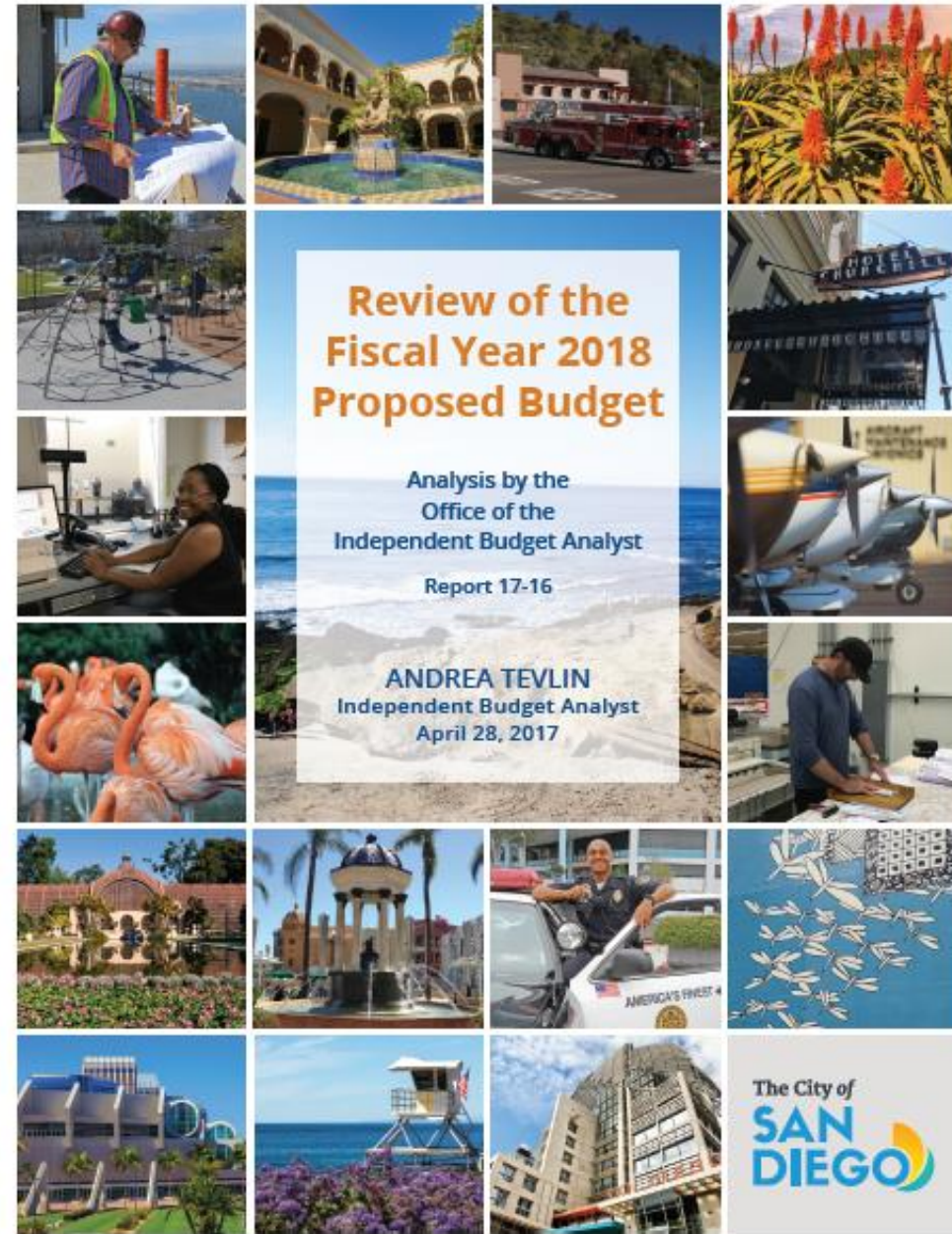


# Budget Briefing with Councilmember Chris Cate and Residents of District 6

May 23, 2017



## Review of the Fiscal Year 2018 Proposed Budget

Analysis by the  
Office of the  
Independent Budget Analyst  
Report 17-16

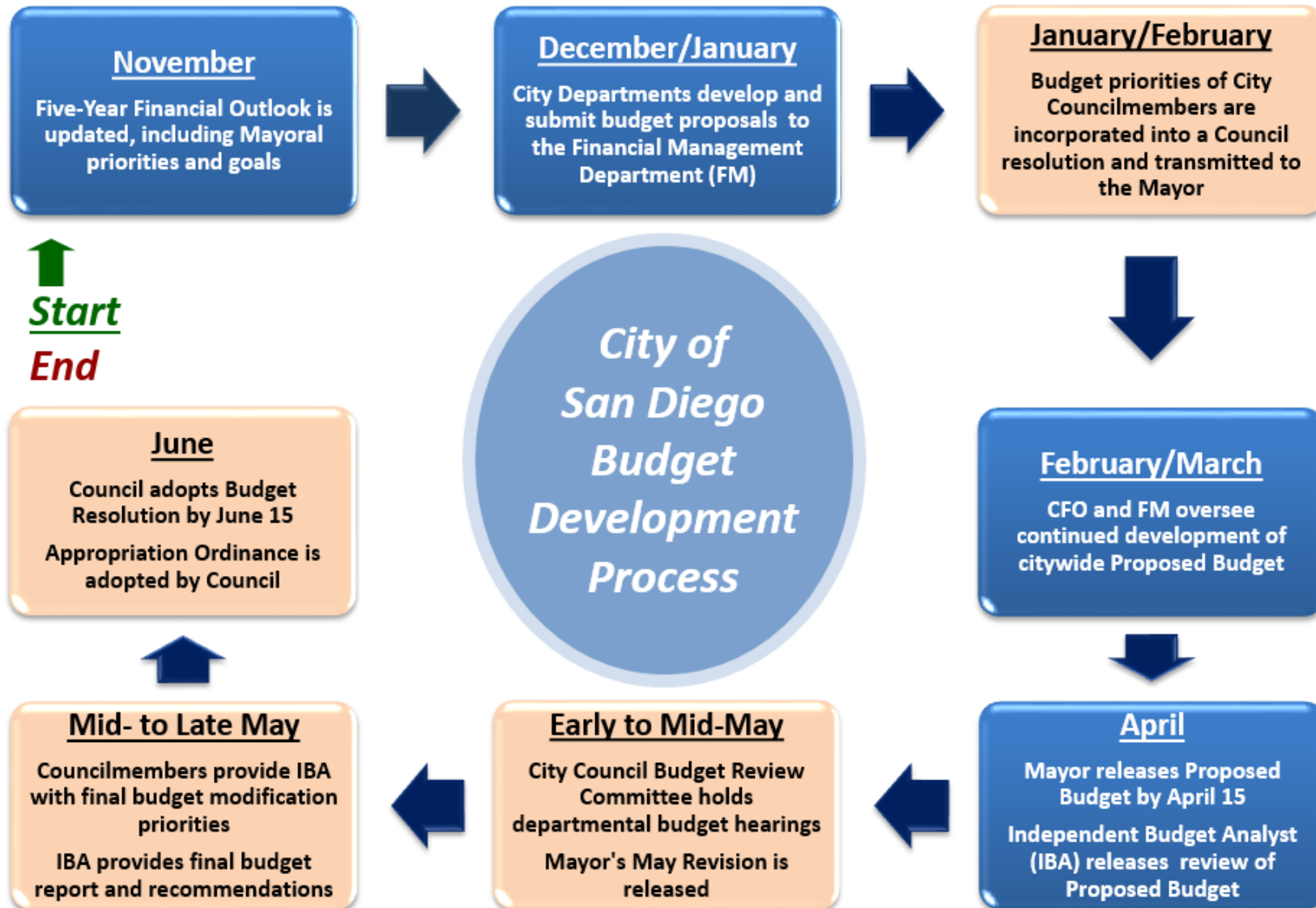
ANDREA TEVLIN  
Independent Budget Analyst  
April 28, 2017



# Independent Budget Analyst



# FY 2018 Budget Development Process



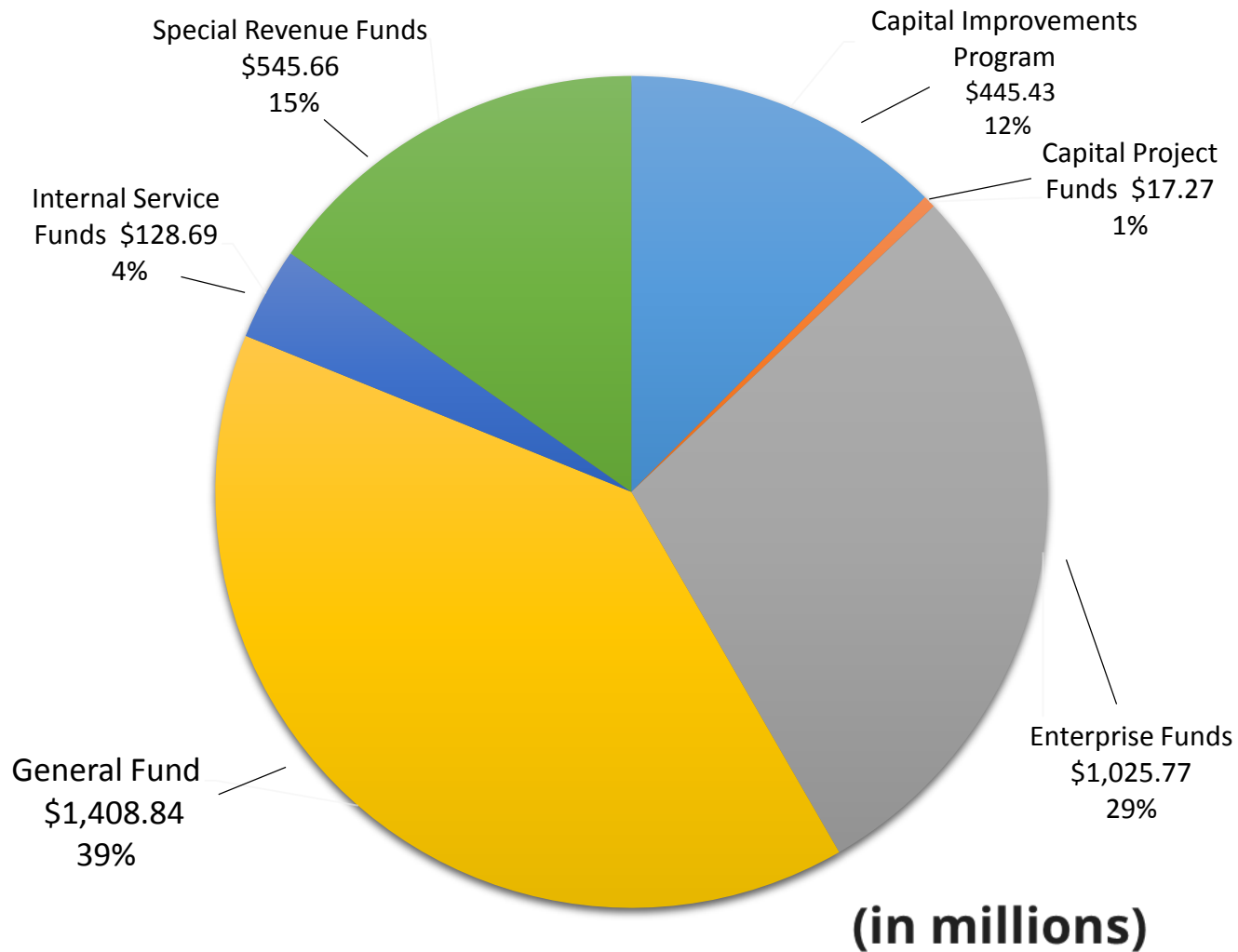
## City Council Budget Authority

*The Mayor released his Proposed Budget on April 14, now the Council has the authority to either approve the budget as submitted, or modify it in whole or in part*

- The City Council may increase or decrease any item, provided the budget remains structurally balanced with ongoing expenditures funded with ongoing resources
- The Mayor can approve, veto, or modify any line item approved by Council
- The Council can override the Mayor's veto with a two-thirds vote

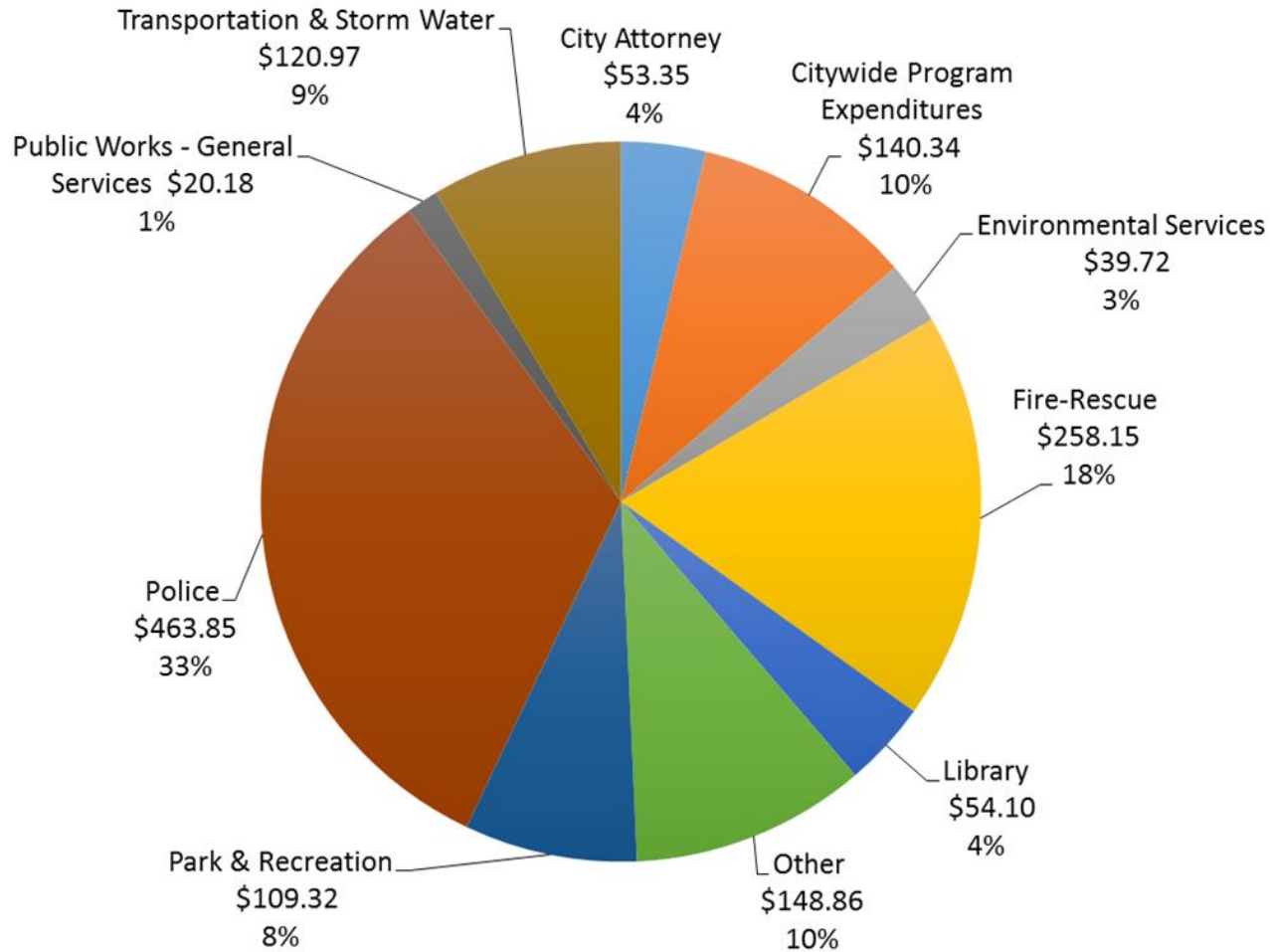


## Citywide Proposed Budget \$3.57 Billion





## General Fund Expenditures \$1.41 Billion

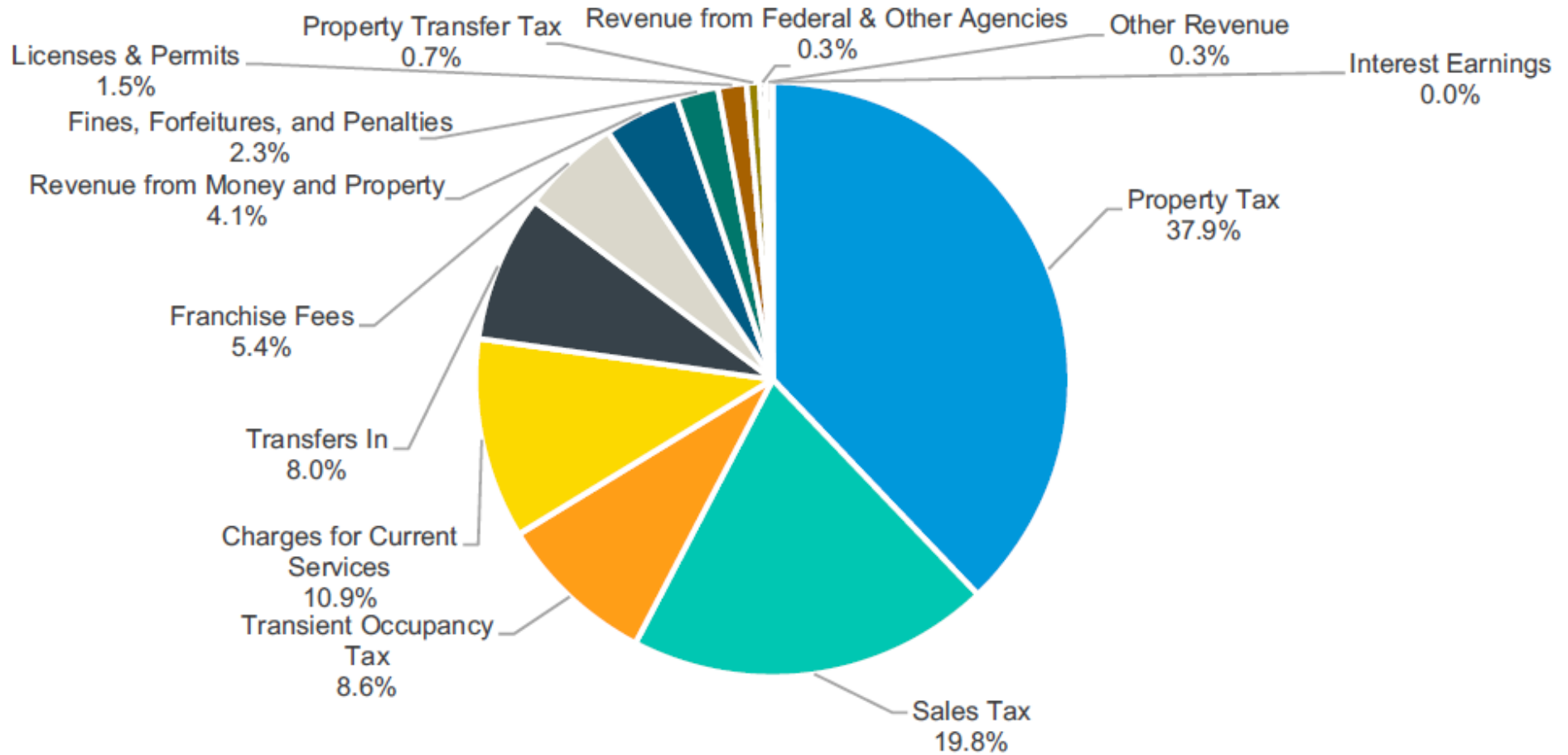


(in millions)



# General Fund Revenues

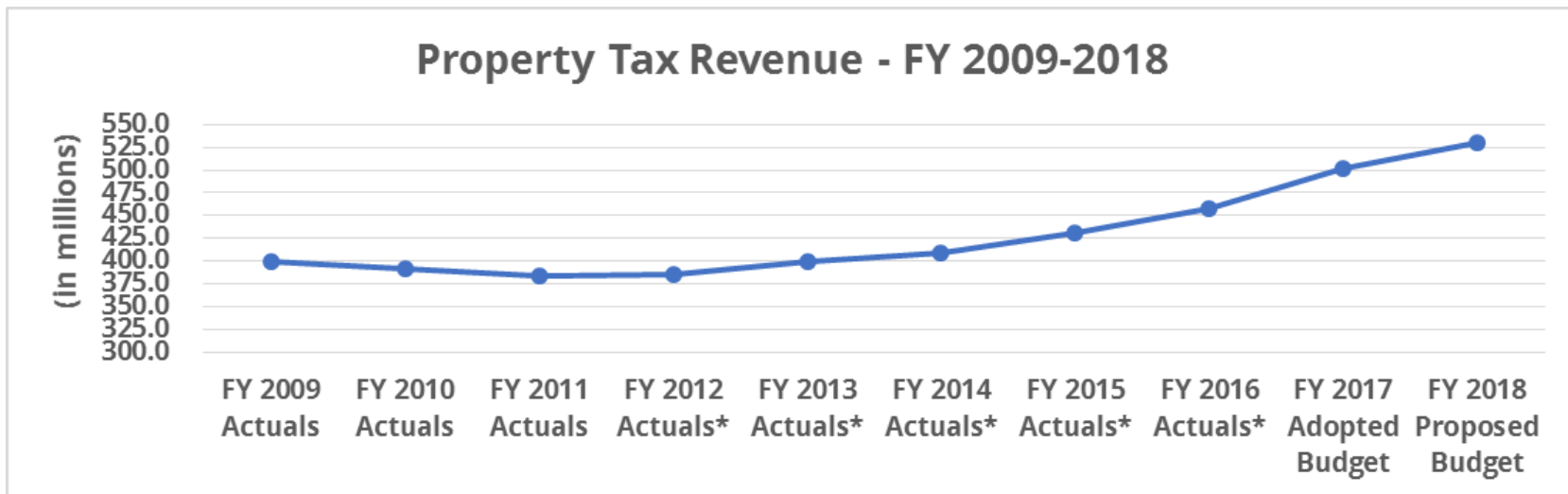
*FY 2018 General Fund revenues - \$1.40 billion*





## Property Tax Revenue

- ❖ FY 2018 Proposed Budget: \$530.5 million
- ❖ Budgeted Growth Rate: 5.00 percent
- ❖ Increase from FY 2017 Adopted Budget: \$28.5 million
- ❖ Economic Assumptions:
  - ❖ Increase in median home price and California Consumer Price Index (CPI)

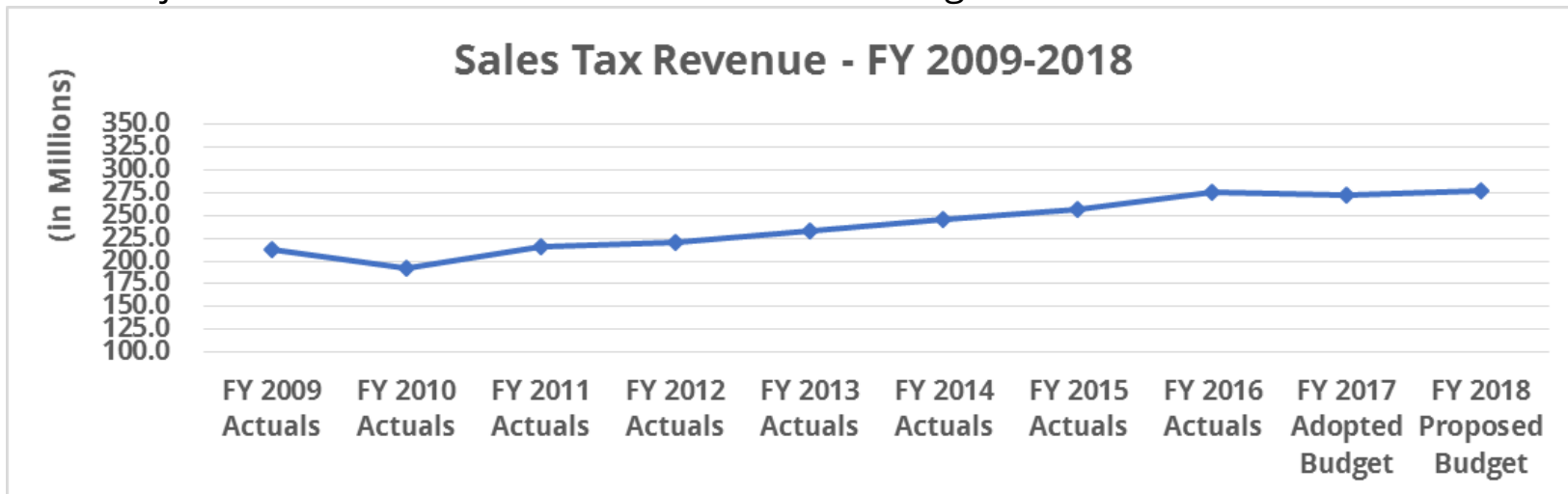


\* Excludes pass-through, residual property tax sharing payments, and Property Tax Administration Fee settlement.



## Sales Tax Revenue

- ❖ FY 2018 Proposed Budget: \$276.9 million
- ❖ Budgeted Growth Rate: 2.5 percent
- ❖ Increase from FY 2017 Adopted Budget: \$4.1 million
- ❖ Economic Assumptions:
  - ❖ As of December 2016, Unemployment rate was 3.9 percent
  - ❖ Projected increases in consumer confidence and spending
  - ❖ Projected increases in taxable sales in most categories

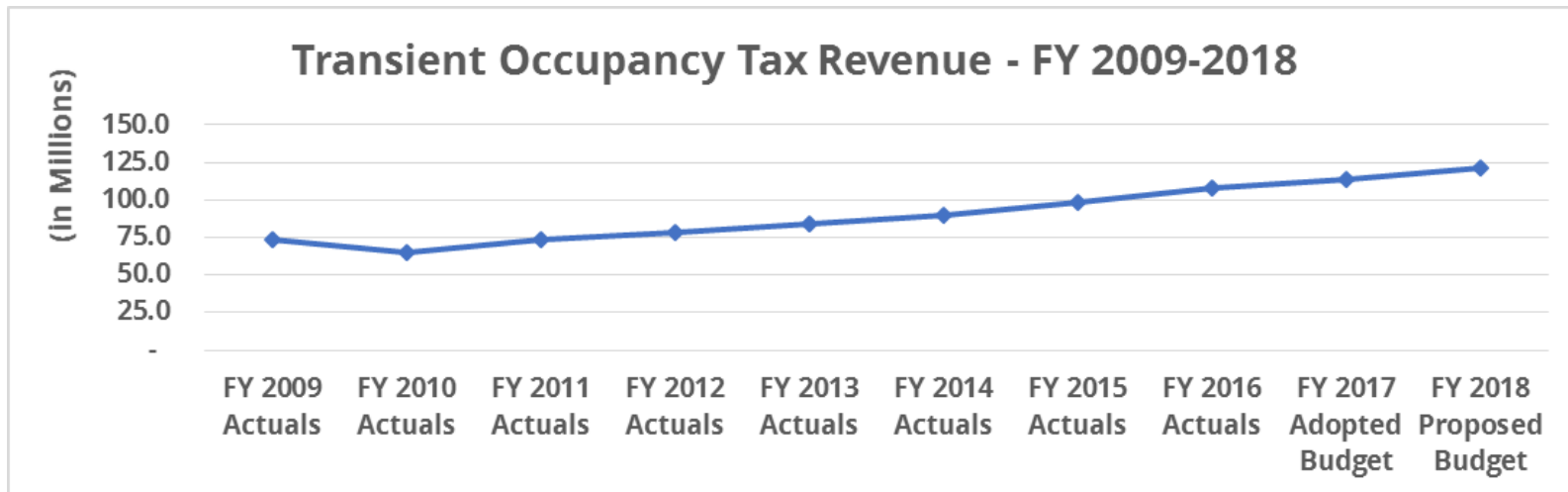






## Transient Occupancy Tax Revenue

- ❖ FY 2018 Proposed Budget:
  - Total Citywide - \$231.0 million
  - General Fund - \$121.0 million
- ❖ Budgeted Growth Rate: 5.7 percent
- ❖ General Fund Increase from FY 2017 Adopted Budget: \$7.7 million
- ❖ Economic Assumptions:
  - ❖ Projected increases in overnight visitors, hotel occupancy, average daily rate



# FY 2018 General Fund Deficit of \$81 Million

*Deficit projected in November, increased in Proposed Budget*

- FY 2018 deficit projection in Mayor's November Outlook: **\$36.9 million** – largely attributable to annual pension payment increases resulting from new mortality study
- FY 2018 deficit projection in Proposed Budget: **\$81 million** – increase of \$44.1 million over Outlook
- Additional \$44.1 million increase of deficit due to:
  - \$8.4 million – adjustment to annual pension payment
  - \$10.3 million – increase in Public Safety personnel costs including overtime

# FY 2018 General Fund Deficit of \$81 Million *cont'd*

- Additional \$44.1 million increase of deficit due to:
  - \$10.4 million – contributions to meet Public Liability Reserve goals and increased claims and insurance costs
  - \$5 million – November 2017 special election for TOT increase
  - \$10 million – new department critical expenditures not accounted for in the Mayor's most recent Outlook

# Balancing the FY 2018 Proposed Budget

## *General Fund deficit mitigation actions: \$81 million*

Mayor's mitigating actions for addressing the deficit include:

- \$16 million – use of Pension Payment Stabilization Reserve
- \$15.5 million – use of excess Risk Management reserves
- \$4 million – lease revenue bond debt service payment from the Capital Outlay Fund
- \$4.7 million – reduction of Penny for the Arts funding
- \$8.3 million – use of part of the \$12.6 million Chargers lease termination payment
- \$8.3 million – use part of the \$11 million estimated Excess Equity
- \$22.3 million – reductions in department budgets

# Proposed Budget Includes Reductions that could Impact Service Levels

*While the Mayor focused on reductions that resulted in little to no service level impacts, our Office notes that some reductions could affect services*

- \$4.7 million reduction in TOT funds to Penny for the Arts
- 6.00 FTE/\$385,000 reduction in citywide park maintenance
- \$268,000 reduction in tree trimming, pool maintenance
- \$500,000 reduction in Library programming

# Proposed Budget Includes Reductions that could Impact Service Levels *cont'd*

- \$2.1 million reduction in Transportation & Storm Water funding for broad leaf tree trimming, permit compliance efforts, and master maintenance program
- \$873,000 reduction that depletes the Lifeguard Vessel Replacement Program Fund
- 2.00 FTE/\$203,000 reduction in code compliance officers
- 5.00 FTE/\$278,000 reduction in facilities maintenance positions





# The Mayor Funded Programmatic Additions in the Proposed Budget

*Some service and departmental priorities were included in the Proposed Budget*

- 5.31 FTE/\$655,826 for new Park & Recreation facilities and park maintenance
- 2.00 FTE/\$256,571 to support regulatory reform and process improvements in the Planning Department
- \$250,000 to the Development Services Department for Nuisance Abatement Fund support
- 9.00 FTE/\$899,923 for the addition of one sworn and eight civilian positions in the Police Department

# The Mayor Funded Programmatic Additions in the Proposed Budget *cont'd*

- \$400,000 to support a Parks Master Plan
- 1.00 FTE/\$139,126 in the City Attorney's Office to support the SMART program
- 7.00 FTE/\$864,694 to operate the Bayside Fire Station
- \$1.1 million for Fire-Rescue equipment purchases: Self-Contained Breathing Apparatus
- \$242,000 for portable radio replacement in the Fire-Rescue Department
- 5.00 FTE/\$367,199 for the Fire-Rescue dispatch center

# The Mayor has Issued His May Revision to the FY 2018 Proposed Budget

*The May Revise was released on May 16, increasing FY 2018 proposed expenditures and resources by \$14.6 million*

- Increase in resources due primarily to a \$14.1 million increase in Excess Equity
- Significant expenditure addition/restorations include:
  - FY 2019 General Fund reserves contributions - \$10.3 million
  - Partial restoration of arts and culture funding - \$2.4 million
  - Partial restoration of library programing - \$100,000
  - Littering and graffiti abatement pilot program - \$800,000

# The Mayor has Issued His May Revision to the FY 2018 Proposed Budget *cont'd*

- Significant expenditure addition/restorations include:
  - Support for the City Attorney Office's Domestic Violence and Neighborhood Prosecution Units - \$433,000
  - Police Officer recruitment and retention - \$150,000
  - Support for the Earned Sick Leave and Minimum Wage - \$134,000
  - Police Chief recruitment services - \$100,000
  - Tree planting - \$100,000
  - Homelessness Committee support - \$66,000



# City Council Priorities Addressed in the Proposed Budget and May Revision

*Council budget priorities resolution items funded (Y), partially funded (P), not funded (N), in the Mayor's Proposed Budget*

Public Safety	Police Officer Recruitment and Retention	Y
	Police Department Technology	P
	Operations Resources for the Fire-Rescue Department	Y
	Police Chief Recruitment	Y
Neighborhood Services	Code Enforcement	N
	Programs for the Homeless	P
Other Majority Operations and Maintenance Items	Penny for the Arts Blueprint (Blueprint) Funding Increase	P
	Connect2Careers Program	P
	Compliance with the Earned Sick Leave and Minimum Wage Ordinance	Y
	Climate Action Plan (CAP)	Y

# Looking Ahead to FY 2019

*The FY 2018 Proposed Budget is balanced, but a deficit is likely in FY 2019 despite current year cost-saving measures*

- Factors that could impact a FY 2019 deficit:
  - Increase to the City's ADC pension payment
  - Future contributions to meet reserve goals and debt service payments
  - New ongoing costs, for example staffing for new Park & Recreation facilities and a new branch library
  - Federal funding reductions, eg Community Development Block Grants (CDBG)
  - Employee compensation agreements



# Significant Issues Relevant to FY 2018 and Beyond

*IBA report highlights a number of issues that are not fully addressed in the FY 2018 Proposed Budget*

- Police Officer Recruitment and Retention
  - The Police Department faces significant and persistent challenges related to police officer recruitment and retention
  - Police staffing issues received the greatest number of mentions in Council budget priority memoranda
  - The FY 2018 Proposed Budget fully funds expanded academies and previously negotiated compensation increases



# Significant Issues Relevant to FY 2018 and Beyond *cont'd*

- Police Officer Recruitment and Retention - the proposed FY 2018 recruitment budget of \$50,000 has been increased to \$200,000 in the May Revise

## Police Sworn Positions – Budget vs. Actual

Fiscal Year	Budgeted Positions	Actual Filled Positions*	Variance
FY 2017	2,039.00	1,832.00	(207.00)
FY 2016	2,036.00	1,850.00	(186.00)
FY 2015	2,013.00	1,832.00	(181.00)
FY 2014	1,977.67	1,837.00	(140.67)
FY 2013	1,969.50	1,832.00	(137.50)

\*Actual figures are as of July 1 of each fiscal year except for FY 2017, for which current figures as of April 24, 2017, are shown.

# Significant Issues Relevant to FY 2018 and Beyond *cont'd*

- Storm Water Permit Requirements and Funding Challenges
  - Storm Water permit costs continue to be significant:
    - \$3.1 billion in expenditures are expected to be needed through FY 2040 to ensure compliance
    - The City lacks a dedicated stream of revenue sufficient to meet these expenditure needs
  - TSW has worked with the Regional Board to refine permits and decrease costs, but even with these efforts costs remain high

# Significant Issues Relevant to FY 2018 and Beyond *cont'd*

- Storm Water Permit Requirements and Funding Challenges
  - The City is trending towards compliance with Total Maximum Daily Load (TMDL) deadlines beginning in FY 2018 and FY 2019
  - The City is **not** trending towards compliance with TMDLs that begin hitting in FY 2020 and FY 2021
  - Fines for non-compliance are up to \$10,000 per day, per violation

# Significant Issues Relevant to FY 2018 and Beyond *cont'd*

- Addressing the City's infrastructure backlog
  - The FY 2018-2022 Five-Year Infrastructure Outlook identified unfunded needs of \$1.27 billion
  - Greatest needs are: street paving, parks, City facilities, storm water, sidewalks, fire stations, and libraries
  - City has issued \$280 million of bonds since FY 2009, with \$270 million more to be issued over the next several years
  - Condition assessments have been completed or are underway, processes have been streamlined, engineering staff have been added

# Significant Issues Relevant to FY 2018 and Beyond *cont'd*

- Addressing the City's infrastructure backlog
  - A focus on streets improvements has resulted in achieving an average OCI goal of 70 or greater for City streets
  - Proposition H Infrastructure Fund was approved by voters in June 2016, providing additional funding
  - City is expected to receive significant funds for streets due to new State Gas Tax and the proposed TOT measure
  - Significant progress has been made, but large infrastructure funding needs remain



## Next Steps in the Process

*Council has been meeting to review the FY 2018 Proposed Budget and to hear from the City departments and the public*

- May 22: City Councilmembers issue final budget priority memoranda to the Office of the IBA
- June 1: Office of the IBA final report issued on recommended changes to the Proposed Budget based on input from Council memoranda and further review of outstanding issues

## Next Steps in the Process *cont'd*

- June 5: City Council makes final FY 2018 budget decisions and takes action on any FY 2018 budget revisions
- June 26: City Council introduces and adopts the FY 2018 Appropriations Ordinance