City of El Monte
Financial Sustainability Plan

December 2014

Management Partners

December 10, 2014

Mr. Raul Godinez II
City Manager
City of El Monte
11333 Valley Boulevard
El Monte, CA 91731

Dear Mr. Godinez:

Management Partners is pleased to transmit this report containing the results of our analysis and recommendations for achieving financial sustainability. The purpose of the analysis was to identify ways to reduce costs and increase revenue so the City of El Monte can align expenditures with annual revenues.

El Monte was affected by the recent serious economic recession and has already taken steps to reduce costs. Nevertheless, costs continue to outpace revenues and budget deficits are projected for the next several years. These deficits will worsen once the city's half-cent sales tax, Measure GG, sunsets and the City's Retirement Tax Fund is depleted in 2019. The magnitude of the projected deficits means El Monte should concentrate on financial sustainability strategies that could generate significant finance benefit *and* are within the City's control.

The options available to El Monte are difficult ones. This report contains alternatives that, if implemented, will help enhance revenues, reduce expenditures, and improve efficiency of the City's operations. Asking voters to permanently extend Measure GG would maintain critical sales tax revenues totaling $4.35 million annually. Increasing the City's special retirement tax to the maximum allowed by law would generate $3.7 million annually, prevent the General Fund from having to subsidize retirement costs, and reduce the amount of ongoing budget cuts needed to maintain the City's established 15% reserve level from between $8 and $11 million to approximately $4 million, although the high tax burden already placed on the community makes this a less desirable option. In addition, the City should conduct a comprehensive study of all fees as a first step towards improving cost recovery.

Alternatives for reducing expenditures include negotiating with Los Angeles County to re-close one fire station which would save approximately $2.2 million annually. Contracting for police air support services would reduce costs for El Monte and the five agencies it serves by approximately $263,000, and allow staff to be redeployed to patrol and investigations where they are needed. However, it would trigger the need to pay for in-kind computer-aided dispatch and records management system services that are being provided by the City of West Covina. In addition, there are a variety of options for changing compensation and benefits to either reduce costs or limit their future growth that El Monte should consider as it negotiates new contracts with all labor associations in 2015. This report also contains recommendations to improve efficiency through better leveraging and investment in technology and measuring performance to identify opportunities for continuous improvement. Conducting comprehensive organization reviews of each department could identify process improvements and service delivery alternatives that would generate additional efficiencies.

We appreciate your support of this project and the assistance and collaboration of staff in providing data and a variety of information essential to our analysis. We also appreciate the opportunity to perform this work for the City of El Monte and the community you serve.

Sincerely,

Gerald E. Newfarmer
President and CEO

Table of Contents

Tables

Figures

Executive Summary

Like many cities, El Monte has experienced financial challenges exacerbated by the Great Recession, which had a significant negative impact on the City of El Monte's revenues. To address General Fund budget shortfalls the City asked voters to increase revenues, controlled expenditures, strategically reduced some services, and utilized reserves. These efforts allowed El Monte to continue to provide basic services but have not been enough to address the General Fund's overall structural imbalance.

As a result of El Monte's declining financial outlook, City leaders recognized the importance of fully understanding the fiscal challenges and determining if there are additional actions that can be taken to achieve financial sustainability. Management Partners was retained to develop a financial sustainability plan with two core components: (1) a long-term financial forecast model that can be used to inform decision making about various options, and (2) a menu of alternatives that are available to El Monte to bring its budget into balance.

Management Partners used a variety of analytical and management techniques to develop the financial sustainability plan. This included a review of documents, interviews with staff and elected officials, employee focus groups, and an employee survey. We also conducted benchmarking with comparable peer agencies and analyzed memorandums of understanding and side letter agreements. A long-term forecasting model was developed to help staff and policy makers understand the fiscal impacts of potential decisions and training was provided to staff on its use.

Based on the information gathered through the interviews, focus groups and employee survey, El Monte is struggling as an organization. Significant reductions in staffing, without commensurate reductions in service levels or expectations, have caused El Monte to be reactive instead of proactive. Morale and trust in leadership are reported to be low, and high turnover in the City's executive leadership has eroded teamwork, communication, and collaboration between departments.

There are significant deficiencies in El Monte's basic management systems to support efficient operations. Information technology is not being used to its fullest potential, systems and standards for recordkeeping are poor, and there is a lack of written policies and procedures. The absence of investment planning for basic infrastructure and operational needs is of significant concern. Many of these management system deficiencies inhibited Management Partners' analysis related to the long-term financial forecast and options available to achieve financial sustainability.

A review of El Monte's current budget and recent financial history shows that the majority of revenues come from just three sources: property tax, sales tax, and utility users' tax. El Monte is somewhat unique in having a special property tax to fund retirement costs. Proceeds from the retirement tax are retained in a restricted fund to pay for California Public Employees Retirement System (CalPERS) retirement costs. The major cost drivers for the City's General Fund are related to personnel in the form of compensation, retirement costs, and the costs to provide health benefits to retirees.

Management Partners modeled four budget forecast scenarios, each with different assumptions. These assumptions include the impacts of a modest recession in 2017. The budget forecast scenarios illustrate El Monte will experience significant budget deficits over the next several years. These deficits are caused by a combination of eroded revenues, increased compensation, and higher retirement costs. They will worsen once the City's half-cent sales and use tax (Measure GG) sunsets in 2019, and the Retirement Tax Fund is depleted in 2019 as projected in the budget forecast scenarios.

Achieving financial sustainability will require the City to carefully monitor revenues and expenditures, as well as the financial implications of significant decisions. This report contains a number of recommended budget and financial policies that should be adopted and practiced by El Monte as a financial sustainability strategy. It also contains recommendations for improving the utility and transparency of the City's budget document.

To eliminate El Monte's projected structural budget deficits we recommend a multi-pronged approach that includes revenue enhancements, changes in compensation and benefits, expenditure reductions, and efficiency improvements. A complete list of recommendations is provided as Attachment A.

The alternatives presented in this report are difficult and there are no easy choices. The most significant revenue enhancements will require voter approval and/or political courage. Compensation changes will need to be negotiated with employee associations. A summary of alternatives for increased revenue and cost reduction to consider is provided in Table 1 below. Attachment A contains the complete list of recommendations from this study. Order of magnitude estimates of savings are shown in Table 1 to the extent they could be quantified. More detailed analysis will be required to ascertain actual savings.

Table 1. Summary List of Alternatives for Achieving Financial Sustainability

Strategies	Estimated Annual Financial Impact
REVENUE ENHANCEMENTS	
Obtain voter approval to extend Measure GG	$4.35 million
Increase the retirement tax rate to the maximum allowed	$3.7 million
Conduct a comprehensive fee study; establish a cost recovery policy for each type of fee	To be determined
COMPENSATION CHANGES	
Stop paying the Employer Paid Member Contribution (EPMC) to retirement	$767,953
Modify the City's contribution to deferred compensation	$49,100
Eliminate cash in lieu of medical insurance	$1,056,035
Close the retiree health plan to new hires	To be determined
Limit retiree health contributions for police employees to the individual cost (instead of the family cost)	To be determined
Provide a lower health insurance contribution for retiree health than for active employees	To be determined
Begin making payments toward retiree health unfunded liabilities as resources become available	Savings of 25-35% over 30 years
Follow the Fair Labor Standards Act standard for calculating overtime	$280,600
Exclude new hires from eligibility for longevity pay	To be determined
Reduce career development pay	$314,940
Eliminate shooting pay	$94,600
EXPENDITURE REDUCTIONS	
Close one fire station	$2,213,100
Contract for police air support services with Los Angeles County	$262,933

Strategies	Estimated Annual Financial Impact
Negotiate a higher cost-recovery rate for the School Resource Office program	To be determined
Outsource landscaping maintenance functions	$112,000
Consolidate vehicle maintenance functions	To be determined
Reduce the number of City special events	To be determined
Transition ribbon cutting ceremonies to the El Monte/South El Monte Chamber of Commerce	To be determined
EFFICIENCY IMPROVEMENTS	
Develop and implement a Citywide technology investment plan	To be determined
Implement a position control system	To be determined
Establish a plan and funding mechanism for a geographic information system	To be determined
Implement a permit tracking system	To be determined
Install a computerized maintenance management system	To be determined
Develop and implement a performance measurement program	To be determined

Reducing costs does not happen without work. Given the urgency of the need to make structural changes, the City is advised to assign staff to this task and set aside other lower priority work. Additionally, this is a time where other new initiatives, programs, or services should not come forward. Since having a balanced budget and ensuring stability of the City is critical for any work to advance, Management Partners suggests that policy makers and management prioritize this as the most essential work to be done in the near term.

Because some of the alternatives impact employees, it will be important for employees to be engaged in solutions. The City depends on its committed, capable staff to deliver valued community services. Thus, budget balancing is not an independent act – it is one that affects and involves employees, their families, and their livelihoods. The community is also affected when services are reduced. A transparent, open, engaging process will be essential to creating a healthy, sustainable organization comprised of committed, competent, and capable staff in the future.

The first step in achieving a healthy, sustainable organization is to stabilize the budget, which is the focus of this report. Once the budget is stable, the City can then focus on ways to grow and thrive. Bold, decisive action will be needed to implement changes in the City's revenue and cost structures. Achieving financial health – both to stabilize the budget and to realize sustainability and growth – will require a partnership of the City Council, staff, and community.

Project Approach

Management Partners used a variety of analytical and management techniques in completing this study. We examined documents, conducted interviews, administered an employee survey, and facilitated three employee focus groups. We also analyzed each labor association memorandum of understanding (MOU) and conducted benchmarking with comparable municipalities. Finally, we developed a forecasting model that has been provided to City staff for future use.

Document Review

Management Partners reviewed a variety of documents and other city-provided data during the course of this engagement. These included:

- Financial documents and reports including adopted budgets and Comprehensive Annual Financial Reports (CAFRs) from FY 2007-08 through FY 2012-13
- Payment schedules and reports for sales tax, property tax, utility users' tax, and other revenues
- Retirement Tax authorizing resolutions and legal opinions
- City fee schedules
- MOUs and side letter agreements for all labor associations as well as compensation and benefits information for unrepresented employees
- Employee payroll and compensation data
- Actuarial reports for California Public Employee Retirement System (CalPERS) and Public Agency Retirement Services (PARS) benefits and Other Post-Employment Benefits (OPEB)
- General liability and workers' compensation program actuarial reports
- Building permit and total valuation reports for FY 2007-08 through FY 2013-14
- Department-specific program, budget, and staffing information
- Historical data for Police Department calls for service and crime trends

- Agreements for a variety of contracted services including crossing guard, school resource officers, air support, animal control, and fire services

Interviews

A total of 32 interviews were conducted with department directors, division managers, City Council members, other elected officials, and leaders from the City's various labor associations. In addition, interviews were conducted with the Los Angeles County Fire Division Chief responsible for El Monte and a representative from the International Association of Fire Fighters (IAFF) Local 1014. The purpose of the interviews was to learn about changes El Monte had experienced due to its fiscal challenges and to gather ideas and suggestions for improving financial sustainability in the future.

Employee Focus Groups

Management Partners conducted three focus groups of employees on July 28, 2014. A total of 39 employees participated, representing different departments and levels of the organization. Two of the focus groups included line staff while one consisted of mid-managers. The purpose of the focus groups was to solicit ideas and suggestions for improving the City's financial sustainability in the following areas:

- Increasing revenues
- Improving efficiency
- Reducing costs
- Reducing or eliminating services
- Delivering services differently

Many of the thoughts that participants expressed were similar from one focus group to the next, illustrating the shared perceptions that employees have throughout the City. A summary of the focus group results is provided as Attachment B.

Employee Survey

Management Partners conducted an online survey that was available to City employees August 4–16, 2014. The survey was designed to encourage input from all El Monte employees, specifically to solicit their ideas for increasing revenues, reducing costs, improving efficiency, and reducing or eliminating services. The questions were similar to those asked in the employee focus groups. Out of 244 individuals who were sent a link to the online survey, a total of 42 responded, translating to a 17% response rate. Employees may have been less likely to respond if they had already participated in an interview or focus group. We also found it interesting that the majority of respondents indicated they do not live in the City. Attachment C contains a summary of the survey results.

Sustainability Idea Analysis

Numerous ideas and suggestions for achieving financial sustainability were gathered through interviews, focus groups, and the employee survey. Management Partners reviewed, refined, and consolidated the ideas into several categories and then conducted an initial analysis of their potential.

Scoring criteria were applied to calculate a numeric score for financial benefit based on return on investment, the magnitude of the potential benefit, and the complexity of implementation. A numeric score also was calculated for degree of difficulty, taking into account the existence of successful models, the potential for service level degradation, and potential complications related to labor association agreements. These numeric scores were then used to create a financial benefit/degree of difficulty ratio. Analysis was prioritized for the ideas that resulted in the highest ratios, although some ideas were ultimately excluded because they have little potential benefit to the City's General Fund, are impractical, or would be addressed through other ideas being considered.

The results of the sustainability idea analysis are summarized in Attachment D.

Benchmarking

Benchmarking is used to identify where an agency stands in comparison with similar organizations. It is useful to determine whether an agency is at the polar ends of a scale or somewhere in the middle and is particularly useful in identifying the reasons other agencies may be more efficient in performing certain functions and operations.

In consultation with the City, six cities were identified for purposes of comparing General Fund revenues and expenditures, citywide staffing, public safety budgets, and public safety full-time equivalent employees (FTEs). Criteria used to select peer agencies included population, size of operating budgets and staffing, services provided, and geographic proximity to El Monte. Unless otherwise noted, data were obtained from adopted FY 2013-14 budgets. The City of South Gate's website has been under construction throughout the course of this project. Consequently, data for South Gate was obtained through an electronic survey completed by a representative from the Finance Department. Table 2 below shows the peer cities and their populations.

Table 2. Peer Cities

Peer	Population[1]
El Monte	115,064
Pomona	151,713
Downey	113,363
Inglewood	111,795
West Covina	107,828
South Gate	96,057
Whittier	86,538

[1] *Source: California Department of Finance; January 2014 data*

MOU Analysis

Management Partners analyzed memorandums of understanding and side letter agreements for the following recognized labor associations:

- Service Employees International Union 721 (SEIU)
- General Mid Managers' Association (GMMA)
- Police Mid Managers' Association (PMMA)
- Police Officers' Association (POA)

The purpose of the analysis was to identify the types of compensation that significantly contribute to overall personnel costs or are unusual for local government agencies comparable to El Monte. After identifying the individual cost drivers by bargaining unit, we worked with City staff to calculate the annual costs associated with each specialty pay and benefit. In addition, compensation and benefits were analyzed for unrepresented employees and the City Council, including a new benefits schedule for executive and director classifications that went into effect on July 1, 2014.

Forecasting Model

Forecasting models can help inform effective policymaking by demonstrating the fiscal impacts of potential decisions. As part of this project we created a long-term forecasting model that has been provided to City staff for future use. The model will allow staff to quickly create various scenarios based on different assumptions and prepare new 10-year forecasts. Through the model, staff can make changes in revenue forecasts as well as changes in expenditure assumptions and then see the results of those changes in both numeric and graphic formats.

More information about the forecasting model and underlying assumptions is provided in a subsequent section of this report.

Current Organizational Environment

While the primary purpose of the interviews, focus groups, and employee survey was to elicit ideas for achieving financial sustainability, they also helped Management Partners learn about El Monte's current organizational environment. We also encountered a number of issues and challenges as we gathered data and conducted our analysis. These common themes and issues provide important context to the financial sustainability plan because they may impact the City's ability to successfully implement some of the available options.

Organizational Culture and Morale

Every organization has a culture that is unique and reflective of the environment and the team. Organizational culture can be deliberate or organic. Either way, it affects the way people and groups interact with each other, customers, City Council members, and other stakeholders. El Monte's employees take great pride in their work and their ability to maintain quality services, particularly over the past several years.

However, the City organization is perceived to be struggling. Part of this is due to a significant decrease in staffing that occurred in 2009, without a significant change in workload or service expectations. During interviews and focus groups work was consistently characterized as being reactive instead of proactive and numerous staff reported difficulty keeping up with workload demands. Staffing reductions also have resulted in a loss of institutional memory and analytical capacity, particularly at the mid-manager level.

Staffing reductions without changes in expectations have forced some employees to assume responsibilities for which they have received little to no training. The lack of adequate staff training results in both longer processing times (because it takes longer to do work that is unfamiliar), and potentially costly mistakes. Examples were provided of some employees performing functions without proper credentials or licenses.

We were told that an unusually high percentage of the staff live in the City. Many have been born and raised in El Monte and feel a strong loyalty to the community. However, morale is universally perceived to be low. This is partly attributed to lack of raises for six years and reductions in pay due to being on furlough for the last five years. But workload, City Council behavior, and other factors also were cited. There is a strong perception that El Monte has become a launching pad for careers elsewhere, particularly for managers and executives.

Trust in leadership was reported to be low. This lack of trust was expressed for both the City Council and the executive team. The City Council is perceived as micromanaging and getting overly involved in daily operations, which slows basic processes down. The City Council's behavior towards staff at public meetings, particularly toward executive staff, is thought to demonstrate a lack of respect and is demoralizing.

Decision making by the executive team is perceived to be slow. It was reported that great ideas are not analyzed quickly enough and there is a tendency to "kick the can down the road" instead of addressing problems head on. When decisions are made, they are not consistently communicated throughout the organization. Staff also would like clearer direction from the executive team on the most and least important priorities so work can be managed more effectively.

High turnover in executive leadership has eroded evidence of teamwork, although rebuilding efforts are underway. Departments tend to operate as independent silos with little concern for how their activities or decisions impact the other departments. Accountability is perceived to be low, particularly for intra-department needs.

Management Systems and Technology

An organization's management system includes the array of policies, practices, and techniques that are used to plan, manage, and communicate the work of the organization. It includes strategic planning, work planning, performance measurement, project management, the budget process, the performance review process, and the fabric of regular meetings that managers use to discuss and decide upon the work of the enterprise. It also includes processes used jointly by management and the governing body such as the City Council agenda preparation process and the budget review and adoption process.

There are deficiencies in El Monte's basic management systems to support efficient operation of the enterprise. For example, there is no apparent personnel position control system. Position control is a method for managing and tracking staffing levels and costs over time. In the local government setting, position control is a shared responsibility between human resources and finance functions that is intended to control the total number of people hired, and consequently, overall personnel costs. It is common for a list of "authorized positions" to be approved as part of the budget process. El Monte has no centralized authorized position list, and it was reported that requests to fill positions are approved without consulting with the Finance Department.

Information technology is not being used to its fullest potential to ensure efficient management of the operation. The City has only three personnel working in Information Technology. Two of these staff members were previously responsible for only supporting the Police Department's software and hardware systems. There is no information technology strategic plan, no functioning geographic information system (GIS), and no project tracking software for either development services or public works functions. There also is no intranet or server to allow document sharing between departments or work groups.

Time reporting is done manually. There are plans to implement the Kronos timekeeping system, but the project has stalled. The payroll system is unable (or staff lacks the training) to provide useful management reports. The budget and finance system (Eden) is reported to be challenging to use and does not provide useful management reports, although this may be a function of inadequate training.

Systems and standards for recordkeeping are poor or nonexistent. There is some document imaging, but the backlog is reported to be at least three years. As a result, basic records are not available for electronic retrieval. There is no centralized recordkeeping for agreements or contracts, or if there is, it does not appear to be reliable. We learned that the contract City Attorney has become the repository for certain official documents instead of the City Clerk's Office, out of necessity.

There is a lack of policies and procedures to help guide staff through important internal processes. When policies and procedures do exist, they are likely to be department specific. However, the policies of one department may not be consistent with similar policies being followed by other departments.

Although there is a purchasing agent, purchasing is perceived to be decentralized. During interviews and focus groups staff tended to confuse purchasing with having a central stores function. Such a function used to exist in El Monte, but no longer does.

A common theme from interviews, focus groups, and the employee survey is that meetings are not productive or effective in making decisions and coordinating the work necessary to implement decisions. There is a strong perception there are too many meetings and they are frequently scheduled without a stated purpose or agenda so staff can come prepared.

We found an absence of investment planning for basic infrastructure and operational needs. For example, there is no vehicle replacement plan, no facilities maintenance plan, or information technology investment plan. There is also no street improvement plan, or water and sewer master plan to address deferred maintenance needs. Without these, it is difficult, if not impossible, for El Monte to quantify and plan for future funding of the infrastructure and equipment essential to providing public services.

Many of these management system deficiencies impacted the analysis related to the long-term financial forecast and options for achieving financial sustainability. The City's lack of strategic planning, capital planning, and other operational investment planning, combined with a lack of analytical capacity and poor recordkeeping systems, should be a significant concern.

General Fund Financial Analysis and Forecast

This section provides an overview of the City's revenue and expenditure trends, its projected financial condition, and key cost drivers within the General Fund.[1]

General Fund Revenues and Expenditures

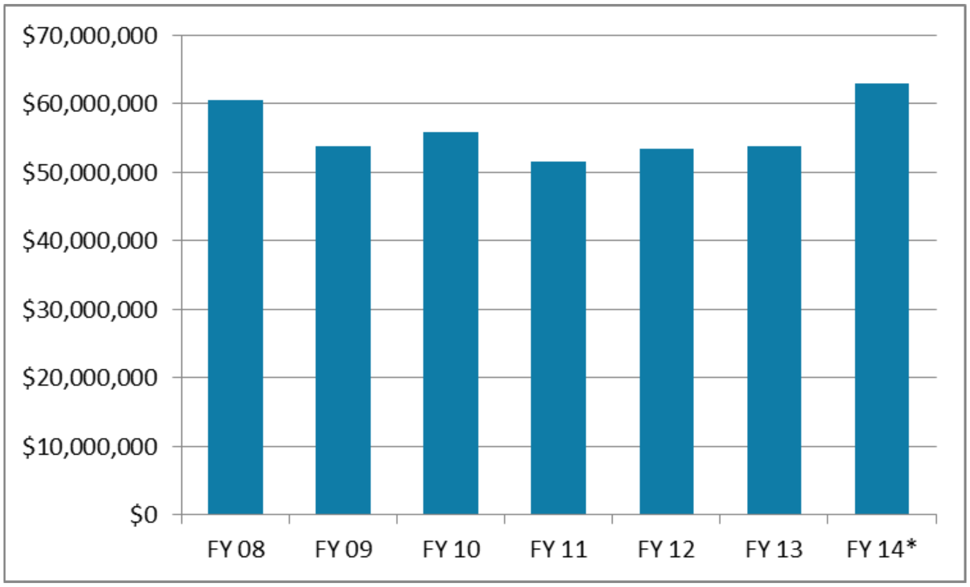
Management Partners conducted an analysis of the City of El Monte's General Fund budget including key revenue sources and cost drivers. Like many communities in California and the nation, the City of El Monte has been challenged by reduced revenues combined with the increasing cost of providing public services. The City Council and staff have made concerted efforts to maintain a balanced budget through the recent recession. Key strategies have included the use of reserves, program and staffing reductions, and obtaining voter approval for a half-cent sales and use tax commonly referred to as Measure GG.

Revenues

A review of the City's actual and projected revenue and expenditure history as reported in its Comprehensive Annual Financial Reports (CAFRs) illustrates some of the financial challenges. Figure 1 below presents actual General Fund revenues from FY 2007-08 as well as budgeted revenues for FY 2013-14.

[1] Amounts have been adjusted since the October 1, 2014 City Council meeting to incorporate updated FY 2013-14 revenue and expenditure numbers provided by staff, and a revised FY 2014-15 estimate by Los Angeles County for fire contract costs. In some cases these adjustments affect baseline budget amounts and thus have an impact in future years as well as for FY 2013-14. Although there is a net positive impact on reserve levels compared to the estimates provided in October, the overall negative trends remain.

Figure 1. City of El Monte General Fund Revenues FY 2007-08 through 2013-14

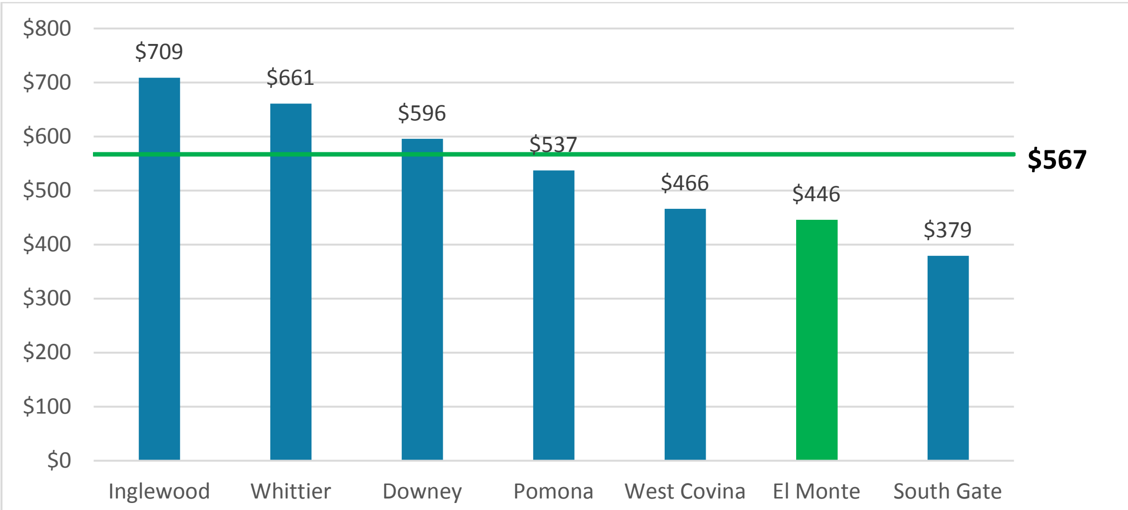


**Estimated actual; includes $4,740,000 in one-time bond proceeds above amount budgeted.*

El Monte's revenues dropped approximately 11% between FY 2007-08 and FY 2008-09, and another 8% between FY 2009-10 and FY 2010-11. Measure GG, the "Essential City Services Preservation and Protection Measure," was first approved by voters in 2008, resulting in a 4% rise in revenues between FY 2008-09 and FY 2009-10. Measure GG was extended by voters in 2013, but it is due to expire in 2019. It currently generates more than $4 million annually in sales tax revenues.

Because of Measure GG, El Monte residents pay a higher sales tax rate than residents of neighboring communities. El Monte also has a higher utility users' tax rate. However, these higher tax rates have not translated into higher per capita revenues for the City. Figure 2 below compares peer general fund revenues per capita. It shows El Monte's revenues per capita are lower than all of the peer agencies except South Gate.

Figure 2. General Fund Revenues per Capita



One possible explanation for the lower per capita revenue despite higher tax rates is the community's economic profile. Table 3 shows El Monte has a lower median household income than any of the peer agencies except South Gate. In fact, El Monte's median household income is only $10 higher. This means El Monte residents have less disposable income to spend on goods and services that contribute to overall tax revenues.

Table 3. Median Household Income

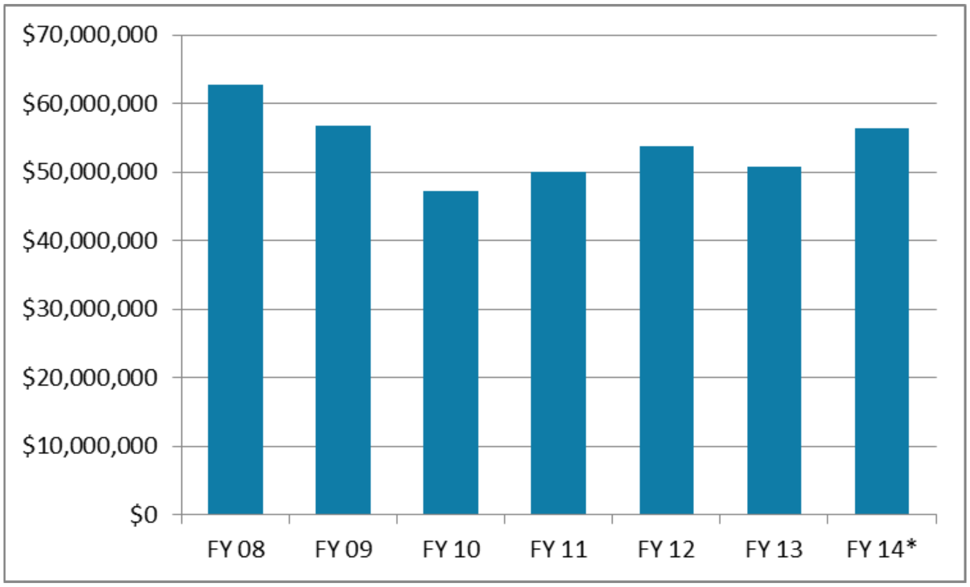
Agency	Median Household Income[1]
El Monte	$41,861
Pomona	$48,864
Downey	$60,132
Inglewood	$44,558
West Covina	$68,677
South Gate	$41,851
Whittier	$67,417

[1] Source: Us Census Bureau, Quick Facts; 2008-2012 data

Expenditures

El Monte took steps to reduce expenditures as revenues declined during the Great Recession. Figure 3 shows actual General Fund expenditures for FY 2007-08 to FY 2012-13, and estimated expenditures for FY 2013-14.

Figure 3. City of El Monte General Fund Expenditures FY 2007-08 through 2013-14



**Estimated actual; includes $4,128,976 in one-time debt service over amount budgeted.*

The largest decline occurred between FY 2007-08 and FY 2009-10, when El Monte reduced General Fund expenditures by 25%. This was accomplished primarily through reductions in the workforce, including the layoff of 19 police officers. The City also negotiated furloughs and other concessions to reduce costs. The City's FY 2013-14 General Fund expenditures (excluding one-time debt service expenditures) remain 17% lower than they were in FY 2007-08.

Benchmarking shows that El Monte is not alone in struggling to balance revenues and expenditures since the Great Recession. Table 4 compares total adopted FY 2013-14 General Fund revenues and expenditures. It shows only Downey's budgeted expenditures were less than revenues. All other cities are dipping into reserves or other sources to balance their budget with Inglewood and South Gate having the most significant budget deficits, approximately $7.8 million and $3.5 million, respectively.

Table 4. FY 2013-14 Adopted General Fund Revenues and Expenditures

Agency	General Fund Revenue	General Fund Expenditures
El Monte	$51,270,100	$51,753,200
Downey	$67,556,475	$66,457,350
Inglewood	$79,267,370	$87,144,584
Pomona	$81,484,022	$81,368,920
South Gate	$36,444,527	$40,002,685
West Covina	$50,267,540	$51,425,759
Whittier	$57,185,044	$58,222,769

Just as El Monte has lower revenue per capita to pay for services, it also has lower expenditures per capita, as shown in Figure 4. At $450 El Monte is well below the peer median of $561.

Figure 4. General Fund Expenditures per Capita

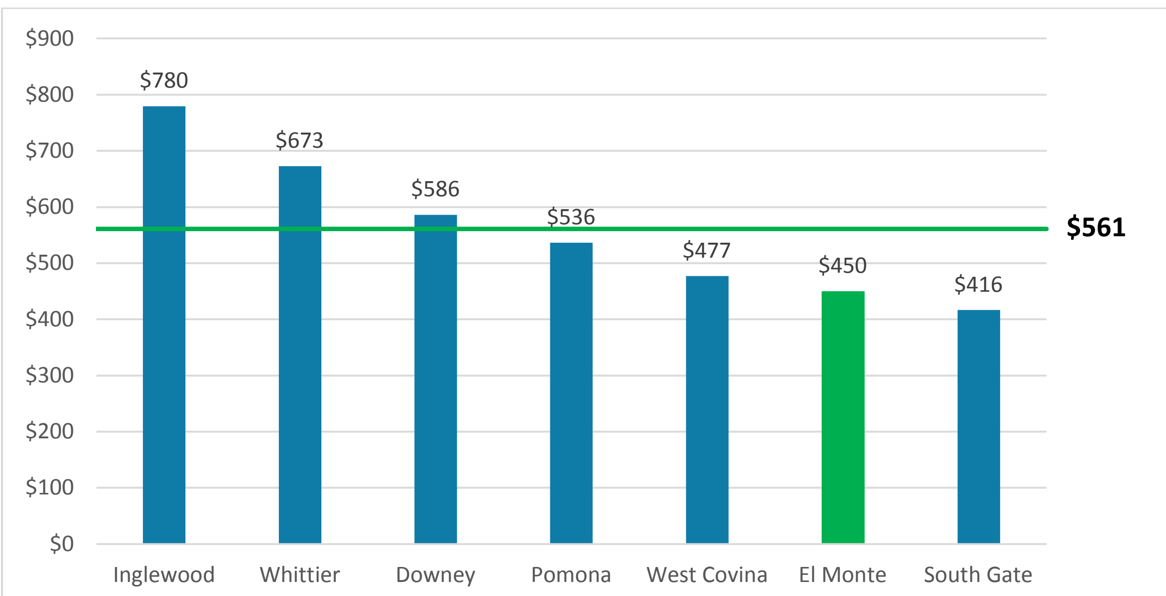
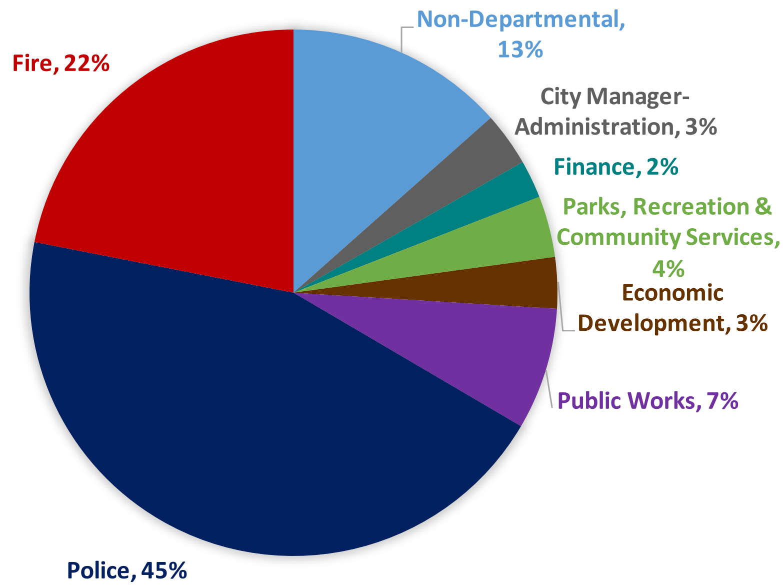


Figure 5 shows El Monte's adopted FY 2013-14 General Fund expenditures by department. The largest investment of resources is for public safety (police and fire), at approximately 67% of total expenditures.

Figure 5. City of El Monte FY 2013-14 General Fund Expenditures by Department



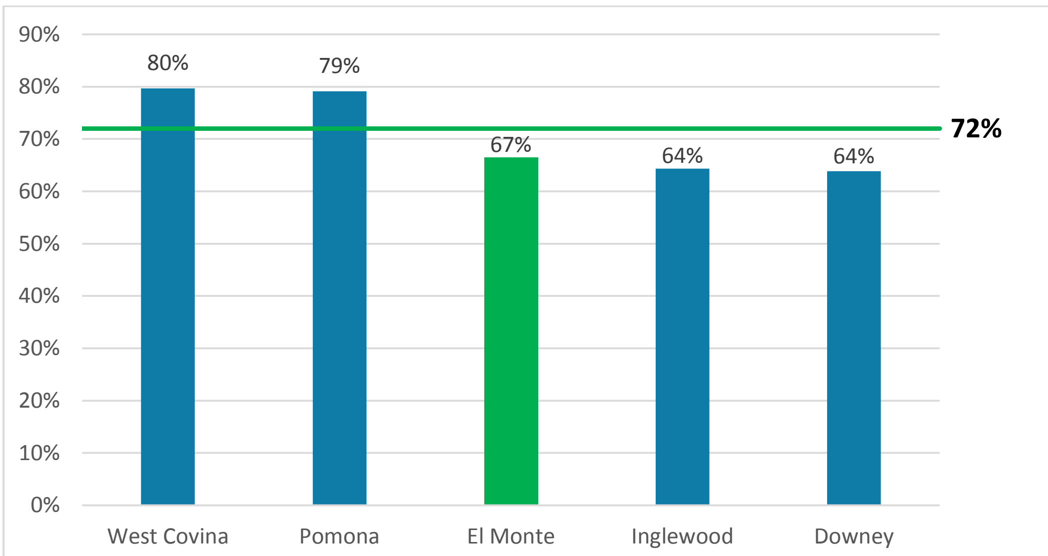
El Monte uses a non-departmental account for certain types of expenses that are applicable to the City organization as a whole. Non-departmental expenditures include general administrative charges for telephones, utilities, postage and supplies, and debt service for Certificates of Participation issued in 2003 related to a lease agreement between the City and the El Monte Community Redevelopment Agency.

It is not uncommon for municipalities to establish a non-department account for costs that may be difficult to allocate to a specific department or program, such as debt service or utilities. However, the City's non-departmental account also pays for employee benefits, workers' compensation insurance, retiree medical insurance, compensated absences (vacation and sick leave), employer-paid contributions to deferred compensation, and employer costs for the PARS enhanced retirement plan for miscellaneous employees. Approximately 34% ($2.38 million) of the non-departmental budget is for employee benefits costs. One consequence of this practice is the amounts reflected in El Monte's operating department budgets significantly understate the full cost of providing services.

Public Safety Expenditures

Figure 6 compares public safety general fund expenditures (police and fire) as a percentage of total general fund expenditures. South Gate and Whittier have been excluded from this figure because they do not make payments to the Los Angeles County Fire Department for fire services. Instead, payment for those services is received through direct property tax allocation from property owners to Los Angeles County.

Figure 6. Total Public Safety General Fund Expenditures as a Percentage of Total General Fund Expenditures



Unlike El Monte, none of the other peer agencies use a non-departmental account for insurance, employee benefits, and utilities costs. As a result, El Monte's expenditures for police services appear to be lower than they actually are. El Monte does not have a cost allocation plan to quantify each department's share of the non-departmental costs. However, the size of the Police Department's budget relative to the City's other operating departments and the relatively higher cost of public safety benefits would likely cause the total percentage of public safety expenditures to exceed 70% if the benefits and insurance costs were allocated to the department's budget.

El Monte has received fire and emergency medical services (EMS) from the Los Angeles County Fire Department since March 1998. Prior to that time, the City operated its own Fire Department. The City transitioned to participating in the County's regional fire service delivery operation as a cost savings measure.

Table 5 shows the fire service delivery approach (i.e. contract for services or use of City employees), General Fund expenditures for fire services, and fire costs per square mile. This table excludes South Gate and Whittier for the same reasons provided above. It shows that Pomona is paying almost twice as much as El Monte for contracted fire services, but has more than twice the land area, resulting in a lower cost per square mile.

Table 5. Comparison of Fire Service Delivery Approaches and Expenditures

Peer	Service Delivery Approach	Land Area[1]	Fire Expenditures	Cost per Square Mile
Pomona	Contract	22.95	$22,302,982	$971,807
El Monte	Contract	9.56	$11,341,200	$1,186,318
Downey	In house	12.41	$16,160,956	$1,302,253
Inglewood	Contract	9.07	$11,287,500	$1,244,487
West Covina	In house	16.04	$15,843,303	$987,727

[1] *Source: US Census Bureau, Quick Facts; 2010 data*

Figure 7 compares General Fund expenditures for fire services per capita. It shows El Monte pays less per person for fire and EMS than any of the other peer agencies, including three that also contract with Los Angeles County (Pomona, Inglewood and Downey). South Gate and Whittier have been excluded from this figure because there are no direct payments from these cities to the Los Angeles County Fire Department for services rendered.

Figure 7. General Fund Fire Expenditures per Capita

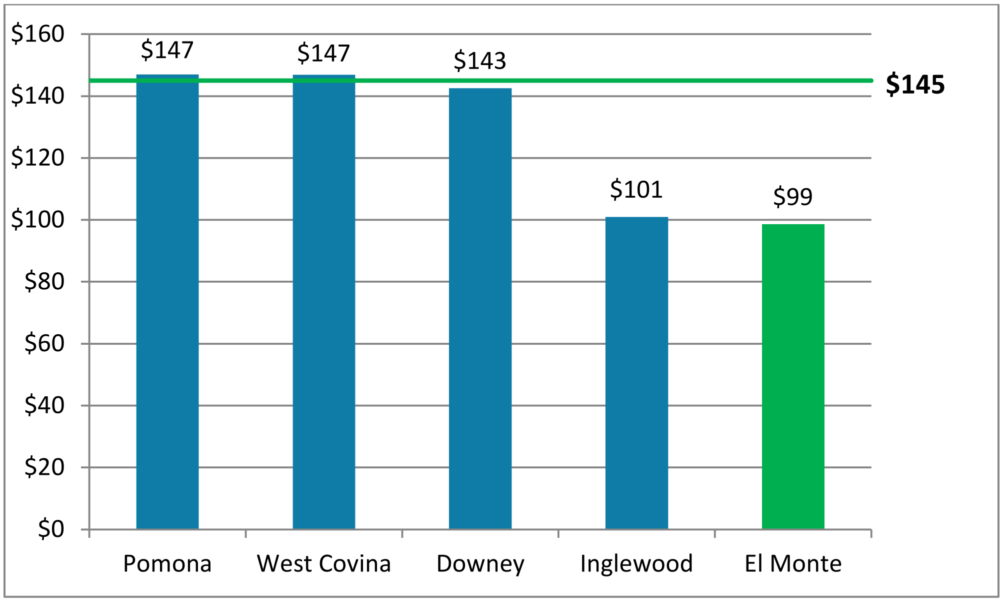


Figure 8 compares police general fund expenditures per capita. As discussed previously, the result is distorted by the City's practice of allocating liability and workers' compensation insurance, employee benefits, and other normal operating costs to a non-departmental account. The other peer agencies allocate these costs directly to the police department budget. In the absence of a cost allocation plan for the non-departmental account, it is impossible to determine what El Monte's actual costs per capita are. However, it is reasonable to assume that they are higher and could even exceed the median.

Figure 8. General Fund Police Expenditures per Capita

Baseline Budget Forecast

The purpose of a baseline budget forecast is to project the cost impacts of current levels of staffing and services, including cost increases beyond the City's control, and reasonable estimates of costs that are within its control. Similarly, a baseline forecast projects a reasonable rate of growth for each of the General Fund's revenue sources given past history and likely economic trends. Alternative assumptions for the major revenues and expenditures with the greatest financial significance can then be tested to show their impact on the forecast's bottom line.

Revenues

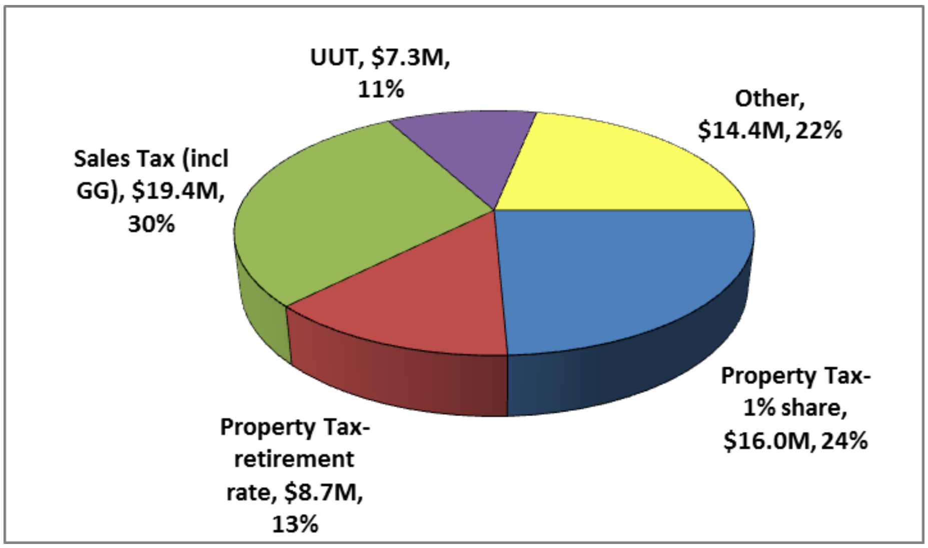
Management Partners evaluated the City's current budget and recent history and concluded that the following revenue factors are the most important for purposes of long-term forecasting.

- Sales tax growth rate
- Property tax growth rate
- Utility users tax growth rate
- Retirement tax rate level

El Monte is somewhat unique in having a special property tax to fund retirement costs. Proceeds are retained in a restricted retirement tax fund from which CalPERS retirement costs are paid.

Figure 9 shows the major revenues for the combined general fund and retirement tax fund. Of special note is that just three sources – property tax, sales tax and utility users' tax – comprise 78% of the total.

Figure 9. El Monte Combined General Fund and Retirement Tax Fund Revenues by Type for FY 2014-15

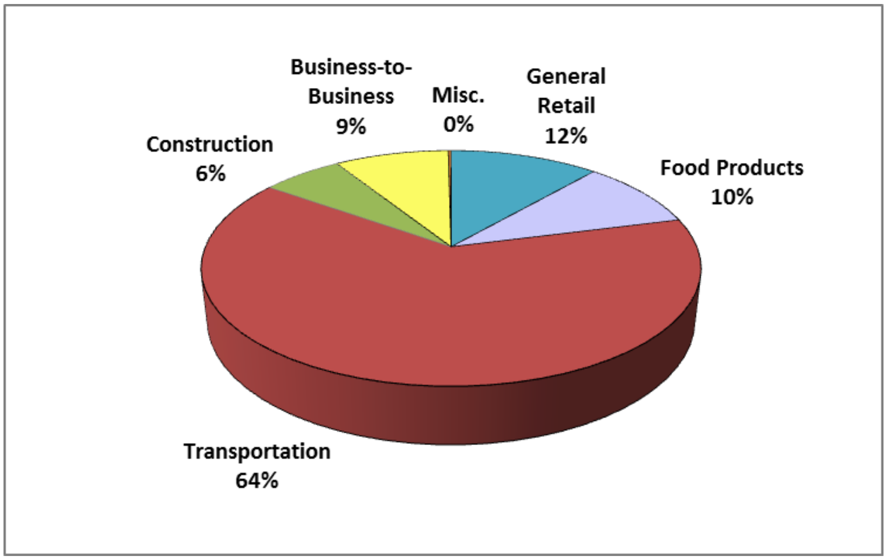


Sales Tax

The Great Recession had a significant negative impact on El Monte's sales tax revenues, which fell from almost $24 million in FY 2006-07 to just over $16 million in FY 2008-09. Sales tax revenues, including Measure GG, are projected to be approximately $19.4 million in FY 2014-15.

Figure 10 presents El Monte's sales tax revenues by economic sector. It shows the City is heavily reliant on revenues from the transportation sector, i.e., vehicle and fuel sales, which comprise 64% of sales tax receipts compared to the statewide average of 25%. El Monte has been hurt by the consolidation of automobile dealerships in response to the poor economy.

Figure 10. El Monte Sales Tax by Economic Sector



General retail is only 12% of El Monte's sales tax base, compared to 28% statewide. The over-concentration of vehicle-related sales combined with the low level of retail sales increases the City's economic risk and revenue volatility. The sales tax is closely linked to trends of economic growth, unemployment, and inflation.

Several factors are or will be negatively influencing sales tax growth.

- *Trends toward purchasing non-taxable services versus taxable commodities.* According to the State Board of Equalization (BOE), taxable sales as a percent of personal income have dropped from a high of 53% in 1979 to 32% in 2011, a trend exacerbated by an aging population. Taxable sales in California today, adjusted for inflation, are 28% lower than in 2000.
- *Taxable sales growth limited to top income earners.* From 2000 to 2010 household spending increased 27%, but all of the net gain is for the top 20% of household income earners. This has ramifications for lower-income communities such as El Monte. According to the U.S. Census Bureau, California real median household income level (adjusted for inflation) has fallen 13.5% from its 2006 peak, nearly back to its 1994 level.
- *Increasing levels of non-taxable sales*. Catalog and internet sales are rising. In fact, they are projected to be 9% of all retail transactions by 2016. In addition, compliance with the self-reported use tax remains low. Future retail trends are for downsized "touch and feel" stores or even "virtual" stores. These factors are likely to

result in a shift in the actual point of sale from local stores to fulfillment distribution centers located in other cities.

- *Technology and lifestyle changes resulting in lower sales tax revenues*. One example of technology changes affecting sales tax is the availability of 3-D printers. These printers can fabricate products to order on-site, but under existing BOE regulations the sales tax applies only to the raw materials used instead of a finished product. This results in a lower tax being paid. Another example is the growing popularity of food trucks. Rather than the tax being generated by brick and mortar restaurants where the city reaps all of the local tax, the sales tax generated from food trucks is allocated by county or state pools resulting in the city receiving only a share of the total.

These factors will act to dampen the expected rate of sales tax growth over time, compared to historical levels.

In 2008 voters passed Measure GG, an additional half-cent sales tax, to support City services. This results in a local sales tax rate of 9.5%, higher than all but three of the cities in the state (all within Los Angeles County). Measure GG is set to expire in 2019. Voter approval would be needed to extend the tax beyond that date.

Property Tax

Property tax has a built-in lag time due to its annual reassessment and semi-annual payment schedule, and a backlog of assessment appeals. Unless a property changes ownership or is newly-constructed, market-level price changes do not influence its assessed value unless its “true” market value falls below the already artificially low Proposition 13 value for the property. Some of this value reduction will be restored as market prices of such properties rise. However, the credit market has changed significantly and may not support the level of median home prices El Monte enjoyed at peak 2006 levels.

The supplemental tax roll accounts for new construction and transfers; however, mid-year changes in revenue are distributed according to the countywide AB 8 factors, which do not ensure that changes are reflected in the community in which they occur. (AB 8 is the state legislation that established property tax distribution requirements for each county after the passage of Proposition 13.) The net change to local tax rate areas is not made to the secured roll until the next assessment year. This is a significant lag time until all property tax-related revenues are received.

The property tax also includes the "property tax in lieu of Vehicle License Fees (VLF)," which is allocated by the County and increases in accordance with growth in the secured roll, and the Community Development Agency (CDA) residual property tax revenue allocated to El Monte after the elimination of redevelopment by the state.

Utility Users Tax

The utility users tax (UUT) applies to gas, electric, waste diversion, cable and telephone services, and there are different growth factors influencing each business sector. Natural gas costs are falling. Electrical rates are volatile based on weather and energy costs. Technology changes and shifts to the non-taxable internet will have long-term adverse impacts on revenues from telephone and cable services.

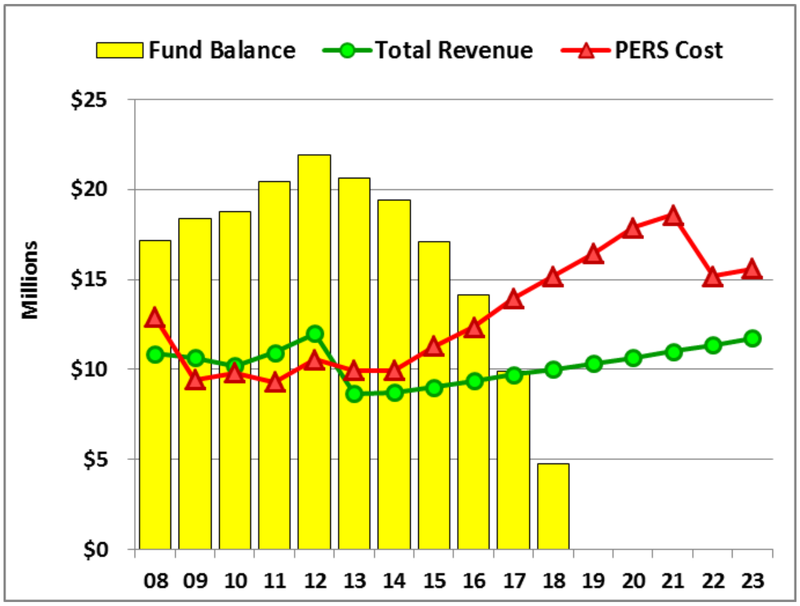
El Monte's UUT rate is 6.5% for communications services and 7% for gas and electricity. This is higher than the California average rate of 5.3%, and the Los Angeles County average rate of 4.7%.

Retirement Tax

El Monte is one of only 24 agencies in California with a special property tax to fund retirement costs. El Monte's retirement tax was established in the 1940's and is currently set at 0.15% of the assessed valuation. The maximum rate or cap that can be assessed is 0.209%. El Monte has used the retirement tax to pay for the costs of CalPERS retirement benefits for its employees. Because the actual costs in some years were less than the retirement tax revenues, the City's Retirement Tax Fund has been able to build up reserves.

Management Partners developed a model that projects future employer-related CalPERS retirement expenditures based on the City's retirement plan, payroll costs, and other factors, including recently approved changes in CalPERS' actuarial assumptions. Figure 11 presents the Retirement Tax Fund total revenues (primarily the 0.15% property tax rate) and past and projected CalPERS expenditures, along with the reserves in the fund. It shows that El Monte's employer retirement costs are projected to increase significantly during the next several years. Assuming the retirement tax rate stays at 0.15% and revenues grow only from projected assessed value increases, the Retirement Tax Fund reserve will decrease as CalPERS costs rapidly increase over the next several years.

Figure 11. Comparison of Projected Retirement Tax Fund Revenues and CalPERS Costs



Once the Retirement Tax Fund reserve is depleted (projected to occur in 2018), the City's General Fund will have to make up for any retirement tax funding shortfalls. This has significant implications that have been factored into the baseline forecast.

Expenditures

After evaluating the City's budget and recent history, the following expenditure factors were determined to be the most important among those over which the City has some element of control:

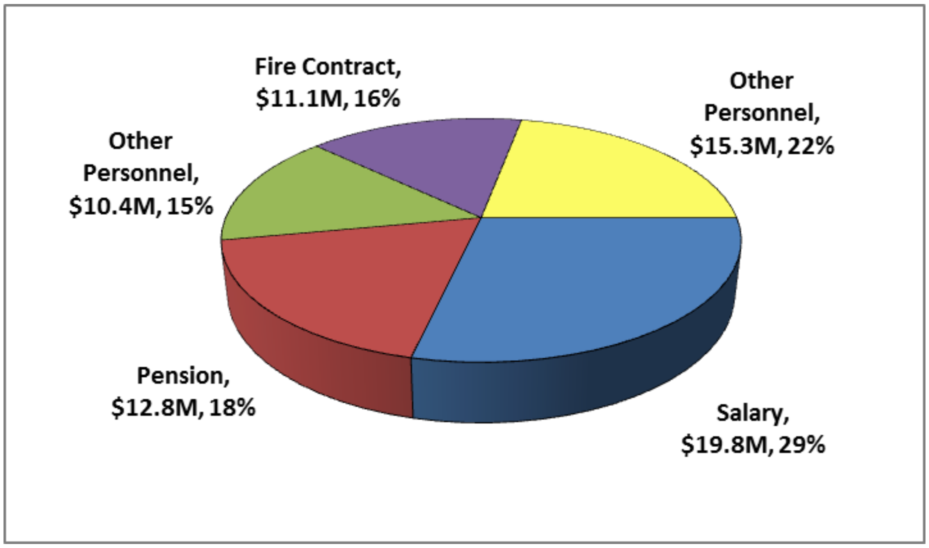
- Payroll growth rate
- Level of contracted fire services
- Police air support unit (helicopter) program
- Retiree medical plan funding level

The following factors are the most important of those over which the City has no control:

- CalPERS rate increases
- PARS plan funding levels
- Health rate increases

Figure 12 shows the major elements of the combined budgeted expenses of the General Fund and Retirement Tax Fund for FY 2014-15. Of special note is that pension costs – CalPERS and PARS combined – total 64% of salary costs, which is a substantial financial burden.

Figure 12. FY 2014-15 General Fund and Retirement Tax Fund Budgeted Expenditures



Cost Drivers

The major cost drivers for the City's General Fund are related to personnel, e.g., compensation, retirement costs, and the costs to provide health benefits to retirees (OPEB). Other costs are the City's debt payments, contracts, commodities such as supplies and materials, and fixed charges. The compensation and benefits cost drivers are described in more detail below.

Compensation

El Monte's costs for compensation have declined every year for the past seven years mainly due to the elimination of positions, mandatory furloughs, and other negotiated concessions that affect employee pay. For example, El Monte employees agreed to defer previously negotiated cost of living adjustments (COLAs) to help the City respond to the Great Recession. In addition to the deferrals, the furloughs amounted to a 10% reduction in employee take-home pay, which was later reduced to 5% when the number of furlough days was reduced. Employees have also agreed to compensation modifications to pay for certain existing benefits.

Table 6 presents actual and budgeted expenditures for full-time and part-time salaries and the percentage change from one fiscal year to the next.

It shows a 19.8% increase in the City's costs for compensation for FY 2014-15 from the prior year. This increase is partly because estimated actual costs for FY 2013-14 included savings from vacant positions, while the budgeted costs for FY 2014-15 assume all positions are filled. In addition, costs are increased due to the end of furloughs.

Table 6. Full-Time and Part-Time Salary Trends, FY 2007-08 through FY 2015-16

Year	Full-time Salaries	Part-time Salaries	Total Costs	Percent Change
FY 08	$22,977,732	$1,755,310	$24,733,042	
FY 09	$21,985,304	$1,564,392	$23,549,696	-4.8%
FY 10	$16,657,398	$1,337,147	$17,994,545	-23.6%
FY 11	$16,534,228	$1,296,347	$17,830,575	-0.9%
FY 12	$16,168,778	$1,526,970	$17,695,748	-0.8%
FY 13	$15,690,504	$1,281,419	$16,971,923	-4.1%
FY 14*	$15,575,680	$1,330,651	$16,906,331	-0.4%
FY 15**	$18,640,500	$1,618,600	$20,259,100	19.8%
FY 16***	$19,299,652	$1,618,600	$20,918,252	3.3%

Source: City of El Monte CAFRs and budget documents
**Estimated actual costs, including savings from vacancies*
***Budgeted costs, which assume no vacancies, and the end of negotiated furloughs*
****Projected salary increases due to COLAs becoming effective January 1, 2016 and merit increases for eligible employees*

Beginning January 1, 2016, the City is obligated to pay the deferred COLAs. The impact of these COLAs, plus normal merit increases for eligible employees, is an increase in personnel costs by approximately 3.3%, as shown in Table 6. The deferred COLAs have implications for other personnel costs such as CalPERS retirement costs, which are a function of total payroll, and specialty pays that are based on a percentage of salary. It is not feasible or practical to avoid paying cost of living adjustments forever because doing so would negatively affect El Monte's ability to attract and retain quality employees. But it should be recognized that such adjustments have significant financial implications.

Retirement Benefits

CalPERS divides the cost for retirement benefits into two parts: (1) the employee rate and (2) the employer rate. What is referred to as the employee rate is set by CalPERS at 9% of compensation for safety employees and 7% for miscellaneous (non-safety) employees. Employer rates are divided between "normal costs" (the employer cost of projected benefits allocated to the current plan year, less employee contributions), and "unfunded liabilities" (the present value of benefits earned to date that are not covered by current plan assets). The unfunded liabilities are amortized over time in stages.

CalPERS has implemented a revised method for rate smoothing and amortization of unfunded costs over a fixed time period. These costs, along with a reduction in the discount rate (the projected rate of return from investments) from 7.75% to 7.5%, were built into the June 30, 2012 valuation provided to each member agency in late October 2013. CalPERS also adopted mortality improvement assumptions that will be incorporated into the June 30, 2013 valuation, along with the initial projections under the Public Employees' Pension Reform Act (PEPRA). The net impact of all of these changes will be a significant increase in employer rates.

Management Partners has developed a model to forecast employer retirement costs over a 40-year period. The model takes into account rate smoothing, amortization and mortality improvement adjustments approved by the CalPERS Board of Directors, and the impact of PEPRA. We used summary payroll data from the El Monte's CAFRs and general ledger and the June 30, 2012 CalPERS valuation report to generate an employer rate forecast for El Monte. The results of the forecast are presented in Figure 13, which shows significant increases for both safety and miscellaneous plans over the next seven years. Currently, the employer rate for El Monte's safety retirement plan is 50.8% of payroll while the rate for the miscellaneous plan is 29.0% of payroll. However, by 2021 these rates will be 34 to 44% higher than they are now.

Figure 13. CalPERS Employer Rate Forecast for El Monte through 2050

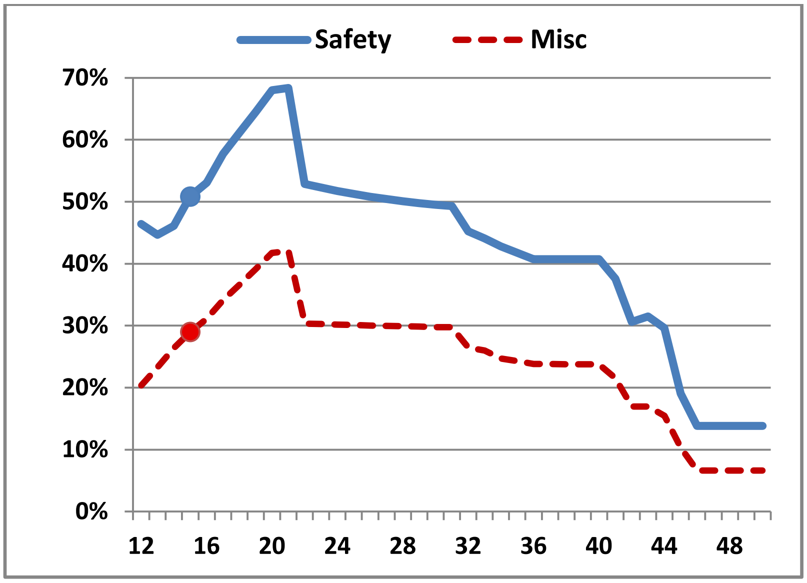


Figure 13 also shows a significant decrease in pension costs after 2022. This is because the largest portion of the City's unfunded liabilities, equivalent to 14.9% of safety payroll and 11.6% for miscellaneous, are scheduled to be paid off at that time, resulting in a reduction in pension costs of approximately $3.4 million. These changes in retirement costs have been incorporated into the baseline forecast.

In addition to the employer share of retirement costs, El Monte has agreed to pay the employee share. Also known as Employer Paid Member Contribution or EPMC, this practice has been common for many agencies. The effect of EPMC is to increase employee retirement pay upon retirement by the percentage being paid by the City, e.g., an $80,000 safety salary is considered to be 9% or $7,200 higher, and the City cost of the benefit is the employer rate (50.8%) plus the employee pickup rate (9%) on that additional amount. El Monte's EPMC cost was $767,954 for FY 2013-14 (see Table 7 below).

El Monte also provides an enhanced retirement plan for miscellaneous employees through Public Agencies Retirement Services (PARS). This enhanced benefit effectively increases the CalPERS "2% at 55" plan to a "3% at 55" plan. Eligibility is limited to employees hired prior to July 1, 2008. Like the CalPERS retirement benefit, the City pays the 5% employee contribution in addition to the employer share of the cost.

According to a July 1, 2012 actuarial report, El Monte should be paying PARS approximately $2.1 million annually, based on an employer rate of 26.08% of covered payroll. However our analysis determined that the City has been paying a rate of only 13.15% for several years. This equates to about $1.1 million, approximately $1 million less than the amount owed to PARS. We understand PARS is preparing a new actuarial report and will incorporate the value of the City's underpayment into new employer rates going forward. For purposes of the baseline forecast, we assumed that total City PARS costs will be 26.08% of covered payroll, or an additional $1 million in annual costs above what was budgeted for FY 2014-15.

Employee and Retiree Health Benefits

In addition to salaries, there are several other compensation and benefits factors that drive El Monte's total personnel costs. Table 7 shows the current annual costs for each of these factors, as well as the EPMC costs referenced above. The top three costs are employee health insurance, overtime, and retiree health benefits.

Table 7. El Monte's Top Compensation and Benefits Cost Drivers

Category	Annual Cost to City
Health Insurance	$2,559,662
Overtime	$1,791,196
Retiree Health	$1,365,060
Career Development Pay	$1,150,519
Cash in Lieu of Medical Insurance	$1,056,035
Employer Paid Member Contribution	$767,954
Longevity Pay	$657,993

Health insurance benefits are provided through a cafeteria plan equal to the lowest cost CalPERS Los Angeles area health maintenance organization (HMO) family rate. If the actual cost for an employee is less than the HMO family rate, the excess may be applied to other insurance costs or paid to the employee in cash. El Monte's annual cost for employee health benefits is more than $2.5 million. In addition, the City paid $1,056,035 in cash to employees who either waived coverage, or chose plans with premiums less than the HMO family rate.

City contributions to retiree medical benefits vary by labor association. Miscellaneous employees (represented by the Service Employees International Union or SEIU) are able to purchase retiree medical benefits at City rates and receive a subsidy equal to the CalPERS cost. The amount of the subsidy is approximately $197,500 annually, which the City pays into a fund managed by SEIU. Each employee also contributes $45 per month to the fund. Members of the General Mid-Managers Association (GMMA) receive retiree health benefits through the City, which contributes the amount equal to the CalPERS employee only rate. Employees must be 55 with 15 years of service to qualify for retiree health benefits. For the Police Mid-Managers Association (PMMA) and Police Officers Association (POA), El Monte pays the Kaiser health rate for employee only, employee plus one, or family, depending on the individual needs of the employee. Retiree health benefits currently cost the City $1.3 million annually.

Overtime and Specialty Pay

It is not uncommon for overtime, career development pay, and other specialty pay to be significant cost drivers for municipalities. Overtime is a normal part of providing services, particularly public safety services. Additional compensation in the form of specialty pays such as career development pay and longevity pay were negotiated many years ago, presumably to incentivize ongoing professional development and organizational loyalty. Because they tend to be negotiated incrementally and may not be applied to all labor groups, the full magnitude of such costs may not be recognized until an independent analysis is conducted.

Budget Forecast Scenarios

To illustrate the severity of El Monte's projected financial condition, we modeled four budget forecast scenarios, each with different assumptions.

Scenario 1: Baseline Budget Forecast

The first scenario projects revenues and expenditures assuming the baseline budget with no future increases in labor costs. The following are the key assumptions for the baseline scenario.

- Negotiated cost-of-living adjustments (COLAs) will become effective on January 1, 2016, but no COLAs are assumed thereafter.
- No change in current staffing levels is assumed.
- Pension costs are estimated based on the City's June 30, 2012 CalPERS actuarial valuation plus the estimated impact of

mortality improvements and PEPRA (Note: new estimates will be available in November 2014).

- PARS costs increase to the level specified in the most recent actuarial study, an increase of $1 million annually.
- Health costs increase at an average of 5.7%, as projected in the Nicolay Consulting actuarial report for the retiree medical plan provided to the City.
- Budgeted vacancy savings of 3% is built in to account for normal employee turnover.
- Non-personnel expenses assume 2% annual growth applied to FY 2014-15 budgeted levels.
- Measure GG is assumed to expire in 2019.
- The retirement tax rate remains at 0.15%.
- Property tax growth is based on data provided by HdL, with revenue growth determined by the Proposition 13 inflator, Proposition 8 value recovery, changes in ownership, new construction, and assessment appeals.
- Sales tax and UUT growth is based on forecast data by business sector provided to the City by MuniServices, including state and county pooled revenues, and the anticipated transition away from the "triple-flip" to the former 1% situs-based allocation.
- A modest recession is assumed in 2017.

Management Partners has included the impacts of a recession in each forecast scenario because recessions have occurred approximately every 6.5 years since 1928, as shown in Figure 14. Although the severity and duration of a recession is difficult to predict, it is prudent to assume one will occur during the forecast period for El Monte.

Figure 14. California Unemployment Rate and Recession Periods

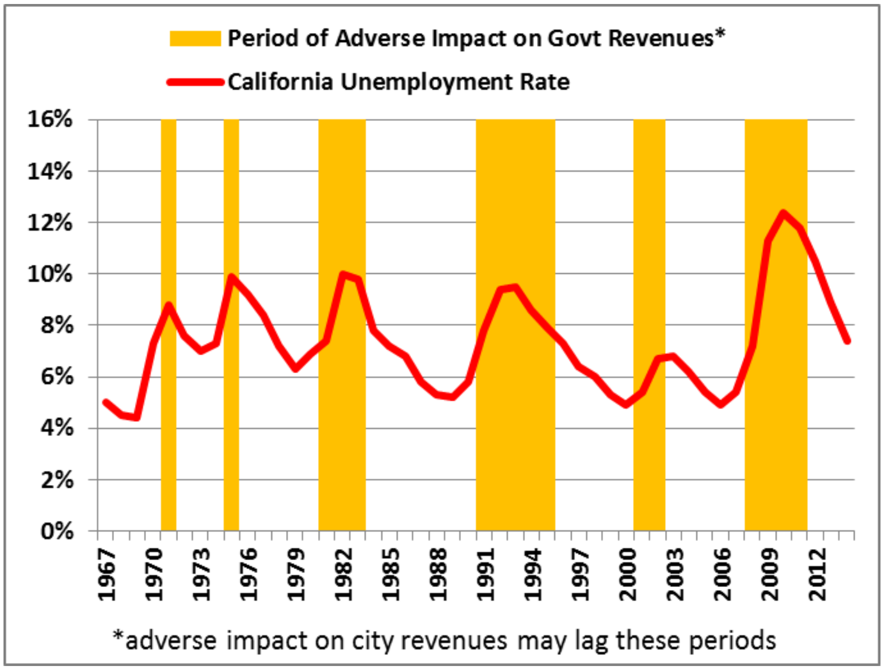


Figure 15 shows the forecast results for the baseline scenario. The modest recession is projected for 2017, which leads to a stagnation of revenues in FY 2016-17 and FY 2017-18. The assumed loss of Measure GG in 2019 causes the decline of revenues in FY 2019-20.

Figure 15. General Fund Budget Forecast – Scenario 1 (Baseline)

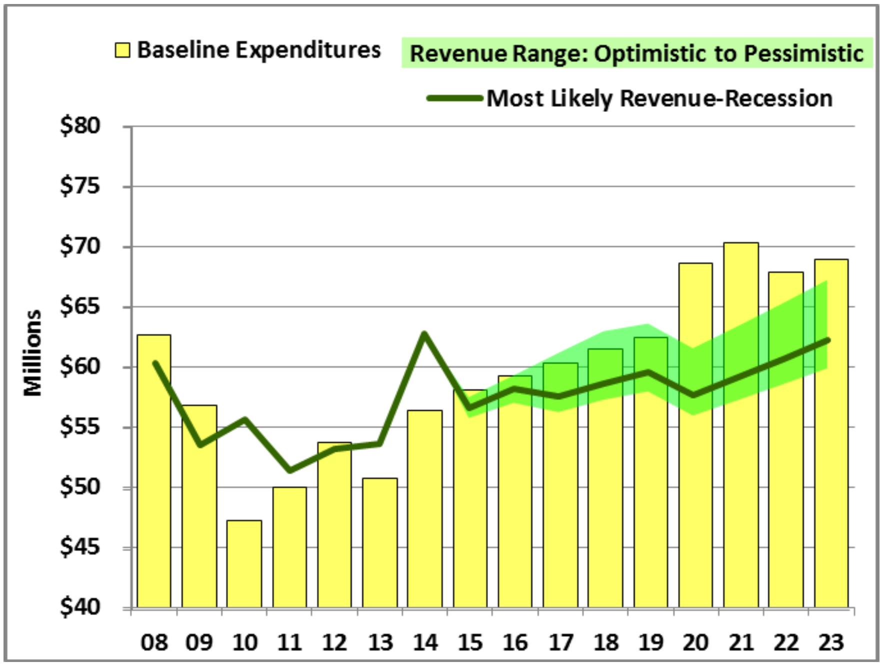


Figure 15 shows that the "most likely" level of revenues, including the recession (solid line), are inadequate to support projected baseline expenditures, even *without* labor compensation adjustments after January 1, 2016, when previously agreed upon COLAs become effective. Baseline expenses drop in FY 2021-22 due to lower pension costs after a large portion of unfunded liabilities are paid off (and thus require less of a General Fund subsidy to the Retirement Tax Fund), but even then baseline expenses are projected to exceed most likely revenue projections. The shaded area indicates the potential range of revenue from optimistic (without a recession), to pessimistic (with a recession). Even at optimistic revenue levels, General Fund expenditures will exceed projected revenues starting in FY 2019-20 when the required subsidy of the Retirement Fund is expected to begin.

Table 8 summarizes forecasts for both the City's General Fund and Retirement Tax Fund and the major categories of General Fund revenues and expenditures.

Table 8. Baseline General Fund Budget Forecast

($ in Millions)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
GENERAL FUND										
Property Tax	$16.1	$16.0	$16.6	$17.3	$17.9	$18.5	$19.2	$19.8	$20.5	$21.2
Sales Tax	19.7	19.8	20.6	19.6	19.9	20.0	17.2	17.9	18.5	19.2
Utility Users Tax	7.1	7.3	7.3	7.2	7.1	7.2	7.3	7.3	7.4	7.5
Permits & Fees	4.5	4.0	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.2
Other Revenue	20.1	13.7	13.8	13.6	13.8	14.0	14.1	14.3	14.4	14.5
Total Revenues	**62.9**	**56.8**	**58.3**	**57.7**	**58.8**	**59.7**	**57.8**	**59.3**	**60.8**	**62.4**
Salaries	16.9	20.3	20.9	21.6	21.9	22.2	22.5	22.8	23.1	23.5
Overtime	1.9	1.7	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0
Health/Dental/Vision	2.6	3.0	3.2	3.4	3.6	3.8	4.0	4.1	4.4	4.6
PARS Retirement	0.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.1
Retiree Medical	1.8	2.1	2.2	2.4	2.5	2.7	2.8	3.0	3.1	3.3
Other Pay & Benefits	3.5	3.8	3.9	4.1	4.2	4.2	4.3	4.3	4.4	4.5
Vacancy Savings	-	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)
Subtotal Personnel	27.5	31.7	33.0	34.3	35.0	35.7	36.5	37.2	38.0	38.8
Fire Contract	11.2	11.1	11.3	11.5	11.7	12.0	12.2	12.5	12.7	13.0
Oher Expense	17.7	15.3	15.0	14.5	14.8	14.7	14.4	14.7	15.0	15.3
Total Expenditures	**56.3**	**58.1**	**59.2**	**60.3**	**61.5**	**62.4**	**63.1**	**64.4**	**65.7**	**67.1**
Net Annual Surplus (Shortfall)	6.6	(1.3)	(0.9)	(2.6)	(2.7)	(2.8)	(5.4)	(5.2)	(5.0)	(4.7)
Retirement Fund Support	-	-	-	-	-	-	**(5.5)**	**(5.9)**	**(2.1)**	**(1.8)**
Total Beginning Fund Balance	30.5	37.1	35.8	34.9	32.3	29.6	26.8	16.0	5.0	(2.1)
Total Ending Fund Balance	37.1	35.8	34.9	32.3	29.6	26.8	16.0	5.0	(2.1)	(8.6)
less: Restricted/Nonspendable	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Unassigned Balance	**18.1**	**16.8**	**15.9**	**13.3**	**10.6**	**7.8**	**(3.0)**	**(14.0)**	**(21.1)**	**(27.7)**
Balance as % of Tot Expenditures	32.1%	28.9%	26.8%	22.0%	17.2%	12.5%	(04.4%)	(20.0%)	(31.1%)	(40.1%)
RETIREMENT TAX FUND										
Total Revenues	$8.7	$9.0	$9.4	$9.7	$10.0	$10.3	$10.7	$11.0	$11.4	$11.8
Total Expenditures	10.0	11.3	12.4	13.7	14.6	15.5	16.5	16.9	13.5	13.6
Net Annual Surplus (Shortfall)	(1.2)	(2.3)	(3.0)	(4.0)	(4.6)	(5.2)	(5.9)	(5.9)	(2.1)	(1.8)
Transfer from General Fund	-	-	-	-	-	-	5.5	5.9	2.1	1.8
Beginning Fund Balance	20.6	19.4	17.1	14.1	10.2	5.6	0.4	-	-	-
Ending Fund Balance	19.4	17.1	14.1	10.2	5.6	0.4	-	-	-	-

The baseline forecast shows El Monte will experience a net annual shortfall between General Fund revenues and expenditures that grows steadily to an annual average of $5 million. The General Fund subsidy of the Retirement Tax Fund will begin in FY 2019-20 when that fund's reserves are projected to be depleted. This subsidy grows to a peak of $5.9 million before tapering off to $2 million annually once the projected reduction in unfunded liability costs begins in FY 2021-22.

Without corrective action, the General Fund balance (i.e., reserve) will be depleted during FY 2019-20, resulting in a deficit of $3.0 million that grows to $27.7 million by FY 2022-23. It is important to note that the current General Fund balance includes $19 million in loan receivables from other funds (shown in Table 8 as "Restricted/Non-spendable"). The Water Fund, for example, owes the General Fund $18.4 million and no payments on the loan have been made for the last three years. These outstanding loan amounts are not liquid assets and cannot be relied upon to meet projected shortfalls.

However, this baseline forecast is unrealistic for a number of reasons. First, it does not account for inflation in labor costs. El Monte's employees have not experienced pay increases in at least five years. This, combined with furloughs and increased contributions to health benefits costs, has already had an impact on the City's ability to attract and retain employees. It will be increasingly difficult to retain employees if compensation falls too far behind the labor market.

The baseline forecast also does not account for unmet needs associated with vehicle replacement, building and facility maintenance, or normal investment in infrastructure such as streets and storm drains. The absence of investment planning for basic infrastructure and operational maintenance makes it impossible to quantify these unmet needs for forecasting purposes. As a result actual expenditures are likely to be *higher* than currently projected.

El Monte has an established reserve goal of 15%. It is prudent to maintain this level of reserves, even when assuming a recession in the revenue projections, because the City does not budget an annual contingency for unmet needs or to hedge against lower than projected revenues. With 64% of its sales tax base in the "transportation" category, El Monte is at greater risk for revenue volatility and/or reduction from the loss of auto dealers, as has happened in the past.

Scenario 2: Baseline Budget Forecast with Labor Increases

As discussed above, it is unrealistic to assume no cost of living increases during the forecast period, particularly if El Monte wants to attract and retain quality employees. To assess the impacts of such potential increases, we adjusted the baseline forecast to add cost of living adjustments of 2% per year. These adjustments would be in addition to the previously agreed upon COLAs becoming effective on January 1, 2016.

Figure 16 compares the revenue range to expenditures that include 2% salary COLAs starting in FY 2015-16.

Figure 16. General Fund Budget Forecast – Scenario 2 (Baseline Budget Forecast with Labor Increases)

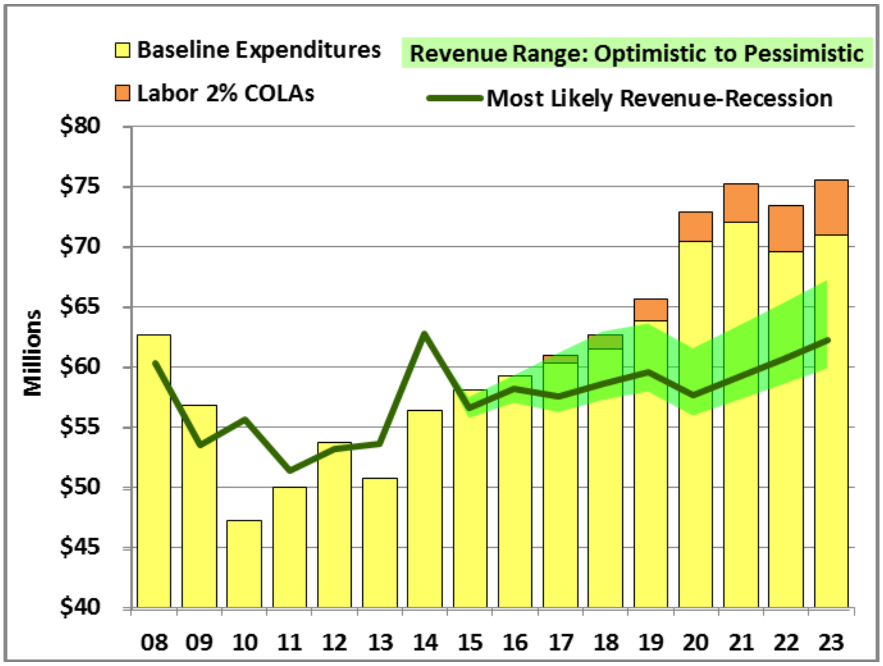


Table 9 shows the impact of this—the annual shortfall steadily increases to $9 million due to the higher personnel costs.

Table 9. Baseline Forecast with 2% Annual COLAs after FY 2015-16

($ in Millions)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
GENERAL FUND										
Baseline Revenues (excl GG)	$58.6	$52.6	$54.0	$53.6	$54.6	$56.3	$57.8	$59.3	$60.8	$62.4
Measure GG Sales tax	4.3	4.2	4.3	4.1	4.2	3.4	-	-	-	-
Baseline Expenditures	(56.3)	(58.1)	(59.2)	(60.3)	(61.5)	(62.4)	(63.1)	(64.4)	(65.7)	(67.1)
Future Compensation Increases	-	-	-	(0.6)	(1.2)	(1.8)	(2.4)	(3.1)	(3.8)	(4.6)
Net Annual Surplus (Shortfall)	6.6	(1.3)	(0.9)	(3.2)	(3.9)	(4.5)	(7.8)	(8.3)	(8.8)	(9.3)
Transfer to Retirement Tax Fund	-	-	-	-	-	**(1.4)**	**(7.2)**	**(7.6)**	**(3.8)**	**(3.8)**
New Budget Cuts	-	-	-	-	-	-	-	-	-	-
Beginning Fund Balance	30.5	37.1	35.8	34.9	31.7	27.9	22.0	7.0	(8.9)	(21.5)
Ending Fund Balance	37.1	35.8	34.9	31.7	27.9	22.0	7.0	(8.9)	(21.5)	(34.6)
Unassigned Balance	**18.1**	**16.8**	**15.9**	**12.7**	**8.8**	**2.9**	**(12.1)**	**(28.0)**	**(40.5)**	**(53.7)**
Balance as % of Tot Expenditures	32.1%	28.9%	26.8%	20.9%	14.1%	4.5%	(16.6%)	(37.2%)	(55.2%)	(71.1%)
RETIREMENT TAX FUND										
Total Revenues	$8.7	$9.0	$9.4	$9.7	$10.0	$10.3	$10.7	$11.0	$11.4	$11.8
Total Expenditures	10.0	11.3	12.4	14.0	15.2	16.5	17.9	18.6	15.2	15.6
Net Annual Surplus (Shortfall)	(1.2)	(2.3)	(3.0)	(4.2)	(5.2)	(6.1)	(7.2)	(7.6)	(3.8)	(3.8)
Transfer from General Fund	-	-	-	-	-	1.4	7.2	7.6	3.8	3.8
Beginning Fund Balance	20.6	19.4	17.1	14.1	9.9	4.7	-	-	-	-
Ending Fund Balance	19.4	17.1	14.1	9.9	4.7	-	-	-	-	-

In Scenario 2 the depletion of the General Fund reserve still begins in FY 2019-20, but at the higher amount of $12.1 million. The deficit grows to $53.7 million by FY 2022-23, again assuming no corrective action occurs. The COLAs also drive CalPERS costs even higher, which in turn triggers a much greater subsidy of the General Fund to cover retirement costs. This increases the total General Fund subsidy to the Retirement Tax Fund from $15.3 million to $23.8 million through FY 2022-23.

Scenario 3: Renewal of Measure GG with Budget Cuts

To model the impacts of potential corrective actions El Monte could take to address the projected deficits, Scenario 3 builds upon Scenarios 1 and 2 by adding the renewal of Measure GG by 2019. It also assumes sufficient budget cuts are made to balance the General Fund budget while meeting the City's 15% reserve level goals. The budget forecast under Scenario 3 is presented in Table 10.

Table 10. Baseline Forecast with 2% Annual COLAs after FY 2015-16, Measure GG Renewal, and Expenditure Reductions to Maintain a 15% Reserve Level

($ in Millions)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
GENERAL FUND										
Baseline Revenues (excl GG)	$58.6	$52.6	$54.0	$53.6	$54.6	$56.3	$57.8	$59.3	$60.8	$62.4
Measure GG Sales tax	4.3	4.2	4.3	4.1	4.2	4.5	4.5	4.7	4.9	5.1
Baseline Expenditures	(56.3)	(58.1)	(59.2)	(60.3)	(61.5)	(62.4)	(63.1)	(64.4)	(65.7)	(67.1)
Future Compensation Increases	-	-	-	(0.6)	(1.2)	(1.8)	(2.4)	(3.1)	(3.8)	(4.6)
Net Annual Surplus (Shortfall)	6.6	(1.3)	(0.9)	(3.2)	(3.9)	(3.4)	(3.2)	(3.6)	(3.9)	(4.2)
Transfer to Retirement Tax Fund	-	-	-	-	-	**(1.4)**	**(7.2)**	**(7.6)**	**(3.8)**	**(3.8)**
New Budget Cuts	-	-	-	-	0.6	4.5	10.5	11.4	8.0	8.3
Beginning Fund Balance	30.5	37.1	35.8	34.9	31.7	28.5	28.3	28.3	28.5	28.8
Ending Fund Balance	37.1	35.8	34.9	31.7	28.5	28.3	28.3	28.5	28.8	29.1
less: Restricted/Nonspendable	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Unassigned Balance	**18.1**	**16.8**	**15.9**	**12.7**	**9.5**	**9.2**	**9.3**	**9.5**	**9.8**	**10.0**
Balance as % of Tot Expenditures	32.1%	28.9%	26.8%	20.9%	15.3%	15.1%	14.9%	14.8%	15.0%	15.0%
RETIREMENT TAX FUND										
Total Revenues	$8.7	$9.0	$9.4	$9.7	$10.0	$10.3	$10.7	$11.0	$11.4	$11.8
Total Expenditures	10.0	11.3	12.4	14.0	15.2	16.5	17.9	18.6	15.2	15.6
Net Annual Surplus (Shortfall)	(1.2)	(2.3)	(3.0)	(4.2)	(5.2)	(6.1)	(7.2)	(7.6)	(3.8)	(3.8)
Transfer from General Fund	-	-	-	-	-	1.4	7.2	7.6	3.8	3.8
Beginning Fund Balance	20.6	19.4	17.1	14.1	9.9	4.7	-	-	-	-
Ending Fund Balance	19.4	17.1	14.1	9.9	4.7	-	-	-	-	-

The renewal of Measure GG, which requires voter approval, is significant and preserves approximately $5 million in annual revenue at the point of renewal. This leaves an average ongoing gap between revenues and expenditures of $8 to $11 million from FY 2019-20 through FY 2022-23 that must be closed in order to maintain a 15% reserve, as shown in the line item for "New Budget Cuts."

Scenario 4: Retirement Tax Increase

Finally, we modeled the impact of increasing the City's retirement tax rate to the maximum of 0.209% allowed under Proposition 13 debt rate provisions[2], renewing Measure GG, and making required budget cuts to maintain a 15% reserve level. Table 11 summarizes the results of this scenario. It shows that increasing the retirement tax rate significantly reduces the total General Fund subsidy of the Retirement Tax Fund over the forecast period from $23.8 million to zero. It also reduces the amount of ongoing budget cuts needed to maintain a 15% reserve level from between $8 and $11 million to approximately $4 million.

Table 11. Forecast with 2% Annual COLAs after FY 2015-16, Measure GG Renewal, Increase in Retirement Tax Rate, and Expenditure Reductions to Maintain a 15% Reserve Level

($ in Millions)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
GENERAL FUND										
Baseline Revenues (excl GG)	$58.6	$52.6	$54.0	$53.6	$54.6	$56.3	$57.8	$59.3	$60.8	$62.4
Measure GG Sales tax	4.3	4.2	4.3	4.1	4.2	4.5	4.5	4.7	4.9	5.1
Baseline Expenditures	(56.3)	(58.1)	(59.2)	(60.3)	(61.5)	(62.4)	(63.1)	(64.4)	(65.7)	(67.1)
Future Compensation Increases	-	-	-	(0.6)	(1.2)	(1.8)	(2.4)	(3.1)	(3.8)	(4.6)
Net Annual Surplus (Shortfall)	6.6	(1.3)	(0.9)	(3.2)	(3.9)	(3.4)	(3.2)	(3.6)	(3.9)	(4.2)
Transfer to Retirement Tax Fund	-	-	-	-	-	-	-	-	-	-
New Budget Cuts	-	-	-	-	0.6	3.2	3.4	3.8	4.1	4.5
Beginning Fund Balance	30.5	37.1	35.8	34.9	31.7	28.5	28.3	28.5	28.7	28.9
Ending Fund Balance	37.1	35.8	34.9	31.7	28.5	28.3	28.5	28.7	28.9	29.2
less: Restricted/Nonspendable	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Unassigned Balance	**18.1**	**16.8**	**15.9**	**12.7**	**9.5**	**9.3**	**9.4**	**9.7**	**9.9**	**10.2**
Balance as % of Tot Expenditures	32.1%	28.9%	26.8%	20.9%	15.3%	15.2%	15.2%	15.1%	15.1%	15.1%
RETIREMENT TAX FUND										
Total Revenues	$8.7	$9.0	$12.3	$13.4	$13.9	$14.3	$14.8	$15.3	$15.2	$15.6
Total Expenditures	10.0	11.3	12.4	14.0	15.2	16.5	17.9	18.6	15.2	15.6
Net Annual Surplus (Shortfall)	(1.2)	(2.3)	(0.0)	(0.5)	(1.3)	(2.1)	(3.1)	(3.3)	(0.0)	(0.0)
Transfer from General Fund	-	-	-	-	-	-	-	-	-	-
Beginning Fund Balance	20.6	19.4	17.1	17.1	16.6	15.3	13.2	10.1	6.8	6.7
Ending Fund Balance	19.4	17.1	17.1	16.6	15.3	13.2	10.1	6.8	6.7	6.7

The budget forecast scenarios illustrate that even with no labor cost increases, El Monte will experience significant budget deficits over the

[2] Revenue and Taxation Code section 96.31 allows ad valorem taxes to be assessed for specific purposes beginning fiscal year 1985-86. One such purpose is to "make payments in support of pension programs approved by the voters before July 1, 1978," such as the City's pension override (retirement) tax. However, this section limits the ad valorem tax rate for such a pension program to a property tax rate imposed in the "1982-83 or 1983-84 fiscal year." While the tax rate levied has been fixed at 0.15% for many years, in both of the two fiscal years specified in State law the City levied a 0.209% rate. Therefore, the maximum pension override tax rate limit is 0.209%.

next several years. These deficits are caused by a combination of eroded revenues, increased compensation costs, and higher retirement costs. The deficits will worsen once Measure GG sunsets in 2019 and the City's Retirement Tax Fund is depleted in 2019.

Achieving financial sustainability will require the City to carefully monitor revenues and expenditures, as well as the financial implications of significant decisions. Consequently, the long-term financial forecast should be updated and presented on a regular basis.

Recommendation 1. Present an updated long-range forecast to the City Council at least twice per year. One presentation should coincide with the adoption of the proposed budget and a second presentation should be provided at mid-year**.**

Additional Financial Concerns

During our financial analysis we noted a potential issue with lease revenue bonds issued by the City's former redevelopment agency in 2011. The interest on these bonds is currently being funded by the City's redevelopment Successor Agency under a reimbursement agreement, but a final balloon payment of $10.5 million will be due in 2017. The bond proceeds were transferred to the El Monte Economic Development Corporation in August 2013. The remaining (unspent) proceeds, still maintained in trust accounts, are currently being used to help fund portions of the Gateway development project with the greatest portion ear-marked to fund the City's share of costs for the Ramona Bus Tunnel project.

Staff reported to Management Partners that the City intends to "bank" its Measure R allocation to help repay the 2011 Lease Revenue Bonds when they become due in 2017. Measure R is a half-cent sales tax approved by Los Angeles County voters in 2008 to pay for transportation projects and improvements. Approximately 15% of Measure R's total proceeds are returned to local agencies such as El Monte to help fund local transportation improvements.

After reviewing the City's debt obligations, however, it appears Measure R funds alone will be insufficient to cover the $10.5 million final payment. If current trends continue, the City will have approximately $6.5 million in Measure R funds to apply to the payment. This would also require the Public Works Department to stop using Measure R funds to offset a portion of annual operating costs, which averaged $250,000 per year in

FY 2011-12 and FY 2012-13. It is hoped that the sale of Gateway project properties will generate income to cover the remaining shortfall, but El Monte's General Fund will be obligated to make the bond payment if the Gateway project is delayed or the sale of property does not generate the level of revenue anticipated. A clear plan needs to be developed now so that adequate resources are available to pay off the bonds in 2017 without placing an additional burden on the General Fund.

Recommendation 2. Develop and implement a specific work-out plan for the 2011 Lease Revenue Bond final payment to avoid potential impacts to the General Fund.

Financial Policies and Budget Best Practices

An important strategy for avoiding structural budget deficits is to adopt budget and financial policies that are relatively easy to understand and can serve as a meaningful framework for maintaining financial discipline. This section reviews financial policies and budget principles that should be adopted and practiced by El Monte as a financial sustainability strategy. It also contains recommendations for improving the utility and transparency of the City's budget document.

Financial Policies

The League of California Cities' Institute for Local Government has prepared a publication titled "Financial Management for Elected Officials: Questions to Ask." The publication provides guidance about financial planning policies that should be in place. The following key items are cited by the League:

- *Budget policy:* Commitment to a balanced operating budget
- *Long-range planning:* Financial analysis and strategies to assess the long-term implications of current and proposed expenditures and related financial obligations
- *Asset inventory:* Requirement for a current listing of major capital assets, asset condition, and a plan for replacing assets
- *Long-range planning for pension and other post-employment benefit costs:* Identification of how the agency will meet such obligations
- *Reserve and other fund balances:* Requirements to maintain a prudent level of resources and method of setting aside moneys to replace assets
- *Revenue policies:* Focus on diversification of revenue sources to protect against fluctuations in individual sources
- *User fees and charges:* Establishing expectations about covering the cost of providing services and how costs are determined
- *One-time and unpredictable revenues:* Use of such revenues for one-time needs rather than ongoing expenses

- *Limited purpose revenues:* Spending special purpose revenues for the intended use only
- *Financial reporting:* Comparing actual expenses and revenues with what was predicted in the agency's budget
- *Debt financing:* Specifying how debt financing will be used and the level of debt allowed
- *Cash management and investments:* Ensuring prudent practices in investment

Reporting the state of the municipality's finances to the governing body for public discussion is a way for the fiduciary responsibilities of the elected officials and executive managers to be understood by the public and organization.

Best Practice Budget Principles

The following budget principles reflect best practice policies in public financial management. It is a typical practice for cities to have adopted budget policies of the type described below. El Monte is following some of these practices, but the City Council has not adopted formal policies to ensure expectations for adherence are clear and transparent.

Structurally Balanced Budget. The annual budgets for all City funds should be structurally balanced throughout the budget process. Ongoing revenue should be equal to or exceed operating expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, a plan should be developed and implemented to bring the budget back into structural balance.

Multi-Year Financial Forecasting. To ensure that current budget decisions consider future financial implications, a long-term financial forecast should be developed and maintained. (In El Monte's case, the term of the plan should be through FY 2022-23 so that the changes in CalPERS costs and the resulting trends and impacts on the Retirement Tax Fund and the General Fund will be included.) The annual General Fund proposed budget balancing plan should be presented and discussed in context of this forecast. Any revisions to the proposed budget should include an analysis of the impact on the forecast out years. If a revision creates a negative impact on the forecast, a funding plan should be developed and approved to offset the impact. The budget forecast should be updated quarterly to reflect changes in revenues and unexpected changes in expenditures. The forecast should be presented to the City Council for discussion and to provide information to the public.

Use of One-Time Resources. One-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) should not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding reserves, retiring debt early, making capital expenditures (without significant operating and maintenance costs), and other nonrecurring expenditures.

Established Reserves. El Monte has numerous funds based on different revenue sources and requirements. Because there are risks (both known and unknown), it is important that reserve levels in funds, depending on funding source eligibility, be maintained as a hedge against such risks. Without proper reserves there can be major disruptions in services when unforeseen financial demands emerge, requiring immediate attention. The City should maintain an adequate reserve level and/or ending fund balance for each fund as determined annually and as appropriate for each. For the General Fund, different types of reserves should be maintained including an economic uncertainty reserve to provide a cushion for unexpectedly low revenues in any given year and a contingency reserve for other emergency needs that arise. City Council authorization should be required for the expenditure of established reserves, along with repayment requirements.

Debt Issuance. A municipality should not issue long-term (over one year) General Fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

Employee Compensation. Negotiations for employee compensation should consider total compensation bargaining concepts and focus on all personnel services cost changes (e.g., step increases and the cost of benefit increases). Compensation costs should be included in the long-term budget forecast to ascertain affordability to the municipality, within the context of expected revenues.

Fees and Charges. Fee increases should be utilized, where possible, to assure that program operating costs are fully covered by fee revenue. Opportunities should be explored to establish new fees for services where appropriate.

Capital Improvement Projects. Capital improvement projects with annual operating and maintenance costs exceeding $100,000 should not proceed without City Council certification that funding will be made available in the applicable year of the cost impact.

Grants. City staff should seek, apply for, and effectively administer federal, state, and other grants that address the City's priorities and policy objectives and provide a positive benefit. Before any grant is pursued, staff should provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues should not be used to begin or support the costs of ongoing programs.

Performance Measures. All requests for departmental funding should include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

Table 12 summarizes the above budget principles and the extent to which they are being practiced by the City.

Table 12. Implementation of Best Practice Budget Principles in El Monte

Budget Principle	Status[1]	Comment
Structurally Balanced Budget	P	This Financial Sustainability Plan is intended to help bring El Monte's budget back into balance
Multi-year Financial Forecasting	P	A long-term forecasting model and training on its use have been provided to City staff
Use of One-Time Resources	I	El Monte follows this practice
Established Reserves	P	15% reserve established for the General Fund. No uncertainty or contingency reserves. Reserve levels for other funds have not been explicitly established
Debt Issuance	I	El Monte has refinanced some debt to achieve greater savings. Debt is not issued for ongoing operations.
Employee Compensation	N	El Monte will have an opportunity to practice this principle when contracts expire in December 2015
Fees and Charges	N	Most fees and charges are not based on the cost of providing services; there is no cost-recovery policy
Capital Improvement Projects	P	El Monte recently adopted a CIP, but there is no ongoing funding plan for maintenance
Grants	I	A cost-benefit analysis is conducted prior to submitting a grant application
Performance Measures	N	There is no performance measurement system in place. Department requests for funding have not been based on explicit outcomes.

[1]*Key: I = Implemented; N = Not implemented; P = Partial implementation*

El Monte has fully implemented three of these 10 best practice principles, while four have been partially implemented. To resolve its structural budget deficit and prevent a recurrence in the future, all of these budget principles need to be adopted and fully implemented to help elected and appointed officials maintain the financial discipline crucial to achieving fiscal sustainability.

Recommendation 3. Adopt a comprehensive set of financial and budget principles to provide a meaningful and easy to understand framework for maintaining financial discipline.

Improving El Monte's Budget Document

The Government Finance Officers Association (GFOA) has established criteria for budget documents that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting. The GFOA offers a Distinguished Budget Presentation Awards Program (Budget Awards Program) to encourage and assist state and local governments to prepare budget documents of the very highest quality consistent with these guidelines.

The City of El Monte annual budget document lacks many of established criteria, including most of the following.

Table of Contents, Introduction. The budget should include a table of contents that makes it easier to locate information in the document. An introduction or overview section should include a coherent statement of organization-wide strategic goals and strategies that address long-term issues and concerns and any short-term factors that influenced the decisions made in the development of the budget for the coming year.

Budget Message. The document should contain a budget message that articulates priorities and issues for the upcoming year. The message should describe significant changes in priorities from the current year and explain the factors that led to those changes. The budget message is often in the form of a transmittal letter from the chief executive (e.g., City Manager) to the governing body (e.g., City Council).

Overview of Significant Budgetary Items and Trends. An overview of the proposed budget should be presented within the budget document either in a separate section (e.g., executive summary) or integrated with the transmittal letter.

Organization Chart. The budget should include an organization chart for the entire entity.

Fund Descriptions and Fund Structure. The budget document should include and describe all funds that are subject to appropriation.

Department/Fund Relationship. The document should provide narrative, tables, schedules or matrices to show the relationship between functional units, major funds, and non-major funds in the aggregate. El Monte includes a Chart of Accounts in the budget document for this purpose.

Basis of Budgeting. The basis of budgeting for all funds should be explained, i.e., whether cash, modified accrual or some other statutory basis.

Financial Policies. The budget should include a coherent statement of long-term financial policies.

Budget Process. The budget document should describe the process for preparing, reviewing and adopting the budget for the coming fiscal year. It also should describe the procedures for amending the budget after adoption.

Consolidated Financial Schedule. A summary of major revenues and expenditures, as well as other financing sources and uses should be included to provide an overview of the total resources budgeted by the organization. Ideally the revenues should be presented by major type (e.g., property taxes, intergovernmental, sales taxes, fees and charges), with expenditures presented by function or organizational unit. The consolidated financial schedules should include prior year, current year, and proposed budget year information.

Fund Balance. Projected changes in fund balances for appropriated governmental funds should be included. Typically this is presented in a schedule showing beginning fund balances, increases and decreases in total fund balances, and ending fund balances for each appropriated fund.

Revenues. Major revenue sources are described, explaining the underlying assumptions for the revenue estimates. Significant revenue trends also are discussed.

Capital Expenditures. The document should include budgeted capital expenditures, either authorized in the operating budget or in a separate capital improvement plan budget. The total dollar amount of capital expenditures for the budget years should be indicated, along with any significant non-recurring capital expenditures.

Debt. Financial data on current debt obligations should be presented, including a description of the relationship between current debt levels and legal debt limits and the effects of existing debt levels on current operations.

Position Summary Schedule. A schedule or summary table of personnel or position counts for prior, current, and budgeted years should be provided. This allows the public and the governing body to see how many positions are authorized by the adoption of the budget. As discussed previously, El Monte has no authorized position list.

Department Descriptions. El Monte's budget does include activities, services and functions carried out by each department, as well as the non-departmental account. However, department descriptions would be improved by including clearly stated goals and objectives as well as performance data to measure progress toward accomplishing the government's mission and departmental goals and objectives.

Additional Elements. The GFOA also recommends that budget documents contain statistical and supplemental data that describe the organization, its community and population, and a glossary for terminology (including abbreviations and acronyms) that is not readily understandable to a "reasonably informed lay reader." Budget documents should be produced and formatted so it is oriented to the reader's needs, and charts and graphs should be used where appropriate to highlight financial and statistical information.

As noted above, most of these standard elements are missing from El Monte's budget document. At a minimum, the long-range forecast should be included with a summary of major revenues, expenses, and fund balance for both the General Fund and the Retirement Tax Fund. The underlying assumptions for revenue and expense estimates should be explicit. In addition to a list of authorized positions, unmet needs and options for funding them also should be identified.

> **Recommendation 4. Improve the presentation, transparency and utility of the City's adopted budget document by adhering to guidelines established by the Government Finance Officers Association (GFOA).**

Financial Sustainability Alternatives

Eliminating El Monte's structural budget deficit will require increases in revenue as well as reductions in expenditures. A multi-pronged approach is suggested, including the following components:

- Revenue Enhancements
- Compensation and Benefit Changes
- Expenditure Reductions
- Efficiency Improvements

Each is described in this section of the report, with specific suggestions for consideration. Because the ultimate goal of any city is to deliver valued services to the public, options were identified representing the following principles:

- El Monte desires to be a full service city, which requires a range of services beyond public safety.
- It is most important that valued services be delivered, not that they all be delivered by City employees when given services can be provided less expensively by the private sector or another agency.
- The fundamentals of the municipal corporation must be maintained to properly manage the organization and reduce risk and liability.
- Financial stability and sustainability is important to employees and to the City's ability to recruit and retain motivated, competent, and capable individuals.

As we reported to the City Council when the results of the long-term budget forecasts were presented publicly on October 6, 2014, the magnitude of the projected deficits means the City should concentrate on financial sustainability strategies that could generate *significant* financial benefit *and* are within the City's control.

Revenue Enhancements

A balanced approach to financial sustainability must include consideration of opportunities to increase revenues as well as ways to control or reduce expenditures.

Prospects for Economic Development

A common theme during interviews, focus groups, and the employee survey was hope that economic development efforts would lead to revenue growth sufficient to bridge current and future budget gaps. However, economic development takes time to accomplish and is not completely within the City's control. Market forces are inherently more powerful than incentives the City can offer, particularly with the dissolution of redevelopment in California.

In our experience, net revenues from economic development goals are almost always less than imagined. This is partly because new development may negatively impact existing businesses in the community. For example, the development of a new restaurant may cause residents to reduce or stop frequenting existing establishments. El Monte has been working to attract a Walmart to the community. However, the impact of the presence of a Walmart on the ability of smaller stores in the community to generate sales tax and consequently maintain current sales tax levels is well documented. On a separate note, residential development generates increased property taxes but typically at levels that do not cover the costs of increased demands for services.

Forecasts prepared by Management Partners show the magnitude of the projected budget deficit cannot be balanced by new development alone. Consequently, it would not be prudent to rely on economic development as a core strategy for achieving financial sustainability. The City should continue to work on economic development opportunities such as the Gateway project. If and when economic development occurs, it should be celebrated—but it should not be factored into revenue projections until the revenues are actually received.

Because of the time it will take for economic development efforts to improve El Monte's revenues, more traditional approaches such as increased taxes and fees will be necessary for the City to achieve financial sustainability.

Taxes

Like all California public agencies, El Monte cannot raise or establish new taxes, either general or special, without the approval of voters. However, the City has experienced some success in winning voter support for increased revenues. In 2008 voters approved Measure GG, a half-cent local sales and use tax that helped El Monte survive the Great Recession. Measure GG sales tax revenues totaled approximately $4.35 million in FY 2013-14 and are projected to experience modest growth until Measure GG sunsets in 2019.

Voters are more likely to maintain an existing tax than to approve a new or increased tax, particularly if a strong case for necessity can be made. The financial forecasts demonstrate how essential Measure GG revenues are to El Monte's financial sustainability. Although statements have been made of the desire to achieve financial stability without Measure GG revenues, the City's fiscal realities make this impractical and unrealistic.

Recommendation 5. Ask voters to approve a permanent extension of Measure GG.

The financial analysis and forecasting also illustrates the importance of the City's pension override retirement tax in offsetting increasing retirement costs. As discussed previously, these costs are projected to sharply increase, depleting Retirement Tax fund reserves and triggering a substantial General Fund subsidy. Legal opinions provided by the City Attorney indicate the City Council has the independent authority to increase the retirement tax as long as the rate does not exceed the grandfathered 0.209% cap. Increasing the retirement tax to the cap would generate an average of $3.7 million annually, significantly reducing the General Fund subsidy required to pay for retirement costs once the Retirement Tax Fund is depleted. As unpopular as this action might be, it does represent a viable option that should be considered. Because the El Monte community is already heavily taxed, priority should be given to asking voters to approve Measure GG, even though the City Council has the authority to increase the retirement tax without voter approval.

El Monte's residents are already paying a higher rate for utility user taxes than most communities in Los Angeles County. The City received approximately $7.1 million in UUT revenues during FY 2013-14. Increasing the UUT by 1% would generate approximately $1 million in additional annual revenue, as shown in Table 13.

Table 13. Estimated Revenues from a 1% Increase in El Monte's Utility User Tax Rate

Utility Type	Current Rate	FY 2013-14 Revenues	Revenue Generated by 1% Increase
Gas	7.0%	$912,134	$130,305
Electric	7.0%	$3,315,153	$473,593
Communications	6.5%	$2,747,115	$422,633
Other	7.0%	$160,000	$22,857
Total		**$7,134,402**	**$1,049,388**

A utility user tax increase can only be voted on during a general election (a simple majority is needed), unless the City Council declares a fiscal emergency and puts the potential tax increase to a vote during a special election. The relatively poor economic status of the community and existing higher tax burdens make it unlikely that voters will approve both an extension of Measure GG and a utility users' tax increase concurrently. Priority should first be given to extending Measure GG as a financial sustainability strategy, and if necessary, increasing the UUT can be pursued in future years.

Fees

A fee is a charge imposed on an individual for a service that the person chooses to receive. A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead. Examples of city fees include water service, building permits, recreation classes, sports and activity fees, facility rental fees, and alarm permits.

Most of El Monte's fees have not been reviewed or updated for many years. Parks and Recreation updated its facility fees in August 2011 while development-related fees assessed by the Economic Development and Public Works Departments were last updated in July 2012. Other departments could not identify how long their fees have been in place.

In addition, we learned most fees have not been based on an analysis of the actual cost to provide the service. Instead, fees have been established based on either perceptions of what customers would be willing to pay, or on what other cities in the area are charging. Setting fees based on the charges of surrounding cities is problematic for two reasons. First, it assumes the cost structure for the other cities is the same, when typically it is not. Second, it assumes the method of service delivery and levels of service are the same, when in fact they may not be.

A best practice is to conduct a thorough analysis of the cost to provide the service and then establish fees at a full cost recovery level, except where market or policy decisions are made to set fees at lower levels. Where full cost recovery is sought the fee level should include both salary and other expenses of the service provided (direct costs) and indirect cost factors (overhead) for department and citywide expenses that support the services provided. It also is a best practice to review and adjust fees on an annual basis.

It was not within the scope of this study to undertake a comprehensive review of all fees assessed by the City. Revenue from permits and fees is estimated to be approximately $4 million in FY 2014-15. A comprehensive cost of services study is necessary to determine where opportunities for fee increases may be warranted. Prior to this study, a cost allocation plan for the Non-Departmental account will be required to ensure direct costs such as employee benefits and liability insurance are considered in determining total costs for each service.

Recommendation 6. Create a cost allocation plan for the Non-Departmental account to identify direct and indirect costs for each department and the services provided.

Recommendation 7. Conduct a comprehensive fee study and recommend changes to the City Council. The comprehensive fee study should identify gaps between costs and cost recovery to inform policy decisions about fee subsidies.

The comprehensive fee study should identify gaps between costs and cost recovery to help inform policy decisions about fee subsidies. For example, it is common practice to seek full-cost recovery for development related fees, alarm or other administrative permits, and fees for adult recreation and sports programs. Cities may choose to subsidize some fees to incentivize use of some services such as youth after-school programs or summer day camps.

Recommendation 8. Establish a cost-recovery policy for each type of fee.

Responsibility for reviewing and adjusting fees in El Monte is currently decentralized. There is no comprehensive fee schedule that lists all of the fees charged by the City in one document and we were unable to obtain copies of fee schedules or authorizing resolutions for several departments. Establishing a citywide master fee resolution or schedule that contains all fees and charges assessed by each department would make the cost for various services more transparent for residents and other customers, and make it easier for fees to be reviewed and updated annually during the budget adoption process.

Recommendation 9. Establish a master schedule of fees for service.

Other Revenue Enhancement Opportunities

The interviews, focus groups, and employee survey identified other ideas for increasing revenues. Many of these ideas would be addressed through a comprehensive fee study by identifying services being provided for which fees are not being charged. Others have limited financial benefit to the City's General Fund, or would require additional costs to execute that may exceed projected revenues.

For example, a common suggestion was to begin to charge for overnight parking in residential neighborhoods. Neighborhood parking permits are typically found in communities where parking is extremely limited and there is a desire to preserve parking for those who actually live there. Overnight parking permits also are used in some cities to regulate the parking of recreational or other large vehicles on the street; again, to preserve limited space for resident passenger vehicles. In each of these cases, the permit fees are relatively low and must still be administered and enforced. They do not generate significant net revenues—and are not intended to.

Another commonly suggested idea was to charge for parking at City-owned lots, including the local Metrolink station. While charging for parking can generate revenues, it also comes with administrative and enforcement costs in addition to the capital costs of installing meters, parking lot barricades, and/or payment stations. In addition, the majority of Metrolink stations currently do not have paid parking. The exceptions are North Hollywood, Rancho Cucamonga, and Norwalk. North Hollywood and Rancho Cucamonga instituted parking fees once demand consistently exceeded supply. Norwalk recently constructed a parking structure in response to high demand and offers paid parking at $50 per month, using the proceeds to offset some of the costs associated with the structure's operation and maintenance. In each of these cases, the purpose for the parking charge is to reduce demand for limited spaces, not to generate significant general purpose revenue.

A detailed analysis of paid parking opportunities was beyond the scope of this study and it is unknown whether parking spaces at El Monte's Metrolink station are used enough to make paid parking feasible. Data from cities that charge for parking through parking meters suggest that revenue generation is enhanced through the use of smart multi-space meters that take credit cards. Increased revenue generally results from overpayment of the hourly cost, not increased citation revenue. There are private vendors that will install smart meters and handle collection, remitting the collected fees minus administrative costs to the City. The potential costs and benefits could be evaluated through an RFP process with one of these vendors, if desired.

Another common suggestion was to begin charging business tax on rental properties of four units or less. It was reported that applying business tax to such properties was considered by the City Council at one time, and no action was ever taken. We were unable to obtain detailed information or copies of prior analyses to determine the potential revenue associated with this suggestion.

The City's water rates have not been adjusted in several years and our financial analysis confirmed that water rates are too low. Not only has the El Monte Water Authority been unable to meet its obligations to the General Fund to pay for water rights, the coverage ratio for issued water bonds is no longer in compliance. In addition, the age and condition of water meters is reportedly contributing to lost water revenues because they are not accurately measuring the amount of water being provided. This results in customers being undercharged. The City is proposing to adjust the water rates annually for the next five years, and has initiated a process to do so consistent with the provisions of Proposition 218. We are unable to confirm that the proposed rates will be high enough to enable the water enterprise to pay its obligations to the General Fund and bring bond covenants back into compliance.

Recommendation 10. Adjust water rates sufficiently to enable the water enterprise to make payments on the loan from the General Fund, comply with water bond covenants, and address deferred maintenance and capital improvement needs.

Compensation and Benefits Changes

The Meyers-Milias-Brown Act (Government Code §3599, *et seq*), generally requires cities and other covered agencies to meet and confer in good faith with recognized employee organizations "regarding wages, hours and other terms and conditions of employment." Agencies typically are not obligated to negotiate subjects that fall outside the scope of bargaining over wages, hours and other terms and conditions of employment such as organizational arrangements, service levels, or other management issues. However, some changes within management's rights, such as reorganizations or privatization of services may require "impact" or "effects" bargaining.

Personnel costs account for about 61% of combined General Fund and Retirement Tax Fund expenditures. Consequently, controlling and/or reducing them will be essential to achieve financial sustainability. This section analyzes opportunities to control and/or reduce personnel costs so they can be considered when El Monte's labor contracts become open in 2015.

Pension Costs

Pension reform continues to be a much discussed concern, even after the enactment of the Public Employee Pension Reform Act (PEPRA) in 2012. Because of the pension override tax, El Monte's General Fund has been shielded from paying escalating retirement costs. As has been discussed, the Retirement Tax Fund is projected to be depleted by FY 2017-18, which will force the General Fund to begin paying for pension costs.

The availability of the retirement tax may have caused El Monte to agree to more generous retirement benefits than most other agencies can afford. Table 14 illustrates this point. It shows El Monte is the only agency among the benchmarked cities providing enhanced retirement for miscellaneous employees, equivalent to a 3% at 55 benefit formula, and is the only agency that pays both the employee and employer shares of retirement costs for all employees.

Table 14. Comparison of El Monte Retirement Benefits to Peer Agencies

Benefit	El Monte	Pomona	Downey	Inglewood	West Covina	South Gate	Whittier
Enhanced retirement formula for miscellaneous employees (PERS + PARS)	X						
Employer Paid Member Contribution	X		X[1]				X[2]
Contribution to deferred compensation	X[3]					X[4]	X[5]
Retiree Health	X	X[6]	X	X[7]	X	X	X

[1] Downey Classic Tier 1 staff only; city pays 8%
[2] Provided to Whittier executive management staff only; City pays 8% for non-safety executives and department heads and 9% for Chief of Police
[3] El Monte ceased offering a deferred compensation contribution for executive staff effective July 1, 2014.
[4] South Gate executive management staff only; city matches up to half of the legal limit ($8,750)
[5] Whittier Police Chief – city pays 1.7% of salary; Whittier senior, middle, and supervisory management, and confidential employees – city pays 1.5% of salary; executive management employees have the choice to convert executive leave hours to deferred compensation
[6] Pomona retirees receive retiree health benefits only if hired prior to August 1, 2011. Not open to new hires.
[7] Inglewood Tier 3 employees have the option of exchanging sick/vacation leave hours for participation in the Retiree Medical Benefit Plan

Many agencies have already negotiated with their labor associations to phase out EPMC as a cost savings strategy. Table 15 shows the employee contribution paid by the City for FY 2013-14.

Table 15. Current Employer Paid Member Contribution by Bargaining Unit

Bargaining Unit	Annual Savings
SEIU	$134,018
GMMA	$40,785
PMMA	$67,615
POA	$496,702
Unrepresented	$28,833
TOTAL	**$767,953**

Negotiating to have employees pay the full employee contribution would save the City $767,953 annually. It also will bring El Monte into compliance with PEPRA, which mandates the elimination of EPMC at the conclusion of existing labor agreements. However, some agencies have agreed to increase employee salaries by an amount equivalent to the reduction in employer contribution to the employee share. Because the result is no net change in employee pay, this strategy makes it easier to obtain agreement for employees to pay their share of retirement costs. However, doing so also means no cost savings to the employer in the short term, and in fact represents an increase in total compensation costs.

The savings associated with employees paying their full share is realized by the employer in the future in the form of lower total CalPERS costs.

Recommendation 11. Negotiate to stop paying EPMC.

Deferred Compensation

It is common for public agencies to provide a deferred compensation plan for employees. This allows employees to save for retirement by contributing a portion of their salary on a pre-tax basis to the equivalent of an individual retirement account (IRA). The IRS establishes limits to the amount of compensation that can be deferred. Currently this limit is $17,500 per year.

City contributions to deferred compensation are less common, except perhaps for executives. El Monte, however, makes contributions to the 401(a) plan deferred compensation accounts for members of SEIU and GMMA equivalent to 2% of salary. The amount of salary includes the value of any longevity pay being received. Previously, the City also contributed to the deferred compensation accounts of executive managers but this practice ended effective July 1, 2014. POA and PMMA members negotiated to convert the City's deferred compensation contribution to base salary in prior contract negotiations.

Among peer agencies, only South Gate and Whittier contribute to deferred compensation accounts and then only for executive managers. South Gate matches the amount of the employee contribution, up to 50% of the legal limit of $17,500 per year. El Monte could also limit deferred contributions to match those made by employees, up to a maximum of 2% of salary. However, the value of longevity or other specialty pay should not be included in the salary calculation. Limiting the contribution to 2% of salary only is estimated to reduce the City's costs by 5%, or approximately $25,700 per year. Requiring an employee match is estimated to save an additional $23,400 per year, because some employees will choose not to participate if they have to contribute their own funds.

Recommendation 12. Negotiate to modify the City's contribution to deferred compensation to match the employee's contribution up to 2% of salary only, excluding longevity pay.

Cash in Lieu of Medical Insurance

As previously discussed, El Monte offers health insurance benefits through a cafeteria plan equal to the lowest cost CalPERS Los Angeles area HMO family rate. Employees choosing a health plan that costs less than the HMO family rate are eligible to receive a cash rebate for the difference in expense. For FY 2013-14 the value of these rebates exceeded $1 million.

This approach takes the laudable objective of providing health insurance to employees and stretches it to provide additional compensation when an employee either waives coverage (typically because a spouse or domestic partner has access to a better plan) or voluntarily chooses a less costly coverage. This extra payment goes above and beyond the objective of providing for medical insurance coverage.

The City could significantly reduce its costs by eliminating opportunities to receive cash in lieu of medical insurance. There is a small risk that employees will choose more expensive insurance programs to maximize the value of benefits received.

Recommendation 13. Negotiate phasing out cash rebates in lieu of medical insurance.

Retiree Health

Benchmarking shows all of El Monte's peers provide health benefits to retirees. As discussed in the financial analysis section, El Monte's contributions to retiree medical benefits vary by labor association and represent a significant cost driver of more than $1.3 million annually. Currently, El Monte pays only the normal cost of the benefit for the year. This "pay as you go" approach means that unfunded liabilities for the retiree health plan are growing to the point where they will double in 5 years to approximately $35 million. The growth in unfunded liabilities will continue to drive costs even higher as more employees retire and access the benefits.

El Monte can limit future growth in retiree health benefits costs by closing the program to new employees like the City of Pomona has done. This would not generate cost savings in the short-term, but would cap annual costs in the future.

Recommendation 14. Close the retiree health plan to make new hires ineligible to participate.

The GMMA has contractually agreed to limit the cost of retiree health benefits by having the City pay the employee-only rate. To be eligible, employees must also be age 55 with 15 years of service. El Monte pays the more expensive family rate for retiree health for PMMA and POA members with no minimum service requirement. Negotiating for PMMA and POA retiree benefits to mirror those for GMMA would reduce costs, although these would not be significant in the short-term.

Recommendation 15. Negotiate to limit retiree health contributions for PMMA and POA members to the individual cost after a minimum number of years of service.

Unless an agency establishes and implements an approved cafeteria, flexible, or optional benefits plan, CalPERS requires that contracting agencies make health care contributions for retired employees in the same amount as for active employees. Since El Monte offers a cafeteria health plan, the City is not obligated to make health care contributions for retired employees in the same amount as for active employees.

Recommendation 16. Negotiate to provide a lower health insurance contribution for retiree health than for active employees.

Finally, El Monte could reduce future retiree health costs by paying down some of the existing unfunded liabilities. Some financially challenged cities such as Placentia have begun to strategically apply a portion of one-time revenues towards retiree health unfunded liabilities because doing so would save between 25% and 35% over the next 30 years.

Recommendation 17. Begin making payments towards retiree health unfunded liabilities as resources become available.

Overtime

El Monte's MOUs with SEIU and the POA currently dictate that an employee's leave time is counted as time worked and contributes toward calculating overtime. If the MOUs were changed to pay overtime based on the Fair Labor Standards Act (FLSA), then only actual time worked would count towards calculating overtime. In addition, overtime is paid when an employee works more than 8 or 10 hours in a given day, instead of the FLSA standard of hours worked above 40 hours in a week. In other words, the City has negotiated to pay for more overtime costs than is legally required.

In FY 2013-14 the City incurred $1,791,196 in overtime costs for these two units. Of this, $1,480,642 was for police overtime. Studies performed by Management Partners for other clients have consistently shown overtime costs would be reduced by 15% (miscellaneous employees) to 20% (safety employees) by following the FLSA standard. For El Monte, this would be a cost savings of approximately $280,600 per year.

Recommendation 18. Negotiate to follow the FLSA-approved methodology for calculating overtime, which excludes leave time as time worked.

Additional Compensation

During difficult economic times when COLAs are infeasible, public agencies may agree to provide other forms of compensation that have the effect of increasing take-home pay. These include such things as longevity pay, special or premium pay, and career development or education incentive pay. El Monte's MOUs have several examples of such additional compensation, many of which were negotiated decades ago.

Longevity Pay

Traditional civil service salary schedules with an average of five or six steps in the range were developed before the onset of widespread collective bargaining and were intended to provide an opportunity to reward employees annually for their performance and for the growth of their experience and productivity as they become more effective on the job. The increases are often known as merit increases, although they are virtually automatic.

El Monte's salary schedules have five steps. Consequently it takes only 4.5 years for the average El Monte employee to get to the top step assuming satisfactory performance. In the absence of cost of living increases, this means employees hit the ceiling of their salary in a relatively short period of time.

El Monte's employees are eligible to receive longevity pay beginning after 5 years of service. Employees hired before a specified date (July 1, 1985 for SEIU and GMMA members, and January 1, 1986 for POA and PMMA members) receive longevity pay as a percentage of salary, while those hired after that date receive a flat monthly amount that grows with the number of years of service. The amount of longevity pay begins at $75 per month after five years and increases to a maximum of $150 per month after 20 years of service. Employees hired prior to 1986 receive 2% of salary after five years, 4% of salary after 10 years, 5% of salary after 15 years, and 6% of salary after 20 years.

El Monte's costs for longevity pay were almost $658,000 for FY 2013-14 and most employees currently receive this pay. Eliminating longevity pay for new hires would allow these costs to be reduced over time.

Recommendation 19. Negotiate to exclude new hires from eligibility for longevity pay.

Special Pay

Special pay is additional compensation for assignments requiring specialized skills or training. It can also be associated with particular skills, certifications, or educational achievements that add value to the City and warrant additional compensation. Common examples include bilingual pay or compensation for functions requiring special certification.

Controlling costs associated with special pay requires periodically evaluating the business need for the assignment or skill and eliminating assignments where the need is reduced or is no longer necessary. For example, the need to provide dictation pay (which El Monte does not have) is probably not warranted in today's world. Costs also can be controlled by conducting a periodic audit to ensure that employees receiving special pay remain qualified for the assignment by meeting the criteria for which the compensation is paid. For example, employees receiving certificate pay should have to provide evidence of a new certificate after one expires.

A best practice is to provide special pay as a flat amount instead of a percentage of salary so that the cost of the special pay does not increase when salary increases occur. To its credit, El Monte does not have many special pays and most of them are already compensated as a flat monthly amount. However, the special pay for possessing a commercial pesticide application certificate is 2.75% of salary. The cost to the City for the seven individuals receiving pesticide application pay was $9,936 for FY 2013-14. Converting this special pay to a flat monthly rate of $118 would cost $9,912, roughly the same amount as the City is paying today, and would prevent the cost from increasing as salaries increase.

Career Development Pay

Career development pay is specialty pay more commonly offered as a percentage of salary, particularly for public safety employees. Career development pay expenditures were $1,150,519 for FY 2013-14. All but $13,700 of this amount was for police officer career development pay. In El Monte, police officers possessing a Basic Police Officers Standards and Training (POST) certificate earn 3% of salary in additional compensation. Intermediate POST certificates are compensated at 10.5% of salary, while advanced certificates earn 16% of salary. Table 16 shows a breakdown of this compensation by certificate type. Based on the number of current positions, every sworn police officer (including management) in the City is receiving career development pay for a POST certificate.

Table 16. Overview of Police Career Development Pay

POST Certificate Level	Number Receiving	FY 2013-14 Cost
Basic (3% of salary)	10	$18,432
Intermediate (10.5%)	23	$148,295
Advanced (16%)	79	$970,092
Total	**112**	**$1,136,819**

Benchmarking indicates El Monte's police officer career development program is more generous than those of peer agencies. (South Gate was excluded from this analysis because MOUs were not readily available through the City's website.) Table 17 compares the various programs. It shows El Monte is the only agency offering career development pay for a Basic POST certificate, and that the percentage of salary paid for Intermediate and Advanced POST certificates is higher than any of the agencies.

Table 17. Comparison of Police POST Certificate Pay (Percentage of Salary)

City	Basic POST	Intermediate POST	Advanced POST
El Monte	3%	10.5%	16%
Downey[1]		6%	9.5%
Inglewood		7.5%	12.5%
Pomona		3% + $100/month	6% + $100/month
West Covina[2]			2% 4% with AA 6% with BA 8% with MA or MS
Whittier		4%	9%

[1]Downey provides equivalent career development pay for an Associate of Arts degree (6%) or a Bachelor of Arts or Sciences degree (9.5%)
[2]West Covina also provides 2% of salary for possessing an Associate of Arts degree

Reducing career development compensation for Intermediate and Advanced POST certificates would make El Monte's program more consistent with the market, while generating savings. Reducing career pay for an Intermediate POST certificate from 10.5% to 7% of salary would save El Monte $49,600 per year. Reducing compensation for an Advanced POST certificate from 16% to 12% would generate $291,538 in savings.

Recommendation 20. Negotiate to reduce career development compensation from 10.5% to 7% for an Intermediate POST certificate and from 16% to 12% for an Advanced POST certificate.

Shooting Pay

Special pay should not be offered for skills that represent minimum qualifications for a job. El Monte compensates officers 1% of salary for the ability to shoot their duty weapon and a shotgun if they successfully qualify once per quarter and had no preventable accidental firearm discharges. Shooting pay is another example of compensation that every sworn El Monte employee receives, at a cost of $94,604 for FY 2013-14. The ability to discharge a firearm is a minimum qualification to serve as a peace officer and extra compensation should not be provided for this skill. Although it would not result in cost savings, one negotiation strategy would be to incorporate shooting pay into the base salary for all sworn positions and eliminate it as an identified special pay.

Recommendation 21. Negotiate to eliminate shooting pay.

Other Strategies for Controlling Personnel Costs

Our review of the City's MOUs identified additional alternatives for controlling and/or reducing labor costs, including the following:

- Eliminate the provision allowing employees to cash out up to 50% of accrued sick leave upon retirement or layoff. Instead, allow unused sick leave to be applied only for service credit upon retirement. Converting sick leave to service credit marginally affects pension costs but helps case flow and budgeting by avoiding the need for large lump-sum payments upon retirement or separation from the City. We were unable to quantify the amount of sick leave cash outs provided to employees over the last several years to estimate potential savings.
- Reduce sick leave accrual from 10 hours per month to 3.7 hours per pay period. This would reduce the total days per year from 15 to 12, which is more consistent with public sector standards. Reducing the rate of accrual would reduce accrued liability for sick leave by $108,315 per year.
- Cap accrued vacation hours at the amount that can be earned over two years. In other words, vacation accrual stops when the cap is reached. Vacation pay is an employee right that must be paid at the time of separation. Establishing a cap reduces the City's liability for vacation pay.
- Reduce the length of job-related injury disability leave from 1 year to 90 days for non-safety employees. Safety employees are entitled to 1 year of industrial disability leave for each injury by state law. It is highly unusual to provide the same level of disability leave for non-safety employees.
- Require employees to exhaust all paid leave prior to going to unpaid status. Currently, if an employee is on an unpaid leave of absence, the City continues to pay for health premiums as long as the employee uses one day of paid leave per month. It is standard practice to require employees to use all paid leave first. Then the City could continue to pay one month of health benefit premiums for every two years of service.

- Amend the Leave Donation Policy to only allow the donation of vacation, compensatory time, or holiday time, but not sick leave. This potentially reduces costs to the City by reducing the accrued liability for vacation, compensatory time and holiday time, for which employees receive full compensation at the time of termination of employment or retirement. As an alternative, allow the donation of 1 hour of sick leave for every 4 hours of other types of leave donated.
- Pay call back pay based on actual hours worked with a minimum of 2 hours, instead of paying from the time an employee leaves home to the time when they return home (i.e., "portal to portal"). Paying portal to portal rewards those living farther from the City.
- Evaluate job-related necessity for the provision of auto allowances (such as to police detectives) and other compensatory perks.

These suggestions and specific recommendations for changing compensation do not ignore the fact that El Monte's employees have previously agreed to concessions which have negatively affected their pay and benefits. However, bringing compensation and benefits closer in line to the market and best practices is an important component of any financial sustainability plan.

It will be challenging to negotiate any of the above recommendations given the current organizational climate. Strategic consideration must be given to balancing the City's desire for improved financial sustainability with the need to provide fair and reasonable compensation to employees.

Recommendation 22. Develop a comprehensive labor negotiations strategy, including other strategies for controlling personnel costs, in preparation for the expiration of contracts in 2015.

Expenditure Reductions

In addition to reducing costs through changes in compensation, Management Partners identified a number of strategies to reduce expenditures. These include reducing contract costs with the Los Angeles County Fire Department by closing a fire station, contracting for police air support services, and reducing or eliminating programs and services that could be provided by other organizations or the private sector.

Fire and Emergency Medical Services

As discussed earlier in this report, El Monte has received fire and emergency medical services (EMS) from the Consolidated Fire Protection District of Los Angeles County (LA County Fire) since March 1998. Prior to that time, the City operated its own Fire Department. In addition to Fire and EMS, a fire fighter specialist is assigned to El Monte to perform fire prevention and inspection activities equivalent to 80% of their total time (0.8 FTE). The balance of time is spent on duties outside the City.

Although El Monte pays less for Fire and EMS than any of the peer agencies, it has experienced a steady increase in costs over the last 16 years. The initial annual fee was estimated to be $6,210,738 according to contract documents, with a reduction of $377,697 related to anticipated retirement and health insurance savings. The initial agreement also specified that LA County Fire would pay 25% of the costs for one engine located at Station 4. By FY 2008-09 the annual cost had grown to $9,889,210, and the County was no longer subsidizing 25% of an engine company.

In an effort to reduce costs for El Monte during the Great Recession, LA County Fire agreed to close one of the four fire stations located within the City. This resulted in the elimination of one engine in the City and reduced the total number of sworn fire staffing from 15 to 12 personnel for most of FY 2009-10. A paramedic squad was relocated to another El Monte station. The personnel associated with the eliminated engine were re-deployed elsewhere in the regional system.

In FY 2010-11 LA County Fire received a Fire Fighters Grant from the Federal Emergency Management Agency (FEMA) and offered to use the grant to restore the engine and reopen the El Monte Station. This resulted in an estimated annual fee of $8,261,633. When the grant expired in FY 2012-13 El Monte chose to keep the station open and absorb the additional cost.

The estimated fee for FY 2014-15 is $11,261,601, an 81% increase over the original contract amount. Management Partners analyzed the changes in cost for fire services and noted that costs for the 0.8 FTE fire fighter specialist has not increased substantially over the last 10 years. However, costs associated with sworn staffing have changed significantly.

Table 18 presents the variations in sworn staffing and associated costs from FY 2008-09 through FY 2014-15. It shows that costs for serving El Monte declined by 19% when the station was closed in FY 2009-10, but increased by 20% when the fire station was reopened. Approximately $1.3 million of these costs were paid for by the FEMA grant.

Table 18. History of Fire and EMS Service Costs for Sworn Personnel

Fiscal Year	Sworn Staffing	City Cost	LA Fire Overhead Rate	Overhead Cost	Total Cost	% Change
2008-09	15	$7,328,664	32.67%	$2,394,084	$9,722,748	
2009-10	12	$5,927,141	32.64%	$1,934,773	$7,861,914	-19%
2010-11	15	$7,060,198	33.65%	$2,376,032	$9,436,230	20%
2011-12	15	$7,418,987	34.46%	$2,556,286	$9,975,273	6%
2012-13	15	$7,708,998	34.62%	$2,669,133	$10,378,131	4%
2013-14	15	$8,041,377	34.63%	$2,784,335	$10,825,712	4%
2014-15*	15	$8,194,035	35.04%	$2,871,419	$11,065,454	2%

Source: Los Angeles County Fire Department Annual Fee Schedules for City of El Monte
**FY 2014-15 estimated fee*

Table 18 also shows that costs for sworn personnel have risen by 16% in the last four years. Most of this increase appears to be due to increased benefits costs and salary cost of living adjustments agreed to by LA County Fire.

Management Partners requested but was unable to obtain response time or other performance data from LA County Fire to assess the service level impacts of the station closure in FY 2009-10. We also heard no anecdotal reports of increased response times above established standards as a result of the closure.

LA County Fire currently serves 58 cities, 45 of which make no direct payment for fire services. Instead, LA County Fire receives an allocation of property tax collected from properties in each of those cities. The remaining 13 cities, including El Monte, are fee for service (or contract) cities that must pay for services directly.

One of the benefits of being a contract city is greater flexibility in determining levels of service. This flexibility was demonstrated in FY 2009-10 with the closure of one station in El Monte. We have learned that two other contract cities, Inglewood and Pomona, have closed one station in each of their communities due to budget constraints. Reclosing a fire station in El Monte would not represent a precedent and based on past experience is not likely to put the public at significant increased risk.

According to the FY 2014-15 annual fee estimate provided to the City of El Monte, the sworn personnel costs for one three-person engine are $1,975,248. Taking the County's overhead charge into account, the projected savings from closing one fire station similar to the approach taken in FY 2009-10 would generate savings of approximately $2,213,100.

The current agreement with LA County Fire allows the City to request changes in terms and conditions (including changes in the level of services provided) at any time with written notice. Two other contract cities, Inglewood and Pomona, have already closed stations in their communities as a cost savings strategy. As such, El Monte would not be setting a precedent by re-closing one station.

Recommendation 23. Negotiate with LA County Fire to close one fire station.

Law Enforcement Services

The El Monte Police Department has a proud history of providing quality service to the community. Like other city departments, the Police Department experienced reductions in staffing, including the layoff of 19 officers. This reduction was reported to have a significant impact on workloads.

Figure 17 below compares total police FTE's per 1,000 residents for El Monte and the peer agencies. Although it is more common for law enforcement agencies to compare sworn staffing per 1,000 residents, such comparisons ignore the civilian support essential to operating an effective police department. Figure 17 shows El Monte is below the peer median for total police staffing.

Figure 17. Total Police FTEs per 1,000 Residents for El Monte and Peer Agencies

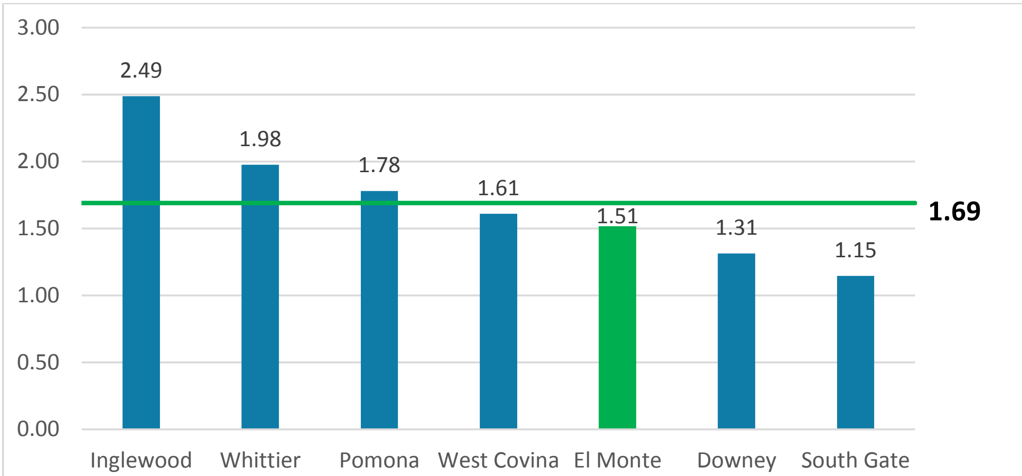
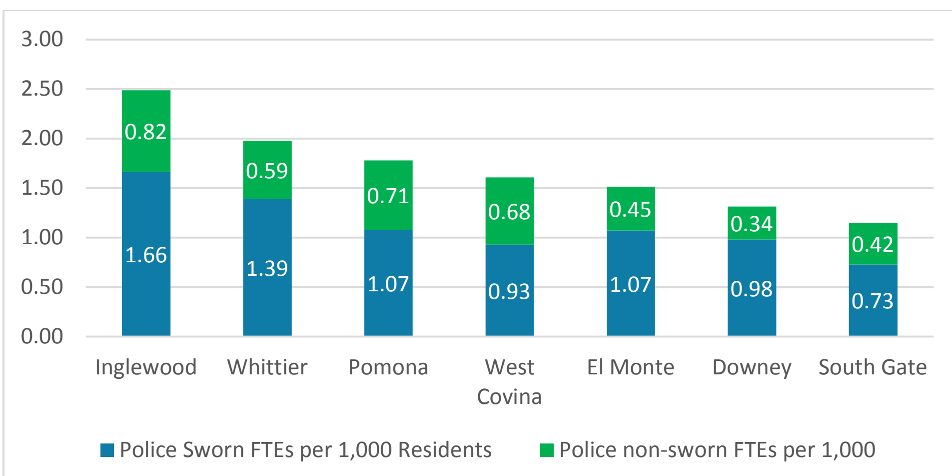


Figure 18 compares police FTEs per 1,000 residents for both sworn and non-sworn FTEs. It shows El Monte has higher sworn staffing per 1,000 residents than West Covina, Downey, and South Gate.

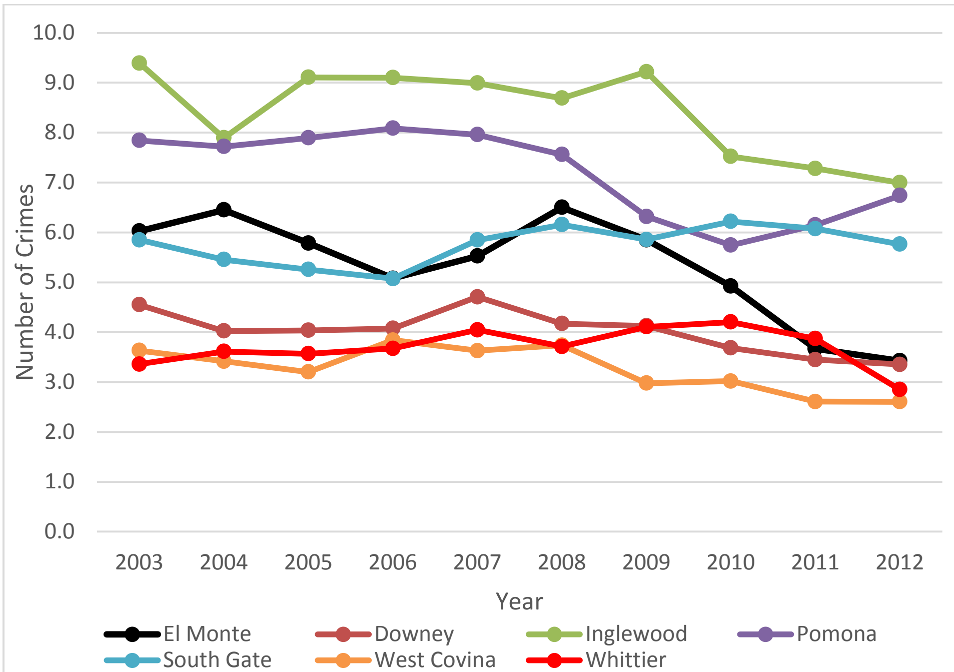
Figure 18. Sworn and Non-sworn Police FTEs per 1,000 Residents



During interviews and focus groups Management Partners heard numerous assertions that crime is increasing. These comments were offered as justification for identifying financial sustainability options that would either avoid significant changes to the Police Department or enable department staffing and resources to be increased.

Figure 19 presents Part I violent crimes for El Monte and the peer agencies from calendar year 2003 through 2012, the last year for which data was available.

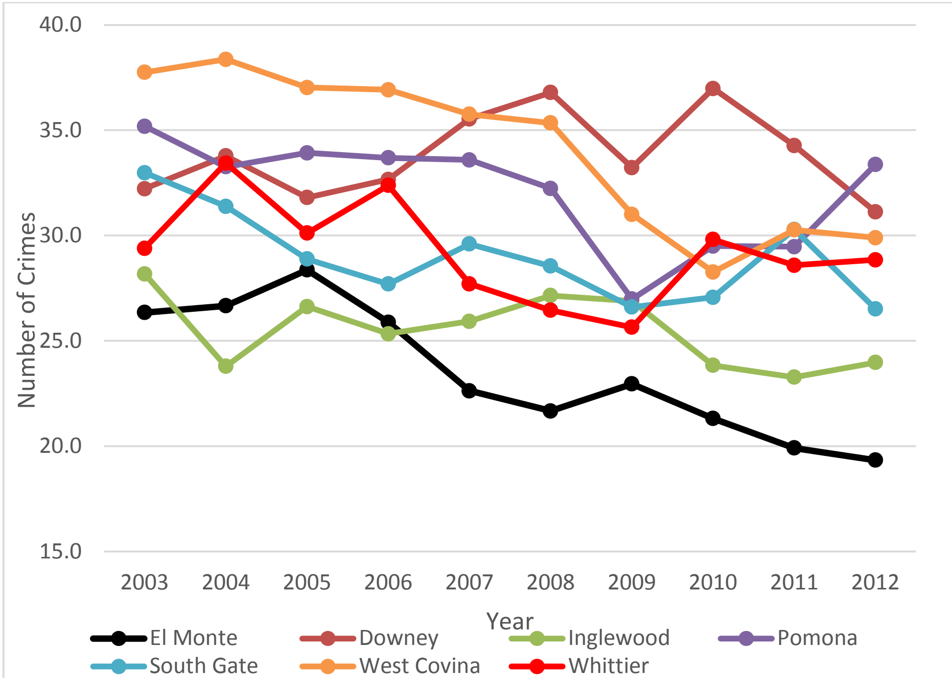
Figure 19. Part I Violent Crimes per 1,000 Residents



Source: FBI Uniform Crime Reports

Figure 20 shows Part I property crimes for the same time period.

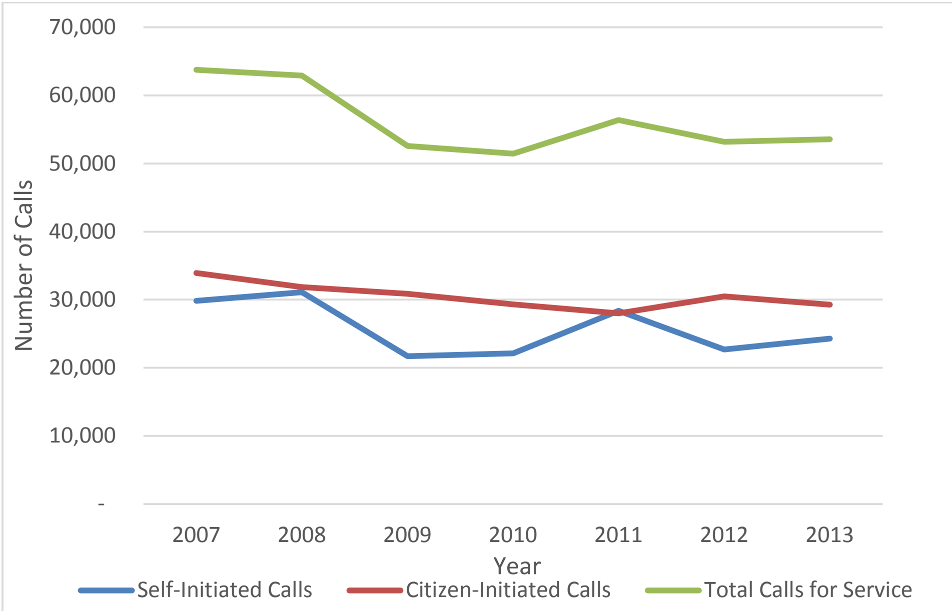
Figure 20. Part I Property Crimes per 1,000 Residents



Source: FBI Uniform Crime Reports

Both Figures 19 and 20 indicate crime in El Monte is lower today than it was 10 years ago. Sometimes people perceive crime is increasing if calls for service are higher. El Monte records calls for service as either "citizen initiated" or "self-initiated." Figure 21 presents annual calls for service from 2007 through 2013 for each of these categories, as well as total calls for service. Citizen-initiated calls have remained fairly level for the last seven years, while self-initiated calls have experienced more fluctuation.

Figure 21. Police Calls for Service



Source: El Monte Police Department

The lower number of self-initiated calls in 2009 and 2010 is probably the result the staffing reductions made during those years. However, total calls for service were lower in 2013 than in 2007, similar to decreases in Part I crimes reported. There is a concern that downward crime trends will reverse unless some police officer positions are restored. Although crime rates and workload levels should continue to be monitored, El Monte's financial constraints make it advisable to explore ways to shift resources within the Police Department so that the core functions of patrol, investigations, and administrative support (i.e., dispatch, records, property and evidence) are preserved to the extent possible.

Police Air Support Unit

The El Monte Police Department operates an Air Support Unit consisting of three helicopters. The Air Support Unit is operational during one swing shift per day. The goal is for the unit to be in the air five hours per shift, although actual flight time depends on calls for service. Staff estimated the unit logs approximately 1,200 hours of flight time per year.

It is unusual for cities the size of El Monte to have their own helicopter program. The number of helicopters also appears to be high for a 10-square mile community. One of these helicopters is leased, while the other two are wholly owned by the City. We were told during interviews that it is necessary to have three units because one or two are always out of service for required maintenance.

Helicopter maintenance cycles are based on the number of hours flown and, according to staff, are performed in 50-hour increments. Inspections after 50 hours of flying time require a day's worth of labor, while inspections after 100 hours require 2 days. Annual inspections are required to maintain airworthiness certifications for each unit. In addition, helicopters are required to be completely rebuilt after every 2,100 hours of flying time, which takes several months to complete. With 1,200 hours per year of flight time, helicopter rebuilds are budgeted to occur every other year.

Two sergeants and one officer (all trained pilots) are assigned to the Air Support Unit. Table 19 provides a breakdown of budgeted expenditures for FY 2014-15 and shows El Monte's budgeted costs are $1,108,933.

Table 19. FY 2014-15 Budgeted Air Support Unit Costs

Program Cost	Amount
Salaries and benefits[1]	$569,433
Operating Expenses[2]	$489,500
Helicopter Lease Payment	$50,000
Total	**$1,108,933**

[1]Includes $248,258 for employee benefits and retirement costs paid from the Non-Department account.
[2]Includes $244,000 for a scheduled helicopter rebuild.

El Monte has attempted to offset some of the costs for the Air Support Unit by providing services to the cities of Azusa, Baldwin Park, Irwindale, Montebello, and West Covina through individual contracts. The agreements require El Monte to pay for the helicopters and their maintenance (including biannual rebuilding), fuel, liability insurance, and rent for housing the helicopters at the airport. El Monte is also responsible for providing full-time police officers to pilot the helicopters. El Monte currently has two sergeants and one police officer assigned to the Air Support Unit.

The contracting cities provide compensation to El Monte for the use of the helicopters as well as staffing to support the program. At least two people must be in the unit to provide appropriate air support, one to pilot the craft and one flight officer ("observer"). The observer functions as an observer, responsible for working the radio and other equipment and coordinating with police activity on the ground. As a result, the observer is deemed to be as important as the pilot. The amount of compensation and level of staff support varies by each agency, as summarized in Table 20.

Table 20. Summary of Contractual Arrangements for Air Support by Contracting Cities

Agency	Initial Contract	Annual Payment	Pilot/Observer Contribution
Azusa	2007	$37,500	1 PT pilot or observer (1 shift per week)
Baldwin Park	2009	$67,500	1 FTE
Irwindale	2005	$15,000	1 PT observer, 1 shift per week
Montebello	2008	$40,000	1 FTE plus 1 PT officer for 1 shift per week
West Covina[1]	2006	$101,775	1 FTE
Total Annual Payments		**$261,775**	

[1]West Covina provides CAD/RMS services to El Monte in exchange for air support services. No direct payment is made to El Monte.

It is unknown how the annual payment amounts came to be established for each agency. There is no cost allocation plan or explicit methodology for apportioning costs to the participating agencies based on calls for service or other factors. We were told the amounts may have been based on whatever participating agencies could afford to pay or whatever the Chief of Police could negotiate. The absence of a cost allocation plan makes it impossible to determine whether each agency is paying its fair share of services received and associated operating costs.

In addition, none of the annual payments have been increased since the contracts were first negotiated. In fact, El Monte reduced Montebello's annual payment from $47,500 to $40,000 in 2002 to provide budgetary relief, and that amount has not changed since.

Although staffing support from participating agencies allows the Air Support Unit to function, budget challenges and staffing constraints have made it difficult for some participating agencies to contribute the level of staff support specified by their agreement. For example, neither Montebello nor West Covina currently contributes full-time staff support. Both are providing sworn observers on a part-time basis only. In September 2014, El Monte personnel staffed the Air Support Unit during 28 out of the 30 shifts possible. A reasonable conclusion is that El Monte is subsidizing the costs to provide police air support to the other agencies.

El Monte is not the only agency providing regional police air support. Such services are also provided by the Los Angeles County Sheriff's department at a cost of $900 per hour. To evaluate the potential cost savings of contracting with the Sheriff, Management Partners used total budgeted Air Support Unit costs for El Monte plus the estimated value of staffing support currently being provided by participating agencies. Assuming a full-time pilot/observer costs $120,000, these staffing contributions are approximately $234,000. When these contributions are added to El Monte's budgeted cost of $1,108,933, the total cost for the Air Support program is $1,342,933. Dividing the total cost by average number of hours (1,200) results in a cost per hour of $1,119.11.

At $900 per hour, the cost for 1,200 hours of flight time provided by the Sheriff is $1,080,000, or $262,933 less per year than current costs. Consequently, it would be more cost effective to disband the Air Support Unit and contract with the Sheriff, particularly given El Monte's current and projected financial challenges.

Recommendation 24. Disband the Air Support Unit and contract for services with the Los Angeles County Sheriff.

A common theme expressed during interviews and focus groups was concern about the level of staffing in both Patrol and Investigations. The layoffs in 2009 reduced the number of detectives by 50% and also reduced the number of officers in patrol. An added benefit of eliminating the Air Support Unit is that two sergeants and one officer could be re-deployed to these essential operational needs. This does mean, however, that there will be no savings in personnel costs.

In addition, disbanding the Air Support Unit will affect the existing agreement between El Monte and the City of West Covina for CAD/RMS services, and there is an expectation that El Monte will have to pay for services rendered by West Covina. However, we understand that the current system is at or near its useful life and is increasingly experiencing problems. This would be an opportune time to re-evaluate the actual value of CAD/RMS system support and to explore the feasibility of replacing the existing system through an independent lease-purchase arrangement.

Community Relations Office

The El Monte Police Department has operated a Community Relations Office for more than 30 years. This office had been located off site, but was relocated back to the Police Department facility to save costs associated with rent and utilities. The Community Relations Office is staffed by a sergeant who oversees a variety of community outreach programs including counseling services, gang prevention and intervention activities, parenting and anger management classes, graffiti abatement, and volunteer activities. The Community Relations Office also oversees the School Resource Officer Program, and provides sworn officers to campuses of the El Monte City, Mountain View, and El Monte Union High School Districts. The districts pay 50% of the costs for officers assigned to their campuses. As budgets have become more constrained, other cities have either reduced the scale of school resource officer programs, or have tried to negotiate a higher level of cost sharing with the districts being served.

Recommendation 25. Negotiate a higher cost-recovery rate for the School Resource Officer program.

Outsourcing

El Monte has already outsourced many services to achieve cost savings including street light maintenance, traffic signal maintenance, some tree trimming, and most of the professional planning, building, and engineering services provided by the Economic Development and Public Works departments. The City contracts with Los Angeles County for animal control services (augmented by part-time employees performing field services on weekdays) as well as fire services, and with a private firm for city attorney services.

A common theme from interviews and focus groups was that El Monte should have fewer contractors and more in-house employees. A detailed cost analysis of employee vs. contractor costs for each department was beyond the scope of this engagement and would be difficult to achieve without the availability of better budget and accounting records. However, El Monte's comparatively high compensation and benefits costs, combined with the desire for flexibility in scaling the workforce to meet workload demands, makes contracting for certain services financially attractive.

Cities have always relied on the private sector to deliver some services. Starting in the 1970s wholesale contracting for services such as refuse collection became commonplace. The concept caught on widely in the 1980s and 1990s as did a hybrid approach called management competition or competitive sourcing (public and private service providers compete to discover the best value proposition). Most cities in the United States contract for some services. Estimates are that currently 20% to 30% of municipal services are contracted or subject to market competition.

The principles behind this approach are summarized below.

- A shift from a monopoly environment to a competitive one is good because the presence of competition (or the realistic potential for it) forces innovation and lower costs.
- Competition must be structured around the best value, not simply lowest cost. One of the lessons learned is that best value is not always delivered by the lowest bidder.
- A competitive environment does not mean the government gives up control or management responsibility. Even if a service is delivered by a private contractor, the government remains responsible and must provide strong oversight.
- Performance must be measured and the metrics agreed on before contracting. Both cost and performance must be continuously monitored and reported.

The application of competitive discipline to municipal service delivery is not just a theory. In Southern California many jurisdictions are "contract cities," where most, if not all, basic services are provided either by another public agency or a private provider, including police and fire services. Contracts are used by many cities for street sweeping, traffic signal maintenance, landscape maintenance, water treatment and distribution, construction plan checking, planning, engineering, payroll processing, and investment management.

Extensive research about the application of competitive dynamics to municipal service delivery has been done over the years. The results have consistently shown that either outsourcing or competitive sourcing, if done correctly, will result in efficiencies. Costs are reduced and better contained over time if they are influenced by the competitive marketplace. However, the ability to contract for services has become more complicated in the last two years by lawsuits and legislation intended to protect public sector jobs from the impacts of outsourcing.

Median Island, Park, and Landscape Maintenance

City employees currently perform median island, park, and landscaping maintenance functions. El Monte previously contracted for park and landscape maintenance, but brought these services in-house several years ago. We were told that a primary reason for discontinuing contracted landscape maintenance was that service levels were deemed to be inferior. In our experience, declines in service quality are typically the result of either poorly written contracts without clear performance expectations or inadequate contract management to hold vendors accountable for established performance standards.

Contracting for park and landscape maintenance has become common in recent years as more municipalities have been forced to close large budget gaps. Median island maintenance also is commonly contracted. Landscape and median island maintenance is a good candidate for outsourcing for two reasons. First, there are many private companies with the staff and equipment to perform these services. Second, private companies can provide the same or better quality services as in-house staff when adequately supervised. The driving factor in outsourcing median island, park, and landscaping maintenance is the enormous cost savings that can be achieved, because private firms employ workers at salary and benefits costs that are significantly lower. Based on the experience of other municipalities who have outsourced these services, savings of at least 50% is common.

In FY 2013-14 the median island maintenance budget had $301,872 in expenditures. Of this, approximately 74%, or $224,378 was for salaries and benefits costs. However, these amounts do not include costs for employee retirement benefits, which are budgeted in the City's Non-Departmental account. The balance of expenditures was for general supplies, water and electricity costs, and uniforms and safety equipment. Contracting median island maintenance is estimated to save the City approximately $112,000 and probably more if retirement costs are taken into account.

We were unable to calculate the potential cost savings if El Monte were to return to outsourced landscape maintenance services because the City does not budget for these costs separately from other park maintenance services being provided. Employees are assigned to work at specific park sites and have responsibility for facilities maintenance at those sites as well as landscaping maintenance. We were told, however, that staffing reductions in Public Works has reduced responsiveness to maintenance needs at park facilities. Contracting for landscaping maintenance could reduce costs and potentially generate staff capacity to address the ongoing facilities needs at park sites.

Recommendation 26. Issue a Request for Proposals to outsource all landscaping maintenance functions, including median island maintenance.

City Attorney Services

El Monte has contracted with the law firm of Olivarez Madruga, P.C. for city attorney services since January 2011. Prior to that, the City contracted with Kinaga Olivarez, although at one time the City Attorney's Office was staffed with City employees. Olivarez Madruga (OM) provides legal advice to the City Council, Planning Commission, Successor Agency, city management, and staff. The firm performs the range of legal work commonly associated with city attorney operations including preparing ordinances and resolutions, reviewing contracts and other legal documents, and coordinating the work of special legal counsel as required. Three attorneys from the firm are assigned to El Monte full-time. Two of these attorneys are former El Monte employees. During several interviews we were asked whether it would be more cost effective to bring City Attorney services back in house.

El Monte pays OM a retainer of $65,000 per month ($780,000 per year), which includes the onsite assignment of the three attorneys plus offsite support from paralegal and administrative staff. The amount of the monthly retainer has not changed since the contract was established. We reviewed invoicing data provided by the City's Finance Department and verified by OM. The data shows the value of the services provided by OM exceeded the retainer amount 26 out of 36 months during FY 2011-12 through FY 2013-14. In other words, the fixed retainer of $65,000 per month results in a monthly cost savings to El Monte 72% of the time.

The contract also allows OM to charge for special legal services not covered by the monthly retainer on an hourly basis. These special charges are for additional legal work being performed at the direction of the City Council or City management, such as complex development transactions like the Gateway Project, or in response to lawsuits filed by or against the City. Two lawsuits appear to have generated significant attorney billings from the beginning of 2011 through the middle of 2013. The legal work associated with the dissolution of redevelopment and the establishment of the Successor Agency has also been a significant cost driver in FY 2012-13 and FY 2013-14.

Table 21 shows the history of costs for legal services invoices paid to OM for the last three years, as provided by the City's Finance Department.

Table 21. Annual City Attorney and Special Legal Services Costs

Year	Monthly Retainer	Actual Value of Services Provided	Savings	Special Legal Services[1]	Specific Lawsuits	Total Special Legal Services[2]	Total City Attorney Costs[3]
FY 2011-12	$780,000	$944,797	$164,797	$302,968	$504,214	$807,182	$1,587,182
FY 2012-13	$780,000	$915,155	$135,155	$258,349	$195,273	$453,622	$1,233,622
FY 2013-14	$780,000	$807,165	$27,171	$419,174	$65,394	$484,568	$1,264,568

Source: City of El Monte Finance Department
[1]Includes costs for special services provided to the Police Department, those related to the dissolution of redevelopment, and other legal services outside the retainer scope of work.
[2]Specific lawsuits are for cases referred to as "JT, LLC" and "TV, LLC."
[3]Total monthly retainer costs plus total special legal services costs paid.

Many cities the same size or larger as El Monte contract for city attorney services. One benefit of contracting is the ability to access special expertise across many legal disciplines typically present in a larger firm. In-house city attorney operations typically have multiple attorneys in order to provide such expertise, or end up contracting with special legal counsel for it. Like overtime, costs for special legal services are a normal part of municipal operations and are within the City's complete ability to control.

Whether or not it is less expensive to have an in-house or contract city attorney ultimately depends on the needs of the municipality, the quality of the contract and its terms, and the effectiveness of contract management. For example, it is not a good use of resources to allow staff to ask the city attorney to perform work they could reasonably be expected to do themselves. Requesting legal work at the last minute instead of planning ahead can result in "rush" charges that could have been avoided. Effective management of any contract requires careful monitoring of the work being assigned to ensure it is reasonable, necessary, and consistent with the terms of the agreement. Establishing a more formal process for requesting legal work would allow El Monte to monitor and manage the contract more effectively and help the City Attorney's Office prioritize the work being requested.

Recommendation 27. Institute a system to facilitate monitoring and approval of requests for city attorney work.

Additional Opportunities to Reduce Expenditures

There are other opportunities for reducing expenditures in El Monte, including the following.

Vehicle Maintenance

The City's Public Works Department is responsible for maintaining most of El Monte's vehicles and equipment. The City's corporate yard is fully equipped with service bays, tools and equipment, as well as staff trained to provide a full range of vehicle maintenance services. Routine maintenance of police vehicles is performed by two civilian mechanics out of bays located at the Police Department. Consolidating vehicle maintenance operations would generate efficiencies by reducing duplication of tools, equipment, and maintenance supplies. Our understanding is that the corporate yard has sufficient space to accommodate police vehicle maintenance and may also have the staff capacity to handle the Police Department's 25 vehicles. Unfortunately, we were unable to isolate current costs for vehicle maintenance in either the Police or Public Works department budgets or in the expenditure reports provided by the City in order to estimate potential cost savings.

> **Recommendation 28. Consolidate and assign vehicle maintenance functions to the Public Works Department.**

City Special Events

A common theme from interviews, focus groups, and the employee survey was the large number of community events hosted by El Monte. Community events can be important outreach and quality of life activities that allow residents to connect with each other. However, such special events require time and resources to coordinate and deliver. During the Great Recession some cities discontinued the number of special events as a cost-cutting strategy or started to look for ways to recover more of the costs. El Monte does not appear to have done either.

Table 22 is a summary of the special events provided annually by the City and their estimated staffing costs. It shows that the cost per participant ranges from less than $0.46 (Fourth of July Breakfast) to more than $50 (Arbor Day). Police costs were not provided for several events because the event is "hosted" by the El Monte Police Officers' Association. However, this does not mean there are no costs to the Police Department such as for traffic control during parades or community runs.

Table 22. Summary of City Special Events

Event (Month)	Estimated Participants	Net Cost[1]	Cost per Participant
5K Run (March)[2]	1,500	$3,555	$2.37
Inspire (April)	120	$3,120	$26.00
Arbor Day (April)	200	$10,570	$52.85
Memorial Day (May)	240	$2,805	$11.68
Job Fair (June)	2,000	None	None
Fourth of July Breakfast[2]	2,500	$1,150	$0.46
Rockin' Wednesday Summer Concerts (July, August)	2,300	$4,068	$1.77
Back to School Resource Fair (August)	Unknown	$3,467	Unknown
Police Open House[2]	2,500	$20,530	$8.21
Children's Day Parade and Harvest Festival (October)	9,800	$14,685	$1.49
Trunk or Treat Haunted House[2] (October)	3,500	$5,675	$1.62
Veterans Day (November)	225	$2,545	$11.31
Holiday House (December)	3,500	$34,633	$9.90
Little League Openings	>250	$3,680	$14.72
Town Hall/Community Meetings (per meeting)	185	$2,203	$11.90
State of the City	125	None	None
Total		$112,686	

Source: City of El Monte
[1]Net costs reflect actual costs minus sponsorships or other offsetting revenue
[2]Event "hosted" by the El Monte Police Officers Association; no police costs provided
Note: Costs for the Santa's Float and Toy Giveaway were excluded because attendance information was not available.

While the cost for City special events is relatively low compared to the total General Fund budget, the number of events is reported to inhibit staff's ability to provide core public services. Some events appear to be more cost effective than others, as evidenced by lower per participant costs. An evaluation of true total costs and benefits would help policy makers determine whether each of these events is worth the investment required.

Recommendation 29. Conduct a more detailed evaluation of City special events with the goal of continuing those that provide the greatest benefit for the least amount of expense.

Ribbon Cutting Ceremonies

In addition to the special events described above, El Monte coordinates ribbon cutting ceremonies for new businesses. It is more common for these events to be hosted by a chamber of commerce, assuming there is one located in the community. Chambers of commerce are interested in hosting these events because they help market the chamber and encourage membership. Elected officials and executive staff are invited to attend so they can officially welcome the new business and employees to the community.

El Monte is home to the El Monte/South El Monte Chamber of Commerce. We were unable to quantify the cost of time and materials currently devoted by City staff to organize these events. However, transitioning responsibility for ribbon cuttings to the El Monte/South El Monte Chamber of Commerce would demonstrate collaboration with the business community, provide an opportunity for the Chamber to market its services to new businesses, and free up staff capacity to work on more essential municipal services and programs.

Recommendation 30. Transition responsibility for ribbon cutting ceremonies to the El Monte/South El Monte Chamber of Commerce.

Efficiency Improvements

Management Partners also reviewed opportunities to improve efficiency and effectiveness. Resource constraints are generally considered the primary obstacle to innovation and efficiency improvements. However, in our experience there are feasible avenues that the City can and should consider.

This engagement did not include an in-depth organizational assessment of each department with respect to processes, policies and procedures, and service delivery systems. However, our experience and best practices knowledge and research have identified priorities El Monte should address. Perhaps the most significant opportunity available to El Monte to improve its efficiency lies in better leveraging of its information technology resources.

Information technology (IT) is of critical importance to serving customers and meeting the community’s expectation for easy access to information, staff doing their work, and providing management information for decision making. In some cases, the addition of technology is transformative, bringing new capabilities and greater efficiency and effectiveness to an organization. Technology is also expensive and tales of failed technology initiatives abound in both the private and public sectors. Nevertheless, technology is an essential tool for the effective, efficient delivery of municipal services.

El Monte's utilization of technology and the impacts of delays in upgrades and new implementation projects caused by budget constraints and reductions in IT staffing emerged as a significant concern during interviews, focus groups, and the employee survey. Conducting a detailed IT assessment was beyond the scope of this investment but we are able to offer the following observations and recommendations.

Governance, Planning and Replacement

IT governance refers to the decision making and management structure employed by an organization to make critical, organization-wide IT decisions. Governance structures address the issues of IT investment, standardization, and management. An IT governance committee is a common fixture in larger organizations and is becoming more prevalent in smaller organizations as well.

This committee is particularly important in an environment where resources and staffing are limited because it provides a forum in which competing organizational priorities can be discussed and attention can be focused on the initiatives that deliver the most value to the public.

In El Monte's current environment, it is unclear who is responsible for prioritizing projects and activities. Given the importance of technology, City management should ensure El Monte's department directors are engaged in providing direction to the IT function. An IT committee would provide a mechanism for making decisions from an organization-wide perspective.

> **Recommendation 31. Implement a simple IT governance structure to promote planning, prioritization, and alignment of IT resources with El Monte's business priorities.**

El Monte lacks a comprehensive, citywide technology plan. Such plans typically include a prioritized list of projects that provide a roadmap for future investment, based on identified needs. These needs may include productivity enhancing applications as well as hardware and system improvements.

Recommendation 32. Develop a Citywide Technology Plan that identifies a prioritized list of projects, funding and resource requirements, and department roles and responsibilities.

As new technology is implemented, El Monte needs to consider the total cost of ownership. The cost of technology goes beyond the initial implementation of hardware and software to include ongoing maintenance and support requirements. The ongoing support cost may extend beyond the IT function and include subject matter expertise and vendor management support from the departments.

It also must be recognized that as more technology is implemented and the overall reliance on technology increases, the IT budget will likely need to increase to support ongoing operations and maintenance. If technology is implemented correctly the increased staff efficiency and effectiveness should offset the cost.

Recommendation 33. Incorporate costs for ongoing maintenance and support as new technology is implemented to ensure adequate resources are available to meet the support needs.

Currently there is no centralized replacement program or policy for desktop and laptop computers. The current process is decentralized and has resulted in a variety of operating systems, Microsoft Office versions and other software incompatibilities. Older equipment increases the break/fix responsibilities of IT staff, creates user frustration, and inhibits document sharing. Standardized desktop/laptop configurations are more efficient to maintain and support.

Recommendation 34. Establish standard desktop/laptop configurations and implement a policy and funding mechanism to replace desktops and laptops every three to four years.

In addition to desktop and laptop replacement, El Monte lacks a replacement policy and funding for the City's core infrastructure such as servers and network equipment. The current budget does not adequately support the timely upgrade and replacement of aging equipment.

Recommendation 35. Establish a replacement policy and funding for core IT infrastructure.

Applications Investment and Support

El Monte's financial information system, EDEN, is not being utilized to its fullest potential. As discussed in a previous section, this appears to be a function of limited training, but there could be additional factors.

Recommendation 36. Provide comprehensive training on EDEN and its use to all departments.

EDEN may have the capability of supporting position control. As discussed earlier, position control is a method for managing and tracking staffing levels and costs over time.

Recommendation 37. Implement a position control system. First determine if EDEN already has the capabilities to support position control functions.

An effective GIS system allows different departments to share information efficiently and reduce the reliance on printed documents for basic infrastructure information. Ideally, departments should be allowed direct access and be able to use GIS data through user-friendly tools. El Monte currently lacks a GIS system to document existing infrastructure and its condition. This is an essential system for any municipality. El Monte should develop a plan for procuring and implementing a GIS system than can be utilized by all departments.

Recommendation 38. Establish a plan and funding to purchase and implement a GIS system.

Economic development is a clear priority for El Monte and an efficient and predictable development services function is a key partner in any economic development effort. Staff and customers should be able to rely on a modern permit tracking system to provide good information and ensure accountability for agreed upon turnaround times. In El Monte, no such system exists. As a result Economic Development and Public Works staff must spend time manually tracking development applications. Modern and up to date permit tracking systems:

- Track the progress of projects and ensure that deadlines are met and all issues are addressed
- Allow managers to monitor workload and the progress of development applications, identify obstacles in the review process and hold staff accountable
- Monitor and report turnaround times and allow for a more finely tuned set of performance standards based on permit types (e.g.,

two days for some types of sample permits, one week for others, three weeks for others, etc.)
- Provide extensive information online, thereby reducing the need to talk to staff

According to staff, the City has purchased a new permit system, but it has not yet been installed. We were not, however, provided with information about the system or its capabilities.

Recommendation 39. Install the acquired permit tracking system.

Maintenance of critical facilities and infrastructure is also important to El Monte. Currently this work is being done manually, with limited effectiveness. Computerized maintenance management systems (CMMS) are software packages designed to track activities and costs related to facility and infrastructure management and maintenance, plant operations, and fleet management. In general, a CMMS contains capital asset inventory modules, maintenance records to provide historical records of maintenance work, work order management and materials and labor tracking components to manage the costs of maintenance operations. Typically, CMMS also have components for scheduling preventive maintenance and recurring work, tracking replacement schedules, and a variety of other functions in support of maintenance operations. The CMMS is the primary application used by most medium to large maintenance organizations in both the public and private sector.

A CMMS provides management information of significant value to an organization including:

- Asset history with parts and labor costs
- Outstanding work orders
- Contract performance
- Workload planning
- Materials and parts costs
- Actual costs compared with budgets
- Cost summary by account
- Maintenance due summary
- Staff hour reports
- Past due preventive maintenance
- Warranty expiration tracking
- Vendor performance
- Trade summary
- Employee productivity comparisons

- Equipment downtime reports
- Projected material and parts requirements
- Asset replacement cost projections
- GASB 34 asset and maintenance program tracking

The CMMS should be implemented with a focus on addressing the following:

- Collecting a complete facilities infrastructure inventory including lifespan projections and replacement cost projections
- The inventory system must track entire systems and subcomponents where appropriate
- Managing an inspection and preventive maintenance program that includes tracking of this work and any repair work performed
- Tracking repair history
- Tracking operational costs including materials and labor
- Continuous tracking of work orders from the moment of creation through close-out and handling multiple time stamps so material problems do not reflect on response goals
- Managing the daily workload of staff and accepting work order completion reports.
- Providing access to the application from the field by mobile devices

Implementation of a CMMS system will:

- Create databases for effective management of capital assets
- Automate the preventive maintenance function
- Gain administrative and operational capacity
- Provide data that more effectively informs managers about work products and performance

The cost of CMMS software packages has become relatively reasonable over the last five years as a result of competition in the field. Individual modules can be also sequenced or phased to reduce the immediate cost impact.

> **Recommendation 40. Acquire and install a computerized maintenance management system in the Public Works Department.**

There are other IT investments that would improve efficiency. These include developing an intranet system to support electronic document sharing between departments and work groups. In addition, upgrading the City's website to increase the availability of online services such as bill payment, recreation class registration, inspection scheduling, and public records access. Consideration for these needs should be made in the context of the Citywide IT plan recommended previously.

Performance Measurement

Innovation and efficiency are often achieved through alternative service delivery mechanisms or by improving existing systems. Mechanisms range from technology-based improvements, such as online permitting, electronic meter reading, and computer-aided design and electronic records, to contracting all or a portion of some services historically provided by city staff. Management Partners was unable to find substantive performance documentation or metrics within any City department.

El Monte generally lacks the tools and mechanisms to adequately assess productivity, performance, and efficiency. This is in great measure due to the lack of technology needed to do so efficiently and also due to a lack of training, not uncommon in local government. Nonetheless, until mechanisms and metrics are in place that document and monitor operating costs and deployment of personnel, opportunities for innovation and efficiency (e.g., changing work methods or systems, contracting for services) are difficult to objectively measure and assess. If the organization does not measure what it does, it does not know whether what is getting done is important, whether it is getting done cost effectively, and what alternatives might be competitive. As performance management expert David Ammons writes:

> *Performance measures are… core diagnostic and evaluative tools for performance improvement. Ideally, a good set of performance measures can answer four key questions: How many; How efficiently; of what quality; And, to what effect? Armed with such information, local officials can identify operational strengths and weaknesses and can assess the effectiveness of steps taken to correct deficiencies.*[3]

Performance measurement is the practice of regular and continuous data collection and reporting on important aspects of an organization's

[3] David N. Ammons, Accountability for Performance: Measurement and Monitoring in Local Government, 1995

services, programs, or processes. Performance measures are numeric indicators representing specific process or service delivery activities. By collecting performance data linked to specific activities, the quality, impact or outcome of service delivery efforts can be measured.

The use of performance measures enables an organization to evaluate the effectiveness and efficiency of its services and programs by documenting how well they are accomplishing the goals they and their customers set. Performance measurement provides a means to identify where services outcomes are meeting objectives and where they are not. Thus, it indicates where improvement efforts should be focused and what alternatives may be available.

Performance measures should not be the sole source of information for management decisions nor should they be used in a punitive manner. They can, however, serve as sound reference points for management and customers, can track progress against organizational goals and standards, and serve as early warning signs when baseline staffing is unable to meet service demands. Measuring the elements of performance, and then analyzing the data and making improvements where indicated, will lead to higher quality services and increased customer satisfaction. In short, performance measurement gets results.

Because delivering programs and services is a complex process, it is necessary to analyze performance from different perspectives. Therefore, developing a family of measures for each specific program allows managers to get a complete picture, both qualitatively and quantitatively, of how well that program is performing. For example, if an agency only measures the number of potholes filled, but never ask how much it costs, how many resources are expended or how long the repair lasts, the agency's managers will not know if and where improvements should be made. If an agency only measures how many times it met a turnaround goal for a development plan check, managers will not know if the established standard meets the interests or needs of the development customer.

Once performance measures are identified, it is critical that the data be collected and analyzed on a continuous cycle. This allows a local government to make changes to service delivery when necessary. In some cases, this review and improvement cycle also can mitigate future potential problems by providing early warning signs if program performance is declining.

There are many uses for performance measurement data, both internal and external, to the local government organization. As a management tool, performance measurement should be used within an organization to assist with day-to-day management decisions, including budgeting. Measures also can help with program planning and align it with customer needs and identify areas for improvement and alternative service delivery options.

For the public, performance measurement is also a tool that should be used to communicate how well services are being delivered, whether standards are being met, and how efficiently and effectively fees for service are being utilized.

> **Recommendation 41. Develop and implement a performance measurement program.** The program should be able to be supported by existing staff and data should be used annually as part of the budget process.

Other Efficiency Measures

The absence of other basic management system elements was identified as a concern earlier in this report. Developing these elements will take time and effort but will ultimately lead to improved efficiency throughout the organization. A natural starting point is to document administrative policies and procedures that the organization as a whole is expected to follow.

> **Recommendation 42. Develop a comprehensive set of organizational administrative policies and procedures and expectations for following them.**

As mentioned previously, this engagement did not include an in-depth organizational assessment of each department with respect to processes, policies and procedures, and service delivery systems. More detailed organizational assessments could identify opportunities for improved efficiency in the form of:

- Process improvements that reduce time for staff and/or customers by eliminating redundancy, duplication or elements that do not add value;
- Realignment or reorganization of similar functions to generate greater economies of scale;
- Improved organization structures that enhance efficiency and accountability, streamline reporting relationships and leverage management span of control; and

- Less expensive alternatives for service delivery, such as shared services or contracting.

Recommendation 43. Conduct a more detailed organization review of each department.

Conclusion

The City of El Monte has been affected by the economic recession, as have many other cities. Despite efforts to control costs, the long-term financial picture for the City remains challenging. Deficits are projected for the foreseeable future that will only grow larger without corrective action.

This financial sustainability plan provides a menu of alternatives to improve El Monte's fiscal outlook. They include revenue enhancements, changes in the way some services are delivered, changes in the way employees are compensated, and efficiency improvements to provide staff with greater capacity to perform essential functions.

Achieving financial sustainability will take a concerted effort by the City Council and staff, in partnership with the El Monte community. The recommendations in this report provide a pathway to begin that journey.

Attachment A – List of Recommendations

Recommendation 1. Present an updated long-range forecast to the City Council at least twice per year.

Recommendation 2. Develop and implement a specific work-out plan for the 2011 Lease Revenue Bond final payment to avoid potential impacts to the General Fund.

Recommendation 3. Adopt a comprehensive set of financial and budget principles to provide a meaningful and easy to understand framework for maintaining financial discipline.

Recommendation 4. Improve the presentation, transparency and utility of the City's adopted budget document by adhering to guidelines established by the Government Finance Officers Association (GFOA).

Recommendation 5. Ask voters to approve a permanent extension of Measure GG.

Recommendation 6. Create a cost allocation plan for the Non-Departmental account to identify direct and indirect costs for each department and the services provided.

Recommendation 7. Conduct a comprehensive fee study and recommend changes to the City Council.

Recommendation 8. Establish a cost-recovery policy for each type of fee.

Recommendation 9. Establish a master schedule of fees for service.

Recommendation 10. Adjust water rates sufficiently to enable the water enterprise to make payments on the loan from the General Fund, comply with water bond covenants, and address deferred maintenance and capital improvement needs.

Recommendation 11. Negotiate to stop paying EPMC.

Recommendation 12. Negotiate to modify the City's contribution to deferred compensation to match the employee's contribution up to 2% of salary only, excluding longevity pay.

Recommendation 13. Negotiate phasing out cash rebates in lieu of medical insurance.

Recommendation 14. Close the retiree health plan to make new hires ineligible to participate.

Recommendation 15. Negotiate to limit retiree health contributions for PMMA and POA members to the individual cost after a minimum number of years of service.

Recommendation 16. Negotiate to provide a lower health insurance contribution for retiree health than for active employees.

Recommendation 17. Begin making payments towards retiree health unfunded liabilities as resources become available.

Recommendation 18. Negotiate to follow the FLSA-approved methodology for calculating overtime, which excludes leave time as time worked.

Recommendation 19. Negotiate to exclude new hires from eligibility for longevity pay.

Recommendation 20. Negotiate to reduce career development compensation from 10.5% to 7% for an Intermediate POST certificate and from 16% to 12% for an Advanced POST certificate.

Recommendation 21. Negotiate to eliminate shooting pay.

Recommendation 22. Develop a comprehensive labor negotiations strategy, including other strategies for controlling personnel costs, in preparation for the expiration of contracts in 2015.

Recommendation 23. Negotiate with LA County Fire to close one fire station.

Recommendation 24. Disband the Air Support Unit and contract for services with the Los Angeles County Sheriff.

Recommendation 25. Negotiate a higher cost-recovery rate for the School Resource Officer program.

Recommendation 26. Issue a Request for Proposals to outsource all landscaping maintenance functions, including median island maintenance.

Recommendation 27. Institute a system to facilitate monitoring and approval of requests for city attorney work.

Recommendation 28. Consolidate and assign vehicle maintenance functions to the Public Works Department.

Recommendation 29. Conduct a more detailed evaluation of City special events with the goal of continuing those that provide the greatest benefit for the least amount of expense.

Recommendation 30. Transition responsibility for ribbon cutting ceremonies to the El Monte/South El Monte Chamber of Commerce.

Recommendation 31. Implement a simple IT governance structure to promote planning, prioritization, and alignment of IT resources with El Monte's business priorities.

Recommendation 32. Develop a Citywide Technology Plan that identifies a prioritized list of projects, funding and resource requirements, and department roles and responsibilities.

Recommendation 33. Incorporate costs for ongoing maintenance and support as new technology is implemented to ensure adequate resources are available to meet the support needs.

Recommendation 34. Establish standard desktop/laptop configurations and implement a policy and funding mechanism to replace desktops and laptops every three to four years.

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Recommendation 38. Establish a plan and funding to purchase and implement a GIS system.

Recommendation 39. Install the acquired permit tracking system.

Recommendation 40. Acquire and install a computerized maintenance management system in the Public Works Department.

Recommendation 41. Develop and implement a performance measurement program.

Recommendation 42. Develop a comprehensive set of organizational administrative policies and procedures and expectations for following them.

Recommendation 43. Conduct a more detailed organization review of each department.

Attachment B – Focus Group Results

Management Partners conducted three focus groups of employees on July 28, 2014. A total of 39 employees participated, representing different departments and levels of the organization. Two of the focus groups included line staff while one consisted of mid-managers. The purpose of the focus groups was to solicit ideas and suggestions for improving the City's financial sustainability. Many of the thoughts that participants expressed were similar from one focus group to the next, illustrating the shared perceptions that employees have throughout the City. Similar themes emerged from the employee survey that followed the focus groups.

Employees in El Monte care deeply about the City and are committed to the public services they provide. They were highly engaged in the discussion about helping the City become more financially sustainable.

What Makes El Monte Special?

- It is home to many employees.
- It is family-oriented.
- Employees are talented and dedicated to the City.
- Residents are loyal, respectful, and engaged.
- Its location is ideal: the center of the San Gabriel Valley with many freeway off ramps.
- It has a lot of potential and opportunity.

Ideas for Increasing El Monte's Revenues

Require Permits

- Restrict overnight parking and require parking permits for residents.
- Require permits (or issue citations) for parking in parks for long periods of time.
- Require contractor licenses for gardeners, workers in field services, etc., and charge separately for each trade offered.
- Require animal licensing for pets within the city limits.

Establish or Raise Fees

- Conduct a study to compare El Monte's rates and fees to other municipalities, such as for water and sewer rates, parking citations, building permits, business licenses, and development impacts.
- Increase water rates, late fees, connection fees and re-connection fees.
- Charge fees for police reports and accident reports.
- Charge a fee for Code Enforcement re-inspections.
- Create a rental housing inspection program (for multi-family buildings) with building owners paying an annual fee.
- Charge animal license fees.

- Charge fees for business license inspections.
- Increase facility fees.
- Install parking meters in high-use areas.
- Charge for parking at Metrolink.
- Charge non-residents for city services such as recreation programs (be sure to factor in the 2020 grant).
- Be more aggressive about issuing and collecting fines for those who violate existing City rules. Reduce the number of exemptions available.
- Institute franchise fees for corporations such as Verizon and Time Warner.
- Charge for bulky waste pick-up (currently, single-family homes receive four pick-ups per year, and multi-family or businesses pay a fee).

New Revenue Sources

- Become more business friendly by streamlining the process to establish new businesses.
- Seek more grants, while being careful that new programs are sustainable.
- Collect storm water taxes.
- Create landscaping and lighting districts, a fire service tax or assessment district, and business improvement districts.

Ideas for Improving El Monte's Efficiency

- Reduce the City Council's involvement in employees' day-to-day responsibilities.
- Reduce the Council's involvement in releasing funds to vendors, who currently wait a lengthy amount of time for their bills to be paid.
- Give directors the authority to handle administrative duties.
- Reduce the number of layers of approval for simple things (e.g., printed flyers).
- Review areas of work where technology will reduce paper and potential for error, such as time reporting.
- Implement succession planning.
- Have some records, such as accident reports, managed by outside vendors.
- Reduce the number of unnecessary new hires in City Hall, such as assistants to managers.
- Address the high cost of contract staff, who have a high learning curve, require training and lead to turnover.
- Institute online reporting capability for crimes such as burglaries.
- Streamline payments by allowing credit cards and online payments. Coordinate payments across departments.
- Create a City directory showing areas of responsibility.
- Consolidate vehicle maintenance.

Ideas for Reducing El Monte's Costs

- Hire fewer consultants and have greater faith in employee skills and knowledge.

- Cut back on unnecessary remodels and new furniture purchases.
- Examine the perks available at the executive level. Establish what is work related vs. personal.
- Reduce the number of contractors and hire more in-house staff.
- Reduce part-time staff turnover by adequately paying them.
- Move part-time staff to full-time to make training investments more cost effective.
- Cap or eliminate cash-outs at the executive level.
- Proactively invest in infrastructure (e.g., water, sewer, streets, and sidewalks).
- Invest in preventive measures, such as tree removals.
- Streamline the amount of time it takes to make decisions.
- Review the need for some contract classes that are small or with few sign-ups.
- Work with local nonprofits for the Health & Wellness addition to the strategic plan.
- Reduce City involvement in private development groundbreaking ceremonies or grand openings.

Ideas for Reducing or Eliminating Services

- Close one or two fire stations.
- Look at services that are costing a lot compared to the revenue they generate (e.g., senior swim); the community can't afford some programs and services, particularly those with low participation.
- Share community services with surrounding areas, such as senior services.

Ideas for Delivering Services Differently

- Offer after-hours animal control services to nearby cities.
- Offer arrest and jail booking services to other cities.
- Partner with school districts.
- Human Resources is often empty or closed and needs reform.
- Purchase a CAD/RMS system with nearby cities.
- Implement joint radio system and call tower usage with other cities.
- Charge for background checks (visas).
- Provide opportunities for employees to advance to improve training investments and reduce turnover.
- Streamline recruitment process.

Attachment C – Employee Survey Results

An electronic survey was made available to all City employees August 4 to 16, 2014. The survey was designed to encourage input and ideas for increasing revenues, reducing costs, improving efficiency, and reducing or eliminating services. The questions were similar to those asked in the employee focus groups, and were primarily open ended. Management Partners reviewed each response and grouped like responses. Then we created “word clouds” to graphically illustrate the number of times the idea was suggested. The larger the word, the more times it was suggested.

Question 1 – Please write your ideas for increasing revenue, regardless of whether they have already been tried. Examples include raising fees, providing services to outside agencies, or implementing new taxes or assessments.

This question accepted up to three answers. 36 out of 42 respondents provided a response to this question. Survey Word Cloud Showing Responses for Increasing Revenues

Question 2 – What are your ideas for reducing costs?

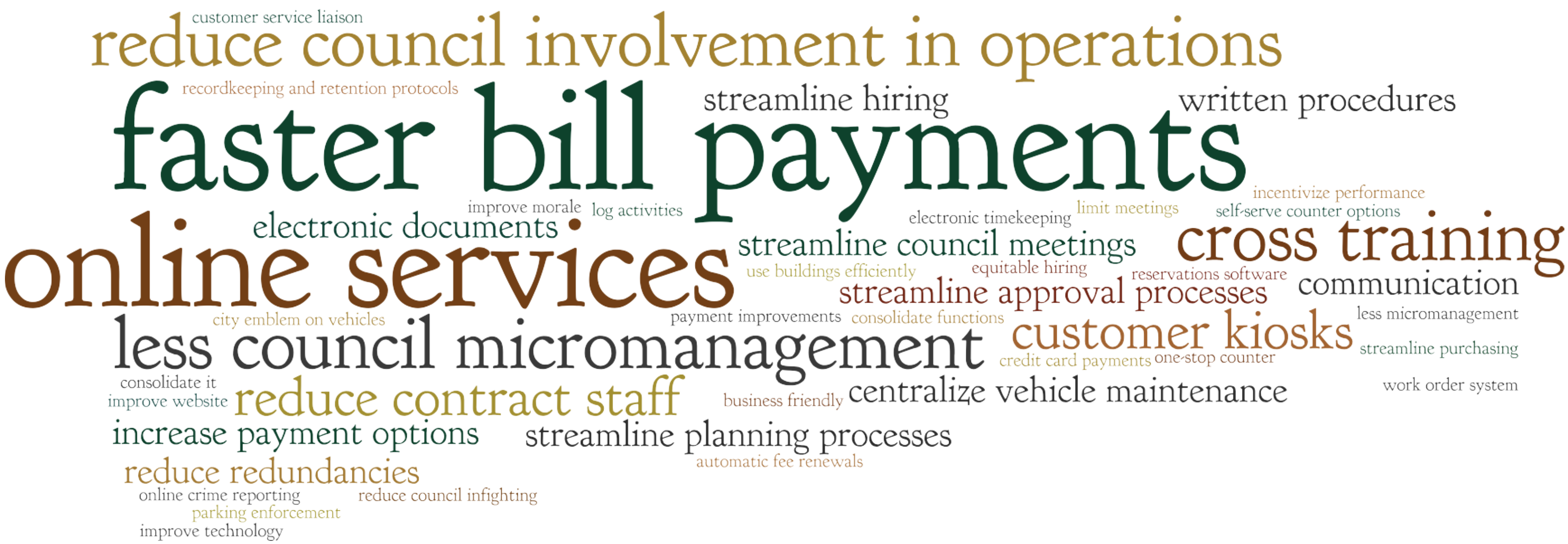
This question accepted up to three answers. 35 out of 42 respondents provided a response to this question.

Figure 22. Survey Word Cloud Showing Responses for Reducing Costs

Question 3 – What are your ideas for improving efficiency? Examples include streamlining a process, reducing the number of steps needed to complete a task, avoiding duplicate efforts, etc.

This question accepted up to three answers. 28 out of 42 respondents provided a response to this question.

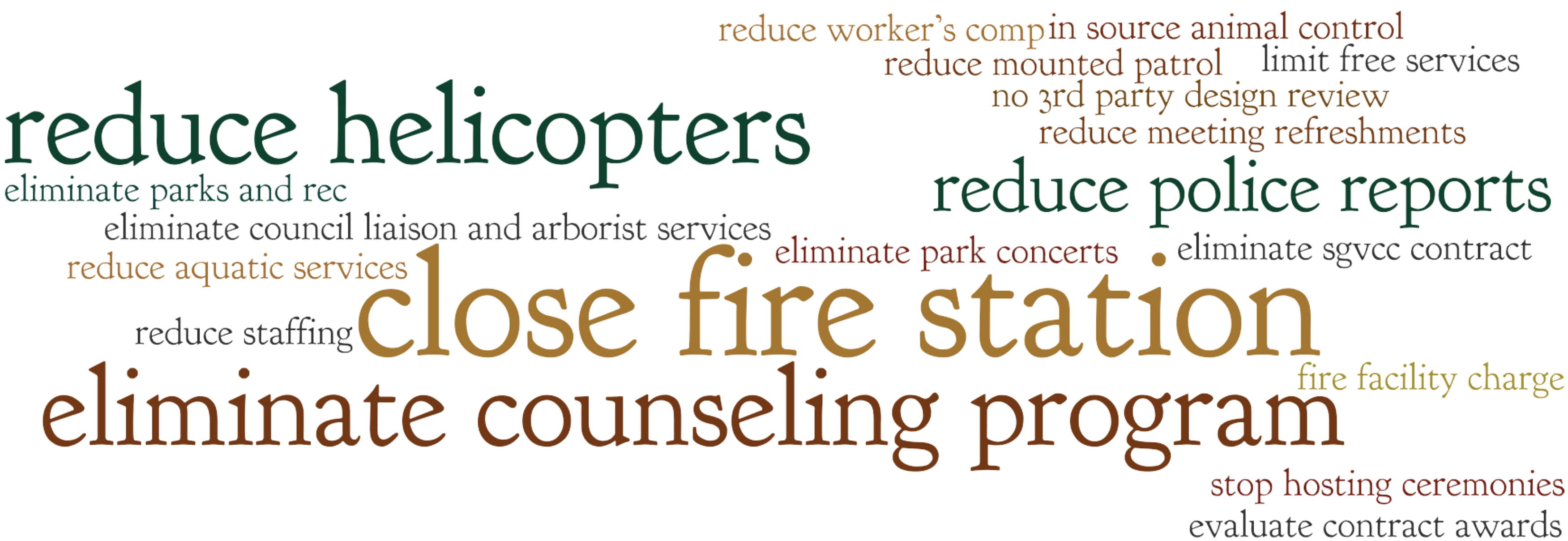
Figure 23. Survey Word Cloud Showing Responses for Improving Efficiency



Question 4 – Are there services or programs that should be reduced or eliminated because they are not central to the City's mission to deliver public services? Please be specific about such services or programs.

This question accepted up to three answers. 23 out of 42 respondents provided a response to this question.

Figure 24. Survey Word Cloud Showing Responses for Service Reductions

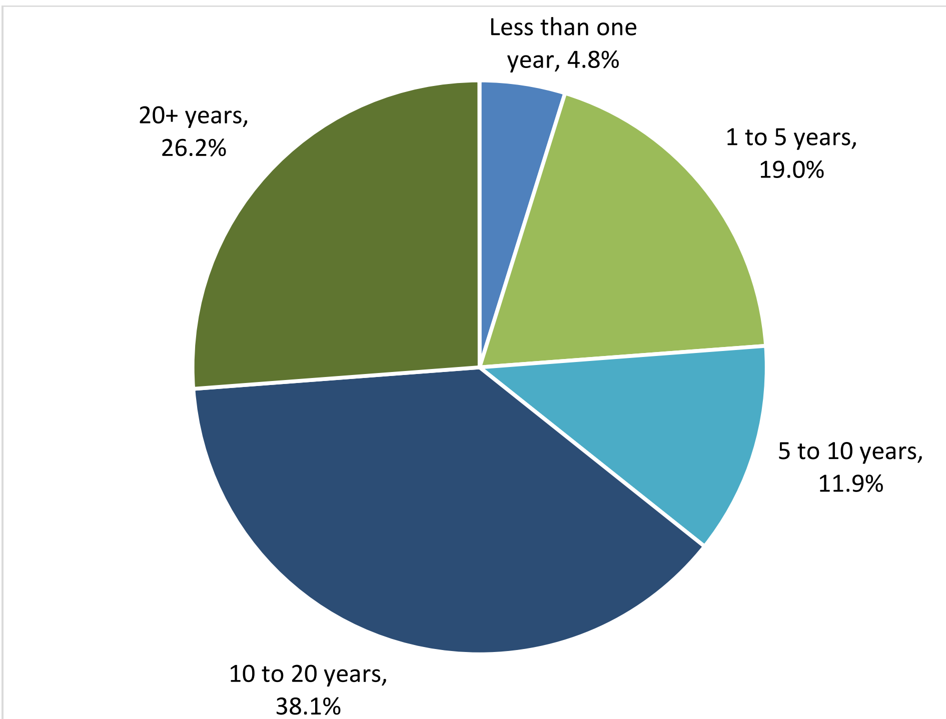


Question 5 – How long have you worked for the City of El Monte?

Table 23. Responses Showing Length of Service among Survey Respondents

Answer Options	Response Percent	Response Count
Less than one year	4.8%	2
1 to 5 years	19.0%	8
5 to 10 years	11.9%	5
10 to 20 years	38.1%	16
20+ years	26.2%	11

Figure 25. Length of Service among Survey Respondents

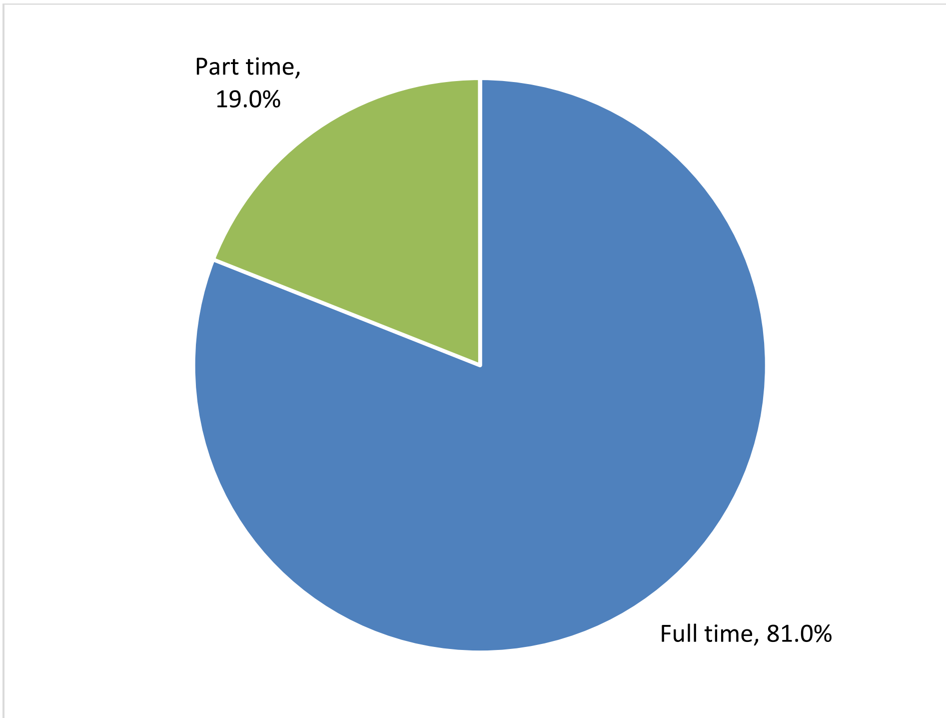


Question 6 – Are you a full-time or part-time employee?

Table 24. Responses Showing Full-Time or Part-Time Status among Survey Respondents

Answer Options	Response Percent	Response Count
Full time	81.0%	34
Part time	19.0%	8

Figure 26. Full-Time or Part-Time Status among Survey Respondents

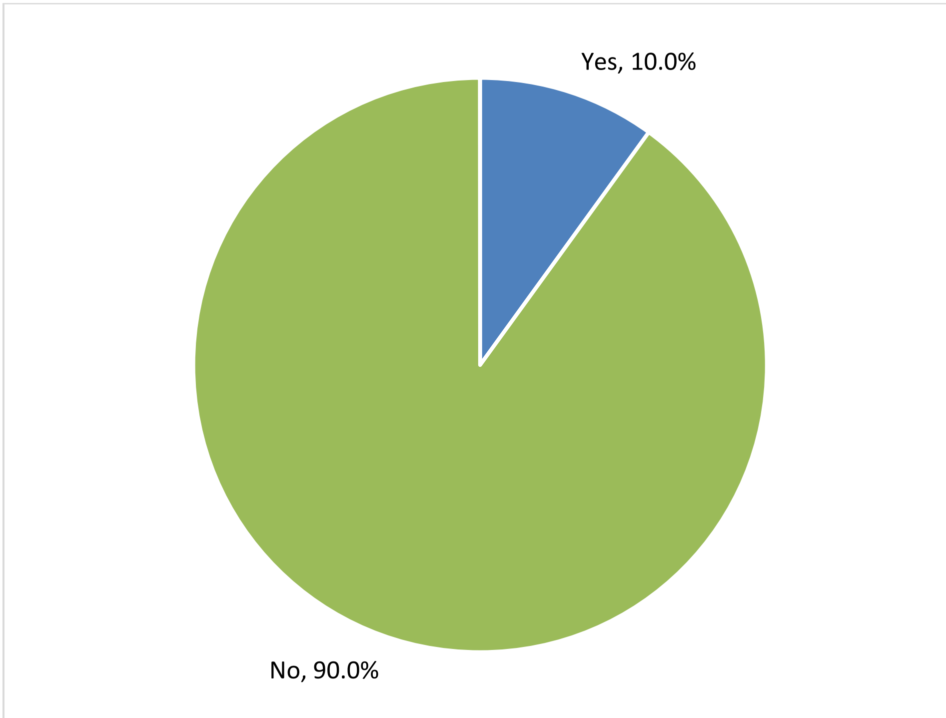


Question 7 – Do you live in El Monte?

Table 25. Responses Showing El Monte Residency among Survey Respondents

Answer Options	Response Percent	Response Count
Yes	10.0%	4
No	90.0%	36

Figure 27. El Monte Residency among Survey Respondents



Attachment D – Scoring Results for Sustainability Ideas

Numerous ideas for achieving financial sustainability were gathered through interviews, focus groups, and the employee survey. Management Partners reviewed and consolidated the ideas into categories, then conducted initial analysis of their potential. Scoring criteria were applied to calculate a numeric score for financial benefit, based on return on investment, the magnitude of the potential benefit, and the complexity of implementation. The scoring criteria are presented in Table 26.

Table 26. Scoring Criteria for Assessing Financial Benefit and Degree of Difficulty

Financial Benefit	Options	Numeric Values
Return on Investment	Strong Medium Low	Strong = 3 Medium = 2 Low = 1
Magnitude of Benefit	High ($1 million +) Medium ($250,000 - $1 million Low (< $250,000)	High = 3 Medium = 2 Low = 1
Implementation Complexity	Low Medium High	Low = 3 Medium = 2 High = 1
Degree of Difficulty		
Existence of Successful Models	Nonexistent Some Common	Nonexistent = 3 Some = 2 Common = 1
Potential for Service Level Degradation	Significant Moderate None	Significant = 3 Moderate = 2 None = 1
Potential Complications with Respect to Bargaining Units	High Medium Low	High = 3 Medium = 2 Low = 1

Management Partners prioritized the ideas for further analysis based on financial benefit/ degree of difficulty ratio. We focused our analysis on the ideas that resulted in the highest ratios. However, some ideas were excluded from further analysis because they represented very little potential benefit to the City's general fund or would be implemented through normal management practices (e.g., evaluating and re-bidding contracts on a regular basis). Other ideas were discarded due to impracticality or because they would be addressed through other ideas being considered.

Figure 28. Revenue Idea Scoring

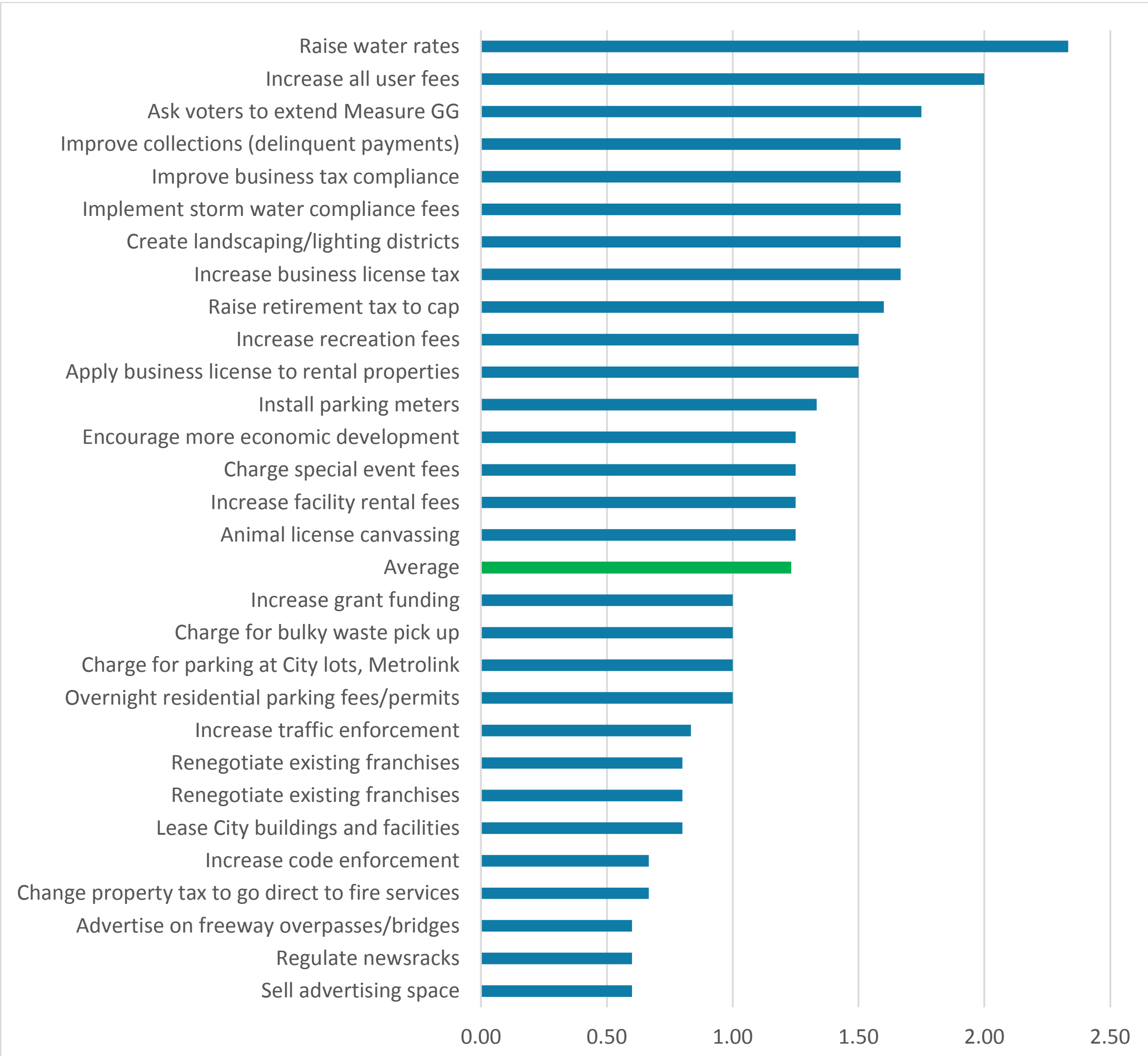


Figure 29. Compensation Idea Scoring

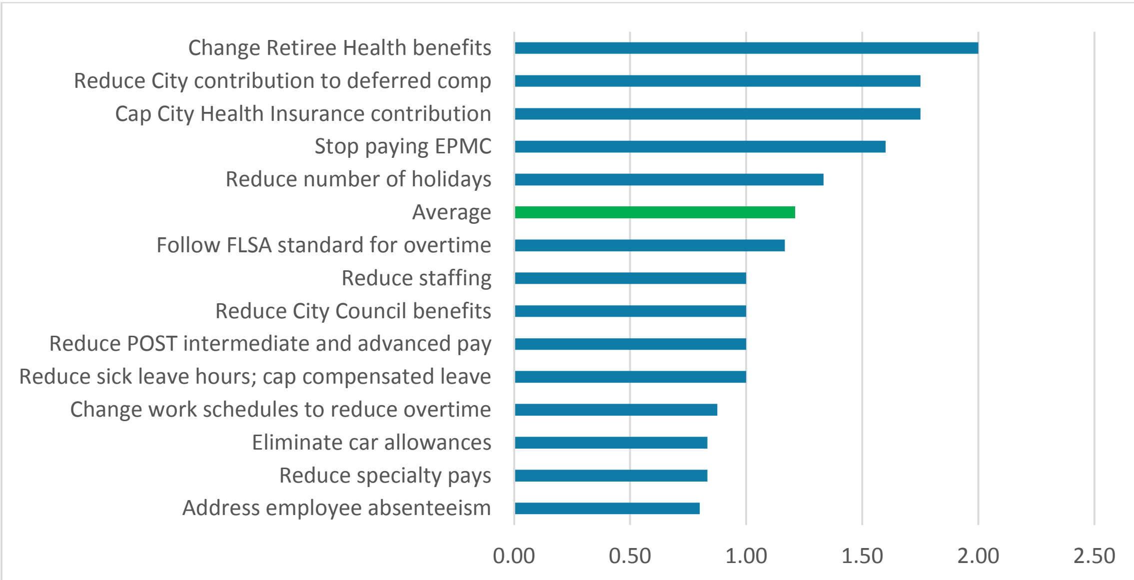


Figure 30. Service Delivery Idea Scoring

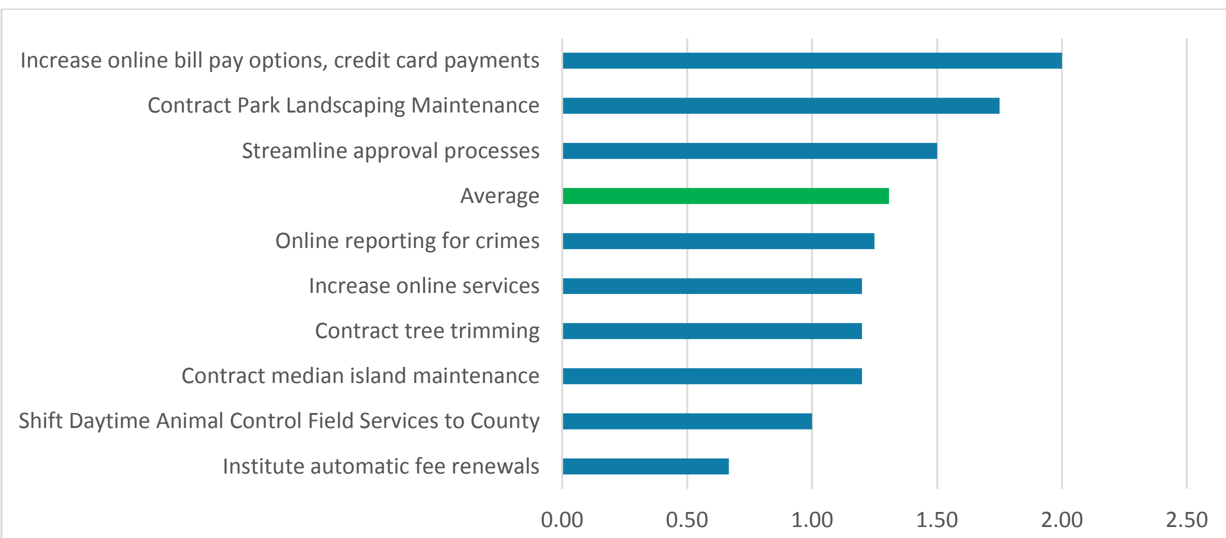


Figure 31. Expenditure Control Idea Scoring

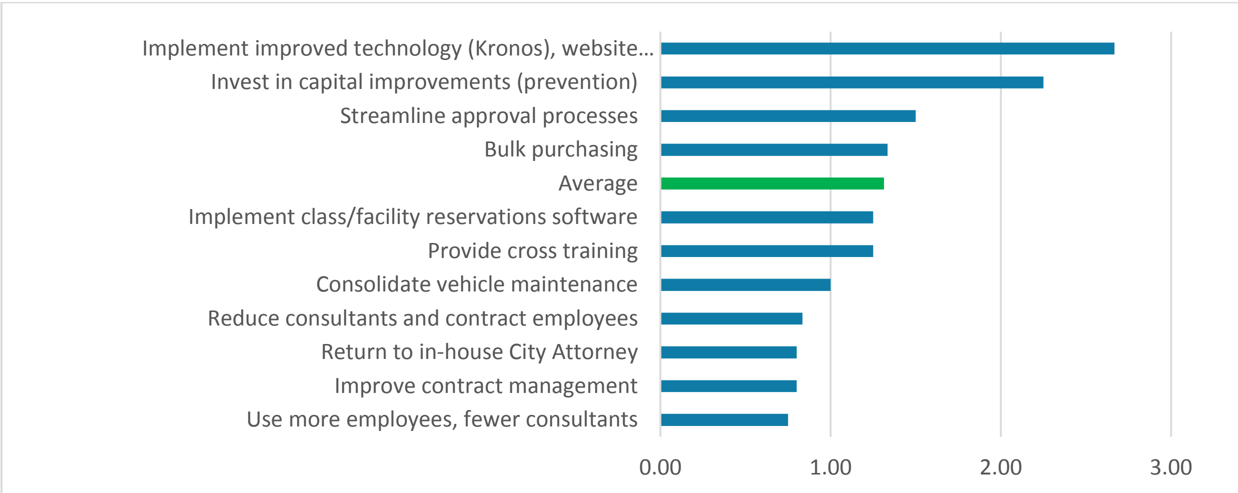


Figure 32. Service Reduction or Elimination Idea Scoring