

IBA Review of the Mayor's FY 2020-2024 Five-Year Financial Outlook

City Council, Item 331

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Independent Budget Analyst





Five-Year Financial Outlook

The Outlook and the Budget Process

- Outlook is a vital planning document that is important to the upcoming budget process
- City Charter mandates that the Mayor prepare a Five-Year Outlook each year

Five-Year Financial Outlook

City's Budget Policy Describes the Outlook

- “The basis for determining the coming year’s operating budget allocations”
- Policy also requires that the Outlook include:
 - Operational costs for new facilities
 - Contractual commitments
 - Federal and State mandates
 - Adopted City Council policies

IBA Annual Review of Mayor's Outlook

The IBA's report on the Outlook includes:

- An overview of Baseline revenues and expenditures
- An analysis of selected Critical Strategic Expenditures included in the Outlook
- A review of potential future funding needs not included in the Outlook
- A discussion of future financial challenges
- A discussion of potential options to address shortfalls

Baseline Revenues

Major General Fund revenues projected to grow throughout Outlook but at a slower pace

- Outlook notes the possibility of a recession but this is not assumed in the projections
- FY 2020 revenue is projected at \$40.3M, or 2.8%, higher than FY 2019 First Quarter Projection
 - Future years growth projected at \$54M+/year (over 3%)
 - Note: Approximately \$14.7M of sales tax expected in FY 2018 was received in FY 2019

General Fund Baseline Expenditures

FY 2020 Baseline expenditure projection is an increase of \$81.4M, or 5.6%, over the FY 2019 Adopted Budget

- No new programmatic additions in the Baseline
- Significant increases due to:
 - Compensation increases with the City's recognized employee organizations
 - Pension payment, or Actuarially Determined Contribution (ADC), GF increase of \$18.1M
 - General Fund Reserve contribution increase to achieve policy targets
 - Projected growth in contracts



General Fund Baseline Expenditures

Multi-Year Agreements with the City's Employee Organizations (*\$ in millions*)

General Fund Compensation Increase/(Decrease)² Over FY19 Amounts	FY20	FY21	FY22	FY23	FY24
Salaries (for all employees except Deputy City Attorneys Association)	\$ 35.7	\$ 41.4	\$ 41.4	\$ 41.4	\$ 41.4
Fire Overtime Related to Fire MOU	5.3	5.7	5.7	5.7	5.7
Special Pays ¹	3.9	4.5	4.5	4.5	4.5
Pay-in-Lieu - Firefighters' Annual Leave Over Accrual Caps	(1.2)	(1.6)	(1.6)	(1.6)	(1.6)
Flexible Benefits - Police Officers with 8 or More Service Years	(11.1)	(11.1)	(11.1)	(11.1)	(11.1)
Total General Fund Compensation Increases Over FY19	\$ 32.7	\$ 38.9	\$ 38.9	\$ 38.9	\$ 38.9

Note: Table may not total due to rounding.

¹Includes 5% special pay for Police Officers with 20 or more years of service (approximately \$2.5M for FY 2020 and \$2.7M for the remaining years), as well as engineering and fire-dispatch special pays for Municipal Employees Association (MEA) employees and various special pays for American Federation of State, County and Municipal Employees (AFSCME) Local 127 employees.

²Compensation increases include variable fringe.

- MOUs for 5 of the 6 employee organizations expire FY2020.
- For the 6th employee organization, DCAA, MOU expires FY 2019.
- A 1% General Fund salary increase is estimated at \$6 million.



General Fund Baseline *cont'd*

Other Noteworthy Baseline Items

- Reduction of tipping fee discount
- Fleet usage fees
- Homelessness
- Information Technology
- Library ongoing programming funding
- 101 Ash moving expenses
- Tree trimming

Selected Critical Strategic Expenditures Included

- **Borrowing Costs for General Fund Capital Projects**
 - \$270M Borrowing Plan – unchanged from last year
 - 3 borrowing phases: Plan to issue Commercial Paper first and replace after about 2 years with 30-yr long-term bonds
 - \$33M in total borrowing costs over Outlook period
 - \$31.7M in Critical Strategic Expenditures
 - \$1.3M in Baseline Expenditures
 - Reflects CP borrowing beginning in FY 2019
 - Use of CP in conjunction with long-term bonds intended to achieve borrowing efficiencies and interest savings
 - Commercial Paper financial training planned for the City Council meeting on January 7, 2019.



Selected Critical Strategic Expenditures Included *cont'd*

- **Enterprise Asset Management**

- Stabilize implementation for Phase I departments
- Begin implementation of Phase II to additional departments

- **Public Works – General Services**

- Facilities condition assessments for buildings as needed
- Facility maintenance related to asbestos remediation, emergency generators, and rehabilitation projects

Selected Critical Strategic Expenditures Included *cont'd*

• Fire-Rescue Department

- Added Firefighter positions to establish Relief Pool and reduce overtime, including holding three fire academies per year in first three years and two per year thereafter
- Four new fire stations in North University City, Black Mountain Ranch, Fairmont Avenue, Paradise Hills
- Six Peak-Hour Engines – three in FY 2020, three in FY 2021

• Police Department

- Added overtime costs until staffing improves - \$6.0-\$7.8M annually
- Added sworn positions beginning FY 2022

Selected Critical Strategic Expenditures Included *cont'd*

- **Fleet Facility Repairs & Safety Upgrades**

- Includes City car washes, a fall restraint system, and deferred maintenance at Chollas & other Fleet facilities (not incl Othello)

- **Information Technology**

- Public Safety Radio – contract with Motorola, regulatory requirements & radio repeater sites to maintain reliable system
- City website – upgrades for security
- OSHA reporting – efficiency improvements

- **Removal of DeAnza Mobile Homes**

- Mission Bay Park Improvement Fund also being explored for this \$1.8M cost

Selected Critical Strategic Expenditures Included *cont'd*

- CNG Fueling Station Maintenance
- New Pacific Highlands Ranch Library
 - Ongoing costs included in the Outlook beginning in FY 2021; however, facility is now expected to open in FY 2022
- 17 new/expanded parks and 28 new Joint Use facilities
- Planning: Funding for Climate Adaptation & Resiliency Plan and Housing SD initiatives
- Enforcement of TOT Regulations on STROs
- Sidewalk Repair
- Additional positions to support programs (i.e., Vision Zero, CAP, etc.)

Potential Funding Needs Not Included in the Outlook

- **Housing Navigation Center: Approved November 13, 2018**
 - Costs not included to provide improved security and cleanliness in surrounding communities, per agreement with East Village
 - Similar requirements exist for the Storage Connect Center; Police Department is projecting \$2 million in related overbudget overtime costs in FY 2019
 - Environmental Services Department has stated they will reprioritize other clean-up activities to free up resources for Navigation Center clean-ups
 - Council should be apprised of which communities may be impacted
 - The Mayor needs to request new funding for this new program at Mid-Year

Potential Funding Needs Not Included in the Outlook *cont'd*

- **Othello**

- FY 2018 funding for Othello facility was reprioritized by the Mayor to balance the FY 2019 Budget
- No funding included in FY 2019 or the Outlook period
- Update to City Council expected in early 2019
- Previous funding needs estimates to effectively service fire engines ranged from \$6.3M to \$17.0M

Potential Funding Needs Not Included in the Outlook *cont'd*

- **Animal Services Contract**

- \$2.2M start-up expenditures were projected for FY 2020 when contract with the San Diego Humane Society was approved but are not included in the Outlook

- **Civic Center Plaza Reconfiguration**

- When City entered into lease-to-purchase agreement, planned \$15.0M of reconfiguration to accommodate 245 more staff

Potential Funding Needs Not Included in the Outlook *cont'd*

- Residential graffiti abatement
 - City Council allocated \$300,000 in one-time funding in FY 2019
- Library materials for new Pacific Highlands Ranch Branch Library
 - Funding for 75,000 materials is needed totaling \$1.2 million in FY 2020 and FY 2021
- Library Security
 - Library's costs are anticipated to increase as a result of a new RFP for security services requesting "upgraded" guards at library locations
 - Staff expects to seek Council approval for the new contract in early 2019
- Parks & Recreation MADs General Benefit
 - General benefit (City's portion expected to increase by approximately \$200,000)

Potential Funding Needs Not Included in the Outlook *cont'd*

- Concrete Crew for sidewalk replacements
 - 13.00 FTEs and \$6.6 million in total expenditures over the outlook period was requested by Department to speed sidewalk replacements given the existing backlog, but not included in Outlook
 - Our Office has previously recommended that a plan be created to address this issue and help inform where the greatest need for investment exists (IBA Report 18-35)
- Code Enforcement to support Zero Waste Plan and Climate Action Plan
 - Additional staff would enforce the City's Recycling Ordinance to meet diversion goals of 75% by 2020, 90% by 2035, and zero waste by 2040

Potential Funding Needs Not Included in the Outlook *cont'd*

- **Lack of Significant New Expenditures in Support of the Climate Action Plan (CAP):**
 - In March 2018, Environment Committee asked IBA to develop a near-term forecast of planned new CAP-related expenditures
 - CAP has a number of goals, actions and targets to be initiated or achieved during Outlook period - but Outlook does not specifically identify any significant new General Fund expenditures in support of these objectives.
 - IBA Report # 18-05 recommended consideration be given to including planned new CAP-related expenditures in Outlook or as a supplemental appendix to Outlook.

Future Financial Challenges

Potential additional or ongoing challenges could require additional resources during the Outlook period

- Projected Storm Water needs (operational and capital needs) exceed current spending levels
- Homelessness – need for ongoing fund sources
- Capital infrastructure needs far exceed funding available

Options to Address Shortfalls

- 3% budget reduction proposals requested of departments for the FY 2020 budget development process
- Any available General Fund Excess Equity for one-time needs (see Attachment 1 to our report)
- Forgoing the FY 2020 Pension Payment Stabilization Reserve contribution of \$4.2 million – a partial offset to the increased ADC (see Attachment 1)
- Utilization of the estimated \$2.6 million Public Liability Reserve excess balance for one-time needs (see Att. 1)
- Utilization of \$1.6 million in Long-Term Disability Reserve excess balance for one-time needs (see Att. 1)

Options to Address Shortfalls

- Ballot Measure proposing to increase TOT for Convention Center expansion would also provide roughly \$139M to support City homelessness programs (e.g., homeless shelters or transitional storage facilities)
- Infrastructure Fund (Charter 77.1) and/or Capital Outlay Fund (proceeds from sale of City-owned property) could be used to pay for all, or a portion of, planned borrowing costs of \$33M for General Fund capital projects during the Outlook period

Options to Address Shortfalls *cont'd*

- Increase to the Storm Drain Fee rates
 - Could generate approximately \$6 million for every \$1.00 increase (charged per parcel per month)
- Peoples Ordinance – Paid Refuse Collection
 - Collection service to single family homes represents \$34.5 million annually that could be freed up for General Fund programs
- Redevelopment Property Tax Trust Fund (RPTTF) Lawsuit
 - Potential \$35-40M pending court ruling, timing unknown
- Sales Tax from online sales (South Dakota v. Wayfair)
 - Estimated additional \$2M/year anticipated fully in FY 2021

Options to Address Shortfalls *cont'd*

State Funding

- Senate Bill 2 (Atkins, 2017) provides:
 - One-time local planning grants to update plans and ordinances to streamline housing production
 - Future ongoing funding for affordable housing; funding to assist homeless individuals is permissible
- State Homeless Emergency Aid Program funding allocations approved by Council December 4
 - One-time funds to support homelessness
 - Frees up \$1.1 million in General Funds over spending period

Next Steps for the City Council

The Outlook, together with the IBA Report, allows Council to begin identifying its top budget priorities and develop a strategy for a balanced budget in FY 2020

- The Outlook and the IBA Report also allow Council to consider longer-term solutions for addressing the deficits projected in FY 2021 and FY 2022, and for avoiding deficits in the future
- Councilmembers will have their opportunity to address concerns or issues in upcoming Budget Priority memoranda in January 2019
- The Council memoranda will serve as the basis for a City Council resolution which will be heard by Council and presented to the Mayor in February
- This resolution will help to inform the Mayor of Council's priorities and issues prior to the release of the FY 2020 Proposed Budget on April 12