

CITY OF EAST PALO ALTO

MEMORANDUM

Date: November 28, 1988

To: Honorable Mayor and Members of the City Council

From: Stanley H. Hall, City Manager

Subject: Report Re: City Financial Condition

In my transmittal letter to you dated June 15, 1988, in presenting the FY 1988-1989 Proposed Detailed Program Budget, I pointed out that during the last year the City was faced with a number of problems related to its fiscal and management operations. I also emphasized that while we have made and continued to make progress, "there is still a considerable number of steps that will be required from a policy standpoint, as well as from City Administration". When we discovered that there had been an over estimation of revenues of approximately \$2 million in the 1987-88 budget, the City Council made the hard decision to reduce the size of its operations. Some of the difficult results of the steps was the long term fallout that continues. It is apparent by now that a more prudent application of the limited dollars would have enabled the City to avoid many of the pitfalls surfaced.

The fact that it was prior City Administrations practice to pay City obligations without monitoring at the City Council level, has in my opinion resulted in "some" unfair blame being cast at the City's policy making body. City Administration has a responsibility to provide policy makers with information in which to make decisions. It also must insure its practices and procedures provides opportunity for review by policy makers. While such opportunity exists today, and staff makes great efforts to insure City Council's understanding of the importance of actions proposed for their consideration, there is evidence to show this was not the past practice.

Again, I offer in opinion, that citizens need to understand the roles and functions of City operations. The citizens need to understand the basis for the actions taken at the policy level.

The citizens need to understand the non-visible functions that make the wheels of government turn. The citizens need to know what, and understand the support services that keep the municipal business going; that supports police, public works and recreational programs.

I pointed out in the June 15th letter that the City is faced with several options:

"resigning ourselves to what appears to be a dramatic and seemingly long-term reality of the City's inability to provide an adequate level of services to the community, or rise to the challenge of finding acceptable alternatives".

I keep hoping and requesting the City Council and the citizens to rise to this challenge. I also pointed out on several occasions that East Palo Alto must find alternatives which are under the City's direct control if it is to achieve and maintain fiscal stability.

I requested that a Citizens Task Force be established to assist in the effort to identify new and innovative ways to finance municipal services. There are still some positive benefits to flow from this effort. However, we can not afford to not take some immediate steps to address our problems. With the failure of the two recent ballot measures, I am recommending that immediate steps be taken to call for a special election for a General Tax Over-ride.

The City Council in preparation of the 1988-89 budget agreed to adopt an ordinance establishing a Utility Users Tax. That ordinance is still in effect, the staff needs guidance from the City Council in this area. As you know, the citizens opposed adoption of this fund plan. This matter was placed on the ballot for consideration because state law required that this be done under provisions of Proposition 62, an initiative passed in 1986, which require general law cities to take such funding measures to the electorate for "ratification". This means the measure can be implemented but must have to receive voter concurrence. Proposition 62 was ruled invalid and therefore voter ratification is not necessary. An appeal of the Appellate Court decision will take some time, maybe years.

The alternatives available to use short of "repeal" is (1) to amend the ordinance providing that should a decision from the Supreme Court reinstate Proposition 62, the City Council will seek voter approval for its continued operation, and if it fails, will return all funds collected under provisions of the law. (2) successful passage abroad general tax over-ride could eliminate the need for a Utility Users Tax, or result in a modified Utility Users Tax.

Part of the City's fiscal crises is the generally accepted rule of cyclical funding for cities. This means that the City's

largest revenue infusions come at specified times of the fiscal year. The monthly flows of revenue continue to be insufficient to cover the monthly obligations which the City is faced. Most cities correct this problem through the sale of tax revenue anticipation notes. This is in fact short term borrowing, to cover the financial needs of the City during the cyclical period.

The City could not previously float a (TRANS) Tax Revenue Anticipation Note because its financial records had not been audited. We still must complete an audit for the 1987-88 fiscal year.

We will still not be able to float a "TRANS" because we have a deficit fund balance. The questions of how this deficit fund balance was achieved was spelled out by our auditors Morris/Davis Company.

Credit worthiness is the key to obtaining a credit rating. The City is not in the best position to achieve a favorable rating from bond rating companies. The interest charged on any bonds or notes at this point would be so high that it would not be profitable for any entity to effect a purchase.

It has been said that development would cure over ills. Let's examine this supposition. Development for commercial purposes will ultimately produce a revenue stream, broader than that we currently enjoy from commercial properties. The key improvement areas designated in the City have massive public improvements that will be required for the development to work effectively. There are several ways to finance these improvements:

- Traditional method of tax increment finance (Bond sales)
- Grants and fees
- Loan from the developer and special funding agencies.

Such major improvements as storm drains, sewer lines, sewage treatment capacity, roadway improvements, all require substantial sums of money and are major elements of the infra-structure of a developable parcel. If we eliminate our ability to sell bonds as an option, grant alternative for such specialized public improvements are very limited.

The only major alternative is to borrow from the developer, structure deals of this nature are risky, can possibly lead to conflicts, and certainly handicaps the City's decision-making capacity.

These facts lead us back then to the actions needed from the City Council and Citizens to guard against the City's future being managed to forces outside of the community.

The City fiscal situation today is partially due to hedging bets on an uncontrolled destiny.

The strongest pathway to fiscal stability is for the City Council to take board leadership steps to gain the confidence of the community to make positive business decisions in setting municipal policy. The citizens must for the fiscal health and general future of the City dig for the monetary resources to support its needs. No less effort should be made to bring about fiscal health than Environmentalists give to saving birds, frogs, butterflies, and similar creatures of the wild.

If it takes more restrictive measures to gain community confidence, by all means pass policies that exemplify evidence of such.

Our staff is available to respond to your needs, and advise you of your available resources. I must clearly point out that it is and has been your Police Department which receives the greatest amount of the available revenues that come to the City. There are other costs which are a direct result of municipally runned Police Agency;

- Retirement Benefits
- Life Insurance
- Health Insurance
- Dental Insurance
- Workmens Compensation
- Long Term Disability Insurance

These benefits are given to all employees as well, but over half the City's personnel are police employees.

Other indirect cost areas for police are claims and legal representations.

These are areas unavoidable and are a cost necessitated by virtue of being in the police business.

Because we are a general law governmental entity, it is required by law that several functions be staffed as a cost of doing business.

You must have a Civil Service system by virtue of the form of government that exist.

All services may be contracted out. If a City chooses to staff its government services, it must determine the level of services it wishes to provide and finance it accordingly. This process was the worm prior to Proposition 13's passage in 1978.

You merely set the tax rate for the level of service you approved. Post Proposition 13 however creates a different set of circumstances. You have limited dollars, and services of greatest need are funded first. Some services are funded more than others because of the visiblity that service has.

Some services are underfunded but the expectation does not lessen. Such is the case with East Palo Alto, the expectation has actually grown while the dollar has decreased. There are those who believe this municipal business can run on volunteerism. It helps, but in no way can and should a Municipal corporation's continued operations depend upon the consistency of a volunteer effort. This is a business and should be treated in that manner. Several departments are grossly under staffed, they are as follows:

Finance	- 3 full time
Clerical	- 6
	4 full time
	2 part time
Public Works	- 7 full time
Personnel	- 1 full time
Retirement Administrator	- 0
Management Analyst	- 1
Risk Management	- 0
Recreation	- 1
Building Inspector	- 1
Planning	- 1
Housing Management	- 0
Election Department	- 0
City Clerk	- 0
Benefits Division	- 0
Code Enforcement	- 1

The City cannot continue to expect services of a full-service City with the existing staffing patterns. There are not sufficient resources to adequately fund and staff these departments. We must, as I pointed out in the June 15

Letter, "of absolute necessity (take) Policy Action immediately to increase revenues".

Your current financial picture is not bright, the hope and potential of the City rest with each of you and the entire community.

The following summarizes our unfunded financial conditions:

- 401 K Retirement Fund - (375,000)
- Workmen Compensation - (475,000)
- Insurance Retention (claims) - (150,000)
- Contingency Fund - (120,000)
- TOTAL - (1,120,000)**

The City simply cannot afford to operate as it has in the past. There is certain liability that springs from the lack of policy action on these matters when they are brought. Once all remedies have been exhausted, these are actions that must be taken by law to satisfy the City's business obligations. The legal Counsel is best suited to outline what those alternatives are. It is essential that steps be taken in the immediate future to resolve these matters one way or another.

If there are any question please advise.

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COMPARATIVE RESOURCES FOR A RECREATION AND COMMUNITY SERVICES DEPARTMENT
FOR A CITY THE SIZE OF EAST PALO ALTO

SUMMARY

	CURRENT 88/89	\$AMOUNT 88/89	IDEAL NO	\$AMOUNT	DIFFERENCE
PERSONNEL	6	58,670.00	13	289,666.00	229,996.00
OPERATING EXPENSES		7,004.00		165,908.00	158,904.00
TOTAL		65,674.00		454,574.00	388,900.00

PERSONNEL

	CURRENT	\$AMOUNT	IDEAL	\$AMOUNT	DIFFERENCE
1. Director	1	44,055.00	1	46,254.00	2,199.00
2. Recreation Supervisor	1	4,116.00	2	60,528.00	56,412.00
3. Maint. Supervisor	0	0.00	1	30,264.00	30,264.00
4. Administration Mnger	0	0.00	1	27,040.00	27,040.00
5. Recreation Leaders	4	10,499.00	4	64,562.53	54,064.00
6. Maintenance Workers	0	0.00	2	47,018.40	47,018.00
7. Facility Attendants	0	0.00	2	12,999.17	13,000.00
TOTALS	1	58,670.00	13	288,665.58	229,996.00

OPERATING EXPENSES

	CURRENT \$AMOUNT	IDEAL \$AMOUNT	DIFFERENCE
1. Memberships	0.00	500.00	500.00
2. Office supplies	0.00	1,200.00	1,200.00
3. Education and Training	0.00	1,500.00	1,500.00
4. Equipment Maintenance	0.00	300.00	300.00
5. Mileage Expenses	0.00	500.00	500.00
6. Van Payments	4,404.00	8,605.00	4,404.00
7. Van Maintenance	400.00	600.00	200.00
8. Gas/Oil/Grease	1,200.00	2,500.00	1,300.00
9. Recreation Supplies	1,000.00	10,000.00	9,000.00
10. Office Equipment	0.00	6,000.00	6,000.00
11. Books	0.00	300.00	300.00
12. Maintenance Supplies	0.00	10,000.00	10,000.00
13. PR & E (includes pool)	?	72,500.00	72,500.00
14. Telephone	?	1,200.00	1,200.00
15. Capital Expenses	0.00	40,000.00	40,000.00
16. Contracts	0.00	10,000.00	10,000.00
TOTAL	7,004.00	165,908.00	158,904.00

EAST PALO ALTO PUBLIC WORKS

DEPARTMENT AT FULL

OPERATION

Director of Public Works

Secretary

City Engineer

Operations Superintendent

Land Development Engineer

Design Engineer

Administration & Traffic Engineer

Parks & Landscaping Supervisor

Water Supervisor

Vehicle Maintenance Mechanic

Sewer Supervisor

Street Supervisor

Senior Civil Engineer

Junior Civil Engineer

Junior Civil Engineer

- M.M.
- M.M.
- M.M.
- M.M.
- M.M.
- M.M.

- M.M.
- M.M.

- M.M.
- M.M.

- M.M.
- M.M.
- M.M.
- M.M.

Process Subdivisions
Maintain Maps
Field Surveys

Plans, Specifications,
Estimates Street Plan
Lines, Standard
Specifications &
Standard Drawings
Field Inspection
of Construction

Budget Preparation & Control
Cost Accounting
Time Sheets
Job Numbers
File Control
Personnel Actions
Special Assignments
Engineering Planning
Lighting Administration

Maintain Parks,
Public Planting &
Street Trees
Weed Control

Maintain Water
Lines
Operate Water
Valves
Install Water
Services
Conduct
Backflow
Prevention
Program

Maintain all City Vehicles

Sewer Line
Maintenance
Storm Line
Maintenance
Industrial Waste
Monitoring

Potholing
Line Striping
Signs
Street Sweeping
Debris Removal
Street Light
Maintenance

- = Position Filled
- = Position Vacant
- M.M. = Maintenance Man

CITY OF EAST PALO ALTO

PUBLIC WORKS DEPARTMENT

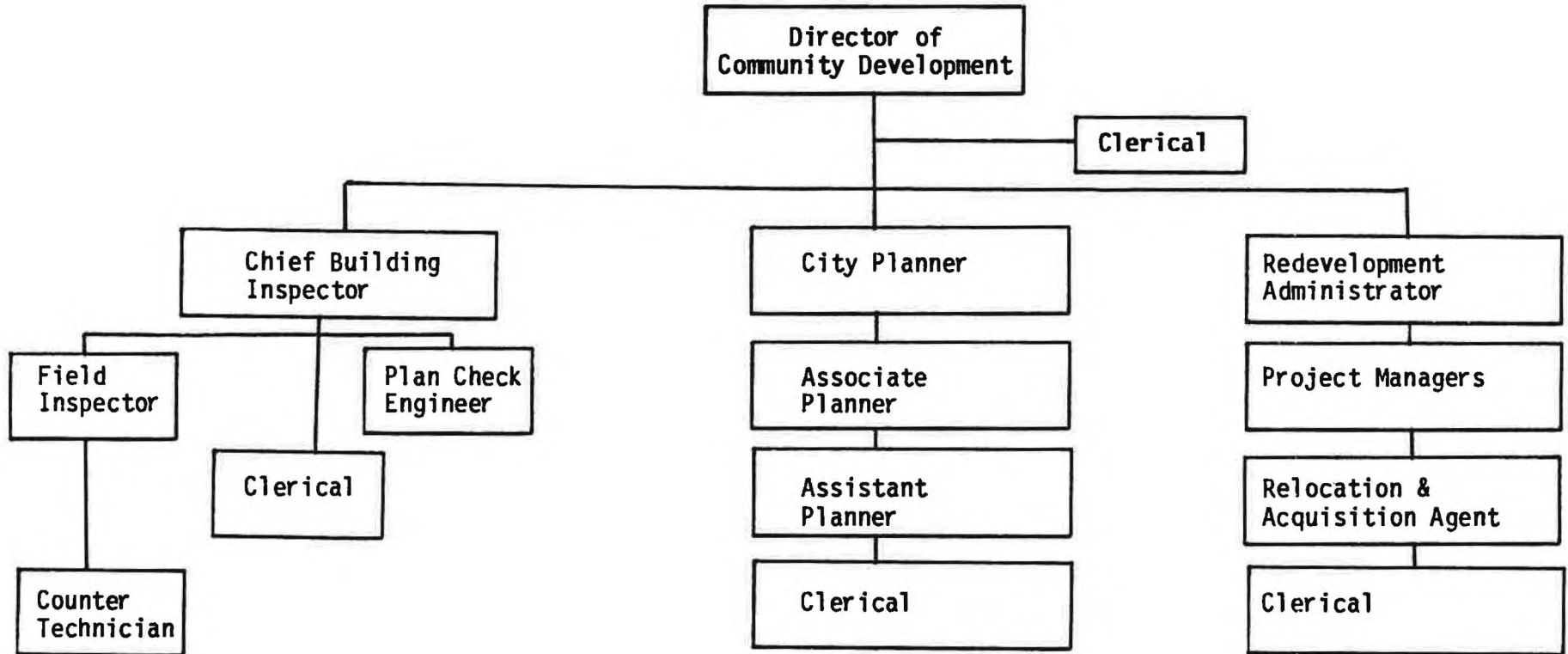
Equipment Needs at Full Operation

- *Dump Truck
- *Tractor
- *Pick-up Truck
- *Pick-up Truck
- oPick-up Truck
- *Van
- *Blazer
- *Street Sweeper
- *Asphalt Heater
- *Oil Sprayer
- *Tamper
- oJet Rodder for sewer & storm lines
- *Tar Pot
- *Honda Mower
- *Flail Mower
- *Post Hole Digger
- *Roto-tiller
- *Backhoe
- *Scraper Box
- *Air Compressor
- *Jack Hammer
- *4 Chain Saws
- *2 Edgers
- *Generator
- *Welder
- *Traffic Sprayer (walking type)
- *2 Weed Wackers
- oLarge Mower (multiple rotary)
- oPaint Striper (riding type)
- oTowable Sprayer (insecticide & pesticide)
- oOutdoor Vacuum
- o2-Axle Trailer
- oStripe Remover
- oSand Blaster
- *Concrete Mixer
- oSurveyors Transit
- oSurveyors Level
- oSurveyors Level Rod
- oWater Service Pick-up truck with Davit
- oPower Operated Valve Operator for water lines
- oWet tap machine (water)
- oVehicle lift for maintaining vehicles
- oLift truck for street light & tree maintenance
- oTurf Litter Sweeper
- oCorporation Yard with closed storage for all vehicles and equipment

* Presently Owned
o Needed

CITY OF EAST PALO ALTO

DEPARTMENT OF COMMUNITY DEVELOPMENT



DF:hr
D#12df112888

Capital Equipment
Community Development Department

- 2000 sq. ft of office space
- 11 Desks
- 11 Desk chairs
- 11 Telephones
- 12 Computer terminals (Networked P.C.'s)
- 3 printers
- 1 six pen plotter
- 20 office side chairs
- 9 Legal size file cabinets
- 2 Drafting tables
- 2 Drafting chairs
- Drafting Equipment
- Drafting supplies
- 1 Kroy lettering machine
- 4. storage cabinets
- 1 conference table
- 8 conference chairs
- office equipment
- office supplies
- 1 Photo Copy machine