

Measure E Oversight Committee

Report to the Public

October 6, 2014

Historical Background

In November of 2007, the voters of Hollister passed Measure T which raised the city sales tax rate 1% for 5 years. The measure passed with 66.0% of the vote. Due to the national economic downturn that followed soon after, the City of Hollister was faced with a deepening budget crisis that required it to ask for a 5 year extension of the sales tax increase since Measure T was due to expire at the end of March in 2013. The language of Measure E, as it appeared on the November 2012 ballot was:

"Shall an ordinance be approved enacting a one percent (1%) sales tax for the purpose of funding general city service, such as police, fire safety, gang intervention and prevention, recreation programs, and street and parks maintenance...)."

Measure E was presented to voters as a way to maintain essential public safety services, such as police and fire, even though the City Attorney's Impartial Analysis stated the funds could be, "used by the City for any city operation or service." The Austerity Plan, proposed by the City should Measure E not pass, proposed deep cuts in these services. Measure E also contained language that would, "**require annual review and public report on revenues and expenditures by an independent citizens' oversight committee.**" Measure E was approved with 57.8% of the vote.

The Measure E Oversight Committee meets regularly and the current members are

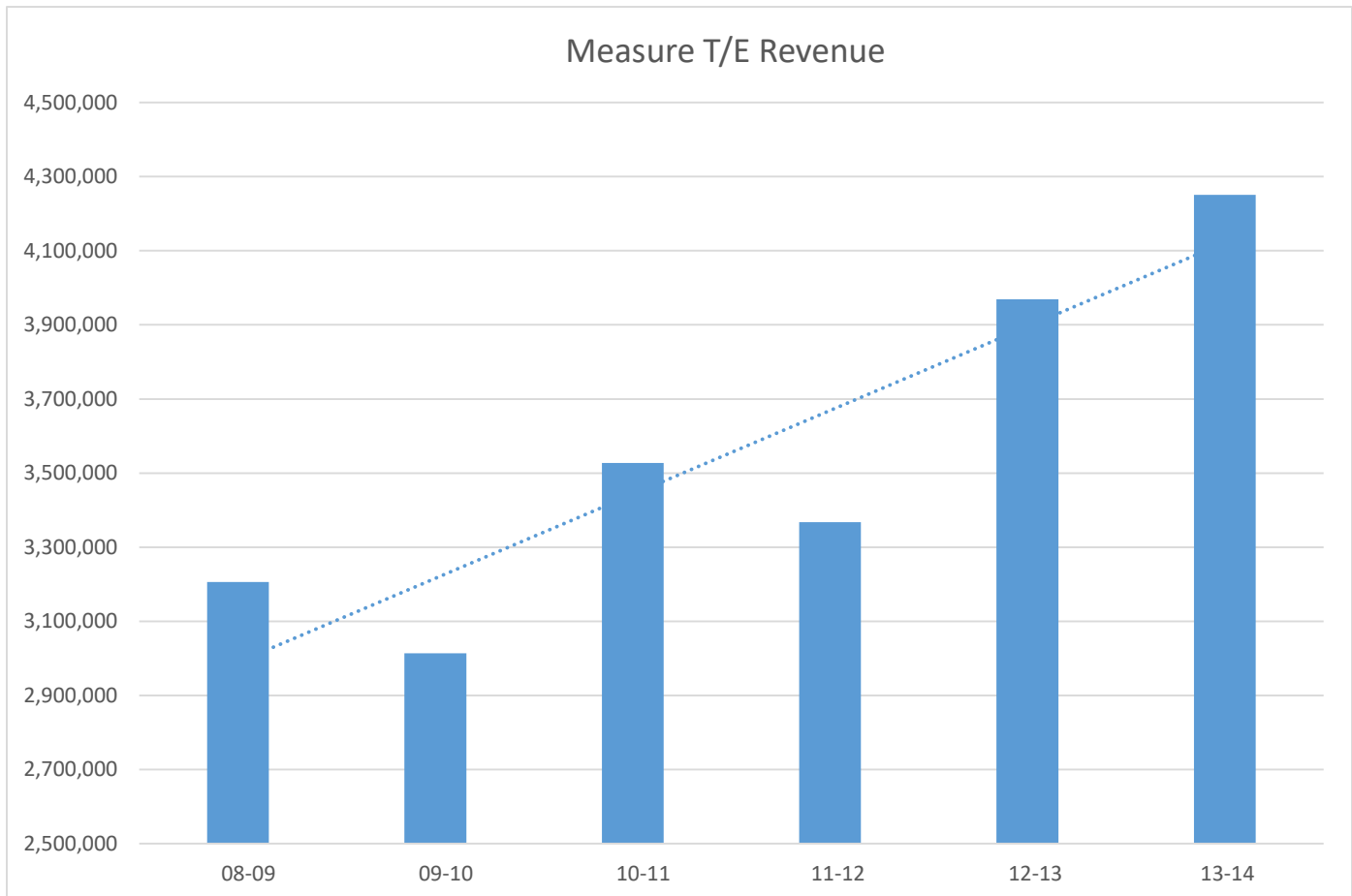
Mr. Robert E. Marden	Appointed by Mayor Ignacio Velazquez
Ms. Carol Lenoir	Appointed by Council Member Ray Friend
Mr. Rohit Sharma	Appointed by Council Member Robert Scattini
Mr. Doug Emerson	Appointed by Council Member Pauline Valdivia
Mr. John Chadwell	Appointed by Council Member Victor Gomez
Ms. Kris Nolan	Appointed by the Downtown Hollister Association
Ms. Frankie Gallagher	Appointed by the San Benito County Chamber of Commerce
Mr. Larry Barr	Appointed by the San Benito County Business Council

The committee believes that Measure E was marketed to the citizens of Hollister as the way to avoid deep cuts in critical public safety services, despite the fact that Measure E contains the short phrase "funding general city service." It is with this focus towards an emphasis of adequate funding of public safety, the oversight committee will carry out its function as it relates to Measure E to assure the City of Hollister is properly applying Measure E revenues and expenditures.

Measure E/T Revenue

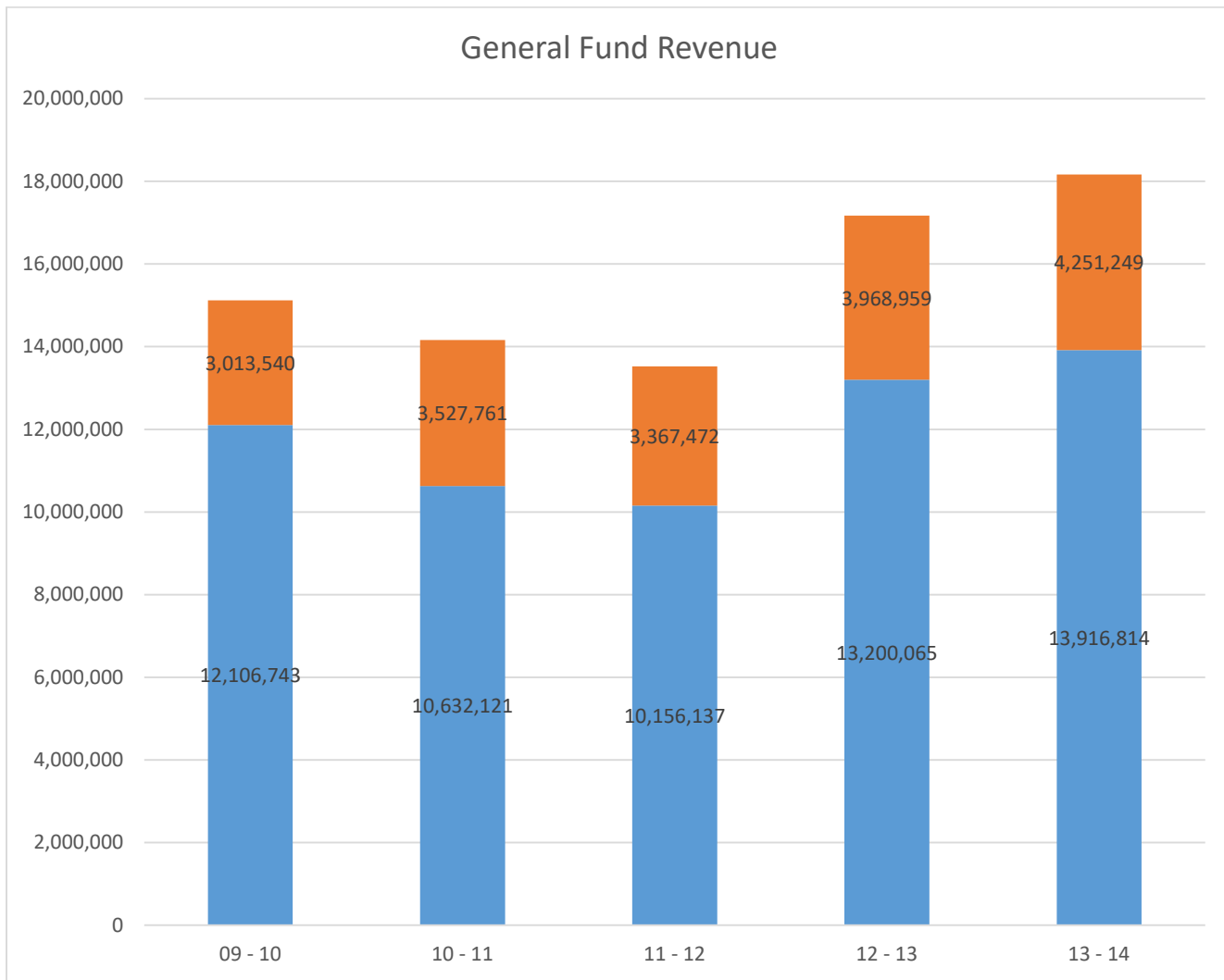
Fiscal year 2008/2009 was the first complete year that the City experienced Measure T revenue. As the table below indicates, there has been a fairly consistent increase in revenue generated by Measures T and E. This trend is consistent with general economic trends since the 2008-2009 fiscal year. It is important for the public to realize that Measure E sunsets on April 1, 2018. If the Council’s intent is to function without a supplemental sales/transaction tax, they steps must be taken now to plan for the significant loss of revenue that would result. For fiscal year 2013-2014 Measure E generated \$4,251,249 in revenue which was 23.4% of the total general fund revenue. Over the past five years, Measure T/E revenues have increased by about \$200,000 per year. The 2014-2015 budget projects Measure E revenue at \$4,000,000

Fiscal Year	08-09	09-10	10-11	11-12	12-13	13-14
Amount	3,206,058	3,013,540	3,527,761	3,367,472	3,968,959	4,251,249
Percent of General Fund Revenue	24.4%	19.9%	24.9%	23.1%	28.0%	23.4%



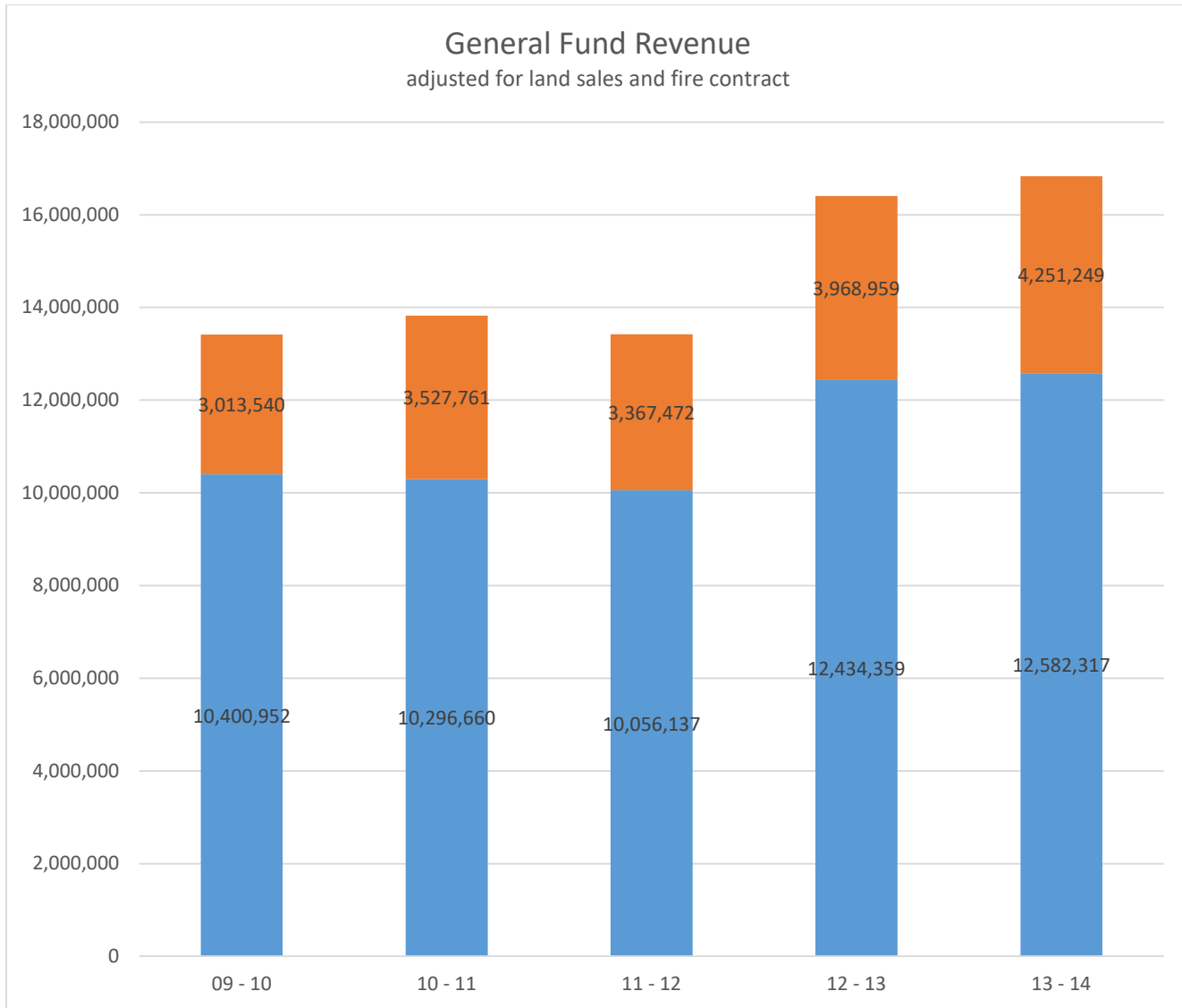
Use of Measure E/T

Measure E was listed on the ballot as a general tax proposal. This means that the funds can be used for any purpose as compared to a specific tax proposal in which funds can only be used for specific purposes. However, the measure was marketed as a means to sustain current services. Since the onset of Measure T, the Council has yearly transferred Measure E/T revenue into the general fund. Since Measure E is a general tax, and since the revenue is transferred into the General Fund, it does not make sense to talk about specific services paid for by the Measure. Rather, one needs to analyze the General Fund in its entirety while understanding that Measure E pays for about 24% of the services funded by the General Fund. The committee has looked at a five year history of the General Fund. Revenues over that past two years have steadily increased as shown by the following table and graph.



15,120,823	14,159,882	13,523,609	17,169,024	18,168,063
2009-2010	2010-2011	2011-2012	2012-2013	2013-2014

The data above includes revenue from sales of property and, for 2013-2014, funds received from the County for the fire contract. In order to compare apples to apples, the chart below represents revenue excluding property sales (Freemont School site and Walgreens) and the fire contract. 2013-2014 revenue from the fire contract was \$1,234,620

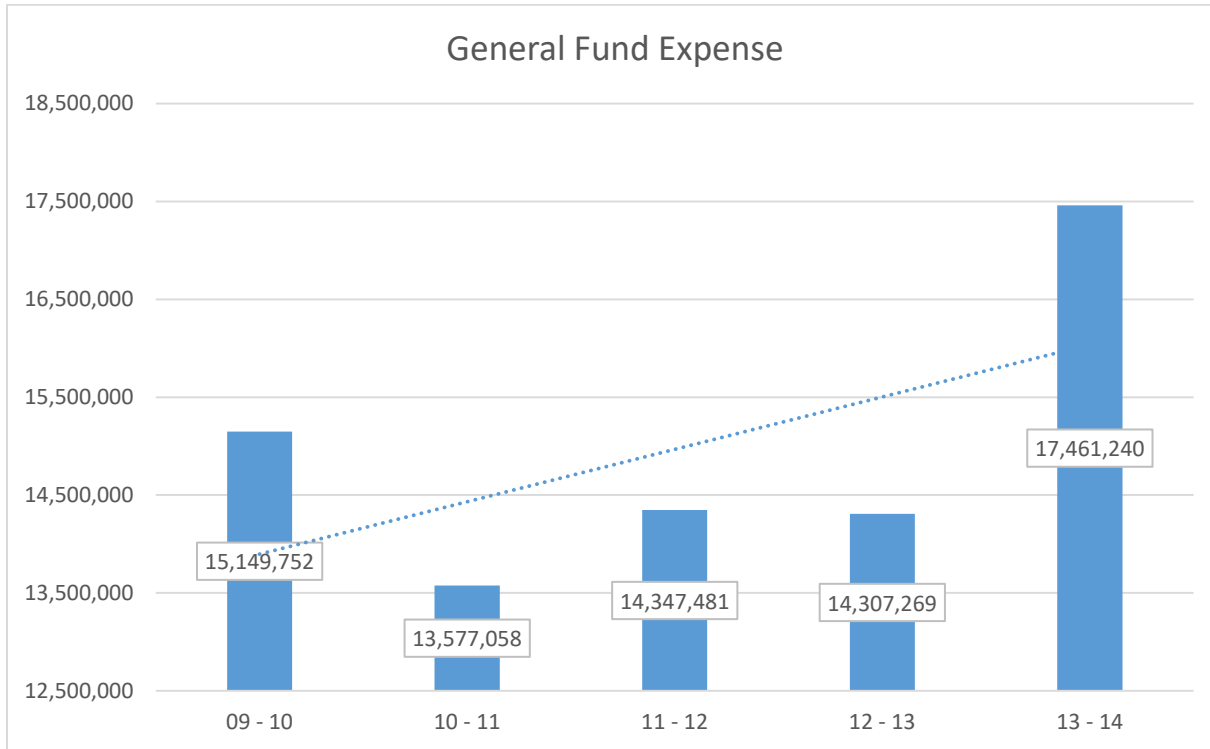


13,414,492	13,824,421	13,423,609	16,403,318	16,833,566
2009-2010	2010-2011	2011-2012	2012-2013	2013-2014

The 2014-2015 budget projects \$17,324,901 in General Fund revenue which includes \$1,294,416 for the fire contract with the County.

General Fund Expense

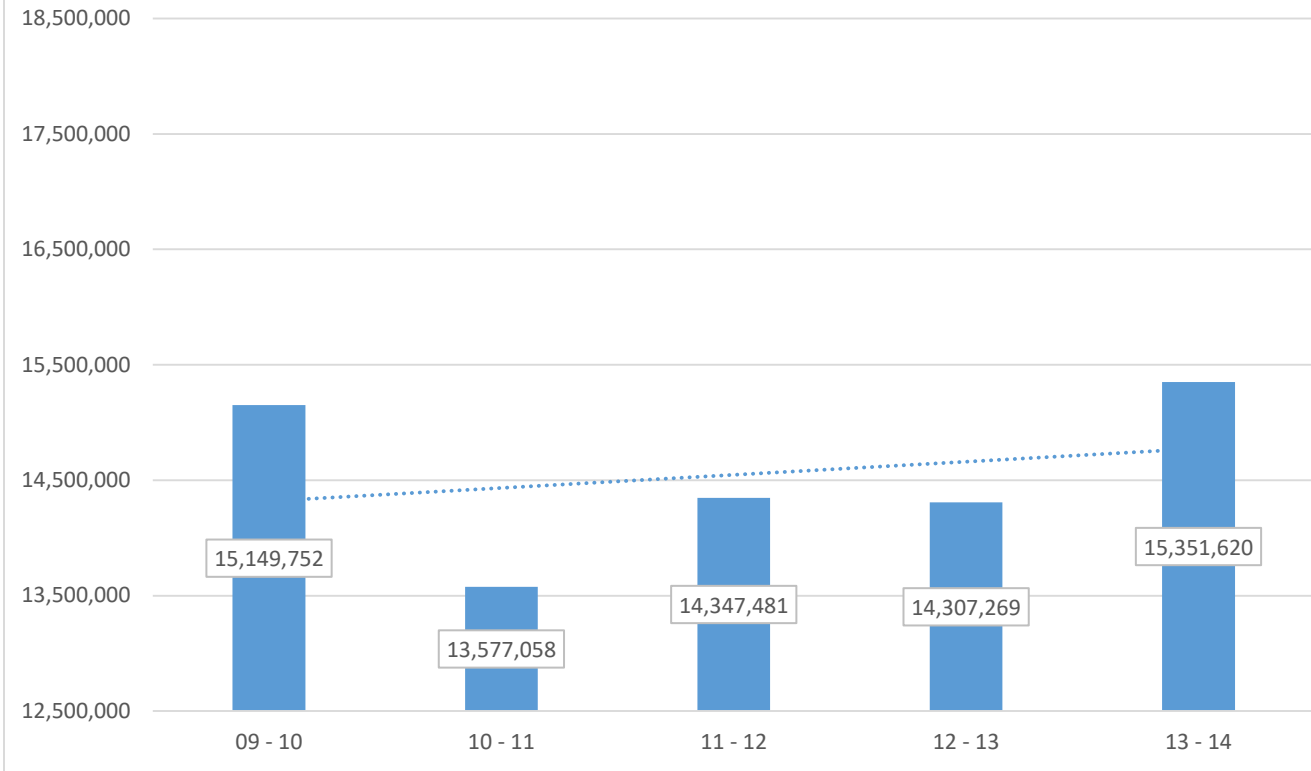
As shown by the chart below, General Fund expense has increased steadily since the 2010-2011 fiscal year.



09 - 10	10 - 11	11 - 12	12 - 13	13 - 14
15,149,752	13,577,058	14,347,481	14,307,269	17,461,240

It should be noted that 2013-2014 includes a significant expense in the fire department as a result of the contract with the County. It is impossible to isolate exact expenses due to the contract, however total expense for the fire department in 2013-2014 was \$1,209,490 greater than it was in 2012-2013. Some of this increase may be due to other factors. Probably the best way to compare apples to apples is to offset 2013-2014 expense by the revenue received from the County (\$1,234,620). Additionally, the Council, in 2013-2014 elected to transfer money into a CalPERS side fund to cover unfunded future retirement liabilities. The Council transferred \$875,000 to the CalPERS side fund in 2013-2014. Adjusting for these two items, a comparable expense chart is listed below. These charts do a better job of comparing apples to apples.

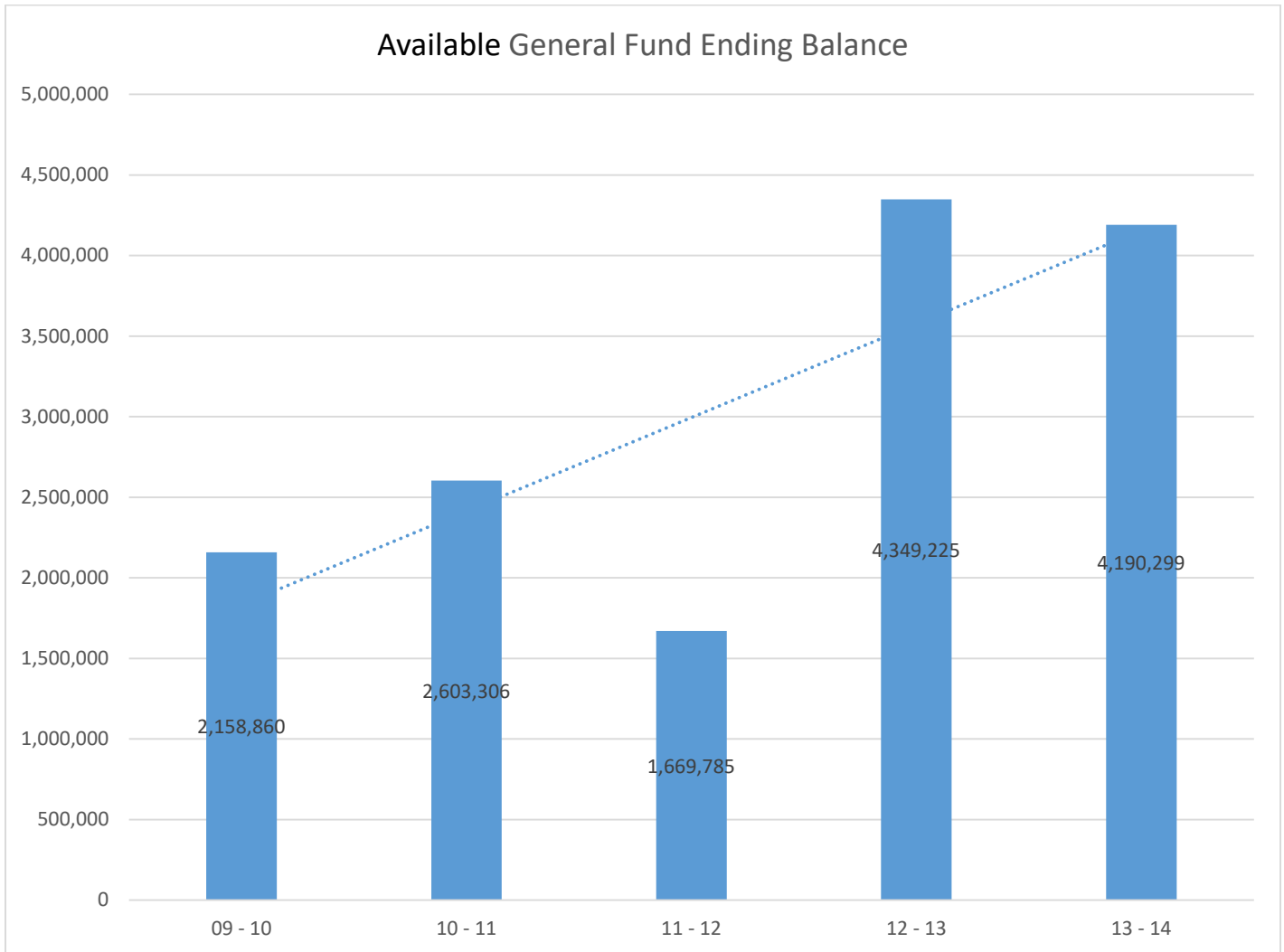
General Fund Expense
adjusted for fire contract and PERS set-aside



09 - 10	10 - 11	11 - 12	12 - 13	13 - 14
15,149,752	13,577,058	14,347,481	14,307,269	15,351,620

General Fund Ending Balance

A good method for examining the health of the General Fund is to look at the funding ending balance which is sometimes called the reserve. The chart and table below illustrates the General Fund ending balance. As shown by the trend-line, there has been a general increase averaging (about \$500,000 per year) in the ending balance.



09 - 10	10 - 11	11 - 12	12 - 13	13 - 14
2,158,860	2,603,306	1,669,785	4,349,225	4,190,299*

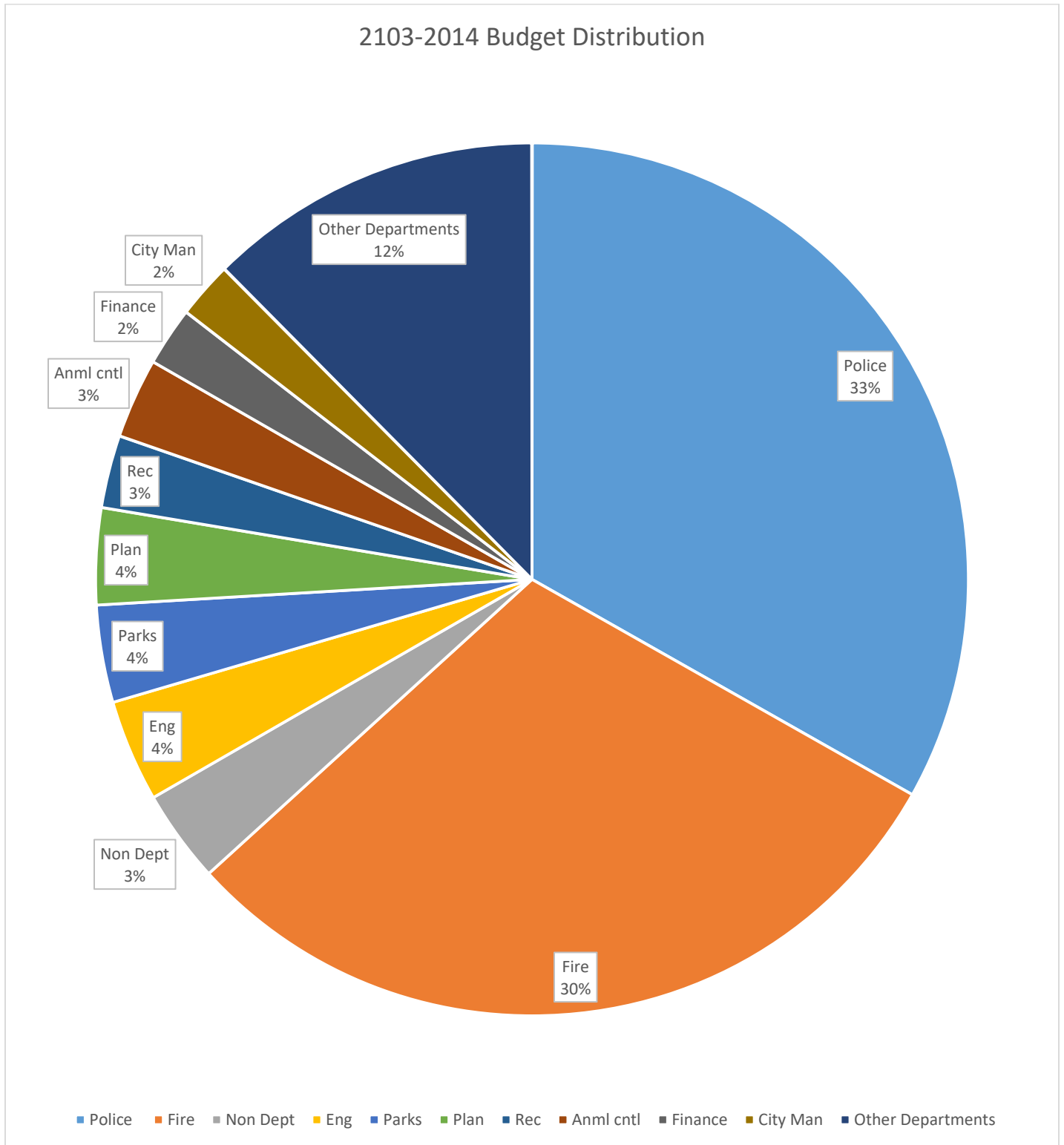
* 2013-2014 ending balance is an unaudited number.

Cost Centers

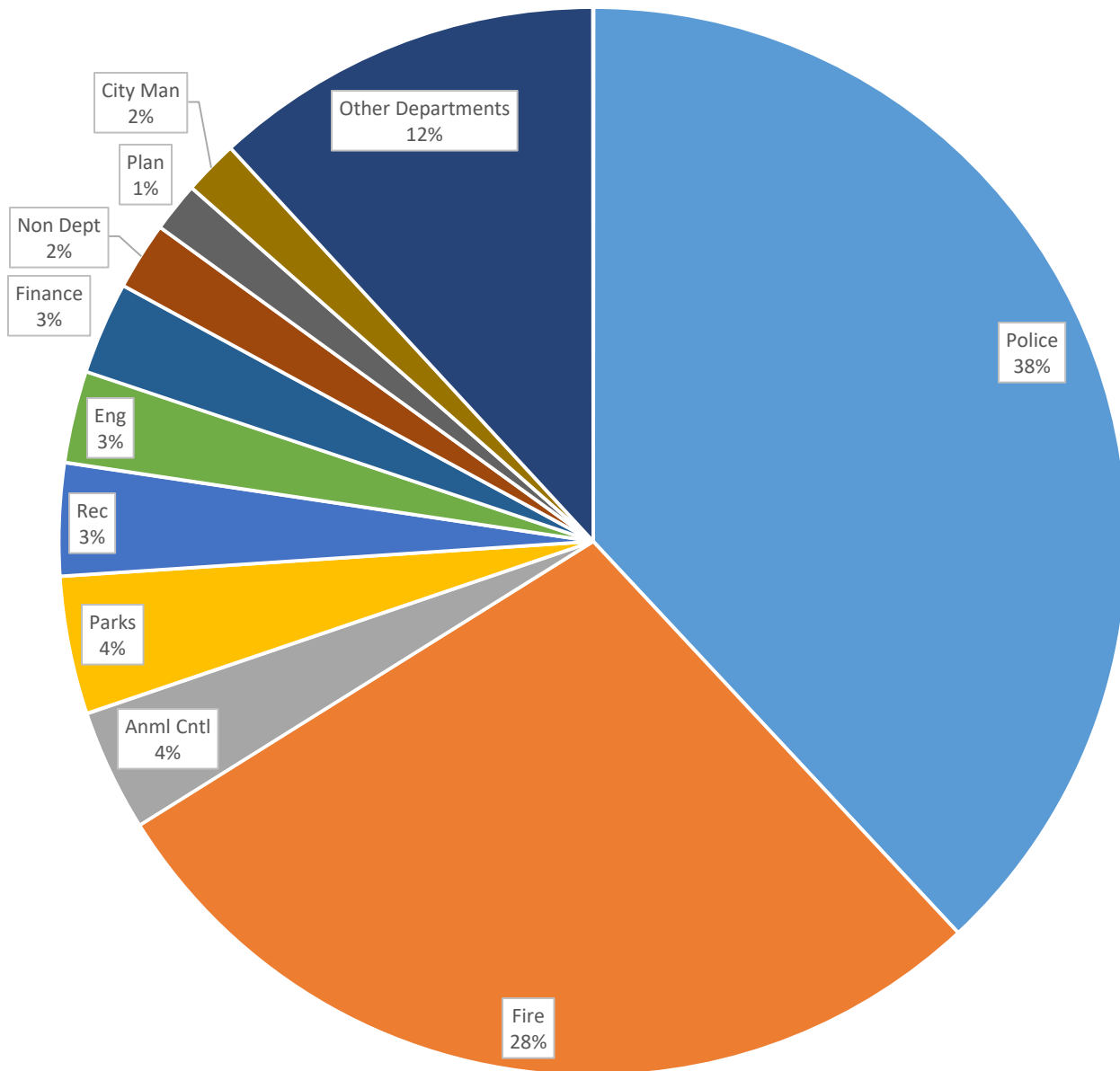
The committee’s first report contained historical information regarding expense incurred by each cost center. A cost center can be interpreted as a department and the City currently has 23 cost centers. The chart lists the budget and actual expense for each cost center over the previous five years. The per cent column in the chart compares the respective cost center budget to the total general fund budget. For fiscal year 2013-2014, the police and fire cost center budgets were about 56% of the total General Fund budget. That percentage is a slight decrease from the 2012-2013 percent of about 62%. There are a couple of explanations for this decrease. First it should be understood that the budget per cent decrease did not result in a decrease in service to the community. On the contract the police/fire budgets for 2013-2014 increased by over 2.2 million dollars. Reasons for the percent decrease include the fact that non-department expense has a large increase due to the PERS side aside transfer, and the large increases in the engineering and planning budgets. Those increases were due to, and offset by, increases in plan checks. In general, the data supports the position that, after Measure E., the City has maintained (and in many cases, increased) the level of service offered prior to the passage of the tax measure.

		09-10 bud	actual	%	10-11 bud	actual	%	11-12 bud	actual	%	12-13 bud	actual	%	13-14 bud	actual	%
2500	Police Department	5,408,792	5,483,591	37.0	5,024,143	5,073,674	37.0	5,261,146	5,472,495	39.6	5,244,853	4,966,473	34.5	6,003,904	5,349,981	28.2
2205	Fire Department	3,834,990	4,216,891	28.4	3,836,782	3,890,996	28.4	3,874,331	4,083,989	29.6	3,977,438	4,125,980	28.7	5,432,968	5,243,791	27.7
1101	Non Department	321,229	299,344	2.0	355,062	301,620	2.2	282,583	263,633	1.9	353,733	304,221	2.1	1,493,628	1,168,876	6.2
4000	Engineering	569,109	527,599	3.6	411,346	305,981	2.2	384,525	385,887	2.8	409,025	416,186	2.9	683,536	711,767	3.8
7000	Parks	568,176	545,849	3.7	529,045	506,385	3.7	578,099	498,360	3.6	548,033	521,932	3.6	650,792	667,846	3.5
4010	Planning	417,781	400,164	2.7	321,400	271,012	2.0	209,315	244,283	1.8	336,309	355,202	2.5	647,279	603,593	3.2
8000	Recreation	486,316	443,937	3.0	466,273	466,614	3.4	470,186	471,028	3.4	460,214	463,726	3.2	486,933	462,975	2.4
2025	Animal Control	522,047	570,305	3.8	487,797	538,524	3.9	507,999	541,786	3.9	537,279	509,526	3.5	534,664	454,082	2.4
1155	Finance	445,982	408,749	2.8	347,671	339,176	2.5	386,042	377,426	2.7	381,173	348,110	2.4	395,518	392,849	2.1
1120	City Manager	277,557	232,818	1.6	226,725	224,205	1.6	228,522	221,044	1.6	258,450	241,618	1.7	377,805	380,802	2.0
1110	City Clerk/Elections	185,194	183,463	1.2	258,309	188,977	1.4	199,555	250,158	1.8	303,803	213,177	1.5	286,198	279,223	1.5
5005	Vehicle Maintenance	223,451	209,290	1.4	208,580	203,997	1.5	219,769	222,778	1.6	214,268	224,636	1.6	239,768	248,440	1.3
1160	Human Resources	165,127	168,744	1.1	179,615	190,503	1.4	187,989	208,721	1.5	241,619	194,218	1.3	201,200	216,835	1.1
2207	Solid waste	257,395	301,621	2.0	248,980	233,516	1.7	248,553	251,987	1.8	261,553	220,320	1.5	261,199	213,281	1.1
1125	RDA General	0	0	0.0	0	0	0.0	0	0	0.0	0	283,000	2.0	248,500	208,468	1.1
1105	City Council	222,854	278,239	1.9	188,781	157,923	1.2	157,283	78,425	0.6	165,091	143,087	1.0	186,180	203,342	1.1
1157	Information Systems	124,376	120,816	0.8	136,568	108,980	0.8	134,747	102,520	0.7	199,011	167,473	1.2	202,179	200,300	1.1
1145	City Attorney	216,744	184,475	1.2	227,122	166,111	1.2	218,900	196,239	1.4	208,801	283,757	2.0	190,704	120,246	0.6
7020	Veterans' Building	99,780	83,587	0.6	160,949	164,652	1.2	163,281	157,526	1.1	159,827	148,315	1.0	161,775	117,354	0.6
4300	Code Enforcement	30,775	16,655	0.1	26,010	30,823	0.2	32,604	31,661	0.2	43,650	44,078	0.3	141,930	109,903	0.6
5010	Street Maintenance	438,929	451,499	3.0	65,235	60,905	0.4	71,594	96,668	0.7	86,411	83,140	0.6	70,386	70,333	0.4
4100	Risk Management	0	0	0.0	0	0	0.0	0	0	0.0	0	0	0.0	54,950	33,756	0.2
1150	City Treasurer	3,150	3,868	0.0	3,000	3,129	0.0	3,150	3,150	0.0	3,150	4,304	0.0	3,150	3,196	0.0
2276	Fire Strike Team	18,051	18,247	0.1			0.0			0.0			0.0			0.0
	Total	14,837,805	15,149,751		13,709,393	13,427,703		13,820,173	14,159,764		14,393,691	14,262,479		18,955,146	17,461,240	

The following charts illustrate the General Fund budget distribution among the major cost centers for fiscal years 13-14 and 11-12.



2011-2012 General Fund Budget Distribution



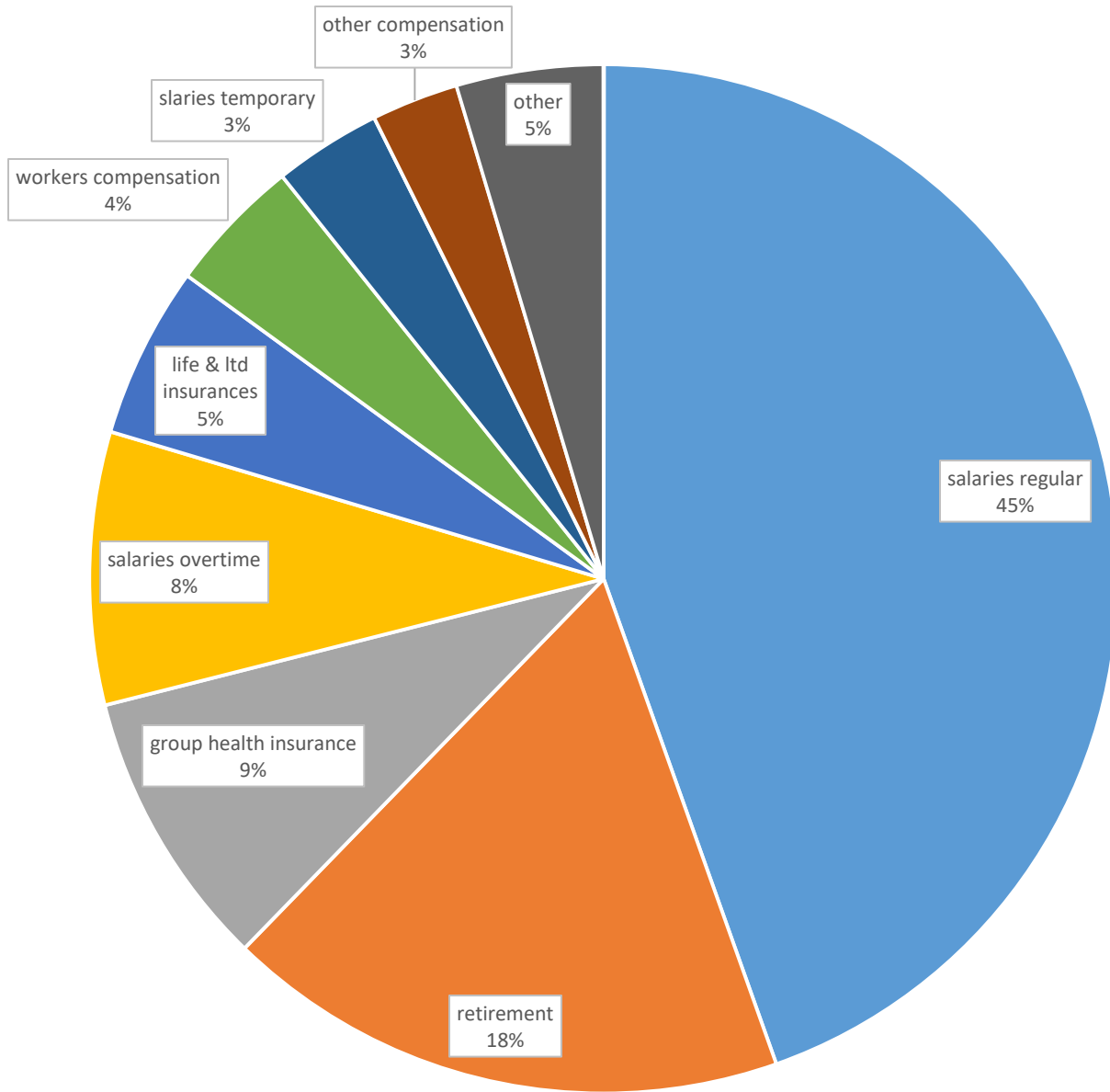
Personnel Costs

As with all public agencies, personnel costs make up the large majority of expense. For Hollister, personnel costs account for about 75% of all expense. The committee was interested in looking at the components of these costs and the follow data was generated. As shown below, the City appears to have done a good job in addressing regular salaries. It needs to be kept in mind that the increase in salaries for the 2013-2014 fiscal year was largely due to the addition of positions in the fire department resulting from the contract with the County. It should also be noted that there was a reduction in regular salaries in 2013-2014 as a result of contracting for legal and other services. The committee has expressed concern over retirement costs and hope that current negotiations address this large expense (over 10% of the total General Fund expense). The committee also expressed concern over the high expense for overtime which has increased by about 80% over the past two years. It is hope that the addition of a risk management position can have a positive effect on the half million dollar worker’s comp. premiums.

		6/30/10	6/30/11	6/30/12	6/30/13	6/30/14
001	salaries regular	5,771,261	5,076,009	4,980,300	4,844,882	5,210,282
005	retirement	2,219,737	1,920,655	1,933,555	1,898,870	2,071,302
009	group health insurance	782,054	746,804	803,892	962,408	1,026,158
003	salaries overtime	829,870	608,583	568,167	603,694	1,001,086
010	life & ltd insurances	489,760	474,311	497,926	584,814	630,073
011	workers compensation	388,146	379,223	345,768	418,628	498,881
002	slaries temporary	248,662	137,804	220,723	209,300	394,330
004	other compensation	540,505	457,337	248,113	276,224	318,865
030	leave payouts	0	0	69,979	207,217	130,901
013	fica medicare	60,188	50,624	51,115	59,249	66,654
014	fica oasdi	45,940	38,475	41,270	38,198	52,966
029	W/C salary continuation (2/3)	0	32,513	118,648	78,110	44,604
025	CalPERS retirees health contrib	26,065	25,041	28,044	27,072	29,084
015	uniform allowance	21,879	20,793	18,652	18,645	24,750
007	unemployment ins payment	18,402	24,997	6,310	4,101	14,106
026	retiree medicare contribution	2,585	7,263	10,236	11,843	11,070
027	retiree health contribution	0	41,592	47,163	53,664	4,800
		11,686,212	10,263,536	10,215,016	10,504,997	11,691,597

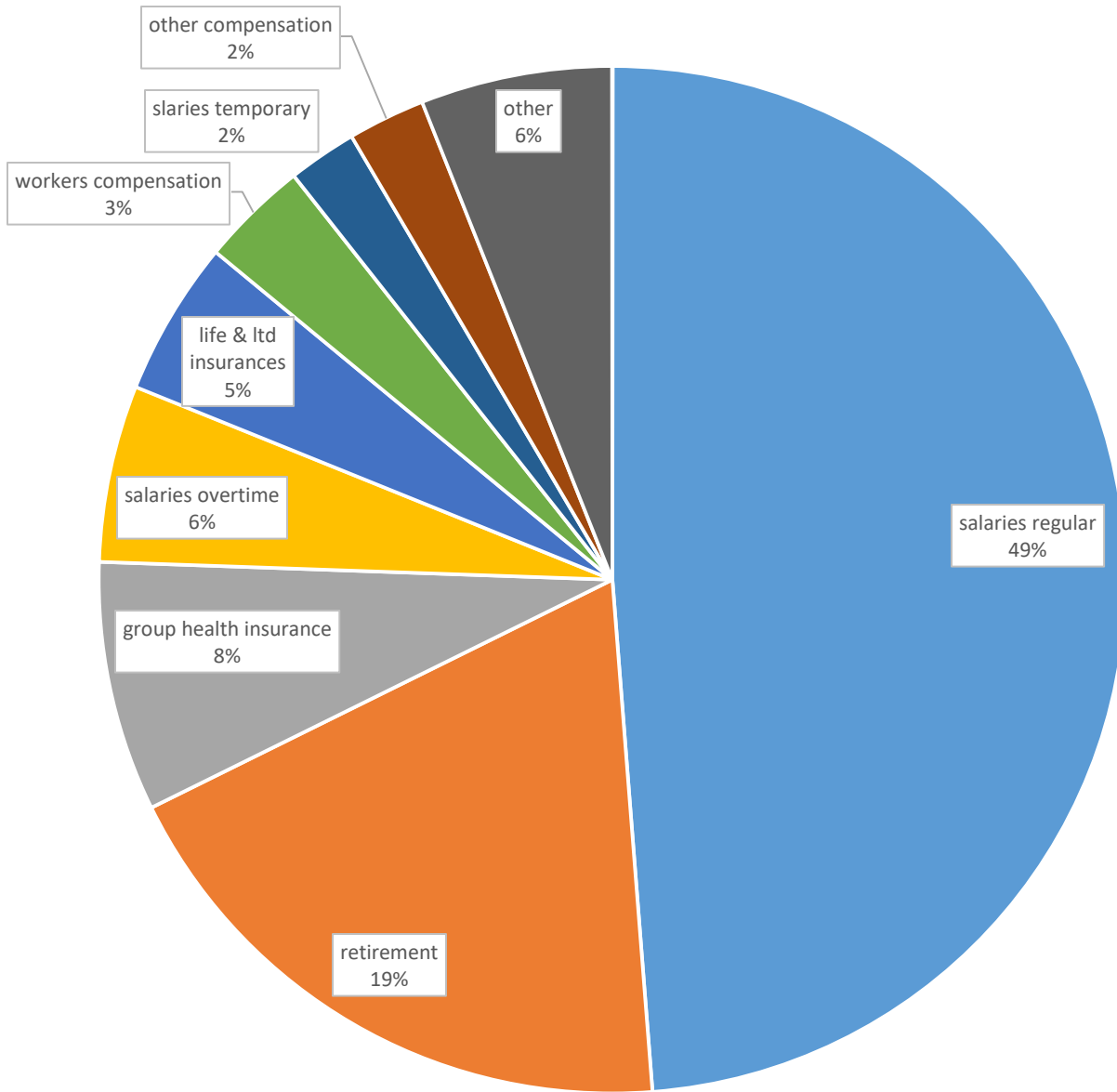
The committee understands that the City is currently in negotiations with the Fire Fighters Union over a new MOU. The committee is also aware that the provision for members of the firefighters union to pay the employee portion of PERS has expired and the City is now picking up that cost which is equivalent to 9% of salaries. The committee also recognizes that the MOU with the police officers’ union expires this month, which will result in new contract negotiations. These negotiations could have a significant effect on the financial status of the City.

2013-2014 Personnel Expense



- salaries regular
- retirement
- group health insurance
- salaries overtime
- life & ltd insurances
- workers compensation
- salaries temporary
- other compensation
- other

2011-2012 Personnel Expense



- salaries regular
- retirement
- group health insurance
- salaries overtime
- life & ltd insurances
- workers compensation
- salaries temporary
- other compensation
- other

Staffing and Budget Revisions

A few new positions were added during the 2013 - 2014 year and are outlined below.

Planning:

A full time associate planner position was added. However, currently the planning manager is unfilled. The committee recognizes that with the increasing number of building permits being issued, much of the cost of planning is offset by revenue generated by the permitting process.

Fire Department:

Two fire captains, 2 administrative fire captions and 12 firefighters were added. In addition, the Council approved the establishment of a deputy fire marshal and a training officer. twelve of the firefighter positions are funded by a grant, so the personnel costs associated with those employees has no effect on the general fund. A senior support services position was increased from half time to full time. The committee recommends that the fire department costs be closely monitored to insure that the county pays their fair share.

Police Department:

The parking enforcement position was increased from half to full time, but the cost will be offset by additional revenue from parking enforcement. A school resource officer was added with the cost being offset by the Hollister School District. There was an additional .5 FTE non-sworn added. There was reorganization of captains, lieutenants, and sergeants but the net result was the same number of positions and costs.

Code Enforcement:

A full time code enforcement officer was approved. The cost of this position should be offset by revenue generated by the position.

City Clerk:

A half time support services position was changed to full time and reclassified as deputy city clerk.

Budget:

The Council originally adopted a general fund expense budget of \$17,408,569. During the fiscal year the Council approved increases in the budget of \$1,546,595 resulting in a revised budget of \$18,955,164. In September 2014, The Council also increased the 13-14 budget by \$211,000.

Sales Tax Revenue

Data supplied HdL Companies analysis of sales tax revenue for the first quarter of 2014 show the following:

Sales Tax by Major Business Group (to the nearest \$10,000)

Fuel and Service Stations	\$170,000
Autos/Transportation	\$130,000
General Consumer Goods	\$120,000
Restaurants/Hotels	\$120,000
Business/Industry	\$ 90,000
Food/Drugs	\$ 90,000
Building/Construction	\$ 50,000

The top 25 sales tax producers for Hollister are as follows(alphabetical order)

Ace Hardware & Lumber	Auto Zone	Az Electronics Materials	Cheapseats
Ciminos Cabinet Doors	Crop Production Services	Diaz Liquors	Gateway Arco
Grenwood	K Mart	KMG Electronics	McDonalds
McKinnon Lumber	Nash Road Mini Mart	Nob Hill	Quick Stop
Ranch Gas	Safeway	Safeway Gas	Save Mart
Staples	Target	Tiffany	Tiger Express Mart
Verizon			

Summary and Conclusions

The committee believes that the Council is spending Measure E funds consistent with the intent of the voter approved measure. The committee has not found any misuse, or inappropriate use, of Measure E funds.

The committee recommends that the Council adopt a long range plan for the sunset of Measure E. With Measure E generating approximately 24% of the general fund revenue, the Council needs to make a determination as to whether or not the City can function on the loss of Measure E revenue, and, if so, what adjustments will have to be made in order to balance the budget.