July 15, 2014

City Manager’s Adopted Budget Message

Honorable Mayor and City Council,

While interested observers throughout the United States watch, the City of Bell – its City Council, citizens and staff – are creating the “New Bell.” The legal system has punished wrongdoers, a firm financial foundation has been established, and we now work to complete the phase of transforming the organization into a model of good government.

Fiscal Year 2015 marks our step into a new direction of financial and economic development planning. Only a few short months ago, the City collected $5.7 million in legal settlements from those who did wrong to our community, $4.8 million from the liquidation of an illegally-devised supplemental retirement program, and $15.2 million from the sale of valuable land adjacent to Interstate 710. In all, this $25.7 million one-time infusion of cash has created an enviable General Fund reserve position of approximately 188%.

With such an abundance of General Fund reserves, the City of Bell finds itself in a unique position of purchasing power that will likely never occur again. In this light, serious policy discussion took place during FY 2015 budget preparations concerning a spending plan supported by limited application of reserves. Guided by a desire to achieve a balance between re-investment in our City and the maintenance of a high-level of set-aside reserves, consensus was established to engage a three- to five-year period of “managed structural deficits.”

So it is that the FY 2015 Adopted Budget possesses a structural deficit (that is: an imbalance between income and disbursement) of $1,481,029. The imbalance is attributable to permanent addition of $633,803 in personnel costs owing to the expansion of staffing by 8 full-time positions and the permanent addition of $147,000 in operating costs. At the same time, FY 2015 will see the application of $708,400 in one-time expenditures for technology acquisition, capital improvements, and critical consultant assistance. (These one-time costs will be removed from the Budget in FY 2016).
Although we operate in relative financial freedom, the flip side to our expenditure plan is the commitment we have made to aggressive pursuit of economic development. The Rizzo administration ignored this obligation; their creativity was applied to schemes designed to enhance their pay and benefits.

Our economic development efforts, some of which are underway at this writing, seek to close the gap on the managed structural deficit within five years.

This a new departure for all involved. But continuation of a bare bones organization, one that offers little in the way of improved or enhanced services to our residents and visitors, and one that does not aggressively seek to grow the commercial tax base, is the lesser alternative. We cannot cut our way to future prosperity and service excellence. The only way out of the economic hole that the City is in is to grow our way out.

The General Fund Five-Year Financial Forecast (see Appendix) offers a model for our future. It demonstrates that deficit spending will be reduced from $1,481,029 in FY 2015 to $306,220 in FY 2019, a point at which the General Fund reserve position will be 158%.

We are beginning to come to terms with the new normal in the New Bell. Optimism is ours.

Respectfully submitted,

Doug Willmore
City Manager
May 21, 2014

Honorable Mayor and City Council,

Last year I introduced the Budget Message with literary reference, quoting Charles Dickens from his work *A Tale of Two Cities*. It was, last year at this writing, the best of times and the worst of times as we continued rebuilding after the Bell scandal. Today, with myriad, fast-paced events unknown to other cities behind us, including the conviction and sentencing of the criminals that formerly directed the affairs of our municipality, the City of Bell organization operates in the best of times -- and possesses the brightest future -- having achieved complete financial recovery.

During FY 2014 the City collected $5.7 million in legal settlements from those who did wrong to our community, and $4.8 million from the liquidation of an illegally-devised supplemental retirement program. We also collected $15.2 million from the sale of valuable land adjacent to I-710, avoiding, at the same time, a potential $15M deficiency judgment in the Dexia Credit matter that threatened our solvency. In all, this $25.7 million one-time infusion of cash has created an enviable General Fund reserve position of approximately 188%. We enter FY 2015 in possession of great optimism for our future.

On behalf of the employees of the City of Bell and the Executive Management team, I am therefore proud to present the Proposed Budget for the 2014-15 Fiscal Year. This budget reflects the programs, projects, and activities that will help fulfill the City Council’s goals.

**Building on accomplishments of Fiscal Year 2014**

The City has accomplished much in FY 14. Accomplishments include:

- Completed the FY 2011, FY 2012 and FY 2013 audits. Getting the audits up to date is an enormous accomplishment and the single most important financial objective that the City had. In addition, completing three audits in a little over a year’s time is an unheard of accomplishment in local governance.
- Dexia bond workout – completing this settlement agreement saved the City from a potential deficiency judgment of up to $15M, as well as started development on dormant City property, thus generating revenue and jobs. We expect 500,000 square feet of new space will be complete by October 2014 and hope to have 350 new jobs in that space. Again, this is a significant accomplishment.
• Financial transactions up to date – a year ago, many financial transactions were behind. For example, bank statements had not been reconciled for more than two years. Virtually all transactions have been brought up to date in almost all areas.
• Expanding Community Services programs for youths, adults, and seniors with almost 1000 more participants in City programs compared to the previous year.
• Significant increase in building activity city-wide.

Priorities for Fiscal Year 2015

• Successfully complete scandal related litigation.
• Complete and implement a plan for downtown economic development.
• City-wide economic development on blighted lots and pockets.
• Generate new tax revenue from new development.
• Neighborhood and boulevard beautification and improvements
• Financial management – install new financial management software; train and audit to new controls, procedures, and processes.
• Long-term strategy for the Bell Police Department.
• Create and implement a strategy to eventually make Bell the greenest City in LA – trees; cleaner water and cleaner air; renewable energy that saves our citizens money; and better, cleaner transportation options.

By the Numbers

The City’s Finances are complex. Revenues and expenditures of the City are accounted for in thirty-six different funds. The Summaries Section of this document provides charts and tables that condense the budget, summarizing from revenue and expenditure perspectives. This message will focus primarily on the City’s General Fund and Risk Management Fund (because the Risk Management Fund is supported solely by the General Fund).

General Fund and Risk Management Fund

Our objective continues to be that of normalizing the General Fund and Risk Management Fund. The City has undergone such shocking changes, imbalances, events, and pressures that it’s still difficult to know what will be “normal” going forward. Completing four financial audits within a sixteen month period has brought us to a place where we now know what assets and liabilities we face.

It helps immeasurably as well that the majority of scandal-related activities -- lawsuits, investigations, etc. – are behind us. The criminals that formerly directed the activities of our organization are going to prison, and we have received $10.4 million in settlements resulting from their activities that bolster General Fund reserves in a manner never seen in this community’s history.

For all practical purposes, the financial activities of our General Fund and Risk Management Fund are one and the same. This so because the Risk Management Fund, having no dedicated
source of revenue, relies 100% on transfers in from the General Fund to meet the expenditure obligations of our liability and workers' compensation programs. This year, the General Fund will transfer in to the Risk Management Fund $1,047,248.

**Economic Outlook**

We are all aware that the Great Recession is over. Many, however, are not experiencing marked improvement in their economic conditions. Recovery has been slow, and many have been left behind. Others have abandoned the hope of meaningful re-employment altogether. Last year at this time Bell's unemployment rate was 12.3%, the County of Los Angeles' rate was 9.3%, and California's was 9%. Today, Bell's rate of unemployment is 11.7%, the County's rate is 8.8%, and California's is 6.7%.

California's recovery lacks consistency across geographical regions and key economic indicators. Regions that are home to high-technology, high-wages, and export-driven industries have fared better than others. Venture capitalists are returning, stimulating the high-technology markets. Many other areas of the State are still affected by weak housing markets and public sector financial difficulties. Labor markets, as referenced above, are making slower and less stable progress, and thus hold consumer confidence in check.

There are positive indicators, on the other hand. The Bandini development (Bell Business Center, 490,000 square feet), has stimulated development fees, and business licensing activity is holding steady.

In addition, the almost 500,000 square feet of new development that Pacific Industrial has started on the Dexia property has also generated significant development fees and is expected to bring tenants with 350 long term jobs into their space.

**Challenges We Confront; Responses We Make**

Every year many issues struggle for attention. A summary discussion of some of the more significant issues that face Bell follows. The list is not ordered by priority.

- **Abundant General Fund Reserves** The $25.7 million dollars collected in FY 14 in settlement with the criminals that damaged our community and a land sale are important one-time events in this community's history. Within a 10-month period our reserve ratio went from -10% (as measured at June 30, 2013) to an estimated 188% at this writing. We find ourselves in a unique position of purchasing power that will likely never occur again. How we apply what we have in reserves will be an ongoing matter of policy consideration. There is not a "right" response to this positive dilemma, but we will be guided by a desire to achieve a balance between re-investment in our City and the maintenance of a high-level of set-aside reserves.

- **Managed Structural Deficit** We solved a $1.2 million structural deficit last year by making hard choices. Now, with so much in our General Fund reserves, we chart a
different course, that of applying a portion of our reserves to ongoing operational costs over an approximate five-year period. We have added to the service quality of the organization with additional positions (HR/Risk Manager, Economic Development Analyst, Housing Manager), capital infrastructure investment, and important new contracts for service (e.g., fixed asset inventory, internal auditor). The City of Bell will not become a model city government with further cost reduction; we run a bare bones operation now. We expect to employ aggressive economic development strategies, some of which are already in progress, to create a five- to seven-year return on the managed deficit spending. As I have stated to you before, “we cannot cut our way to prosperity.” Thus, the only way out of the economic hole that the City is in is to build our way out.

- **Retirement Fund/Pension Contributions Costs** The obligations owed or promised to public workers in California are growing, and likely unsustainable without cash flow improvements in the present.

The City of Bell took action in FY 14 to create cash flow improvements. At the beginning of the year, only executive staff paid 100% of the employee contribution. Following successful labor negotiations in FY 14, the City’s two labor groups will pay their full share of the employee portion in FY 15.

This said, two threats lie before us. First, CalPERS recently published financial projections relative to proposed risk pooling changes. The combined impact to our Safety and Miscellaneous plans in the proposal suggests a $499,000 contribution increase within the next six years. The proposal equates with a devastating 33% increase in cash contributions annually.

Second, the State Department of Finance, conspiring with Los Angeles County, have implemented an unexpected, unilateral cash takeaway from our pension override levy proceeds of $900,000. Each has a confused interpretation of redevelopment dissolution law. This hits us hard; we will carry a deficit position in the Retirement Fund until matters are resolved. While we feel good about our chances to recover these “takings”, it is uncertain. First, we are pursuing legislative options to right this wrong. If that is unsuccessful, we will recommend to the Council that we consider litigation options. In the absence of remedy in our favor, the General Fund will be required to make up the accumulated deficit and future shortfalls in the Retirement Fund.

- **Aggressive Economic Development** While Rizzo and his cronies gave great time and effort to schemes designed to enhance their paychecks, the City of Bell’s commercial infrastructure was ignored, and surrounding communities advanced as retail providers. Today, as a result, the City’s General Fund is extremely dependent on an abnormally high 10% utility users tax. We are proposing increased funding for economic development in the FY 15 Budget – with the addition of an Economic Development Analyst -- because the City has to grow its commercial tax base if it is going to sustain a managed structural deficit, lower taxes, and grow the services that citizens want. Again, we have to grow our way out. In the many discussions that we have had with analysts
and developers, we believe that we have development opportunities that will grow our commercial tax base. But realizing those opportunities will take investments from the City.

- **Uncertain outcomes in lawsuits and regulatory investigations** While the majority of the legal wrangling in the post-scandal environment is behind us, the City is still responding to requests for information in ongoing investigations by the IRS and SEC. Each of these entities is highly-secretive about their investigations, making estimation of any future liability difficult.

- **Higher than normal legal and litigation costs** Cities that have engaged bankruptcy protection (Vallejo, Stockton, San Bernardino) confront dilemmas of economic sustainability that, fortunately, Bell does not face. Rather, resolving issues related to the Bell scandal calls upon legal resources. Toward this end, spending on legal fees has been a central component of annual budgets for more than three years. We believe the heaviest spending to be behind us, and have endeavored to reduce City Attorney costs this year. We recognize, however, that these matters are fluid in nature and that additional resources may be called upon.

- **Infrastructure Improvements for the Community** We work in an era of reduced funding for all things governmental. But even before we got to this point, we, like all governments, faced great challenge in bringing together adequate financial resources to maintain and restore streets, roads, alleys, sidewalks, etc. The useful life of much of our infrastructure – largely established during the mid-20th Century – is coming to an end. We recognize that keeping pace, much less catching up, is a formidable task. In the FY 2015 Budget, resources from Proposition C and Measure R, as well as new grants, have found application in various projects designed to improve streets and transportation amenities.

**Expenditure Highlights and Changes**

**City Manager’s Office/Personnel** During FY 14 a Human Resources/Risk Manager position was added to the City’s table of organization, replacing approximately $100,000 in contract costs for two third-party consultants. The net increase in funding to take an important step forward in administrative management is $26,000.

**City Clerk’s Office** The City will have a general municipal election in March of 2015. Accordingly, $140,000 in election expenses have been placed in the Clerk’s budget. Also, the purchase of automated agenda management software and related microfiche technology has been budgeted. Part of this technology initiative will also see the purchase of iPads for City Council use at public meetings.

**City Attorney** Resolving the myriad legal complications of the Rizzo era came with expensive disbursement for legal services. And the results speak loudly for themselves: we collected $10.4 million in settlements in FY 2014. So it is that costs for legal services have been a central component of annual budgets for more than three years. We believe the
would also spend 25% of their time training and supervising existing code enforcement personnel.

**Community Services Department**  The Community’s desire for expanded recreational programming has been unequivocal. We have, in response, added resources to create enhancement. A Recreation Program Coordinator and various part-time positions make up personnel additions that will expand youth sports programming, expanded park staffing, adult sports and senior activities. Given an expansion in revenue of $60,000 resulting from the new position, the Program Coordinator addition adds net cost of only $17,171.

**Capital Projects**

The infrastructure of our community will benefit from $5,464,300 in street improvements, $885,000 in park and facility improvements, and $250,000 to be applied toward sewer and sidewalk enhancement. Sources of funding are special revenue and grant funds.

The Community Development Department manages capital improvements made in our community, or for the benefit of our other departments. A detailed listing of projects can be found in the Capital Projects section of the budget document.

**Changes in Full-Time and Part-Time Staffing**

- An Administrative Specialist is proposed to see to the administrative affairs of the five-member City Council. Added cost is $77,831.

- The Finance Department proposes the addition of full-time Office Technician position in exchange for its part-time Office Technician position. The exchange adds $24,419 in cost.

- The Police Department proposes adding a Seargent position and an Officer position to enhance in-field resources. Added cost is $275,262.

- The Community Services Department proposes expanded recreational offerings through the addition of a Recreation Program Coordinator, with net cost, after new revenue resulting from the position’s duties, of $17,171. Also evident is slight expansion in part-time staffing.

- The Community Development Department suggests the addition of a Code Enforcement Supervisor position, at cost of $122,553, in order to accomplishment the community beautification and economic development objectives of the City.
Looking Ahead

First, we remain committed to completing all scandal related cleanup and legal issues. This allows all of us to look forward. Our future lies ahead of us, not behind us. While it is important to complete the past, we don’t want to live in it. Thus, we want to be able to put the community in a position of being able to spend all of their efforts on planning for and building a future, not on dealing with a past that is best left in the past. While we remain committed to this goal, the future is uncertain – there are ongoing legal issues that the criminals who were in office continue to bring up and we have to deal with them when they do.

Second, while we want to rebuild the commercial infrastructure and tax base of this city, the outcome is uncertain. The prosperous future of this City depends on it, but every City is competing for retailers and developers and development money. The City’s ability to be successful in this regard will help determine the kind of future that Bell enjoys.

Third, the State and the County have apparently decided, for the moment, that they should determine what to do with a portion of Bell’s retirement money, and not the citizens of Bell. Despite the citizens of Bell voting for a levy to pay exclusively for City-related retirement expenses in 1944, the State and County decided that they should take a piece of that revenue and directly thumb their nose at the will of the voters in Bell. The ultimate determination of who gets to keep that $900,000 in annual revenue will be very important for Bell and our future.

Fourth, our CalPERS rates will adjust (both up and down) in the future and what those rates are will have a significant impact on the budget. The City’s rates will adjust downward when CalPERS does a new actuarial study for the City. They should perform a new actuarial analysis once all of the cases are resolved regarding the past City executives and employees who were receiving excessive compensation. When they do a new actuarial study, our rates should come down slightly because they will no longer be based on the high salaries that certain individuals in the Rizzo regime were receiving. However, as I stated previously, CalPERS has also informed every PERS member agency that they expect rates to increase up to 50% over the next several years. As our retirement costs are presently funded, this increase would be unsustainable.

And, finally, our residents feel the burden of abnormally high utility users tax rates and abnormally high property tax rates (primarily due to general obligation bond debt). Unless we are able to grow the commercial tax base over the coming years, there is no way to reduce any of the high rates that the residential sector has been carrying.

Conclusion

The great Scottish Himalayan explorer William Murray once wrote: “Whatever you can do or dream you can, begin it. Boldness has genius, power and magic in it.” After navigating turbulent waters, the City of Bell finds itself at a time in our history, when I say it is time to be bold. We have unique opportunities – to rebuild, to rebrand, to recreate – a City that was once the leader of the southeast LA County, to being the leader of Southeast LA County again. For the first time
in many years, the City of Bell can truly say that our future is what we make it – our future is in our hands.

To lead this region once again, we have to face forward. And, it will take all of us – a visionary Council; involved and responsible citizens; a risk-taking and growing business sector; and, dedicated and committed employees – to rebuild, rebrand, and recreate Bell’s future. While the future is uncertain, I am certain that if all of us remain committed and if we act boldly, that we can create a masterpiece.

Respectfully submitted,

[Signature]

Doug Willmore
City Manager