

# IBA Review of the Mayor's FY 2019-2023 Five-Year Financial Outlook

City Council, Item 201

December 11, 2017



Independent Budget Analyst





# IBA Annual Review of Mayor's Outlook

## *The IBA's report on the Outlook includes:*

- A review of all items in the Outlook
- A review of select additional expenditures submitted by departments for the Outlook
- A high-level overview of other expenditures that may be of interest to the community or the City Council
- A review of possible mitigation strategies
- A discussion of future financial challenges

# General Fund Baseline

*Baseline revenues and expenditures are projected to grow over the Outlook period*

- Baseline revenues:
  - Major General Fund revenues are projected to have slowing growth in each year of the Outlook
  - A major economic downturn (recession) is noted as a possibility in the Outlook, but is not included in the revenue projections
  - Our Office agrees with the slowing growth projections; however, we note that property tax, sales tax, and TOT revenue projections in fiscal years 2021-2022 are substantially higher than in the previous year's Outlook

# General Fund Baseline *cont'd*

- Baseline expenditures:
  - FY 2023 General Fund Baseline expenditure projection is an increase of \$104.5 million, or 7.3%, over the FY 2018 Adopted Budget
  - No programmatic increases in the Baseline
  - Significant increases due to:
    - Compensation increases with the City's recognized employee organizations
    - Projected growth in contracts
    - Projected growth in energy and utilities expenditures



# Mayor's Critical Strategic Expenditures

Mayor's Critical Strategic Expenditures Included in Outlook

General Fund		FY 2019	Total Outlook Period
Baseline Revenues		\$ 1,434,313,822	\$ 7,743,295,804
Baseline Expenditures		1,431,925,069	7,539,265,426
<b>Outlook Baseline Surplus/(Deficit)</b>		<b>\$ 2,388,754</b>	<b>\$ 204,030,378</b>
Mayor's Critical Strategic Expenditures (Net Total)			
City Clerk	Replace and maintain electronic voting system and audio-visual equipment	\$ -	\$ 520,000
Deputy Chief Operating Officer	Addition of new DCOO position responsible for large public project coordination and priorities	310,050	1,576,194
Special Projects			
City Treasurer	Cannabis business tax program administration	275,773	1,415,089
Citywide Program Expenditures	Debt service for the General Fund's Capital Improvements Program	20,000	27,210,000
Environmental Services	Elimination of the tipping fee discount at the Miramar Landfill	-	2,100,000
Fire-Rescue Department	Fire dispatcher staffing	658,875	3,361,579
	Replace one helicopter	1,700,000	10,900,000
	Institution of peak hour engines	-	22,142,297
	Funding for operational staffing of fire stations scheduled to complete construction during the Outlook period	925,000	17,683,997
Fleet Operations	Increase to charges to the General Fund for planned replacement of the City's fleet	-	53,264,411
Hepatitis A Response <sup>1</sup>	Expenses related to the City's response to the Hepatitis A outbreak, including street sanitation	2,665,884	5,462,748
Homelessness	General Fund support for safe parking program	338,000	507,000
Information Technology	Baseline adjustments	(682,825)	(3,414,125)
	Motorola public safety contract	478,500	4,306,500
	Cyber security initiative support	58,177	297,549
Library	Staffing and operating costs for new facilities	142,809	4,880,072
Park & Recreation	Addition of staffing and operating costs for new facilities	2,167,505	20,550,431
	MADs Proposition 218 compliance/general benefit	192,861	1,060,735
Performance and Analytics	311 Customer Experience (Get it Done) Phase 1 expansion	686,355	3,508,686
Planning	Middle Income Density Bonus Program	250,000	250,000
Police	Addition of civilian positions and equipment	991,432	5,052,892
	New equipment: body worn cameras and tasers	-	4,296,560
Transportation & Storm Water	Pothole repair	170,000	1,170,628
	Pipe maintenance and repair	765,080	3,909,144
	Street sweeping	107,716	2,691,490
	Slurry seal maintenance	-	7,800,000
	Stop guide	250,000	250,000
	Pavement assessment	-	800,000
<b>Mayor's Critical Strategic Expenditures (Net Total)</b>		<b>12,471,192</b>	<b>203,553,877</b>
<b>Net Surplus/(Deficit)</b>		<b>\$ (10,082,438)</b>	<b>\$ 476,501</b>

<sup>1</sup>Since the Outlook was released, Financial Management has updated its projections related to Hepatitis A sanitation services. Updated projections for the Hepatitis A response, including Department response efforts and the sanitation contract, total approximately \$3.3 million in FY 2019 and \$8.5 million over the Outlook period.



## Mayor's Critical Strategic Expenditures *cont'd*

*Critical strategic expenditures in the Outlook total \$203.6 million over five years*

- Deficits now projected in three years of the Outlook:
  - FY 2019: \$10.1 million deficit
  - FY 2020: \$34.6 million deficit
  - FY 2021: \$19.8 million deficit

## Mayor's Critical Strategic Expenditures *cont'd*

- We note a potential change in policy: 2017 Citygate report recommended deployment of Peak-Hour Engines (PHEs)
- Outlook includes \$22.1 million over 4 years to implement PHEs as a way to serve certain priority fire station sites
- This change could reprioritize the Citygate goal of building 12 new stations

# Potential Funding Needs Not Included in the Outlook

*Includes select department requests and items of interest to the Council and the community*

- Select department requests not included in the Outlook:
  - Our Office is not advocating funding these items, but raise them to make Council aware early in the budget process of some departmental priorities not included in the Outlook
  - If all items are funded, the \$10.1 million FY 2019 projected deficit would increase by \$20.2 million, to \$30.3 million
  - Alternative funding sources or offsetting budget cuts would need to be identified



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

**Projected and Potential Expenditures in the FY 2019-FY 2023 Outlook Period**

<b>General Fund</b>	<b>FY 2019</b>	<b>Total Outlook Period</b>
Baseline Revenues	\$ 1,434,313,822	\$ 7,743,295,804
Baseline Expenditures	1,431,925,069	7,539,265,426
<b>Outlook Baseline Surplus/(Deficit)</b>	<b>\$ 2,388,754</b>	<b>\$ 204,030,378</b>
<b>Mayor's Critical Strategic Expenditures (Net Total)</b>	<b>12,471,192</b>	<b>203,553,877</b>
<b>Net Surplus/(Deficit)</b>	<b>\$ (10,082,438)</b>	<b>\$ 476,501</b>

<b>Selected Department Five-Year Requests not Included in the Outlook</b>			
Environmental Services	Code Enforcement - CAP/Zero Waste	\$ 313,924	\$ 1,597,512
Fire-Rescue	Operations Funding for New Fire Stations (Fairmount and Paradise Hills)	-	12,978,532
Information Technology	PC Replacement	656,700	2,566,700
	Run the Business projects - OneSD	1,178,935	7,621,468
	Run the Business projects - IT Fund	389,880	1,187,500
Infrastructure Asset Management	IAM Support for Several Departments	883,027	4,478,199
Library	Janitorial Services for the Central Library	129,744	688,829
	Security Services	287,602	1,526,918
Performance & Analytics	Get it Done - Phase II	-	1,025,000
Personnel	Additional Staff Support	902,002	4,603,394
Planning	Climate Adaptation Plan	310,000	500,000
Police	Sworn and Civilian Positions	-	36,983,647
	Motorola Radio Replacement	1,729,221	8,646,105
Purchasing & Contracting	Animal Services Contract	147,318	753,370
Transportation Storm Water	Storm Water Permit Compliance Projects	13,319,859	98,219,152
<b>Total Selected Department Five-Year Requests not Included in the Outlook</b>		<b>20,248,212</b>	<b>183,376,325</b>
<b>Net Surplus/(Deficit)</b>		<b>\$ (30,330,650)</b>	<b>\$ (182,899,824)</b>

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

- Other items of interest not included in the Outlook that may be of interest to the City Council or the community based upon prior budget discussions:
  - Commission for Arts & Culture funding
  - Graffiti abatement: Environmental Services pilot program and Transportation & Storm Water funding to address graffiti abatement requests within 5 days
  - Expanded recreation center hours
  - Civic Center Plaza reconfiguration
  - Tree planting and trimming

# Potential Resources and Mitigation Actions

*Included in the Outlook and our review, are possible actions to address the projected deficit*

- Budget reductions of 2% requested from City departments with a General Fund impact
- Use of reserves in excess of policy targets
- Use of fund balance (Excess Equity) – Mayor may recommend expending Excess Equity at the Mid-Year
- Alternate replenishment plan for the Pension Stabilization Reserve
- One-year suspension of funding the Infrastructure Fund

# Potential Resources and Mitigation Actions *cont'd*

- Increase to the Storm Drain Fee rates
  - SB 231 clarifies that storm drains and storm water systems are included under the definition of sewers
  - This change allows the City Council to adjust storm water and storm drain fees
  - An increase of \$1.00 per parcel per month would generate an additional \$6 million year; therefore an increase in the fee from \$0.95 to \$5.00 per parcel per month would generate an additional \$24.3 million per year
  - **Council may wish to consider requesting additional information, or a proposal on adjusting the City's Storm Drain Fee**

# Future Financial Challenges

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

- Homelessness
- Implementation of the Climate Action Plan
- Infrastructure – ongoing and growing General Fund asset needs
- Potential increases to the ADC
- Additional Storm Water needs (operational and capital needs)

## Recommendations to Council

*The Outlook is a planning tool – Council can review items prioritized in, or omitted from, the Outlook and provide direction for FY 2019*

- Council can consider bringing items to committees for discussion, prior to issuance of the Mayor's budget:
  - How critical are these items?
  - Are there other means of accomplishing these items?
  - What would the impact to City services be if there was a change in the program or funding?
- Councilmembers can address concerns or issues in upcoming Budget Priority memoranda