

City of Imperial Beach Municipal Analysis

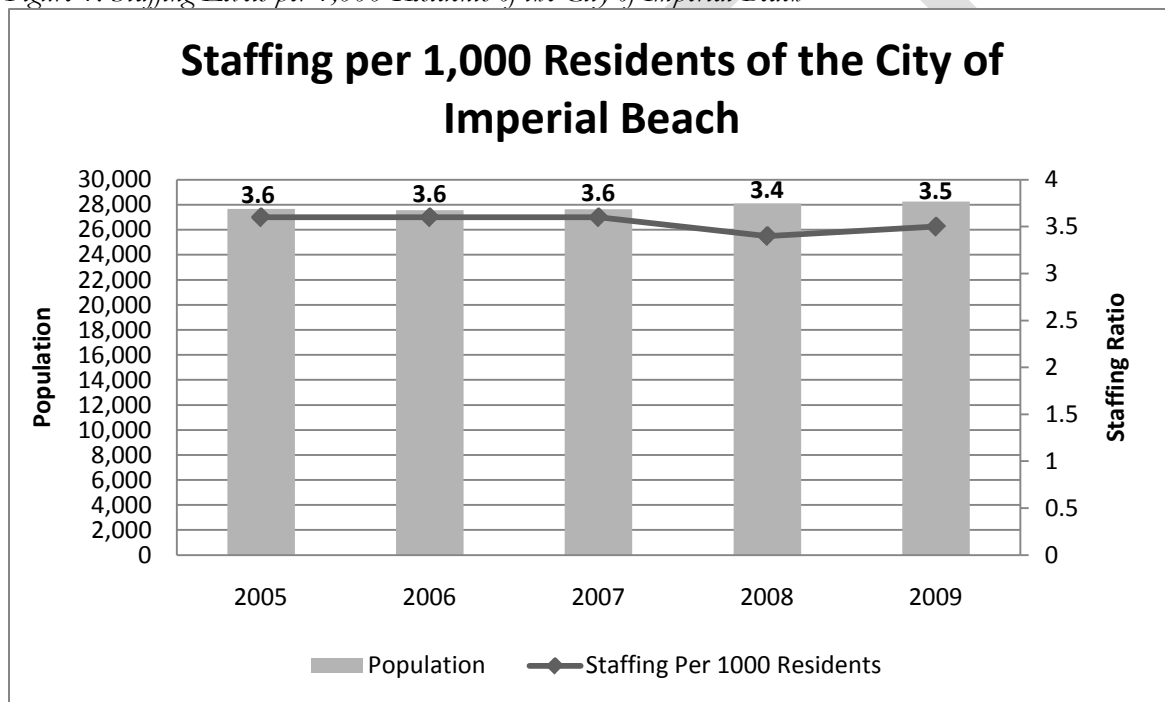
July 2009

**Background:**

Since 1999, the City of Imperial Beach (City) has been stagnant in terms of economic development. Property values are level and not expected to increase due in part to lack of development opportunities.<sup>1</sup> The City's Fiscal Year (FY) 2009-2010 and FY 2010-2011 proposed budgets do not include any new programs, positions, or major service increases.<sup>2</sup> The City has also invested in redevelopment projects to encourage revenue growth. To address an anticipated budget deficit up to \$1.9 million by FY 2012-2013, the City has suggested either eliminating positions and reducing General Fund services or proposing various revenue enhancement options.<sup>3</sup>

**Municipal Profile:**

*Figure 1: Staffing Levels per 1,000 Residents of the City of Imperial Beach*



Source: Imperial Beach City Annual Financial Reports for FYs 1999 – 2007, Operating Budget, FY 2007-2009, Proposed Budgets for FY 2009 – FY 2011 and California Department of Finance.

1 City of Imperial Beach Final Report of Long-Term Fiscal Stability. MAXIMUS Inc. Pg. 6. Additionally, a report done by EDAW/AECOM showed that certain City zoning regulations (such as height restrictions on buildings) pose a barrier to attracting new businesses. EDAW/AECOM, City Council Design Review Board Workshop, June 24, 2009. Available: <http://www.cityofib.com/vertical/Sites/%7B6283CA4C-E2BD-4DFA-A7F7-8D4ECD543E0F%7D/uploads/%7BD5EC521D-C0CF-4C1F-BDA5-D970C4CA5BC5%7D.PDF>.

2 City of Imperial Beach Fiscal Year 2009–2010 & Fiscal Year 2010–2011 Proposed Budgets. Pg. 7.

3 City of Imperial Beach Workshop Meeting Agenda, April 8, 2009. Attachment 2.

Imperial Beach has approximately 3.5 Full Time Equivalents (FTEs) per 1,000 residents and serves a population of about 28,000 (see Figure 1).<sup>4,5,6</sup> It is important to note that the City of Imperial Beach provides staffing to the Port of San Diego as a contracted service for lifeguards, animal control, sheriffs, and firefighters. This means that while the City has approximately 100 full-time equivalent employees, as many as 40 of these employees are hired solely for Port operations.<sup>7,8</sup>

Redevelopment of the City's tourism and retail sector has been a primary goal for the City in developing long term economic stability. With economic uncertainties and rising labor costs, it is likely that the City will have to develop other sources of revenue, reduce employee salaries and benefits, increase employee contributions to pensions, streamline operations, outsource positions, or utilize joint-use agreements and other efforts to partner or consolidate services with other public agencies to balance the FY 2011-2012 and FY 2012-2013 budgets.

Key Findings:

- Increasing General Fund expenditures are due in large part to law enforcement contracts with the County.
- The City's second highest single source of revenue (27% of the General Fund) is from fees for services, the bulk of which comes from the Port of San Diego in return for providing law enforcement, beach safety, animal control, and tideland maintenance (see Figure 4).
- Annual pension costs have increased from 5.02% of total General Fund expenditures in FY 1998-1999 to 9.71% in FY 2007-2008 (see Figure 7).

Revenue vs. Expenditures

The City faced budget deficits in FY 2003-2004 and FY 2004-2005 of \$302,468 and \$376,021, respectively. In both instances, the city used emergency reserves or one-time funds to balance the budget.<sup>9</sup>

While the FY 2009–2011 budget is “precariously balanced,” the city may face a deficit of up to \$1.9 million by FY 2012–2013, due in part to increasing costs associated with public safety and storm water management.<sup>10</sup> The FY 2009–2010 and FY 2010-2011 budgets are currently balanced as a result of maintaining a financial “status quo”, which means that there are no new programs, new positions or major service level increases.

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4 Full Time Equivalency is a way to measure a worker's involvement in a job. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

5 Calculated from Imperial's Beach's reported FTEs and California Department of Finance data (see footnote 6).

6 California Department of Finance Population Estimates for Cities, County and State, 2001–2009 with 2000 Benchmark. Available: [http://www.dof.ca.gov/research/demographic/reports/estimates/e-4\\_2001-07/](http://www.dof.ca.gov/research/demographic/reports/estimates/e-4_2001-07/). Accessed 11/16/09.

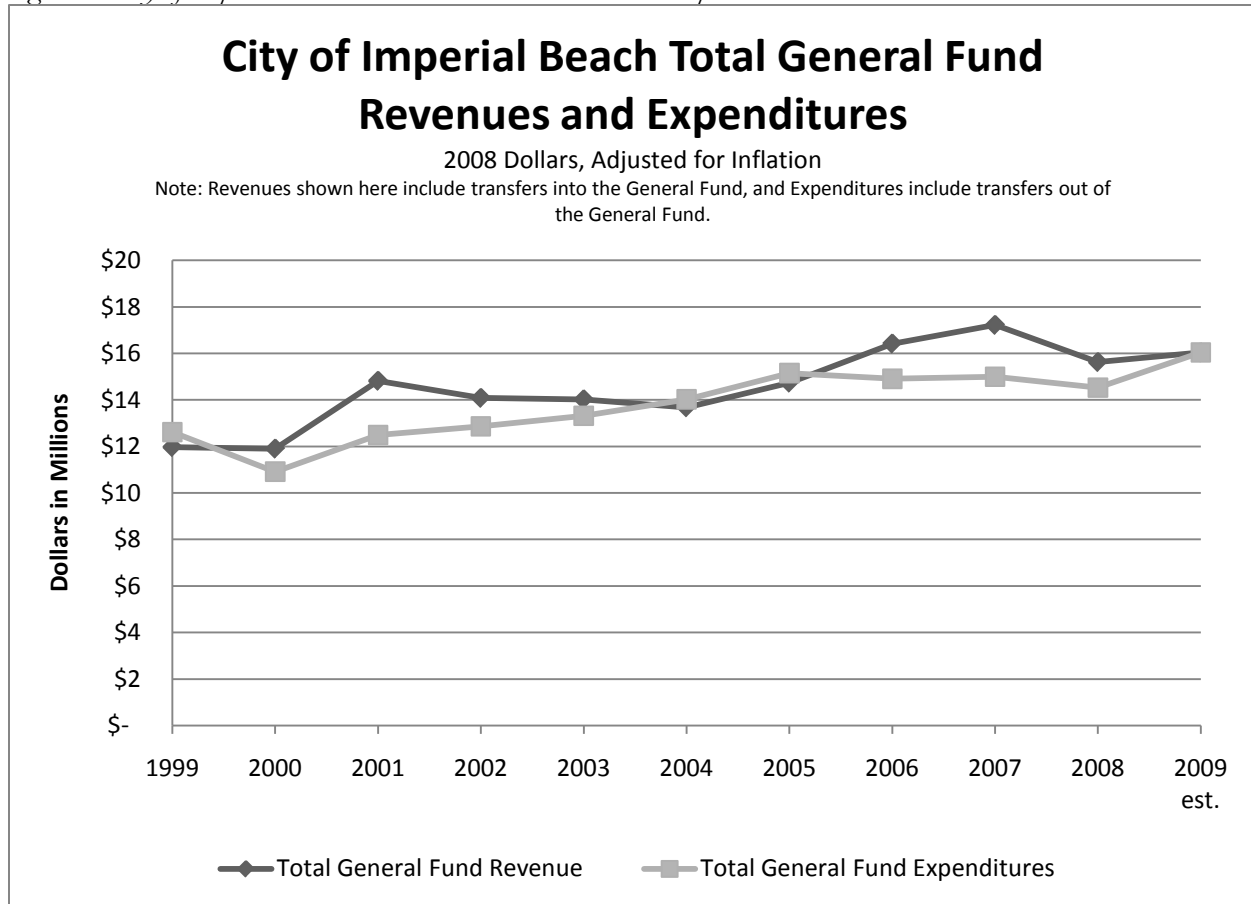
7 City of Imperial Beach Fiscal Year 2009–2010 & Fiscal Year 2010 – 2011 Proposed Budgets. Pg. 19.

8 City of Imperial Beach Finance Director Mike McGrane, email correspondence from 10/18/09.

9 City of Imperial Beach Final Report of Long-Term Fiscal Stability. MAXIMUS Inc. Page 8.

10 City of Imperial Beach Fiscal Year 2009–2010 & Fiscal Year 2010–2011 Proposed Budgets. Pg. 11.

Figure 2: City of Imperial Beach General Fund Revenue and Expenditures



Source: Imperial Beach City Annual Financial Reports for FY 1999–FY 2008. 2009 estimated from FY 2009–2011 operating budget.

#### Revenue Detail

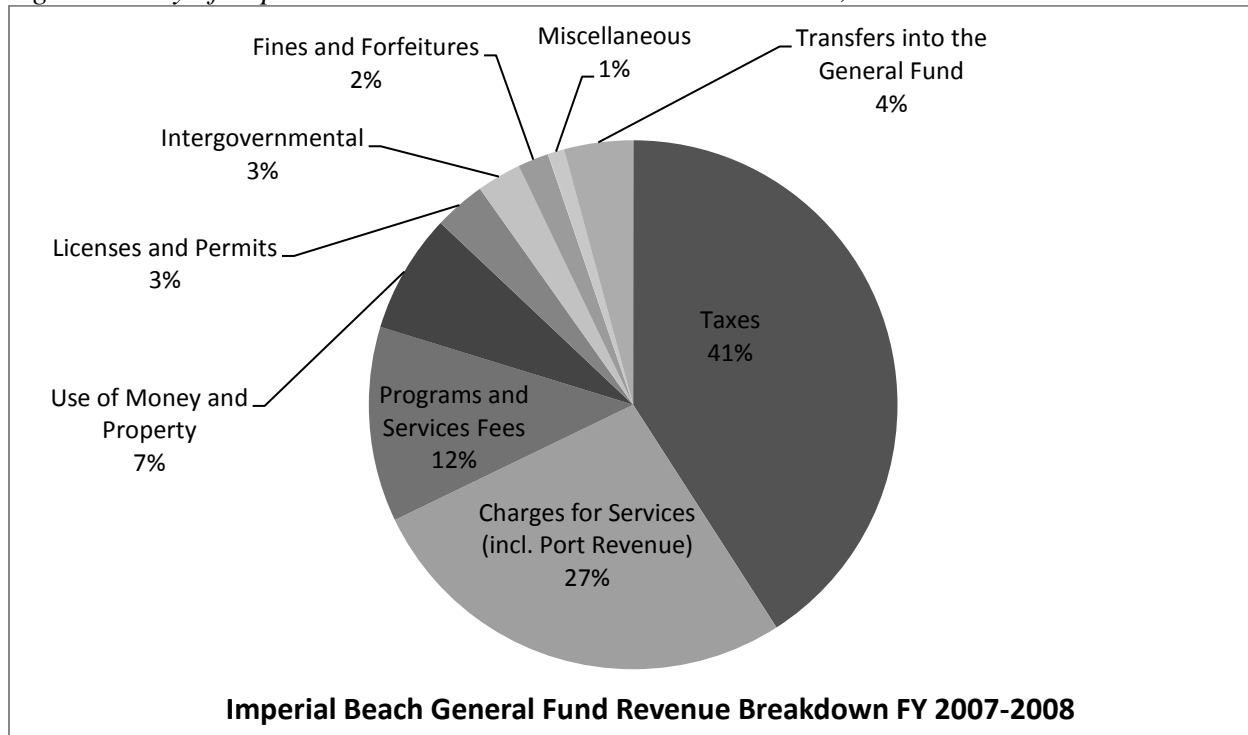
In FY 2007-2008, sales tax and Transient Occupancy Tax (TOT) combined accounted for less than 8% of total General Fund revenues.<sup>11,12</sup> Property taxes, which accounted for 12% of General Fund revenues, have experienced limited growth due to lack of development and stagnant or decreasing property values. Note in Figure 3 that the decrease in Vehicle License Fee (VLF) revenues can, in part, be attributed to the California Legislature reducing the VLF tax rate from 2% to 0.65% in 2004. The State has since increased the VLF tax rate 1.15%.<sup>13</sup>

11 Transient Occupancy Tax (TOT) is levied for the privilege of occupying a room or rooms or other living space in a hotel, inn, tourist home or house, motel or other lodging.

12 Calculated from City of Imperial Beach FY 2007-2008 Financial Statements (Pg. 10) and Adopted Two-Year Operating Budget FY 2007-2009 (Pg. 2).

13 California City Finance. VLF Facts. Available: <http://www.californiacityfinance.com/VLFupdate090428.pdf>

*Figure 3: City of Imperial Beach General Fund Revenue Sources, FY 2007-2008*



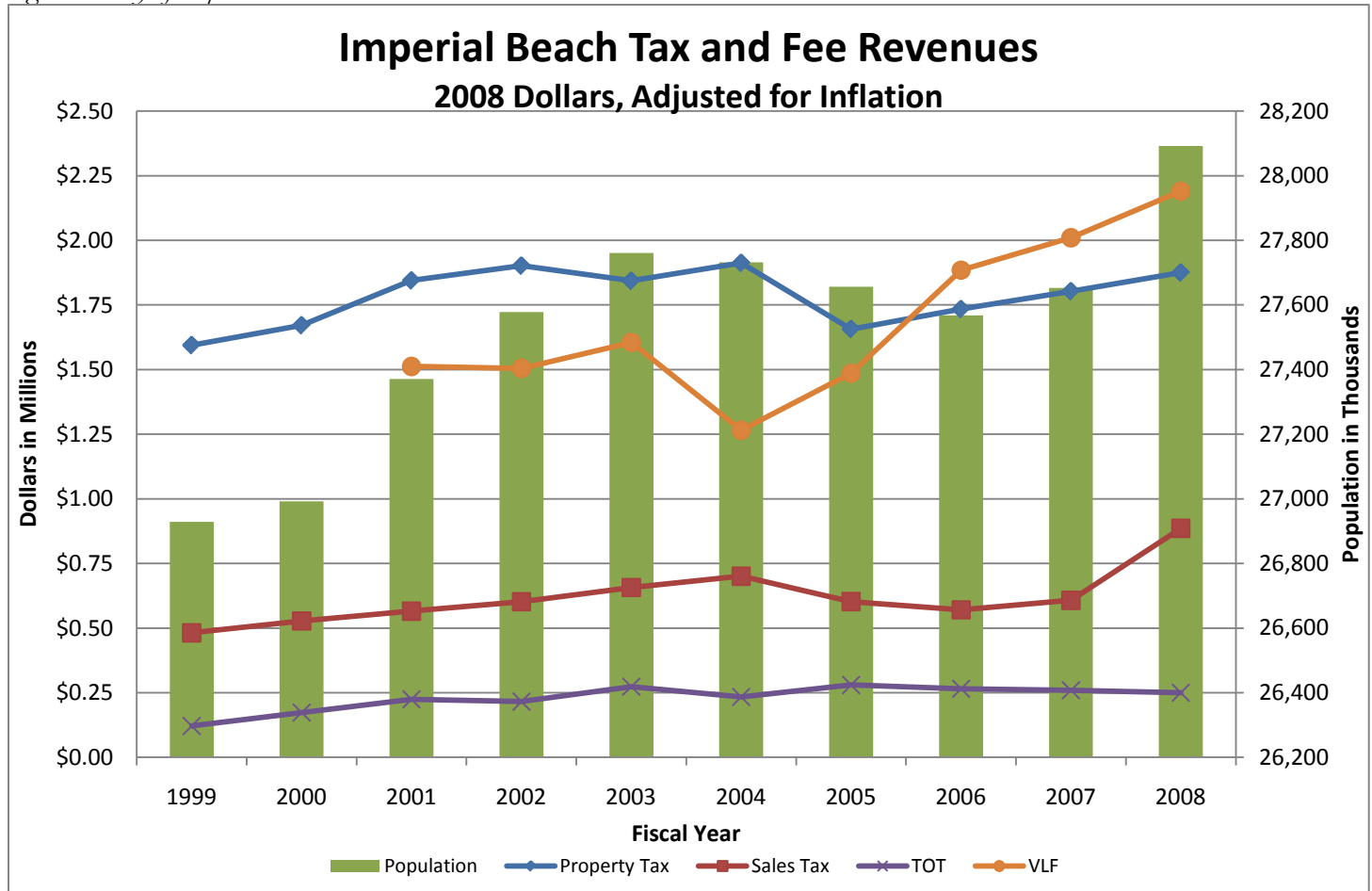
Source: City of Imperial Beach Financial Statements, June 30, 2008.

A significant source of revenue for Imperial Beach (about 21% of total General Fund revenues in FY 2007-2008) comes from the Port District of San Diego (Port).<sup>14</sup> The Port is a public benefit corporation, which is governed by five municipalities in the County. Currently, the Cities of San Diego, Chula Vista, Coronado, National City, and Imperial Beach appoint representatives to sit on the Port's governing board. In FY 2007-2008, the Port generated \$87 million per year in real estate revenue, and \$21 million or 25% of its revenues were paid out to the governing cities.<sup>15</sup> Imperial Beach is paid the largest share as repayment for providing law enforcement, fire safety, lifeguards, animal control, and tideland maintenance.

<sup>14</sup> Imperial Beach City Annual Financial Report for FY 2007–2008.

<sup>15</sup> San Diego Unified Port District Basic Financial Statement. June 30, 2008. Pgs. 7, 30.

Figure 4: City of Imperial Beach Tax and Fee Revenues



Source: U.S. Census Bureau, Imperial Beach City Annual Financial Reports for FYs 1999–2005, 5 Year Fund Revenue History FY 2005-2009, Adopted Two Year Operating Budget FY 2007-2009, Adopted Two Year Operating Budget FY2009-2011. Note: VLF was not implemented in FY 1999 or FY 2000.

#### Imperial Beach Redevelopment Agency

Since 1995, the City’s Redevelopment Agency (RDA) has been tasked with developing commercial and retail projects by working with existing property owners to address public infrastructure deterioration. In 2005, the Redevelopment Agency and City Council adopted a “Five Year Implementation Plan” that included all redevelopment and development projects and programs under the RDA from FY 2006 to FY 2011.<sup>16</sup>

The completion of projects such as the 9th and Palm Miracle Shopping Center and the Seacoast Inn may generate increased TOT, sales tax, and license fee revenues for the City. However, it is uncertain if these revenue increases would offset the City’s current costs of operation.

Almost the entire City falls under the RDA’s jurisdiction, which means that property tax revenue depends on the amount of tax increment earned from redevelopment properties. Approximately 20% of tax

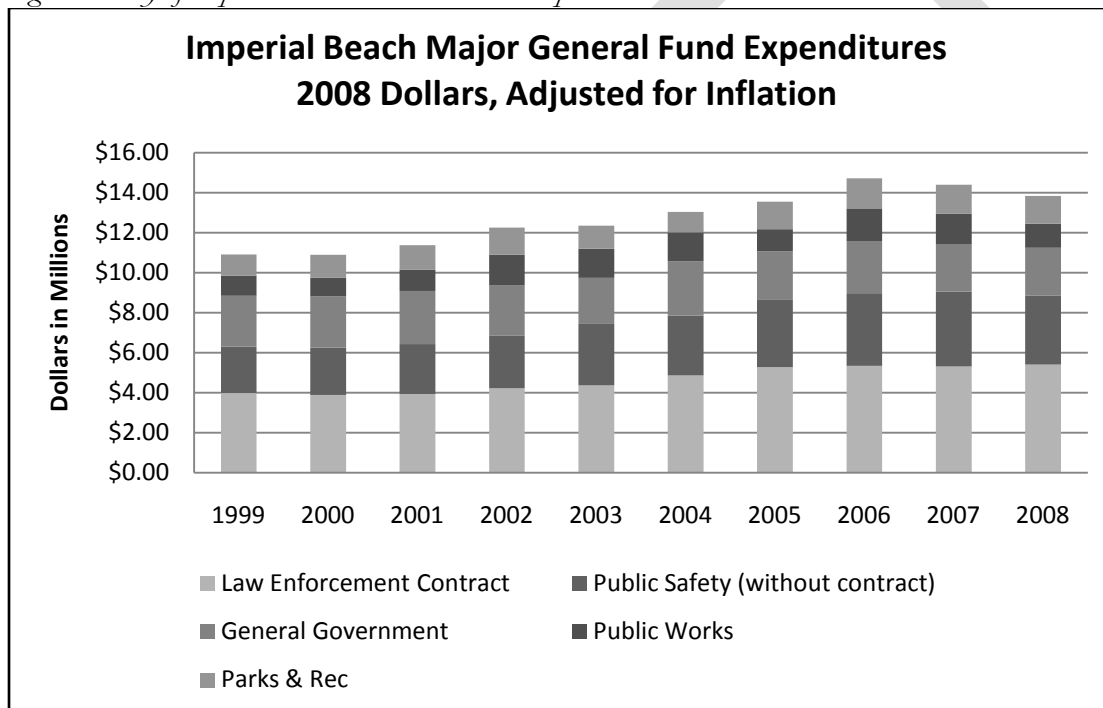
<sup>16</sup> The City of Imperial Beach Redevelopment Agency. [http://www.ci.imperial-beach.ca.us/index.asp?Type=B\\_BASIC&SEC={10DB246A-4AC4-4641-BC08-42153C145826}](http://www.ci.imperial-beach.ca.us/index.asp?Type=B_BASIC&SEC={10DB246A-4AC4-4641-BC08-42153C145826})

increment earned goes to the City’s General Fund, with the remaining 80% being reinvested into a fund for low and moderate income level housing and future redevelopment projects.<sup>17</sup>

Expenditure Detail

Since FY 1998-1999, the City’s law enforcement expenditures (which are contracted with the County) have risen 38%, or from \$3.9 million (1999) to \$5.4 million (2008).<sup>18</sup> This is due in part to the rising cost of law enforcement contracts the City has with the San Diego County Sheriff’s Department. Other public safety personnel costs, such as Lifeguards and Fire/EMS, have risen by an even faster rate, jumping from \$2.3 million in FY 1998-1999 to \$3.4 million in FY 2007-2008, or 49%. The Port currently compensates the City for public safety costs by paying 21% of the City’s total expenses for Sheriffs, 8% for Fire/EMS, 100% for Lifeguards and 12.7% for Animal Control services.<sup>19</sup> As exhibited by Figure 5, expenditures in other areas of the City’s General Fund have remained relatively stable.

Figure 5: City of Imperial Beach General Fund Expenditures



Source: Imperial Beach City Annual Financial Reports/Financial Statements FYs 1999–2008.

Pension Costs

In addition to offering Social Security benefits, the City contributes to the California Public Employees’ Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan.

17 Imperial Beach Amended Redevelopment Project Tax Sharing Payments for FY 07-08.

18 Imperial Beach City Annual Financial Reports/Financial Statements, FY 1999–2000 – FY 2007-2008. Pgs. 10, 42, 37, 29, 23, 21, 13, 13, 13, respectively. 2008 dollars, adjusted for inflation.

19 Brown, Gary. Staff Report. “Adopt Resolution No. 2009-6760 Approving an Agreement Between the San Diego Unified Port District and the City of Imperial Beach for Police, Fire, Emergency Medical, Lifeguard and Animal Control Services.” May 20, 2009.

PERS provides retirement and personal disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Imperial Beach Employee Retirement Benefits
CalPERS Formula: 2.7% @ 55 for miscellaneous employees, 3% @ 50 for public safety fire employees, and 2% @ 50 for public safety lifeguard employees.
Employee Contribution: City pays 2 % of the miscellaneous employee contribution (i.e. miscellaneous employees pick up 6%); City pays the full 9% for all public safety employees (i.e. public safety employees do not contribute to their public pension).
Single highest year benefit for final compensation.
EPMC is reported as income for public safety fire employees only.

Imperial Beach active plan members are “required” by State statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer picks up 2% and 9% of the contribution required of City employees for miscellaneous (non-public safety employees) and safety employees, respectively (this is known as Employer Paid Member Contributions, or EPMC). This means that public safety employees contribute nothing to their public pensions.

The City also reports the value of EPMC as additional compensation to CalPERS for its fire public safety employees. This additional contribution allows these employees to earn 98.1% of their highest year’s salary after thirty years of service.

Imperial Beach Fire Public Safety Employee Example	
Single Highest Year Salary	\$100,000
Inclusion of EPMC	\$9,000
Total Calculated Salary	\$109,000
Service Years	30
Benefit Factor	3%
<b>Total Pension Benefit</b>	<b>\$98,100</b>

Imperial Beach Miscellaneous Employee Example	
Single Highest Year Salary	\$85,000
Service Years	30
Benefit Factor	2.7%
<b>Total Pension Benefit</b>	<b>\$68,850</b>

A summary of pension

costs since FY 1998-1999 is



presented in the following table:

Annual Pension Costs (not adjusted for inflation) Source: City of Imperial Beach FY 1999-2008 CAFRs				
Fiscal Year	City Annual Required Contribution (ARC)	EPMC	Total Pension Costs	Ratio of Total Pension Costs to General Fund
1999	\$165,305	\$141,885	\$307,190	5.02%
2000	\$93,038	\$158,370	\$251,408	4.78%
2001	\$0	\$166,898	\$166,898	2.47%
2002	\$0	\$188,895	\$188,895	2.67%
2003	\$0	\$192,912	\$192,912	2.54%
2004	\$53,647	\$203,969	\$257,616	3.20%
2005	\$261,166	\$214,640	\$475,806	5.30%
2006	\$407,728	\$205,971	\$613,699	6.83%
2007	\$698,643	\$124,161	\$822,804	8.86%
2008	\$756,893	\$128,704	\$885,597	9.71%

Note: Law enforcement contracting costs have not been included within General Fund amounts.

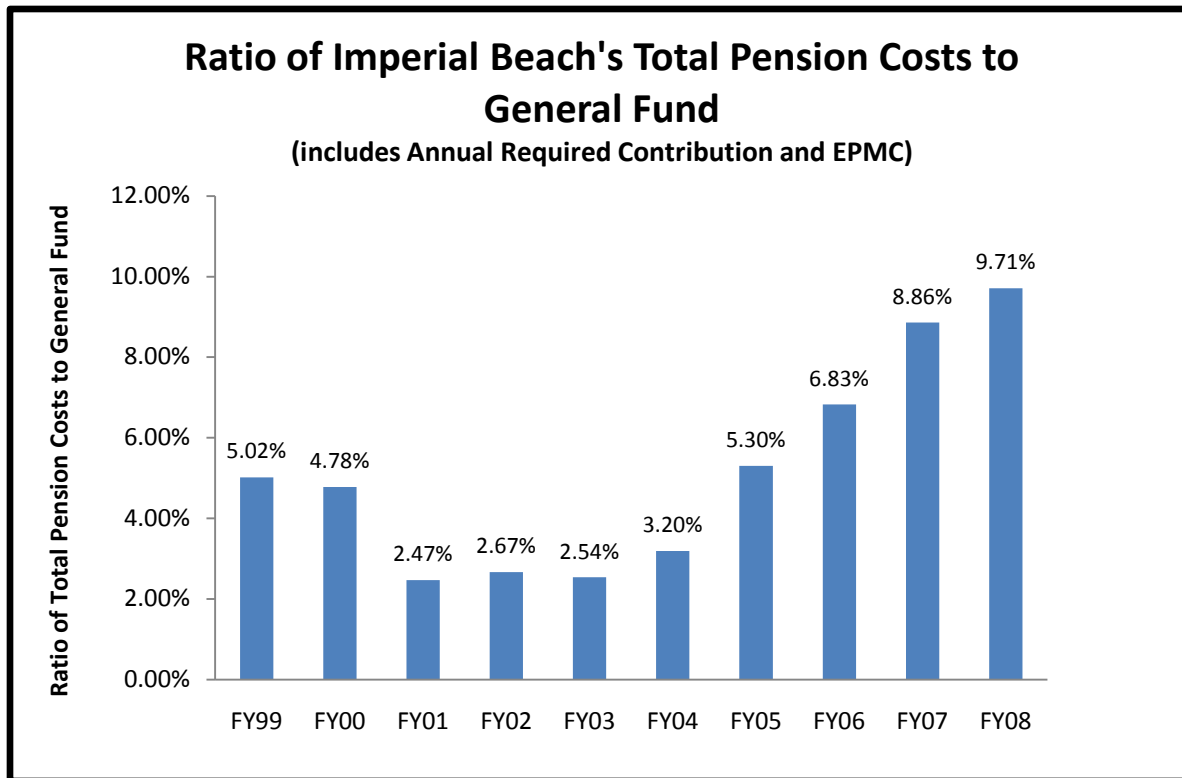
When adjusting for inflation, the city's total pension costs have experienced average annual increases of nearly 13% between FY 1998-1999 and FY 2007-2008. During much of this time, the city's pension fund was super-funded (where assets far exceeded liabilities), which meant that the city had a very low payment on its required contribution to CalPERS. During this time, however, payment toward EPMC did not stop.

Imperial Beach contracts with the County for police law enforcement. As a result, the City indirectly contributes to the San Diego County Employees Retirement Association (SDCERA) pension program.<sup>20</sup>

*Figure 6: City of Imperial Beach's Total Pension Costs*

<sup>20</sup> The San Diego County Employees Retirement Association (SDCERA) is an independent association established by the County Employees Retirement Law of 1937. SDCERA provides retirement and associated benefits for eligible employees of the County of San Diego and is responsible for collecting, depositing, investing and managing the retirement funds





Source: City of Imperial Beach City Financial Statements, FY 1999 – FY 2008.

For a more comprehensive look at public pensions in the region, please review SDCTA's Phase I report issued in October of 2009.

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