Measuring Our Performance

A Fiscal Comparison with Selected Benchmark Cities

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INTRODUCTION  4
Factors that Affect Benchmark Comparisons

FINANCIAL BENCHMARKS: RESOURCE COMPARISON  6
Chart 1: General Fund per Capita
Chart 2: Sales Tax, Property Tax & Transient Occupancy Tax: Percent of Total General Fund Revenues
Chart 3: Sales Tax Revenues per Capita
Chart 4: Property Tax Revenues per Capita
Chart 5: Transient Occupancy Tax (TOT) Revenues per Capita
Chart 6: Ratio of Fees to Total General Fund Revenues

FINANCIAL BENCHMARKS: COST COMPARISON  8
Chart 7: Governmental Costs per Capita
Chart 8: General Fund Operating Costs per Capita
Chart 9: Percent of Governmental Costs that are Interest Payments
Chart 10: General Fund Allocations to Public Safety
Chart 11: General Fund Public Safety Costs per Capita
Chart 12: General Fund Allocations for General Government

FINANCIAL BENCHMARKS: STAFFING COMPARISON  10
Chart 13: Staffing from General Fund (per 1,000 residents)
Chart 14: Sworn Police Staff (per 1,000 residents)
Chart 15: Sworn Fire Staff (per 1,000 residents served)

OTHER BENCHMARKS: SERVICE OUTCOMES  11
Chart 16: Violent Crimes (per 1,000 residents)
Chart 17: Fire Calls for Service (per 1,000 residents)
Chart 18: Pavement Condition Index

SLO COMMUNITY ASSESSMENT SURVEY: SERVICE OUTCOMES  12
Chart 19: How would you rate the job being done by City officials in providing services to the City’s residents?
Chart 20: How would you rate the job being done by City officials in managing City funds?
Chart 21: How would you rate the City of San Luis Obispo as a place to live?

CONCLUSION  14
Best Management Practices
Source Data
The City Council of San Luis Obispo adopted a Major City Goal for fiscal health, which includes a task to prepare a benchmark study that helps illustrate how San Luis Obispo is doing by comparing it to other like cities across a number of performance measures. This benchmark study evaluates 2012-13 data on financial performance such as revenue diversity, expense allocation, staffing costs, and debt management. Service costs do not always reflect service levels or efficiency, so the study also compares service outcomes like crime rates, fire response and pavement condition. The results indicate that San Luis Obispo is close to the median on most comparisons. Eight cities were chosen for comparison to San Luis Obispo (population 45,500, General Fund $47M) by the City Council:

1. Davis (66,500, $40M)
2. Monterey (28,300, $59M)
3. Napa (77,900, $64M)
4. Palm Springs (45,700, $65M)
5. Santa Barbara (89,700, $100M)
6. Santa Cruz (62,400, $66M)
7. Santa Maria (100,300, $48M)
8. Paso Robles (30,500, $23M)

The comparison cities are from the same set used in the 2006 Benchmark Study with the exception of Paso Robles replacing Ventura. Each selected city share many characteristics, including:

1. Full service city that provides a wide range of core services directly, including: police, fire, street maintenance, planning, and parks and recreation.
2. County seat or largest city in the nearby vicinity.
3. Distinct regional identity separate from a large metropolitan area.
4. Major employment, commercial, cultural and government urban center.
5. Quality of life community.
6. Mid-size city, with populations ranging from 30,000 to 100,000.
7. Implemented or re-authorized a sales tax measure during the past 10 years.
8. College community and/or major tourism.
9. Slow growth; between -0.5% and 1.5% population change from 2012 to 2013.

The objective is to provide a snapshot of how San Luis Obispo measures up to similar cities in California. The study also provides the opportunity to evaluate San Luis Obispo’s revenue sources in comparison with costs, services and community priorities.

FACTORS THAT AFFECT BENCHMARK COMPARISONS

Accurately measuring benchmarks between San Luis Obispo and the selected cities can be a difficult task. Comparisons do not tell the entire story because every city differs on a variety of issues, including but not limited to: geography, daytime versus resident population, accounting methods, and fund management.

Geography
Fire service in San Luis Obispo is impacted by mountains, freeways, railroad tracks and other unique topographical features. To meet the ideal four minute fire response time, the City’s Fire Department has to maintain and staff four separate fire stations, which can inflate costs when compared to other cities with less challenging geography and/or less fire stations.
INTRODUCTION

Daytime Population
San Luis Obispo’s resident population is approximately 45,000, but the City realizes a peak population of 75,000-90,000 citizens expecting services during “normal business hours.” In addition, the peak daytime population of nearby Cal Poly is 25,000 citizens that are also covered by contract City services, including Fire Department emergency response service 24 hours a day, seven days a week.

Accounting Methods
Every city budgets and accounts for service costs differently. For example, some cities account for internal services like printing, fleet maintenance, insurance and information technology using “internal service funds”, which charge user departments for their services. Other cities (like San Luis Obispo) account for internal service costs in the General Fund and use a cost allocation plan in distributing costs to other departments and funds. For public services like paving, street lighting, or storm drain maintenance, some cities account for these services in separate special revenue or enterprise funds, while others account for them solely in their General Fund. The “General Fund” can be a relative term, and those cities that use separate funds to account for services that others account for in their General Fund may appear to have lower General Fund costs.

Fund Management
The services that cities provide can be divided into two major groups: governmental and enterprise. Governmental activities include: police, fire, capital projects, planning and building inspections, street maintenance, recreation and park maintenance. Governmental activities costs and cash balances are typically tracked using the General Fund, Capital Outlay Fund, and other miscellaneous funds like Debt Service or Special Revenue Funds.

Enterprise activities are fee-for-service operations ranging from water services to international airports. Enterprise Funds vary widely which makes them difficult to compare statistically. The majority of financial comparisons provided in this benchmark study focus on governmental activities since they are more uniform across the sample cities and consistently reported in a city’s Comprehensive Annual Financial Report (CAFR).

Comparison of Enterprise Services provided by Benchmark Cities

<table>
<thead>
<tr>
<th>Service</th>
<th>San Luis Obispo</th>
<th>Davis</th>
<th>Monterey</th>
<th>Napa</th>
<th>Palm Springs</th>
<th>Santa Cruz</th>
<th>Santa Barbara</th>
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<tbody>
<tr>
<td>Water</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>Sewer</td>
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The following sections compare data sets that are consistently reported and defined the same way among benchmark cities. Most information is from audited financial statements and records published in 2012-13.
Cities typically have two major governmental funds: the General Fund and Capital Outlay Fund. Other minor governmental funds can include Special Revenue Funds, like a Business Improvement District, or Debt Service Funds.

The size of San Luis Obispo’s General Fund per capita is the median among benchmark cities. It is primarily used for operating programs (84%), debt service (5%), and capital improvement plan (11%) expenditures.

Sales tax, property tax and transient occupancy tax (TOT) account for at least 40% of total General Fund revenues in all benchmark cities. These top 3 revenues account for only 62% of San Luis Obispo’s General Fund revenues, which implies that there is a diverse revenue base. This financial risk management tool allows San Luis Obispo to weather changes in the economy better than other municipalities that rely on only a few revenues to make up most of the total revenue base.

San Luis Obispo has the strongest sales tax revenues per capita. It is the City’s top revenue source; about one-third of total General Fund revenues. The majority of cities have a local add-on sales tax (Measure Y in San Luis Obispo) that generates local revenue (ranging 0.25% to 1.0% per dollar).

San Luis Obispo’s strong sales tax revenues are due to its regional sales draw, tourism, and nearby student shoppers. According to a recent sales tax study, 72% of every dollar the City collects in sales tax is paid by non-residents.
Chart 4: Property Tax Revenues per Capita

San Luis Obispo’s property tax revenues per capita are in the lower percentile of benchmark cities. Proposition 13, adopted by California voters in 1978, limits the amount of annual growth in assessed values to a maximum of 2% per year. This makes property tax a relatively static revenue source that grows slowly as ownerships change and new property values are assessed.

Chart 5: Transient Occupancy Tax (TOT) Revenues per Capita

TOT revenue is largely generated by visitors staying in hotels, which can indicate which cities have strong tourist economies.

TOT is specialized because it focuses on one part of a local economy: tourism. It is not as broad-based as sales tax. Significant TOT rate increases would be needed to generate the same amount of revenue as a general sales tax; San Luis Obispo’s TOT rate would have to go from 10% to 21.9% to equal revenue from Measure Y. Significant increases to TOT could create a competitive disadvantage in the local market.

Chart 6: Ratio of Fees to Total General Fund Revenues

A comparison of how much General Fund revenue is generated by service fees like building permits and business licenses.

Increasing cost recovery through service charges is a local City Council decision, and has historically been part of San Luis Obispo’s budget-balancing strategy. However, fees should never exceed the actual total cost of providing services. San Luis Obispo is completing a new fee study in 2014 to ensure that fees are appropriate.
Governmental activities include costs for police, fire, planning, building inspections, capital projects, recreation and parks maintenance, and general government. All of the benchmark cities provide these essential services.

Enterprise operations (fee for service) costs are not included in this comparison. What cities choose to include in enterprise operations varies widely making it a difficult cost category to evaluate.

The General Fund is the primary operating fund for most cities. It is used for essential services (e.g. public safety, maintenance), but does not include other governmental activities like capital purchases and construction projects. Most cities maintain a separate Capital Outlay Fund for these costs.

When compared to Chart 7, a significant difference may indicate a good portion of costs are non-operating expenses. Palm Springs’ governmental costs are about $1000 per capita more than its General Fund costs, which may indicate heavy investment in capital and/or non-essential services.

A comparison of how much interest benchmark cities pay on long-term debt. Cities use debt financing for long-term investments such as a fire station. Costs for debt obligations constrain available resources.

2.1% of San Luis Obispo’s governmental costs are interest payments on long-term debt, which is the median, and about 5% below benchmark cities on the high end of the spending range.
Public safety costs for police and fire services are the most significant General Fund allocations in San Luis Obispo, accounting for about 51% of general operating costs. When compared to the eight benchmark cities, San Luis Obispo is below the median (53%).

**Breakdown:** San Luis Obispo’s public safety allocation is 30% Police and 21% Fire. This allocation ratio is consistent with most benchmark cities. The exceptions are Santa Maria (larger allocation to police) and Monterey (same allocation for both).

San Luis Obispo’s Fire Department is unique because it is under contract to serve an area beyond the City boundaries; Cal Poly campus. The total “per capita” number for fire service costs was increased in Chart 11 by the number of beds on campus (6,500) to present a more accurate ratio of public safety costs per total residents served.

General government costs include staffing and resources that support all governmental activities. Examples include City Manager, Attorney, Clerk, Human Resources, Facilities Maintenance, Finance, and Information Technology.

General government costs may also support enterprise activities. San Luis Obispo adopted a cost allocation plan that reimburses General Fund from Enterprise Funds for administrative support costs. The numbers shown in this chart for San Luis Obispo are net totals after reimbursements.
FINANCIAL BENCHMARKS: STAFFING COMPARISON

Chart 13 compares the number of regular authorized General Fund staff positions across all benchmark cities.

**NOTE:** Compensation costs associated with staffing are not included in this study because a more detailed Compensation Benchmark Study is in progress that will be available to public and City Council in mid-August 2014. Please check slocity.org for this comprehensive comparison of salary and benefits, including a breakdown of employer versus employee healthcare contributions.

Police staff are a subset of General Fund staffing. According to the Bureau of Justice Statistics, the average number of sworn police officers per 1,000 residents is 1.8 for cities with a population between 25,000 and 100,000. San Luis Obispo has approximately 1.3 police staff per 1,000 residents (and has an even lower ratio if daytime population is considered).

**NOTE:** Palm Springs and Davis do not report sworn police staffing numbers.

Fire staff are also a subset of General Fund staffing. San Luis Obispo’s Fire Department is unique because it is under contract to serve an area beyond the City boundaries; Cal Poly campus. The total number of “residents” was increased in Chart 15 by the number of beds on campus (6,500) to present a more accurate ratio of sworn fire staff per total residents served.

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1 Compensation costs associated with staffing are not included in this study because a more detailed Compensation Benchmark Study is in progress that will be available in mid-August 2014. Please check slocity.org for this comprehensive comparison of salary and benefits, including a breakdown of employer versus employee healthcare contributions.
According to the FBI, San Luis Obispo is one of the safest benchmark cities in terms of violent crime; murder, manslaughter, rape, robbery and aggravated assault.

However, the FBI also reports that incidences of property crime in San Luis Obispo are the third-highest of all benchmark cities (Santa Cruz and Palm Springs are higher). This is one factor that led to an increased focus on Neighborhood Wellness and Downtown patrols. Two additional Downtown officers have been funded by San Luis Obispo’s Measure Y sales tax.

Fire responses includes hazardous material spills, vehicle and vegetation fires, heavy rescues, structure fires and medical emergencies. San Luis Obispo’s low number of responses indicates that proactive fire prevention activities are working well.

San Luis Obispo’s Fire Department is unique because it serves an area beyond the City boundaries; Cal Poly campus. The total number of “residents” was increased in Chart 23 by the number of beds on campus (6,500) to present a more accurate representation of fire responses per responsibility area.

The Pavement Condition Index (PCI) is a National standard on a 0-100 scale that indicates the quality of a city’s pavement. Generally the scale is: 100-70 Good/Excellent; 50-70 At Risk; 0-50 Poor/Failed.

The California Statewide Local Roads Needs Assessment concludes the average California road PCI is 66 (San Luis Obispo was 72). San Luis Obispo’s “Good/Excellent” rating is directly related to the annual average pavement investment from Measure Y sales tax revenues.
Chart 19: How would you rate the job being done by City officials in providing services to the City’s residents?

In early December 2013, San Luis Obispo conducted a Community Assessment and Ballot Measure Issues Survey. The survey included community assessment questions for the purpose of tracking opinions over time on key issues to better understand if the City is “headed in the right direction.”

Chart 20: How would you rate the job being done by City officials in managing City funds?

Chart 25 is a repetitive question posed to the community over time. The trending response is that the City is doing an excellent/good job providing services to residents.

Chart 26 is a repetitive question posed to the community over time. The trending response is that the City is doing an excellent/good job managing City funds.

Chart 21: How would you rate the City of San Luis Obispo as a place to live?

Chart 27 is a repetitive question posed to the community over time. The trending response is that the City is an excellent place to live.

More detailed results and key conclusions from the community assessment survey conducted by FM3 Associates are available at slocity.org.
San Luis Obispo residents are optimistic, confident in the management of their local government, and rate the level of service provided by City officials highly. This quality service and management is being delivered with revenues and costs that are close to the median when compared with the selected benchmark cities.

The City’s financial operations had lower than average operating costs and debt levels. In some categories, such as fire service, being below average on costs is especially significant given service level differences among benchmark cities. Santa Maria does not provide advanced life support (paramedic) services, and Santa Barbara, Santa Cruz, and Napa do not provide advanced life support by all emergency response crews. Only San Luis Obispo and Paso Robles provide this service by all emergency response crews. The provision of advanced life support services increases costs related to personnel, training, administration, and equipment, and approximately 70% of San Luis Obispo’s fire emergency response activities are for medical emergencies.

Comparison of service outcomes reveals that San Luis Obispo is among the safest communities in terms of violent crime and fire emergencies. San Luis Obispo’s pavement condition index - an indicator of street quality - is among the best of the benchmark cities (only Santa Maria had a comparable rating).

Staffing levels are consistent with benchmark cities as well, with San Luis Obispo hitting the median or slightly above in the staffing areas selected for comparison. A more detailed Compensation Benchmark Study is in progress that will be available to public and City Council in mid-August 2014.

San Luis Obispo was at the top of the benchmark range on one item: Sales Tax Revenue per Capita. This result indicates that sales tax is vital for delivering quality levels of service to the community. According to the 2013-2015 City of San Luis Obispo Financial Plan, 37% of total General Fund revenue comes from sales tax, 15% from property tax, and 10% from TOT. A big portion of sales tax comes from a local revenue measure (Measure Y) that adds half-percent to the County sales tax rate. Measure Y generates $6.5 million annually or about 12% of total

<table>
<thead>
<tr>
<th>City</th>
<th>Local Sales Tax Rate</th>
<th>County Sales Tax Rate</th>
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<td>Benchmark Cities</td>
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<td>Monterey</td>
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<td>8.00%</td>
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<tr>
<td>Paso Robles</td>
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<tr>
<td>Davis</td>
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<td>7.50 % (Yolo County)</td>
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<td>Santa Maria</td>
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<td>8.00 % (Riverside County)</td>
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<td>Other Cities in SLO County (Non-Benchmark)</td>
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<td>8.00%</td>
<td>7.50 % (San Luis Obispo County)</td>
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</table>
General Fund revenue in San Luis Obispo. 5 out of 8 benchmark cities also have add-on local sales tax measures, and four out of the remaining five cities in San Luis Obispo County do as well. All of the three benchmark cities without a local sales tax measure (Monterey, Napa, Santa Barbara) generate more revenue from property tax and TOT than San Luis Obispo. Measure Y has been in effect for seven years now and is set to expire in March 2015. Renewal would maintain the current sales tax rate of 8%. More information on Measure Y, including expenditures, public feedback, and timelines, is available at slocity.org.

BEST MANAGEMENT PRACTICES

Beyond benchmark comparisons, it is prudent to evaluate whether San Luis Obispo is implementing general best management practices (BMPs) for local governments. The City has adopted and implemented many BMPs for financial management, including:

1. Multi-year budgeting
2. Long-term fiscal forecasts
3. Integration of goal-setting into the budget process
4. Development of fiscal contingency plans
5. Use of generally accepted accounting principles and audits by independent certified public accountants
6. Effective ongoing monitoring of our financial condition
7. Long-term capital improvement plans
8. Use of comprehensive fiscal policies as the foundation for decision-making

Many of these BMPs come from Fitch Ratings (one of the “big three” national credit rating agencies), who has formally integrated them into their rating systems. The City recently received affirmation from Fitch Ratings that City bond ratings are “AA” and “AA+”, and the rating outlook is stable. Fitch Ratings’ long term credit ratings are assigned on an alphabetic scale from AAA to D. The bond rating AA means that the City’s investment grade is “quality”. In reaching its decision, Fitch Ratings’ analysts noted factors that lead to their conclusion including (1) active budget monitoring by the City Council and staff, (2) comprehensive financial policies, and (3) the use of long-term budget planning to provide a solid framework for managing through unexpected budgetary challenges during the economic downturn.

SOURCE DATA


For questions or comments on this benchmark study, please contact James David, City of San Luis Obispo Administration, (805) 781-7151 or jdavid@slocity.org.