



Paradise, California
2014-15 Town Manager's Budget Message

Honorable Mayor and Town Council:

It is an honor and a privilege to submit the 2014-15 budget to the Town Council for consideration and approval. Council's directive was to submit a balanced budget with the foremost goal to live within our means, while providing a high level of professional services to our citizens. Also, it is of utmost importance to the Council that the budget process be clear, concise and transparent. A municipal budget can be daunting, but our Finance Director, Gina Will, does an outstanding job of presenting complex financial material in a format that is easy to grasp. During this past budget year monthly reports were given to Council at regular, open and live streamed council meetings, further defining our commitment to transparency. In the vein of true transparency, I also submit this budget to the citizens of Paradise, our partners in the community.

You may recall that the theme of last year's budget was "leading through tough times," and the Council was called upon to make tough, but prudent, decisions that actually helped the organization begin the process of economic recovery. Those decisions included asking employees for a 5% across-the-board salary decrease, reconstructing the Master Fee Schedule to ensure fair but realistic cost recovery, correcting inefficiencies in policies and programs to keep services high despite reduced staffing levels, and cutting critical items from the budget.

The bottom line

The bottom line is that the 2014-15 budget picture looks very similar to last year. However, the theme for this year's budget involves a critical juncture that we face as a community, calling for citizens to participate in the economic future of Paradise. Therefore, our new theme describes our heritage and our community spirit--"small but mighty." It is important to note that although the budget is balanced, the council and our citizens should be aware that we carry a \$450,000 structural deficit in critical, deferred items.

What is a budget deficit?

A deficit is simply a budget shortfall. A structural deficit means that although the bottom line appears balanced, there are deferred items that are purposefully left out or deferred in order for the budget to balance. Is that a bad thing? The short answer is no. Most businesses, organizations, and families defer items for a multitude of reasons. However, a municipality provides critical emergency services to its residents as we are in the business of preserving and protecting lives and property, therefore we cannot defer critical items for an extended length of time without jeopardizing the ability to provide services. Our current budget situation is still not healthy enough to support the expenses of a municipality of this size, but we also cannot afford to delay critical equipment purchases or fill vital public safety positions. The other area where

the Town is vulnerable lies in our most expensive, yet critical of assets—our streets. Deferred maintenance of street surfaces has the potential to erode this precious asset to irreparable levels. As we have witnessed by the recent work on a half-mile stretch of Pearson Road, complete road reconstruction is much more expensive than a sound pavement maintenance plan.

How did the Town get into such a financial bind?

To understand how and why we are in a financial bind requires going back several years and involves many factors beyond our control, e.g. the global economic crisis, the housing market crash, State money grabs, and insufficient sales tax revenues, which is inherent in a highly-populated bedroom community of our size. Paradise has one major revenue stream, which is property tax, as compared to most other cities that have a very diverse source of revenues. The housing crisis, that caused plunging property values and decimated the housing industry, hurt our local revenues more than most other communities. We did, however, react more quickly than most jurisdictions. Our previous management/council team made severe and swift cuts and adjustments that allowed us to survive. Our job now is to keep a steady eye on expenses and fearlessly continue to seek sufficient revenues to sustain our critical mission.

As the Town Manager, I would ask all citizens to join us in our efforts to build a firm financial foundation for the Town that will ultimately improve the quality of life for everyone in our community.

What does the Town Budget Provide for its Residents?

A budget is a year-long work plan, committing people and resources to fulfill a mission. For a municipality, the mission is a dynamic and challenging effort at best. It is important for a government agency that provides critical public safety and emergency medical services to adopt a budget that includes a prudent contingency fund to cover preparation, training and readiness for unforeseen emergencies. We were very lucky this past year to not experience heavy snowstorms or large wildland fires that would have exceeded our revenue capacity. Other than providing emergency services, the citizens of Paradise, receive the daily benefit of a small but dedicated and skilled group of employees that serve our community in the following areas:

- police protection, education and enforcement;
- fire protection, prevention, and medical assistance;
- building development and planning services required to bring about development projects that provide goods and services to the community;
- storm water, wastewater and septic onsite services;
- engineering services dedicated to leveraging local funds and bringing new money into the community to build and maintain our streets for the public's safety and welfare;
- a high level of public works/street maintenance services;
- animal control services for the safety and protection of domestic animals, rabies control, and animal shelter;
- coordination with Butte County Association of Governments to provide transit services within the Town and throughout the region.

- administration of a housing rehabilitation program that provides assistance to first-time home buyers through the Community Development Block Grant Program, while supporting local non-profit agencies,
- information, communication and direct citizen involvement to the democratic process.

In addition to the daily workload listed above, the staff is dedicated to working with the Council, other agencies, businesses and residents to continue to address the structural deficit; help the community recover from the effects of the recession; continue to look for and work with business/industry to promote economic development; seek ways to improve the aesthetics of our Town for the betterment of our community; and, most importantly, address the lack of wastewater infrastructure specifically in the downtown and commercial areas.

What is the Town's Fiscal Outlook for 2014-15?

The Town of Paradise is at a critical crossroads in its history. We must ask ourselves do we want to go forward, or do we want to continue to backslide into a dangerously underfunded budget situation? All citizens will be asked to evaluate their priorities for their community. This November, the citizens of Paradise will be given a chance to become true partners and invest in their community. The Town Council is providing the residents an opportunity to make a small but critical decision about the level of services they are willing to support. The voters will be asked whether or not to pass a temporary 1/2 % sales tax increase, which automatically expires in 6 years. A citizen's oversight committee will be established to oversee and monitor the use of the funds. The funds cannot be taken by the State or anyone else. *All revenues generated by a sales tax increase remain in our Town for general services with priority for our public safety services, streets, roads, animal control and other critical services that provide for a better quality of life.* It is important for citizens to be informed and to know what their decision means to their community.

The following is a summary of the revenues and expenditures by function. The information is presented in clear, concise language to give citizens an opportunity to understand our community financial outlook.

Fund 1010 – General Fund

The preliminary 2014/15 general fund budget is balanced, but as stated above, many critically purchases have been sacrificed to achieve this. A lease purchase option will be utilized to finance purchases of computers, a computer software upgrade and a couple other essential purchases that cannot be postponed any longer. The fund will start and end the fiscal year with an ending fund balance/reserve of about 17.7%. Overall revenues are budgeted to increase about 3% and expenditures about 5%.

Revenues

1. *Property Taxes and Motor Vehicle in Lieu*

After discussions with the County Assessor, a conservative 2.33% growth factor was applied to property tax and motor vehicle in lieu estimates for 2014/15. The Assessor received a historically low 0.454% CPI growth factor to apply to 72% of properties (Prop 13 properties).

Many of the remaining 28% of properties have experienced robust growth, some as high as 10 – 15% which thankfully allows the Town to estimate a more reasonable average growth factor.

2. ***Sales Tax***

As 2013/14 sales taxes are exceeding pre-recession limits, a more conservative 1.6% growth factor has been applied to 2014/15 sales tax estimates. While the Town is aware of a few business developments, the timing and eventual start of retail sales is too uncertain to further increase estimates.

3. ***Franchise Fees and Transient Occupancy Taxes (TOT)***

Franchise fees have been budgeted with a 2% growth. The same 2% growth expected for the current 2013/14 fiscal year. TOT declined about 7% in 2013/14. The decrease is partly because one hotel in Town continues to struggle to make timely quarterly payments. A 2% TOT decrease is estimated for the 2014/15 budget.

4. ***Department Service Fees***

Department service fees which makes up about 3% of the budget consists of fees for special services provided by departments as well as administrative citation receipts. These revenues are estimated to increase about 5% for 2014/15.

5. ***Transfers In***

A \$25,000 increase in the Pension Obligation Bond as well as an average 5% increase to central service allocated expenses (fleet, HR, IT, payroll and insurance) translates to increased transfers back into the General Fund of about 5% for 2014/15.

Expenditures

Administration

Town administration consisting of Town Council, Town Clerk, Town Manager, Human Resources, Finance, Legal, Information Technology and Fleet Management has been decreased to its bare minimum. Even with the added expenses of the 2014 election, it will use about 18.3% of the general fund resources when the historic average is about 18.4%. This budget includes a huge cut in expenses for administration.

Fire

The CAL FIRE personnel contract continues to provide savings to the Town for a comparably high level of service. For the second year, the Town is asking CAL FIRE to provide \$200,000 worth of savings over and above the contract amount. Some of the savings will be achieved because personnel are budgeted to be paid at the top level of their pay range while some of the newer employees are actually paid at a lower level of their pay range. As all positions of the personnel contract are now filled, some of the savings will have to be achieved through not back-filling

and staffing at lower levels at non fire critical times of year. For the 6th year no fire engines are budgeted to be replaced even though first out engines are 6, 12 and 13 years old and reserve engines are over 20 years old.

Police

The Police Department will continue to have 4 frozen officer positions, 2 frozen sergeant positions and 2 frozen dispatch positions. The department has some vacancies and a pending retirement that will create some savings in the first part of the budgeted fiscal year. It has been difficult for the Town to recruit and hire new officers as there is a high demand for qualified officers throughout California. At times Police Operations will use two person staffing during the day due to staffing shortages and to manage overtime costs. The tiering of benefits for new hires has provided some needed financial savings for the Town, but is making it more difficult to attract experienced officers. In addition to the personnel challenges, the department is sacrificing the purchase of new police vehicles (average age 9.7 years) and training.

Development Services

Nearly all development service employees have been eliminated from the general fund and have been shifted to special revenue funds that utilize their services. A careful analysis was completed of the revenues generated and the expenditures created by these divisions. A thoughtful shift in expenditures was completed in order to better match the revenues generated with the expenditures used. These divisions are budgeted to use 2.8% of general fund resources when the historic average is 4.5%.

Fund 2030 – Building Safety and Waste Management

The Town appears to have found a financially stable equilibrium between requested services and level of staffing. This coupled with a healthy growth in building projects in 2013/14 will leave the fund with an ending fund balance/reserve of about \$180,000. As conservative estimates are included for the 2014/15 budget, a small part of this fund balance is estimated to be used during the 2014/15 fiscal year. Management will continue to monitor this fund and the related activities to determine at which point additional staffing will be recommended.

Fund 2070 – Animal Control

The Animal Control Sustainability Team led by Councilman Rawlings met at length during 2013/14 to help stabilize and create a plan for future sustainability of the Animal Control Fund. Measure N which was originally meant to supplement the general fund contributions toward animal shelter activities and animal control functions, is not sufficient to fund complete operations. Because of its financial limitations, the Town has had to prioritize basic police and fire functions over animal control functions in the distribution of its limited resources. The Animal Control Fund has only been balanced through the use of animal control donations and will use about \$17,000 worth of donations in 2014/15 to balance. At this rate of use, all animal control donations will be used in about 3 years.

PASH is generously partnering with the Town to help sustain the services. PASH will contribute about \$11,000 to fund certain shelter expenditures during 2014/15. They will also provide support to staff in providing comfort to the animals and assisting customers of the shelter during 2014/15. In return, the Town has agreed to increase public shelter hours and will maintain a schedule of Tuesday – Saturday, 11:00 – 3:30.

It is hoped that these increased hours will also allow Town staff to proactively license more dogs in Town. Only an average of 1,000 dogs per year is licensed, when it is estimated that there are at least 4,200 dogs in Town. If an additional 2,000 dogs were licensed each year, the Town would collect about \$35,000 more in fees. This could help in sustainability and the Town's ultimate goal of hiring a supervisor for the shelter. The Sustainability Team will continue its discussions with the local veterinary offices to work out a system for more convenient and automatic licensing processes for citizens.

Fund 2120 – Gas Tax/Streets

The roughly \$1 million received through gas taxes for street and road maintenance, is a fraction of what is truly needed to appropriately maintain the over 100 miles of roads within Town limits. Current estimates indicate that the Town would need about \$24 million to bring the roads up to a maintainable level.

The fund was able to acquire a healthy fund balance/reserve recently when the then Town Engineer and Associate Engineer left the Town. State revised revenue estimates for 2013/14 will allow the fund's ending fund balance/reserve to increase by about \$9,000 to about \$400,000. \$150,000 of that reserve will be used during 2014/15 to leverage some grant monies and to complete more street maintenance projects. The current Town Engineer and Public Works Manager are partnering well to stretch these limited resources to their maximum.

Fund 5900 – Transit

Butte County Association of Governments estimates of apportionments for 2014/15 indicates that the Town will have to use about \$45,000 of its transit reserves in order to meet its obligation to B Line for the year. The 2013/14 fiscal year was conservatively budgeted with the use of reserves as well. The revised estimates for 2013/14 indicate that about \$50,000 will actually be added to reserves. As the use of reserves seems to be the ongoing trend for Paradise, BCAG is reviewing their formula of how appropriations can be most fairly split among the local Butte County jurisdictions so that no one agency is unduly burdened. Because of Paradise's particular demographics, Paradise has a larger than average demand for paratransit services which drives up the Town's contribution requirements.

It is important that the Town carefully monitor the use of these reserve funds. If the trend is real, the Town must have appropriate reserves to fund future B Line obligations. About \$400,000 of the reserve is budgeted to be used this 2014/15 year to leverage the Skyway Safety Project construction. Reserves are also used for vital cash flow purposes.

What does this 2014/15 operating budget mean to the Citizens and Businesses of the Town of Paradise?

Most of our citizens and business owners will not feel an immediate impact of the Town's financial limitations this next fiscal year, barring any major unforeseen expenses or excessive employee turnover. The Town's dedicated but dramatically reduced staff will continue to provide expected public services in the most timely, efficient and professional manner possible. I wish to commend all of our departments and staff for their tireless commitment to serve and protect all that reside in and visit the Town of Paradise. As described above, the 2014/15 budget moves the Town to a critical crossroad. Without passage of the ½% sales tax in November, the Town will be forced to consider which services may need to be reduced in order to purchase long deferred but mission specific equipment. I am hopeful that our citizens like our staff are ready to invest in the Town's future.