Budget Briefing with Councilmember Chris Cate and Residents of District 6

May 23, 2017
FY 2018 Budget Development Process

**November**
- Five-Year Financial Outlook is updated, including Mayoral priorities and goals

**December/January**
- City Departments develop and submit budget proposals to the Financial Management Department (FM)

**January/February**
- Budget priorities of City Councilmembers are incorporated into a Council resolution and transmitted to the Mayor

**June**
- Council adopts Budget Resolution by June 15
- Appropriation Ordinance is adopted by Council

**February/March**
- CFO and FM oversee continued development of citywide Proposed Budget

**April**
- Mayor releases Proposed Budget by April 15
- Independent Budget Analyst (IBA) releases review of Proposed Budget

**Mid- to Late May**
- Councilmembers provide IBA with final budget modification priorities
- IBA provides final budget report and recommendations

**Early to Mid-May**
- City Council Budget Review Committee holds departmental budget hearings
- Mayor’s May Revision is released

**Start**

**End**
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 $1,408.84 (39%)
- Special Revenue Funds $545.66 (15%)
- Capital Improvements Program $445.43 (12%)
- Capital Project Funds $17.27 (1%)
- Enterprise Funds $1,025.77 (29%)
- Internal Service Funds $128.69 (4%)

Prepared by Financial Management Department
General Fund Expenditures
$1.41 Billion

- Police: $463.85 (33%)
- Park & Recreation: $109.32 (8%)
- Transportation & Storm Water: $120.97 (9%)
- Public Works - General Services: $20.18 (1%)
- City Attorney: $53.35 (4%)
- Citywide Program Expenditures: $140.34 (10%)
- Environmental Services: $39.72 (3%)
- Fire-Rescue: $258.15 (18%)
- Library: $54.10 (4%)
- Other: $148.86 (10%)
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.
Mayor’s Fiscal Year 2018 Proposed Budget

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
Mayor’s Fiscal Year 2018 Proposed Budget

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

![Graph showing transient occupancy tax revenue from FY 2009 to FY 2018]
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 \textit{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_

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Budgeted Positions</th>
<th>Actual Filled Positions*</th>
<th>Variance</th>
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</thead>
<tbody>
<tr>
<td>FY 2017</td>
<td>2,039.00</td>
<td>1,832.00</td>
<td>(207.00)</td>
</tr>
<tr>
<td>FY 2016</td>
<td>2,036.00</td>
<td>1,850.00</td>
<td>(186.00)</td>
</tr>
<tr>
<td>FY 2015</td>
<td>2,013.00</td>
<td>1,832.00</td>
<td>(181.00)</td>
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<tr>
<td>FY 2014</td>
<td>1,977.67</td>
<td>1,837.00</td>
<td>(140.67)</td>
</tr>
<tr>
<td>FY 2013</td>
<td>1,969.50</td>
<td>1,832.00</td>
<td>(137.50)</td>
</tr>
</tbody>
</table>

*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  

• 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  

• 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