

# State of the City

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*Mayor Bill Kampe, Pacific Grove, February 27, 2018*

Good evening Ladies and Gentlemen. Thank you for joining me here this evening. I'm going to discuss the State of our City in three parts. First, I want to step back from current challenges, and remind us of some of the virtues of our city, including some recent improvements. It is easy to lose sight of why we live in this very privileged place, and it's important to refresh our memories.

Next, I'll discuss the top issues facing our city. To close, I'll talk about the challenge of shaping our future.

## A Great Place to Live and Visit

Let's start with some things that make the quality of life, and enjoyment of our city, so special.

### Our Coastline

Pacific Grove has the finest city coastline in the State of California. We have recently made it even better with the creation of new trails at Rocky Point, near the Great Tide Pool. There is a boardwalk from the road to an overlook point, allowing handicap access.

We completed critical repairs to the seawall just west of Lovers Point, where a storm washed out a section last year. We also completed repairs to "the Cave", that's the storage space at Lovers Point for Adventures by the Sea kayaks. The new framing will increase safety for those who enter the space and for those who are eating at the tables above it.

We've also added a part time maintenance worker focusing on the rec trail. We are working aggressively to restore the purple magic carpet.

### Around Town

We are a friendly town, and on the trail or on our streets, you encounter people smiling and pleased to be here, both residents and visitors.

Our citizens appreciate a sense of vitality in our city, signs of life, people on the streets, and interesting things to do. With many special events plus the activities sponsored by our Library and Museum there is always plenty to do. First Fridays have become a happening scene, with multiple music venues and shops and art galleries open. It helps that over the past couple of years, we have more people on the street.

### Keeping up the City

You have certainly noticed that several of our streets were torn up for projects last summer. Those projects included items on the sewer system maintenance plan. There was also the Lovers Point

Watershed project to upgrade piping and a trash separator to help protect our Bay. Over 10,000 feet of sewer and storm water piping were replaced with the help of \$4 million in grant funds.

Our Local Water Project has been a special effort at the site of the former sewage treatment plant near Point Pinos. The new facility collects waste water from the western part of our city and reclaims it. That water is now irrigating our golf course and cemetery.

The recently completed roundabout on Route 68 at Route 1 is not in our city, yet it affects those of us who come or go by that route. Despite anxieties, the roundabout is working very well. It makes driving through that intersection safer, quicker, and easier.

3.7 linear miles of street, out of our 55 linear miles, received crack and slurry seal. Public Works completed 600 work orders. And I hope you have noticed the more attractive and more effective trash and recycle receptacles downtown.

### Other Accomplishments

Several months ago, we updated our Historic Preservation Ordinance with two major changes, both consistent with state recommended best practices. We linked the determination of historic significance more strongly to our Historic Context Statement, a key document for preservation of our resources. We also shifted review of historic resource projects to the Historic Resources Committee.

We adopted an accessory dwelling unit ordinance. Our ordinance adapts new state law to the circumstances of Pacific Grove.

Pacific Grove has joined Monterey Bay Community Power, a collective of cities and counties for the purchase of renewable power for delivery to our residents. In the coming weeks, you will have the option to remain as a PG&E customer for electric power or will otherwise become a customer of MBCP.

For our city staff, we have filled several positions, including Tori Hannah as Administrative Services Director, Joyce Halabi as Public Works Project Manager, Scott Bauer as Library Director, and 9 police department employees. These key employees, and other new hires, add to the excellent city staff that is so central to keep our town in the condition that we desire.

Our police department has saved 2 lives in past year. One was a water rescue by Officer Gonzalez on his first day on the job. The second was an opioid overdose. All of our officers now carry Naloxone.

Our City Clerk's office filled 160 public record requests. The Community and Economic Development Department issued 624 building permits, 1100 planning permits, and 428 tree permits in the past year. PG now has several new software packages to improve timekeeping, pay record access, and contract management.

One of the fun activities in this past year has been hosting school groups for mock city council meetings. At a League of California Cities Conference, we were reminded of the importance of civic outreach and introducing our children to the process of government. I've hosted 9 groups this year – 4 second grade classes, 4 fifth grade classes, and a cub scout pack. Everyone gets to sit in the big seats, the mikes are on, and they conduct a city council meeting with an agenda and real topics that are current to the city.

At the 7<sup>th</sup> group, one of the young girls asked if girls can be councilmembers. Councilmember Cynthia Garfield joined me for the next two sessions, so we can say “yes”, and show it. The kids are fantastic. They absolutely get the sense of the issues, can find simple yet effective words to say their thoughts, and they follow the process and protocol very nicely. They love the experience. I need to mention that they bring new and relevant insights that we haven’t heard before.

## In Progress and Coming Soon

There several projects around town that are in progress, or soon to start.

The Holman Building looks vastly better than before with the new windows, aesthetic integration of the sides of the building with the front, and new paint. Occupancy is expected in September.

We have a Local Coastal Plan update in progress. This topic is very contentious for residents of the coastal zone. There’s a tug-of-war between the desire for more local discretion and the more restrictive approach of the Coastal Commission. We are working to fully understand what is required by law and what is Coastal Commission preference. One thing is clear – the history and current state of Pacific Grove zoning creates special challenges. Completion of this update is important. Without it, all coastal projects remain subject to the sole discretion of the Coastal Commission. That causes expense and delay, and further, applicants do not have the flexibility that they desire.

Work has started to create a brew pub at the old 17<sup>th</sup> Street Grill site – no more Blue Pigs, but now we will have a place for residents to gather with friends in the evening. WildFish Restaurant will replace Favalaro’s. Cork ‘n Bottle is adding educational wine tastings. At the former Latitudes site, we may have a new restaurant and perhaps a few shops, someday. Both the Goodies site and 301 Grand Avenue are in process for renovations.

We also will be starting projects at Lovers Point to improve the connection with downtown, a project for renovation of Fountain Avenue, and a project to improve both safety and aesthetics of Pine Avenue. About \$400K of Measure X funds will aid these projects.

Meanwhile, an enthusiastic Library team from the Friends, Foundation, and staff are looking to undertake a major project to correct deficiencies, to honor the Carnegie heritage, and to create a more suitable library for the future. The city has committed extra financial help. Everyday an average of about 500 people walk through the doors and check out 2 items each.

## Volunteers

As with the Library project, volunteers in organizations throughout the city contribute so much to our vitality. I especially thank the “hidden angels” who quietly pick up litter around our city and along the coast and do so much to keep it clean. Thank you to all. We are in process to hire a volunteer coordinator to support that army of volunteers.

My wife Cheryl and I still wake up each morning and think how wonderful it is to live in this amazing community. It continues to be this special place because so many people work so hard to make it this way.

## Current Topics

Now let's look at two of the main current topics before us – Short Term Rentals (STR's) and financial sustainability. They are linked.

### Short Term Rentals

Let's just dive right into Short Term Rentals. First, a little history. The program started in 2011. At that time the estimate was there were about 50 properties acting in effect as STR's, skirting our regulations, and paying no Transient Occupancy Tax (TOT). The sense at the time was that it would be very difficult to strictly enforce our ordinance, that we were missing out on much needed TOT revenue, and STR's actually provided a reasonable service for visitors. The expected revenue was \$200,000 per year, and the program quickly exceeded that.

The ordinance has been modified a few times, each with much discussion, for and against. A driving factor is the explosion of Airbnb and other websites for listing properties.

STR's continue as one of the most emotional issues for our city. During the past year, the Council has worked very hard to clean up some ragged aspects of our prior ordinance. We heard many hours of public comment on all sides. The changes in our new ordinance are substantial and affect new licenses. The key provisions of that ordinance are:

- A cap of 250 STRs city wide
- Only one type of license (no A and B types)
- Only a single STR per parcel
- No STR within a Zone of Exclusion of 55 feet of another STR.

We have also just passed a supplemental ordinance that will address residual issues of excessive density. It will be a onetime action. As originally envisioned, STR's would spread around our city so that no single neighborhood and its residents would feel a significant impact from multiple STRs. Today we have 289 licenses. Out of 475 defined blocks in our City, there are STR's on 175 blocks. Of those 175 blocks, 52 are overly dense based on the prior intent of a 15% maximum. The supplemental ordinance will address those overdense blocks by lottery, and establish a sunset date for selected STR licenses to expire on April 30, 2019. The lottery will be conducted in a way that is as consistent as possible with the current ordinance that controls new licenses.

Today, I feel we have taken the steps needed to correct defects in the prior ordinance, and have a basis for much more effective administration of the program going forward. The cap of 250 STR's is a modest footprint out of the 8000+ dwelling units in our city. I also note that the revenue from this program exceeds \$1M. These funds are important for our financial health today, and essential for our financial stability in the future. More on this topic next.

### Financial Sustainability

The big issue lurking behind the STR topic is the question of financial sustainability. That topic has several parts.

Our city has achieved an operating surplus in each of the past 10 years and reached a general fund balance of \$11 million dollars. Times are good. The economy has been strong and growing. It's easy to feel comfortable. I need to say that this is no time for comfort.

As a City, we can only work with the financial resources that you as voters allow. I'll describe some of the major factors that we face looking to the future. I hope you will agree that the vitality of our city is important, and you will support what is necessary to maintain it.

### The CalPERS Factor

Pension Costs are coming to the fore in cities throughout California. PG has been ahead of the times in recognizing this issue. In the next five years we will see our annual pension costs grow from \$4.4M to \$7.0M per year, an increase of \$2.6M. Pension costs will consume 20% of our general fund budget, and even more when we consider the pension costs for fire service embedded in the contract with Monterey. That's with the optimistic assumptions.

The League of California Cities has recognized pension costs as a top priority for the current year. Only a few years ago, most cities avoided the topic and were content to let CalPERS kick the can down the road. Today cities are very concerned and now actively lobbying CalPERS – to kick the can down the road. PG is most emphatically not part of that group.

Cities have little power to address this topic. We are taking, jointly with our employees, one of the modest recommended steps. Under the current labor contracts employees contribute an extra percentage of their wages to pension costs.

Still, the primary action needs to happen at the state level. PG is joining with an amicus brief, just filed, on a Cal Fire case before the California Supreme Court. The hope is that the Court will overturn the California Rule. The California Rule prohibits a city from reducing pension benefit accrual rates once they have been provided to an employee. If overturned, that action would create an opportunity for reform in future labor agreements. Still, the very large unfunded liability, rooted in past employment, doesn't go away easily.

We know that when we make lists of where we want to spend money in the City, pension costs don't make the list. Yet when it comes time to pay the bills, that expense is at the top of the pile; it cannot be avoided. All of us are frustrated with our pension costs. We still need to include that reality in our plans, or else other areas will suffer.

### Maintaining our City

For the longer term, five years and beyond, we need to consider our expense outlook including known ramp ups, such as pension costs, and the persistent shortfalls in maintenance of roads, buildings, coastline, and IT systems. While we find numerous bright spots in our town, they mask a broader burden of overdue maintenance. We estimate a shortfall of \$1.5M per year to properly maintain our city. Together with the pension cost rise, we need \$4M per year more than we have today.

We also need to remember that the long rise in the economy is likely to turn down eventually. The inevitable downturn reduces tourism, suppresses property tax and sales tax revenue, and increases

unfunded pension liabilities. Together, these effects can quickly extinguish budget surpluses and shift us into deficit.

## Revenue Needs

It is critical in our city to use our productive assets. That's why it's so good to see the Holman Building renovation after 30 years of decline. That's why we hope to see perhaps a hotel on the remaining portion of the Holman site and eventually a project at the American Tin Cannery.

We are also considering an increase in the Transient Occupancy Tax (TOT) for our city, from 10% to 12%. We are a very desirable destination for visitors, and it is reasonable to ask them to help pay for the upkeep of the attractions of our city. We have one of the lowest TOT's among coastal cities. Our neighbors in both Monterey and Carmel are also considering an increase in their TOT, by the same amount. Marina already collects 12% and is considering 14%. We have data from the Monterey County Convention and Visitors Bureau that assures us that an increase will not harm the competitiveness of our motels and inns. The TOT increase would add \$1M to our City revenue.

We've also launched a comprehensive fee study which will come to the council in April. The goal is to be sure we understand our costs when setting fees, and to understand market value when renting our treasured venues to organizations for special events.

## The Need to Retain Short Term Rentals

It is also critical that we retain our short-term rental program. The council has acted to correct the aspects that allowed excessive concentration. Today, we are shifting toward a more modest program, with reduced impacts in neighborhoods. The revenue is vital.

Why can Monterey and Carmel turn their backs so vigorously on STR's. It's very simple. Carmel has 4 times the general fund revenue per capita as PG; Monterey has twice the revenue per capita as PG. Part of that is the much larger number of hotel rooms in each of those cities. Per capita, Carmel has 6 times the hotel rooms as PG; Monterey has 2.5 times the number of rooms. Monterey also gains large revenue from parking fees. PG is clearly limited in our revenue sources, yet the burden of maintaining our city is similar.

For the coming year, even with the new STR ordinance constraints, we expect to receive about \$1M in revenue. You may hear a claim that traditional hotels in PG can recover the loss from an STR ban. That is simply not possible.

That's why we need to retain our STR program throughout our city.

## Other Factors

We have two possibilities for new hotels in PG. One is in process for the Holman site. The other possibility, dormant now, is at the American Tin Cannery. Either project could add hotel rooms and TOT revenues for the city. Each may face hurdles in the approval process. They can be important for our long-term future, yet they are unlikely to begin operations in the near term. Any revenue cannot yet be considered as a secure part of our financial plan.

## Ensuring our Future

Earlier in this talk, I mentioned and showed our Historic Context Statement. It is the cornerstone for preservation. Yet it is much more. It is also a story of evolution. It chronicles the development of our city, rising on the land of native tribes, and going through waves of expansion and change. It is very much a reminder that cities are dynamic organisms, not static fixtures.

We have seen the shift from summer encampments to year-round occupancy; from tents to basic wooden houses. We have seen newer homes emerge with double walls and insulation...and closets! Meanwhile the basic early homes have been retrofitted to suit the living standards of today and added ornamentation to express varied architectural styles and personalities.

Beyond the built infrastructure, we have seen changes such as the legal sales of alcohol in this dry town... that may never have been truly dry. Big box retail emerged and affected the retail in our city and what could survive here.

We now live in the age of Prop. 13 and Prop 218 plus a host of other laws that restrict how our city is run and how we finance services to our citizens.

The internet age took things a step further. I'll bet just about all of us in this room tonight have shopped on Amazon with deliveries at our door. And when people want to go to a door in another town, there are Expedia, Uber, and Airbnb for travel planning. These are disruptive changes.

It has never been a question of stopping the dynamic evolution of our city. Yet certainly we can shape it to retain as much of the past that serves us well, while adapting to the realities of our future.

To me, the guideposts to that future are – maintain the physical character of the city, maintain the services and upkeep that preserve the quality of life we are privileged to enjoy here, and ensure our financial viability, for without it, we fail on the first two guideposts.

I feel we are very fortunate in Pacific Grove to have a City Council that works hard to understand complex issues and to find ways to shape them for our future. We also have a public willing to research topics deeply and bring important insights and perspectives to our deliberations. Together with sound work by city staff, I feel optimistic that we can create the future we want, and deserve, for Pacific Grove and our citizens.

I'll stop now and go to questions.