City Council Agenda

Special Meeting

Monday, August 8, 2011
7:00 PM

Bell Community Center
6250 Pine Avenue

Ali Saleh
Mayor

Danny Harber
Vice Mayor

Violeta Alvarez
Council Member

Ana Maria Quintana
Council Member

Nestor E. Valencia
Council Member

Welcome to the City Council Meeting

The Bell City Council and staff welcomes you. This is your City Government. Individual participation is a basic part of American Democracy and all Bell residents are encouraged to attend meetings of the City Council.

Regularly City Council meetings are held the second and fourth Wednesday of the month at 7:00 p.m., Bell Council Chambers, 6330 Pine Avenue. For more information, you may call City Hall during regular business hours 8:00 a.m. to 4:00 p.m., Monday through Friday at (323) 588-6211 Extension 217.

City Council Organization

There are five City Council members, one of whom serves as Mayor and is the presiding officer of the City Council. These are your elected representatives who act as a Board of Directors for the City of Bell. City Council members are like you, concerned residents of the community who provide guidance in the operation of your City.

Addressing the City Council

If you wish to speak to the City Council on any item which is listed or not listed on the City Council Agenda, please complete a *Request to Speak Card* available in the back of the City Council Chambers. Please submit the completed card to the City Clerk prior to the meeting.

The Mayor will call you to the microphone at the appropriate time if you have filled out a *Request to Speak Card.* At that time, please approach the podium, clearly state your name and address, and proceed to make your comments.

Compliance with Americans with Disabilities Act

The City of Bell, in complying with the Americans with Disabilities Act (ADA), request individuals who require special accommodation(s) to access, attend, and or participate in a City meeting due to disability. Please contact the City Clerk's Office, (323) 588-6211, Ext. 217, at least one business day prior to the scheduled meeting to insure that we may assist you.

Special Meeting of
Bell City Council

August 8, 2011
7:00 P.M

Bell Community Center
6250 Pine Avenue

I. Call to Order

1.01 Pledge of Allegiance to the Flag.

1.02 Roll call of City Council in their capacities as Councilmembers.

Ms. Alvarez _____
Ms. Quintana _____
Mr. Valencia _____
Mr. Harber _____
Mr. Saleh _____

II. Communications from the Public

During Communications from the Public, if you wish to address the City Council during this Special Meeting, under Government Code Section 54954.3(a), you may only address the City Council concerning any item that has been described in the Notice and Call for the Special Meeting.

Persons wishing to address the Council during "Communications from the Public" must submit a request on the "blue form" provided by the City Clerk; these requests may be submitted at any time before or during this time that is devoted to oral communications; provided, however, that requests must be submitted prior to the beginning of the first speaker's remarks.

Each person who addresses the Council must do so in an orderly manner and must not make personal, impertinent, slanderous or profane remarks to any member of the council, staff or general public. Any person who makes such remarks, or utters loud, threatening, personal or abusive language or who engages in any other disorderly conduct that disrupts, disturbs or otherwise impedes the orderly conduct of the Council meeting will, at the discretion of the presiding officer or a majority of the Council, be barred from further audience before the Council during that meeting.

III. Study Session – Budget Workshop

3.01 Staff presentation and discussion regarding 2011-2012 Fiscal Year Budget for the City of Bell and its related Authorities and Agencies. 1-8

Recommendation: Staff seeks direction from the City Council.

IV. Adjournment

Next Regular Meeting, Wednesday, August 10, 2011 at 7:00 P.M.

I, Rebecca Valdez, CMC, City Clerk of the City of Bell, certify that a true, accurate copy of the foregoing agenda was posted on August 5, 2011, Twenty-Four (24) hours prior to the meeting as required by law.

Rebecca Valdez, CMC
City Clerk

City of Bell
Agenda Report

DATE: August 8, 2011

TO: Mayor and Members of the City Council

FROM: Kenneth C. Hampian, Interim Chief Administrative Officer

SUBJECT: STUDY SESSION TO REVIEW PRELIMINARY RECOMMENDATIONS REGARDING BUDGET ADOPTION FOR FISCAL YEAR 2011-12

RECOMMENDATIONS

1. Receive a report from the City's Budget Consultant regarding the key issues outlined in the Proposed Fiscal Year (FY) 2011-12 Budget that was submitted to the City Council in late July; and

2. Consider the recommendations of the new Interim City Administrative Officer (CAO) regarding the Proposed 2011-12 Budget, which are:

   A. Do not adopt the Proposed Budget for FY 2011-12 presented to the Council on July 27, 2011 for several reasons as set forth in this report.

   B. Instead, direct staff to prepare a "Bridge Budget" for FY 2011-12 for consideration by the Council at its August 24, 2011 meeting that will make no major changes at this time, but that will allow for amendments during the Fiscal Year as appropriate.

   C. Affirm follow-up to include:

      - Bringing analytic resources to the City (pro bono, as much as possible) in order to properly evaluate the many issues set forth in this report, so that the Council may adopt its next Budget based on more reliable financial data and a better understanding of service impacts

      - Having these analytic resources review the City's bond and debt financing issues and, based on their review and recommendations, have the Council consider issuing a Request for Proposals (RFP) to engage the services of a financial advisor to assist in making recommendations to the Council and staff on these matters

      - Returning to the Council this Fall with recommended improvements to the budget process and format for the FY 2012-13 budget process that will result in a high level of citizen input and a document that more clearly communicates goals, priorities, costs and service impacts.

- Negotiating and consulting with employees as appropriate to reduce employee benefit costs, particularly retirement and post-retirement costs.

BACKGROUND

Typically, the budget process for a City begins months before the upcoming fiscal year. In many cities, the process starts with the city council convening a meeting to plan the process for the upcoming budget. A next meeting might be to take public input on community priorities and goals. After soliciting early public input as well as discussing their priorities, the councils may then provide direction to staff that guides the preparation of the proposed budget. Once prepared, the proposed budget is then released for public review and budget hearings. This typically occurs several weeks prior to the Council's formal consideration of the proposed budget for the upcoming fiscal year.

However, the situation in Bell is anything, but typical. The Council and staff have been working under extraordinary challenges and disadvantages. The Bell City Charter states:

> *"At least 35 days prior to the beginning of each fiscal year, the Chief Administrative Officer shall submit to the City Council the proposed budget and shall make copies of the budget available for inspection."*

With regard to the budget for FY 2011-12, the Budget Consultant was not engaged until June 28, 2011 – two days before the end of FY 2010-11. The Council did not receive the Proposed Budget until late July 2011 and, as such, declined to adopt it on July 27, 2011.

The obstacles to the Council adopting the proposed FY 2011-12 Budget, however, run even deeper than the matter of timeliness. As discussed later in this report, these include:

1. Lack of analytics to support staffing and service level recommendations
2. Lack of appropriate processes to modify salary and benefit levels
3. Complex and highly significant debt service and bond issues that need more study
4. Financial information that is not audited and as such, less reliable
5. Inadequate community input and early Council involvement

Based on these significant constraints, in lieu of adopting the Proposed Budget presented to the Council in late July, it is recommended that the Council prepare a "Bridge Budget" for the remainder of FY 2011-12. While such a budget may include some updated information, in general it will maintain current staffing and program levels.

DISCUSSION

While the Proposed Budget is not recommended for adoption, it is important to review its key recommendations in order to better understand the context for instead adopting a Bridge Budget.

Proposed Budget: Key Recommendations and Issues

Within every budget, there are potentially dozens of issues worthy of discussion. In order to help focus our discussion, staff would like to highlight three significant issues in the Proposed Budget:

1. ***Police and Other Staffing Recommendations.*** The Proposed Budget presented to the Council on July 27, 2011 contained several significant staffing changes. In the Police Department, while the position of Police Chief was recommended for funding, the three command level positions (2 captains and 1 lieutenant) were proposed to be eliminated and four (4) police officers were proposed to be added. The police officer positions were to be funded with State COPS funds. However, this grant is only $100,000 per year. With unspent funds from prior years, the four positions could be funded by COPS funds for a small portion of FY 2011-12 (e.g. the last quarter). However, funding all four positions in future fiscal years is not addressed. Therefore, going into FY 2012-13, the funding "gap" (the difference between COPS funds and total cost) would either become an additional General Fund cost or other positions would need to be eliminated to cover the cost. Staff is not aware of any studies analysis that sheds objective, analytic light on the appropriate level and "blend" of staffing in the Police Department in order to meet its service needs.

   The Proposed Budget presented to the City Council on July 27 also contained other staffing changes, such as deleting two Recreation Supervisors and adding an Accounting Manager (a currently vacant position being filled by IntelliBridge Partners), a Deputy City Engineer and a Director of Planning (a new position replacing the Director of General Services). It also contained a proposed salary for these positions as well as for the CAO and Police Chief. While the City clearly needs department heads and most likely other staff "holes" filled, long-term resource decisions of this kind should be decided based upon greater review. Recommended position cuts should also be better understood before taking action.

2. ***Bonded Indebtedness and Related Matters.*** The Proposed Budget identifies concerns with two bond issues; (1) $35 million General Obligation Series 2007 Bonds and (2) $35 million 2007 Taxable Lease Revenue Bonds. Although the bond issues were called-out as concerns in the Proposed Budget, the solutions to these issues – and potential costs – are unknown at this time. There may be other bond issues that also have problems that need to be analyzed in the coming months.

3. ***Retirement and Post-Retirement Costs.*** Bell is enrolled in two CalPERS retirement programs, the 2.7% at 55 program for non-safety employees and the 3% at 50 program for public safety employees. The Proposed Budget includes that all employees pay the employee portion of the CalPERS retirement benefit, which has thus far been paid by the City. For non-safety employees the employee share is 8% (about $209,000 per year) and the employer share is 21.289% (about $556,000 per year). For safety employees the employee share is 9% (about $235,000 per year) and the employer share is 26.028% for Tier I (about $455,000 per year) and 23.006% for Tier 2 (about $220,000 per year). Until recently, these benefits and levels of City investment were rather common among municipal governments. However, more recently, many cities have negotiated (or are negotiating) changes that require employees to pick up some or the entire employee share. Two-tiered systems are also

becoming common whereby new employees are hired using reduced retirement formulas. Bell already has two tiers: 3%@50 (Tier I) and the 3%@55 (Tier II).

What is not common – but what exists for non-safety employees is a supplemental retirement plan, fully paid by the City. During the three fiscal years ending June 30, 2009 the average annual payment by the City was $844,000. At June 30, 2009 the unfunded liability for the supplemental retirement plan was $2.0 million. The supplemental retirement plan was discussed at a City Council meeting in January 2011; however no action was evidently taken. Additionally employees are provided with health insurance coverage during retirement.

The three issues outlined above are all important and need to be addressed. Staffing levels, for example, are extremely thin in several areas of the City and need to be improved. Benefit levels are too high in some areas (and if reduced, that will improve our capacity to fill other positions too). Questions regarding the best allocation of police resources have also been in front of the City for some time. And, of course, the modification of public employee benefits is an endeavor underway throughout the state and even the nation. *So why not just adopt the Proposed Budget?*

Rationale for Not Adopting the Proposed Budget

As noted earlier, there are five main reasons why the new Interim CAO does not recommend adopting the Proposed Budget presented to the Council at its July 27, 2011 meeting.

1. ***Lack of Analytics to Support Staffing and Service Level Recommendations.*** Few things are more important to City services that having the right staff in the right places. After all, the vast majority of municipal services are delivered by people. The Proposed FY 2011-12 Budget is a blend of recommendations developed by the previous Interim CAO regarding staffing and service levels. It reflects the "nuts and bolts" revenue and expenditure estimates identified by the City's Budget Consultant in his review over the last month.

   Unfortunately, in the view of the new Interim CAO (and the Budget Consultant, too), there are few if any analytics underlying these recommendations. For example, there has been no analysis regarding the impact of reducing command positions in the Police Department in terms of administrative matters, supervision and decision-making. There is no information on call-load and the allocation of resources across the various police functions. And, of course, adding four police officers without a sustainable funding plan is questionable, at best – and is not recommended (however, staff will review alternative ways of using the $100,000 in COPS funds). With regard to adding other staff positions, they are most likely necessary. Again, however, there is no underlying analytics that explain why these positions might be more important than other positions or unmet service needs. In addition, there is no analytic information that the Budget Consultant or ICAO has found to better understand the impact of deleting the recreation positions (so this action is not recommended at this time, either).

2. ***Lack of Appropriate Analytics and Processes to Modify Salary and Benefit Levels.*** As stated earlier, modification of some salary levels and various benefit programs is necessary. However, for salaries, there does not appear to be any underlying analytics supporting the compensation recommendations that assure appropriateness both in terms of external market comparisons and internal organizational considerations. Clearly, the City needs more sustainable benefit programs. Therefore, it is understandable that the Proposed Budget

would include an assumption that employee's pay the employee portion of the retirement benefits (either 8-9%, depending upon the employee classification). However, the Proposed Budget also assumes these savings for a full-year, even though the budget wasn't issued until the year had already started. Regarding the Supplemental Program, during Fiscal Year 2010-2011 no payment was made by the City. The proposed budget contains $300,000 as an assumed City payment for 2011-12. Again, however, no clear legal or analytic basis for stopping payments or assuming lower payments is evident at this time. Legal research should be undertaken, understood and addressed.

3. ***Complex and Highly significant Debt Service and Bond Issues that Need More Study.*** The City has a number of bond issues that require periodic principal and interest payments. There is currently no analysis of these bond issues, including the City's ability to make scheduled payments. The Council should direct staff to review and present to it a comprehensive evaluation of the City's bonded debt obligations as well as an analysis of the cash flow necessary to repay them. As mentioned previously, analytic resources will be required to complete this review as well as to provide recommendations in the general area of budget and finance. Longer term, the City should issue an RFP for Financial Advisor services for the City, too.

4. ***Financial Information Is not Audited and As Such, Less Reliable.*** The City has not completed an audit of its financial "books" for the last two years. Without this information, it is difficult to have a complete understanding of the status of the City's various funds and balances. The Council recently retained the services of an auditing firm to complete audits of the last two years. As these audits are completed and more complete financial information is provided, the City will be in a much better position to understand the financial base of the City and, therefore, complete a more reliable budget.

5. ***Inadequate Community Input and Early Council Involvement.*** A budget should represent the collective goals and priorities of the community through its elected officials. As noted earlier, the Proposed Budget was not released until after the beginning of the fiscal year. The City could attempt to start all over and correctly involve the public (and gather the analytic information, too). But by the time this new process is completed, the City would be deep into the fiscal year – and eating into time that should be spent preparing for the 2012-13 budget in a way that allows Council and the public to lead the way, rather than having to scramble to catch up.

The Proposed "Bridge Budget"

However, the City needs an adopted budget and there are elements of the work completed by the Budget Consultant that can offer a reasonable budget to follow for the remainder of the FY 2011-12. Preparation of a "Bridge Budget" would get the City through the current fiscal year and also provide an opportunity for staff, led by the longer-term Interim CAO, to study the current organization, service levels, and needs in the upcoming months. It would also allow the longer-term Interim CAO the opportunity to return to the Council and public with a greatly revised and improved process for FY 2012-13, which would include early public and council involvement and direction. Improvements to the budget format can also be made so that the document better communicates goals, priorities, and projects. For example, at present there are no descriptions of capital improvement projects in the budget (just a gross budget number).

However, not all goals have to be deferred to the end of the fiscal year, such as modification to the employee benefit program. Amendments can still be made during the year, after proper analysis and consultation have been concluded. Other changes may also be made, including mid-year amendments as new, better, data emerges and as circumstances require. In order to adopt a "Bridge Budget" at the August 24, 2011 meeting, added information regarding basis for this budget is provided below.

Comparing Fiscal Years 2010-11 vs. FY 2011-12. FY 2010-11 experienced some significant one-time expenditures that are not expected to reoccur in FY 2011-12. For example, in FY 2010-11, the City refunded to taxpayers nearly $3.0 million in excess property taxes revenues collected in previous years. Additionally, the City incurred extremely high legal fees (estimated at $1.7 million). While the City will again have legal fees in FY 2011-12, it is expected to be at a much lower level than last year. The combination of these two significant expenditures were the primary cause of the deficit spending in FY 2010-11, which reduced the available reserves in the General Fund to a very low level of $1.1 million. This is not an ideal reserve level, but at least it is a reserve; and revenues and expenditures are projected to be in balance in FY 2011-12. For context, the Governmental Finance Officers Association of the United States and Canada recommends an available fund balance that is at least two months (16.7%) of operating revenues or expenditures. For the City of Bell's General Fund, this would mean a minimum available balance of at least $2.1 million.

Revenue and Expenditure Recommendations. Revenue estimates and expenditure recommendations are based on a number of factors. Some of the factors are:

1. Estimates provided by State and County for revenues they disburse to the City.
2. Salary costs based on current wage levels (except for the CAO position, the Bridge Budget would not recommend filling any vacant positions, deleting positions or adding any positions).
3. Debt Service costs as outlined in the City's 2009 Comprehensive Annual Financial Report, which shows the debt service costs for each fiscal year until the debt, including interest, is repaid.
4. Special known and identified needs/requirements such as the cost of the annual audit, which in FY 2011-12 will include the cost for the prior two years
5. Data from the County Assessor regarding changes in assessed valuation
6. Historical line item trends are used in some cases.

Regarding benefits, staff will include a suggested assumption relative to cost savings, based on a partial year of negotiated changes. More analysis needs to be given to this target number prior to August 24; and as noted above, even if it seems to be the "right" amount overall, the City's needs to meet and confer in good faith on these reductions and resolve other issues associated with modification to the Supplemental Plan. The savings that are actually achieved through our follow-up efforts can improve our budget situation during the year and the 2011-12 "Bridge Budget" can be amended accordingly.

Available Fund Balance (Reserve) Estimates

Because the audits for FY 2009-10 and FY 2010-2011 have not been completed, the starting basis for available fund balance is as of June 30, 2009 (the date of the last completed audits). The audited General Fund Balance as of June 30, 2009 was adjusted to an available fund balance – which represent those reserves that are available for spending, if needed, and/or to cover any deficits. The items that were removed to arrive at the available fund balance are the amounts owed to the City by the Bell Redevelopment Agency; and the receivable that represents a collectible for unlevied property taxes for debt service on the general obligation bonds.

After determining the available fund balance at the end of FY 2008-2009, the actual revenues (but not audited) for FY 2009-2010 are added and the actual expenditures (but not audited) are deducted. This then represents the available fund balance at June 30, 2010. The next step is to add the projected revenues for FY 2010-2011 and deduct the projected expenditures for FY 2010-2011 to arrive at the projected available fund balance at June 30, 2011. To this is added the estimated revenues for FY 2011-12 and deducted the budgeted expenditures for FY 2011-12, which results in a budgeted available General Fund balance of $1.1 million at June 30, 2012.

SUMMARY AND NEXT STEPS

If the Council is generally comfortable with the strategy set forth in this report, staff will complete the 2011-12 "Bridge Budget" and schedule a public hearing on August 24, 2011 for its adoption (with the document available for review at least one week before the meeting). The staff report for the Public Hearing will also formalize direction to staff to prepare for Council consideration in Fall 2011 a budget process and schedule for the FY 2012-13 Budget that allows the Council and community to lead the way, rather than having to scramble to catch up way too late. City staff should also be tasked with improving the budget format, so that the City's budget evolves improves over time from one that is almost entirely dedicated to presenting numbers to one that is much easier to understand from a community goal, priority and information standpoint – and that focuses on what the City does with the resources entrusted to it, and why.

Stated simply, the budget represents its most important statement of policy and vision that a city adopts each year. Its presentation, therefore, should tell the policy story in a way that is much easier to understand.

Last but not least, it is important that the City begin to bring greater analytics to its myriad of challenged areas. However, as we know, the City has limited fiscal capacity and cannot hire a level of staff or consultants that is likely to be needed to fully examine the many challenges facing it. As such, the current Interim CAO is working with the International City and County Managers Association and the League of California Cities to create a cadre of volunteer resources who can aid the City in the coming months. Areas for potential examination include:

- Budget, finance and debt management
- Human resources and personnel policies/practices
- Law enforcement
- Planning and code enforcement
- Project and contract management
- Organizational capacity and development
- Citizen communication and involvement

- Council role: meeting management, teambuilding, council-manager-staff relationships

Not all of these areas can be examined "over night", but we can certainly shed more light on several of these areas in order to aid the Council and community in its consideration of high priority goals and funding needs in the future.

Note Regarding Budget Availability: The Proposed Budget for Fiscal Year 2011-12 was distributed with the July 27, 2011 Council Meeting Agenda and is also available for viewing on-line (this budget is not being recommended for adoption). The recommended "Bridget Budget" will be prepared following Council concurrence and will be available for public review at least one week before the August 24, 2011 Council meeting.