Robin Roberts

From: Robert Goldberg <rgoldberg@live.com>
Sent: Sunday, July 22, 2018 5:56 PM
To: Mike Varipapa; Sandra Massa-Lavitt; Schelly Sustarsic; Thomas Moore; Ellery A. Deaton; Robin Roberts; Vikki Beatley; Jill Ingram
Subject: Comments and Questions for Monday's Council Meeting
Attachments: 7.23.18.Questions 4.doc

Dear Council Members and Staff,

Please find attached my questions and comments.

Thank you in advance for your consideration,

Robert Goldberg

Questions & Comments for 7/23/18

Item B: Tax Increase

Based on my independent assessment (without the benefit of Monday night's "Financial Model" presentation), I agree with staff that a sales tax increase is necessary. However, in order to build public trust and support, I think the basis for the tax needs to be communicated to the public with the most accurate and clear information. For this reason, I object to the following statements:

Page 2, first paragraph: *"The City continues to lose approximately $2,700,000 in property tax revenue on an annual basis from the dissolution [of the RDA]."* This statement is misleading for several reasons. Firstly, this property tax money was not lost to City, per se, but rather the RDA, a separate legal organization. Secondly, the property tax loss to the successor of the RDA (the "Successor Agency") is not $2.7 million, but rather $1.4 million. The Successor Agency still receives about $1.3 million per year, and uses this money to pay the residual obligations of the RDA. Thirdly, the City's General Fund (GF) directly benefits from the "lost" $1.4 million in property taxes. Since the City is one of the beneficiary "taxing entities," our GF receives 15%+ of this $1.4 million, or over $200,000 a year. This is actually helping us balance our budget. The remaining $1.2 million in property tax funds go to the State, the County, and schools. If the RDA had not been dissolved, most of this $1.2 million would have been available to fund capital improvement projects in or near the Redevelopment Area. To the extent that GF reserves are now used for these projects, loss of this money has had a negative impact on our GF reserves. However, this consideration has no relevance to the development of our current structural deficit involving our GF operating budget. Again, dissolution of the RDA is a GF budget "positive."

Page 2, fourth paragraph: *"the [CalPERS] amortization period has been lowered from 30 years to 20 years [which has] resulted" in increases to the amount the City pays to CalPERS annually."* This change will not become effective until FY 21-22. Therefore, it has not resulted in any cost increases to the City. When it is implemented, it will not be applied retroactively to any existing unfunded liabilities accrued before that year, nor to any new liabilities attributable to already scheduled decreases in the expected annual rate of investment returns. Therefore, this factor will likely be a very small contributor to our CalPERS when it is initially applied in three years.

Page 3, fifth paragraph: *"The FY 2018-2019 Budget was adopted with a structural deficit of approximately $80,000."* However, the adopted budget shows General Fund operating expenditures to exceed operating revenue by $399,000. This is the most accurate figure to describe our structural deficit. Instead, staff discounted this structural deficit by the amount ($310,000) pledged to be covered by reserves previous designated for our swimming pool. Using reserves to pay for an operating expense does not eliminate an operating deficit, especially one serious enough to be considered "structural." In fact, unless bankruptcy is

declared and/or bills are not paid, operating or "structural" deficits are always covered by dipping into reserves. Whether these reserves were previously designated for a specific purpose (like the pool) vs. undesignated (such as will be used to cover the remaining $90,000 (not $80,000) is immaterial.

Page 3, fifth paragraph: *"The initial deficit was approximately $4 million."* I made a public record request to see this $4 million deficit draft budget since it was mentioned at the previous meeting as the underlying justification for a 1% tax increase. This request was refused by Ms. Beatley citing a legal exemption from disclosure for preliminary or draft information. While the Public Record Act may allow non-disclosure in this case, it does not prevent an agency from doing so. Without disclosure, how will the public know if this figure is accurate and whether it represents the "real" GF operating deficit? The figure implies that the proceeds from a tax increase will be applied to this $4 million deficit. If so, why isn't staff willing to show what their recommendations will be for expending this money if the tax increase is approved?

Resolution, second Whereas: *"every department has implemented significant budget cuts since 2008."* However, a quick comparison of FY 2018-2019 with FY 2008-09 shows at least three departments with higher budgets now compared to 10 years ago:

Fiscal Year	Police	Public Works	Community Development
2008-09	$ 7,959,200	$ 2,485,900	$ 831,300
2018-19	$ 9,619,900	$ 2,597,900	$ 921,800

Suggestion--- Drop the words "since 2008"

Resolution, fourth Whereas: *"Although OCTA has increased sales taxes in recent years, those funds are not allocated directly to the City."* This statement is inconsistent with our receipt of about $390,000 in M2 funds every year. Last year, $234,000 of this was used to balance the budget by paying for Sr. Transit, St. Lights, and PW overhead.

Resolution, Section 1: The ballot question does not include restoring the City's reserve funds as a stated purpose/use of the tax increase. This is inconsistent the third Whereas in the Resolution which addresses this need. Omitting what should be and is likely to be the single largest use of the tax money is not being honest with voters.

<u>Item P: Reserve Fund Policy</u>

The proposed policy calls for the establishment of a new Disaster/Hazard Mitigation Reserve equal to 10% of General Fund operating expenses or just over $3 million. At the same time, it makes no mention of our current reserve policy designation of $1,750,000 for "changes in economic conditions."

Is the current $1,750,000 designation being eliminated?

If so, will the net impact be to increase our designated reserves by about $1,250,000?

The policy calls for the Fiscal Policy Reserve to be equal to 3 months of operating expenses (25%) which is not a change from the current policy. However, the new policy also provides for this amount to be increased, not only for increases in annual operating expenses, but also the annual CPI. This is a new concept.

Please explain how this would be applied.

The $5 million Capital Improvement Reserve is new, but appears to replace the verbiage in the current policy that provides for the Council to assign fund balances for future capital projects.

Will the $4.8 million now assigned for the swimming pool form the core amount of this?

When this is spent on a pool, would the $5 million then come from the Unassigned General Fund Balance?