



IBA Review of Mayor's Five-Year Financial Outlook, FY 2013 - 2017

Budget & Finance Committee
November 16, 2011



Introduction

- Mayor's Financial Outlook for FY13-17 released on October 12, 2011
- Marks 6th Financial Outlook under current administration
- Continues to reflect General Fund deficits, though declining from \$31.8 million in FY 2013 to \$5.6 million in FY 2016
- In contrast with prior versions, Outlook projects a GF surplus of \$22.7 million in FY 2017



Introduction

- Improvement in General Fund financial outlook driven primarily by growth in major revenues
- Total General Fund revenues projected to increase by \$179.6 million or 15.9% over five-year period
- General Fund expenditures projected to increase \$155.2 million or 13.8% over same period



General Fund Revenue

- Most of the increase due to growth in 4 major GF revenues – property tax, sales tax, TOT, franchise fees
- Forecast based on revised FY 2012 projections, which increases FY12 base by \$9.5 million
- \$31.4 million in one-time FY 2012 revenues removed in FY 2013 projection
- Overall, revenue projections are in line with current economic forecasts



General Fund Revenue

- Despite recent setbacks, the momentum of the economic recovery will continue, albeit at a slow pace
- Beacon Economics forecasts steady improvements for employment, the real estate market, personal income, and taxable sales through 2016
- UCLA Anderson forecasts a similar recovery, although with continued immediate declines in the housing market
- Economically sensitive revenue streams such as property tax, sales tax, and TOT will mimic the pace of the forecasted recovery
- Threats to the recovery include the U.S. trade deficit, the federal deficit, inflation, struggling overseas economies, low home equity, and displaced workers



General Fund Revenue

Property Tax

- Outlook reflects 1.0% growth in FY13, increasing to 2.5% in FY14, 3.5% in FY15, 4.5% in FY16 and 5.5% in FY17
- Home median values and sales have declined in the current calendar year
- Beacon Economics forecasts that the housing market has reached the bottom, with positive growth to resume the fourth quarter of FY 2012
- Per UCLA Anderson Forecast, positive growth to resume in second quarter of FY 2013



General Fund Revenue

Property Tax (cont.)

- A number of factors are anticipated to contribute to modest positive growth in FY 2013 and beyond
 - Average incremental increase in the value of properties sold over current assessed valuation
 - CCPI adjustment is anticipated to be 2.0%
 - Appeals activity, and resulting refunds, is expected to taper off as the real estate market recovers
 - Anticipated reversal of temporary reassessments
 - Forecasted growth in residential and commercial permitting activity



General Fund Revenue

Sales Tax

- Outlook reflects 4.5% growth in FY13, increasing by 0.5% annually until hitting 6% in FY16 & FY17
 - Assumes positive growth seen in FY11 will continue throughout forecast period
- Growth assumptions are consistent with Beacon, UCLA Anderson economic forecasts, and MuniServices sales tax forecast
- Modest but steady job growth, especially in high skill sectors, will support consumer spending



General Fund Revenue

Transient Occupancy Tax

- Outlook reflects 4.5% growth in FY13, increasing by 0.5% annually until hitting 6% in FY16 & FY17
 - Assumes return to peak collections by FY 2014
- Forecast is consistent with ConVis Oct. 2011 Quarterly Travel Forecast, as well as UCLA Anderson & Beacon economic forecasts
- Growth in occupancy & ADR will drive growth in TOT revenue



General Fund Revenue

Franchise Fees

- Outlook projects overall growth of 1.9% in FY13, increasing gradually to 3.4% in FY17
- SDG&E projected to grow by 1% in FY13, increasing to 3.5% in FY17
 - Appropriate given available information
- Cable projected to grow by 4% in FY13-14, and by 5% in FY15-17
 - In line with recent growth trends



General Fund Revenue

Other General Fund Revenues

- Property transfer tax projected to grow by 7% in FY13, increasing to 9% in FY15-17
 - Growth rates do not appear to be supported by current economic forecast
- MVLF revenues eliminated throughout forecast due to State action, resulting in \$3.3m reduction
 - Partially offset by increase in COPS grant (\$0.8m) and reduction of booking fee expenses (\$2.0m)



General Fund Expenditures

- Total GF expenditures increased \$155.2 million or 13.8% over the 5-year forecast period
- Projected increase driven by higher pension ARC payment and debt service for five \$100m deferred capital bond issuances
- Other notable expenditures include step salary increases, reserve contributions, departmental additions
- Removes \$16.7 million in FY 2012 one-time expenditures



General Fund Expenditures

Salary & Wages

- Outlook includes \$9.5 million in salary & wage increases over 5 years
 - \$7 million included for step increases, including \$3m in FY13 and \$1m in FY14-17
 - \$3.3 million related to departmental additions
 - \$0.8 million in one-time FY12 salary reductions
- No general salary increases or restoration of previous 6% reduction



General Fund Expenditures

Salary & Wages (cont.)

- Assumption of no salary increases may not be prudent for financial planning purposes
- Consistent with prior years, IBA Outlook Scenario includes salary increase scenario
- Assumes 2% increase in FY15 and FY17
- May be precluded by passage of CPR ballot initiative & implementation of 5-year salary freeze



General Fund Expenditures

Annual Leave Liability

- Projection based on employees expected to retire in FY13-17 based on DROP enrollment
- Assumes a percentage of employees with planned retirement date between FY13-FY15 will retire in FY12 due to OPEB benefit changes that take effect April 1, 2012
 - FY13 – 50% of eligible retirees
 - FY14 – 30% of eligible retirees
 - FY15 – 10% of eligible retirees



General Fund Expenditures

Retirement/Pension

- Projected ARC payments based on June 30, 2010 valuation
- June 30, 2011 valuation to be released in Jan. 2012; FY13 ARC may be reduced

Retiree Health/OPEB

- Outlook projections based on benefit reform agreement
- Actual savings will be based on employee choices, reflected in June 30, 2012 valuation



General Fund Expenditures

Non-Personnel Expense

- Growth in NPE based on dept. additions, debt service & inflationary factors
 - 1% growth for Supplies & Contracts, 5% for Energy/Utilities
- Other significant NPE adjustments include:
 - Reduction of \$7.9m McGuigan Settlement payment in FY16-17
 - \$400,000 per year for CAB maintenance
 - Funding for elections, overstated in FY15-17 based on timing of elections



General Fund Expenditures

New Facilities

- Outlook includes 4.60 FTE and \$361K in NPE for 2 branch libraries, Skyline Hills (FY15) and San Ysidro (FY16)
- 18.90 FTE and \$1.6m in NPE for new Park & Rec facilities & acreage
- \$4.4 million for new UCSD fire station in FY17
 - Ranked 8 in priority by Citygate Report
 - Not mentioned in Outlook, more info needed



General Fund Expenditures

New Facilities – Central Library

- 6.00 FTE and \$2.9 million in NPE related to new Central Library (FY14)
- Outlook also includes \$2.8m in additional revenue, including \$2m from private donations
 - Approx. \$800K from parking, rental space, etc.
- Total operating costs related to Central Library exceed total revenues by approx. \$364K



General Fund Expenditures

Ninth Council District Office

- No funding included for build-out, approx. \$430K needed in FY12 or FY13
- No funding included for staffing & operations, assumes other Council Office budgets will be reduced
- IBA Outlook Scenario includes approx. \$1.1m for staffing & operation of 9th Council District Office



General Fund Expenditures

Civic Center Complex

- Outlook anticipates \$40m in repairs, based on 2009 AECOM Condition Assessment
- Majority to be funded through deferred capital bonds
- Outlook does not discuss long-term plan for Civic Center Complex, but reflects “Hold-Steady” Scenario
 - Assumes minimum repairs to ensure safety & functionality for next 10 years



General Fund Expenditures

Department Additions

- Outlook includes net increase of 56.28 FTE and approx. \$7.3m in NPE related to departmental programmatic additions
- About one-third of new positions related to new facilities but other departmental increases included as well, primarily after FY13
- Departmental programmatic additions not discussed or highlighted in Outlook



General Fund Expenditures

Department Additions (cont.)

- 2.50 FTE over 5 years for City Auditor, to achieve staffing level of 25.00 by FY18
- 2.00 FTE in City Treasurer to administer Centralized Business Regulatory process
- \$1m to migrate Business Tax regulatory and billing process to SAP
- Increased staffing but reduced contract funding for community plan updates
- 4.00 Utility Workers in NCC related to graffiti removal, not eliminated in FY 2012 as planned



General Fund Expenditures

Department Additions (cont.)

- 3.89 FTE for lifeguard services at Black's Beach through FY14
- \$644,286 to establish a Lifeguard Marine Vessel Replacement Fund
- \$2.6 million for replacement of fire station alerting system (\$900K higher than anticipated)
- 2.00 Labor Relations Officers for Fire Fighters & Police Officers' Procedural Bill of Rights
- 1.00 Citywide Volunteer Coordinator
- \$500,000 for PC replacement in FY13



General Fund Expenditures

Department Additions (cont.)

- 1.00 Payroll Audit Specialist to support HCM module in SAP
- 2.00 Procurement Specialists to handle IT procurement responsibilities
- 8.00 FTE for Storm Water permit compliance
- \$600,000 reduction in Storm Drain revenue due to water conservation efforts
- \$850,000 annual savings related to installation of induction street lighting system



Deferred Capital

- **Goal:** By FY14 achieve “Catch-Up” Service Level I
 - Funding Needed – \$192 million
- **Phase I - \$103 million 2009 Bond Issuance**
 - \$49.7 million expended
 - \$21.7 million encumbered
 - \$21.1 million to be spent by April 2012
 - \$10.8 million to be spent by December 2012
- **Phase II - \$100 million 2012 Bond Issuance**
 - To meet deferred capital needs through FY14



Deferred Capital

- **Goal:** By FY17 achieve additional “Catch-Up” needs
- **Phase III - \$100 million 2015 Bond Issuance**
 - Assumes Phase II Bonds (FY12 Issuance) exhausted by end of FY14 or early FY15
 - Addresses Outlook period FY15 – FY17
 - Allows for progress toward Service Level II
 - Assumes streamlining program will help accelerate project completion
 - By end of Outlook period (FY17), estimated \$89 million of “Catch-Up” Service Level II needs remain



Deferred Capital

Planned bond issuances for “Catch-Up” Funding (in millions)

Bond Issuances	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
IBA Scenario	\$ 100	\$ -	\$ -	\$ 100	\$ -	\$ -
Mayor's Outlook	100	100	100	100	100	100
Difference	\$ -	\$ (100)	\$ (100)	\$ -	\$ (100)	\$ (100)

- IBA Scenario reflects more realistic timeframe for project completion



Deferred Capital

"Catch-Up" Bond Debt Service	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast
IBA Scenario	\$ 14.5	\$ 14.5	\$ 14.5	\$ 22.0	\$ 22.0
Mayor's Outlook	14.5	22.0	29.5	37.0	44.5
Difference	\$ -	\$ (7.5)	\$ (15.0)	\$ (15.0)	\$ (22.5)

"On-Going" Funding (Non-Capital)	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast
IBA Scenario	\$ 58.0	\$ 58.0	\$ 58.0	\$ 58.0	\$ 58.0
Mayor's Outlook	45.8	45.8	45.8	45.8	45.8
Difference	\$ 12.2	\$ 12.2	\$ 12.2	\$ 12.2	\$ 12.2



Deferred Capital

- Results of 2011 Street Condition Assessment:

OCI Level	2007	2011
Good	37%	35%
Fair	45%	40%
Poor	18%	25%

- These results will increase the funding needed to achieve Service Level I and Service Level II
- However, IBA Scenario still achieves Service Level I and makes progress on Service Level II



IBA Outlook Scenario

- No changes to major revenue projections
- Includes adjustments to show potential financial impacts, reflect funding to achieve policy targets, & recognize known commitments
 - Salary increase scenario to illustrate potential impacts
 - Deferred capital funding to meet Service Level I by FY14 plus make substantial progress toward Service Level II by FY17
 - Adjustment to funding for elections
 - 9th Council District Office staffing and operation
 - Savings from Fleet MC and Sharp copier contract



IBA Outlook Scenario

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
IBA OUTLOOK SCENARIO	Forecast	Forecast	Forecast	Forecast	Forecast
OUTLOOK REVENUES	\$ 1,130.7	\$ 1,162.8	\$ 1,200.9	\$ 1,250.2	\$ 1,306.2
OUTLOOK EXPENDITURES	\$ 1,162.4	\$ 1,199.4	\$ 1,229.1	\$ 1,255.7	\$ 1,283.6
<i>IBA Adjustments</i>					
July 2011 Pension Valuation	TBD	TBD	TBD	TBD	TBD
Salary Increases	\$ -	\$ -	\$ 11.1	\$ 11.1	\$ 22.4
Adjustment for Elections Funding	\$ -	\$ -	\$ (1.0)	\$ (1.0)	\$ (0.4)
Deferred Capital Bond DS	\$ -	\$ (7.5)	\$ (15.0)	\$ (15.0)	\$ (22.5)
Deferred Capital "Ongoing" Funding	\$ 12.2	\$ 12.2	\$ 12.2	\$ 12.2	\$ 12.2
9th Council District Office	\$ 0.5	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1
Fleet Services Managed Competition	\$ (3.1)	\$ (3.1)	\$ (3.1)	\$ (3.1)	\$ (3.1)
Sharp Copier Contract	\$ (1.3)	\$ (1.3)	\$ (1.3)	\$ (1.3)	\$ (1.3)
ADJUSTED EXPENDITURES	\$ 1,170.7	\$ 1,200.8	\$ 1,233.1	\$ 1,259.7	\$ 1,292.0
OUTLOOK SURPLUS/(DEFICIT)	\$ (31.8)	\$ (36.6)	\$ (28.1)	\$ (5.6)	\$ 22.7
ADJUSTED SURPLUS/(DEFICIT)	\$ (40.0)	\$ (38.0)	\$ (32.2)	\$ (9.5)	\$ 14.2



Service Levels

- With few exceptions, Mayor's Outlook maintains service levels as they are today
- Significant service reductions have been made over past decade to balance the City's budget
 - Reduction in Police & Fire academy classes
 - Elimination of 130 Police civilian support positions
 - Reduction of lifeguard beach service
 - Reduction of park maintenance & security positions
 - Reduction in swimming programs
 - Reduction in library hours & staffing
 - Closure of remaining 15 community service centers



Service Levels

<u>Department/Service Measure</u>	<u>FY 2001</u>	<u>FY 2011</u>
<u>Library Department</u>		
Annual Operating Hours	86,000	68,000
Average Weekly Operating Hours		
-Central Library	64	44
-Branch Libraries	54 ¹	36 ²
<u>Park & Recreation</u>		
Annual Recreation Center Hours	62	40
Average Weekly Recreation Center Hours	163,000	121,000
Aquatics Program Participants	712,000	299,000
After School Sites	37	17

1. Based on weighted average of all branches

2. La Jolla, Pt. Loma & Serra Mesa branches also provide Sunday hours funded through private donations.



Service Levels

<u>Department/Service Measure</u>	<u>FY 2001</u>	<u>FY 2011</u>
<u>Police Department</u>		
Sworn Officers per 100,000 population	166	152
<u>Fire-Rescue</u>		
Sworn Firefighters per 100,000 population	80	67
<u>Customer Service Centers</u>		
Number of Centers throughout City	37	0
<u>Storm Water</u>		
Miles of street swept annually	110,000	88,000



Service Levels

- Important to remember that the improved financial outlook, while positive, has been achieved in part through service reductions
- While not expected that Outlook assume significant increases in service levels, projections assume little to no improvement
- Recommend a comprehensive unfunded needs assessment – last one done in 2004
- Ideally, over next several years City will be able to restore services that have been reduced



Service Levels

<u>Service Restoration</u>	<u>Cost</u>
Restore 5 hours per week year-round for all 35 branch libraries	\$952,000
Restore 8 hours per week year-round for the Central Library	\$923,000
Restore 5 hours per week year-round for all 54 recreation centers	\$632,000
Restore 1 Police 40 Recruit Academy Class	\$2.2 million
Restore 20 Police civilian support positions	\$1.5 million
Restore 1 Fire-Rescue 30 Recruit Academy class	\$913,000
Restore Lifeguard services to FY 2008 levels	\$744,000



Conclusion

- Mayor's Outlook reflects general improvement in City's fiscal condition
- IBA Outlook Scenario makes a number of changes, but general trend remains
- Important to remember that improved Outlook achieved in part by service reductions in past
- Due to remaining deficits, we do not advocate for significant restorations at this time
- City should continue to focus on restoring critical services as funds become available



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