

TO: Members of the City Council

FROM: John Buchanan, Councilmember  
Kurt Zimmerman, Councilmember  
Richard Mays, Treasurer  
Mike Comer, Citizen

George Enyedi, Citizen  
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Tom Janzen, Citizen  
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DATE: November 8, 2007

SUBJECT: *Ad-hoc Finance Committee Final Report*

### **Summary and Recommendations:**

The Ad Hoc Finance Committee (hereafter “Committee”) was charged with making recommendations to the City Council for actions to support future finance needs of public safety. To prepare for such recommendations, the Committee has reviewed budgets and numerous documents from the city administration and has heard presentations by city staff and experts outside of the city. The public was encouraged to give comments and suggestions throughout the process as well. Although the Committee did not set out to find inefficiency in the city’s budget, it is the belief of the Committee that the city cannot cut expenditures while maintaining the current level of service. Further, it appears that, other than a parcel tax set at levels higher than any considered by the committee, no single revenue source will be enough to cover the high end of the estimated public safety expenditures. In order to support operation needs in public safety, the Committee recommends the following:

- Raise the Utility Tax (“UUT”) limit from 6% to 12%.
- The Council should consider the political necessity of a sunset clause, although the public safety needs are not expected to subside.
- The UUT should be reviewed yearly at a City Council meeting to determine and explain what level of UUT will be needed (0-12%). The city should not collect above actual need.
- The City should add to any ballot proposal a companion advisory measure, as legally appropriate, to guide any increase in taxes to be spent on public safety.
- The Council and City should consider creative solutions for additional revenue or cuts in expenditures (see attached “Alternative-Ad Hoc Committee and Community Suggestions”).
- The Council should appoint a Citizen’s budget oversight and advisory committee.
- The Council should appoint a committee to evaluate whether City services can be delivered more economically or efficiently by changes in the current City operations.
- The Council should take immediate steps to coordinate public education of city finances and a possible ballot measure.

### **City Council Sought Community Input**

On July 10, 2007 the City Council formed the Ad Hoc Finance Committee, which was asked to do the following:

1. Find additional revenue to support operation needs in public safety:
  - a. EMS/Paramedic
  - b. Cost of Living Adjustment and Staffing improvements in Police Operations.
2. Make recommendations to the City Council on source of new revenue based on public support.
3. Make recommendations to City Council on how much revenue will be generated based on revenue recommendations and public support.

## **The Problem:**

Inflationary revenues have not increased on par with inflationary expenditures, and this trend is expected to continue for at least the next five years. Only a very small fraction of the taxes that citizens pay actually stays within the city, and this fraction has declined over the years. In addition, as specifically related to public safety, the Paramedic Program was added and funded through one-time sources that will not be available after the fiscal year ending June 2009. This will require \$424,000 in the June 2010 fiscal year which begins July 1, 2009. The pending Police Officer's Association Initiative ("POA"), if passed, will incur up to an estimated potential expense of \$1,243,000. The Chief of Police has requested an additional \$300,000 for staffing. These items total up to \$1,967,000 for police and ambulance service. There are many other demands that need to be met by the city but these issues are beyond the scope of the Committee (such as city streets, city administration, and the fire department). If projected increases in the cost of public safety services are not funded with additional revenue, the City will be forced to make severe cuts in services.

## **Findings:**

1. Revenue will not be able to support the existing City programs in approximately 2 years.
2. The reasons for the shortfall are
  - Certain one-time revenue sources will not be available beyond fiscal year 2008.
  - The cost of services is increasing at an inflationary pace of approximately 4.5% annually.
  - Revenue sources are growing at a slower rate than costs
  - The future budget must support a greater contribution to employee retirement obligations, healthcare costs, and adjustments to below-market salaries.
  - Expenditure cannot be further reduced if the City wishes to maintain current levels of services.
3. If the POA initiative passes, the budget shortfall related to this initiative alone will increase by approximately \$759,000 to \$1,243,000
4. The Police Chief recommends that the department hire additional staff to maintain a reasonable level of performance, and the cost to implement this recommendation is approximately \$300,000.
5. The paramedic program will require additional general account support of approximately \$424,000 (which includes the current General Fund subsidy).
6. Budget cuts will not deliver the magnitude of savings necessary to close the budget shortfall.
7. Volunteer service is important to the delivery of City services, currently constituting approximately 90% of the fire department operation. Additional volunteer contributions cannot reasonably reduce the financial shortfall and by definition cannot be relied upon for planning and budgeting.

8. Residential development at 1 Carter and Stonehouse will not add more than approximately \$100,000-\$300,000 to the City budget, and this will not occur before approximately year 2010-2015. Such gains will be offset to some degree by the cost to serve the new development. Increases in Property Tax apportionment will occur on assessment value of building. Land reassessment has already occurred. The current housing market instability makes projections difficult at this time.
9. Corporate and Foundation giving can be a source of revenue, but cannot be considered a reliable long-term source of revenue to support long-term delivery of services.
10. It is unlikely that there will be an increase in revenue from development of the commercial sector.

### **Summary of Committee Work**

Between July 26, 2007 and November 8, 2007, the Committee attended a series of nine bi-weekly meetings and hosted two weekend meetings devoted to public comments. The Committee received in-depth analysis and presentations by City Staff members, our City Attorney, City Department Heads, and other city representatives, on subjects such as:

- The budgeting process, “Budget 101”
- Sources of revenues in the General Fund
- General taxes versus Special taxes, with votes required for passage
- Assessment Districts
- Mello Ross taxes
- Bonds
- Infrastructure State Revolving Fund ( ISRF) Programs
- Information re City expenditures (consultants, professional services, other contracts)
- Information regarding use of volunteers
- Information regarding previous budget reductions and Community Budget Session.
- Cost reduction and cost allocation options
- Reduction and/or Elimination of public services, including consequences and costs of such action.
- Consideration of charitable contributions, sponsorships, donations, grants and outside revenue for the city.
- Potential revenue from the City-owned properties.
- Achieving community input and support
- Issuance of a Community letter

Studies were requested and submitted by staff (attached). Oral reports were made by public officials from neighboring communities.

### **Public Awareness and Participation**

Correcting revenue shortfall is completely dependent on public awareness, support and participation in the election to approve a new tax.

The Committee has sought to maximize public awareness and input by taking the following steps:

- Televising all meetings on SMTV Channel 3
- Made all agendas and presentations available on the City website([www.cityofsierramadre.com](http://www.cityofsierramadre.com))
- Sent out Community Letter informing the residents of the purpose of Ad-Hoc Finance Committee and providing contact information for each Committee member
- Informed residents through the Wisteria Vine and E-Blast press releases
- Received news press coverage in several local newspaper
- Held two Townhall public meetings
- State of the City presented by Mayor Joffe to Chamber of Commerce and Women's Club.
- Budget presentation by Director Schnaider to Kiwanis and Senior Commission

Two of those meetings were devoted primarily to soliciting public comment, and were scheduled for weekends in order to maximize public participation. Draft reports were prepared and made available for public review and comment before this Final Report was prepared.

### Options

The Committee has studied potential revenue sources as well as possible cuts in operating expenses.

In terms of finding credible revenue sources that are legal and can be relied upon from a budgeting perspective, the Committee narrowed the options down to a 1) utility tax 2) a parcel tax and 3) a list of community and Committee ideas generated over the course this project. The committee was unanimous in recommending options 1 and 3. There was no consensus for recommending option 2 at this time, but there was concern that shortfalls may still exist after the adoption of options 1 and 3 thereby necessitating the consideration of option 2 in the future.

#### 1. Raise Utility User Tax Limit from 6% to 12%

Add Refuse, Sewer, and Cable Utilities – potential added revenue of approximately \$1,500,000

**Pros:** All residents and entities in the city pay utilities. Require a simple majority to pass. Stable, reliable and contains a natural inflation factor. May have sunset clause added to initiative. Already has “extreme low income” factor. This may be modified to “low income”. Residents have some level of control over personal tax obligation as it relates to their consumption of each utility.

**Cons:** 12% utility tax estimates do not meet high end of safety expenditure estimates. Will not help to maintain general fund reserves. Various legal challenges ongoing regarding taxability of some utility services, such as cable and related phone services, which may affect the basis of services subject to a utility tax. Tax will come to City as a “General Tax” without special designation of use. (This last concern can be mitigated somewhat with a companion advisory measure as the committee has recommended)

#### 2. Creation of Parcel Tax

City Staff estimates potential revenue increase of \$ 1,800,000, which is based on 2.5 cents per square foot. It could have flexibility in creating a special tax allocation.

Annual Parcel Tax: a 10,000-square-foot lot would have an annual tax of \$250.00.

Pros: CPI/inflation factor may be written into initiative. May have sunset clause added to initiative. “Extreme low income” or “low income” factor may be written into initiative. Tax will have set designated purpose and could not be used for other city services. However, parcel taxes will “free up funds” in the general fund that were previously earmarked for public safety.

Cons: Religious institutions are likely excluded from tax. Required 2/3 vote to pass. This is of particular importance here as it must also be considered that the police initiative requires a simple majority vote whereas a special revenue tax would require a 2/3 majority. Renters will only see financial impact if landowners pass cost on to them. It may not be as equitable a distribution of tax burden as a utility tax since a large property owner who chooses to have a relatively small structure will be charged more than a smaller property owner who builds at maximum allowable levels. (This last concern can be mitigated if a portion of the parcel tax is based on the size of improvements on the parcel).

### 3. Public and Committee Options to Add to Revenues and Cut Expenses

There were numerous ideas brought up by the public and Committee. While individually they are not necessarily substantial, they can have an impact collectively. See attached “Ad Hoc Committee and Community Suggestions”.

#### **Public Support**

The Utility tax appears to have the best public support, although there was not a statistically significant amount of community input to gauge what would garner public support when brought to a vote.

#### **Conclusion**

In the end, whichever of the Finance Committee recommendation is adopted, it should be guided by the mission statement, well expressed by Don Hopper, ex-interim City Manager, “To keep Sierra Madre the way it is, that is maintaining our identity as a small town, while providing a broad spectrum of services”.

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*Alternative-Ad Hoc Committee and Community Suggestions*

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
Development of city property into revenue sources	\$0	Cities cannot charge more than the cost to administer. Development projects would put the city in the role of developer, for which it does not have the necessary resources. Developing city owned sites would require funding with possible revenue being generated several years in the future. There would be significant costs for the city to bear in the interim. It would put the city in a more precarious financial position at a time when city finances are in trouble. In the end, only the cost to provide the property can be charged.
Parking Meters	Unknown	Expensive initial purchase and maintenance. Parking would move into residential neighborhoods causing additional problems. Developing a parking management plan is a complicated, time-consuming process that generally requires significant capital investment. There may be alternative systems such as those used in Europe that are more cost effective and require less oversight. Would it cost more to develop, implement and maintain than it would potentially bring in? Would take at least two years to breakeven and require additional personnel to manage it. Would the city generate revenues above expenses and will parking meters fit into the character of Sierra Madre?
User Fees	\$0	City reassesses fees approximately every 5 years. Fees must be in line with the cost to administer that service and therefore cannot be a source of revenue. Fees will always have an offsetting cost. However, re-allocation of fees may help shifting budget items among funds with some benefit to general fund.
Charging for Fire, Medical, and Police Calls for activities that are determined to be Illegal	Probably Less than \$10,000	Would contribute something, possibly lower fire and medical calls, and likely be well accepted by citizens. However, administrative burden on fire and safety personnel will take time away from more critical duties.
Increase non emergency patient transport to market rate - if it is not now.	Unknown	Fees for EMS have been adjusted to similar levels of surrounding cities. In the end, it is not expected that program will be self sufficient based on these fees.
Mount Wilson Trail Race additional fee for providing EMS services	<\$1,000	Would contribute and raise the profile of the importance of EMS in the community. Approx 320 runners in 2007. If they were charged an additional \$3 for EMS to be available for the event, it could bring in up to \$1,000.
Property Transfer Tax	\$0	Can't increase because we are not a chartered city.

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
Outside Collector	\$0	If the city is not collecting all of its bills, it may help to outsource to professional outside collector. Library hires an outside service for collection. Parking tickets eventually go to the DMV for collection. No significant area of non-collection in the city. Currently, everything is with a collection agency that is worth collecting.
Create Fire Department and EMS Tax Exempt 501 C-3 Status Organization	Unknown	Allow for donations and actively seek them out. Allow donation of gifts and appreciated securities, selling of t-shirts to encourage citizen involvement. The Fire Department currently has a Tax exempt related organization that accepts donations.
Pursue FEMA/Homeland Security Grants/Other Grants	Unknown	City currently pursues grants. Grants must be considered carefully since they can only be spent as intended and may cause an ongoing maintenance cost to the city in the future that must be paid by the general fund. It may require additional dedicated personnel to more aggressively pursue grants.
Varying levels of membership in EMS/Fire - Premium level of membership	<\$10,000	The Fire Department could provide a premium yearly membership to families. It is hard to say how many families would pay extra for this service but it would bring in something, raise profile of the fire department, and increase home safety. Premium service could include annual home inspections, replacement of smoke alarms/batteries, heater inspection, brush clearance recommendations. It is very expensive to mail information on subscription programs to all the homes and may not provide additional revenue over costs.
Tax on coffee cups	Negative - \$60,000	Would either raise a little revenue for city or change people's behavior. The committee analyzed the publicly available financial statements of one of our towns coffee stores. The findings were that the store probably sold approximately 550 cups per day. If a \$0.10 city tax could be charged on each cup, this would bring in an additional \$20,000 per year per coffee store. That would generate an additional \$60,000 per year given the number of coffee stores we currently have in town. The actual revenue would probably be much less, particularly if the tax had the intended affect of causing people to bring their own cup. It is uncertain whether the city has the ability to develop and maintain such a tax collection and whether the cost to do so would exceed any benefit in revenues. Also, such a tax might cause additional burden on our local businesses which the citizens of Sierra Madre consider an important component of their quality of life.

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
Sales Tax Increases	Unknown, possibly negative	Sales tax contributes less than \$250,000 of the current \$6,000,000 general fund revenue. To increase sales tax revenues to a level which could significantly contribute to the city's revenues would require attracting a large retailer such as a car dealer or big box retailer. It is unlikely that Sierra Madre represents a suitable location from the retailer's perspective. The introduction of these businesses into town would cause increased demands to public safety, infrastructure needs, harm current mom and pop businesses and possibly reduce home property values, all of which may combine to raise expenses in line with the increased revenues. Most importantly, introducing these types of businesses goes against the character of Sierra Madre.
Streamline City Planning Procedures Related to Local Business Improvements	Unknown	It may be difficult for local businesses to get approvals to make changes to their store fronts or store interiors. This was not investigated by the committee but if there are unreasonable impediments, the City Council may consider fixing them. Doing so may help local businesses increase revenue or compete more effectively to keep business in town.
Increased Fees to Local Businesses	Unknown - \$80,000	Local businesses contribute in significant ways through donations, volunteerism, and providing goods and services for our residents. Local businesses are positively predisposed to donations of time and money rather than increased fees or taxes. It is very likely the charity mindset of our local businesses is greater than any increase in fees or taxes the city may collect. Downtown Assessment district already exists to maintain lighting, bow outs, and landscaping. However, the costs exceed the current assessment by approximately \$80,000.

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
Increased Overnight Street Parking	Unknown	Currently, a yearly street parking pass is \$75. This should be considered for an increase since it seems low given the burden on our already poor streets and reduced ability for emergency vehicles to move through town. However, the city may not have full control over setting various parking fees and should consult the relevant California Vehicle Code . Overnight parking in city parking lots is being implemented and will take one year to breakeven, and generate \$35,000 per year once it breaks even - already budgeted. Fee increase can require an expensive fee study. Must have proof that it matches cost. Fee study would cost money. Can't be much different than other cities.
Professional Volunteers	Unknown –cost savings possible	Sierra Madre has many residents who have high levels of experience and education. In cases where they are not coming into contact with private information, their expertise could help supplement our already burdened city staff. Example includes a committee to review outside consultant bids and performance..
Use of Consultants	Unknown –cost savings possible	The public has expressed concern that the city uses too many consultants. Citizens have also expressed a desire to lower costs through the use of outside consultants, such as in outsourcing police services. It is very common for cities to use outside consultants. The main reason is that there are mandatory functions that must be performed by a city where it is cheaper to use an outside consultant rather than hire a full time staff to meet the given need.
Cut Legal Fees and/or Hire In-House Attorney	Unknown	Many of the legal fees come about because the city is defending itself. It should also be noted that it would take a legal staff of several people to handle the different areas of law that the any city is faced with. The 2007-2009 budget already estimates lower consulting costs but elements of this cannot be forecasted and may end up being higher.

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
Multiple duties for city staff	Unknown	It was recommended that various jobs or duties could be further consolidated among the current people in city administration rather than hiring additional people. Although it is beyond the scope of the committee, it should be noted that Sierra Madre's administrative costs will not likely be a source to free up additional revenues since Sierra Madre appears to be more efficient versus surrounding communities such as Monrovia, Arcadia, Pasadena, and San Marino. Sierra Madre already has lower city employees per capita, lower fire expenditures per capita, and lower police expenditures per capita than these cities. It is therefore unreasonable to expect further significant savings from cuts. City staffing levels currently cannot operate at full staff if someone is out sick.
Use of special fund to pay more of administrative costs	\$80,000	City staff believes that all that things that can be reallocated have been. The only remaining unallocated costs would be less than \$80,000. It should be noted that there is an obligation of cities to pay some administration expenses out of general fund.
Cut Everything than can be cut	<\$1.2 mil	All library, public works, parks & recreation budgets would need to be eliminated. However, the costs to shut these down will have costs that will reduce any savings. Starting up these services later will be very expensive so that if funding later emerges it may be prohibitively expensive to bring back that service. The sad truth is that once a service is gone, it will likely be gone forever.
Cutting City Personnel Compensation	Unknown and unlikely	Recent studies have indicated that city administration jobs are significantly lower than surrounding cities. It will make recruitment and retention difficult at current or lower levels of compensation.

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
Property Boom will raise property tax Income especially with future sales at One Carter and Stonehouse	\$252,000	Property tax can only be increased when the property is sold or when significant assessable improvements are made on the house. Sierra Madre has a low turnover of homes, for example, approximately 120 homes were sold over the last 12 months for an average price of \$915,000. The city collects \$0.18 per \$1 in property tax paid (\$1,000,000 assessed property value will result in \$1,800 to Sierra Madre). If we aggressively assume Sierra Madre has 150 homes sold each year for \$950,000, with a cost basis of \$350,000, that will result in an additional \$162,000. The 2007-2009 prepared budget has already assumed approximately \$150,000 additional revenue each year for the next three years, an estimate that appears to be very probable. Not estimated in these figures are contributions from One Carter and Stonehouse. It would not be practical to include them in the budget since it is not known when they will be completed, or what price they will sell for. In addition, it will be at least three years before they are bringing in revenue, which is outside of the budget period. Nonetheless, if we assume a combined 50 homes are built and sold on those properties for \$1,000,000 each over the current assessed value, the total increase of assessed value is \$50,000,000 for additional revenue to the city of \$90,000. The total increase of revenue of all items discussed here is \$252,000. In fact, half of the properties in town would have to sell tomorrow at current average prices to pay for current estimated public safety needs. Note also that the real estate market is currently weakening and may not produce even what is currently estimated.
Cut Library Days Open to Three	Unknown	The need for some full-time librarians would continue for developing and maintaining the collections, maintaining the library information system and supervising part-time employees and volunteers. Therefore, contracting for services from Los Angeles County, another city, or private vendor would be an alternative to maintaining a City library if the community were to choose limiting public library services to 3 days per week. In January 2006, preliminary information from the County indicated that savings would not be realized if they were to meet the current level of services offered by the Sierra Madre Public Library. Reducing library services by more than 50% would require further study.
General Cost Cutting	Unknown and unlikely	The City appears to be very efficient versus other cities and therefore it will be difficult to find areas for further cost cutting. Nonetheless, it was recommended by the public that a cost cutting discussion be put on a future agenda by the city council or the ad-hoc finance committee.
Make Contractors register	\$0	This is already a requirement.

<b>Revenue Source</b>	<b>Estimated Revenue Contribution Above Expenses</b>	<b>Notes</b>
with city		
Volunteers	Unknown	Using more volunteers is difficult because Sierra Madre already relies to a great extent on volunteers. Also, there are many functions that are critical to the city and a volunteer may not be available as needed since they are not being paid.
Internet Revenue	\$0	We already get a per capita payment from Los Angeles County of approximately \$11,000 per year. Sierra Madre cannot charge additional to this.
Close City Hall every Friday	Unknown	It is currently closed every other Friday for most non-critical public related matters.
Tap into Water Special Fund	\$0	Continue to find general fund expenses that should be allocated to water special funds.
Create Water District	\$70,000	Can charge franchise fee. Would cost money and take time to set up. Eventually could bring in up to \$70,000.
Personnel Service and Analyst Could be one position	\$0	These positions already have other jobs. If the two positions were made into one, another person may need to be hired to perform those other jobs, eliminating any opportunity for savings.
Use Ebay for City Purchases	\$0	Sierra Madre currently uses Ebay for purchases and sales and considers its use successful. For example, an old fire engine and a used police motor cycle were sold on Ebay.
Push for more donations. Publish list of who donated.	Unknown	Although donations cannot be budgeted for, the City should continue to ask for donations. Those who donate should be recognized for their donation. However, this may have the unintended result of public ridicule to those who choose to be an anonymous donor.
Agendize Cost/Expense Cutting into Ad-Hoc Committee and City Council	Unknown	Explore further areas of cost cutting. Though this has not currently been assigned, it appears that the city is being run efficiently, particularly compared to surrounding cities. It would be a good idea to present these figures and also to allow the public to ask questions and have answers available at that time. It may be a good idea to address this issue on its own, at a different time as from the overall budget discussions.
Sponsor a Contest for "Best Plan to Improve City Finances"	Unknown	Ask local organizations or individuals to sponsor a competition for the best plan or idea to bring in new revenues or cut expenses. Colleges and Universities with city and regional planning courses could also be invited to join the contest. There could be two prizes, one for a person outside the city and one for a local.
Oversight Committee	Unknown	Another committee could be formed to review or help the city council review the budget from time

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
		to time. Although it may be difficult to find volunteers on a regular basis for such a committee, there could be merit in having someone focus solely on this critical issue. See also Professional Volunteers above.
Promote Local Business More	Unknown	There is currently a lot of effort to attract people to visit Sierra Madre. For example, there are many functions that bring people to town such as the Mt Wilson Trail Race, Wisteria Festival, 4 <sup>th</sup> of July Celebration, Huck Finn, Wine Walk, Pioneer Days, Friends of the Library Wine Tasting, British Home Faire, Sierra Madre Community Nursery School Carnival, Halloween Parade, and others. The Chamber of Commerce is also very active in these events and others. See also Sale Tax discussion above.
Job Sharing/Use of Part Time Employees	Unknown	Job sharing may lower personnel costs and widen the available pool of applicants. Part time employees will not be entitled to PERS (Public Employees' Retirement System).
Home Business Licensing	Unknown	Consider business license for home businesses that could also bring in sales tax revenue.
Outsourcing Police Services		
Evaluate lighting fees for tennis courts and baseball field, consider pay as you go device.	Unknown to low	
Provide economy car for city personnel to use when traveling out of town. "electric?"	Unknown	
Where appropriate, install motion sensors on city lighting so that lighting would only be on when citizens are present, this would also serve as an alert that someone is present.		

Revenue Source	Estimated Revenue Contribution Above Expenses	Notes
Establish water fees that would increase with increased usage		
Increase ticketing for moving violations		
Consider cooperative purchasing with other cities		
Switch city lighting to LED's where possible		
Establish an Explore program for both Fire and Police		
Evaluate Citizen Corps and Government grants for city safety, descriptions below.		
Gross Receipts Tax		
Merge with Another City to Share City Management	Unknown	Although financial savings are possible, these financial benefits are outweighed by the loss of control over land use and preservation issues to name just two issues. A merger with another city is probably only a competing option with bankruptcy and probably still less palatable. Better is identifying specific functions that could be shared with neighboring cities.