



See pages 5-6 for  
specific amounts

## City Council Staff Report

Agenda Item:	I.3
Date:	July 21, 2020
Department:	Finance

**AGENDA TITLE:** Report On Long Term Needs And Fiscal Challenges To Providing Essential Services

**RECOMMENDATION:**

Receive public input and provide staff with input on the scope and any additional topics which should be added to a final report.

**BACKGROUND:**

Since adoption of the Strategic Priorities as part of the two year budget in June 2019 the City Council has engaged in numerous discussions that touched on various aspects of community needs.

Because these occurred at different meetings and forums and the discussions have modified the needs identification over time, staff believes that a compilation of key information into a single report is appropriate.

**DISCUSSION:**

The attached report was prepared by the Finance Director to capture a narrative explanation of the City's current financial foundation, a summary of priority needs and programs which cannot be considered for implementation in a meaningful way without additional resources, and a high level description of a phased funding approach if the City were to have new revenue sources.

This report was prepared based on the discussions by the City Council of a possible revenue measure. If the decision on the earlier item is to forego an election at this time, staff would suggest tabling this item in order to reconsider other options available and incorporate the information in this report.

**FISCAL IMPACT:**

The identified needs could exceed \$50 million over the next 20 years and are beyond the ability to fund from current revenue sources.

**ATTACHMENTS:**

A. Report On Long Term Needs / Fiscal Challenges (July 2020)

Respectfully Submitted by:  
Paul Rankin  
Finance Director

Prepared By: Paul Rankin, Finance Director

Approved by:

Steve Salomon  
Steve Salomon, City Manager 7/17/2020

### **Overview**

This report compiles information that has been previously presented to the City Council in a variety of reports and forums. The report also supports the Strategic Priorities Adopted in June 2019 by the City Council as part of the Biennial Fiscal Year (2019-2020) And Fiscal Year (2020-2021) Budget. The priorities supported in this report include the following excerpts from the Adopted Strategic Priorities:

- Update a Storm Drain Inventory and Estimated costs Replacement
- Prune and Remove plants creating high fire fuel on city owned property
- Update Emergency Operations Plan
- Provide Community education on emergency preparedness, gun safety, home security
- Evaluate revenue opportunities that would support fiscal stability

### **City of Orinda Fiscal Base – Incorporation 1985 - (Post Proposition 13)**

The City of Orinda was incorporated after the 1978 California Proposition 13, which was a voter initiative which restructured the way property taxes were levied throughout the State. The City was granted by the County a share of the existing tax rate as part of the voter approval of incorporating as a City. For each one dollar of property tax paid the City receives approximately 7.3 cents. This places the City in a category of No and Low Property Tax cities. For Cities established prior to Proposition 13, it is common for their share of the Property Tax to be higher and therefore they are capable of supporting more services.

### **Not Facing Vast Unfunded Liabilities**

Today, in addition to general economic pressures many cities and other government agencies are facing financial risk due to the need to fund long term multi-million dollar liabilities for pension and benefit plans. The City of Orinda does not face this overwhelming financial hurdle.

This is because the City has offered only a defined contribution pension plan as part of the employee benefits. This is similar to a private sector 401 type plan, which means the City does not have any unfunded pension obligations. In the last year the City Council took proactive steps to establish and fund a Trust for the relatively small retiree medical liability under its current benefit plan. These are examples of how the City Council through its policies and long term financial planning has tried to responsibly deliver services relying on the funding that is available.

### **Why Funds Are Needed**

The funding of any expansion of local services by cities throughout the State has grown increasingly reliant on the locally controlled special local tax measures. As noted earlier City access to discretionary fund is restricted by the fact that it receives a very small share of the property tax. Property Tax is 60% of the City General Fund revenue.

Even before the COVID-19 recession, the City had limited discretionary revenue to fund new programs, address critical infrastructure deficiencies, or do adequate emergency prevention such as fire fuel reduction. The City strives to maintain a balanced budget. The Final recommended Fiscal Year 2020-2021 Mid-Cycle Budget contained \$950,000 in operating budget reductions to achieve a balanced budget in FY 2020-2021. To achieve a balanced budget required: staffing reductions, reductions to contract service costs, as well as reductions to other services and supplies.

### **History of Identifying Needs & Working Together To Improve Community**

The history of Orinda as an incorporated City is relatively young with the first City Council meeting occurring July 1, 1985, only 35 years ago. The City has approached and addressed some of its fiscal challenges in a very straight forward manner.

Three times since 2001 the voters in Orinda have supported a Library parcel tax which allows the residents to have expanded access to Library materials, services, and programs. The voters of Orinda have also supported special taxes necessary to raise \$45 million in General Obligation Bonds which were used to rehabilitate public roads and streets. These bonds were approved in elections conducted in 2014 and 2016. All of the Library Parcel Tax measures and bonds required approval by 2/3 of the voters.

In November 2012 a measure requiring a majority voter approval was enacted that established a ½ cent local add-on sales tax (Transactions Use Tax). In preparing for the measure the City identified the need for funding the rehabilitation and maintenance of public roads and drains, along with an outline for long term financing of larger efforts, which included securing the bond funds described in the previous paragraph. The Transactions Use Tax Measure was approved by the voters and it has provided nearly \$8 million which has been budgeted by the City Council to maintain and rehabilitate public roadways.

### **Community Desired Programs and Services Where Current Funding is Insufficient**

The City Council has worked to create an open dialogue that could obtain input from across the community. This has included input at public meetings from community members, reports prepared by the volunteer Citizens Infrastructure Oversight Commission (CIOC), and community polling. At the present time there are several key needs identified that address critical protection and safety of the general public and properties throughout the City, including:

- Wildfire Fuel Reduction / Vegetation Management
- Disaster / Emergency Preparedness
- Improvements to Protect Against Drainage Pipe Failures, Road Collapse, and Flooding
- Continued maintenance of public roadways to protect investments made to repair and improve streets

### **No Quick Fix Available**

There is not an easy solution to making progress on addressing the high priority needs identified in the community. Providing resources towards the obligations mentioned above are

significant both in terms of the amount of funding required and in terms of the fact that they represent long-term on-going needs. As was mentioned earlier, the City has reduced its Fiscal Year 2020-2021 Budget in order to move forward based on its current estimated income. It was not an easy decision to make reductions in expenditures and it will impact what is available to the community especially in areas supported by user fees and charges. However, the City has a history of being fiscally conservative and attempting not to rely on deficit spending to provide basic on-going services.

### **Costs City Faces With Identified Programs**

As mentioned the overall costs faced are staggering, however, it is also appropriate to recognize that due to the critical nature of the identified priority needs, to remain paralyzed and provide no change in funding could jeopardize community safety. The estimates provided are very broad brush and are intended to represent an order of magnitude as opposed to a precise budget.

- **Wildfire Fuel Reduction**

This element has two components: 1) City owned properties and open space; and 2) Programs to support efforts to reduce the risk for Private Properties and homeowners.

The current City budget has allocated \$50,000 from the General Fund for fire fuel management and prevention on City property. This means the City must prioritize where the limited funds are spent. It is estimated that the City could require between **\$500,000 and \$750,000** to address the back-log on City properties and that this would occur **over 3-4 years** and **then needs a reduced effort** to maintain.

“Roadside Fuel Reduction” and “Creation of a Defensible Space,” have been identified by Moraga Orinda Fire District (**MOFD**) as key targets to reducing the potential for a major wildfire. Given the primarily residential nature of the community this involves properties throughout the community on both private and public roads. The District created a program which partners with property owners to shred and dispose of vegetation removed. There is public interest in seeing this effort expanded. The expected costs of addressing the initial back-log in the next few years could require between **\$1.0 to \$1.5 million** and then a continued source of funding to assist with on-going costs. There may also be smaller grant assisted pilot projects that would serve local residents in making small improvements that would provide home hardening another key objective of **MOFD**. Without, an additional source of funding these types of innovative programs would be difficult to initiate.

- **Emergency Planning**

The Police Department needs a full time civilian employee capable of assisting the City in planning, preparing for, and responding to a major disaster. In addition to assisting with coordination of City programs associated with Fire Fuel Reduction efforts, a

dedicated resource would coordinate and implement emergency response plans in coordination with other governmental agencies such as the County and State Office of Emergency Services, the Fire Department, as well as City Management. Additionally, a position could assist with outreach and educating the public regarding their role in maintaining a safe community. Ensuring the City is in compliance with all pre-disaster FEMA protocols is a component of being eligible for financial reimbursements. The cost of this program would be estimated to require \$730,000 over the next four years and on-going support.

- **Storm Drain Repairs – Protection Against Flooding and Road Collapse**

The CIOC has completed a long term assessment of needs in this area and identified nearly \$30 million in estimated costs (Road and Drainage Plan adopted by City Council 12/17/2019). Based on pipeline conditions, nearly \$10 million is needed in the next 3-5 years to address high priority at-risk public storm drain pipes. This amount of funds cannot be generated from the existing revenue base.

- **Public Roadway Maintenance and Cyclical Rehabilitation**

The City does have some funding sources that can support roadway maintenance such as the State Gas Tax. However, the CIOC has identified that these sources will continue to require supplementing in order to maintain a goal of 80 on the Pavement Condition Index (PCI). This index has a scale of a failed roadway is 0 and a brand new road is 100. The CIOC has also shared in their reporting the fiscal efficiency of investing in periodic maintenance and not letting the roads return a deteriorated condition. The Street Saver program projects the need to invest from all sources between \$2 million - \$3.6 million per year, with the next ten years being on the lower end of this scale and after 2030 the investment needing to be on the higher end of this scale.

Road and Drain Repairs Plan = \$60mm over 20 years

### Opportunity to Shift Priorities Over a Long Term Plan

As previously mentioned detailed budgets have not been developed for all of the high priority identified needs. However, City Staff have done some high level projections which suggest that if additional funds were available it would be possible to phase a detailed spending plan. The concept is that you could use a combination of: front loading larger expenses in the initial years towards wild fire fuel reduction and drain pipes and then reduce those expenditures and ramp up street maintenance. Because of the significant storm drain costs it may require inter-fund borrowing of up to \$1.5 million, which would be repaid from the new revenue. This scenario was tested assuming that there could be a new revenue source for a 20 year period that would generate approximately \$2.3 million per year. The assumption is that on-going needs for roadway pavement maintenance and fire fuel reduction on both public and private properties continue over the entire 20 years as well as the funding for emergency planning.

### **Local Oversight and Local Control**

Because of the critical nature of the identified underfunded needs, it is important that any new funding be locally controlled, subject to review, and reporting. The City Council has been discussing the potential for a Transactions Use Tax, which functions as a Local Add-On Sales Tax. As a general tax and not a special tax the revenue could be used for general city services including unmet needs such as those discussed in this report.

The City Council would annually conduct a public meeting to take public input, and approve expenditure plans as part of the City Budget. A citizen's advisory oversight committee would make recommendations and prepare an annual report and develop multi-year plans. Expenditures from the tax, would be tracked separately and included in the City's annual independent audit.

If a decision is made to forego seeking a Transactions Use Tax at this time or such an effort is unsuccessful there will need to be a concerted effort to identify alternative funding plans. The current Transactions Use Tax will expire as of April 1, 2023 and the needs for a range of City services are not going to disappear.