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A Fiscal Analysis of the City of Del Mar

The Good, the Bad & the Ugly

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By

TaxpayersAdvocate.org

www.taxpayersadvocate.org

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Key Findings

Del Mar's Fiscal Condition--The Good, the Bad and the Ugly

The Good: Excellent Revenue Growth

The Bad: Chronic over-spending across the board

The Ugly—Unfunded Infrastructure Needs

Executive Summary

Despite strong and consistent revenue growth, The City of Del Mar has increased General Fund spending over 104% in the last ten Years. These City Council approved spending decisions have resulted in Del Mar facing the prospect of significant financial problems in the years ahead. It is very likely that Del Mar will face “structural deficits” in the near term.

Del Mar’s General Fund infrastructure backlog is estimated at over \$122 million, but infrastructure spending has decreased from \$1.3 million in 1996 to just over \$1 million in this year’s budget. But most significant is the fact that even as the need has increased significantly there is no viable funding strategy to handle the projects.

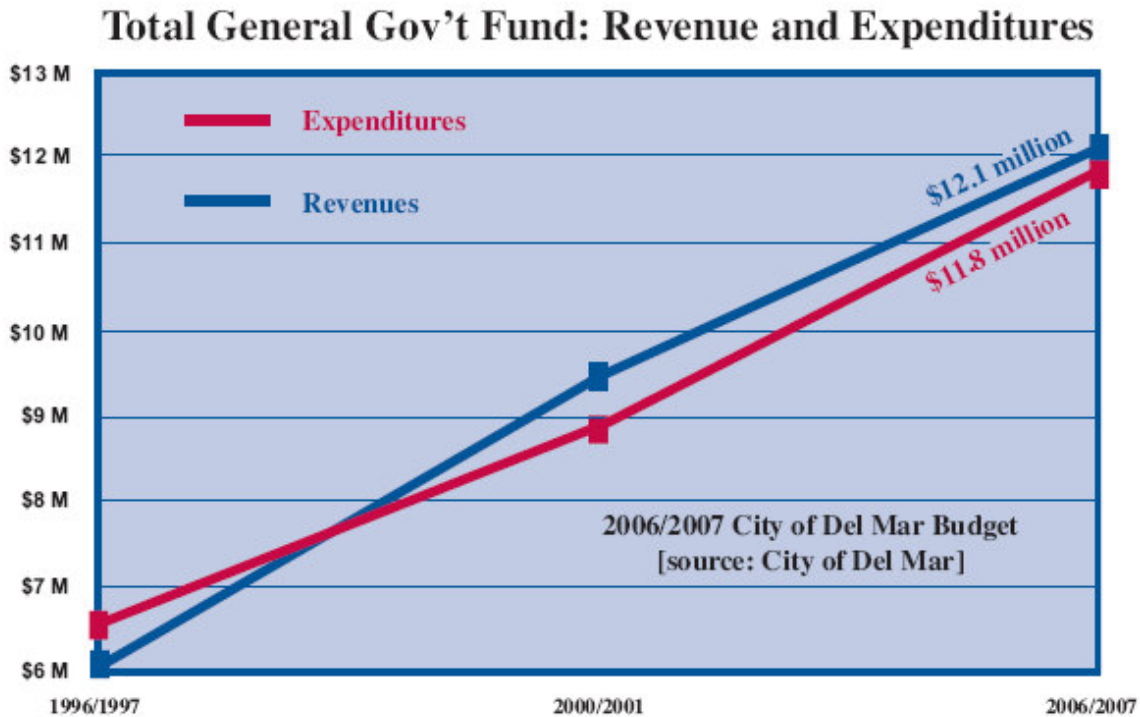
TaxpayersAdvocate.org wishes to thank the City of Del Mar and the Del Mar library for its prompt responses for documents requested.

The attached graphs and charts are all based on data derived from official city of Del Mar budgets and documents.

(Chart best viewed in color)

2006/2007 Revenues: \$12.1 million

2006/2007 Expenditures: \$11.8 million



A fiscal analysis of the City of Del Mar: *the Good, the Bad & the Ugly*

The Good: Revenue Growth

Revenue Growth

The City of Del Mar has consistent and strong historic and projected revenue growth. Del Mar's revenue growth over the last decade has been strong across the board. However recent flattening of sales and hotel (TOT) tax revenues are a concern.

General Revenue Growth

In the last decade, Del Mar's General Government revenues have more than doubled from \$6,082,114 in 1996 to a projected \$12,133,723 in this year's budget. An increase of 99%.

General Fund Taxes and Fees

Major tax revenue categories have grown 96% in 10 years with property tax growing at 143% from \$1,201,013 to an estimated \$2,914,300 this year.

Sales tax grew at only 29% due partially to the static state of Del Mar's business community. But it should be noted that this slow down was also a result of sales tax funds "diverted" from the City to the State of California along with reductions in the Vehicle Licensing Fee (VLF). However, this year the City of Del Mar will receive an estimated \$770,000 in property tax to make for these diversions. These replacement revenues will continue.

The other category of anemic growth was in Hotel Tax (TOT) growing only 3% in the last five years. This year's TOT is projected at \$1.6 million. With more competition from surrounding markets and *without* more hotels being built in Del Mar, this growth will continue to be tepid.

Del Mar expects to increase Facility/park use permits to \$400,000 in this year's budget and in recent years has started charging for its highly successful Junior Lifeguard Program – estimated at \$395,000 this year and well as an estimated \$75,000 from Surf Camp permits.

The Bad: Del Mar over-spending across the board

As noted above, Del Mar has had very healthy revenue growth over the last decade. However, Del Mar's seemingly out-of-control spending has more than matched revenue increases. The last five years has shown a significant spike in on going spending, (as opposed to one-time spending such as infrastructure which has declined.) This excessive spending indicates that without either significant cuts in on-going expenses (personnel) or increased revenues, Del Mar is facing severe financial problems. Structural Deficits (on-going revenues covered partially by one-time revenues) are likely to shortly occur if this trend is not reversed.

Spending Increases 104%

In the last decade, General Fund spending has increased 104% (vs. an increase in General Fund revenues of 101%) and Total General Government Spending has increased 81% with most of the spending increases in additional and expanded departments/programs, and inflated personnel costs) at the expense of vital infrastructure projects (see next section)

City Council Increases Spending as Del Mar's Population has Slightly Decreased

Del Mar's population has not grown and has actually slightly decreased in recent years. However, the City of Del Mar significantly increased its functions. Some have argued that these additional activities are due to State and Federal mandates, but the evidence suggests that except in Clean Water Act requirements, (in which new revenues essentially cover the costs) most of the increased spending has been initiated by the direction of the City Council, not as a federal or state requirement.

City Hall Department Costs Growing

It is clear that much of the Cost increases have been in City Hall. City Manager, Clerk/Information Systems, Finance and Planning/Building Services have had significant growth. The combined costs of these departments are projected to be \$2.56 million in the 2006/2007 budget. This does not include City Hall facility costs estimated at over \$150,000 this year.

Management Salaries/benefits Top \$1 Million

The Combined Salaries of City Manager, Assistant City Manager, Chief Lifeguard, City Clerk, Public Works and Planning Director is: \$1,048,215. (Excluding Fire Chief which is shared with Solana Beach)

Staff Salaries \$3.16 Million in 2005/2006 – Benefits 35 to 49%

In last years budget FY 2005/2006 total non managements salaries, including part time and seasonal employees, (excluding Sheriff and some contract employees) was \$3,169,641 Of this \$529,332 was for seasonal/part time employees and \$293, 615 was overtime. Benefit calculations for full-time employees represent on average, 35% of regular salary for non-safety employees and 49% of regular salary for Fire employees.

Public Safety

The most significant cost increase has been in the Public Safety areas, Police, Fire and Lifeguard/Beach services.

- Law Enforcement

Being a contract city with the San Diego County Sheriff's Department, the City has little control over salary and benefit increases related to the Sheriff's contract. The city's only function is to determine the level of law enforcement

\$1.5 million is budgeted for this year's Sheriff's contract, plus an additional \$170,000 in supplemental law enforcement focused on the beach areas.

Del Mar Should seriously consider studying the formation of a municipal police force joining with Solana Beach, Encinitas (and possibly Carlsbad) to see if more focused enforcement for less dollars can be achieved.

- Fire Department

Fire Services have essentially doubled in ten years with the same level of protection, from 996,624 in 1996 to 1,828,114.

- Lifeguard Services

The most significant public safety increase has been in Lifeguard Service, with costs increasing 242% in ten years from \$306,837 to \$1,048,081 in this year's budget. It should be noted that the Chief of the lifeguard salary is paid from the Community Services budget.

Planning/Building/Housing

In a community which is built out and has in fact lost population in the last decade, Del Mar's Planning Budget has increased from \$464,869 Planning to just under \$740,000 (Del Mar expects to recoup \$234,300 in planning fees this year.)

When Building Services at \$230,000 and Housing \$110,000 (both of which are fee based) is added, Del Mar's Planning, Housing and Building services are projected to be over \$1 million this year.

City Clerk/Information Systems

The city clerk has doubled in 10 years from \$150,000 to over \$300,000 (excluding elections.) However this increase is dwarfed by the growth of Information Services which is overseen by the City Clerk, which was \$37,000 in 1996 and \$396,000 this year.

Community Services

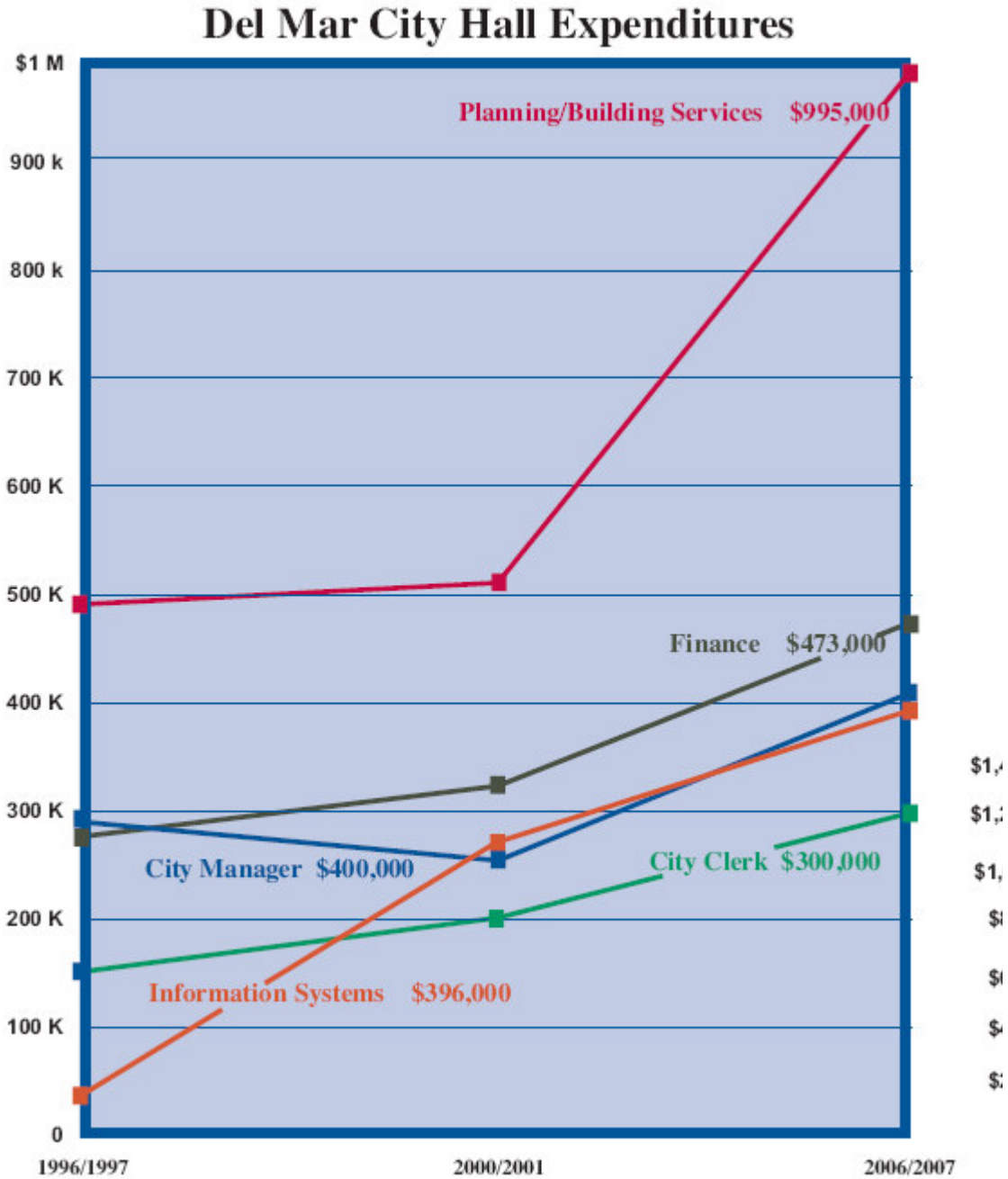
Community Services spending more than tripled from \$89,758 in 1996 to \$295,843 this year.

Finance

Finance grew from \$264,746 in 1996 to \$473,003 this year

The bottom line is that Del Mar’s costs for essential public safety services (with the level of service in Fire and Sheriff remaining essentially static) have increased astronomically—primarily due to personnel costs. Del Mar also chose to increase its programs in various non-public safety areas, along with significant salary and benefit cost increases. In spite of significant revenue growth, these policy decisions have resulted in Del Mar facing the prospect of significant financial problems in the years ahead.

(Chart best viewed in color)



Source for all charts: City of Del Mar

The Ugly—Del Mar’s Infrastructure Needs

Capital Improvement Projects (CIP)

Del Mar’s ticking time bomb is its un-funded infrastructure needs. As Del Mar has shifted more funds to personnel costs, it has reduced its general fund supported Capital Improvement Projects. (General Fund CIP is used for Streets, storm drain, sidewalks, etc vs. water and sewer capital projects which are usually funded out of the water and sewer “enterprise funds” from revenues derived from fees.)

In 1996 Del Mar spent \$1.3 million on General Fund CIP projects; \$1.6 million in 2000. This year the city will spend \$1,046,000 on General Fund Capitol Improvement Projects, funded primarily out of Gas Tax, Transportation sales tax (TransNet) and clean water fees.

\$125 Million in unfunded needs

According to a report issued by the City **June 1, 2006** its General Fund CIP needs are estimated at \$127.3 Million.

- | | |
|---------------------------------------|----------------|
| • Streets/Sidewalks and Storm drains: | \$55.7 million |
| • Park Improvements: | \$1.3 million |
| • Pathways: | \$3 million |
| • City Facilities | \$17 million |
| • Bridges | \$45 million |

Total General Fund – Un-funded CIP Projects	\$122.1 million
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A previous report indicated:

- | | |
|---------------------------------|----------------|
| • Water and wastewater projects | \$5.2 million* |
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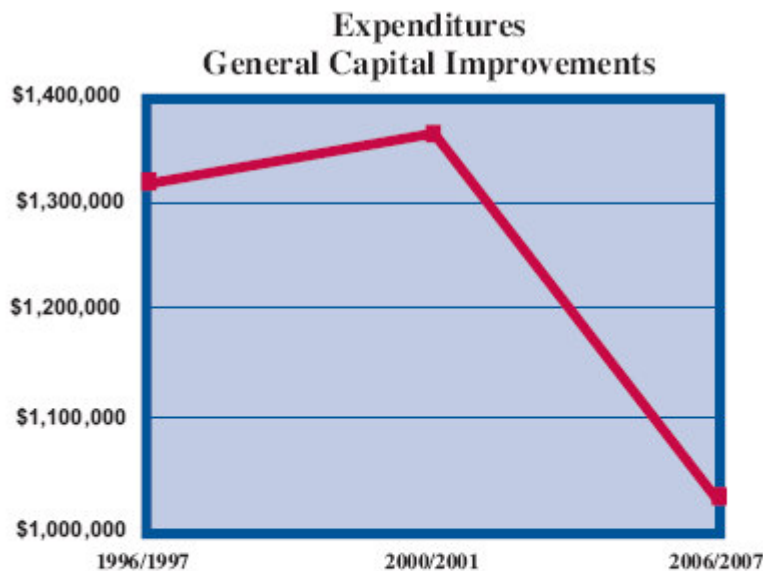
** Note: Water and sewer infrastructure projects are most-often funded by rate increases. However, it should be noted that Del Mar’s water and sewer fees are some of the highest in the county.*

Total Infrastructure short fall:	\$127.3 Million
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In 1999 Del Mar issued \$1.6 million in Wildlife Protection Bonds to upgrade its water system. These were paid for out of increased property taxes. Annual payments are currently at approximately \$150,000.

This June 2006 CIP report also states that as much as \$69 million could be covered by grants/donations. Given that in the last ten years, grants/donations have been less than \$1 million (excluding Del Mar library payments by the Lauberge Del Mar) and given the reduced Federal and State funds available—this assertion seems spurious.

But most significant is the fact that the need has increased significantly, and even though the significant backlog has been reported to the City Council by the city engineer as early as February 2001, there is no funding strategy to handle the projects.



Due to years of neglect, Del Mar faces \$120 million in un-funded streets, storm drains and other infrastructure needs, and over \$5.2 million in water and sewer improvements.

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For more information and detailed revenue/expenditure charts see: www.taxpayersadvocate.org

TaxpayersAdvocate.org

Formed in 2003, TaxpayersAdvocate.org a private, non-partisan fiscal watchdog organization based in San Diego and Sacramento. In addition to analyzing fiscal policy, ballot measures and legislation, TaxpayersAdvocate.org endorses candidates for public office in California.

Report Author

The principal author of this report was Scott Barnett, President, TaxpayersAdvocate.org. Scott Barnett has over 25 years of experience in public policy and budgeting. Mr. Barnett served on the Del Mar City Council from 1984 to 1988, was executive director of the San Diego County Taxpayers Association from 2004 through 2001 and formed TaxpayersAdvocate.org in 2003.

Charts and Graphs and Source Documents

The attached graphs and charts are all based on data derived from official city of Del Mar budgets and documents.

These documents include:

- Resolutions Adopting the FY 2006/2007 budget—June 2006
- FY 1999/2000; 2000/2001; 2003/2004; 2004/2005 & Budgets (Actual revenue/expenditures for 1996/1997 & 2000/2001 are included in these documents)
- 2005 Long Term Capital Improvement Program Needs
- June 1, 2006--Long Range CIP/Infrastructure Plan
- FY 2006/2007 Detailed Salary/Benefits Chart for Del Mar Management staff
- FY 2005/2006 Detailed Salary Chart for all non-management city employees
- FY 2003/2004 & 2004/2005 Comprehensive Annual Financial report

Appendix A

Excel Document with ten year budget trends and details

Power Point of Revenues and Expenditures