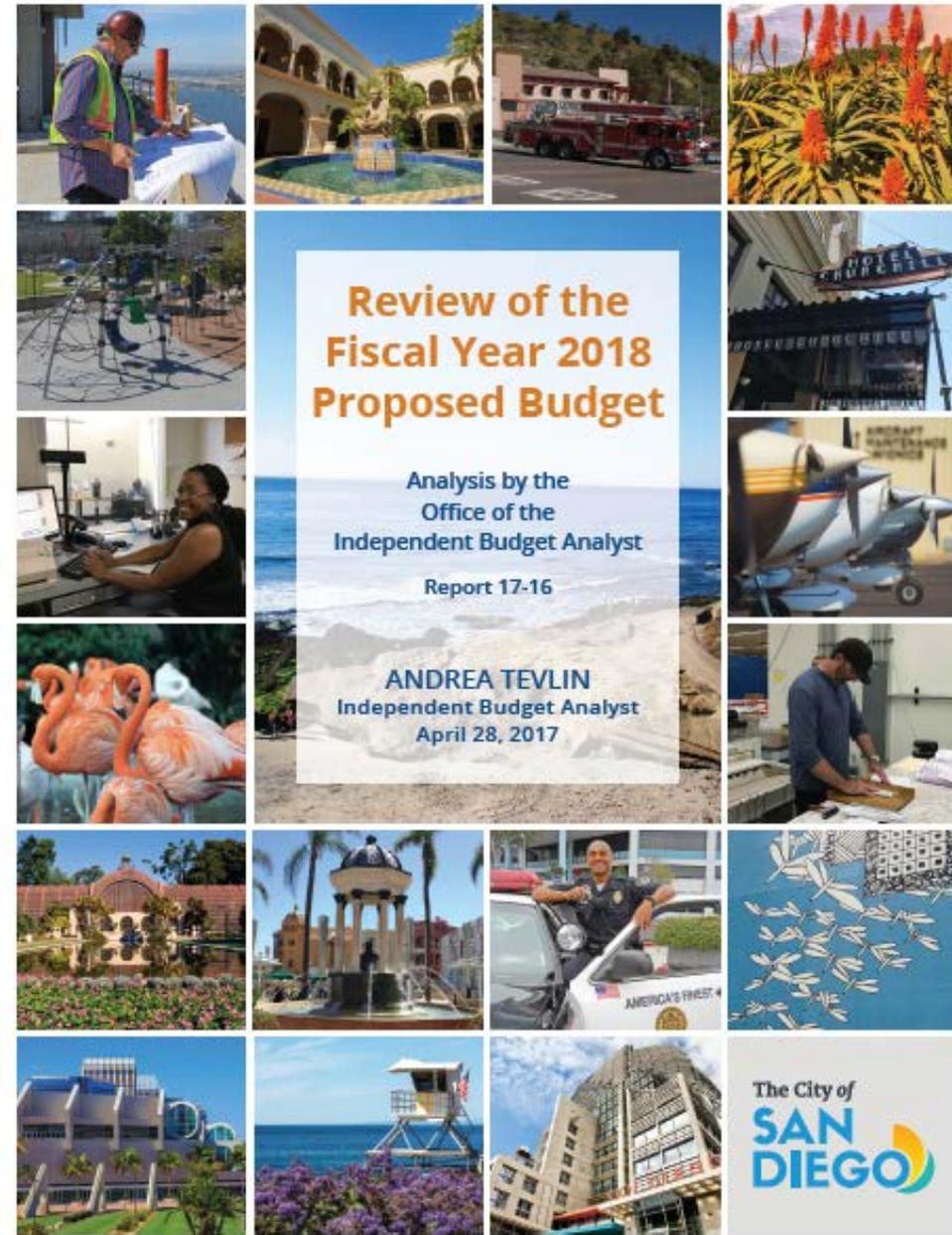


Budget Town Hall with Councilmember Georgette Gómez and Residents of District 9

May 18, 2017



Review of the Fiscal Year 2018 Proposed Budget

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

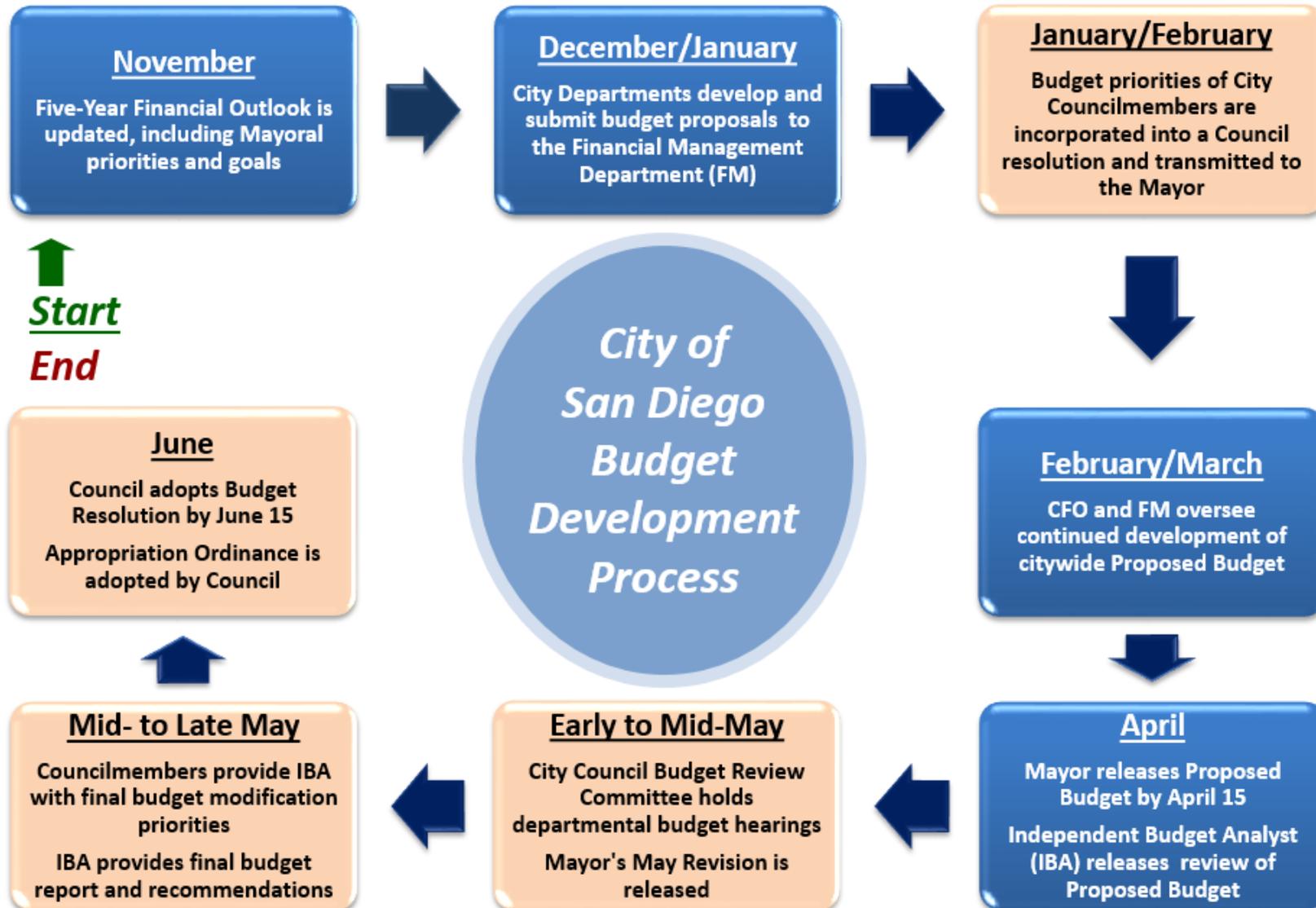
ANDREA TEVLIN
Independent Budget Analyst
April 28, 2017



Independent Budget Analyst



FY 2018 Budget Development Process



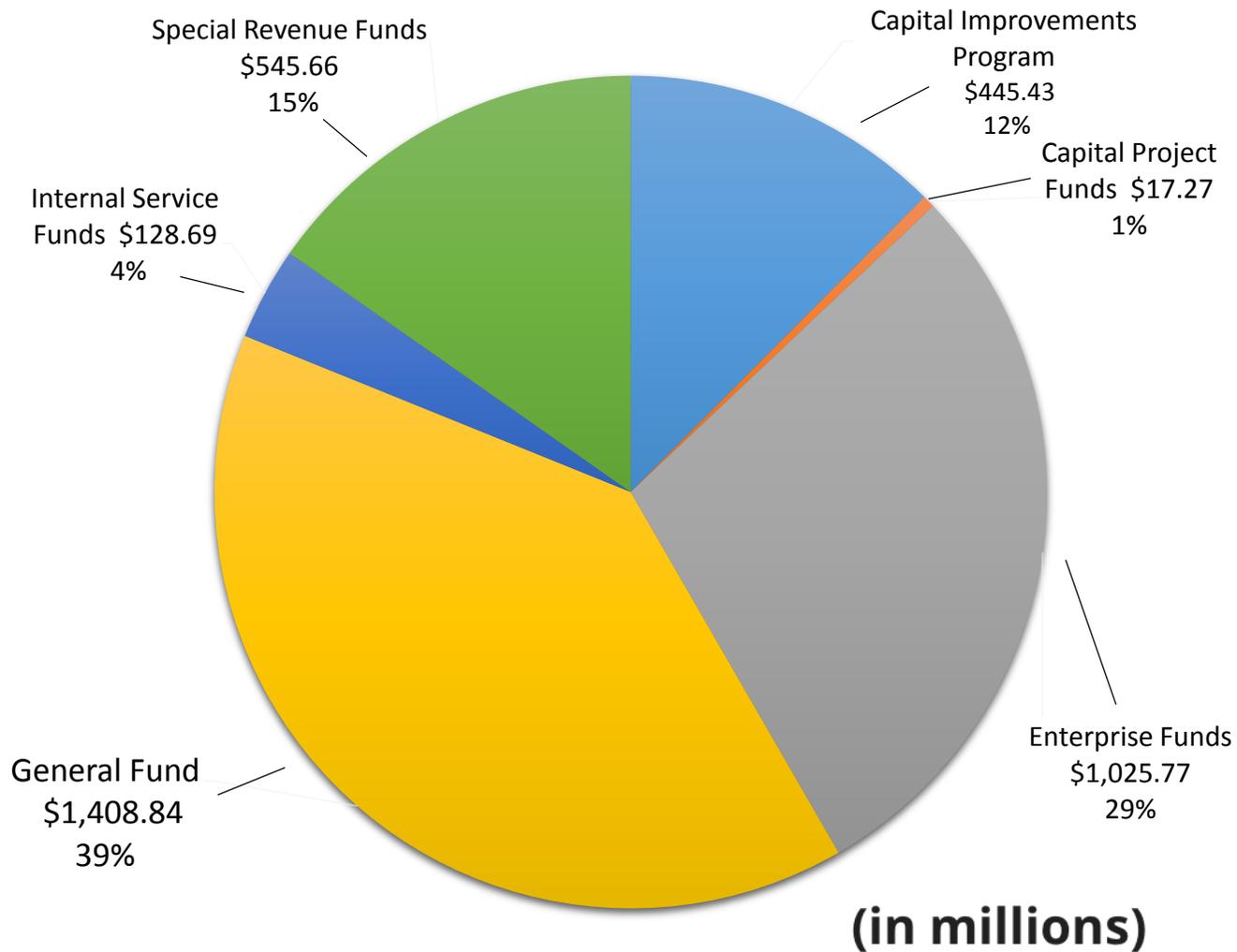
City Council Budget Authority

The Mayor has proposed his budget, 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

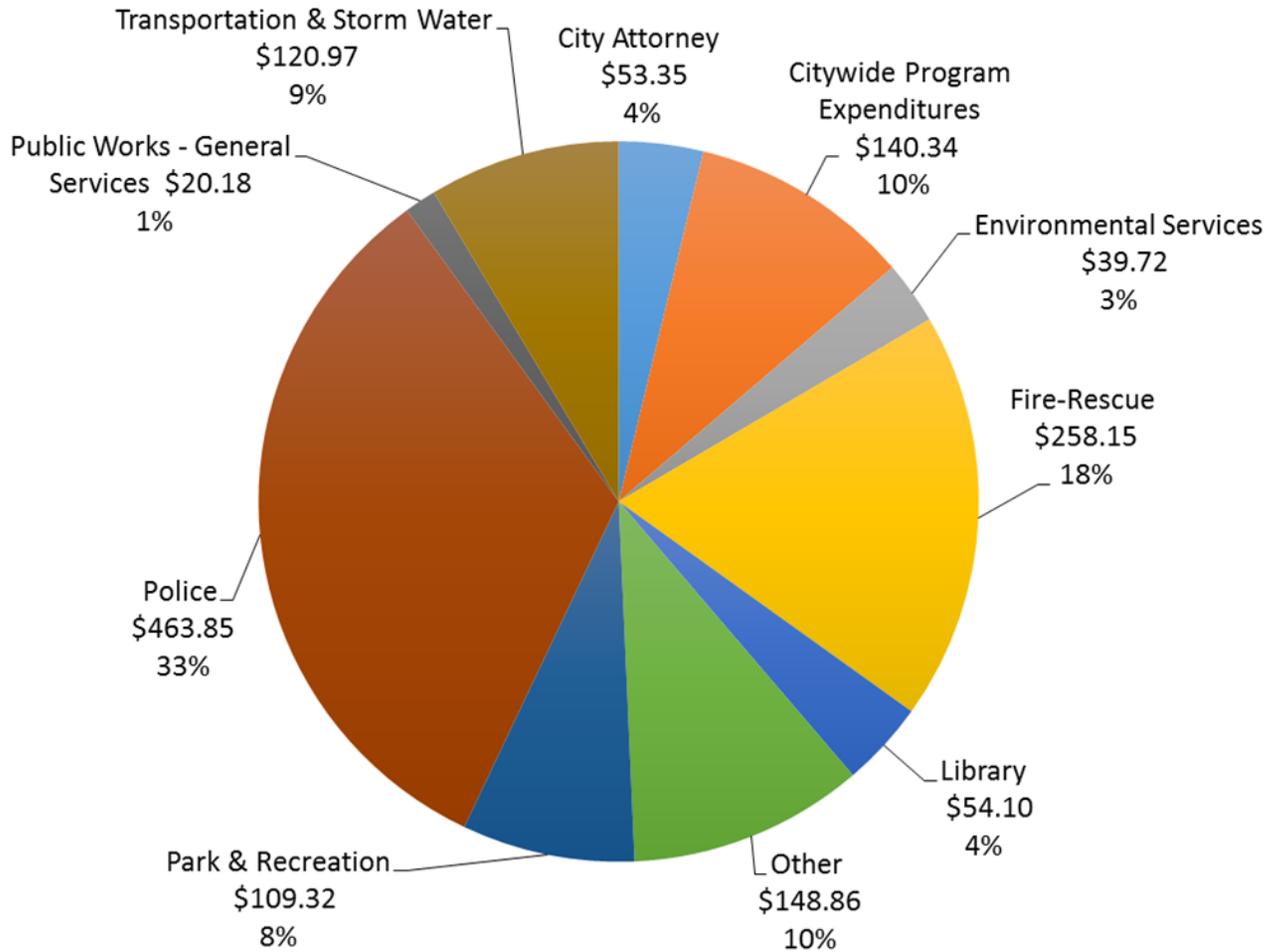


Citywide Proposed Budget \$3.57 Billion





General Fund Expenditures \$1.41 Billion

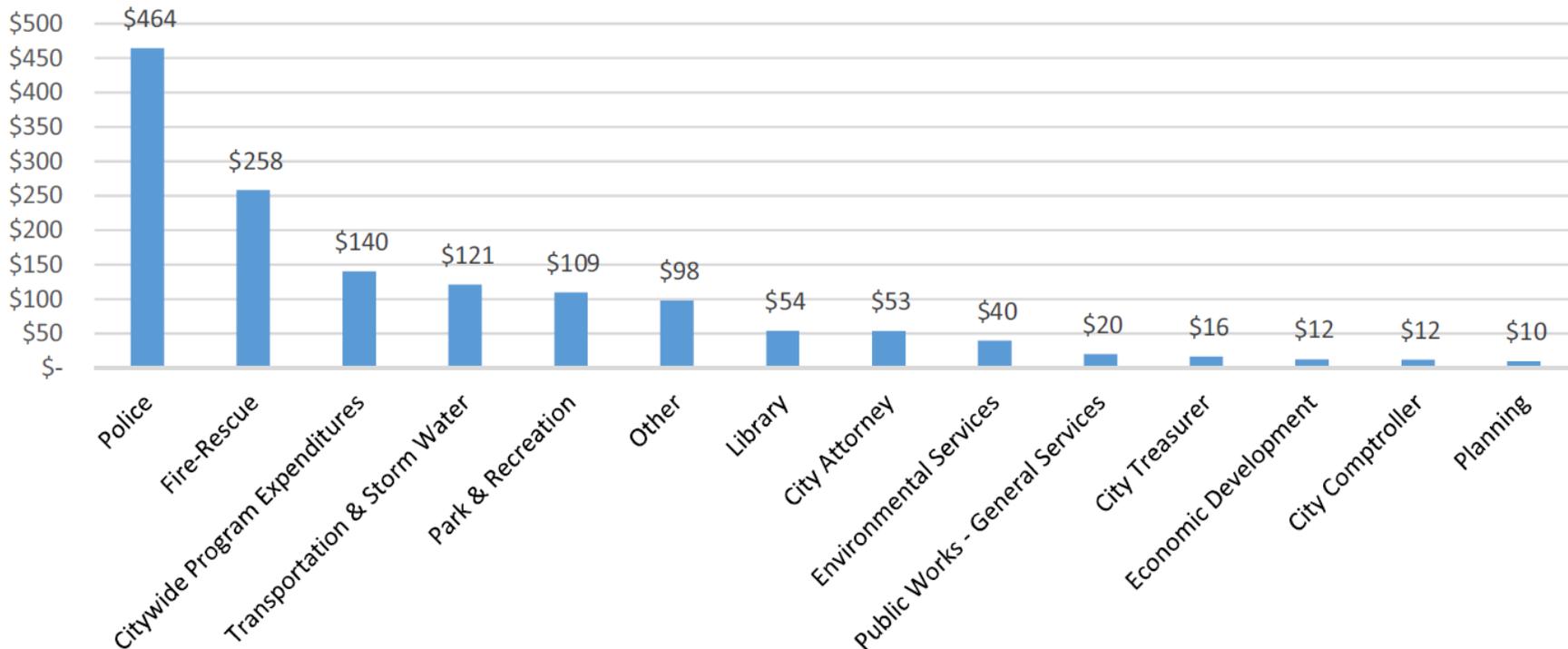


(in millions)



IBA: General Fund Overview *cont'd*

FY 2018 Proposed General Fund expenditures by Departments (in millions)



Note: The Other category includes: City Auditor, City Clerk, City Council, Communications, Debt Management, Department of Information Technology, Development Services, Ethics Commission, Financial Management, Human Resources, Infrastructure/Public Works, Internal Operations, Neighborhood Services, Office of Homeland Security, Office of the Assistant COO, Office of the Chief Financial Officer, Office of the Chief Operating Officer, Office of the IBA, Office of the Mayor, Performance & Analytics, Personnel, Public Utilities, Public Works - Contracting, Purchasing & Contracting, and Real Estate Assets.



IBA: General Fund Overview

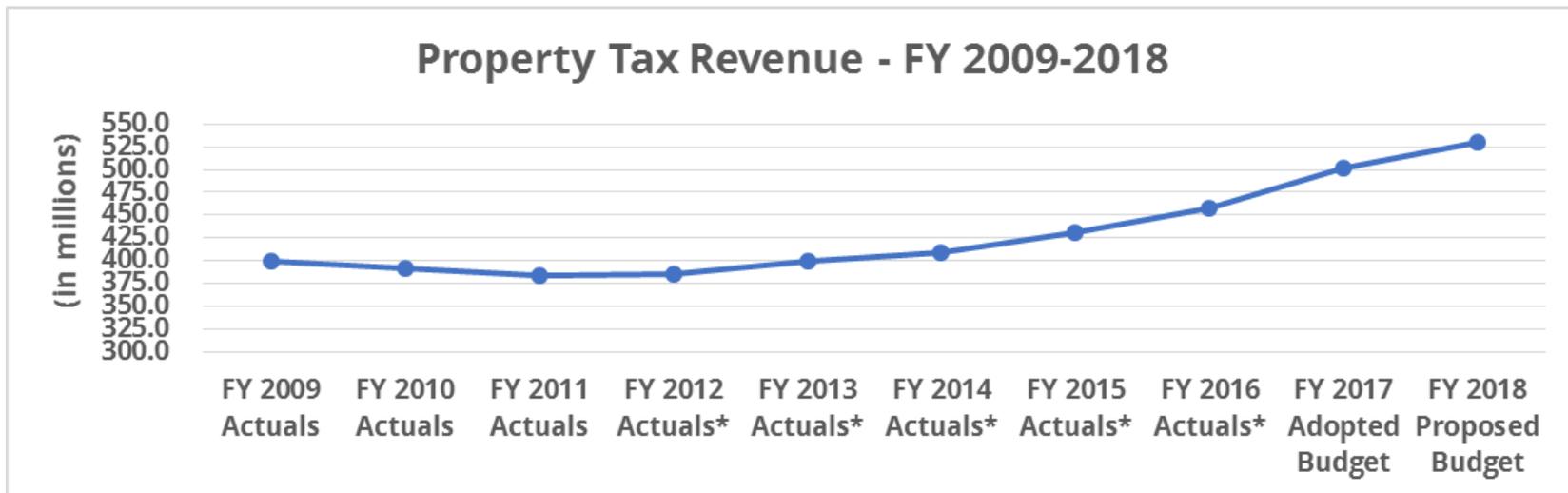
The FY 2018 Proposed Budget includes \$1.41 billion in proposed General Fund expenditures

- Increase of \$70.9 million or 5.3% over the FY 2017 Adopted Budget
- Total FTE positions: 7,520.44
- Our Office agrees with the FY 2018 General Fund revenue projections that support the Proposed Budget



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)

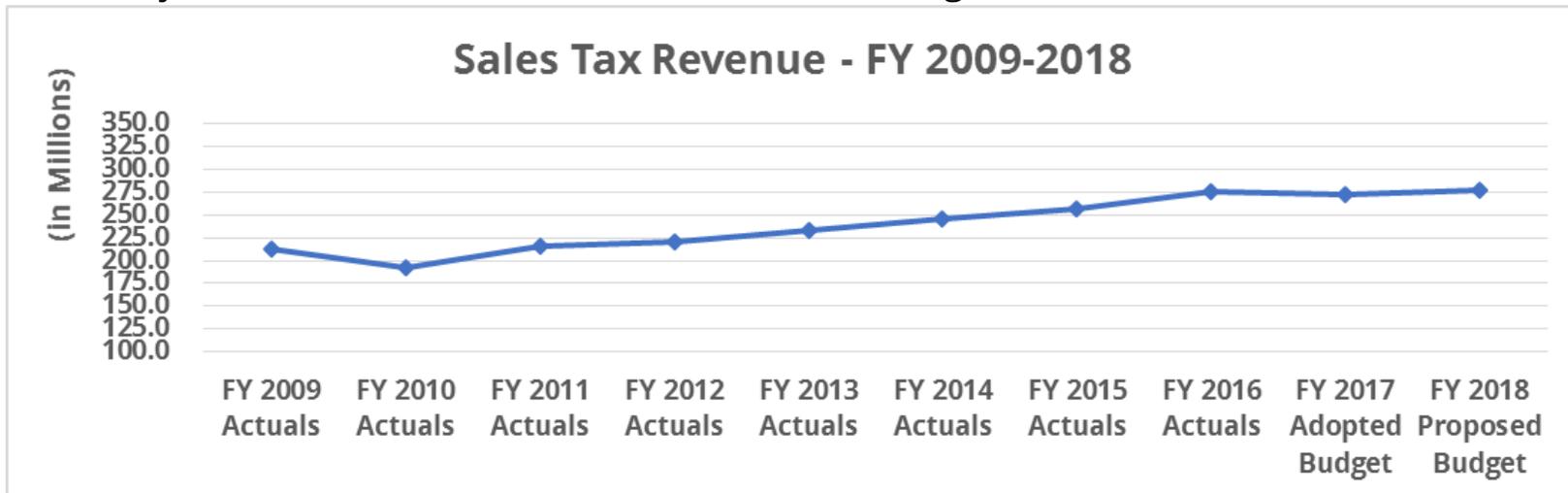


* Excludes pass-through, residual property tax sharing payments, and Property Tax Administration Fee settlement.



Sales Tax Revenue

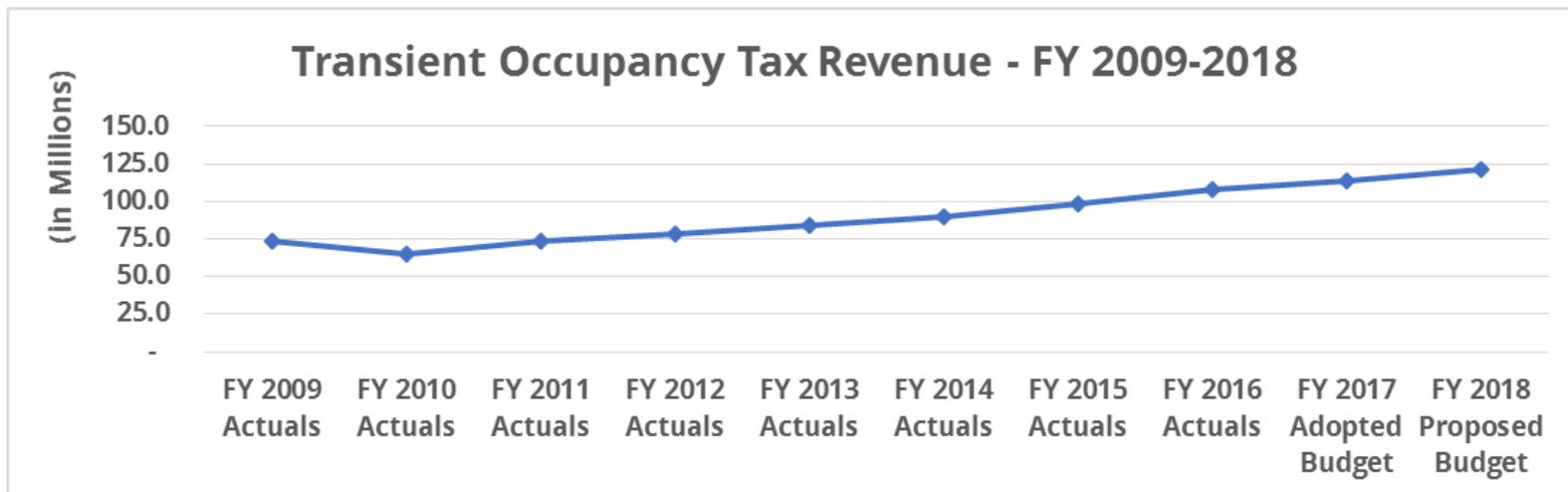
- ❖ FY 2018 Proposed Budget: \$276.9 million
- ❖ Budgeted Growth Rate: 2.5 percent
- ❖ Increase from FY 2017 Adopted Budget: \$4.1 million
- ❖ Economic Assumptions:
 - ❖ As of December 2016, Unemployment rate was 3.9 percent
 - ❖ Projected increases in consumer confidence and spending
 - ❖ Projected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





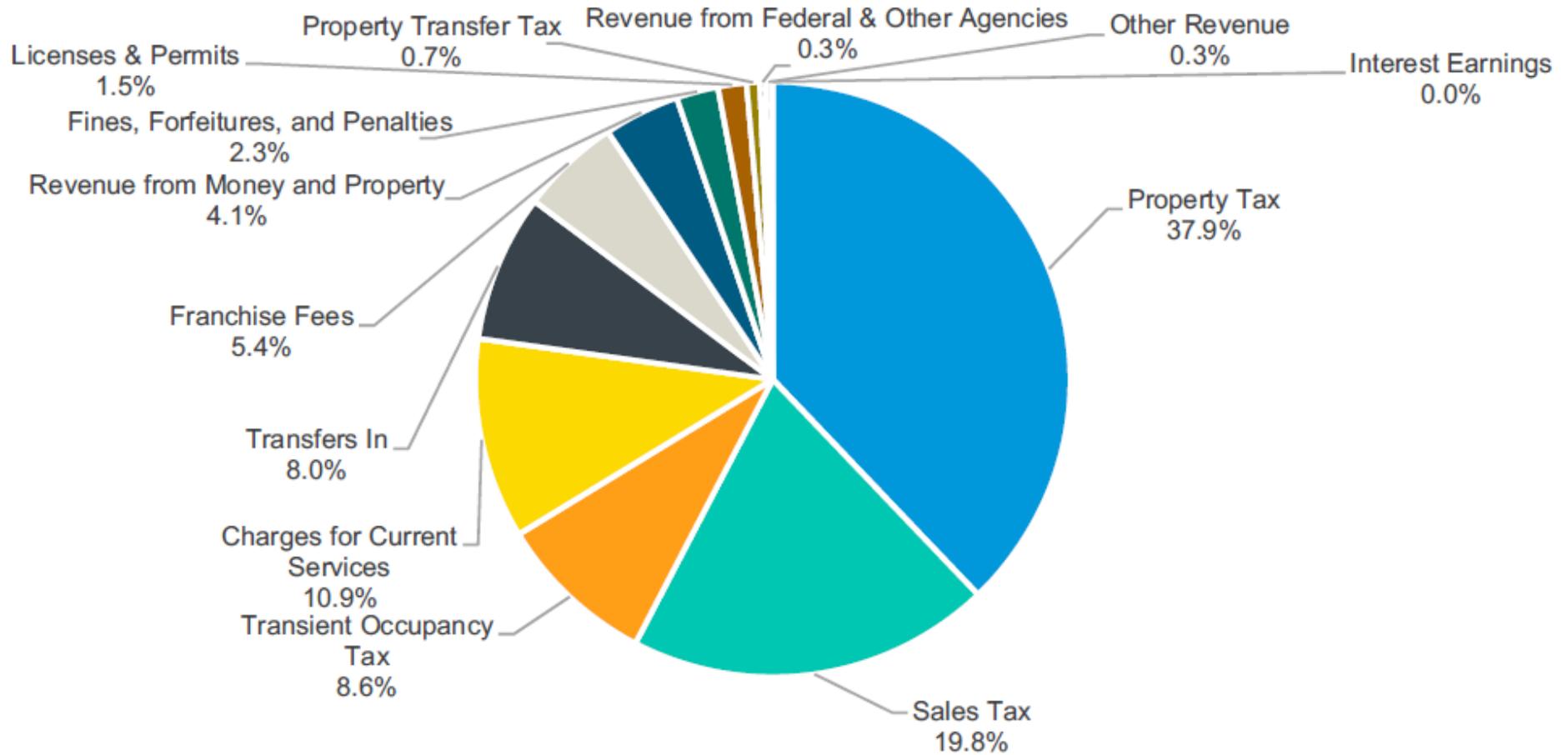
Transient Occupancy Tax Revenue

- ❖ 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



IBA: General Fund Overview *cont'd*

FY 2018 General Fund revenues - \$1.40 billion



Significant Contributors to the Revised Deficit

FY 2018 General Fund deficit of \$81 million

- FY 2018 deficit projection in Mayor's recent Outlook: **\$36.9 million**
- FY 2018 deficit projection in Proposed Budget: **\$81 million** – increase of \$44.1 million over Outlook
- Projected \$44.1 million increase of deficit due to:
 - \$8.4 million – additional increase to ADC pension payment
 - \$10.3 million – increase in Public Safety personnel costs related to overtime and decreased Fire-Rescue vacancy savings

Significant Contributors to the Revised Deficit *cont'd*

- Projected \$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
 - \$10 million – a number of 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

- Ongoing and one-time mitigating actions for the projected \$81 million deficit include:
 - \$16 million (one-time) – use of Pension Payment Stabilization Reserve
 - \$15.5 million (one-time) – use of excess Risk Management reserves
 - \$4 million (one-time) – lease revenue bond debt service payment from the Capital Outlay Fund
 - \$4.7 million (ongoing) – reduction of Penny for the Arts funding

Balancing the FY 2018 Proposed Budget *cont'd*

- Ongoing and one-time mitigating actions for the projected \$81 million deficit include:
 - \$8.3 million (one-time) – use of part of the \$12.6 million Chargers lease termination payment
 - \$8.3 million (one-time) – use of part of the \$11 million estimated Excess Equity
 - \$22.3 million (ongoing) – reductions in department budgets

Proposed Budget 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 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



Significant Programmatic Additions in the FY 2018 Proposed Budget

Some service and departmental priorities were added to 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

Significant Programmatic Additions in the FY 2018 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's May Revision to the FY 2018 Proposed Budget

The May Revision 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 programming - \$100,000
 - Littering and graffiti abatement pilot program - \$800,000

The Mayor's 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 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
Funding Sources	Use of Chargers Lease Termination Payment	Y
	Use of City Reserves	Y
	Commercial Paper Program/Deferred Capital Bonds	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
 - 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 met as the Budget Review Committee to review the FY 2018 Proposed Budget and will approve the budget in June

- May 18: Budget Review Committee reviews the Mayor's May Revise for consideration in final budget decisions
- 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