City of Loveland

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TO: City Council

FROM: Renee Wheeler, Assistant City Manager/Finance Director
THROUGH: Bill Cahill, City Manager

RE: Financial Sustainability Options Status

Several options have been identified in the Financial Sustainability Process to date that need to be discussed at the conceptual level with City Council for the purpose of determining whether additional research and refinement of the ideas are warranted.

Each of these ideas should be tested for alignment with the set of principles agreed upon at the February 22, 2011 study session.

1. Provide the highest quality of public service which is sustainable on a long-term basis.
2. Set reasonable expectations for delivering quality, customer-centered services in a fair, equitable, efficient and cost-effective manner.
3. Advance services and programs that promote safety, quality of life and business growth.
4. Balance the services to be delivered with the resources available, both in terms of people and money.
5. Promote a fiscally conservative approach to achieve financial sustainability, maintaining flexibility to respond to opportunities and challenges.
6. Maintain the City as an employer of choice, able to attract and retain high-quality employees.

Our challenge is to close the average annual $3.5 million gap between the projected revenues and expenditures in the financial master plan starting in 2012. The gap in 2012 is projected to be $3.1 million and if the $2.1 million of options are reasonable to City Council, $1 million remains to be identified.

Public input is continuing, but the direction to date from the City Council and the public suggests that it is appropriate to consider a combination of cost reduction and revenue increases. The options generated so far include both expenditure reductions and revenue enhancements.

- $271,000 – Employee generated operational efficiency options.
- $228,000 – Employee benefit and administration cost reductions.
- $259,000 – Changing the strategy for the management of the fleet to eliminate underutilized equipment and “pool” the use of remaining equipment. It would also generate savings through the elimination of future year replacement costs of $1.5 million.
- $370,000 – Sale of 118 units eliminated from the fleet.
- $320,000 – Minor fee increases in several departments.
- $652,000 – Payment In Lieu of Taxes increase of 1% on utility enterprise funds only.

Employee Savings Options

There were around 165 ideas submitted by employees. Through a variety of sorting tasks conducted by an employee task force, there were thirteen actionable options that are expected to generate $271,000. These options are related to reducing costs for the way the City currently conducts business. The suggestions are related to limiting take home vehicles, eliminating vehicle allowances, eliminating supplies, budget FICA taxes more specifically to account for pretax elections for medical and dependent care, finding corporate sponsors for public events like 4^{th} of July, charge fees for museum exhibits/shows, and publishing ordinances by title only (which would require an election). In 2006, a ballot measure to change the Charter to allow for publishing ordinances by title was defeated by a margin of 14%, 57% opposed to 43% in favor of the measure.

Employee Compensation and Benefits Review

The City's employee compensation and benefits were compared to market (both public and private) in an attempt to identify any components of the salaries and benefits provided that might be out of alignment. The total savings in this category of options is estimated to be $228,000 – 261,000.

Principle number 6 above is followed in evaluating employee compensation and benefits. In general, compensation changes are tested against general market trends. In sum, pay reductions are not recommended. However, there are minor areas of benefits which can be adjusted without the City suffering a disadvantage compared to the market.

The benefit review only revealed a couple of benefits that exceeded the market, (1) life insurance and (2) the management of sick leave hours. The City currently offers 2 times the annual salary for life insurance, where the market is reflecting a benefit of 1.5 times the annual salary. If the benefit is decreases to align with the market the difference in the premium would save the City $23,000. The City's sick leave accumulation and payout policies also differ from the general market and an adjustment may yield savings, particularly when aligned with potential changes in short-term and long-term disability coverage.

Finally the contract for the administration costs associated with the Employee Assistance Program was renegotiated resulting in a reduction of $11,000**.** The Employee Assistance Program is a confidential telephone assistance and referral service provided by The Hartford's Guidance Resources/ComPsych. Through this plan, employees have access to a number of health, wellness, legal resources and discounts 24 hours a day.

Fleet Management Strategy

The Vehicle Maintenance staff conducted a study of vehicle utilization to identify the bottom 10% of underutilized vehicles/equipment. Using utilization standards for municipal government fleets from both the National Association of Fleet Administrators and the American Public Works Association 118 vehicles or equipment were identified for elimination from the fleet. The outcome of the study suggests that the City can reduce costs of managing the operations and maintenance costs of the fleet by $259,000 and the future replacement costs of the fleet by $1.5 million. The 118 vehicles or equipment identified by the study would be sold for an estimated one time savings of $370,000 in 2012.

Minor Fee Increases

There are a variety of fee increases that have been submitted for consideration that would generate approximately $320,000. The risk associated with the estimates is that they would assume that the participation would not be impacted by the fee increases. The following is a brief listing of those that are being considered.

- $37,000 - Minor fees for services provided in Parks and Recreation (non-resident fees, changes to Senior Center fees and low income subsidies), Culture (Museum donation solicitation and Rialto rental fee increase), and facilities rental increase (for Pulliam, Library Gertrude Scott Room, Civic Center Plaza)
- $30,000 - Public Works Rights of Way Permit and Inspection fee increases.
- $10,000 and more – Development Services application fee increases phased in over a few years being sensitive to the balance between better cost recovery for services provided and the impact on development and building activity. Planning currently recovers about 8% of its costs from the user fees. Direction from the public input to date indicates that this should be significantly higher.
- $169,000 – Increase cost recovery for the street maintenance fee charged monthly on the utility bills from 50% to 60%
- $12,000 – Municipal violation ticket surcharge increase from $10 to $25
- $62,000 – A new $20 fee on sales tax license renewals. Most cities are already charging a renewal fee annually.

Payment in Lieu of Taxes (PILT)

All Enterprise Funds currently pay the General Fund a 6% PILT on gross revenues (with some consideration with specific revenue line item exclusions) in all but the Golf Enterprise Fund, which pays 3% of gross revenues. The recommendation is to increase the PILT by 1% to 7% in all utility enterprise funds, excluding Golf.

While this payment to the General Fund has been called a PILT, City Charter Section 13-2(c) provides that the City's utilities can be required by the Council to pay the General Fund "a reasonable return on the City's investment in utility properties and capital investments" and the equivalent of what the City would obtain "from a franchise fee or utility occupation tax" imposed on its utilities. Therefore, the use of the term PILT to describe the current 6% charge to the utilities more accurately should be called a franchise fee.

Charging an additional 1% to the Enterprise Funds, except the Golf Enterprise Fund, provides the City a reasonable return of its investment. *It is imperative to understand that even a 1% increase will likely be passed through directly to utility enterprise fund customers over future years.* It is possible that even with a rate increase, the revenue would be equitably generated by the community in a manner that may be more acceptable than a mill levy increase. Nearly all funds are considering a 2012 rate increase for various business reasons, (i.e., wholesale power rate increases), so it is likely that most funds will still see a 2012 rate increase. Collecting this return on investments from the utilities in addition to the current PILT or franchise fee would make Loveland the highest in the neighboring communities with the exception of the 8% PILT that Longmont charges its electric utility.

While the recommendation is to increase the fee by 1%, increasing the rate by 2% would generate $1,303,239. The increase would need to be considered at the household impact level. If the average residential bill is $47, then a 1% increase monthly would be 47 cents a month and a 2% increase would be 94 cents a month.

The Balance to Target

If these options are approved, there is still a $1 million balance remaining to achieve the targeted $3.5 million.

Because salaries and benefits are 73% of the General Fund operating budget and 66% of the total General Fund budget including transfers and capital, the $1 million balance will impact personnel costs in some way. There are basically three ways to address the balance absent of tax revenue enhancements that would require an election.

- Provide existing services cheaper – find a different way to provide services through contracting services.
- Reduce the cost per unit – provide all the same services but reduce the cost to provide them resulting in employee compensation reductions.
- Cut services provided – eliminate services resulting in layoffs.

Staff requests discussion and direction on these approaches and will return to City Council at the next study session on Financial Sustainability with refinement and additional items to close the remaining gap.