



Friends of Los Altos, Inc. (FOLA)

A non-profit, non-partisan, volunteer-run organization

The Three Musketeers—Los Altos Edition

Many of you will remember the story of the *Three Musketeers*, a novel by Alexandre Dumas. According to our friends at Wikipedia, *The Three Musketeers* is set in 17th century France and tells the story of heroic, chivalrous, inseparable swordsmen who fight for justice. The musketeers were inseparable as they traveled the French countryside, arm in arm. They are joined by a young man named d'Artagnan and they become involved in affairs of state and at the French court, triumphing over the forces of evil. A noble undertaking to say the least. Dumas frequently portrays various injustices, abuses and political absurdities of the existing regime in France, giving the novel an additional political significance at the time of its publication in 1844. The relevance of *The Three Musketeers* to this article will have to wait a bit. So please be patient and read on.

On January 18th and 22nd, the City Council held its annual retreat. Prior council retreats have used this event to set goals and aspirational principles for the upcoming year. But unlike in other years, the focus of this two-day meeting was to understand the City's financial situation, why the City continues to have deteriorating infrastructure, and to better understand the staffing issues facing the City that directly impact the ability of the City to operate. For some on Council, and for many members of the public, it was an eye opener, to say the least. For those of you who recall our recent article about Gabe Engeland, the new City Manager, we mentioned how he had discovered a number of skeletons in the closet. We predicted he might uncover more. Unfortunately, we were right – to date he appears to be a virtual ghost buster in the way he has uncovered skeletons. Engeland has ferreted out a rather astounding financial mess, deteriorating infrastructure and bad prior management that, combined, have led to a crippling staffing turnover and the inability to hire competent City staff.

Facts

First the facts. there is no question that during the past year the City has taken a number of positive steps.:

- Hired Gabe Engeland as the new City Manager
- Hired John Furtado as the Finance Director
- Extended the parklet program to help the downtown restaurants during the pandemic
- Set a multi-year commitment to improve the City's street repaving program as a prior Council had reduced the frequency of street repairs to save money so those funds could be used to help pay for the new Community Center

However, the City had a number of urgent issues, many of which only came to light as the new City Manager and Finance Director dug into City finances and operations:

- The City had what can only politely be called a \$4 million “oops”. First, City revenues were down largely due to Covid impacts (lower sales tax revenues, hotel occupancy taxes, and recreation fees than in the prior year) but several other factors, including failing to properly include some costs due to sloppy accounting, added to the problem
- Second, an accounting error that recorded the purchase of 999 Fremont in the financials as an asset to be liquidated artificially inflated the City’s available reserves by just under \$3 million. This was the largest part of the “oops”
- Revenues from property and sales tax were better than the conservative estimate for 2020-21, while sales and hotel taxes remained below pre-Covid levels.
- The City, like all other cities in the State, is at the mercy of Sacramento’s projections versus the actual real life investment results for City employee pensions. The actual pension liability went up by \$3.2 million in FY 2020-21 and remained unpaid at the end of the fiscal year.
- As a result of the above, the City significantly drew down funds for the CIP (capital improvement plan), employee benefits, and equipment purchases.
- Fortunately, the federal CARES program largely compensated for the lower City revenues last fiscal year. This still left the City with several millions dollars less than in prior years to spend on capital improvements, meaning that the budget for capital improvements was short by \$2 million and City reserves were under by approximately \$600 thousand.
- The spending of over \$37 million for the new community center, \$12M more than the Finance Commission had recommended, and taking on a \$10 million loan (with a \$600K per year repayment over 20 years) added to the financial strains on the City.
- The City still needs more than \$3 million to replace vehicles and equipment that are past their useful life with NO plan yet in place to do so. This unfunded list includes essential equipment to run the City including vehicles and emergency generators which are more than 20 years old.
- The outlook for 2021-22 is somewhat better since the CARES program will again make up for some of the lost revenues. Larger than anticipated increases in property taxes bring in more revenues as well.
- However, that budget does NOT include money essential for pension liabilities, replacement cost for vehicles and other equipment, nor for needed maintenance and upgrades to City-owned facilities in order to prevent further deterioration.

As Mayor Enander summarized, the City has an annual shortfall of at least \$4 million (relative to a normal, non Covid year) that needs to be addressed, and addressed in fairly short order. As of right now, that is the biggest problem the City Council and City Manager need to solve.

The City has a competent City Manager and financial staff, both of whom have the tools and discipline to manage the City’s operations efficiently, but that isn’t enough.

The bad news is that the City has experienced a 25% per year turnover of staff, leaving the City with half of its employees who have a tenure of less than 5 years working for Los Altos. At present the City has a total of 17 open positions, many of those in the critical areas of finance and community service positions such as planning, which directly impact the City's ability to operate. Of those open positions, 6 were on hold for at least the past 2 years due to budget constraints. The prior City Manager, Chris Jordan, made a decision to not staff a number of those open positions, in part as a way to justify and fund salary increases for himself and City staff.

Our Assessment

It would be easy to dismiss the mess the City currently faces as the result of Covid. Unfortunately, it isn't Covid alone, though certainly the pandemic laid bare some of the more egregious problems facing the City. Due to what can only be termed sloppy and incomplete accounting combined with poor tracking/reporting systems, the City hasn't had a realistic understanding of its financial condition in many years. While the City has always had clean audits and a "balanced budget", those supposedly positive assessments are almost meaningless when some key expenses are, for whatever reason, excluded. And while it is also tempting to ascribe the staffing issues to a range of circumstantial effects (the "great resignation", the frustration that staff feels by being given incomplete or inconsistent direction, poor facilities in which to work, etc.), these explanations fail to put blame where blame is due.

Many of us close to the City and its operations are aware that under prior City Managers, older, more experienced (and more expensive) employees were encouraged to leave, in part because they didn't agree with some of the things they were asked to do, and in part because those city managers saw replacing them as a means of saving budget.

On a positive note, not all of the departures were necessarily cause for alarm, however. While we lament the loss of employees who brought institutional memory to the job, there were numerous employees who left in the past 12-24 months who, sad to say, really did not bring the level of knowledge, expertise, enthusiasm, dedication, and understanding of how Los Altos operates to their jobs. We believe that Gabe Engeland has the potential to attract and hire a cadre of highly qualified people and provide the necessary management to ensure their success.

The fundamental problem now is how to catch up on long delayed, ignored or hidden City needs which require spending. The reality is that the City has insufficient funds to cover essential equipment, facilities, and unfunded pension liabilities. And solving this issue requires a plan and the ability to solve problems that demands discipline and creativity. While we believe that City Manager Engeland has the ability to prioritize and manage, we don't believe that some on City Council have the discipline needed to say "no", or "not now", to spending money on unbudgeted projects.

These Concerns Were Sounded Before

Many of the issues that have now come to light are not new. Both Council member Lee Eng, Mayor Enander, and members of the public, have raised concerns regarding multiple issues, especially related to spending, during their tenure on Council. Yet, year after year, the majority

of the Council has ignored the concerns-about City finances, the concerns of (and about) the prior City Managers, and how money should be spent. We hear from residents that often times they (the residents) feel that the members of the Council (by which we mean the three musketeers – not Lee Eng and Enander) were ignoring them, treating their concerns in a paternalistic way, and not working together in a collaborative manner.

But here is the sad truth. While the changing cast of the three musketeers on the City Council was defending prior City Manager Chris Jordan, and ignoring concerns about spending raised by Lee Eng and Enander, it turns out that the Council minority was correct. While the majority has changed over time, the majority were more often wrong than right about the things that Lee Eng and Enander have raised as concerns. The icing on the cake is that now Engeland has shed further light on these problems which, now, he and the Council must fix.

We aren't suggesting that Council could or should have known about all the problems. No one person can have perfect real-time insight into problems that may occur in the future. But we are deeply disappointed by the way the majority of the Council has ignored the residents and fellow Council members who have raised legitimate concerns, most of which have turned out to be real issues. Additionally, the Council as a collaborative entity must make an honest effort to give the new City Manager enough room to run the City. Over the past decade this Council and prior Councils have been in a mode of micro managing the City Manager under the guise of "setting priorities". This was, at times, Council's attempt to fix the problems caused by poor management of the City. Now that we have a competent, experienced, and well-intended City Manager, Council needs to leave the day-to-day management to our City Manager.

Our take

The Council has heard the bad news. It isn't clear that a majority of the Council has understood what it really meant. The City has a significant shortfall in revenues now and through the foreseeable future. From our perspective, the City needs to get its house in order before tackling other projects. While we appreciate that more can be done on the environment, more can and should be done on housing, and that for some it would be wonderful to have a downtown theater; we firmly believe that this is not the time to address those issues. The City must first have a fiscally feasible and responsible plan to deal with pension and infrastructure funding deficiencies. Unless and until the City's finances and operations are righted, any other non-essential projects will require the minimum of effort, not the maximum. Remember what they say when giving the safety announcement on airplanes: put on your own mask before helping others with theirs. We hope the majority of City Council takes heed to those words.

And for the three musketeers? We read the novel, we cheered them on; we want our three musketeers to live up to their literary characters. And if they cannot, we need to make changes at our next election of Council members.

And that is the way we see it.

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