



**CITY OF PACIFIC GROVE**  
300 Forest Avenue, Pacific Grove, California 93950

**AGENDA REPORT**

**TO:** Honorable Mayor and Members of City Council  
**FROM:** Thomas Frutchey, City Manager  
**MEETING DATE:** July 15, 2015  
**SUBJECT:** Key Issues Identified in the Budget Process  
**CEQA:** Does not Constitute a "Project" per California Environmental Quality Act (CEQA) Guidelines

**RECOMMENDATION**

Provide guidance on particular factors to be considered, issues to be addressed, and alternatives to be considered, and direct the City Manager to return to the Council with full analyses on each of the major budget issues at the recommended dates over the coming months.

**DISCUSSION**

During the budget deliberations this spring, Council identified a set of key issues requiring in-depth, focused, follow-up attention and analysis, in no particular order:

- ❖ Long-term fiscal stability, including cost control and revenue growth
- ❖ Participation in regional and statewide agencies
- ❖ Police and Fire models and affordability
- ❖ The short-term rental ordinance
- ❖ City financial commitments to the Museum
- ❖ Youth recreation programs

Each is addressed briefly below:

A variety of structural issues are impacting the City's fiscal stability, primarily CalPERS. The five-year fiscal forecast projects a deficit throughout the forecast period, unless additional corrective measures are undertaken. The City has initiated cuts, efficiencies, outsourcing, and shared services, among other measures. There are progressively decreasing returns from many of these measures. In addition, other cities are showing decreasing interest in additional shared services. At some point, the cost curve becomes asymptotic to the minimum sustainable level. Other feasible steps need to be identified and analyzed.

City revenues continue to grow at a rate less than inflation compounded by changes in population. As a result, in less other measures are adopted, City services will continue to decrease. Alternative additional revenue sources have been identified and discussed by Council. The significant sources will take voter approval. In order for the voters to act, an election date needs to be identified and a detailed timeline prepared for their consideration and implementation. A comprehensive analysis is necessary of the relative advantages and disadvantages of each possible measure, and their potential impacts. Outside assistance may be required for parts of this process.

The City is a member and participates in a significant number of regional and statewide agencies. Some are mandatory, such as TAMC and the PCA, others are discretionary, such as the League and FORA. Our membership in each of these has benefits and costs; a comprehensive review has not been conducted in several years. In addition, the nature and scope of the City’s involvement in those agencies, and the steps necessary to ensure the Council is able to provide appropriate policy direction to the staff and Councilmember representatives, has not been addressed.

Public safety is consuming an ever-larger share of the City’s budget, in large part because of CalPERS. Any future relief as a result of PEPR is outweighed by many times from the changes in the actuarial assumptions that led to the major increase in rates being charged by CalPERS, effective this past July 1. Different approaches for achieving police and fire services affordability over the long term, with a full consideration of alternative models, need to be fully analyzed to address this

The short-term rental ordinance has been in place for 5 years; a comprehensive review of its impacts, evaluation of the changes in the market environment (including Airbnb and other innovations), and analysis of possible refinements has not been undertaken during that period.

The City’s budgetary responsibilities for the Museum—under the terms of the partnership agreement executed in 2008, the City pays 1.01% of its General Fund budget to the Museum Foundation, and is responsible for the maintenance and upkeep of the facility. The scope of the City’s commitment, and the nature and uses of that commitment, may warrant amendment.

City youth recreation programs were cut substantially during the Great Recession. The nature and scope of the programs the City offers—either as a standalone or in cooperation with other entities—has not been examined. In addition, the fees charged by the City cover only a limited portion of the costs. Other local cities recoup as much as 95% of the cost of their programs.

The following chart provides a schedule for each of these issues to be brought back to Council, with the lead staff person identified:

Regional/statewide agencies	Tom	August 5
Revenue options	Patty	August 19
City commitment to Museum	Tom	August 19
Fire models and affordability	Gaudenz	September 2
Short-term rental ordinance	Mark	September 16
Youth recreation programs	Daniel	September 16
Police models and affordability	Vicki	October 7
Long-term fiscal stability	Tom	October 21

## OPTIONS

1. Do nothing.
2. Provide alternative direction to staff.

## FISCAL IMPACT

None for this action alone.

**ATTACHMENTS**

None.

**RESPECTFULLY SUBMITTED,**

*THOMAS FRUTCHY*

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Thomas Frutchey  
City Manager