



January 1, 2024

RE: The Future of Benicia

Dear Fellow Benicia Residents,

I hope you and your family had a joyous holiday season and enter the new year with a sense of brightness and hope. I have had the great pleasure to serve as City Manager, both in an interim and permanent capacity, for the past 9 months. As a near life-long resident of Benicia, graduate of Benicia High School, and father of two sons who attend Joe Henderson Elementary School, it is truly the honor of my life to serve as the City Manager of a City for which I care so deeply. I want to take the extraordinary step to write a letter to each Benicia family to share with you the unique importance the year 2024 will be for Benicia's future. Let me note from the outset that this is a rather lengthy letter. I am most grateful for your time.

As you may be aware, the City of Benicia has, for the better part of a year, been highlighting to our community our challenge of a structural financial imbalance. Simply put, for many years our expenditures have outpaced revenue. This trend will only become worse without action. I want to use this letter as my best way to speak directly with each of you to explain our situation, what we are doing to address this challenge, and how you can shape the future of our City.

FIRST, I want to describe the problem. We are working to close a financial deficit for our next budget that will be adopted before July 1, 2025 (the City has two-year budget cycles). As of today, our target is to eliminate a deficit of approximately \$6.5 million. This is an ongoing deficit. Meaning that we can't just reduce one-time costs or apply one-time revenue to retire the \$6.5 million deficit. Rather, we must identify a combination of both cost reduction and new revenue that will address this issue for years to come. Also, for many, our budget challenge may appear to be new or "all of a sudden". Yet Benicia has been on this collision course for quite some time. For well over a decade, we have forecasted expenditures outpacing revenue. Why have we waited so long to contend with this issue? Keep reading, I'll touch on that question in a few moments.

SECOND, why are we in this predicament? Often in times of financial difficulty, our minds race to scandal or mismanagement. We are quick to point a finger at some past group as the cause of our current problem. That is not the case here in Benicia. Our situation is that we are a built-out community with limited locations for new development. We are operating in 2024 with an economic foundation from the 1990s. The explanation of our economic issues is quite simple: we do not have the economic tax base to support the level of services we enjoy and have come to expect. Here are some very key facts:

- ❖ **Benicia's population is in decline:** In 20 years our population has increased by less than 100 people and now we are seeing a loss in population.
- ❖ **Lack of new development:** There have only been 4 new commercial/industrial buildings constructed in the last 15 years.
- ❖ **ALL of the property tax revenue in Benicia isn't even sufficient to pay for public safety costs:** Each year, Benicia's proceeds from Property Tax is \$21 million... the cost for our Police and Fire services costs the City \$26 million each year. This fact comes as a great surprise to many considering the high cost of housing here in Benicia. But the City only receives 26 cents on each dollar of property tax. To put this in perspective, if tomorrow 71 brand new houses, each valued at \$1 million, magically appeared in Benicia, and then sold, the City would then see a 1% increase in property tax revenue, approximately \$200,000...that's all.

- ❖ **What about revenue from existing businesses?** The vast majority of our Industrial Park is comprised of warehouse space (4.3 million square feet). Those businesses produce no sales tax and very few jobs. In fact, of the over 500 businesses in our Industrial Park, only a few (less than 20) produce significant sales tax (i.e. more than \$50,000 per year). What about Valero? Indeed, Valero pays more taxes than any entity in Benicia, paying a substantial amount of property tax and utility user tax, and is an anchor tenant for other businesses. But the revenue from these taxes cannot keep pace with the cost to operate the City.
- ❖ **Benicia has very little retail sales opportunity.** It comes as no surprise to our residents that there are few shopping opportunities here in town. So much so, that Amazon is a top sales tax producer for Benicia from all the package deliveries to our homes.

The value of highlighting these facts is to illustrate Benicia's unique economic landscape as compared to other cities that have a broader tax base. It's different here in Benicia. As a resident, I think that is a good thing. I love the unique qualities of this town, our rolling hills, abundant open space, 28 parks, our own library, swimming pool, community center, and our commitment to health and safety...but these services are not free. There is a cost of these qualities that our local economic structure cannot sustain. It is now incumbent on us to address this issue and shape our future.

THIRD, how are we going to address this challenge? The solution is rather simple, we need to take the following three actions: 1. reduce expenses, 2. increase local revenue (taxes), and 3. facilitate new development. I firmly believe that only a combination of all three of these actions will preserve the present quality of life we enjoy and secure the future we desire. The degree to which we do or do not do each one of these actions directly influences the depth and consequence of the remaining actions. Let me provide some clarity and context for each of the necessary actions.

In the last 9 months, the City has moved to reduce staff, cut programs, and delay projects, saving millions of dollars. The most consequential of these savings is the reduction of 10 positions, saving over \$1.5 million on an ongoing basis. Yet, when one speaks of reducing City staffing it is important to begin the discussion with some context. The City of Benicia is a full-service City. This means we have our own police, fire, parks, recreation, library, water, wastewater, and public works services, in addition to internal operational services of human resources, administration, and finance. There are only a few cities in all of California that provide all these services. So, when one compares Benicia's workforce and budget, it is vital to keep that top of mind; comparing our City with other cities of similar population size is not an accurate method of comparison. That said, our current 2023-2025 budget has approved a full-time workforce of 232 employees. Following the adoption of the budget, I moved to eliminate vacant positions and collapse upcoming retirements so that by July 1, 2024, we will only have 222 full-time employees. For perspective, we have 49 staff members in our Police Department, 38 in our Fire Department, and 50 members solely dedicated to our water and wastewater operations. This leaves 85 employees to serve all other functions of the City.

The City of Benicia is a service industry and with most industries of this type, it is people that deliver those services. As such, it is staffing that is the largest expense for the City. Benicia is now at a junction in our history, due to circumstance and situation, which necessitates a reduction in staffing. To be clear, this is not a short-term fix. Meaning for the next few years, we need to continue to work to reduce the number of employees that provide services. Regardless of additional local revenue (new taxes), a continued reduction of staff is required (the degree and scale of staff and service cuts, however, will be dramatically different with the passage of additional local revenue).

It's just simple math. The cost of staff is growing at an exponentially faster rate than the City's ability to generate revenue. Indeed, the cost of City employees is expensive. The average City employee salary is approximately \$108,000 and yet Benicia continues to fall further behind the market when it comes to employee salaries. On average, we are 15% below market, some positions are 20+% below market.

So, cutting salaries as a method to address the budget deficit is an impractical approach. The only option is to have fewer employees. Which means changing our service model.

The degree to which we reshape the manner and type of services and programs delivered to our community is directly related to the amount of local investment the community is willing to make. This is the second phase of our resiliency plan, increasing local revenue. No one likes to pay more for anything, in particular taxes for services one is already receiving. Yet, as described above, our economic base is not structured to keep up with costs. This makes it incumbent on those who derive the benefit of a service to pay more for those services. The most effective and efficient manner to do this is to expand our tax base on multiple fronts.

This March, the City has placed on the ballot for your consideration two tax measures. The first is Measure A, the Hotel Tax. This measure would increase the tax paid by hotel guests (and guests of vacation rentals) from 9% to 13%. This measure would generate approximately \$250,000 a year in new revenue. This is only a modest amount of new money, but it is designed to be a good source of additional revenue in the future if a new downtown hotel is constructed. The other initiative is Measure B – the Public Safety and Essential Services Measure. This measure would increase our sales tax rate from 8.375% to 9.125%. If passed, it would go into effect on October 1, 2024. It would generate \$5.4 million per year and would be the substantial step to preserving many of the services that we enjoy today. For perspective, today if you were to go out to dinner in Benicia and your bill was \$88.50, the tax you would pay would be \$7.41 (of which the City of Benicia only receives \$1.88). If Measure B passes, then the tax you would pay on that meal would be \$8.07, an increase of \$0.66 cents.

Now, I want to be abundantly clear on two major points related to the effort to increase local revenue. First, the measures in March are just the first steps. In order to address the variety of needs in our town, including roads, parks, and facilities, we will need additional measures in November of 2024, 2025, and 2026. We are all aware of the millions of dollars in infrastructure needs in our community that have been neglected for far too long. It is neither popular nor easy to tackle these issues, but it is my job as your City Manager to be forthright in our challenges and lay a plan on how to finally address these issues. This leads me to the second major point. If we take the necessary steps to invest in ourselves, then we will do more than just preserve what we have but in years to come will be able to enhance our services and surroundings. The best of Benicia is ahead of us if we choose that path.

Looking ahead, the final element of our resiliency plan is to do what we can to facilitate smart development. The only way we can sustain our services and have new amenities is to have a combination of new housing and commercial and industrial development. In the past 18 months, the City has already done the following:

- Eastern Gateway (Completed 2022): The rezoning and expanded opportunities for mixed uses in the area around Military East and East 5th Street, provide growth opportunities.
- Housing Element (Completed 2023): Identify and support Benicia's housing needs. New, affordable construction of homes of all types, will grow our tax base.
- Streamlined Design Review Requirements (Completed 2023): Design review will be simplified, saving time and money while encouraging investment throughout Benicia.
- Increase Downtown Height Limitations (Started 2023): Increasing the height limitation to spur the development of revenue-generating uses, such as hotels.
- Amending Zoning Regulations (Starting 2024): Eliminating out of date regulations to streamline commercial and industrial requirements, encouraging growth.

FOURTH, as we look ahead at shaping the future of City services in Benicia, it is essential that we have community input. Indeed, it is not an easy or enviable assignment to be tasked with prioritizing the services and programs we should retain and those to retire. But it is vital that as community members, we offer thoughts on what programs and services are most important. To that end, we have a series of opportunities to offer input this month:

Community Survey

January 15-26

In Person Open Houses

January 18 at 6 – 8 pm

Benicia Public Library

January 25 at 6 – 8 pm

Benicia Community Center

Virtual Workshops

January 17 at 6 pm

January 24 at 6 pm



BelieveInBenicia.org

I hope you make time to join us at one of these opportunities. Moreover, I ask that you encourage your friends and neighbors to be engaged. The future of Benicia depends on it.

Finally, let me return to the question posed earlier in this letter, regarding why we have taken so long to address these issues. Well, if you have made it to the end of this long letter then the answer may be quite apparent. The task before us is not easy. To fix our financial foundation requires a community to come together to exercise sacrifice, discipline, and patience. I am confident that if we invest in our community, if we **Believe In Benicia**, then we will overcome our challenges and secure a truly amazing and bright future.

Very Truly Yours,

A handwritten signature in blue ink that reads "Mario Giuliani".

Mario Giuliani

City Manager