

State of the City

Mayor Bill Kampe, Pacific Grove, February 18, 2014

Good evening Ladies and Gentlemen and thank you for joining me here this evening to review the State of our City. I'm going to discuss our circumstances in three parts. In the first part, I'll step back from the day to day challenges, and remind us of some of the virtues of our city, and some of the recent improvements we have seen. In the midst of day to day struggles, we can lose sight of why we live in a very privileged place, and it is important to refresh that memory.

Second, I'll describe actions the city is taking on some of our top priorities. And finally, I'll touch of some additional current topics that I suspect will be of interest to many of you.

Quality of Life Aspects

Let's start with some of the things that make the quality of life, and our enjoyment of our city, so special. Our shoreline is the finest city shoreline in the state of California. It continues to define our city as a front row seat over one of the most productive marine ecosystems in the world. Our Hopkins Marine Station was the first marine research institution on the West Coast and it drew and anchors the highest density of marine biologists anywhere on earth.

The harbor seals will soon deliver pups on the Hopkins beach, and on nearby beaches. Last year we had contention about the best measures to protect the seals. We now have a seal ordinance that spells out what measures the city will take, balancing protection of the seals with the protection of access for people to other beaches. Some seaside communities with their own seal challenges are now looking to Pacific Grove to learn what they can from us.

Along our shoreline at Lovers Point, we have the new Beach House restaurant bringing both residents and visitors a superb experience. Alongside it, we have the new Stillwell Children's Pool, so the next generations of citizens can learn to swim. Incidentally, the High School has just opened a new pool that can serve an older crowd beyond the tadpole stage.

Our library has tuned up its operations and found a way to extend its hours. Inside you will find a more open and inviting layout, while outside, the landscaping is improved to allow more light and visibility into this cultural anchor point for our city. Note the new paint job as well.

The museum has doubled attendance, and runs programs on Science Saturdays that enchant children from around the Central Coast. The Monarchs are back in town, and the docents in the Sanctuary will gladly help you spot them.

We have also recently tuned up the tree ordinance to fix a gap and protect some of our larger trees. The bigger changes earlier still give property owners more discretion on their properties than in the past, and I believe we now have a much better balance than a few years ago.

Almost every day, my wife and I wake up and think how wonderful it is to live in this amazing community. It continues to be this special place because of so many citizens and city employees who have worked hard to make it this way. That work continues, and we face some challenges.

Top Priorities

So I'll move to our top priorities as a city. The priorities are Water Supply, Pension Costs, Business Vitality, and Infrastructure Maintenance.

Water

Let's start with Water Supply. The peninsula is very short of water. So pray for rain, lot's of rain. The Carmel River, our primary source, is overdrawn. The State Water Resources Board has ordered that we reduce pumping from it dramatically by 2017. We cannot conserve our way out of this situation. Even if every residential household were to reduce water usage to 35 gallons per person per day, there would not be enough water for all residents. And there would be none for businesses.

We need new water sources. When we look around, there is simply nowhere to find new river water or fresh ground water. The mayors of the six peninsula cities formed a Monterey Peninsula Regional Water Authority (MPRWA) to pursue new water sources. The mix of approaches on the table now includes four elements. Aquifer Storage and Recovery (ASR) is in use today. It takes seasonal peak flows from the Carmel River and injects them into an aquifer for later recovery. Next, the Pollution Control Agency is pushing ahead with Ground Water Replenishment (GWR). GWR will take wastewater, treat it an extra step, and inject it into the ground. When it flows further through the aquifer, it can be recovered to supplement our supply. In Pacific Grove we have started the Local Water Project which will take wastewater and some storm water then treat them for non-potable uses. That water will go to keep our golf course, cemetery, and other landscaped areas green and free up potable water. Because of this local project, we are a direct party to proceedings before the CPUC.

Then there is the major part of the plan, and that is desal. Without a desal component to the plan, the peninsula will be constricted by lack of sufficient water supply. In the early stages, there were 3 projects in contention. CalAm moved very quickly to bring the technical and management resources forward to start its water project. The MPRWA continued to explore all three projects. For the CalAm project, there had been two major concerns. The first is how the project will be governed, including significant roles for the elected officials of the Peninsula, and second is the question of cost. The governance issue has been addressed by the creation of a joint governance committee with representatives from the Mayor's JPA, the County, the Water Management District, and from CalAm (non-voting). CalAm at first

was reluctant, but now has agreed to operate in cooperation through that committee, and has recently found that there are real benefits from this cooperation.

The next challenge is the cost of water. No matter who does desal, it will be more expensive than what river water has cost in the past. Part of the cost of delivered water is the financing. To minimize overall interest rates, CalAm has agreed to take a public contribution of about \$100M at low interest rates. Senator Monning has introduced legislation in Sacramento to make this possible. There are still some details to work out, yet the MPRWA and CalAm have made significant progress.

I should point out that the CalAm plan will use subsurface slant wells at the edge of the shoreline for a water source. This approach is strongly preferred for environmental reasons. Even with the subsurface design, CalAm faces hurdles for the permitting process. The other two contending projects propose open ocean intakes.

The good news for Pacific Grove is that our Local Water Project may lead the pack. It can be the one early project that shows the determination of our Peninsula to find new water solutions.

Pensions

Court Decision

We are again seeing a citizens' initiative on pensions. You may have heard of the recent court decision that requires the city to put the initiative on the November ballot. It's going on the ballot, and you will be voting.

History

I'll first give bit of the history. Pensions have long been a hot topic in Pacific Grove. And pension costs are a growing concern across California. In 2008 a council measure went to the voters to ask if we should get out of CalPERS and adopt 401K-like retirement benefits. That measure passed, but was advisory only, and offered no method for implementation.

In 2010, a citizens' initiative was enacted by the Council. That initiative attempted to limit city contributions to CalPERS pensions to 10% of payroll. A related measure was offered by the council as a companion measure to clarify employment at will in Pacific Grove. Measure R was passed by voters. But both the citizens' initiative and the Council measure were overturned in court.

Action Plan

Since then many citizen and council discussions have explored possibilities on how to reduce our pension costs. In 2012 a council subcommittee developed a 7 point pension action plan, and we have pursued each of the elements. Four of the items require collaboration with other cities. In spite of the wide spread effect of pension costs on California city budgets, it is hard to find individuals willing to come forward for joint action. The one connection we have formed is with a San Jose sponsored statewide initiative. I am one of five signature sponsors of that initiative. It seeks to allow more flexibility on pension plans, on a prospective and negotiated basis.

We also included action items that we may be able to achieve locally. One of those involves negotiation with our employee associations.

POA Agreement

Several months ago, we reached a new agreement with the POA, and it brings a very important element. As part of the agreement, the police will now pay for 50% of the “normal cost” of the CalPERS contribution. That’s 8.91% extra, in addition to the standard employee contribution of 9%. Both sides brought things to the table. I feel that as citizens we must applaud our police officers for acknowledging the circumstances of the city, looking at the future trends for pensions, and reaching this agreement. We are now at the forefront among central coast cities, along with Scott’s Valley, Capitola, and Salinas, for taking decisive steps to reduce pension costs.

Initiative to Voters

Now we come back to the current citizens’ initiative. It seeks to declare “void ab initio” the 2002 contract the city signed with CalPERS to provide an enhanced “3% @ 50” benefit for public safety employees.

The city council felt that the retroactive declaration is a judicial decision, not a legislative action, and therefore not a legitimate topic for a ballot initiative. On May 15 of last year, the Council moved to seek declaratory relief in court with a 6-0 vote. The judge has now issued a decision that the measure must go on the ballot. In fact, Judge Wills’ commented on the initiative that “this [initiative] has grave doubts.” He did say that some aspects of it may be legislative, and that the voters should have a chance to speak before a court decides.

The effort to roll back the clock seeks to “claw back” 2 things. It seeks to recover the lump sum starting costs of the 3% @ 50 contract, and it seeks to gain back the annual cost over and above the previous contract. Please keep in mind that the old contract had costs, and what we are talking about are the *incremental* costs of the new contract.

Seated at the Front Table

We have passed the point of simply “making a statement” or “sending a message”. We are now talking about real consequences. Every citizen is now at the front table for this critical decision. Collectively we will be responsible for the full consequences.

Framework for Decision

So how should we look at the consequences? I see three elements: 1) the possible benefits, 2) the costs to gain those benefits, and 3) the likelihood of success. Let’s look at each in turn.

Potential Benefits

When we talk about the cost of pensions, we have to remember that it includes both the General and Miscellaneous employees as well as public safety. Further, only some portion of the public safety costs come from the 3% @ 50 enhancement. That applies to our Pension Obligation Bond and to our annual contributions. Understanding just how much is at stake will be an important part of the picture.

Costs and Effort Required to Achieve Benefits

At this point, it is not clear just what costs and efforts will be required. Certainly it involves action of some sort with our retirees and with CalPERS. They have not yet been part of the dialog and they will certainly have strong views.

Likelihood of Success

We have heard opinions in the past about the chances of success for this path. We will certainly have more understanding before the initiative comes to a vote in November. We should note that Judge Wills reminded all parties of vested rights based on the Pacific Grove case he decided recently.

Many points of view

There will be many perspectives on how to assess the factors for this initiative. I urge every citizen to become fully informed on this important topic.

Business Vitality

Now let's move on to something different, and with the potential to give us visible results. The situation is simple. Our city retail businesses are struggling in our downtown, and in some other areas. We need to create better reasons for people to visit Pacific Grove. And we need to make it easier for businesses to open up in Pacific Grove.

Here are some of the things we have done:

We extended parking hours downtown for the holidays so customers had more time to shop, and we have now made that permanent.

We are now using Open Counter, a software program that aids a new business with the permitting process on a one-stop basis.

We have simplified the Sign Ordinance for our downtown. The new ordinance makes the process of getting a business sign permit clearer, less expensive, and faster.

The Economic Development commission has produced an excellent list of initiatives for our city. One of the first projects is for directional signs so visitors can find our businesses more easily.

We also have a small Downtown Working Group that has visited a number of other cities to gather ideas that might work for PG. We see exciting possibilities for our downtown. Our basic assets are solid, and selected enhancements can decisively improve the experience. This effort is a longer term program, yet can dramatically improve our downtown streetscape – more comfortable, safer, and more memorable.

Infrastructure

Over the past couple of years, we have at last begun to repair our streets. That follows several years where virtually nothing was done, and our streets showed it. We continue to make progress to upgrade

our sewer and storm water systems. We have a dedicated funding source for sewer repairs, and that has been essential.

We have a new sewer pump station at Hopkins, and I'm sure that people who use Ocean View Blvd. are pleased to be able to do it again in both directions. We have now completed our compliance with the ERF versus PG consent decree.

In the lower level of the Beach House, we now have new bathroom facilities at Lovers Point. The old dilapidated restrooms are gone, and the park looks better.

There are some very nice plans for improving both the appearance and the traffic safety at the entrance to PG on Central Avenue. Grant funding will be an important part of that project.

We have been adding and rebuilding sidewalks to improve the walkability of our city. The school district has been a big help in this area, working with the city to create safe routes to school.

Yet all of these efforts highlight a core fact. We are not yet able to invest at the level we need to maintain our infrastructure properly. Further, the coming demands for storm water management will be a huge challenge and will require some creative effort to find funding and to find pragmatic solutions. With that thought in mind, let's move to the budget.

Other Current Topics

Budget

The budget is a topic every year. In some ways we have made substantial progress. We are restoring the essential operating reserves. In fact we will not have to take a loan this year to pay the big city bills. Over the past several years we have needed either inter-fund loans or Tax Revenue Anticipation Notes to tide us over until our property tax money comes from the county. It's good to have some breathing room.

Still, we have to look at every possible savings. There are some fundamental reasons for that, and they have been evolving over the past 40 years. All of us know of Proposition 13, and we are so thrilled that it protects us from sharp rises in our property tax. We need to remember the companion piece of the proposition – let's squeeze our government so they don't waste taxpayers' money. Well, the squeeze is here. It's here for Pacific Grove, and the squeeze is here for cities across California.

The result is that we have had to look at every aspect of our City operations and ask "Is there a better way?" There are two basic approaches. First we can seek operational efficiencies in sharing services with nearby cities. Second, we can look to find private companies to perform services where there may be a clear advantage. Our city has aggressively pursued both.

We have already partnered with other cities for a number of services, including police operations, fire services, building inspection, storm drainage, protection of the Bay, and refuse collection.

We are currently looking at a list of other services that may be performed if we partner with the private sector. One of the top candidates is for the marketing, operation, and maintenance of our golf course. Our city employees have done a very excellent job on many aspects of golf operations. Players report a warm and friendly staff and great scenic values for a small yet challenging course. We find greater difficulty for the rate setting and marketing expertise needed to achieve the potential of the course. The course can be and must become an asset to all citizens of Pacific Grove, and not just to those who enjoy the very low resident prices per round.

We are also looking at the potential for outsourcing selective other functions including sewer maintenance and street striping.

Changes of this type are unsettling for the city employees. They are unsettling for our residents. The Council and the City Manager do not approach these decisions lightly. I believe, and I know our city manager believes, that we are nearing the end of this quest to find savings in our city operations.

Staffing Situation

In fact it is essential that we reach a more stable situation for our employees. Many of you are aware that we have lost a number of employees from our city staff. We have a thin staff to begin with because our budget has not allowed more. Recent departures have left some critical gaps.

The priority is clear and straightforward. Hire the people we need. The city manager presented the situation at our last council meeting and the conclusion was just that – hire people, and quickly.

Now there can be many reasons why an employee leaves. Sometimes the circumstances are very personal to the individual. Sometimes our work environment is a factor. And sometimes our compensation and benefits may not be competitive.

Whatever the circumstances, I suspect that the employees who are here have a simple and urgent plea – “Get us some help, quick”. The 3 core jobs currently vacant are Finance Manager, Community and Economic Development Director, and City Clerk.

In the meantime, I will also urge that our city manager and my colleagues on the City Council look closely at the task list on the city’s plate, and suspend desirable but discretionary projects until we have the staff to support them.

Civil and Constructive Dialog

Finally, I want to comment on the dynamics of our Council. I have heard in the past that our citizens want a more civil and constructive dialog in City Hall. I feel incredibly privileged to be a part of this current council, because I believe we have gone a very long way to achieve that. Our city staff has

worked very hard to give us action items that are well developed and can lead to constructive results. I thank those many members of the public who have come forward to engage in the issues before us. While the public has brought its passions, we have seen some of the most informed, helpful, and constructive presentations at the podium over the past several months. With the best from the public, the staff, and the council, we reach better outcomes. You have made a difference, and a very good one.

With that thought of appreciation, I urge everyone in this room to continue to focus on how we can make the best possible future for Pacific Grove and for all of us who live, work, and visit here.

Thank you.