MAYOR'S COUNCIL OF ECONOMIC ADVISORS

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July 10, 2002

Honorable Alan Autry
Mayor
City of Fresno
2600 Fresno Street
Fresno, CA 93721

Dear Mayor Autry:

At your request, the Mayor's Council of Economic Advisors has reviewed several of the major economically sensitive matters pending before the City Council and being considered to balance the Fresno City budget for Fiscal Year 2002-2003. While we are not technically "advisors" to the City Council, we are copying this letter to this policy making body because our advice applies as much to them as it does to you. Our advice is being offered in the context of the near and long term issues facing the City of Fresno.

The **near term issue** is how to balance the 2002-2003 budget while retaining a prudent reserve for the possible State-level fiscal crisis that may emerge after the November elections and in a way that does not jeopardize the long-term interests of the Citizens of Fresno. To put this issue in perspective, we would first like to discuss the long-term issue.

The **long-term issue** becomes apparent from an analysis of the revenue and spending trends for the City, particularly as regards the General Fund. While revenues have grown at a modest rate in the last few years, expenditures for public safety have grown at double-digit rates and now account for 70% of the City's General Fund. With public safety spending expected to continue to increase in the post-September 11 era, the entire General Fund will be consumed by public safety

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spending within four to five years if changes are not made. As you know, the Council of Economic Advisors has initiated a comprehensive analysis of revenue sources and spending efficiencies, aimed at ensuring the fiscal means to support the **four cornerstones** on which your administration constructed the City's FY 2002-3 budget:

- Maintain service levels and increase efficiencies
- Protect the reserves
- Increase public safety
- Invest in downtown revitalization – Vision 2010

These four cornerstones, as you know, are all interrelated. For example, renewing the downtown area is, at least in part, a function of increasing public safety and delivering quality City services, which in turn is related to showing fiscal responsibility and constant improvement in efficiencies. These interrelationships are being addressed in our analysis by adherence to the following **principles**:

1. **Provide services comparable to those of the best-managed U.S. cities of our size.** If your objectives are to be achieved, it is important that Fresno be in the top quartile of U.S. cities in the level and quality of services it delivers to its citizens. We are in the process of collecting data to enable us to set measurable goals.

2. **Deliver services at a high level of efficiency.** Our objective should be to deliver services in the most effective and efficient way, consistent with the practices used in the best-managed cities across the U.S. No alternatives will be excluded in our evaluation of best practices. In addition to looking at greater efficiencies by the City Workforce, we are asking the City Manager to explore managed competition opportunities, out-sourcing, increased use of volunteers and any other best practices we uncover in our analysis.

3. **Adjust the combination of City taxes and service fees to levels that are competitive with peer cities.** We seek a balance here that is fair to the citizens of Fresno. City taxes and service fees should be at a level that generates the revenues necessary to deliver quality services but not so high as to penalize our citizens or discourage the business investment we need to create employment opportunities. If taxes and fees are currently too high or too low, they should be gradually adjusted to levels comparable to those of the best managed cities in our peer group. It should be noted here that a comparison against other cities must be addressed holistically, i.e., we must look at the sum of all taxes and service fees paid by citizens and businesses in one community vs. another.

   We understand that the City of Fresno has the lowest General Fund revenue per capita of any comparable City in California. This is probably not optimal. Our analysis will evaluate all the current sources of revenue for the City as well as

alternative sources being used by other well-managed cities, such as a sales tax for public safety or a broad utility user tax.

4. **Use the General Fund only for its Intended Purpose.** As mentioned above, the General Fund will be severely stressed in the next few years. It should be used only for its intended purpose and not to subsidize fee-supported departments, generally known as Enterprise Departments, which should be self-sustaining. Enterprise Departments, such as the Fresno Yosemite International Airport (FYI), Fresno Area Transit (FAX), and the Public Utilities Department (which has separate funds for Water, Wastewater and Solid Waste) should be run like a business, and cover their own expenses. Since they are non-profit business enterprises, bills to customers should cover actual costs and proceeds should not be used for other purposes. This is also the intent of State law governing fee supported City services. It is poor public policy to use scarce General Fund dollars to pay for trash collection, airport improvements or operations and similar Enterprise functions.

5. **Enhance the City's ability to attract employers.** The City must address its chronic unemployment problem. Everything possible should be done to make Fresno an attractive and cost-effective location for potential employers. All fiscal policy should be carefully evaluated on its potential impact on economic development and job creation. Positive impacts will create tax revenues and create an upward spiral for the City. Negative impacts will create a downward spiral.

6. **Be fiscally conservative – provide a reasonable reserve.** This is important not only in expectation of a potential state-level crisis following the November elections. The situation our State finds itself in today, after years of generating surpluses, is sufficient evidence of the importance of setting aside a reserve for the City of Fresno to be able to deal with adverse economic conditions. We applaud your objective of maintaining a reserve during your administration and leaving a reserve for your successor.

As you know, our analysis is scheduled for completion by the end of this calendar year. However, the same criteria listed above can be applied to the evaluation of the proposals that have been made recently for resolution of the 2002-2003 budget shortfall.

A. The **Solid Waste fee increases** should be supported as proposed since in the near term there appears to be no other choice that does not seriously harm the City of Fresno. This is consistent with the principle that Enterprise Departments should be self-sustaining. There has not been a solid waste rate increase for eight years, while the Consumer Price Index has gone up 20%. Even more important in this context is the principle that all fiscal policy should be evaluated on its potential impact on economic development. Failure to adhere to the bond covenants on the City's $18.7 million solid-waste bond would not only affect the city's credit rating

and force future bonds issued by the city to have junk-bond status, but also cause a devastatingly negative impact on the image of Fresno.

Having said that, we also want to urge you and the City Council to conduct a fair review of the potential cost savings of contracting out commercial waste collection in time to potentially issue a contract if warranted before next fiscal year.

B. Our position on elimination of the **Business Tax Cap** is that such an action is, at best, premature, and at worst, ill conceived. The amount of revenue in question is relatively small, yet the symbolic importance of this action may have a significant negative impact on economic development. The Council of Economic Advisors will consider this among the various revenue-generating options in its comprehensive analysis due by the end of this calendar year. When that analysis is complete, we expect to put forward a case that the sum of all proposed City taxes and fees is fair to the citizens of Fresno in every respect, i.e., adequate to fund the delivery of quality services but not so high as to penalize our citizens or discourage the business investment we need to create employment opportunities. Our advice is that further consideration of this issue be tabled until that time.

C. On **improving efficiencies within the City**, we have seen some encouraging information, but overall the data presented to us has been insufficient to determine if the City of Fresno is operating more or less efficiently than other city governments. The Budget just adopted (except for those matters still in dispute) contains a variety of performance goals that should allow you and us to evaluate whether efficiency improvements in the City are occurring. These are positive steps, as far as they go, assuming City Departments accurately document their performance, but we should go farther. As we have discussed with you, an explicit operational goal for the City Manager should be to deliver services at a level of efficiency comparable to that of the best managed cities of our size in California.

In addition, immediate attention should be placed on seeking alternative, more cost-effective ways of delivering services. As with commercial waste collection, which we understand the City Council has now agreed to allow a private commercial firm to bid on, we believe managed competition should be expanded. We would explicitly like you and the City Council to consider for managed competition the Convention Center itself (not just the Visitors and Convention Bureau), Parks maintenance throughout the City, all solid waste collection (not just commercial waste), the information technology services (voted down by the City Council earlier this year), as well as other departments and services. The criteria should be clear and simple: the requisite quality of service at the lowest possible cost. That is what we believe the citizens of Fresno expect of City government. The City Manager must be given the organizational latitude and support to make these things happen.

Finally, we urge the City to keep in mind the great spirit of volunteerism that exists in our City. A great number of residents are ready to step forward and help this community if asked. This Council of Economic Advisors serves as volunteers, and throughout the City we find hundreds and thousands more already helping or willing to step forward. The President emphasized the role of volunteers in his State of the Union message, and explicitly added that volunteers can help in Homeland Defense as well as in other areas. We believe the expanded use of volunteers can supplement the work of the police department and other public safety activities, help neighborhood improvements, support code enforcement, work in recreation centers and parks and help improve the quality of life for our citizens in other ways. We should not forget this great resource, and use it to make scarce tax dollars go further.

We close by urging you and the City Council to bring the budget discussions to a prompt conclusion. While public debate is always healthy, a protracted discussion of issues that create doubts about our commitment to meet bond covenants or to maintain a stable, responsible and well thought out fiscal environment for current and potential employers is not in the best interests of the citizens of Fresno.

We look forward to working with you and City Staff on these matters in the weeks and months to come.

Sincerely

MAYOR'S COUNCIL OF ECONOMIC ADVISORS

By: _____
Dr. Joseph J. Renbera
Chair

cc: City Councilmembers