BENCHMARK ANALYSIS

Using Benchmarks to
Measure Performance and Assess
Fiscal Accountability

September 2012

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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

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EXECUTIVE SUMMARY

As discussed in the January 26, 2012 long range fiscal strategy report to the Council, when carefully prepared, benchmark analysis can be a powerful tool in assessing the fiscal performance of a local government agency. Where benchmark results show that a city compares favorably with others, then reasonable assurance can be provided that the city is managing its fiscal affairs effectively. Where this is not the case, then areas for improvement can be identified and changes made (or explanations provided as to why the existing situation is appropriate).

In short, "benchmarking" the City's costs, revenues and service outcomes with similar cities provides an effective way of assessing the City's fiscal accountability and serving as a management strategy in finding opportunities to improve organizational efficiencies. <u>Additionally, as the City prepares to ask its voters to approve new General Fund revenues in November 2012, benchmark analysis helps answer the question: is the City using the resources it already has wisely?</u>

There are a number of pitfalls in preparing this type of analysis, which are discussed in more detail in the next chapter. But the short story is that it is very difficult to make perfect comparisons between cities. There are over 480 cities in the State – and each of them has its own unique story to tell in terms of community needs and resources.

Nonetheless, difficult does not mean impossible. This report includes a detailed description of the methodology used in developing and evaluating these benchmarks. In summary, while perfect benchmarks are probably not possible, by selecting cities for comparison that share similar key characteristics with the City of Capitola, it is possible to make meaningful assessments.

BENCHMARKS IN FOUR AREAS

In assessing the City's fiscal performance, benchmarks were developed in four areas:

- How does the City compare financially with similar cities?
- How do the City's "service outcomes" compare with similar cities? (Service costs are one thing; value for cost – service outcomes – is another.)
- How have City workloads and staffing changed over time?
- And has the City adopted and implemented the use of "best practices" in wisely managing the public resources that have been entrusted to it?

QUICK REVIEW OF THE RESULTS

The following is a summary of the key findings of this report.

Financial

In virtually all areas of its operations, the City compares favorably with the benchmark cities. This includes:

- Lower than average operating costs.

- Lower than average staffing levels.

- Very low debt levels.

- One of the lowest ratios of support costs in administrative departments like Administration, City Attorney, City Clerk, Human Resources, Finance and Information Technology compared with operating costs for direct services like police, streets and park maintenance. (Only Laguna Beach, with a larger cost base and scope of services to spread these types of support costs, is lower.)

- The only city with "caps" on its retirement costs – and perhaps the only city in the State.

- One of the lowest actuarial costs for retiree health care benefits.

In short, the City consistently compares favorably with the benchmark cities, and in several cases, it is the "best in class." This is especially notable, as the City set the bar high in selecting benchmark cities that have reputations for being well-managed.

Service Outcomes

- The City is among the safest of the benchmark communities. There are a number of reasons for this, and we believe that the effectiveness of the Police Department is one of them.

- The City receives very high evaluations by residents on the services it provides. For example, in recent scientific public opinion research:

  92% of those surveyed rated the quality of life in Capitola as excellent or good. While there a number of factors that make Capitola a great place to live, work and play, the quality of City services is certainly one of them.

  About two-thirds of the City's residents think that the City is doing an excellent or good job overall in providing City services.

  And when asked about specific services like police protection, parks, beaches, traffic Law enforcement and recreation, most received "satisfactory" or higher ratings by 80% or more of the respondents. (In fact, except for affordable housing, all of the services surveyed were rated "satisfactory" by a majority of those responding.)

- An area of concern is the condition of the City's streets: its "pavement condition index" (PCI), which is an industry-standard measure of paving condition on a scale of 1 to 100, is among the lowest of benchmark cities. On the other hand, Capitola's PCI of 68 is similar to the statewide average (and much better than the overall PCI of 48 within Santa Cruz County). Moreover, it is up significantly from its PCI of 57 in 2006. This shows that with adequate resources, the City can continue to improve the condition of its streets.

Staffing and Workload Trends

- The City has fewer regular employees than it did fifteen years ago.
- And the number of sworn police positions is the same as it was fifteen years ago.

Best Practices

- The City has made extensive use of "best practices" in managing its fiscal affairs, including multi-year budgeting, long-term fiscal forecasts, integration of goal-setting into its budget process, use of generally accepted accounting principles and "clean" audits by independent certified public accountants, ongoing monitoring of financial condition and the use of comprehensive fiscal policies as the foundation for decision-making.

- The City has received statewide recognition for excellence in financial reporting.

- The City makes extensive use of the private sector in delivering City services, including partnerships and collaborations with non-profit organizations as well as other government agencies. In fact, these agreements with others account for over 20% of General Fund expenditures.

SUMMARY

For many cities, the seeds of deep financial troubles are not sown in the bad times. When these occur, most cities follow the First Rule of Holes: when you find yourself in one, stop digging. Rather, the roots of fiscal troubles more typically take place in the good times, where financial commitments are made that are not sustainable.

It is clear from the results of this analysis that Capitola made wise decisions in managing its resources in the good times, which have served it well in navigating its way through the tough times.

No city is immune to the performance of the economy – and Capitola is no exception to this. However, the City has done an outstanding job in managing its fiscal affairs in light of the worst recession since the Great Depression, coupled with its unique challenges in the aftermath of severe flooding in March 2011. Its ability to do so is not due to serendipity, but to thoughtful leadership in key areas over many years, that continues today:

- Clear foundation of articulated fiscal policies (and tradition of following them)
- Prudent reserves
- Conservative use of debt financing
- Clean audits and ongoing interim reporting to monitor fiscal results
- Use of "best practices"
- Effective retirement cost containment strategies
- Transparent governance

While challenges remain, the City can be proud of its sustained record of effective stewardship of the public resources that have been entrusted to it.

METHODOLOGY

As discussed in the Executive Summary, "benchmarking" has a number of pitfalls in making meaningful "apples-to-apples" comparisons with other cities. While simple per capita comparisons are tempting, the fact is that every city faces different challenges due to a wide variety of factors, including:

- Service level expectations
- Daytime versus resident service population
- Fiscal constraints
- Community demographics
- Scope of services provided (full service or contract city – or something in between?)
- And not least, geography

For example, per capita street maintenance costs in the City of South Lake Tahoe – which include snow removal – are likely to be much higher than a similar-sized city like Campbell in the Silicon Valley. Similarly, the City of San Luis Obispo has higher than average fire costs largely due to mountains, freeways and railroad tracks, which limit access in meeting minimum response times. Other communities with a similar population size but less challenging geography might be able to meet a similar standard with fewer stations – and thus lower costs.

MITIGATING THE PITFALLS

The reality is that in order to make meaningful comparisons with others, we need to develop a common denominator. And while imperfect, in the real world, "per capita" is probably the most practical common denominator for assessments. Accordingly, avoiding the pitfalls noted above and making meaningful per capita comparisons requires carefully selecting the benchmark cities to ensure they represent as close a match as possible, recognizing that a "perfect" match is not possible.

This means that along with selecting comparably sized cities, it is important to select cities that share other important service, economic, geographic and demographic characteristics as well. Additionally, to avoid a "race to the bottom," comparison cities should also be selected that have a reputation for being well-managed and leaders in the use of "best practices" (and should be avoided if their reputations are just the opposite).

After selecting comparison cities, it is also important to carefully select the benchmarks. Selected data points need to meet three key criteria:

- Measure something meaningful.
- Are reasonably available from all cities: the information can be reliably gathered through source documents, such as audited financial statements and budgets.
- Measure the same thing.

BENCHMARK CITIES

As discussed above, one of the most important steps in preparing the benchmark analysis is selecting the benchmark cities. The goal is to select benchmark cities in California that best match the following six criteria (recognizing that finding six to eight cities that meet all of these criteria is not possible):

- Population between 3,500 and 25,000
- Located in a coastal county
- Strong "sense of place/quality of life" community
- Tourism is an important part of economy
- Similar scope of services ("hybrid delivery:" provides police and parks & recreation but does not provide fire or enterprise services like water, sewer, transit, harbors or airports)
- Management/governance reputation

As outlined below, there were three key steps in selecting the benchmark cities:

- Identify cities between 3,500 and 25,000 population and screen for location and tourism
- Select "candidate cities" and screen for scope of services
- Identify finalists and select six to eight benchmark cities

Step 1: Population, Location and Tourism

Of the 481 cities in California, there are 178 cities with populations between 3,500 and 25,000. Of these, thirty-eight (including Capitola) are located in coastal counties with transient occupancy tax (TOT) revenues that are 4% or more of total "general revenues" (based on the State Controller's report on City finances for 2009-10). For context, the City of Capitola generated 7% of its general revenues from TOT in the State Controller's report.

Step 2: Scope of Services

The next step was to analyze the key services provided by each of these 38 cities. A matrix was prepared organizing key services into two main groups:

General Fund services. Police, fire, parks & recreation, library services

Enterprise operations. "Business-like" operations such as water, sewer, solid waste, parking, transit, airport, ports/harbors, electric, golf

As discussed above, an exact "service" match for Capitola would be cities that provide police and parks & recreation services, but do not provide fire or enterprise operations. However, none of the other 37 "candidate cities" is a perfect match for the scope of services provided by Capitola. This means applying judgment in selecting six to eight "best fit" cities.

METHODOLOGY

Step 3: Benchmark City Selection

On April 17, 2012, staff briefed the Finance Advisory Committee (FAC) on the benchmark analysis workscope and the key task of selecting comparison cities. Twenty "finalist" cities were identified based on the best overall fit in considering the selection criteria. A matrix was prepared that highlighted the key scope of service differences from Capitola and presented three high-level screens for "good government" and "best practices" among the candidate cities.

- Are their budgets and audits posted on their web sites?

- Have they received awards for excellence for their budgets and annual financial reports from either the California Society of Municipal Finance Officers (CSMFO) or the Government Finance Officers Association of the United States and Canada (GFOA)?

- What is their reputation for being well-managed and well-governed?

Top 20 Candidates		
City	County	Population
Calistoga	Napa	5,188
Carmel	Monterey	3,738
Carpinteria	Santa Barbara	13,104
Del Mar	San Diego	4,187
Half Moon Bay	San Mateo	11,415
Healdsburg	Sonoma	11,475
Laguna Beach	Orange	22,792
Larkspur	Marin	12,014
Malibu	Los Angeles	12,683
Marina	Monterey	19,808
Morro Bay	San Luis Obispo	10,329
Pacific Grove	Monterey	15,114
Pismo Beach	San Luis Obispo	7,708
Sausalito	Marin	7,116
Sepastopol	Sonoma	7,423
Scotts Valley	Santa Cruz	11,640
Solana Beach	San Diego	12,945
Sonoma	Sonoma	10,711
St. Helena	Napa	5,849
Tiburon	Marin	9,031

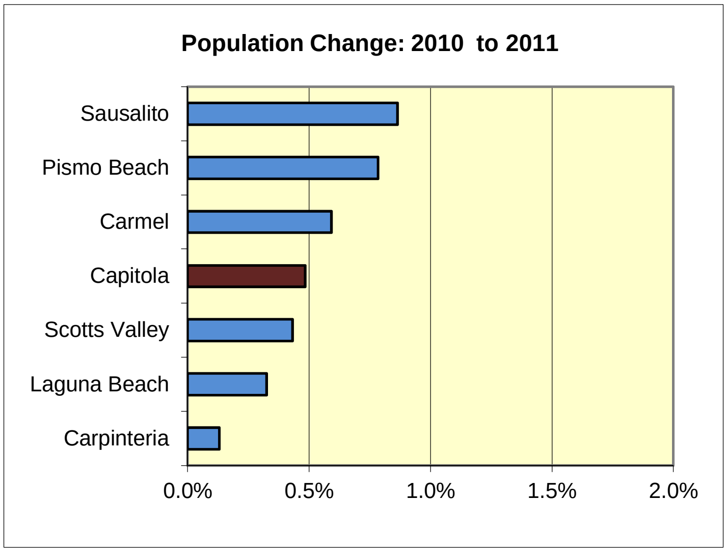
In considering the selection of six to eight benchmark cities, there are pros and cons associated with each of the twenty cities. With general parameters, the FAC directed staff to further evaluate the candidate cities and select six to eight cites that were the best match for the benchmark analysis.
Based on follow-up research and in considering all of the criteria, the following six cities were selected for the benchmark analysis as the best match with the City of Capitola:

- Carmel
- Carpinteria
- Laguna Beach
- Pismo Beach
- Sausalito
- Scotts Valley

With a population of 9,926, Capitola's population lies mid-way between these cities: three are larger (Carpinteria, Laguna Beach and Scotts Valley) and three are smaller (Carmel, Pismo Beach and Sausalito). And while coastal, they represent a cross section range of geographic locations as well: Monterey Bay peninsula (Carmel and Scotts Valley); northern California

(Sausalito); central coast (Carpinteria and Pismo Beach); and southern California (Laguna Beach).

One other similarity is worth noting: each of these are "slow growth" cities. As reflected in the side bar chart, the population for each of these benchmark cities – as well as the City of Capitola – grew by less than 1.0% between 2010 and 2011. Similar slow-growth trends were experienced by all of the cities over the past ten years. In fact, several of the cities experienced minor population losses.



As noted above, none of these cities is a perfect "service delivery" match with Capitola. Key differences include:

- Four of the cities – Carmel, Laguna Beach, Pismo Beach and Sausalito – directly provide Fire service.
- Two of the cities – Laguna Beach and Pismo Beach – provide water service.
- Four of the cities – Laguna Beach, Pismo Beach, Sausalito and Scotts Valley – provide sewer service.

However, all of them provide park and recreation services; and except for Carpinteria (which contracts for police services from Santa Barbara County), directly provide police services.

SUMMARY

As discussed above, "per capita" is not a perfect measure in assessing "service demand" due to the need to service day-time employees and tourists as well as residents. On the other hand, if the benchmark cities also share these characteristics, then "per capita" becomes a better (if still imperfect) benchmark.

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OVERVIEW

This chapter provides comparisons on key benchmark "measures" for revenues, costs, reserves, debt, staffing and compensation with the six benchmark cities. In understanding the results, the following describes how data was collected and key caveats about their use.

Data Sources and Collection

In preparing this report, published *audited* financial statements have been used wherever possible for revenue and cost data. (In those few instances where this is not the case, the source has been noted and reason for using it.) Audited financial statements for the fiscal year ending June 30, 2011 were used, which is the latest date that this information is available for all cities. Based on this, population data as of January 1, 2011 was used in making per capita comparisons. For regular authorized positions, published budget documents for 2011-12 were used.

In short, anyone with a web browser (and the time and inclination to do so) should be able to duplicate the results of this report. (In a few cases as described in the *Data Sources* chapter, some follow-up surveys may be needed.)

Caveat: Every City Budgets and Accounts for Service Costs Differently

Along with caveats on the pitfalls of using of "per capita" data in making perfect comparisons, another one is in order: every city everywhere budgets and accounts for service costs differently.

For example, some cities account for internal services like printing, fleet maintenance, insurance and information technology using "internal service funds," which charge user departments for their services. Other cities account for these types of costs in the General Fund and use an indirect cost allocation plan in distributing costs to other departments and funds. And some cities account for these in the General Fund but make no formal allocation of these costs at all.

And some cities account for services like paving, street lighting, landscape maintenance and storm drain maintenance solely in their General Fund; others in separate special revenue or enterprise funds; and often some combination of the three. Moreover, some cities account for their parking operations in the General Fund (like Capitola), while others account for these in separate parking funds.

Why does this matter? Those cities that use separate funds to account for services that others account for in their General Fund may appear to have lower General Fund costs than those who do not. Unfortunately, there is no good way to adjust for this. So, like the results of using per capita, we need to recognize the limits of benchmark studies: even in the best of circumstances, the results are not exact comparisons. Nonetheless, the results should provide a reasonable, order of magnitude feel for how one city compares with another.

Focus on "Governmental" Activities: Excludes Enterprise Operations

The services that cities provide can be divided into two major groups:

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1. ***Governmental Activities.*** These are the "traditional" functions of cities, and include services like police, planning, building inspections, street maintenance, recreation and park maintenance. All of the benchmark cities provide some combination of these core services, either in-house or via contract services.

2. ***Enterprise Activities.*** However, every city has a different story to tell when it comes to "business-like" enterprise operations like water, sewer, parking, airports, harbors and golf.

The number and type of enterprise services that a city provides can significantly affect its total costs and staffing. As such, for the best "apples to apples" comparison, this report focuses on costs and revenues for "governmental" activities and excludes enterprise operations.

Selecting the Benchmarks

The key factors considered in selecting the benchmarks included:

- They measured something meaningful.
- They were reasonably available from all (or most) of the benchmark cities.
- And they most likely measured the same thing.

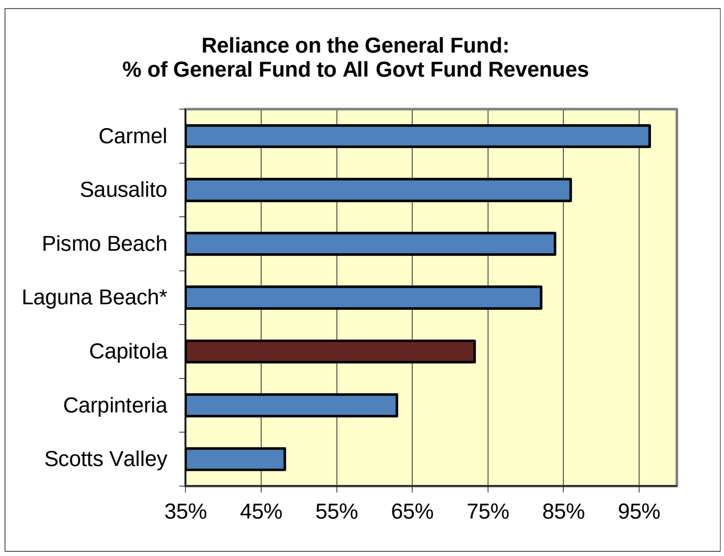
For this reason, many of the comparisons focus on citywide totals or police services: not only are these the most meaningful in terms of their impact on city finances, but they are the measures most likely to result in better comparisons.

RESOURCES

The following charts compare the City's revenue sources for "governmental" activities with the benchmark cities.

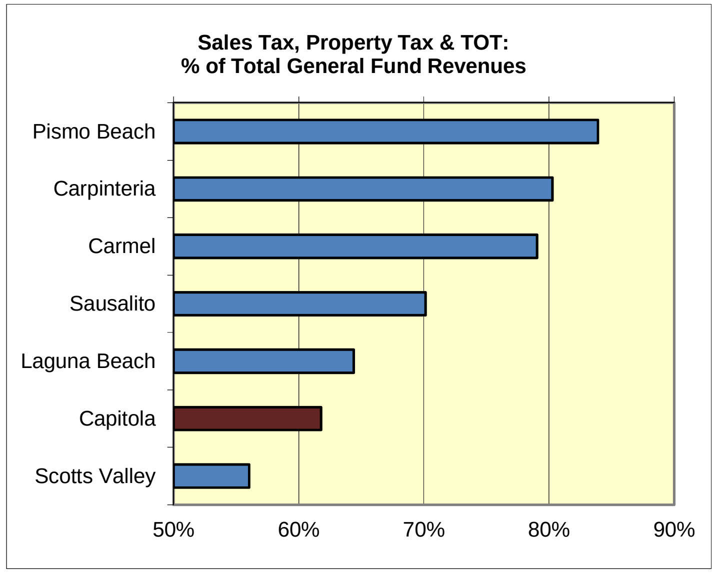
Table 1. This chart compares the City's reliance on the General Fund in financing "governmental" services through the "Governmental Funds" (General, Special Revenue, Capital Project and Debt Service Funds combined).

As noted in the overview, many cities finance services like landscape maintenance and street lighting using assessment districts, whereas the City pays for these services largely through its General Fund.



As reflected in this chart, the City's General Fund accounts for almost 75% of "governmental" funding sources, compared with just over 45% in Scotts Valley. Like most of the other cities, this means that strengthening the City's ability to provide services depends largely upon its ability to strengthen its General Fund, which is especially true since the dissolution of redevelopment agencies.

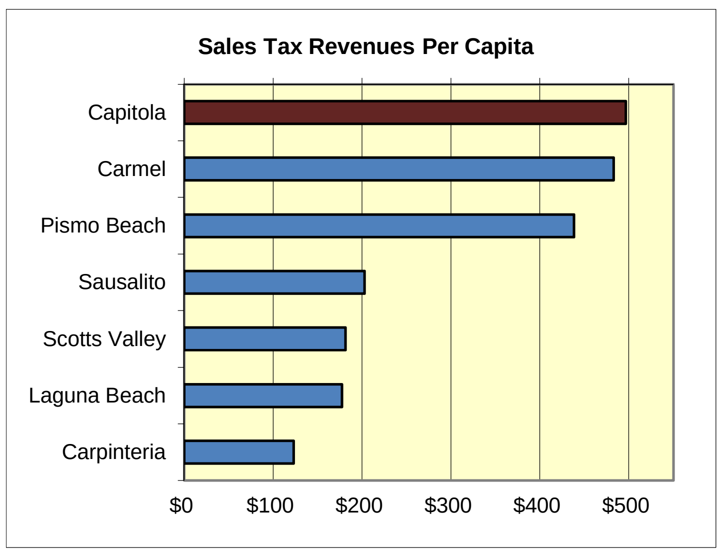
Table 2. Sales tax, property tax and transient occupancy tax (TOT) are the City's top three General Fund revenues, accounting for over 60% of total General Fund revenues.



These are also important revenues in the benchmark cities, accounting for 50% or more of total General Fund revenues in all cases (and about 80% or more for the cities of Pismo Beach, Carpinteria and Carmel).

The following three charts take a more detailed look at each of these three key revenue sources.

Table 3. Sales tax is the City's "number 1" revenue source, accounting for over 40% of total General Fund revenues. As shown in this chart, the City has the strongest sales tax revenues per capita of the benchmark cities.



Why are the City's sales tax revenues per capita so strong? There are a number of reasons, but the most significant is the City's strong regional position for new car sales compared with these other cities, along with large format retail (like Macy's and Kohls) and tourism-driven sales.

However, another key factor is that the City has an added ¼-cent local option sales tax (which also helps explain Pismo Beach's strong sales tax revenues, since it does not have a strong new car sales base – but it does have a ½-cent local option sales tax).

The following chart adjusts for this by comparing taxable retail sales per capita – the underlying basis for sales tax revenues regardless of the rate – for calendar year 2010 (which is the most recent year that this information is available from the State Board of Equalization).

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Table 4. After adjusting for differences in the local sales tax rate, Table 4 reinforces the City's strong sales tax base compared with the benchmark cities.

This means that a modest increase in the rate has significant revenue generation potential. It also means that an increase will have less impact on residents, since so much of this revenue source is generated by others from outside of the City who shop here.

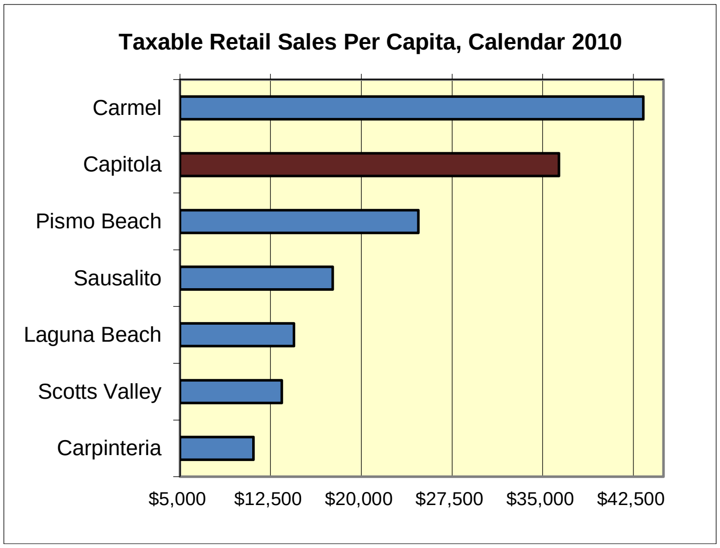
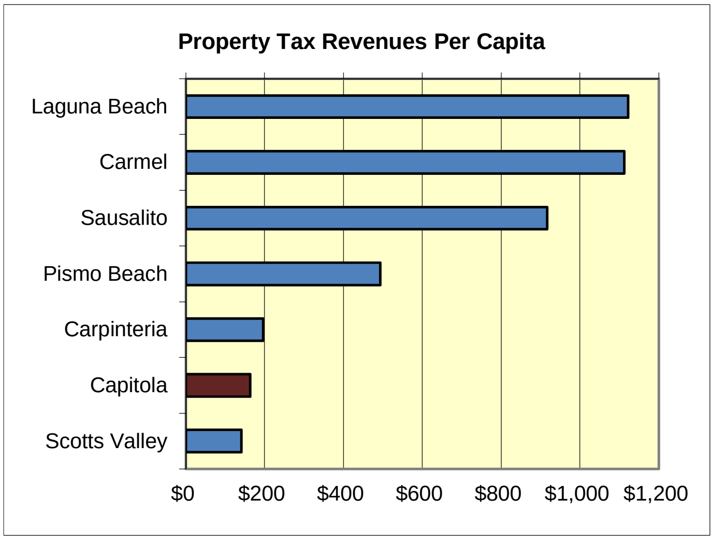
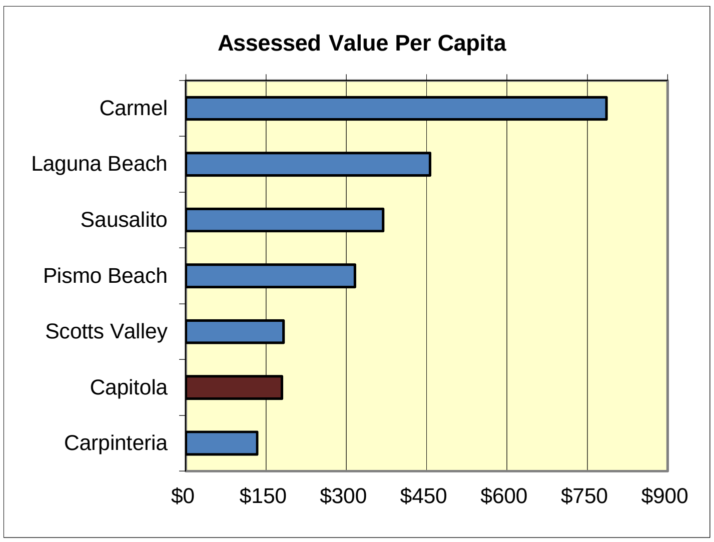


Table 5. On the other hand, while the City's sales tax revenues are strong compared with the benchmark cities, it has one of the lowest property tax revenues per capita.

Table 6. The distribution of the "1% levy" of property tax revenues under Proposition 13 plays a role in the magnitude of the differential in property tax revenues. Table 6 adjusts for this by focusing on the underlying revenue base: assessed value. Nonetheless, while the relative magnitude of the differences is less, the City still has one of the lowest property tax revenue bases of the benchmark cities.

It should be noted that under Proposition 13, adopted by the voters in 1978, the City does not have any control over the allocation of property tax revenues: this is determined by the State. And even if a community wanted to increase its general-purpose property taxes, this is not possible, since Proposition 13, prohibits increases in property tax rates – even if approved by local voters – except for bonded indebtedness.





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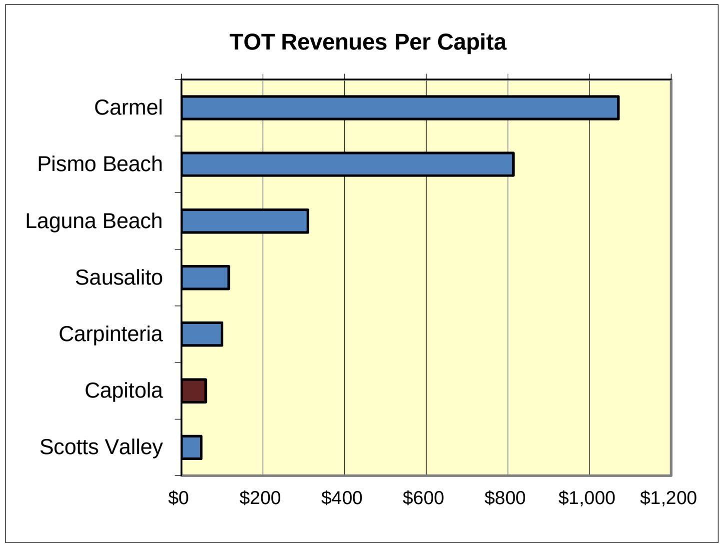


Table 7. This chart clearly shows those cities with strong destination tourism economies. Carmel, Pismo Beach and Laguna Beach have the highest TOT revenues per capita, while Scotts Valley and Capitola have the lowest.

The TOT rate is 10% in all of the cities except Sausalito, where the rate is 12%.

Given Capitola's obvious high rate of tourist visitation, and that all benchmark cities have a similar TOT rate, this table suggests Capitola is under-performing in TOT revenue. One likely explanation for this is the lack of supply in hotel rooms, potentially suggesting a future economic development opportunity. Given Capitola's desirable location and the success of the Fairfield Hotel that opened last year, this table demonstrates the strong market (and revenue) potential for new hotels in Capitola.

COSTS

The following charts compare the City's costs for all governmental services as well as for public safety with the benchmark cities.

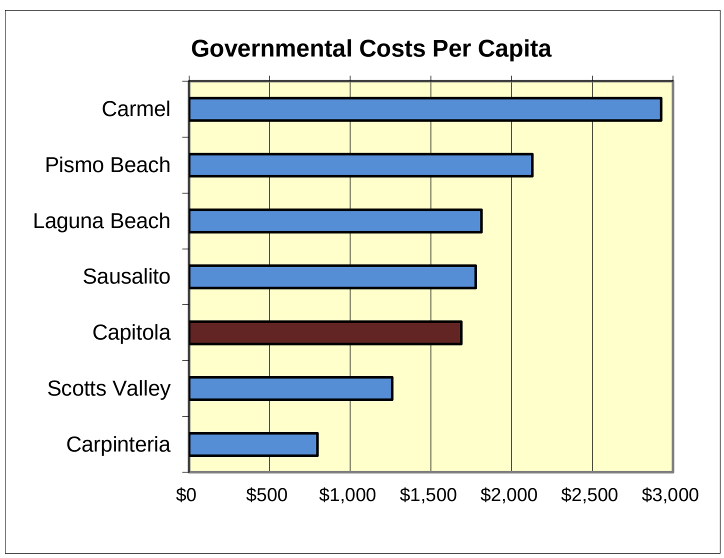
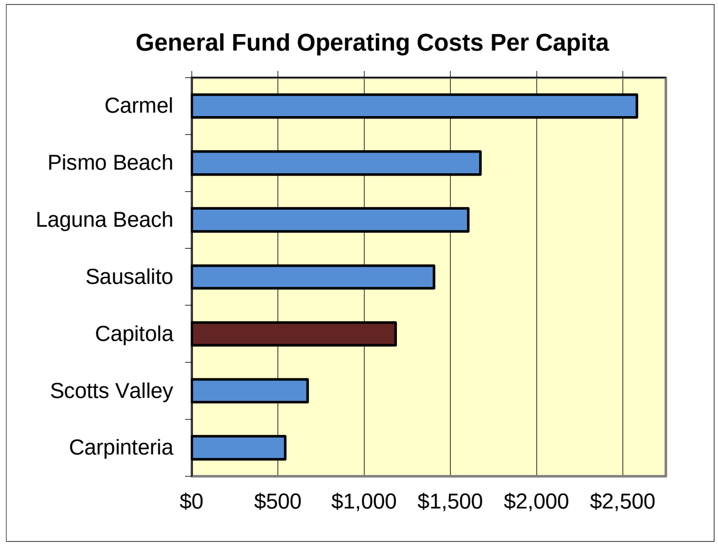


Table 8. Under generally accepted accounting principles, every city must prepare consolidated financial statements on a full accrual basis for all of their operations. These are organized into two distinct categories: governmental activities (police, streets and parks) and business-type (enterprise) activities.

While there are conceptual difficulties in using "governmental" activity" costs in making comparisons between cities, it is the nonetheless the best one available in taking a citywide look at costs (after factoring out enterprise operations). After excluding Fire costs for those cities that provide this service, this chart shows that only Scotts Valley and Carpinteria have lower per capita costs for governmental services.

Table 9. The General Fund is the most important fund in most cities, and this is the case for the benchmark cities and Capitola. As such, while not a perfect measure, it is the most commonly used one.

After excluding Fire costs for those cities that provide this service (as well as sewer service in Laguna Beach, which they accounts for this service in their General Fund), this chart shows that only Scotts Valley and Carpinteria have lower per capita General Fund costs.



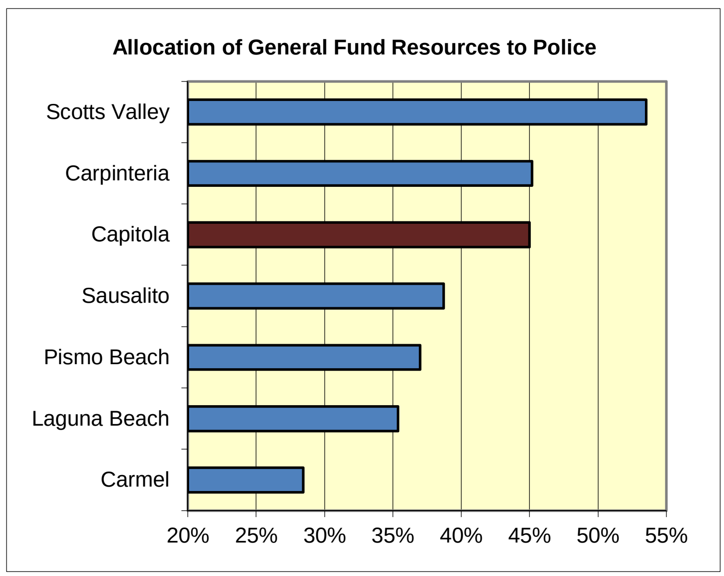
Allocation of General Fund Resources for Police Services

The following two charts show how Capitola and the benchmark cities allocate their General Fund resources to one of their highest priority services (and most significant in terms on their draw on General Fund revenues): police protection.

Table 10. Police service costs are the most significant use of General Fund revenues in the Capitola, accounting for 45% of costs.

While the percentages vary, costs for police services are among the most significant in the benchmark cities as well, ranging from about 30% in Carmel to almost 55% in Scotts Valley.

Only Scotts Valley and Carpinteria dedicate a higher portion of General Fund revenues to police services.



For comparability, fire costs for those cities that provide this service (as well as sewer service in Laguna Beach) have been excluded in making this comparison.

On one hand, these high allocations of resources to police services by all cities appropriately reflect its high priority. On the other hand, the more that a city allocates its general-purpose revenues to public safety, the less is available to support other high-priority services like street maintenance, traffic safety, storm drains, senior services, youth programs and park maintenance.

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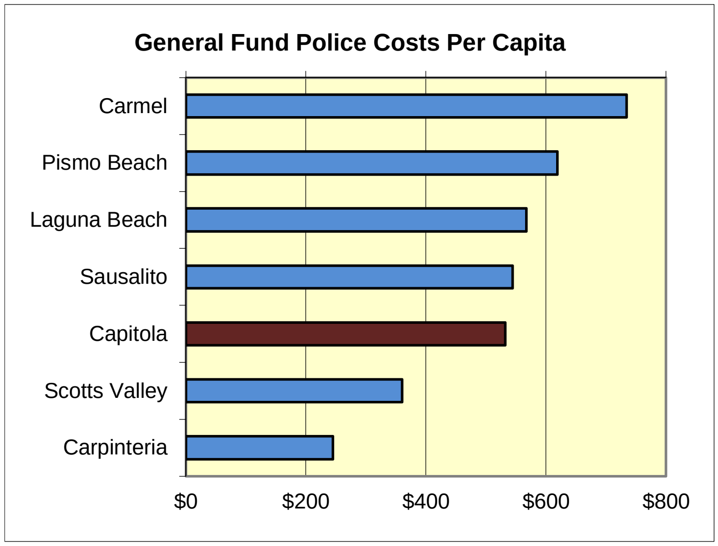
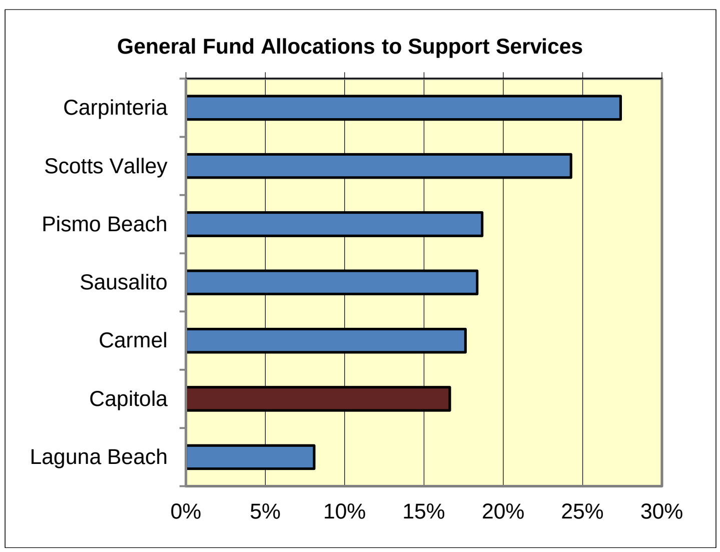
Table 11. While the City's allocation of General Fund revenues to police services is among the highest of the benchmark agencies, its police costs per capita are among the lowest: only Scotts Valley and Carpinteria have lower police costs per capita.



Allocation of General Fund Resources for Support Services

To ensure appropriate organization direction, oversight, productivity tools and stewardship of the community's assets, all organizations need to invest adequate resources to support functions like the city manager, city attorney, city clerk, human resources, finance and information technology. Under-funding these "organizational infrastructure" services can result in devastating consequences for any organization – public or private. On the other hand, the more efficiently that an organization can effectively provide these services, the more resources will be available for core services, like police, fire, streets and park maintenance.

Table 12. As shown in this chart, Capitola has one of the lowest ratios of General Fund costs for these functions services compared with the benchmark cities: only Laguna Beach's is lower.



Excludes extraordinary legal costs in Capitola associated with mobile home rent control litigation.

There are two reasons why Laguna Beach may have lower than average costs: it has the largest overall budget compared with the other cities; and the most extensive enterprise operations. These may allow it to shift some of its support service costs away from the General Fund.

However, most of these ratios are below 20%, which reflects favorably on the benchmark cities and reinforces the reputations they have for being well-managed.

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RESERVES AND DEBT

Along with revenue and cost comparisons, there are two other key financial benchmarks: the ratio of reserves to General Fund operating costs; and the ratio of debt service costs to revenues. The following two charts show these relationships.

Reserves

In comparing reserve levels between cities, it is important to recognize that “one size does not fit all.” In short, other than having a reserve at all, there is no “right” level: it depends on the circumstances in each city.

First, reserves (defined here as spendable, unrestricted fund balance) – whether large or small – do not *per se* reflect on a city's financial capacity or underlying fiscal strength. There are much better indicators than fund balance for this, most notably the ability over time for ongoing revenues to adequately meet day-to-day service needs, capital improvements and debt service requirements.

Then what does retaining a prudent level of fund balance reflect? It measures a city’s ability to manage risk. How much can things adversely turn-out differently than “usual,” and how much fiscal capacity (measured in time) does the organization think is prudent in developing and implementing plans to respond to unexpected circumstances?

Based on this, the first step in assessing an appropriate reserve level is to assess fiscal risks, which fall into six categories:

1. ***Economic.*** How dependent are the city’s key revenues on local economic performance? And how dependent are they on the fortunes of a few key taxpayers, or are revenue sources broadly distributed? In short, are all of the city’s revenue “eggs in one basket?” And if so, how large and strong is the basket?

   For example, property taxes are usually viewed as stable, dependable revenue sources (although this has not been the case in the aftermath of the worst recession since the Great Depression). As such, if this is a large part of a city’s revenue base (as it is in most states other than California), then its fiscal risks are lower, and its reserve levels can be lower. However, sales tax is the most important revenue source for most California cities, including Capitola and most of the benchmark cities, and it can be highly volatile. So, where sales tax is a key revenue source, this argues for higher reserves.

   And within any one revenue source, cities also need to assess their vulnerability (the “eggs” thing). For example, if one or two key property owners account for a large part of property tax revenues, then any adverse circumstances for them will adversely affect the city. How likely is this to happen? And what’s the consequence if it does? The same is true for sales taxes: already a variable revenue source, it is even worse if one or two outlets (like a single car dealership or major retailer) account for a large part of a city’s sales tax revenues.

2. ***Cash Flow.*** What cash resources does a city need in balancing when it receives key revenues, and when it incurs expenses? Again, this requires a city-by-city review of their own unique circumstances in evaluating "lumpy" receipts and disbursements. In short, every city has a different cash flow story to tell.

3. ***Expenditure Flexibility.*** How much of a city's costs are relatively "fixed" or ongoing, like debt service and regular staffing; versus more flexible costs, like capital projects or other "one-time" costs? The more "flexible" a city's costs, the more flexibility it will have in not disrupting day-to-day services in responding to adverse circumstances while it figures out a longer-term strategy.

4. ***Natural Disasters***. What is the likelihood (and frequency) of disasters like floods, fires or earthquakes in increasing response and recovery costs, or reducing revenues?

5. ***Stability of State-Local Government Relationships.*** How likely is it that the state will structurally change revenue sources, such as no longer providing a key subvention that it routinely provided cities in the past? Or no longer allowing cities to set a key fee or a tax that they have relied upon for many years? Or assessing cities fees for services that the State has traditionally provided at no cost? Or most recently, dissolving critically important redevelopment agencies? Over the past twenty years, State budget grabs have consistently been the largest single fiscal threat to cities in California.

6. ***General Contingencies.*** What is the likelihood of a major, unanticipated cost?

In summary, reserves act as an insurance policy, a risk management tool:

- How much risk is the city exposed to?

- And how much risk is it willing to take in the event that adverse circumstances emerge?

When adverse circumstances do arise, appropriate reserves provide cities with the ability to:

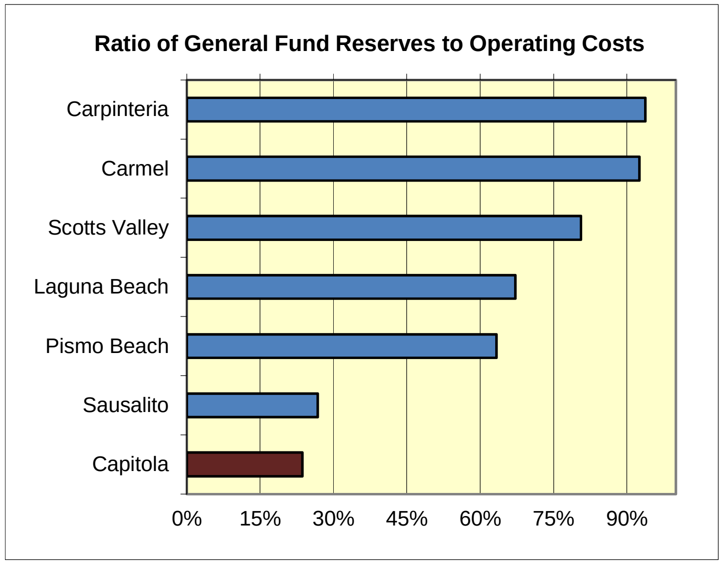
- Absorb "one-time" problems without disrupting day-to-day operations and services.

- Or if the problems are more systemic and ongoing, then it provides them with the fiscal capacity to take the time needed to fully identify how big the problem is, and then develop and implement a thoughtful longer-term strategy tailored to the problem.

The City has deeper practical experience with this than many other cities: given the serious flood damage in March 2011, the City was well-served by having available reserves in responding to a major, unforeseen event.

❶ FINANCIAL BENCHMARKS

Table 13. As reflected in this chart, at June 30, 2001, the City of Capitola had the lowest ratio of General Fund reserves (defined as spendable, unrestricted General Fund balance as reported in audited financial statements: in Capitola, this includes reserves and balances in the internal service funds) to operating costs compared with the benchmark cities. Ratios ranged from 24% in Capitola to over 90% in Carpinteria and Carmel, with an average reserve level of about 70%.



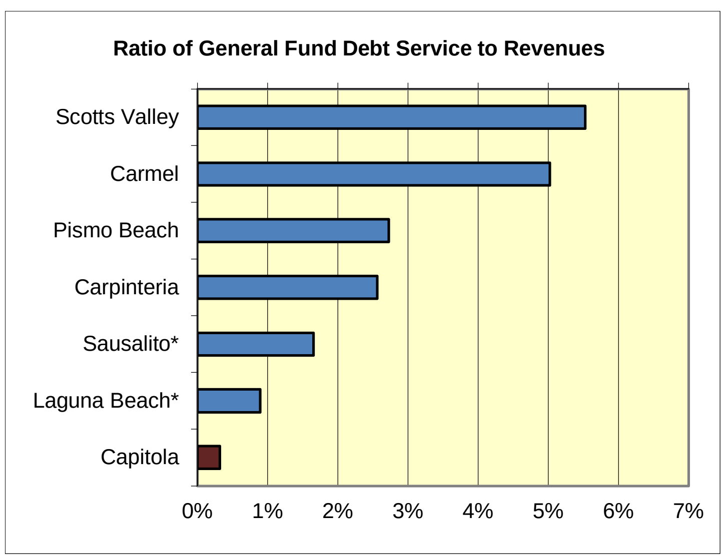
On one hand, the City's fund balance position at June 30, 2011 reflects its appropriate use of reserves in responding to the disastrous flood damage in Spring 2011. On the other hand, it also reflects the need to begin restoring reserves, especially compared with reserve levels in the benchmark cities.

Debt Service Costs

Much like personal finances, there is an appropriate role for the use of debt financing in funding long-term investments. For example, 30-year mortgages are certainly appropriate in purchasing a home; and likewise, issuance of a 30-year bond for tangible, long-lived assets like a City Hall or Police Station is also appropriate. However, just as long-term financing to purchase groceries is inappropriate for a family, taking on debt to pay for day-to-day delivery of services is also inappropriate for a city. Since debt capacity is limited, its use should be limited to the most important, highest priority needs. In short, debt obligations incurred today will constrain resources for other needs tomorrow, so it is critically important that cities get this balance right.

Table 14. As reflected in this chart, the City has the <u>lowest</u> ratio of General Fund debt service to revenues compare with the benchmark cities (just 0.3% for a street sweeper lease-purchase agreement, which was fully paid-off in 2011-12).

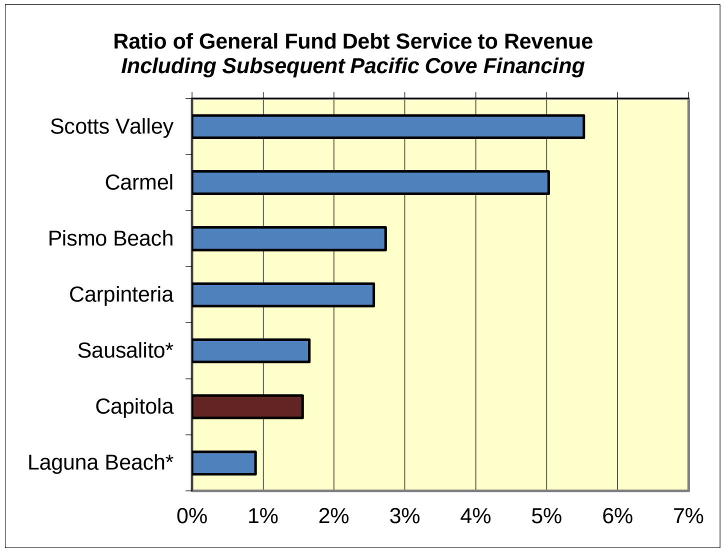
It is important to note that by national standards, all of these cities have favorable ratios in this area (all are under 6%), again reinforcing the reputations that these benchmark cities have for being very well-managed.



** Excludes voter approved general obligation bonded indebtedness funded by special ad valorum property taxes and pension obligation bonds.*

➊ FINANCIAL BENCHMARKS

Table 15. On the other hand, the City recently incurred debt service costs in funding the Pacific Cove mobile home park relocation. This chart shows that the City still compares very favorably even if this subsequently added debt service cost ($181,000 in 2012-13) is included in the comparison.

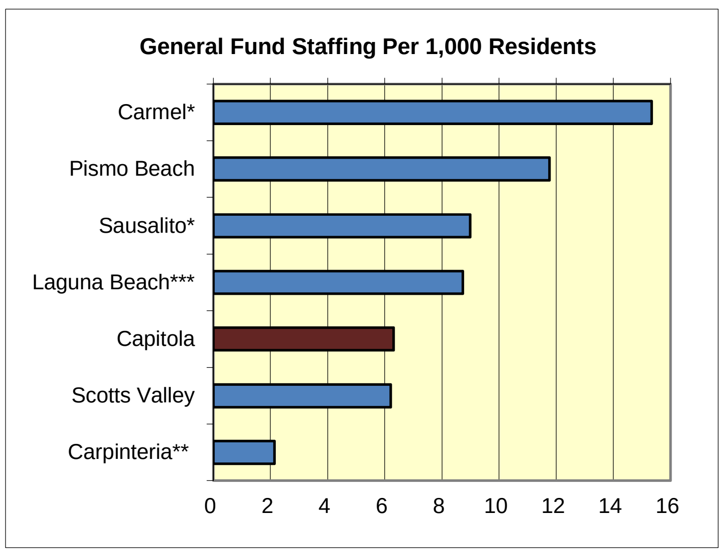


REGULAR STAFFING

Staffing costs account for a large portion of operating costs in every city (about 65% of General Fund operating costs in Capitola) and regular staffing levels drive these costs. The following three tables provide benchmark comparisons for regular authorized staffing levels:

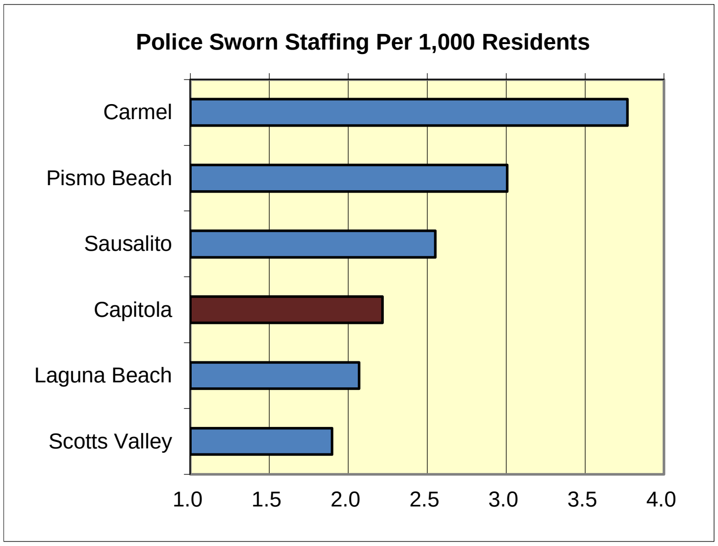
- Total General Fund regular staffing per capita
- Sworn police staffing per capita

Table 16. As reflected in this chart, the City has a lower than average ratio of regular General Fund staffing per 1,000 residents. This is especially notable, since Carpinteria (with the lowest overall staffing ratio) contracts with Santa Barbara County for police services.



* *Excludes Fire*
** *Contracts with County Sheriff for Police Services*
*** *Excludes Fire and Sewer*

Table 17. The City's ratio of sworn police staffing per 1,000 residents is also lower than the benchmark cities' average.



SALARY AND BENEFITS

The last benchmarks considered as key financial indicators are salary and benefit levels. Along with authorized regular staffing levels, these drive a large portion of city costs.

Salary

Salary information was collected for seven "benchmark" positions, which represent a good cross section of positions that deliver core services to the public and provide a reasonable basis for comparing salary costs with other cities. These include clerical positions (Account Clerk and Administrative Clerk); field operations (Maintenance Worker II); professional positions (Associate Planner and Information Services Specialist); sworn operations (Police Officer); and senior management (Community Development Director). These positions also represent commonly used positions in local government, which helps ensure meaningful comparisons.

This information was gathered based on information provided on the city web sites. Data is provided for the top of the salary range, since this represents what the city is committed to paying at some point. Position titles are based on those used by the City. In some cases, the benchmark cities may use slightly different titles than Capitola for similar job duties. Where this was the case, job descriptions were reviewed to ensure that duties are comparable.

Important Caveat: This data was developed in order to provide a context for the staff cost drivers facing each city. It should not be used to assess the competitiveness of the City's compensation. This needs to be determined based on appropriate labor market factors, and the benchmark cities were not selected for this purpose. That said, in most cases, the City is in the mainstream of salary and benefits provided by the benchmark cities.

❶ FINANCIAL BENCHMARKS

Table 18. The City's salary for this position is in the mainstream of the benchmark cities and slightly below the median. The average "top of range" monthly salary is $4,486 compared with $4,309 in Capitola.

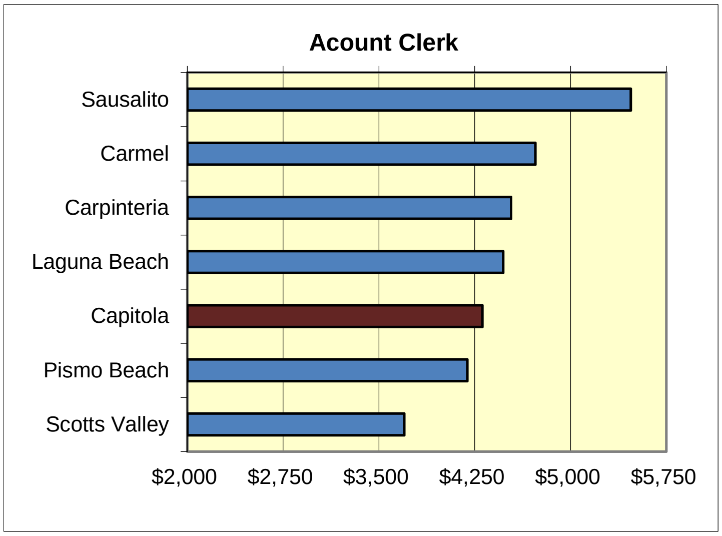


Table 19. The City's salary for this position is in the mainstream of the benchmark cities and right at the median level.

Note: The City of Carmel does not have a comparable position.

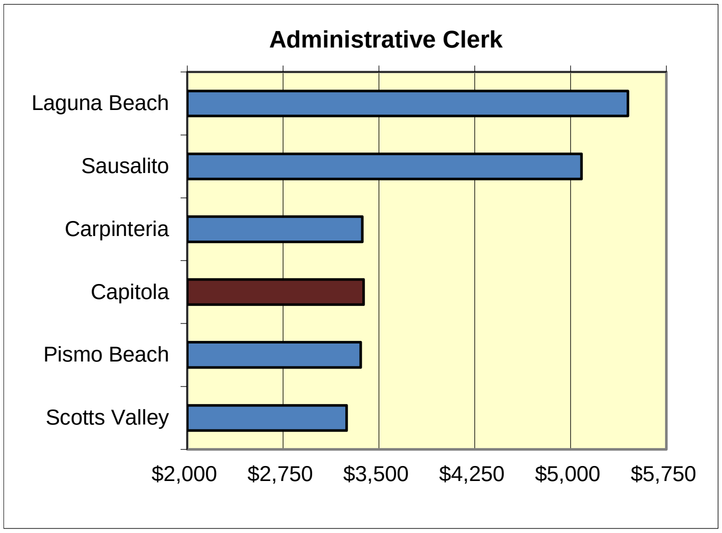
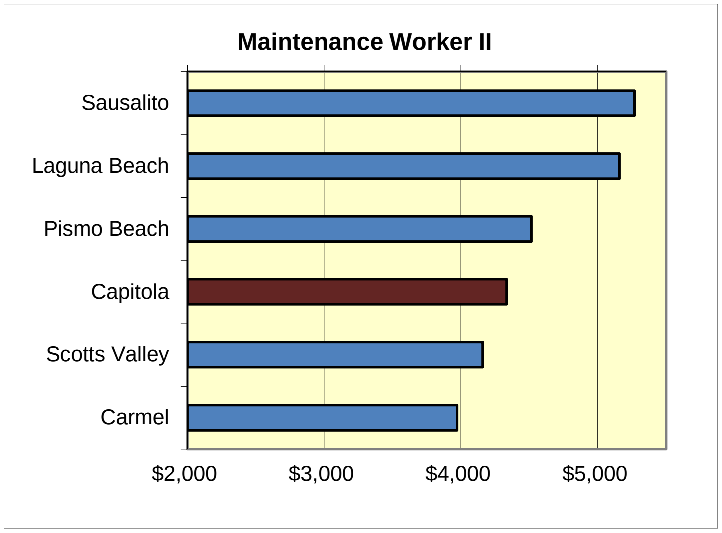


Table 20. The City's salary for this position is in the mainstream of the benchmark cities and slightly below the median. The average "top of range" monthly salary is $4,568 compared with $4,333 in Capitola.

Notes: 1) The City of Carmel does not have a Maintenance Worker series (I, II and III); salary data is for "Maintenance Worker." 2) The City of Carpinteria does not have a comparable position



❶ FINANCIAL BENCHMARKS

Table 21. The City's salary for this position is in the mainstream of the benchmark cities. The average "top of range" monthly salary is $6,443 compared with $6,463 in Capitola.

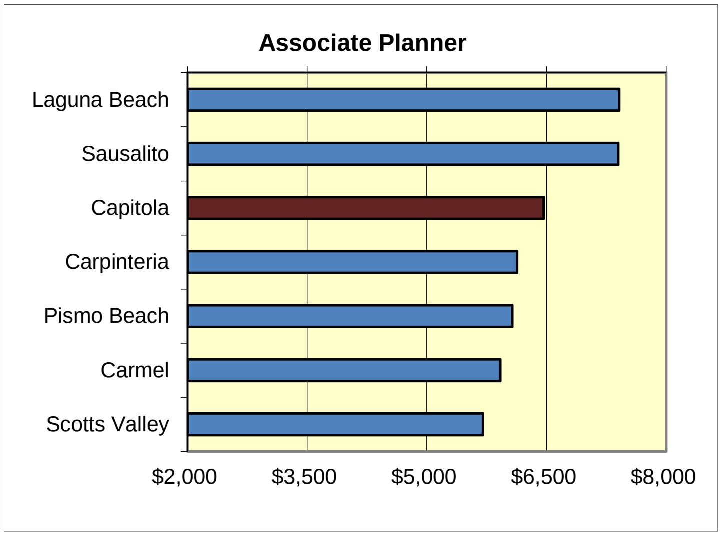


Table 22. The City's salary for this position is in the mainstream of the benchmark cities and slightly below the median.

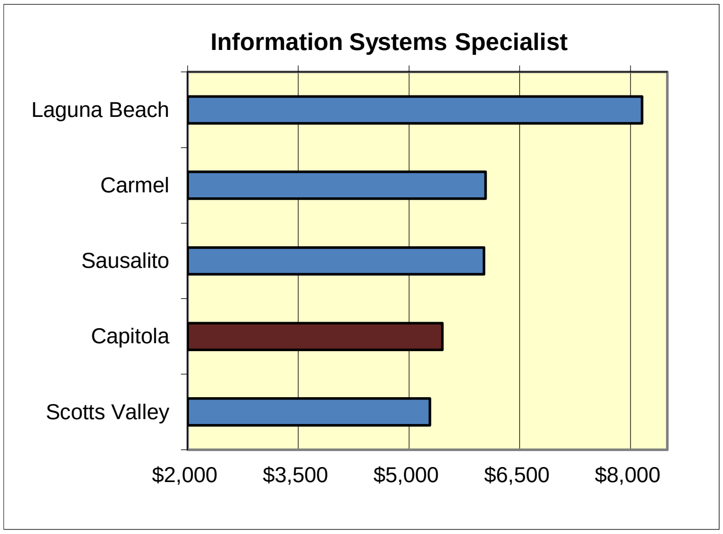
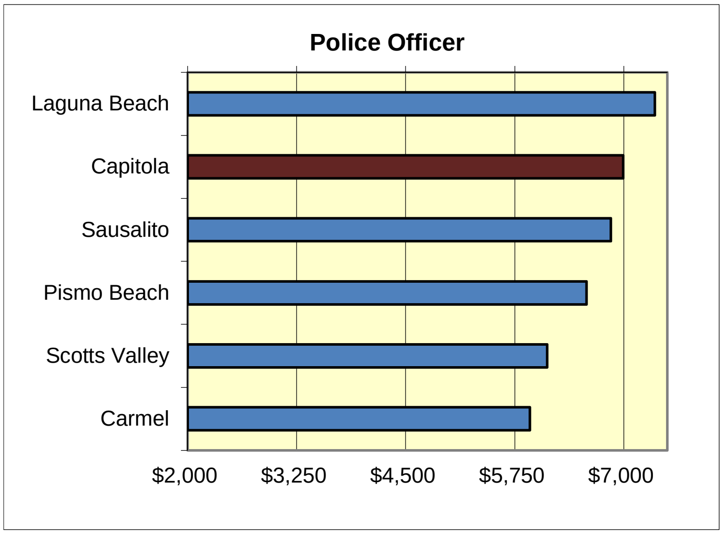


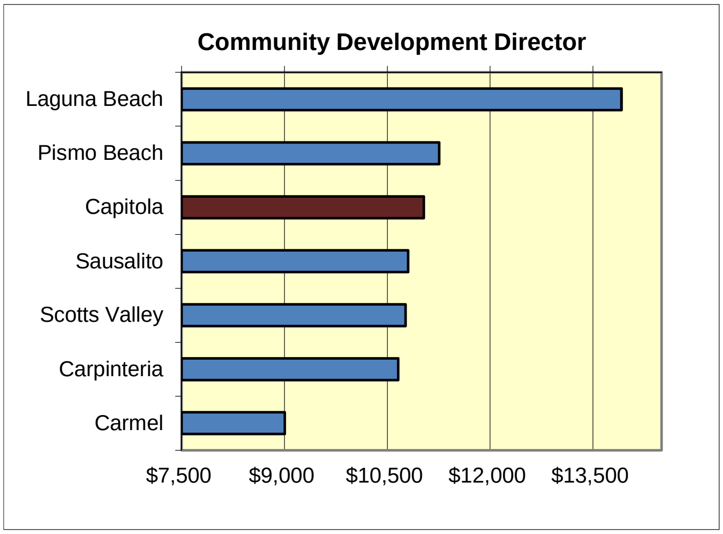
Table 23. The City's salary for this position is modestly higher than the median. The average "top of range" monthly salary is $6,637 compared with $6,993 in Capitola, a difference of about 5%.

Note: The City of Carpinteria contracts for police services from the County of Santa Barbara, and as such, does not have a comparable city position.



❶ FINANCIAL BENCHMARKS

Table 24. The City's salary for this position is in the mainstream of the benchmark cities. The average "top of range" monthly salary is $11,063 compared with $11,034 in Capitola.



Retirement Benefits: Pensions

Retirement costs via contributions to the California Public Employees Retirement System (CalPERS) are also a major staffing cost. CalPERS determines the amount of the contribution based on a number of factors, including:

- System participation levels (how many employees will actually retire under the system and receive retirement benefits?)
- Age of current participants (how close to retirement age are current employees?)
- Mortality (how long will they live after retirement?)
- Salary costs (how will these rise over time from today's levels?)
- Status of current funding (are current assets greater or less than accrued liabilities?)
- Estimated returns on investments
- Benefit levels

While each of these plays a key role in determining retirement costs, the most critical one in comparing costs between agencies is benefit levels. CalPERS is a defined benefit program, under which retirees will receive a "defined" retirement allowance based on their age at retirement and their years of service. For example, under a "2.5%@55" plan, an employee retiring at age 55 or older will receive 2.5% of their regular pay for each year of service: 50% after 20 years; 62.5% after 25 years; and 75% after 30 years. ("Regular" pay includes ongoing compensation as part of an employee's duties; as such, it does not include earnings like overtime).

The following summarizes the retirement benefits in place for 2010-11 in Capitola and the benchmark cities.

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Employee Retirement Plans

City	Non-Sworn	Police Sworn
Capitola	2.5%@55	3%@50
Carmel	2%@55	3%@50
Carpinteria	2%@55	3%@50
Laguna Beach	2.5%@55	3%@50
Pismo Beach	2.5%@55	3%@50
Sausalito	2.5%@55	3%@55
Scotts Valley	2.5%@55	3%@50

As reflected above, the City's retirement benefits in 2011 were in the mainstream of those offered by benchmark cities. <u>Moreover, in managing pension costs, the City is the only agency with a cap on the City's total contribution.</u>

Recent Changes for All New Employees. In September 2012, the State enacted AB 340, which reduces retirement benefits for all new State and local agencies participating in CalPERS, beginning January 1, 2013. Under this "two-tier" approach, benefits for all new employees are lower than those shown above. They are also lower than the two-tier benefits that several of the benchmark cities (including Capitola) have adopted since 2010-11. The reduced benefit levels for new employees will be the same for all agencies contracting with CalPERS. As such, for new employees, there will be no differences in benefit levels between Capitola and the benchmark cities.

Funding CalPERS Retirement Costs

CalPERS retirement benefits are funded by employees and employers from two sources:

Employee Share. This is set statutorily and does not vary with actuarial valuation changes. The rates for non-sworn and sworn employees are:

- Rates for non-sworn employees are set at either 7% or 8% of payroll, depending on the benefit plan.

- Rates for sworn employees are set at 9%.

Employer Share. This is determined actuarially and can vary significantly – both up and down – based on changes in actuarial assets and liabilities. The most significant factors driving employer contribution rates are changes in benefit levels and investment earnings. The employer share is based on two key components:

- The "normal cost:" The rate needed to meet current actuarial obligations.

- Unfunded liability: The rate needed to amortize any outstanding unfunded liabilities (typically over 30 years).

Because the employee share is fixed, it is the employer contribution rate that is subject to variation. Accordingly, as presented below, it is the best benchmark for comparing retirement benefit costs.

Employer Pick-Up of the Employee Share

On the other hand, one area of possible variability in employer retirement costs is whether the employer picks-up some or all of the employee share. This practice dates back to the mid-1970's, where solely due to income tax benefits at the time, employees negotiated lower salaries in exchange for the pick-up. By the end of 1980's, this pick-up became the industry standard. (It should be noted that since then, employee contributions to retirement plans are now tax-deferred, so the tax benefit to employer pick-up no longer exists.)

As reflected in the summary below of the employee share and the amount of "employer pick-up" (if any) in 2010-11 for Capitola and the benchmark cities:

Employee Share (Percent of Payroll): 2010-11

City	Non-Sworn		Police Sworn	
	Statutory Employee Share	Actual Employee Share	Statutory Employee Share	Actual Employee Share
Capitola	8%	4.128%*	9%	2.332%*
Carmel	7%	7%	9%	9%
Carpinteria	7%	0%	*Not applicable*	*Not applicable*
Laguna Beach	8%	0%	9%	0%
Pismo Beach	8%	2.15%	9%	9%
Sausalito	8%	8%	9%	9%
Scotts Valley	8%	0%	9%	0%

** Reflects the impact of the City's total contribution cap*

It should be noted that under the City's total contribution cap (which is described below), the effective employee share has risen since 2010-11 to the following for 2012-13:

- 8.3% (covering the full 8% employee share plus 0.3% of the employer share) for non-sworn employees
- 8.5% for sworn employees

Reducing Unfunded Liabilities via Pension Obligation Bonds

With increasing employer contribution rates, many agencies have issued pension obligation bonds (POBs) in order to reduce unfunded liabilities and related employer contribution rates. While there are added costs for POB debt service, the net savings comes from interest rates on the bonds that are lower than earnings on Cal PERS investments.

❶ FINANCIAL BENCHMARKS

In the most conservative approach, POBs were only issued where there were "side funds." These were created for smaller agencies when CalPERS pooled plans for all employers with less than 100 active employees in each plan (this included Capitola). CalPERS did so because it believed that actuarial data for small agencies was too easily skewed by rare events, and that greater statistical reliability (and rate stability) would result by pooling smaller agencies together.

Under the pooling approach experience would be jointly assessed from that point forward. However, each agency retained its own previously incurred liabilities in a "side fund." In this case, the side fund liabilities are frozen; and as such, the projected net savings from POBs are better assured.

The City issued POBs for both if its "side funds" for sworn and non-sworn employees in 2007. It is estimated that this reduced the City's employer contribution rates by 8 percent for non-sworn employees and 16 percent for sworn employees.

Along with only issuing POBs for the "side funds," the City also took a conservative approach in issuing the bonds for just ten years (many agencies issued POBs for much longer terms – up to 30 years). Debt service on these bonds will end in five years – but the savings will continue for many years into the future.

The City's Contribution "Cap"

As noted above, regardless of its employer contribution and employee rate pick-up, the City has negotiated a total cap on its CalPERS contribution. Of the benchmark cities, Capitola is the only one with a cap – and perhaps the only local agency in the State.

At the time that caps were first negotiated, the City had not yet issued POBs, and as such, employer contribution rates were higher than they are today. The following summarizes the cap today in light of this change:

City CalPERS Contribution Cap	Non-Sworn	Sworn
Employer Contribution	17.876%	35.6300%
Employer Pick-Up: Employee Share	7.000%	9.000%
Total: Initial Contribution Cap	***24.876%***	***44.630%***
Subsequent POB Savings	-8.388%	-16.339%
Current Total Contribution Cap	**16.488%**	**28.291%**

For 2012-13, this has resulted in the following sharing of total CalPERS contribution rates:

2012-13 CalPERS Contribution Shares	Non-Sworn	Sworn
Total Contribution	24.755%	36.740%
Employee Share	8.267%	8.449%
City Contribution Cap	**16.488%**	**28.291%**

❶ FINANCIAL BENCHMARKS

Comparison of Employer Contribution Rates

For the reasons noted above, employer contribution rates are the best benchmark for comparing retirement benefit costs. The following shows employer contribution rates in 2010-11 in funding each agency's benefit levels:

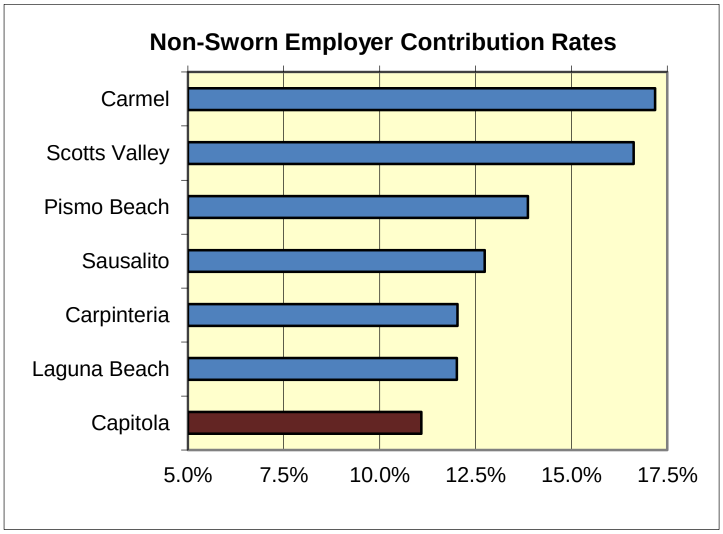


Table 25. This table shows that Capitola's employer contribution for non-sworn employees is the lowest of the benchmark cities.

As noted above, this is largely due to the fact the City issued $5 million in pension obligation bonds in 2007 to pay-off in full its "side fund" liabilities for both sworn and non-sworn employees. This decreased non-sworn rates by approximately eight percentage points and the sworn rates by approximately sixteen percentage points. This is reflected in the lower retirement costs presented in both Tables 25 and 26, which are partially offset by increased debt service payments on the bonds.

It should be noted that these savings are significant and will hold the City in good stead in the not-so-distant future. The pension obligation bonds will be mature in August 2017. This means that in five years, the City will no longer be making POB debt service payments, while the significantly lower rates reflected in Tables 25 and 26 will result in much lower City costs in all future years than would otherwise be the case.

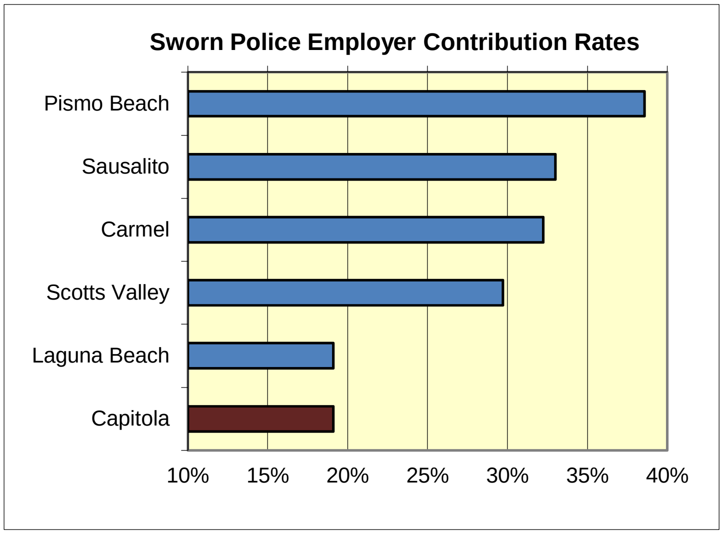


Table 26. This table shows that Capitola's employer contribution for sworn employees is the also the lowest of the benchmark cities. This is due to the same factors described above for non-sworn employees.

(It should be noted Laguna Beach has also paid off its side pool for sworn employees. And since both Laguna Beach and Capitola are in the same sworn pool, they have the same employer contribution rate.)

Lastly, as noted above, under its current employee agreements, the City is protected from any future employer rate increases due to the total contribution cap. The current savings from this cap are significant.

For example, in 2012-13, the combined employer/employee pick-up total contribution that would otherwise be required for non-sworn employees is 24.8%, but the City is only obligated to pay 16.5% of this amount – a savings of 8.3% of related payroll.

In the case of sworn employees, there are similar savings: the combined employer/employee pick-up total contribution that would otherwise be required for sworn employees is 36.7%, but the City is only obligated to pay 28.3% of this amount – a savings of 8.4% of related payroll.

And as employer contribution rates increase in the future (as they are likely to do for the at least the next four years – and perhaps longer), the savings will be even greater, as City will be insulated from these cost increases.

Retirement Benefits: Health Care

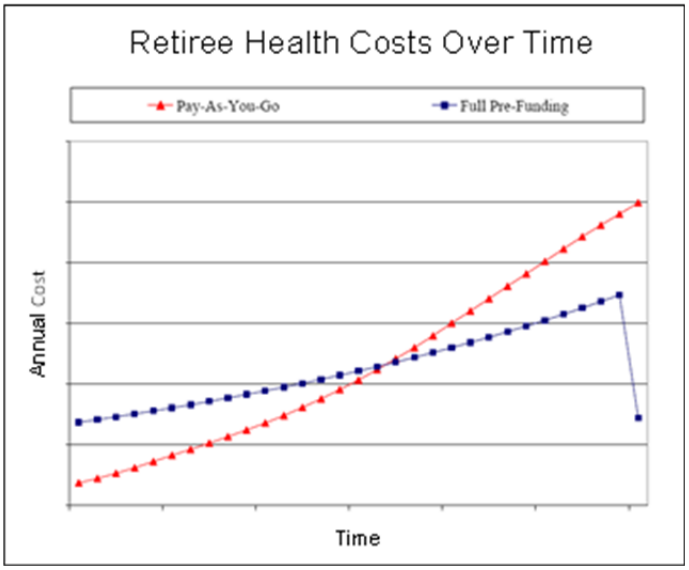
All of the benchmark cities as well as the City of Capitola provide retiree health care benefits. The underlying factors that determine the cost of these benefits are largely the same as pensions; and like pensions, the level of benefits provided is a key driver of costs.

In order to conform with generally accepted accounting principles (GAAP) and receive "clean" audit opinions, cities are required to disclose their long-term liabilities associated with providing retiree health care benefits (as well as any other post-employment retirement benefits other than pensions, commonly referred to as "OPEB") in their financial statements. One of the required disclosures is the "annual required contribution" (ARC) that would be needed to actuarially meet current obligations as well as fully amortize any past unfunded liabilities.

Compliance with GAAP does not require that cities fund the ARC: this is a discretionary policy decision by each governing body. Accordingly, local agencies can choose to fund retiree health care costs on a cash, pay-as-you-go basis – and many do (including Capitola). In the early years, cash funding typically costs much less than fully funding the actuarial cost.

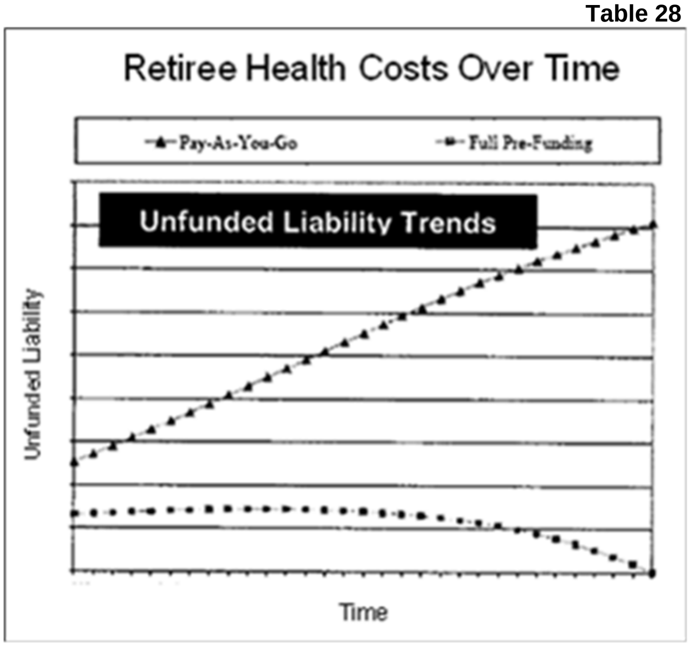
However, as shown in Table 27, this becomes a more expensive approach over time. At about 15 years, pre-funding the OPEB obligation becomes much cheaper; and when unfunded liabilities are fully amortized (typically after 30 years), it becomes much cheaper, while pay-as-as-you costs will continue to rise indefinitely.

Table 27



As shown in Table 28, with a pay-as-you-go approach, unfunded liabilities never go away and continue to mount over time. By funding the ARC, liabilities are fully amortized at some point (typically at the end of 30 years).

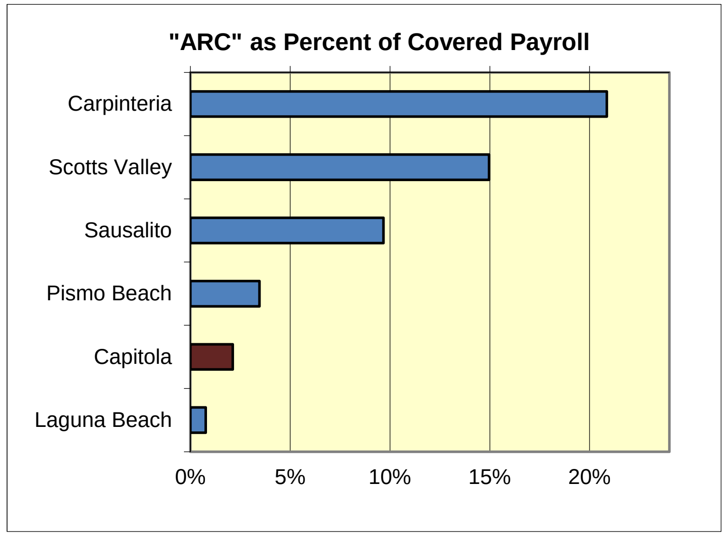
Table 28



While there are a number of ways of showing a city's retiree health care obligations, comparing each agency's ARC as a percentage of covered payroll by active employees provides a way of measuring the relative affordability of the retiree health obligations each city has made (even if it is their policy to fund this costs a cash basis).

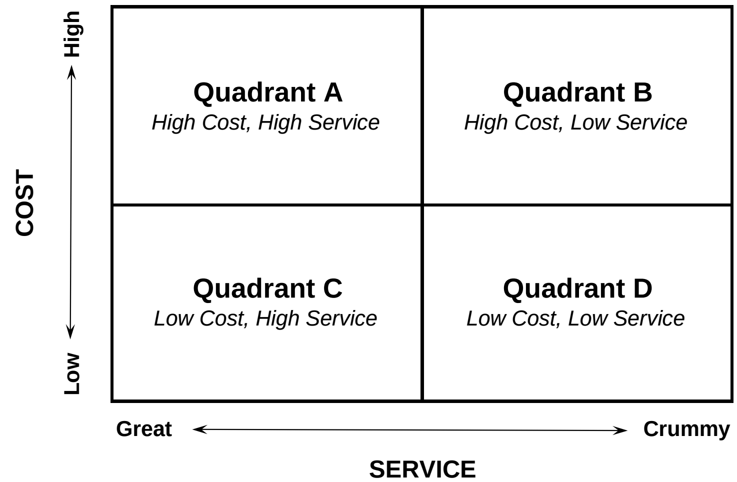
Table 29. As shown in this chart, at 2% of covered payroll, Capitola has a modest OPEB liability, especially when compared with several of the benchmark agencies.

It should be noted that except for Pismo Beach, which is fully funding its ARC, all of the other cities are funding their OPEB costs on a pay-as-you-go- basis.



❷ SERVICE OUTCOME BENCHMARKS

While the financial indicators in the previous chapter offer comparative data between cities in assessing fiscal performance, even the best "apples to apples" cost analysis cannot assess how well the City is performing in delivering valued services. In short, service costs do not reflect service levels. Lower costs may simply mean lower services. The following matrix summarizes four basic cost/service possibilities:



Obviously, in a perfect world, everyone would agree that Quadrant C is the place to be: great service at a low cost. (The City of Capitola certainly strives to be in this in this quadrant). And everyone can also readily agree that Quadrant B is to be avoided like the plague: no one wants crummy service at a high cost.

Legitimate policy issues emerge in the opposing A and D Quadrants in trading-off service levels with the costs of providing them.

How Well Does the City Provide Services?

Measuring "service outcomes" is very difficult – and even more difficult to do when comparing them with others: the results have to be meaningful, measurable and available for each of the agencies from a credible source. In answering this question, this report focused on five key indicators:

Comparisons with Benchmark Cities

- Violent crime
- Vehicle collisions
- "DUI" arrests
- Pavement condition

Citizen Satisfaction: Scientific Public Opinion Research

While not available for the benchmark cities, the public opinion research conducted in February 2012 by the nationally recognized firm of Fairbanks, Maslin, Maullin, Metz and Associates

(FM3) provides excellent information on the most important "benchmark" of all: how do the City's residents think it is doing?

Comparisons with Benchmark Cities

Table 30. The City is among the safest of the benchmark communities (only Scotts Valley has a lower incidence of violent crime). While there are a number of reasons for this, we believe that the effectiveness of the City's Police Department is one of them.

Source: Federal Bureau of Investigations, Uniform Crime Report for 2010. "Violent crime" includes murder, non-negligent manslaughter, forcible rape, robbery and aggravated assault. Due to reporting errors, data for aggravated assault for Capitola is based on data for 2011.

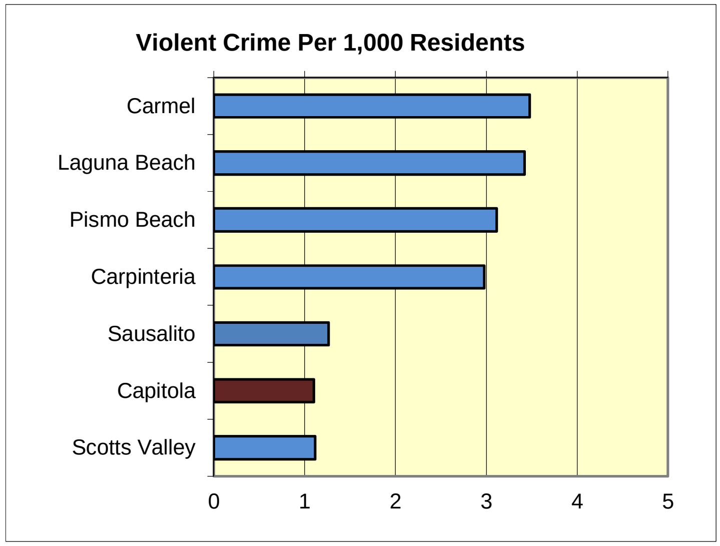
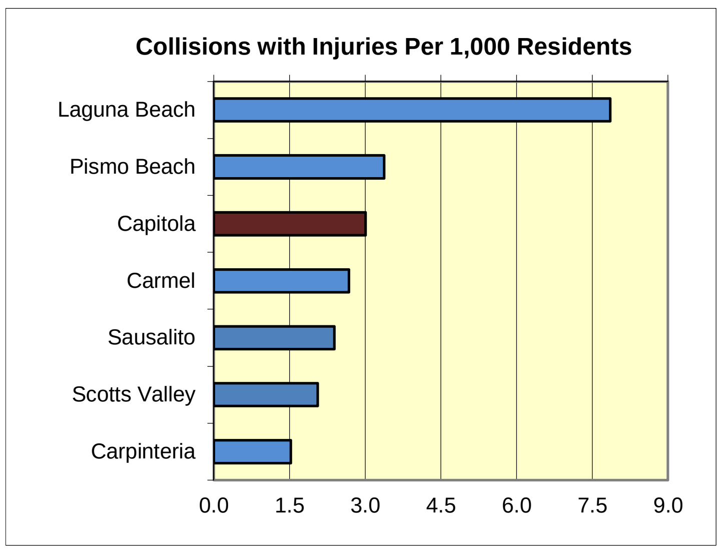


Table 31. On the other hand, in assessing traffic safety, the City has a higher incidence of injury auto collisions than most of the benchmark cities.

Source: State of California, Office of Traffic Safety. Data is for 2010, the most recent year that this information is available.



❷ SERVICE OUTCOME BENCHMARKS

Table 32. The City also has a higher incidence of arrests for driving under the influence of alcohol or drugs (DUI).

Source: State of California, Office of Traffic Safety. Data is for 2010, the most recent year that this information is available.

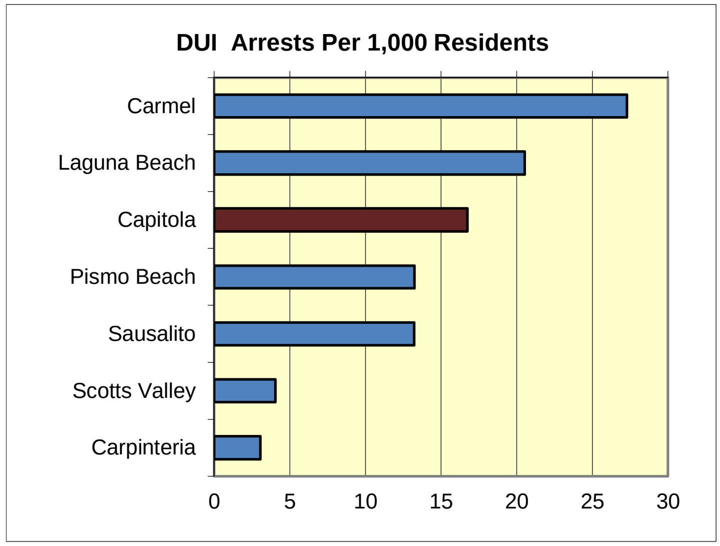
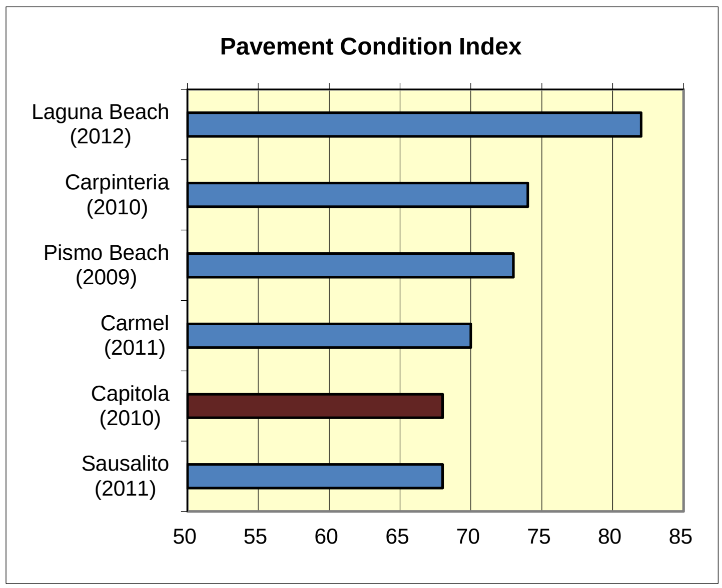


Table 33. One of the community's highest concerns is the condition of City streets. There is a generally accepted system for measuring pavement condition that is widely used by public works professionals throughout the nation. It uses a "pavement condition index" (PCI) from 0 to 100, with a score of 100 reflecting a perfect condition for a, brand new street. Based on a detailed analysis of the condition of each street segment using sophisticated pavement management software, it is possible to assign an overall rating to the condition of a city's street system.



Based on a survey of Public Works Directors, Table 33 shows the overall PCI for the six cities that maintain this information (Scotts Valley does not) based on the most recent that data is available (shown in parenthesis in the chart) . While Capitola is below average on this measure, its rating of 68 reflects a significant improvement from 2006, when the rating was 57. This shows that with adequate resources, the City can continue to improve the condition of its streets. For context, in 2010, a joint report of the League of California Cities and the California Association of Counties reports that the Statewide PCI was 68; and the overall PCI within Santa Cruz County was 48.

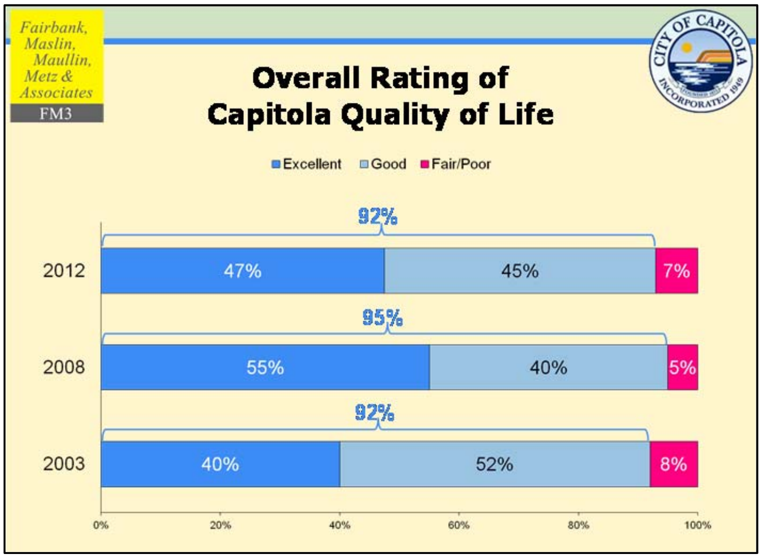
Citizen Satisfaction: Public Opinion Research

As noted above, comparable public opinion research is not available on citizen satisfaction with city services. However, the public opinion research conducted in February 2012 by FM3 provides excellent information on the most important "benchmark" of all: how the City's residents think it is doing. The following summarizes the key results from this survey related to citizen ratings of City services:

Community Quality of Life

92% rated the quality of life in Capitola as excellent or good. While there a number of factors that make Capitola a great place to live, work and play, the quality of City services is certainly one of them.

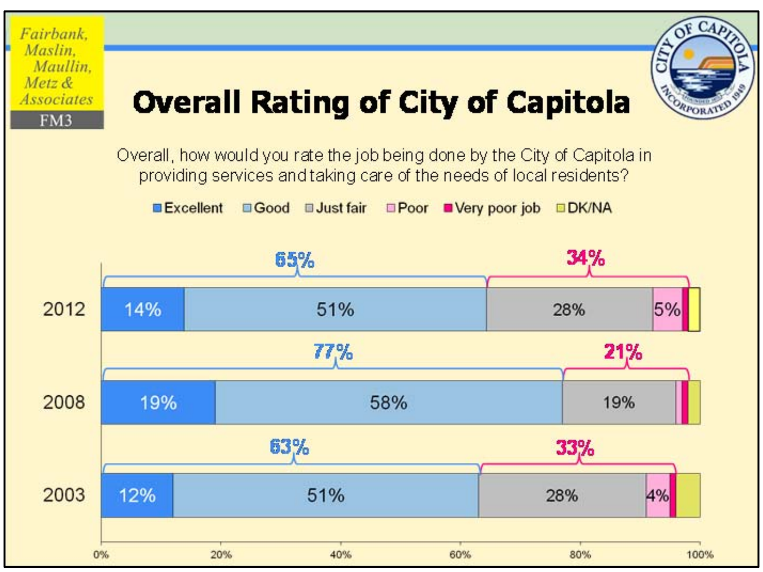
Table 34



Overall City Job Rating

While down slightly from 2008, about two-thirds of the City's residents think that the City is doing an excellent or good job overall in providing City services.

Table 35



❷ SERVICE OUTCOME BENCHMARKS

Satisfaction with Service Delivery

The City received very high ratings in virtually every service category, with similar results to those received in 2008. With the exception of affordable housing, all service levels surveyed received an overall satisfaction rating greater than 50%, with most services receiving a rating of 80% or higher.

Satisfaction Level

More than 90%

- Police protection
- Street sweeping
- Maintaining parks

80% to 90%

- Number of parks
- Keeping beaches clean
- Traffic law enforcement
- Street lighting
- Recreation
- Parking enforcement

70% to 79%

- Sidewalk maintenance
- Street maintenance

55%

- Storm water pollution

41%

- Affordable housing

Table 36

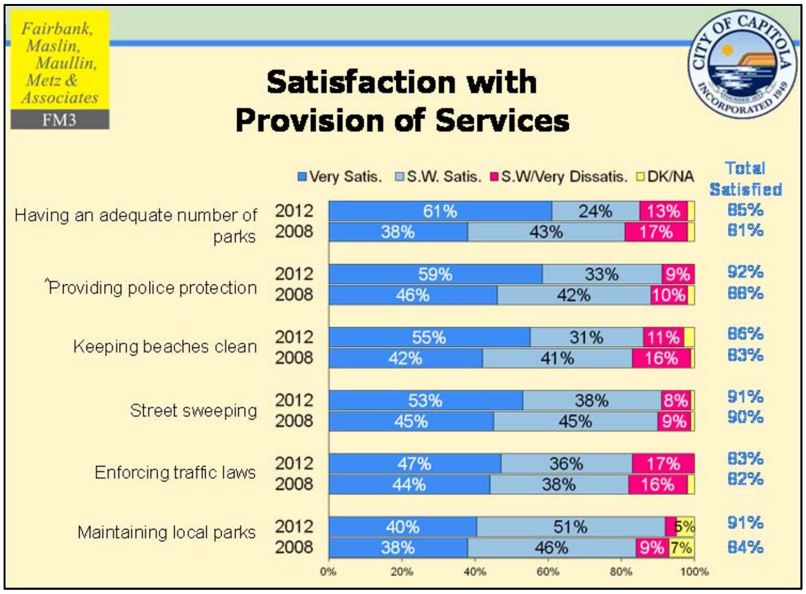
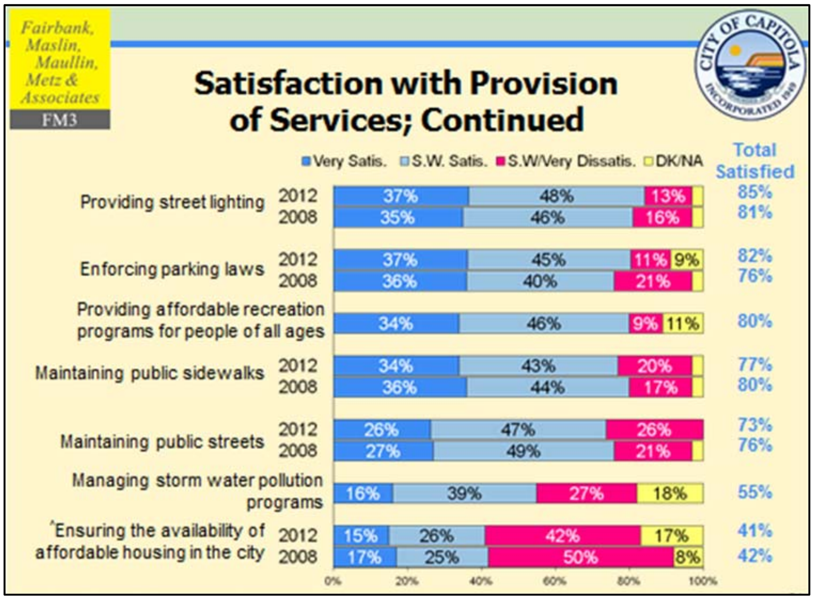


Table 37

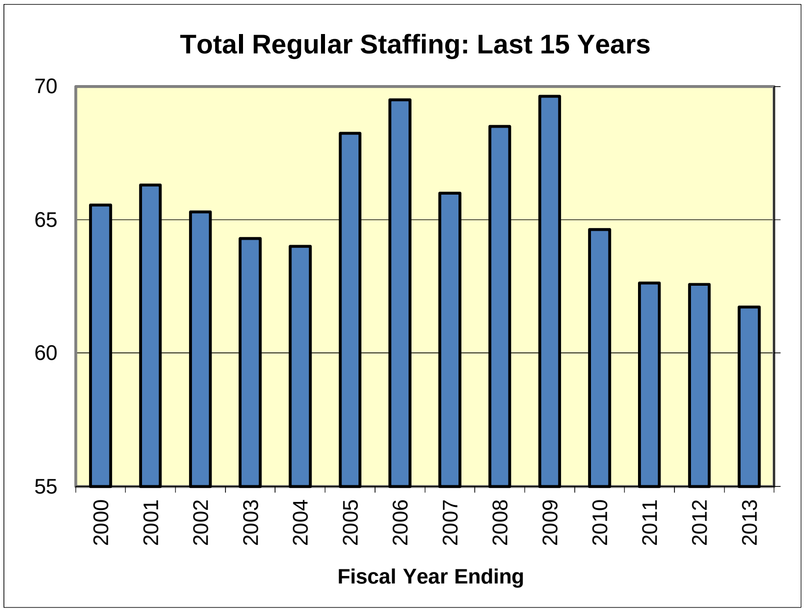


❸ STAFFING AND WORKLOAD TREND BENCHMARKS

Correlations between staffing levels and workloads over time are difficult to measure in a meaningful fashion. Nonetheless, the following summarize staffing trends for the last fifteen years along with selected workload indicators.

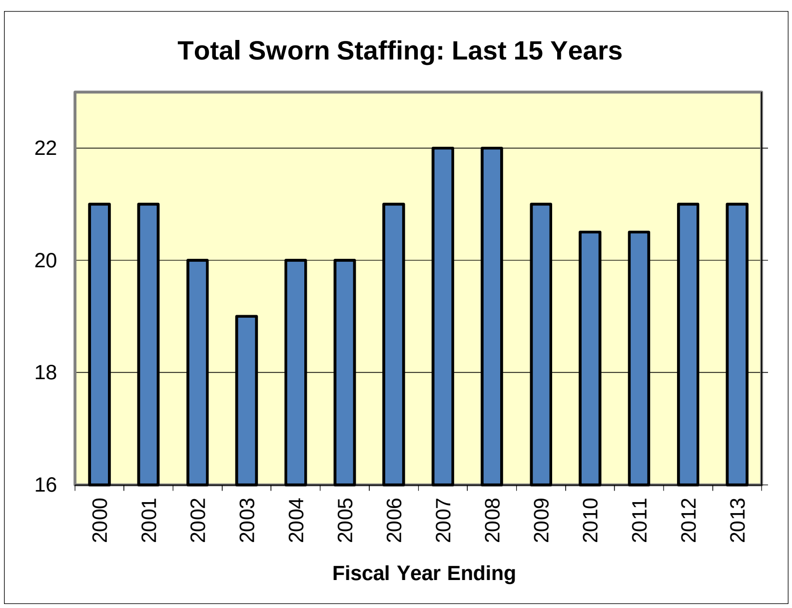
General Fund Regular Staffing. While demands for services have increased, there are fewer General Fund regular positions today than there were 15 years ago.

Table 38



Sworn Police Staffing. There is the same number of sworn positions today as there were fifteen years ago.

Table 39



For context, the following summarizes key police workload indicators.

❸ STAFFING AND WORKLOAD TREND BENCHMARKS

Table 40. Police calls for service have remained relatively stable over the past ten years.

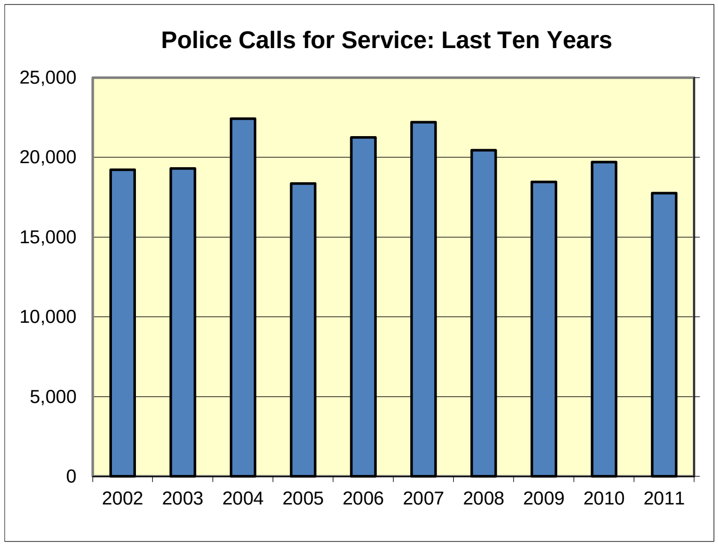


Table 41. Violent crime (excluding aggravated assaults due to data errors) has been on a gradual but uneven downturn

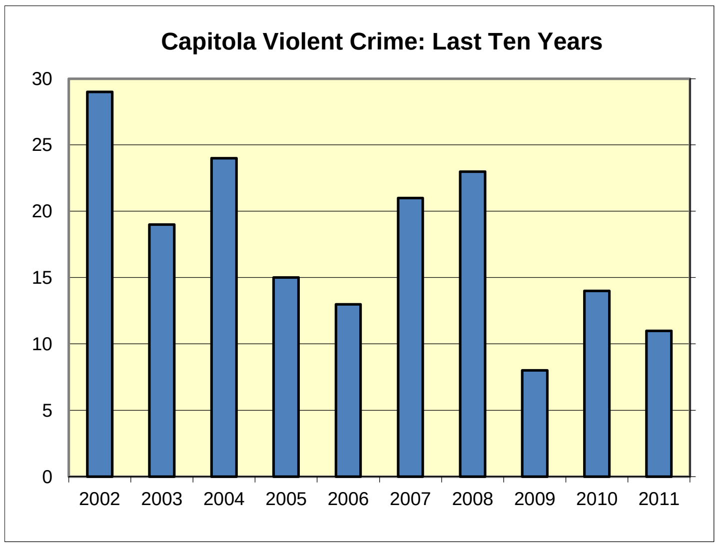
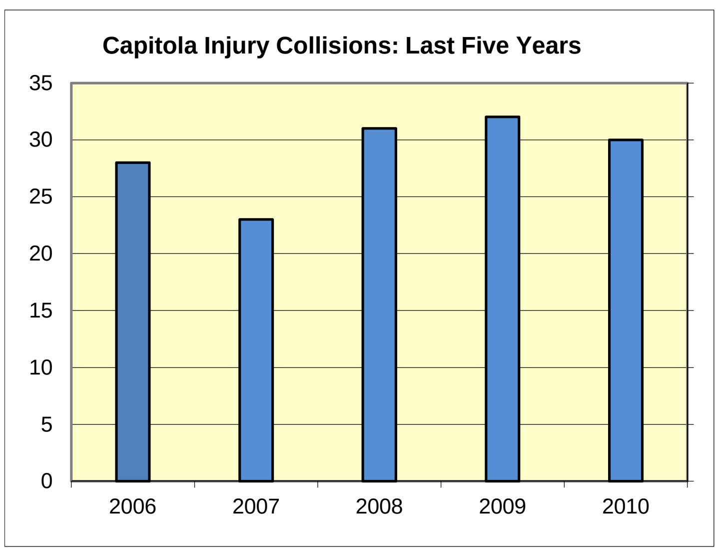
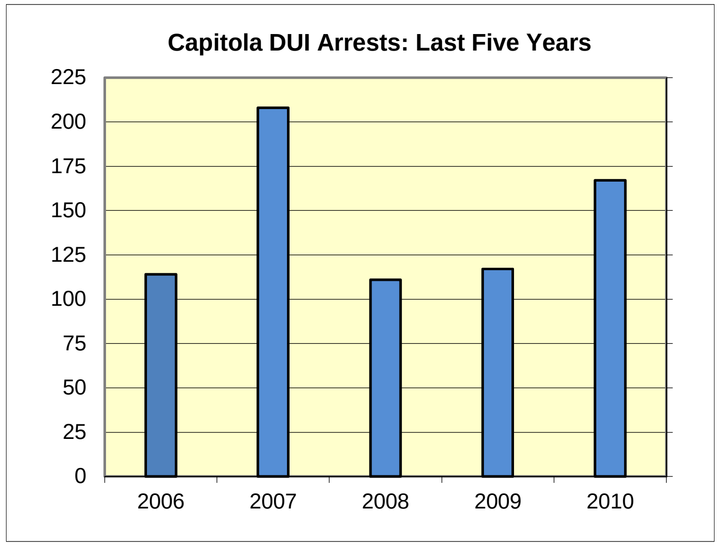


Table 42. Injury collisions have also stayed relatively constant over the past five years.



❸ STAFFING AND WORKLOAD TREND BENCHMARKS

Table 43. "Driving under the influence" (DUI) arrests have risen from 2008 and 2009 levels, but are down compared with 2007.



❹ BEST PRACTICE BENCHMARKS

A common "benchmarking" tool in both the private and public sector is to evaluate the use of accepted industry "best practices" in managing organizational resources and improving productivity.

EXTENSIVE USE OF BEST PRACTICES

The City has made extensive use of "best practices" in managing its fiscal affairs, including:

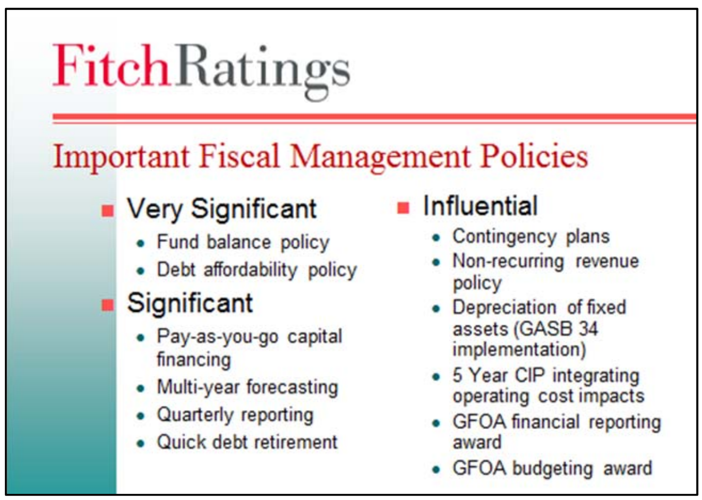
- Multi-year budgeting
- Long-term financial planning
- Integrating goal-setting into the budget process
- Incorporating Council budget principles into funding decisions
- Receiving "clean" unqualified audits by the City's independent certified public accountants
- Use of generally accepted accounting principles
- Effective ongoing monitoring of the City's financial condition
- Long-term capital improvement plans
- Use of comprehensive fiscal policies as the foundation for decision-making

What are city financial management "best practices?" Fitch Ratings and Standard & Poors' are two of the "big three" credit rating agencies in the nation. (The other one is Moodys.) As summarized in the sidebar charts, they have both identified "best management practices" that they have formally integrated into their credit rating systems:

- Fitch has identified twelve important fiscal management policies.

- And Standard & Poors' has identified ten "top" financial management practices.

Not surprisingly, there is a great deal of overlap between what the two agencies view as important "best practices." The City has adopted (and more importantly) follows these top practices, including clearly articulated policies and progressive financial management operations such as:



❹ BEST PRACTICE BENCHMARKS

- Fund balance (reserve) policy
- Non-recurring revenues
- “Pay-as-you-go” capital financing
- Capital improvement plans
- Long-term financial planning
- Contingency and reserve plans
- Fixed assets (separate policy)
- Ongoing financial reporting, including quarterly reports
- Debt management

Recognized Statewide for Excellence in Financial Reporting. The City has received the prestigious Certificate of Excellence in Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for its Comprehensive Annual Financial Report every year since 1999.

And the City is committed to continuous improvement in its financial planning and reporting efforts. For example, the City has set a two-year goal to earn similar recognition for its excellent budget process and document. And in Fiscal Year 2012-13, the City plans to produce its first “Budget-in-Brief” tri-fold document, which will provide the community with an overview of City finances and annual accomplishments.

PARTNERSHIPS AND COLLABORATIONS

The City has undertaken a wide variety of partnerships with the private sector, non-profit organizations and other government agencies in ensuring the best use of community resources in delivering City services. In total, these account for almost one-quarter of the City’s General Fund expenditures.

Private Sector Contracts

The City makes extensive use of the private sector as a key productivity strategy in delivering city services. The following is a summary of City day-to-day services delivered through the private contract.

❹ BEST PRACTICE BENCHMARKS

Environmental Services

- Creek biological monitoring
- Water quality testing
- Recycling public education outreach and reporting
- Household hazardous waste disposal
- Seasonal trash clean up

Parks, Recreation, Beach and Wharf

- Recreation class instructors
- Landscape maintenance
- Tree trimming
- Marina management
- Boat and bait shop operations
- Wharf restaurant operations
- Beach shuttle service operations

Facilities and Infrastructure

- Street maintenance
- Property repair and maintenance services
- Construction inspection
- Janitorial services
- Equipment maintenance
- Seasonal labor

Administrative Services

- Audit services
- Collection services
- Copying and binding services
- Legal services
- Uniform cleaning
- Website maintenance

Non-Profit Agency Partnerships

The City has an extensive network of partners with private, non-profit agencies.

Community Based Health and Human Service Providers

The City of Capitola has historically contributed approximately $250,000 to $275,000 in funds to assist community programs. In Fiscal Year 2012-13, the City of Capitola has awarded funding to the following organizations:

❹ BEST PRACTICE BENCHMARKS

- Advocacy, Inc
- Big Brothers Big Sisters
- Cabrillo Stroke and Disability Center
- California Grey Bears, Inc.
- California Rural Legal Assistance
- Campus Kids Connection, Inc.
- CASA of Santa Cruz County
- Central Coast Center for Independent Living
- Community Action Board - The Shelter Project
- Community Bridges: Child Development Division, Lift Line, Live Oak Family Resource Center, Meals on Wheels for Santa Cruz County
- Conflict Resolution Center of Santa Cruz
- Dientes Community Dental Care
- Families In Transition
- Family Service Agency of the Central Coast: Counseling - North County, I-You Venture, Senior Outreach, Suicide Prevention, Survivor Healing Center
- Homeless Services Center Paul Lee Loft Shelter
- Hospice of Santa Cruz County
- Native Animal Rescue
- Oneil Sea Odyssey
- Parents Center Santa Cruz,
- Santa Cruz County Office of Education
- Santa Cruz Toddler Care Center
- Save Our Shores
- Second Harvest Food Bank Santa Cruz County
- Senior Citizens Legal Services
- Senior Network Services, Inc.
- Seniors Council of Santa Cruz and San Benito Counties**:** Area Agency on Aging, Project Scout
- United Way**:** 2-1-1 Help Line, Community Assessment, Child Abuse Prevention
- Vista Center for the Blind and Visually Impaired
- Volunteer - Santa Cruz Center
- Women's Crisis Support - Defensa de Mujeres
- WomenCARE
- Cultural Council of Santa Cruz County

Arts, Cultural and Recreational Opportunities

- City of Capitola Museum
- Children’s Art at the Begonia Festival and the Art & Wine Festival
- Movies on the Beach – Co-sponsored with the Begonia Festival
- Summer twilight concert series
- Key support to the Begonia Festival, an annual event that brings thousands of visitors to the community

❹ BEST PRACTICE BENCHMARKS

Recreational classes. The City's recreation program is over 92%-funded by participant fees. It provides City-staffed activities, including Junior Lifeguards and Camp Capitola; approximately 35 Adult Sports Leagues, and contracts for over 1,050 classes annually. Course subjects include:

- Arts and Crafts
- Dance
- Foreign Language
- Fitness and Sports
- Health, Wellness, and Personal Growth
- Tennis
- General Interest

Parks. The City maintains over 16.5 acres of park lands and 12 acres of beach for community enjoyment, including:

- Esplanade Park
- Noble Gulch
- Soquel Park
- Cortez Park
- Jade Street Park
- Peery Park
- Monterey Park
- Capitola Main Beach
- Capitola Wharf

Housing and Economic Development Services

- The City provides financial support for the Chamber of Commerce, and their efforts to help local businesses and host important citywide events.

- The City provides financial support to the Santa Cruz County Visitor's Center to help with efforts to regionally market the Santa Cruz/Capitola region.

Public Agency Collaborations

Public Safety

- The Police Department partners with other government entities and non-profit organizations in Santa Cruz County in many different ways. It works collaboratively with its law enforcement partners in both the Santa Cruz County Gang Task Force and the Santa Cruz County Anti-Crime Team (SCCACT) by providing resources and staff in assisting with gang and drug investigations.

❹ BEST PRACTICE BENCHMARKS

- In conjunction with other law enforcement agencies, the Police Department participates in County wide training activities to best utilize resources and opportunities.

- The City is a member agency of the Criminal Justice Council of Santa Cruz County (CJC). Originally formed in 1986, its purpose is to focus on the coordination of the justice system as a whole in the County and how government could better serve the community. The CJC was very active in securing a variety of grants for the community including drug court and other strategic initiatives for other justice programs.

- The City is very active with the Capitola Chamber of Commerce to better facilitate special event activity and promote the vitality of the City.

- The Police Department is very active with the Capitola Public Safety Foundation. The Foundation assists the Police Department and its community partners to enhance public safety through the promotion of community oriented policing and problem solving programs, crime reduction initiatives, and community outreach/education efforts within the City of Capitola.

Housing

- The City works closely with the Housing Authority on a number of programs to help address low and moderate income housing needs.

- The City has historically funded an extensive affordable housing program, including a first time buyer program, affordable housing rehabilitation loans and significant funding for major affordable housing acquisition/rehabilitation projects (Bay Avenue Senior, Castle MHP). With the elimination of redevelopment agencies, this funding may not be available in the future.

- The City also works closely with State and Federal agencies on a variety of housing programs, including the Community Development Block Grant and HOME programs.

Homeless Action Partnership

- The City is a partner with the County of Santa Cruz and the cities of Santa Cruz, Watsonville and Scotts Valley in providing funding for a Winter shelter.

Monterey Bay Area Self Insurance Authority

The City partners with eight other member jurisdictions to provide the City with:

- General liability insurance
- Workers compensation insurance
- Property insurance

❹ BEST PRACTICE BENCHMARKS

Recycling

- Recycling partner with the County and local cities to provide public education and outreach
- Collaboration with the County and other cities for regional recycling programs
- Environmental education program with the New Brighton Middle School

Santa Cruz Regional 911 Joint Powers Authority

- The City partners with the County of Santa Cruz, City of Santa Cruz and City of Watsonville for emergency dispatch services.

Other Agencies

- The City has an extensive system for mutual aid from other law enforcement and public works agencies throughout the State.

- Through grant programs, the City works cooperatively with a number of state and federal agencies.

DATA SOURCES

Most of the data used in preparing this report was taken from audited financial statements and budget documents available on-line from each cities web site as follows:

City	Web Site
Capitola	www.ci.capitola.ca.us
Carmel	www.ci.carmel.ca.us
Carpinteria	www.carpinteria.ca.us
Laguna Beach	www.lagunabeachcity.net
Pismo Beach	www.pismobeach.org
Sausalito	www.ci.sausalito.ca.us
Scotts Valley	www.scottsvalley.org

Other Resources

Other Resources	Source	Web Site
Pension Obligations	California Public Employees' Retirement System	http://www.calpers.ca.gov/eip-docs/about/pubs/public-agency-reports/cities-towns/2010
Violent Crime	Federal Bureau of Investigations	http://www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2010/crime-in-the-u.s.-2010/tables/table-8/10tbl08ca.xls
Traffic Collisions	State of California, Office of Traffic Safety	http://www.ots.ca.gov/OTS_and_Traffic_Safety/Contact_Us.asp
Population	State of California, Department of Finance, Demographic Research Unit	http://www.dof.ca.gov/Research/demographic/
Statewide Pavement Condiiton Index	Save California Steets Coaltion	http://savecaliforniastreets.org/reports/2010/finalreport.pdf
Assessed Valuation and Annual Report of City Financial Transactions	State Controllers Office	http://www.sco.ca.gov/ard_locrep_annual_financial.html
City pavement condition index and retirement plans	City Surveys	

CONSULTANT BACKGROUND AND EXPERIENCE

SENIOR FINANCIAL MANAGEMENT EXPERIENCE

Bill Statler has over 30 years of senior municipal financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that. Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. ***San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.***

- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. Again, ***San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.***

- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.

- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health.

FINANCIAL MANAGEMENT SERVICES FOR OTHER AGENCIES

- "Pro Bono" Budget and Financial Management Advice: City of Bell
- Interim Finance Director: San Diego County Water Authority
- Interim Finance Director: City of Capitola
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Five Year Fiscal Forecast: City of Camarillo
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)
- Five Year Fiscal Forecast: City of Pismo Beach
- Revenue Options Study: City of Pismo Beach
- Water and Sewer Rate Reviews: City of Grover Beach
- Financial Condition Assessment: City of Grover Beach
- Cost Allocation Plan: City of Grover Beach
- Cost Allocation Plan: City of Port Hueneme
- Joint Solid Waste Rate Review of Proposed Rates from South County Sanitary Company: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

CONSULTANT BACKGROUND AND EXPERIENCE

PROFESSIONAL LEADERSHIP

- Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- President, League Fiscal Officers Department: 2002 and 2003
- President, CSMFO: 2001
- Board of Directors, CSMFO: 1997 to 2001
- Member, GFOA Budget and Fiscal Policy Committee: 2004 to 2009
- Chair, CSMFO Task Force on "GASB 34" Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter Chair: 1994 to 1996

TRAINER

Provided training for the following organizations:

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- California Association of Local Agency Formation Commissions
- Humboldt County

Topics included:

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Fiscal Health Contingency Planning
- Financial Analysis and Reporting
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times
- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- Transparency in Financial Management: Meaningfully Community Involvement in the Budget Process
- Debt Management
- Preparing for Successful Revenue Ballot Measures

CONSULTANT BACKGROUND AND EXPERIENCE

- Multi-Year Budgeting
- Integrating Goal-Setting and the Budget Process
- Financial Management for Elected Officials

PUBLICATIONS

- *Guide to Local Government Finance in California*, Solano Press, July 2012 (Co-Author) www.solano.com
- *Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health*, Government Finance Review, August 2011
- *Municipal Fiscal Health Contingency Planning*, Western City Magazine, November 2009
- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)
- *Financial Management for Elected Officials*, Institute for Local Government, 2007 (Contributor)
- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities*, Western City Magazine, November 2003
- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002 (Co-Author)
- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000
- *Understanding Sales Tax Issues*, Western Cities Magazine, June 1997
- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

HONORS AND AWARDS

- Cal-ICMA Ethical Hero Award
- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Polices: User Fee Cost Recovery)
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting
- GFOA Award of Achievement for Excellence in Financial Reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting
- National Management Association Silver Knight Award for Leadership and Management Excellence
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors: University of California, Santa Barbara