

Contra Costa County Grand Jury Report 1111

**BRENTWOOD—A CITY ADDRESSING REALITY**

**To: City Councils in Contra Costa County**

**SUMMARY**

The last several years have been very difficult financially for local governments in California. The housing meltdown resulted in a sizeable loss of property tax, a significant part of most cities' revenue stream. The economic downturn in 2008 also left most cities vulnerable to increases in pension costs. All of the cities in Contra Costa County have had to react to and address the structural deficit in their budgets. Some have been proactive and changed the way they do business to improve their financial stability without major impacts on service delivery.

The Grand Jury surveyed all 19 cities to determine how each was responding to the economic crisis. The responses varied significantly. Some cities may have outstanding programs they did not report. One city, Brentwood, is addressing the situation from a multi-dimensional approach, positioning it to weather adversity. All cities have different demographics and conditions. Brentwood has proactively addressed its long-term fiscal solvency and established a number of practices and procedures. However, it will still need to address funding the looming costs of pension benefits. The Grand Jury suggests Brentwood's approach to addressing fiscal issues should be considered by other cities.

**BACKGROUND**

All cities in the County were asked to respond to two questions:

1. What have you done to put your city on a better footing and make the limited funds you have go further?
2. What have you found to be a "best practice" to make conditions better in your city?

Further analysis identified that Brentwood has taken steps to secure its financial stability and encourage implementation of innovative practices to ensure taxpayer dollars are spent effectively. The Grand Jury identified four areas in which Brentwood's efforts could be examples for other cities.

## **Fiscal Management and Planning**

Brentwood annually updates its interactive ten-year General Fund fiscal model. The City staff developed this forecasting model to help the City Council determine the financial feasibility of any priorities or goals under consideration. This allows management to present “what if” scenarios and project the consequences. Equally important, it can be used to alert the City Council and management to potential future shortfalls and give them time to develop practical solutions with minimal impact on City residents.

Brentwood has also implemented several financial management planning tools. Not only does it have a target to maintain 30 percent reserves in the General Fund, it has avoided raiding the reserve fund to balance the budget. The foresight of establishing an Emergency Preparedness Fund almost ten years ago is particularly noteworthy. Despite the severity and duration of the economic downturn, Brentwood has established an Emergency Preparedness Fund and a Budget Stabilization Fund—separate reserves in excess of the 30 percent requirement.

### **Addressing Revenue and Expense Imbalance**

An example of how Brentwood proactively dealt with a potential budget disaster was avoiding over-dependence on development fees. Brentwood was once the fourth fastest-growing city in the State. Impact fees assessed on new housing development had been a major source of revenue. However, recognizing that growth could not continue, Brentwood implemented a plan in 2005 to reduce its reliance on impact fees over a ten year period. Due to the severity of the economic downturn, the plan was accelerated to three years. The number of employee positions associated with the capital improvement program was reduced from 16.66 to 2.71 full-time equivalent positions, an 84 percent decrease.

The City also established a fee deferral program aimed at encouraging residential and commercial building. This program allowed developers to defer development impact fees for 18 months or until final occupancy.

In 2008, the City took decisive action to manage personnel effectively. All staffing reductions were analyzed to ensure minimal impact to residents. Police and Code Enforcement, considered a high priority, did not suffer staffing losses. To avoid reduction of services to the public, the City reorganized and merged departments. In fact, the City actually was able to keep its offices open longer to serve residents. It also has instituted a program to cross-train employees, enabling them to take on additional duties.

Often when faced with a budget shortfall, one of the first cuts an agency makes is to defer maintenance on equipment, vehicles and facilities. Brentwood took a different approach and continued to set aside funds to replace vehicles, computers and other equipment. To rate the condition of City vehicles and equipment, staff established an annual asset fitness test. By using this test, the City was able to determine that certain assets remained in good condition and did not need to be replaced, thus extending the useful life of these assets. Therefore the City was able to use excess contributions collected to replace the asset instead to help balance the budget.

## **Performance Measurement**

In 2008, Brentwood initiated specific metrics to permit analysis of public safety effectiveness. Benchmarks were developed and presented to the City Council to assist with prioritizing and allocating financial resources during the budget process. For example, in 2009 the average clearance rates for certain types of crimes were below the national average in four categories—arson, burglary, theft and auto theft. In response, Brentwood Police Department developed a strategy using increased training, heightened community awareness and directed enforcement to increase their clearance rates.

Brentwood also uses another innovative approach by awarding contracts that are based on outcomes (results) rather than performance. For example, a performance-type contract to landscape would require the contractor to put in shrubs, grass, bedding flowers, etc., whereas an outcome-based contract would require the contractor to plant as well as replace any landscaping that does not survive within an agreed upon period of time. This has resulted in significant landscape maintenance savings.

## **Personnel Costs/Pension Reform**

Brentwood has seen substantive increases in cost for pensions, retiree medical and Other Post Employment Benefits (OPEB). Brentwood determined that benefit enhancements given in good times are no longer sustainable. Existing non-safety employees voluntarily gave up an annual Cost Of Living Adjustment (COLA) and safety employees deferred the COLA for six months. While the City has not reduced existing employee costs, it has created a second tier of reduced retirement benefits for new employees hired after September 30, 2010. This new tier does not affect new safety employees, who have more generous benefits than non safety employees. The second tier for non-safety employees offers a lower retirement benefit formula (2.0 percent at 60 instead of 2.7 percent at 55), uses three years instead of one year for calculating the final average salary, reduces the maximum COLA to 2 percent from 5 percent and requires employees to pay the full 7 percent employee share towards their pension retirement benefit (i.e. no employer pick-up of the employee share).

In 2009, the City adopted a long-term funding strategy to pre-fund OPEB obligations. Within the next 10 years, the City will pre-fund 85 percent of the required actuarial contribution. These costs have been rolled into its fiscal model, and development of a long-term cost-containment plan is an objective of the Council.

Another savings in pension costs was achieved by paying off the California Public Employees Retirement System (CalPERS) Public Safety Side Fund obligation. When CalPERS combined various members' Public Safety pension plans into one pool, the City was required to pay the difference between the City's existing contribution rates and the rates of the new pool. Due to an annual interest charge of 7.75 percent, the City elected to pay off the balance in FY 2009-2010, using a portion of its Emergency Fund, rather than amortizing the cost over the next eight years. This saved Brentwood a million dollars of General Fund money.

## **FINDINGS**

1. Brentwood developed an interactive fiscal model to forecast 10 years into the future in order to reveal potential problems and allow time to address them.
2. Establishing sufficient General Fund reserves and specific fund reserves gives Brentwood greater flexibility in fiscal management and the ability to react to changing circumstances.
3. Before reducing staff and expenses, Brentwood measured the impact of each reduction on public service delivery.
4. Outcome-based contracts allow for cost savings and greater control of results.
5. Benchmarking has been a useful tool for Brentwood, but could be more useful if it included other City activities to measure performance and solicited comparison data from peer agencies.
6. Because employee benefits given in good times may not be sustainable, a new tier for new non-safety hires was implemented, but not for public safety employees.

## **RECOMMENDATIONS**

1. Brentwood should continue to use its interactive fiscal model and make it available to other cities.
2. To more effectively measure performance, Brentwood should expand benchmarking to other city services and collaborate with other peer agencies to establish similar benchmarking standards.
3. Brentwood should reduce the financial impact of public safety employee pension and other benefit costs for the City's future financial stability.

## **CONCLUSION**

While there are no required recommendations for other cities, the Grand Jury suggests that cities consider implementing a ten-year interactive fiscal model if they do not currently have one. Brentwood has indicated a willingness to share its model. An interactive fiscal model serves as a dynamic financial tool to help guide city council decisions during the budget process or when considering costly projects.

In addition, other cities should consider undertaking a benchmarking project of measurable key activities. This would help ensure that local governments are providing services as cost-effectively and efficiently as possible.

## **REQUIRED RESPONSES**

### **Findings**

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### **Recommendations**

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