



MENLO PARK BUDGET

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## **Frequently Asked Questions**

### **Why does Menlo Park face a budget shortfall?**

Like many California cities, Menlo Park has experienced difficulty balancing its budget because of:

- The severity of the economic downturn and its impact on municipal revenue – Since its peak in 2001-02, sales tax revenue, once the largest source of funding for Menlo Park services, has declined by \$6 million (a 50% drop). Anticipated growth in sales tax revenue will likely be gradual and insufficient to allow the City to sustain current service levels.
- The State's use of local revenues to balance its budget – Since 1992, the State has taken \$11.2 million of Menlo Park's revenues, and has cut grants the City once counted on to provide services.
- The increasing costs of providing services primarily in the area of employee retirement costs, which have gone up \$2.8 million since 2001-02.

### **What has the City done to address the budget problem?**

To close the budget gap in recent years, the City has used a mix of:

- Reduced Costs – Department budgets have been cut by more than \$4 million since 2001-02 and the equivalent of 28 full-time positions has been eliminated. Operations have been made more efficient. Use of volunteers has increased. Service levels have been reduced.
- Increased Revenues – Fees for services – from adult sports to building permits – have been raised to help those services pay for themselves.
- Temporary Fixes – For two years, the City stopped investing in infrastructure maintenance and placed a moratorium on replacing police cars and other City vehicles and equipment. We took advantage of some one-time revenues and we dipped into the City's reserve account for the first time.

### **Why spend money on Your City/Your Decision if we have a budget shortfall?**

The City believes that the budget situation is so serious that input about your priorities is imperative. The estimated budget for the process is \$98,000, which equates to \$3.20 per resident.

### **Isn't balancing the budget what we elect the City Council to do?**

The City Council adopts a balanced budget each year. Over the past five years, choices for closing the budget shortfall have become more difficult. The City Council wants your input to help them make the hard choices ahead and develop a budget that has the community's support.

### **How do cities choose what services to provide?**

Menlo Park is considered a "full-service" city; it provides more services than some cities in the Bay Area, but less than others. After meeting legal requirements, it is a matter of choice as to what services Menlo Park provides. Through annual budgets and program planning, the City sets forth its choices to meet the diverse needs of the community, address the highest priorities and create the best possible quality of life. Your City/Your Decision is an opportunity for the Council to hear what choices you would make.

### **What services are provided by other government entities (not by the City)?**

- Schools (K-12
- Fire protection
- Sanitary sewer system
- Regional transit
- Health care
- Welfare payments
- Courts
- Jails
- Community college
- Mental health services
- Job training

### **Can the City save money by being more efficient?**

Yes. The Budget Balancing Worksheet includes a commitment to save \$290,000 through improved efficiency. Efficiencies already implemented include: partnering with other agencies to share costs; consolidating departments and programs to reduce the number of managers; renegotiating agreements with vendors and contractors to receive more favorable rates; contracting out some services and bringing others “in-house” to secure the lowest cost; and automating certain functions to increase productivity. While efficiency alone will not close the \$2.9 million budget gap, the City continues to do its part to become more efficient and save money.

### **How many employees work for the City?**

There are 235 permanent employees and 120 temporary staff members.

### **Can't the City solve the budget problem by reducing salaries and benefits?**

The City does work to control salary and benefit expenses. However, across the board salary cuts do not represent a viable, sustainable solution. Menlo Park sets salaries at the average of comparable nearby cities. If salaries were not competitive, Menlo Park would face a challenge retaining qualified staff and replacing key positions that become vacant as baby boomer public servants are set to retire in large numbers across the state. Instead, the City has tried to set moderate, reasonable annual salary adjustments in recent union contracts. (The average annual salary increase for the City's bargaining units has been 3.7% over the past ten years.) Because Menlo Park's pension benefits are in line with those of other public sector employers, the City would face similar labor market disadvantages if it were to be the lone city to withdraw from the California Public Employee Retirement System (which 93% of cities participate in). Local government leaders statewide are working to develop needed reforms to the State's pension system. Staff believes that participating in and encouraging statewide reform offers a more sustainable and practical solution for a city of Menlo Park's size.

### **Why have employee retirement costs gone up?**

Local government is inherently labor intensive. Seventy percent of the City's General Fund budget pays the salaries and benefits of employees who provide City services. Labor costs have gone up significantly since 2001, driven largely by retirement costs. The California Public Employee Retirement System (CalPERS) covers State employees and most cities and counties. In Menlo Park, employees pay 7-9% toward their retirement, instead of a comparable amount to Social Security. The City then makes the contribution necessary to fund the benefit level specified in labor contracts. The amount contributed varies year to year and by employee group, ranging from 0 to 26% over the past 10 years. The average City retirement contribution for the past 10 years has been 7.3% for police employees and 3.5% for all other employees. This compares with a 6.2% contribution for employers participating in Social Security. Retirement costs have increased \$2.8 million over the past four years as a result of an enhanced benefit for police officers, allowing them to retire at an earlier age, and the economic downturn's impact on the value of the State Retirement Fund.

### **Why not use the City's reserves to balance the budget?**

The City has dipped into reserves, but cannot continue to do so. Menlo Park's reserve fund must cover a wide range of needs, including natural disasters and other emergencies, legal liabilities and capital projects. If the City were to spend its reserve, it would jeopardize its ability to cover these needs. Furthermore, since the budget shortfall is expected to be ongoing, it would not be prudent to rely on savings to cover annual operating expenses.

### **Won't an economic recovery solve the problem?**

What was once the City's main source of funding, sales tax revenue, has decreased by 50% since its peak in 2001-02 and Menlo Park has not had a year of positive sales tax growth since. While we do anticipate a return to positive growth in sales tax revenue, and there are some potential new revenue generators on the horizon, a turnaround will not happen overnight.

### **What are Menlo Park's population and demographics?**

- Population: 30,785 (2000 Census); up 10% since 1990 Census
- 22% of population is under 18, 16% are 65 and over
- 66% White; 16% Hispanic (up from 9% in 1990)
- 7% African American; 7% Asian; 4% Other
- 27% speak a language other than English at home
- Median household income is \$84,609
- 7% of individuals live in poverty
- 57% of housing units are owner-occupied; Median house value is \$778,500
- 43% of housing units are renter-occupied; Median rent is \$1,319/month
- 12,426 residences; 61% single-family; 39% multi-family

### **What is the size of the City's budget?**

The General Fund budget in the current fiscal year is \$28.9 million. If no reductions were made, the budget for next fiscal year (2006-07) would be \$32.4 million given anticipated cost increases.

### **What is the General Fund?**

Concern about the City's projected shortfall is focused on the General Fund, which represents the services that are supported by general tax dollars (e.g. property taxes and sales taxes).

### **What City services aren't in the General Fund?**

A number of City services are not included in the Your City/Your Decision process because they are entirely funded by user fees or revenues dedicated for those specific services, rather than by the General Fund. For example, Water Distribution, Garbage Services, Redevelopment, and Below Market-Rate Housing are all budgeted for in other funds. Revenues and expenses in each of these other funds are monitored to ensure that they do not require a commitment from the General Fund. Bayfront Park Maintenance, Measure T Bond proceeds, and Special Assessment Districts are also kept separate from the General Fund.

### **What are City revenues?**

In the current fiscal year (2005-06) revenues are:

- Property taxes: \$7.2 million (26%)
- Sales tax: \$6.5 million (23%)
- Charges for services: \$3.8 million (13%)
- State and Federal funds: \$2.9 million (10%)
- Licenses & permits: \$2.7 million (10%)
- Interest and rental income: \$1.4 million (5%)
- Hotel tax: \$1 million (4%)
- Other: \$2.6 million (9%)

### **What part of sales and property taxes collected in Menlo Park does the City receive?**

To support services to Menlo Park residents, the City receives:

- 12 cents per dollar of property tax collected in Menlo Park
- 1 cent per dollar of retail sales made in Menlo Park

### **What are City expenditures by expense category?**

In the current fiscal year (2005-06) expenditures are:

- Personnel: \$21.8 million (76%)
- General Operating Costs: \$4 million (14%)
- Services (contractors, consultants, etc.): \$1.3 million (5%)
- Transfers: \$1.6 million (6%)

### **What are City expenditures by department?**

In the current fiscal year (2005-06) expenditures are:

- Public Safety: \$9.7 million (34%)
- Community Services: \$5.8 million (20%)
- Public Works: \$4 million (14%)
- Administrative Services \$3.8 million (13%)
- Community Development: \$2 million (7%)
- Library: \$1.8 million (6%)
- Transfers: \$1.6 million (6%)

### **What makes up Administrative Services?**

Administration provides centralized business functions to support the operation of all City departments, provide policy direction, and ensure legal and professional compliance.

Administrative services include: accounting, revenue collections, budgeting, purchasing, information technology, printing, human resources, legal counsel, policy support and the city clerk functions.

### **Will overhead be reduced as part of balancing the budget?**

Yes. Strategies have been developed to reduce the administrative and vehicle and building maintenance services that support the City departments and programs. An upfront commitment to save \$290,000 has been included in the Budget Balancing Worksheet. Additional opportunities for savings will be explored as the final budget is developed.

### **What was the response to the Phase I Your City/Your Decision survey?**

A total of 1650 surveys were returned: 701 through the citywide mailing, 190 through the random sample survey and 492 through the website.

**Is this considered a good response rate resulting in useful data?**

Yes. The response rate to the Your City/Your Decision survey was very positive and is considered a good indicator of community sentiment. As a point of comparison, fewer residents responded to a similar, successful citywide survey in Eugene, OR (1,052), even though that city's population (125,000) is much larger than Menlo Park's (30,648). The response rate to the random sample survey was 47.5 %, which is much higher than most municipal surveys. Confidence in the reliability of the data is supported by the fact that there is a high degree of consistency among the three data sources. That is, responses tended to be similar regardless of whether the source of data was the citywide mailing, the random sample or the online version.

**How representative were the survey respondents of the City's demographics?**

Although many people declined to respond to the demographic questions, it appears that certain groups (renters, Hispanics, younger people, lower income people and Belle Haven residents) are under-represented. This is certainly disappointing as considerable effort was made to encourage broad participation in the survey. However, survey practitioners report it is not uncommon to see lower response rates among groups who tend to be very mobile and/or busy with the demands of day-to-day life. This makes the response demographics more understandable, in light of the time commitment required to complete the balanced budget worksheet. A preliminary check of the survey data suggests that responses were relatively consistent across demographic groups.

**What were the findings of the Phase I Your City/Your Decision survey?**

- 65% of survey respondents preferred using both reductions in the net cost of services and new tax revenue
- 30% preferred balancing the budget through net cost reductions alone
- 5% chose only increased taxes to solve the entire \$2.9 million shortfall

On average, respondents preferred:

- Reducing spending by \$1.8 million (with the average reduction representing 13% of service cost)
- Increasing taxes by \$1 million (with the most popular tax options being a Utility User Tax and a Parcel Tax)

More survey results are available on the City's website at [http://www.menlopark.org/departments/mgr/bac\\_report1.pdf](http://www.menlopark.org/departments/mgr/bac_report1.pdf)

**How were the strategies being presented at the workshop developed?**

Staff used its professional judgment to generate feasible ways to accomplish the savings suggested in the Phase I survey, while minimizing the impact on the public as much as possible. In order for workshop participants to have some choice in how to close the \$2.9 million budget shortfall, \$3.6 million in service strategies are presented, in addition to the various tax options.

**What will the City do with the community feedback from the workshops?**

The workshops and the surveys will provide a lot of information about community preferences on balancing the budget. Along with long-term cost analyses, legal requirements and limitations, and a number of other important factors, staff will use this input to develop the 2006-07 budget for Council's adoption in June 2006.

**What will happen after the workshops?**

A report summarizing the feedback from both the workshops and the survey will be available in mid-March. It will be presented to the City's Budget Advisory Committee in mid-March and reviewed by the City Council in late March. The report and related meeting dates will be posted on the City's website at:

[http://www.menlopark.org/homepage/priority\\_budget.html](http://www.menlopark.org/homepage/priority_budget.html). Or, for more information you can call 650-330-6646 or email [menloparkbudget@menlopark.org](mailto:menloparkbudget@menlopark.org).