

April 9, 2002

From a Special Meeting of the Board of Directors of the Chamber of Commerce to consider City's Cost of Services Study as prepared by Revenue & Cost Specialist (RCS) and presented in May 2001.

The board concluded that there were three areas of concern that this study highlighted. Each area is brought to light with a general question. An examination of the question follows, with some questions for staff and finally a Chamber position.

General Question #1:

Which of the following Personal Choice Services should be subsidized?

Or how may City Service Fee Revenue be maximized near term?

Current City Service Fee Revenue = \$3,829,959

Quote from Chapter VI - Page 63 of RCS Report

"The utilization of taxes for the subsidy of PERSONAL CHOICE PUBLIC SERVICES when there is little or no social purpose. Or, put another way, why should the taxes of the many be used to subsidize the few except where elected officials deem it in the "public interest?" However, this must be from intent and not by default or omission."

From Page 54 of RCS Report

Summary of PERSONAL CHOICE PUBLIC SERVICES

Service Fee Revenues = \$3,829,959
(of which \$3,080,570 or 80% comes from water and wastewater services)
Service Cost = \$5,679,970
Service Subsidy = \$1,850,011 *
Percent Recovery = 67.4%

Utility & Maintenance Services - SUBSIDY =	\$718,991
Development Services - SUBSIDY =	\$591,748
Leisure & Cultural Services - SUBSIDY =	\$350,448
Public Safety Services - SUBSIDY =	\$180,390
Administrative Services - SUBSIDY =	\$8,434
TOTAL SUBSIDY =	\$1,850,011 *

Cost of Service is calculated by multiplying unit time x unit cost x total units.

Observation:

Total of the below 21 item list = \$1,630,702 or 88% of total subsidized services
15% (21 services out of 135) account for 88% of the total amount subsidized

List of major subsidized services using RCS Reference #:

Utility & Maintenance Services			% of Total Current		Staff
	Ref#	Service Title	Subsidy	Recovery	Recommends
1.	S-113	Water Service	\$100,663	95%	No
2.	S-120	Wastewater Services	\$429,600	76%	Study
3.	S-123	Street Sweeping	\$50,500	0%	No
4.	S-124	Street Lighting Maintenance	\$118,000	0%	No
	Total		\$698,763		

Development Services			% of Total Current		Staff
	Ref#	Service Title	Subsidy	Recovery	Recommends
5.	S-004	Coastal Development Permit	\$70,994	17.7%	Support
6.	S-015	General Plan Maintenance	\$40,000	0%	Support
7.	S-016	Sphere of Influence	\$46,042	5.2%	Support
8.	S-017	Annexation	\$43,542	10.3%	Support
9.	S-039	Grading Plan Check	\$27,943	4.8%	Support +/-
10.	S-041	Public Improvement Plan Check	\$44,179	66.2%	Support
11.	S-055	Building Plan Check	\$174,424	60.3%	Support
12.	S-064	Code Enforcement	\$66,619	0%	Support
	Total		\$513,743		

Leisure & Cultural Services			% of Total Current		Staff
	Ref#	Service Title	Subsidy	Recovery	Recommends
13.	S-105	Beach Volleyball Program	\$49,143	9.2%	No
14.	S-106	Junior Lifeguards Program	\$119,290	29.3%	Study
15.	S-108	Private Parade Event Staff	\$85,693	4.7%	Support
16.	S-110	Pismo Beach Vets Hall Rental	\$43,164	30.6%	No +/-
	Total		\$297,290		

Public Safety Services			% of Total Current		Staff
	Ref#	Service Title	Subsidy	Recovery	Recommends
17.	S-070	Police False Alarm Response	\$32,214	0%	Support
18.	S-072	Impounded Vehicle Release	\$25,216	30.4%	Support
19.	S-093	Annual Engine Company Insp.	\$41,664	0%	No
20.	S-096	Fire False Alarm Response	\$9,810	0%	Support
21.	S-097	Hazardous Material Response	\$12,002	0%	Support +/-
	Total		\$120,906		

Administrative Services

(Not a large enough % of the total of the subsidized services to deal with)

Chamber Position:

As a 400 member business organization led by managers and owners, we recognize in our own situations that it is a lot easier, for many reasons, to increase an existing revenue source than it is to create an entirely new one. At the same time, to remain viable, a business must price itself competitively, as to value.

We would recommend looking first at the services that currently recover the highest percentage of their costs, and explore what can be done to recover 100%. This approach would include only

four services: Water Service, Wastewater Services, Public Improvement Plan Check and Building Plan Check. These four have a subsidy of \$748,886 or 40% of the total of \$1,850,011.

Questions for Staff on Individual Services:

- 1. Water Services (S-113) – is there a solid plan in place to recover 100% of this subsidized service?**
- 2. Wastewater Services (S-120) - is there a solid plan in place to recover 100% of this subsidized service?**
- 3. Building Plan Check (S-055) – are these realistic numbers (1,169 units) projected over any period of time?**
- 4. Public Improvement Plan Check (S-041) – are these realistic numbers (244 units) projected over any period of time?**
- 5. Clarification of Fees for Fire Inspection (S-093) – is there going to be any? Starting in 2004?**
- 6. Application for Class A Event permit (S-107) – application fee to just see what the City might charge for an event?**
- 7. How were the total units calculated? What are the odds that these total units will happen in these numbers in the future?**

We realize that Water and Sewer Rates are emotional and sensitive subjects to residents and business alike. However, the goal should be to recover 100% of these costs as soon as possible.

In the Development Services Category, the Board suggests the Council select a target percentage for recovery, probably 65% (except as noted above) and adjust fees annually, based upon the cost accounting system suggested by the consultant. At 100% of the top 8 categories in this division, \$513,743 is being subsidized. So over \$300,000 might be recovered in the first year.

We are merely suggesting an approach to use in examining the 135 Services listed in the Cost of Services Study. We accept the fact that the Council must make the final choices on which services to subsidize.

**General Question #2:
How can the City sustain revenue growth?**

Pismo Beach is not like most cities!

The 3 Major Tax Revenue Streams (Fiscal 2000-2001)

TOT = \$4,148,914

Property tax = \$1,447,340

Sales Tax = \$1,442,000

This truth is not merely an expression of municipal sentimentality. Pismo Beach is unlike most cities because it is a recreational destination, both by design of former City officials and by proximity to a particularly well-visited segment of ocean coastline.

The assumptions underlying the May, 2001 Cost of Services Study by Georgia consulting firm Revenue Cost Specialists, LLC (R.C.S.) fail to recognize the untypical profile of City revenues. In Pismo Beach, about half the municipal budget is funded by visitor serving businesses, and about 10% is paid from *residential* property taxes. Add the impact of business property taxes, and the picture clarifies further.

Analyzed by per capita contribution, and using the 2000-2001 figures presented in the Study, 449 businesses paid an average \$12,452 per business in TOT and Sales Tax, while 8500 residents contributed \$170 each via property tax. This assumes business property taxes are an equal offset to resident-paid sales taxes expended in the City.

Accordingly, Pismo Beach, unlike most municipalities since the passage of Propositions 13, 4, and 218, can be substantially in control of its revenue stream.

An analysis of the growth in sales tax and transient occupancy tax collections since the Visitor & Conference Bureau advertising campaigns began in the mid-90's (see table attached) only hints at what is possible when adequate focus is directed on full resource utilization.

Growth of property taxes, in the absence of construction enhancements, is limited to 2% per year and reassessments as a result of turnover. Pismo Beach has very little undeveloped land. Water supplies constrain growth beyond present borders. Yet visitor utilization is far below the community capacity. Between day visitors and overnight guests, it is doubtful that even 13 weeks each year exhibit maximum utilization. That is, less than 25% of maximum visitor revenue is being enjoyed by the City and by the businesses that collect the taxes. In fiscal 2000-2001 TOT increased by \$450,000 and Sales Tax increased by \$50,000.

The City enjoys a business community, natural resources, and organizations capable of increasing City revenue at a rate most municipalities would envy. Yet, built into the RCS Study and Report are suggestions for capturing revenue through fees that would clearly and certainly limit the ability of the City to maximize future income. An example of this would be S-107 Private Parade/Special Event Permit which increases the cost of an application from \$150 to \$1645.

General Question #3:

Why are we not addressing replacement of the City's fixed assets by creating a Fixed Asset Replacement Fund as a permanent part of our Budget?

From the Executive Summary - Page 1 of the RCS Report

“Even more important, the City has not provided for major capital replacement that is required to maintain the City in its present state..... The City “owns” over \$135 MILLION in assets that are expiring in value by over \$4.2 MILLION annually, the assets of the City are deteriorating and the citizens are getting used to a higher level of service than the City can maintain in the long-run. Taxes that are no longer used to support PERSONAL CHOICE PUBLIC SERVICES can be utilized to address this capital replacement shortfall.”

Quote from page 54 of RCS Report:

“.. the City does not have the tax revenue to continue at its current service level and simultaneously provide for infrastructure replacement. The result will be that the City's physical plant will show increasing signs of deterioration...”

Quote from page 63 of RCS Report:

“Where will current Pismo Beach residents be when it comes time to “pay” for the depleted City infrastructure?”

Chamber Position:

As business people we are always concerned that the business we are in is sustainable if we were no longer involved. The City should consider this as it leverages our future by failure to fund fixed asset replacement. Some of this is currently being done in very limited areas. It is important that we fortify the opportunity for natural and innovative revenue growth, so the City is not boxed into an ill-chosen quick fix, such as a TOT increase. This one move could put our community at a serious disadvantage as we compete for TOT revenues with the surrounding communities. We do not have the visitor infrastructure in place to be a 12% TOT City.