



# STAFF REPORT—CITY COUNCIL MEETING

October 15, 2014

**TO:** Honorable Mayor and City Council Members

**FROM:** Janet M. Luzzi, Interim City Manager/Finance Director ✉jml

**DATE:** October 8, 2014

**SUBJECT:** Establish Budget Task Force to Review Status of General Fund Budget and Make Recommendations to Council on Budget Reductions to Assist in the Elimination of the Structural Deficit

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**RECOMMENDATION:** It is recommended that the Council: Establish Budget Task Force to review status of General Fund budget and make recommendations to Council on budget reductions in order to assist in the elimination of the structural deficit.

It is further recommended that the Council advertise the appointment of a Budget Task Force made up of seven (7) members as follows:

- 1 City Employee Appointed by Operating Engineers Local No. 3
- 1 City Employee Appointed by the Arcata Police Association
- 1 City Employee Appointed by the City's Management Employee team
- 4 Members Appointed by the City Council from qualified applicants

All Council appointed members must be residents of the City of Arcata. The City employee members shall be participating on their own personal time. The Finance Director will be the staff liaison and an employee from the City Manager's Office will act as the Secretary for the Task Force.

**INTRODUCTION:** During the budget review process for the 2014/15 budget, staff made a report to the City Council regarding the status of the City's financial position and noted that the City of Arcata is currently facing a structural deficit in the General Fund. Staff recommended the creation of a Budget Task Force to review all aspects of the General Fund budget and report findings and recommendations to the City Council.

**DISCUSSION:** For fiscal year 2014/15, the General Fund deficit is approximately \$39,000. However, without any significant changes this trend will continue. It is estimated that the deficit will grow to \$641,000 and \$720,000 for fiscal years 2015/16 and 2016/17, respectively. In addition, the City Council has adopted a reserve policy which requires the City strive to maintain a fund balance reserve of 20%. At June 30, 2014, the ending reserve balance was \$1,549,725, or 12.96%. This amount falls within the range of reserve levels from 8% to 17%, as recommended by various governmental standard setting bodies. However, in fiscal years 2015/16 and 2016/17, it is projected that these reserves will fall to 9% and 3%, respectively.

Since 2008, the following steps have been taken to reduce the City's General Fund deficit:

1. Increase taxes
  - a. Transactions and Use Tax (2008)
  - b. Excessive Residential Energy Use Tax (2012)
2. Disallocation of Maintenance Worker in Public Works
3. Modification and reduction of PERS retirement benefits

4. Increased employee contributions toward health insurance premiums
5. Delayed implementation of capital improvement projects and deferment of maintenance

The City of Arcata has established a Budget Task Force on several occasions in the past and it has been an effective tool to assist Council in prioritizing programs and services along with identifying opportunities for revenue enhancements.

Staff recommends that the Budget Task Force be comprised of seven (7) members as follows:

- 1 City Employee Appointed by Operating Engineers Local No. 3
- 1 City Employee Appointed by the Arcata Police Association
- 1 City Employee Appointed by the City’s Management Employees team
- 4 Members Appointed by the City Council from qualified applicants

All Council appointed members must be residents of the City of Arcata. The City employee members shall be participating on their own personal time. The Finance Director will be the staff liaison and an employee from the City Manager’s Office will act as the Secretary for the Task Force.

**BUDGET/FISCAL IMPACT:**

There is not budgetary or financial impact at this time.

**ATTACHMENTS:**

- A. 2014/15 General Fund Budget Task Force

**Exhibit A**  
**City of Arcata**  
**2014/15 General Fund Budget Task Force**

**Introduction**

The Arcata City Council has created the Budget Task Force to provide an analysis of the current financial condition of the City's General Fund, and identify and evaluate prospective courses of action that could be utilized by the City to help eliminate its structural deficit in the General Fund.

**Objective**

The objective of the Budget Task Force is to prepare a written report to the City Council of recommended courses of action that could be considered and utilized by the City to eliminate the structural deficit in the General Fund.

**Scope of Work**

- Obtain sufficient understanding of the City's operating and capital budgets;
- Review documents, reports, studies and other documentation to assist in learning City finances;
- Meet with staff from each Department to gain understanding about the amount of general funds appropriated annually and the programs and services provided using general funds;
- Request staff to bring back information regarding potential revenue enhancements and/or budgetary reductions that may be considered;
- Prepare a written report to the City Council which summarizes recommendations for various courses of action, as appropriate.

**Membership**

The 2014/15 General Fund Budget Task Force will be comprised of seven (7) members, as noted below. All Council appointed members must be residents of the City of Arcata. Four members will be required for a quorum.

- 1 City employee appointed by Operating Engineers Local No. 3
- 1 City employee appointed by the Arcata Police Association
- 1 City employee appointed by the City's Management Employee team
- 4 Members appointed by the City Council from qualified applicants

For those members to be appointed by the City Council, applications for membership will be available from November 1 to November 30, 2014. Interviews will be held between 5:00 and 6:00 December 3, 2014. Members of the Task Force will be appointed by Council at their regularly scheduled meeting of December 3, 2014. The City employee appointees should be willing to participate on their own time.

Non-voting members of the Budget Task Force will be the Finance Director who will act as staff liaison and a member from the City Manager's Office who will act as secretary.

**Meeting Schedule**

Once the members of the Task Force have been appointed, the Task Force will meet on regular intervals which will be formulated by the staff liaison and task force chair. Meetings will be held on Mondays in the Council Chambers, at 6:00 p.m. The first meeting will be held December 8, 2014.

Unless extended by the City Council, the Task Force will sunset on the day after delivering the written report to Council.

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