PALM SPRINGS SENTINEL

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Letter from the City Manager

Dear Neighbors:

As you may know, the City Council voted to place Measure V on the ballot for the November 2nd, 2004 Presidential Election. If passed, this measure would institute a temporary three percent (3%) increase in the city's existing Utility User's Tax (UUT). The UUT is a surcharge on electricity, natural gas and land-line telephone services. This is the first of three community newsletters to discuss Measure V and other issues surrounding the city's budget.

Palm Springs is dealing with a budget shortfall of approximately $3 million per year. This shortfall has several causes. The primary problem is that the State of California is keeping funds that it had traditionally provided to cities in order to balance its own budget. In addition, like other employers, the city has seen increases in insurance costs and its mandated employee pension plan.

The City Council has worked proactively to address the city's budget shortfall by making a number of budget cuts and other adjustments to balance our budget. Last year, the city eliminated about 17 non-safety positions saving $2 million. This year an additional 3.5 non-safety positions were cut from the budget resulting in an additional savings of $600,000. Even with these efforts, without additional revenue, more cuts will have to be made. Since police and fire protection services account for 55% of our general fund budget, it would be extremely difficult to balance the budget without cutting police and fire fighter positions.

A temporary increase in the UUT, which will cost the average family about $7.20 per month, will allow us to maintain the current level of city services, including public safety. After three years, the increase goes away and the UUT will revert to five percent.

Measure V offers Palm Springs residents a choice that requires careful consideration. Nobody likes a tax increase, regardless of the services that the increase will provide. We hope residents will think carefully about the cost of a temporary UUT increase and the potential cuts in city services and make the best decision for themselves and the community at large.

Sincerely,

David H. Ready

CITY FACING TOUGH BUDGET CHOICES

Faced with a budget situation not easily reversed, the Palm Springs City Council spent a lot of hours last year diligently cutting spending and looking at other budget-balancing alternatives.

Seventeen staff positions were eliminated, for a savings of $2 million, in the 2003-04 fiscal year. An additional 3.5 positions have been eliminated in the current, fiscal year 2004-2005 budget. Those actions, plus reductions in administrative costs and a hiring freeze, have saved $600,000.

On another front, the city has begun a fact-finding dialogue with neighboring cities regarding consolidation of some public safety services that could provide additional savings. "The city has concentrated on budget reductions that minimize the impact on the delivery of essential city services," said City Manager David Ready.

But despite the intensive budget-cutting efforts, the Palm Springs budget still faces a $3 million deficit.

The City Council has responded with another round of prospective cuts that will, for the first time, tap more deeply into the whole range and levels of services available to Palm Springs residents.

The Council also developed a plan to keep city services, like police and fire, at their current operational levels by temporarily increasing revenues until the state's economy recovers.

This alternative will be submitted to voters for their approval at the November 2 Presidential Election. Measure V, as it has been designated, authorizes the city to temporarily increase the Utility User's Tax from five (5) to eight (8) percent for a period of three years. The increase would take effect with residents' February 2005 bills.

The UUT places a surcharge on electricity, natural gas and telephone services. It is used as a funding source by 150 California cities and seven counties. The UUT currently accounts for more than 10 percent of the city's operating budget.

City officials estimate that residents will see an additional monthly charge of $7.20. The temporary UUT increase will generate an additional $3.5 million per year.

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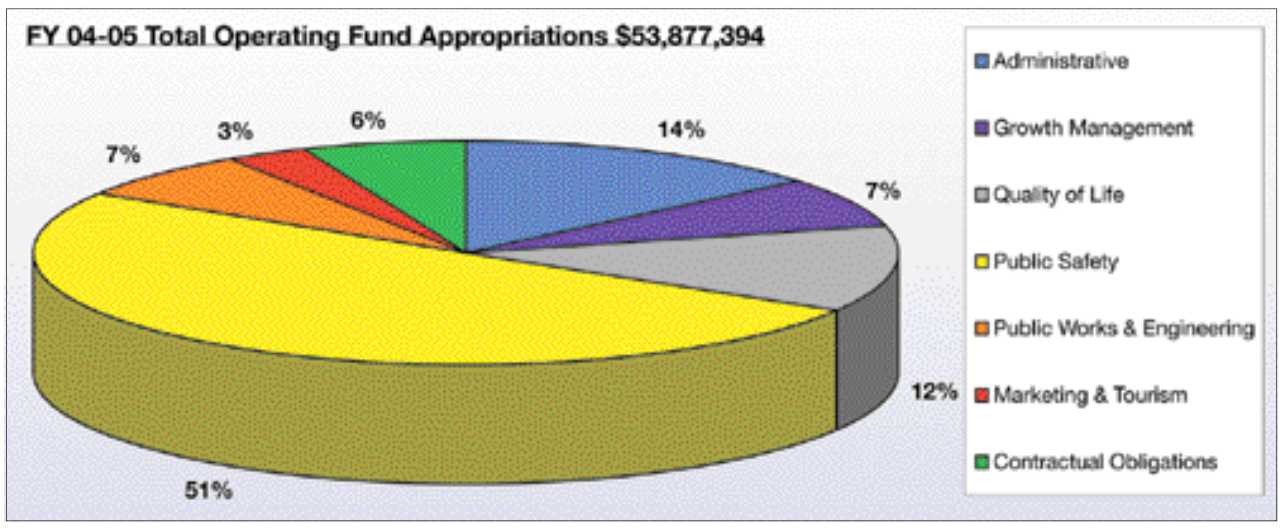

This chart shows how the City of Palm Springs is spending its operating funds this year. More than half of all discretionary spending goes to public safety (police and fire protection and emergency response).

COUNCIL APPROVES CONTINGENCY BUDGET PLAN

More Cuts to Come if Measure V Fails

The elimination of more than 20 city positions, a city hiring freeze, and other streamlining efforts were not enough to eliminate the need for the Palm Springs City Council to approve a "Budget Recovery Strategy" on September 8, 2004.

City staff reaffirmed to the City Council the need to make up a $3 million budget shortfall by either eliminating additional positions or gaining voter approval of Measure V, which would temporarily increase the city's Utility User's Tax from five percent to eight percent.

In the absence of added revenue from the temporary UUT increase, which would allow the city to maintain current levels of services, the 'Strategy' calls for the elimination of an additional 27.5 staff positions. This reduction, which amounts to nearly ten percent of the general fund workforce, will save the city more than $2.5 million.

City Manager David Ready points out that those laid off would include eight police officers and six fire fighters.

"The city cannot serve all of its residents without cutting core program areas that account for more than half of the city's budget," Ready said.

Fire Chief Blake Goetz emphasizes that the department has already eliminated two chief officer positions for budgetary reasons. Additional cuts would include a rotating station closure among the five Palm Springs fire stations.

The city will freeze new expenditures for all programs not explicitly included in the city budget. Palm Springs government continues to investigate other options, such as consolidating services with neighboring jurisdictions and seeking labor cost savings, to protect against additional service cuts.

UTILITY USER'S TAX FUNDS VITAL CITY SERVICES

Though they pay it regularly, some Palm Springs residents do not fully understand the Utility User's Tax (UUT), or recognize how important it is to the city's ability to provide the programs and services residents have come to expect.

But what is the UUT and how long has it been a part of the city budget? The UUT is a five percent surcharge on electricity, natural gas and telephone service. Palm Springs residents currently pay a UUT that is lower than is typical for the 150 California cities and seven counties that levy the tax. Rates range from one percent to 11 percent, with the average rate being six percent.

The UUT has been collected at various rates since 1986 and has been approved by voters in three separate elections (March 9, 1994, November 4, 1997 and November 2, 1999).

For the current fiscal year, the five percent UUT accounts for more than 10 percent of the city's operating budget – which pays for virtually all services our residents rely upon, including police and fire protection, street and sidewalk construction and maintenance and "quality of life" services like parks, libraries and senior citizen services.

Measure V on the November 2, 2004 ballot addresses a $3 million shortfall in the $53.8 million city budget by increasing the UUT by three percent for three years.

City officials say this temporary added charge—which is limited to three years—would amount to an additional $7.20 per month for the average Palm Springs household. If approved, the increase would take effect January 1, 2005. Utility customers would begin paying the extra three percent with their February 2005 bills. City officials estimate the increase would generate about $3.5 million, allowing the city to maintain critical services at their current levels

CITY FACES TOUGH BUDGET CHOICES

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The recent budget deficit is not so easily remedied, due in large part to the State of California's continuing "raid" on city funds. To cope with its own budget shortfalls, state budget-makers have targeted funds generated by property taxes and the Vehicle License Fee, with some estimates placing the current annual revenue loss to the City of Palm Springs at more than $4 million. Over the past decade, the city has lost approximately $24 million in funds to the state.

Compounding the State's raid on city coffers are increases in employee pension costs, particularly over the past two years. The primary reason for the increase is the stock market trading losses experienced by the statewide Public Employees Retirement System. While Palm Springs has been more aggressive than some public entities in addressing the increases, and the worst market declines appear to have passed, the damage has been done.

Yet another cost factor is significant increases in the city's insurance costs. Like most of the state's employers, Palm Springs saw health insurance costs rise 16 percent, property and liability insurance go up 18 percent, and workers compensation coverage costs increase a massive 22 percent.

In the absence of additional revenue from Measure V, budget cuts will be required in every city-provided program and service, including public safety. As the city manager points out, a workable balanced budget is not possible without cutting the police and fire services that account for more than half of the city's expenditures. Ready notes that the city's police and fire chiefs have already taken hard looks at their budgets, streamlining operations by reducing administrative costs and eliminating nonessential personnel.

For a city that has always provided a wide range of services that greatly enhance the quality of life for its residents, the alternatives are limited. Voter approval of Measure V on November 2 will provide the revenue necessary to maintain current levels of service for the remainder of the fiscal year and into the future. Should voters decide to not allow the city additional UUT revenue, and in the absence of other funding sources, budget reductions appear to be the only option to maintain a balanced budget.

TASK FORCE EXAMINES BUDGET

The Palm Springs City Council, in conjunction with the Palm Springs Economic Development Corporation (EDC), convened a Budget Task Force in 2003 to look at city spending and revenues with an eye toward getting long-term costs under control. The Task Force was comprised of eleven Palm Springs residents, five of whom were members of the EDC.

The Task Force produced a final report with specific recommendations on how to reduce or eliminate the probability of future budget deficits. Principal recommendations included:

- **Solicitation of bids for public services such as police, fire and legal to determine cost effectiveness.**
- **Employee participation towards pension contributions in the two- to-four percent range.**
- **A phased sharing of health benefits for retirees.**
- **A cafeteria plan for health insurance and changes in leave policies yielding savings.**
- **Consolidation of police and fire dispatch services with other cities.**
- **A freeze on new hires and salary increases.**
- **Make park and recreation services self-supporting.**
- **Consider revenue raising measures, such as franchise fees, aggressive collection of business license fees, assessing real estate transfer fees, false alarm fees, planning and building permit fees, and an admissions tax on sports, theater and entertainment events.**

The recommendations concerning changes in employee benefits must be negotiated with the city's employee bargaining units. The recommendations concerning service consolidation are under discussion with other jurisdictions. Some of the revenue measures, such as increasing planning and building fees and false alarm fees have already been implemented, but the City Council decided not to place an admission tax on the ballot.

While the city has made progress in implementing many of the Budget Task Forces' recommendations, some members of the Task Force believe that the city needs to do much more before imposing any new taxes.

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