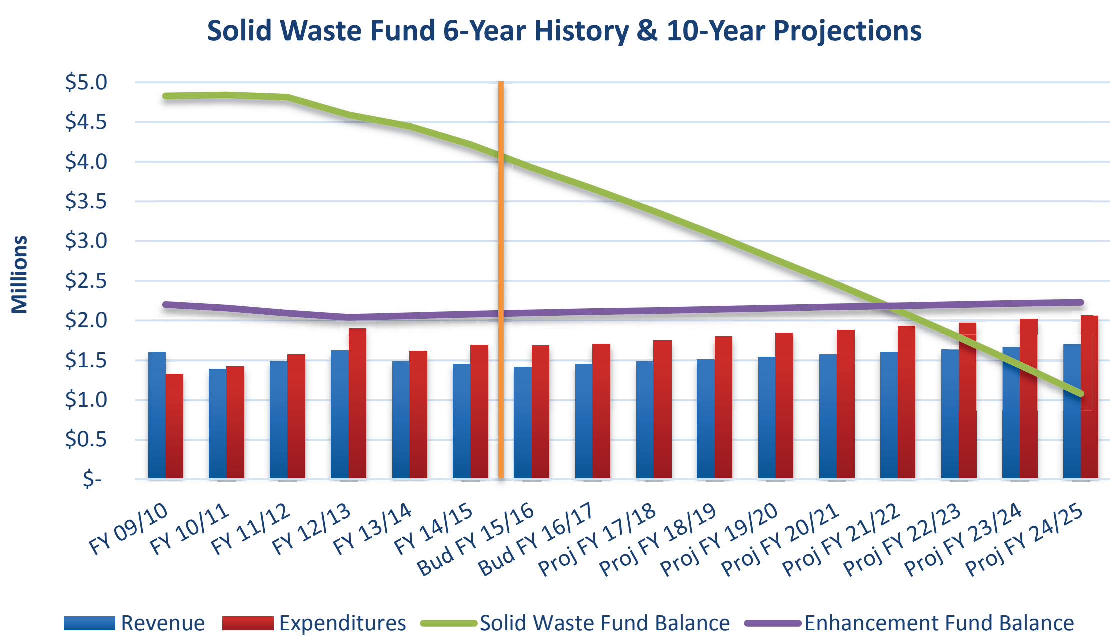
Staff Recommendations:

Drought tolerant landscaping (A), Re-ballot Landscape District (D).

3. ***Operations and Maintenance of the City's Solid Waste Program – $0.3M***

Issue:

Solid Waste Fund is projected to have an ongoing structural imbalance due to recurring expenses exceeding recurring revenues. This fund currently has adequate fund balance to cover the gap during the next ten fiscal years. However, future gaps are anticipated and this is an area that should be addressed in the future.



As presented above, the fund balance of Solid Waste Management Fund is $4.2 million and Solid Waste Enhancement Trust Fund is $2.0 million. Per City Council direction, interest earnings from the $2.0 million endowment in the Enhancement Fund should be used to fund the Neighborhood Clean Up program ($15,000), the Adopt-a-Highway program ($36,000), and the Community Enhancement Grant program ($45,000). Due to the current interest rate environment, annual interest income is approximately $25,000, which is insufficient to support these programs. The Solid Waste Management Fund is budgeted to pay for these programs instead.

Options:

The ongoing shortfall is approximately $0.3 million. Staff analyzed the following options to address this challenge as presented below:

Option	*Description*	*Amount*	*Staff Recommended*
A.	Fee Adjustments	$321,000	Yes
B.	Evaluate Contract Staffing	$46,000	Yes
C.	Staff HHW Facility In-house	$28,000 inc	No
D.	Reduce HHW Facility Hours	$45,000	No
E.	Reduce City Special Events	$49,000	No
F.	One-time Transfer of Enhancement Funds	$2M	No

A. Fee Adjustments – Estimated $321,000 increase in annual revenue.

i. Solid Waste Management Fee – Estimated $219,000 increase in revenue. Residential rate currently set at $0.60 per month; Commercial rate set at 8.25% of net revenue. Adjust fees to $1.00 per month for Residential and 8.75% of net revenue for Commercial. The City currently has the 4th highest fees out of 14 comparison agencies.

ii. Increase HHW Fees for Non-City Participants – Estimated $94,000 increase in revenue. Current fee is $65 per participant. Increase to $80 per participant. Approve the City to contract with the City of Moorpark to provide the use of the City's HHW facility to their residents at $80 per participant.

iii. Adjust Businesses Disposal Fee – Estimated $8,000 increase in revenue. Currently, businesses pay a Disposal Fee only. Adjustment would add a labor cost component to the fee.

B. Evaluate Contract Staffing – Estimated $46,000 in annual savings. Currently, the HHW Facility is operated with six contract staff. Reduction in one technician.

C. Staff HHW Facility In-house – Estimated $28,000 annual increase in expenses. Although contract staff would be replaced with in-house staff, the cost would increase due to the addition of two new full-time employees.

D. Reduce HHW Facility Operating Hours – Estimated $45,000 annual savings if HHW Facility is only open every other week.

E. **Reduce City Special Events** – Estimated $49,000 annual savings. Reduction would include:

   i. Elimination of Shred Day, Free Landfill Day, and Defeat the Drought events, and elimination of Arts Festival participation.

   ii. Reduction in costs associated with Arbor Earth Day.

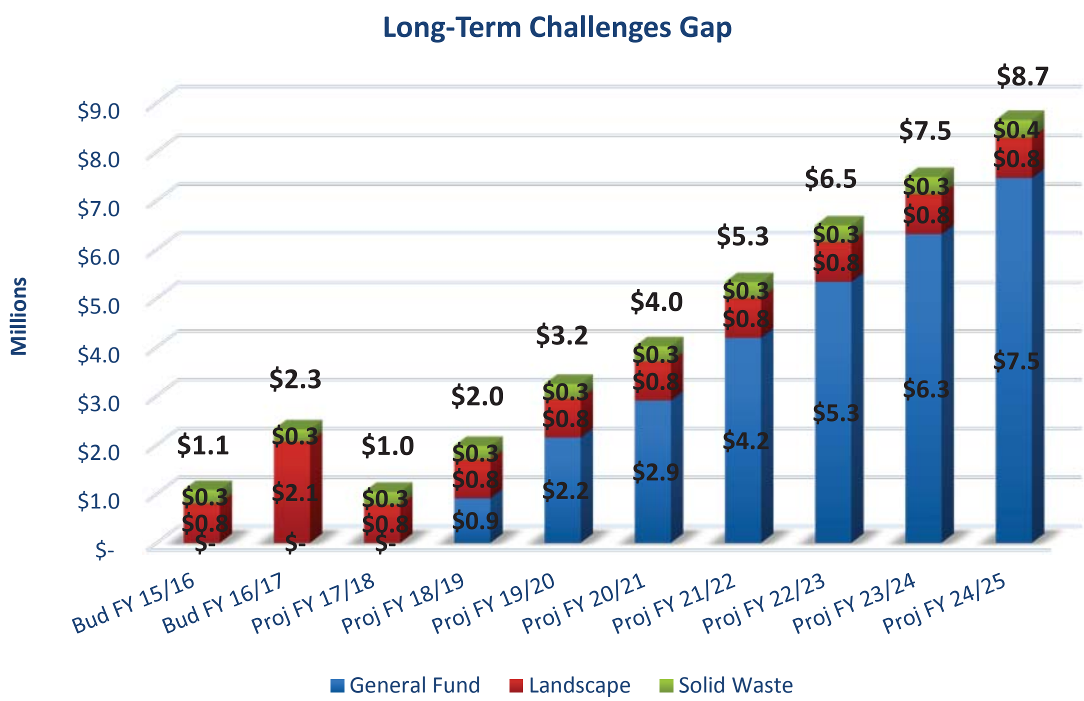
F. **One-Time Transfer of Enhancement Funds** – Estimated $2.0 million in one-time transfer-in from the Solid Waste Enhancement Trust Fund to the Solid Waste Management Fund. Use Solid Waste Enhancement Trust Fund balance of $2.0 million since interest is not enough to fund programs.

Staff Recommendations:

Fee Adjustments/Adoption (A), Evaluate Contract Staffing (B).

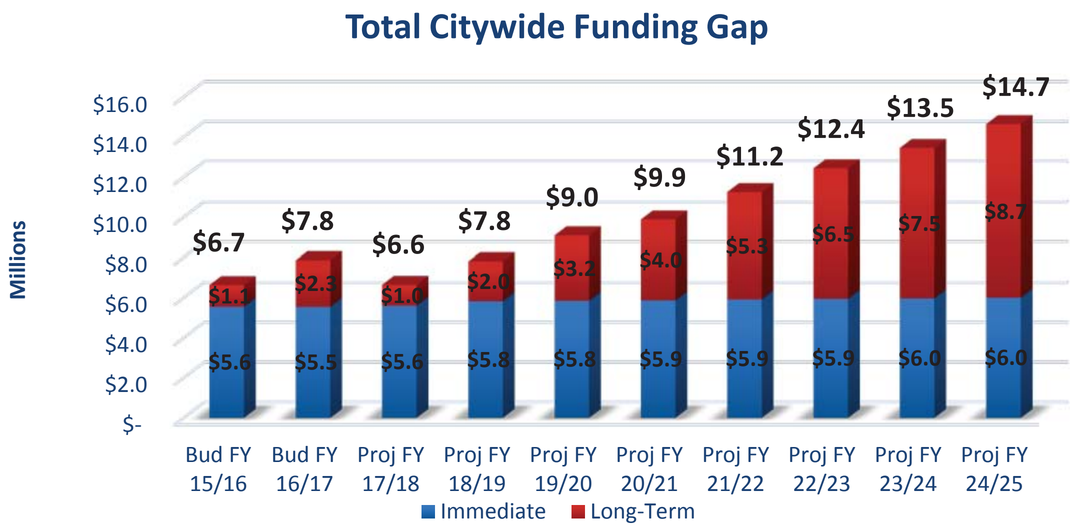
Long-term Challenges Summary

Based on the immediate challenges discussed, the estimated annual gap varies from $1.1 million in FY 2015-16 to $8.7 million in FY 2024-25 as shown below:



Although these challenges are long-term and do not present an immediate issue, prudent fiscal management should be employed so that proactive steps are taken to address these challenges before more drastic solutions are required. This proactive approach provides several options the City can carefully evaluate and then determine the most appropriate step(s) to maintain long-term fiscal sustainability.

<u>Summary</u>



As presented on the previous page, the City is facing both immediate and long-term challenges that vary from an estimated $6.7 million in FY 2015-16 to a projected $14.7 million in FY 2024-25. The major immediate challenge identified is a deficit in street funding. The deficit can be deferred; however, that will ultimately lead to a decline in the quality of the street infrastructure and higher costs in the long-run. In addition, General Fund dollars are being used to subsidize the gap in the Lighting Fund and Stormwater Fund during this budget cycle. This is not sustainable based on the long-term projection of declining fund balance in the General Fund.

The City needs to continue to focus its efforts on specific programs and services in order to develop internal operating efficiencies, seek partnership or other service delivery options, decrease dependency on the General Fund, and/or increase revenues. With key challenges identified through the 2014 FSP and the FY 2015-16 & FY 2016-17 budget process, a clear picture from the community on vital services and spending priorities specified, and a successful 2064 Visioning Program charting the course of the City's future, the groundwork is established to ensure that the City remains fiscally sustainable and will continue to provide an array of municipal services at a level the community is willing to pay for.

<u>COUNCIL GOAL COMPLIANCE:</u>

Meets City Council Goal B:

B. Operate City government in a fiscally and managerially responsible and prudent manner to ensure that the City of Thousand Oaks remains one of California's most desirable places to live, work, recreate, and raise a family.

PREPARED BY: Jaime Boscarino, Deputy Finance Director
Brent S. Sakaida, Budget Officer

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