MINUTES

Workshop of the
Scotts Valley City Council

Date: December 5, 2017

POSTING:
The agenda was posted on 12-1-17 at City Hall, the SV Senior Center, and the SV Library, by the City Clerk.

CALL TO ORDER 6:06 p.m.

PLEDGE OF ALLEGIANCE and **MOMENT OF SILENCE**

ROLL CALL

Present:	Mayor Johnson	City Manager Haruyama
	Vice Mayor Reed	City Attorney Powell
	Council Member Aguilar	Police Chief Walpole
	Council Member Dilles	Public Wks Director Hamby
	Council Member Lind	Acting Community Development Director Bateman
		Senior Planner Edwards
		Civil Engineer Kahn
		Recreation Division Manager Ard
		City Clerk Ferrara

CALL TO ORDER

ROLL CALL

PLEDGE OF ALLEGIANCE AND MOMENT OF SILENCE

PUBLIC COMMENT TIME

No one came forward.

SPECIAL SET MATTER

1. **City Council Budget Strategies Workshop**

   The City Council convened for a special study session on December 5, 2017 to affirm a budget framework for the City's fiscal sustainability plan. The workshop was facilitated by Nancy Hetrick of Management Partners, with facilitation support and financial expertise provided by Steve Toler of Management Partners. Attached is a summary of the workshop.

ADJOURNMENT The meeting adjourned at 8:54 p.m.

Approved: ______________________
Randy Johnson, Mayor

Attest: Tracy A. Ferrara
Tracy A. Ferrara, City Clerk

City Council Budget Strategies Workshop

Held December 5, 2017

January 2018

Management Partners

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Introduction

The City Council convened for a special study session on December 5, 2017 to affirm a budget framework for the City's fiscal sustainability plan. The workshop was facilitated by Nancy Hetrick of Management Partners with facilitation support and financial expertise provided by Steve Toler. The PowerPoint used to guide the workshop is included with this report as Attachment A.

Workshop Objectives

- Ensure everyone has a shared understanding of the City's fiscal outlook and how the Fiscal Sustainability Plan (FSP) will be used to achieve long-term solvency.
- Discuss community values and expectations.
- Establish principles against which budget strategies can be evaluated.
- Explore budget strategy options.

Retreat Agenda

1. Call to order, roll call and Pledge of Allegiance
2. Public comment
3. Workshop objectives and overview
4. Scotts Valley fiscal overview
5. Community values and expectations
6. Budget strategy principles and discussion
7. Next steps and wrap up

The fiscal overview presentation is included in the attached powerpoint presentation. This report presents the interaction results of values and budget strategy activities.

Community and Organizational Values and Expectations

Council member were asked to reflect community attributes resides value. Referring to a set of posted community values the facilitator placed a check mark next to the item when it was mentioned over the course of the discussion. Council members noted that each item has some importance/relevance, however the goal of the discussion was to highlight areas of greatest perceived value.

The items mentioned by Council are noted below. The numbers signify the frequency of its mention. Affordable housing, schools/after school sport and other programs, and culture and the arts were added during the workshop.

What does the community most care about?

- Access to amenities (1)
- Community pride (2)
- Crime prevention and enforcement / Safety (3)
- Economic vitality (1)
- Employment opportunities
- Environmental care/ sustainability
- Family-focus (1)
- Fiscal stewardship (1)
- Health and wellness (1)
- Neighborhood preservation
- Recreation amenities (1)
- Reliable infrastructure (2)
- Small town feel (2)
- Transportation options
- Affordable Housing
- Schools/After School sports/programs
- Culture and arts

Next, Council members were asked engage in an activity to identify organizational values they believe support community and their expectations. Values are defined as standards and principles upon which behaviors and decisions are made. A value is a quality considered inherently worthwhile or desirable.

The results of a dot voting exercise revealed consensus on the important of the following values:

- Fiscal Responsibility (5)
- Integrity/Trust (4)

- Accountability (3)

The numbers shown in parentheses reflect the number of dots the value received. Each council member was provided only five dots to place. Customer service, engagement, and transparency each received two votes. Council members noted that many of the values are intertwined.

The following list presents the full set of values and the number of votes received.

- Customer-focus (2)
- Engagement (2)
- Transparency (2)
- Compassion/Empathy (1)
- Consistency (1)
- Creativity/Innovation (1)
- Fair, Equal Treatment (1)
- Initiative (1)
- Partnership/Collaboration (1)
- Respect (1)
- Excellence
- Flexibility/Adaptability
- Quality Service/Results
- Timeliness/Responsiveness
- Unity

Budget Strategy Principles and Discussion

The Fiscal Sustainability Plan (FSP) framework takes a balanced approach to long-term financial stability. Steve Toler of Management Partners presented the framework, emphasizing the importance of a comprehensive plan that can be implemented over time and noting that there is no single solution.

Steve reviewed the range of options used by other agencies facing similar financial challenges and identified criteria that can guide the selection of strategies to implement. The strategies fall into one of four categories:

1. Revenue enhancements
2. Expenditure controls and cost shifts
3. Service delivery changes
4. Service level reductions

Coupled with community values and expectations, analysis is a critical ingredient to determining which strategies are suitable to an agency. In order to identify which strategies to carefully analyze for impact, Council was taken through an activity that asked each member to rate options using a red, yellow, green model. Red indicates the option should be "off the table" or only pursued as a last resort. Yellow indicates the option is not desirable but should be analyzed. Green indicates to proceed with analysis.

The results of the activity are provided as Attachment B. As a group, Council preferred to avoid service reduction or elimination as an option. There was clear direction to avoid a shared services model for law enforcement, which was consistent with early discussion about the value and important of the police department to the community. Pursuing revenue enhancement options were the most consistently support strategies. Council noted, however, that to pursue such strategies requires demonstration of efficiencies in service delivery as well as thoughtful community education on the City's fiscal outlook.

Attachment A – Workshop Presentation

Attachment B – Sample Strategies (Options) for FSP Analysis

City of Scotts Valley City Council
Budget Strategies Workshop

December 5, 2017

Facilitators:
Nancy Hetrick
Steve Toler

Management Partners

Today's Workshop

- Overview
  - Expectations
  - What is a Fiscal Sustainability Plan?
  - Scotts Valley Fiscal Overview
- Community/Organizational Values
- Budget Strategies
  - Principles for evaluation
  - Review, identify and evaluate options
- Next Steps

Workshop Objectives

- Ensure everyone has a shared understanding of the City's fiscal outlook and how the Fiscal Sustainability Plan (FSP) will be used to achieve long-term solvency.
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Expectations

- What are your expectations from today’s workshop?
  - What do you hope to achieve in today’s workshop?
  - What concerns do you have?
  - What are your hopes in this process?

Scotts Valley Fiscal Overview

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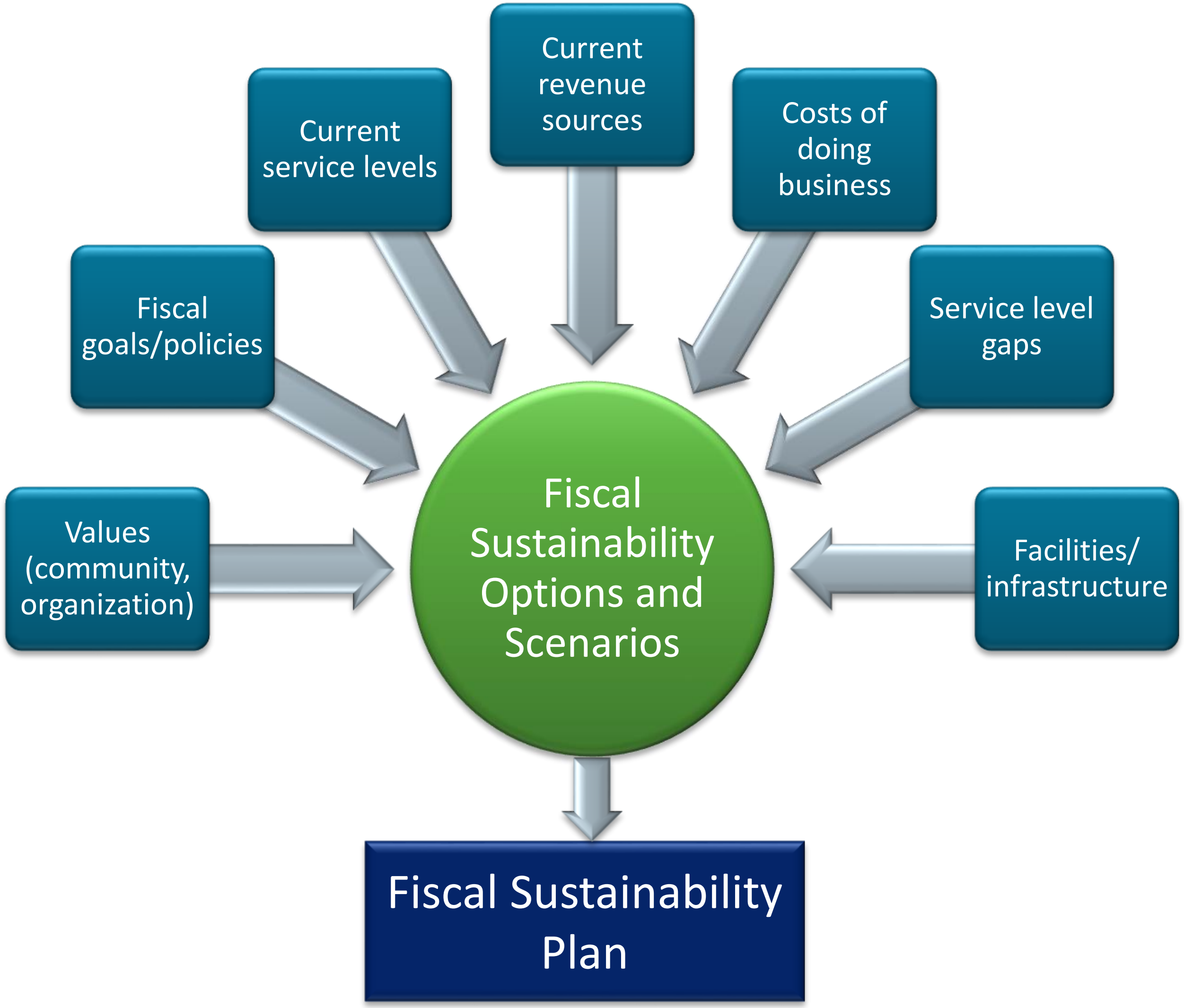
What is a Fiscal Sustainability Plan?

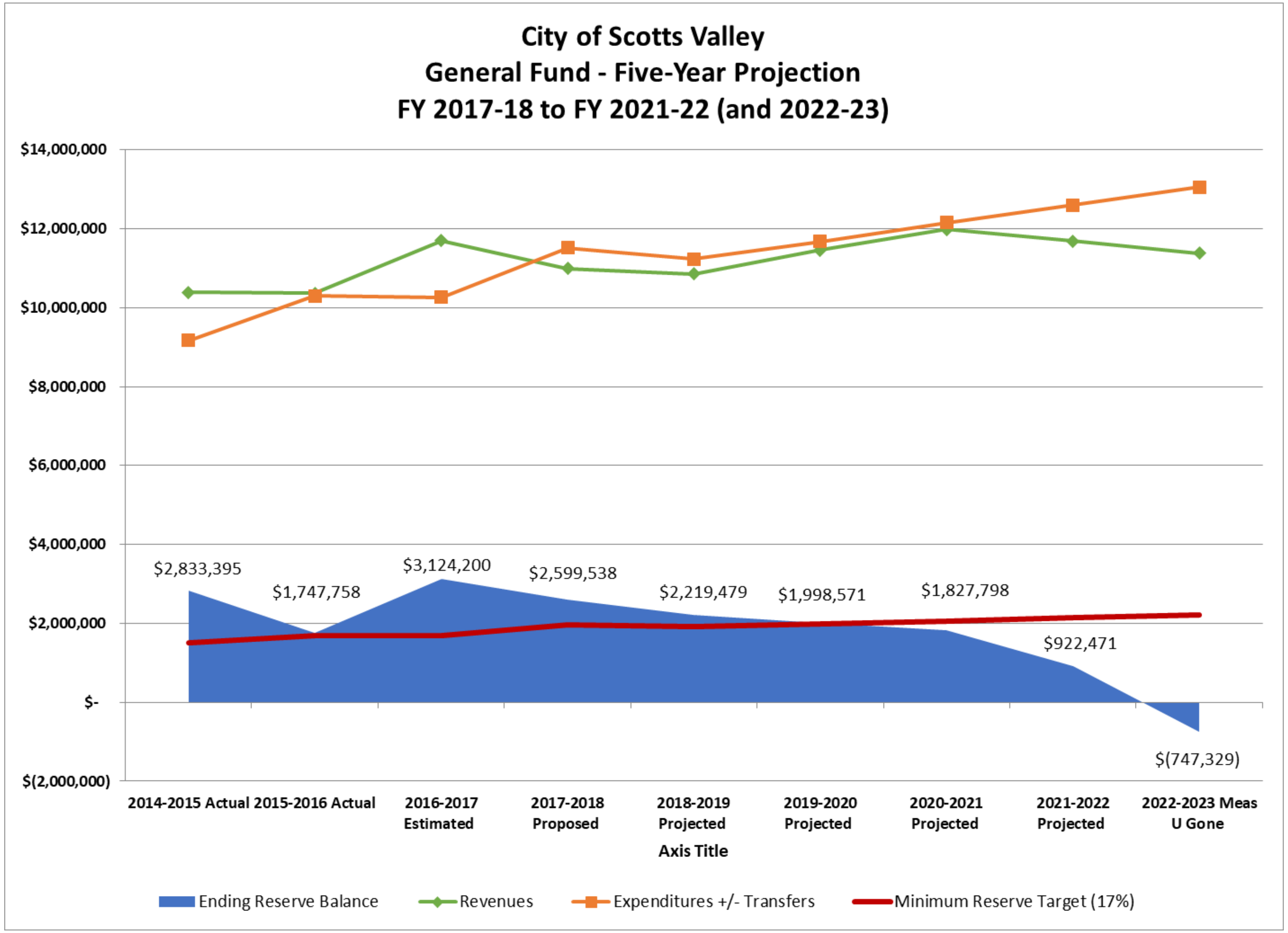
- Long-term vision for the City's future fiscal health beyond the annual budget process
- Road map that reflects strategic financial objectives based on City's long-tem vision
- Policy document and a financial plan
- Incorporates key assumptions and policy statements to achieve City Council objectives

Elements of a Fiscal Sustainability Plan



Fiscal Overview

- City has very limited resources to support existing service levels and meet infrastructure and facility maintenance needs
- General Fund reserves are currently above the minimum target reserve of 2-months (17%) of annual operating expenditures



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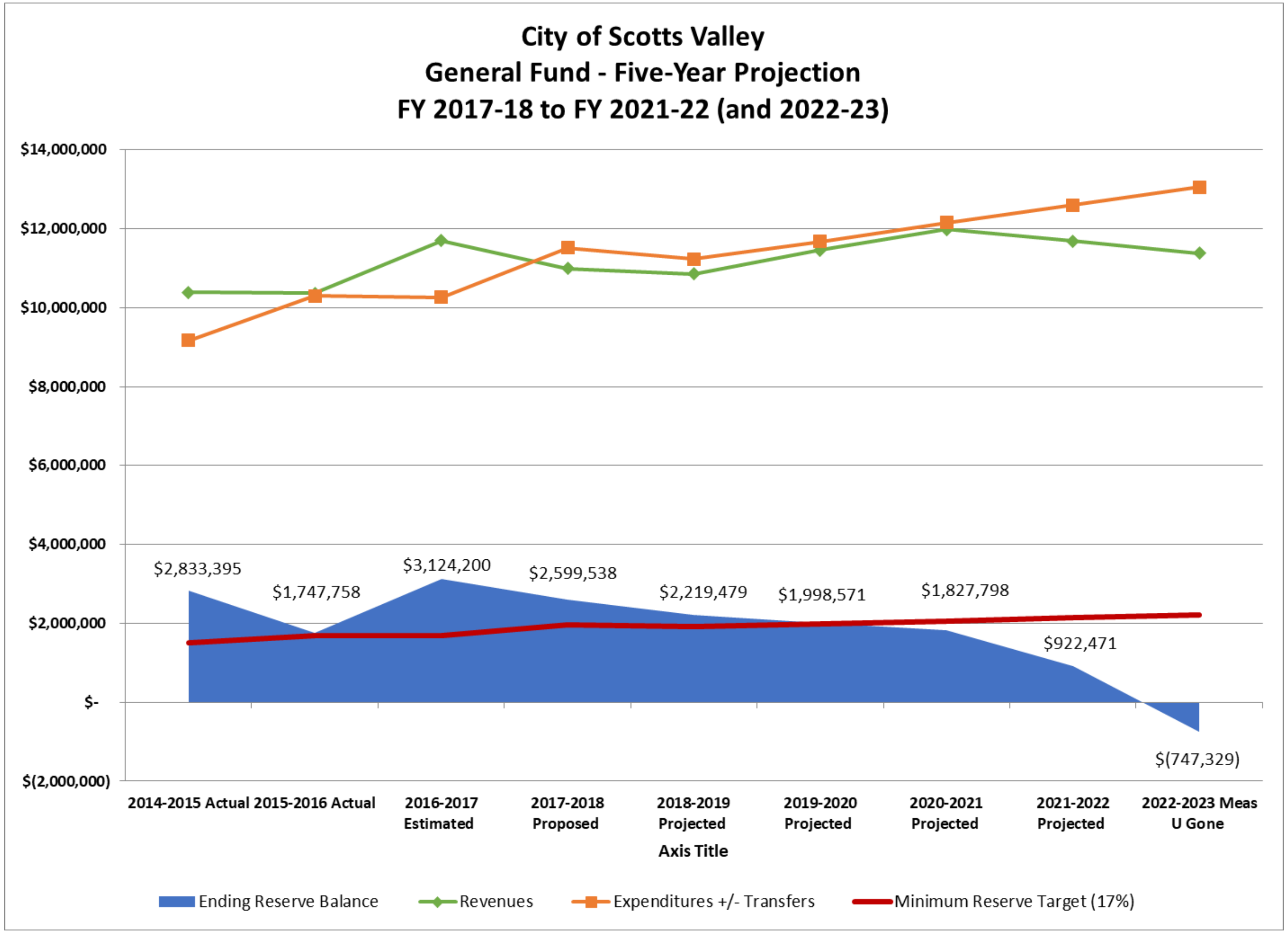
Fiscal Overview

- Five-year forecast indicates reserves will be depleted by FY 2022-23 ***if no action is taken***
  - City drops below target reserve level by 2020
  - Fiscal sustainability plan requested to avert this scenario
- General Fund structural deficit of $1.67 million starts in FY 2022/23 when the ½ cent local sales tax sunsets



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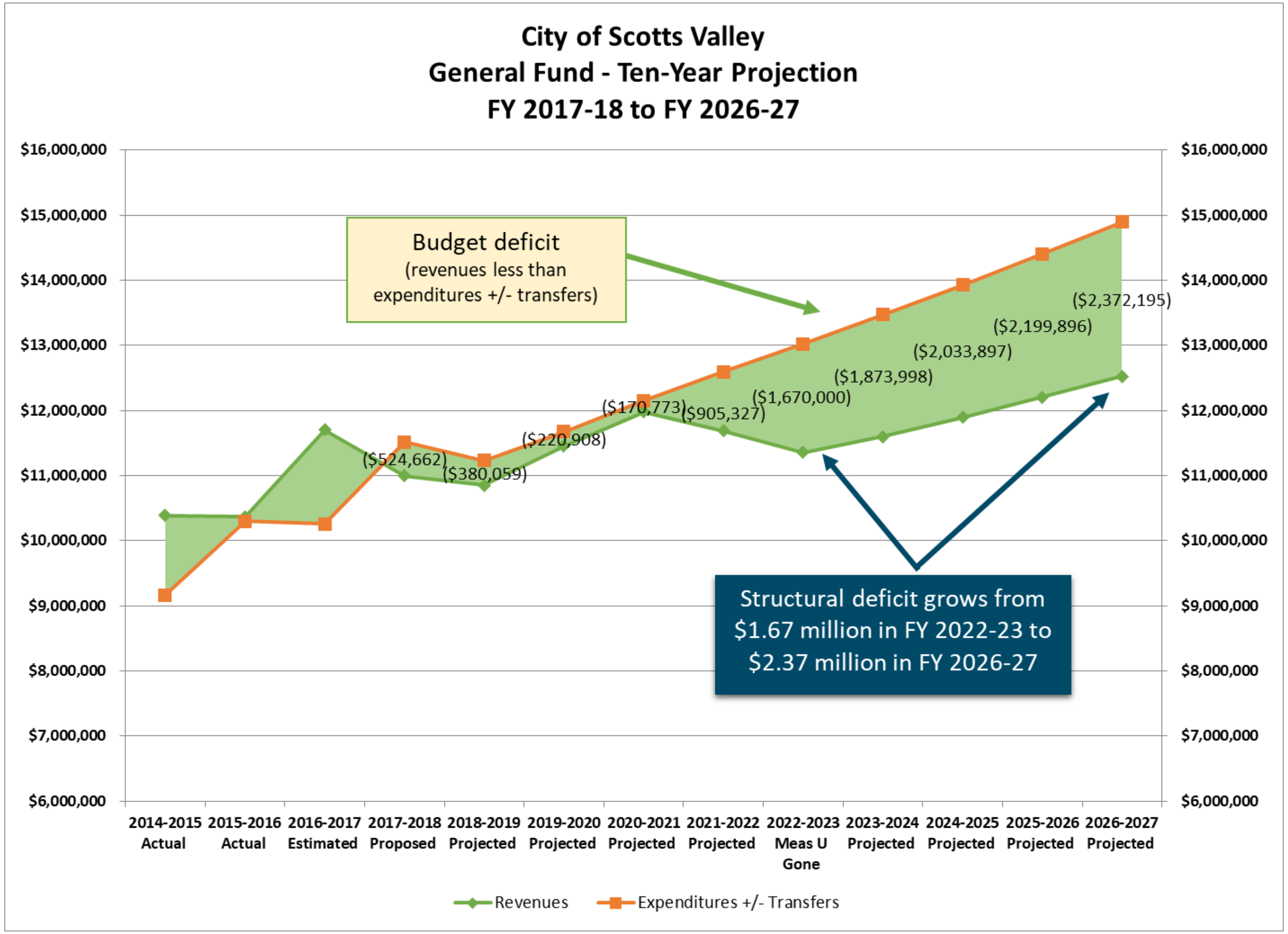
Fiscal Overview

- Ten-year forecast indicates the structural deficit will widen to nearly $2.4 million …
  if no action is taken



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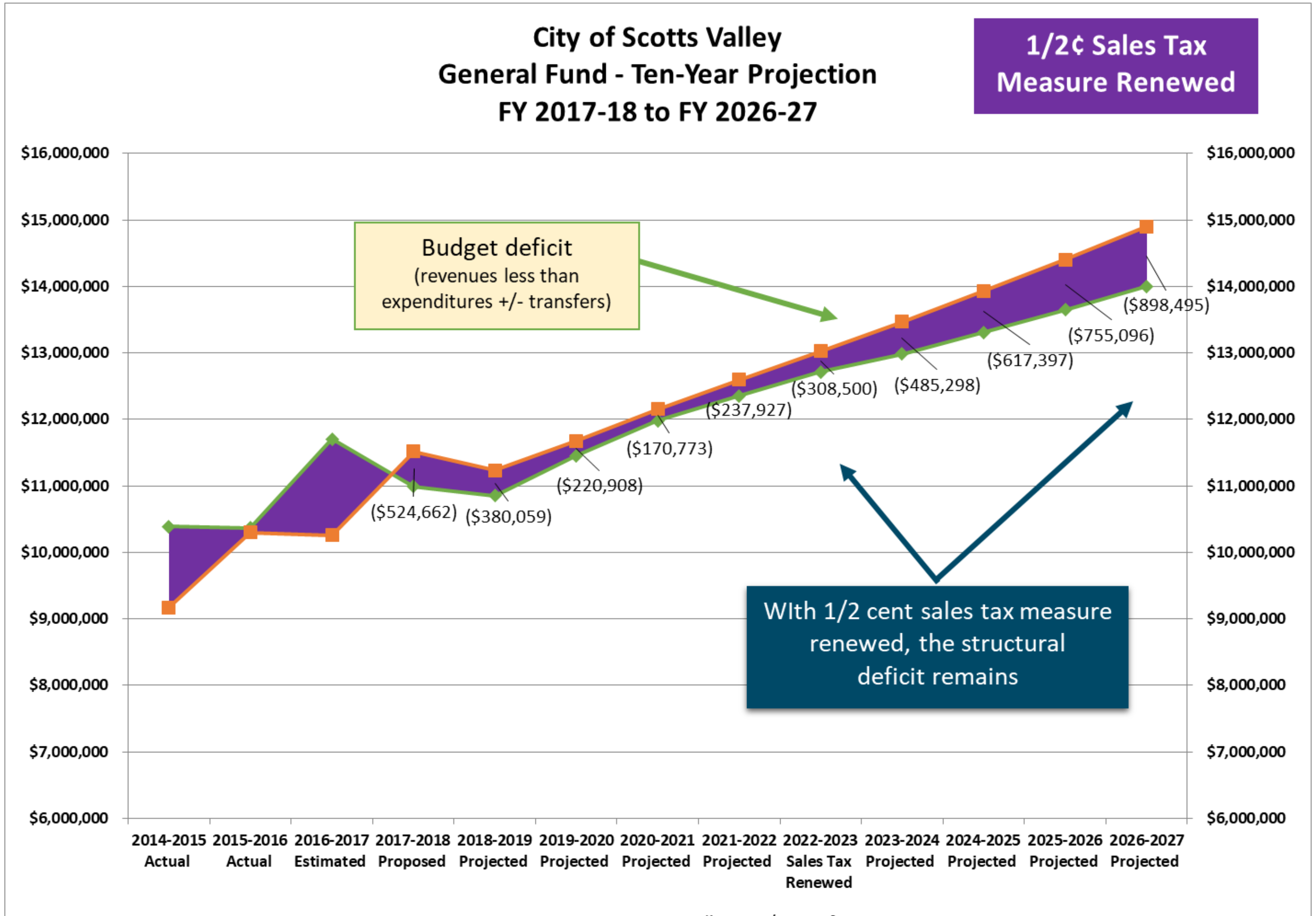
Fiscal Overview

- Ten-year forecast indicates the structural deficit will widen to nearly $2.4 million … ***yet….***
- If the ½ cent sales tax measure is renewed, the structural deficit would still remain, though reduced to under $900,000



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Fiscal Assumptions

Key Drivers

Revenues

- Property tax apportionment rate of ~6% is the lowest in the County
- City relies on more-volatile tax revenues (sales tax, transient occupancy tax) to make up where property taxes are insufficient
- One-time development-related fees have helped buffer reserves
- Recreation fees and charges were increased to reduce subsidy
- User fee study/cost recovery analysis is underway to inform FY 2018/19 budget

Expenditures

- Reliable and sufficient funding of necessary infrastructure improvements is required
- Cost of providing services continues to increase
  - Construction market impacts capital improvement project costs
  - Competitive compensation to recruit/retain employees
  - Health and retiree medical costs continue to rise
  - CalPERS actuarial changes increasing contribution rates
- Employee positions have remained vacant to mitigate budget impact

Community Values and Expectations

Community and Organizational Values

- What does the community most value? Such as…
  - Services
  - Safety
  - Infrastructure
  - Culture
  - Economy

- What organizational values should the City exemplify when delivering services to the community?

Budget Strategy Principles and Discussion

Budget Strategy Categories

Revenue Enhancements	• Identify new revenue sources • Increase existing revenue sources • Expand revenue base
Expenditure Controls and Cost Shifts	• Reduce cost of providing services • Find other funding sources • Shift costs to another party (external or internal)
Service Delivery Changes	• Identify new ways to provide existing services • Collaborate with private sector parties • Share services with other agencies
Service Level Reductions	• Reduce existing service levels • Eliminate services • Reduce infrastructure maintenance

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Principles to Evaluate Budget Strategies

- What guiding principles should Scotts Valley use to evaluate possible budget strategies to provide a fiscally sustainable future?

Budget Strategies – Examples from Other Cities

Revenue Enhancements

- Extend (or make permanent) local sales tax measure
- Increase hotel (TOT) tax measure
- Increase solid waste franchise fees
- Increase user fees and charges
- Create community facilities assessment districts

Expenditure Controls and Cost Shifts

- Cost sharing of retirement and health benefits
- Allocate administrative costs to enterprise funds
- Reduce number of vehicles in fleet
- Institute temporary work furloughs

Budget Strategies – Examples from Other Cities

Service Delivery Changes

- Insource large equipment maintenance
- Outsource median landscaping maintenance
- Outsource golf courses and swimming pool operations
- Implement shared services models for fire, public safety dispatch and fleet maintenance

Service Reduction/ Elimination

- Reduce maintenance service levels
- Lower pavement management standards
- Reduce patrol services
- Eliminate services with low cost-recovery
- Eliminate or continue to hold vacant positions

Next Steps

Management Partners

- Assist staff in evaluating options
- Assist the City Manager in developing a draft fiscal sustainability plan

City Manager

- Review and evaluate options
- Present draft fiscal sustainability plan for City Council review

City Council

- Review draft fiscal sustainability plan
- Evaluate various scenarios and choose the strategies that should be implemented

City Council and Staff

- Identify community engagement options

Concluding Remarks/Feedback

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Thank You!

Contact Information

Nancy Hetrick, Partner
NHetrick@managementpartners.com

Steve Toler, Senior Manager
SToler@managementpartners.com

ATTACHMENT B: Sample Strategies (OPTIONS) for FSP Analysis

Sample Strategies		RED	YELLOW	GREEN
Revenue enhancement				
1.	Extend sales tax measure		X	XXXX
2.	Increase user fees and charges – planning and building		X	XXXX
3.	Increase user fees and charges – public works		X	XXXX
4.	Increase user fees and charges - recreation		XX	XXX
5.	Increase user fees and charges - police		XX	XXX
6.	Increase user fees and charges – admin/other		XX	XXX
7.	Increase transient occupancy (hotel) tax		XX	XXX
8.	Increase/expand business license tax		XX	XXX
9.	Increase/expand utility users tax		X	XXXX
10.	Increase solid waste (garbage) franchise fees	XX		XXX

Sample Strategies		RED	YELLOW	GREEN
Expenditure control/cost shifts				
11.	Increase cost allocation to wastewater operations to fullest extent allowed	X		XXXX
12.	Reduce the number of vehicles maintained by the City	XX		XXX
13.	Start/increase employee contributions toward pension costs		XX	XX
14.	Increase employee contribution for health benefits		XX	XXX
15.	Institute temporary work furloughs	XX	XX	X

RED: Not an option as a financial sustainability solution.
YELLOW: Less desired, but should be analyzed/considered; may be implementation barriers
GREEN: Proceed with analysis

ATTACHMENT B: Sample Strategies (OPTIONS) for FSP Analysis

Sample Strategies	RED	YELLOW	GREEN
Service delivery changes			
16. Shared services model for public safety dispatch	XX	XX	
17. Shared services model for law enforcement	XXXX		
18. Shared services model for adult and/or youth sports	X	X	XX
19. Outsource or shared services model for Aquatics program		X	XXX
20. Outsource or shared services model for parks maintenance	X		XXX
21. Outsource or shared services model for vehicle/fleet maintenance		XX	XX
22. Outsource or shared services model for street maintenance		XX	XX
23. Outsource or shared services model for storm drain maintenance		XX	XX
ADD: Online service delivery			

Sample Strategies	RED	YELLOW	GREEN
Service reduction/elimination			
24. Eliminate Aquatics program	XXX	X	X
25. Reduce level of parks and landscape maintenance	XXX		X
26. Reduce level of street maintenance	XX	XX	X
27. Reduce level of storm drain maintenance	XXX		XX
28. Reduce level of police patrol	XXX	X	X
29. Reduce level of administrative support staffing (CM, Clerk, Finance, HR)	XXX		XX

RED: Not an option as a financial sustainability solution.
YELLOW: Less desired, but should be analyzed/considered; may be implementation barriers
GREEN: Proceed with analysis