

IBA Review of the Mayor's FY 2018-2022 Five-Year Financial Outlook

City Council, Item 330

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Overview of Mayor's Outlook

The Outlook projects Baseline deficits in FY 2018 and FY 2019, surpluses in FY 2020-2022

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Baseline General Fund Revenues	\$ 1,365.1	\$ 1,416.9	\$ 1,468.2	\$ 1,522.9	\$ 1,573.8
Charter Section 77.1 - Infrastructure Fund	17.0	15.1	14.4	12.8	13.0
Baseline General Fund Expenditures	1,384.9	1,422.5	1,453.3	1,469.9	1,480.7
Total Baseline Revenues (Less)/ Greater Than Expenditures	\$ (36.9)	\$ (20.7)	\$ 0.5	\$ 40.1	\$ 80.1

Overview of Mayor's Outlook *cont'd*

The Outlook differs from prior years

- Outlook projections based on continuing existing services and operations (Baseline)
- Budget Policy: the Outlook “shall... include projections for committed expenditures”
 - Operational costs for new facilities
 - Contractual obligations
 - Federal and State legal mandates
 - Adopted City Council policies

Overview of Mayor's Outlook *cont'd*

- Outlook *discusses* five years of critical strategic expenditures, totaling \$191.7 million
- These expenditures, while critical, are not included in the projection calculation
- Outlook projected deficit could be much higher than \$36.9 million in FY 2018 if additional revenues or further reductions are not identified

General Fund Baseline

In Outlook, baseline expenditures are projected to grow from the FY 2017 Adopted Budget of \$1.34 billion to \$1.49 billion in FY 2022

- No programmatic or position increases in the Baseline
- Significant increases due to:
 - ADC pension payment
 - Recently negotiated labor agreements
 - Voter-approved Proposition H (Infrastructure Fund)

General Fund Baseline cont'd

- Update: FY 2018 ADC projected to increase by \$9.7 million more than estimated in the Outlook, due to latest release from SDCERS

Significant Expenditure Increases (Updated ADC Increase)

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
ADC Increase	\$ 46.4	\$ 49.9	\$ 53.2	\$ 56.2	\$ 58.9
Increased Costs due to Labor Agreements	15.9	31.8	45.0	45.0	45.0
Infrastructure Fund	17.0	15.1	14.4	12.8	13.0
Total Increased Baseline Costs	\$ 79.3	\$ 96.7	\$ 112.6	\$ 114.0	\$ 116.9

- Baseline **revenues** are projected to grow from \$1.33 billion projected in FY 2017 to \$1.57 billion in FY 2022
- Outlook revenue growth projections and growth scenarios are reasonable

Mayor's Critical Strategic Expenditures

Items identified, but not “funded,” in the Outlook total \$191.7 million over five years and include:

- Significant projects underway:
 - The Police Department's CAD project
 - Phase 1 of the I AM project
 - Civic Center Plaza reconfiguration
 - CNG Fueling Station
 - IT maintenance and upgrades
- Contractual obligations: for example Council-approved debt-service on Fire-Rescue SCBA equipment

Mayor's Critical Strategic Expenditures

- Operating costs for new facilities under construction or expected to be completed during the Outlook period:
 - Four new fire stations: Bayside, Black Mountain Ranch, North University City, and UC San Diego
 - New/replacement branch libraries: Pacific Highlands (new), and Mission Hills and San Ysidro (replacement/upgrade)
 - 20 new and expanded parks and 26 new Joint Use Agreements with local school districts
- Support for City Council policies: such as debt-service for future deferred capital bonds/commercial paper borrowing

Mayor's Critical Strategic Expenditures cont'd

- Enforcement of voter-approved measures: such as earned sick leave and minimum wage enforcement
- Vehicle replacement schedules: replacement of approximately 2,000 vehicles in the City's fleet to maintain operational standards

FY 2018 - Expenditures in Excess of Revenues

(\$ in millions)	FY 2018
Deficit - Outlook Baseline Calculation	\$ 36.9
Revised ADC Increase	9.7
Mayor's Critical Strategic Expenditures	17.9
Total Projected Deficit	\$ 64.5

IBA-Identified Potential Priority Expenditures

Items identified but not “funded” in the Outlook include:

- Significant IT projects: including Phase 2 of I AM
- Other plans currently underway: including the Climate Adaptation Plan and the Parks Master Plan
- Operating costs for new facilities: such as new fire stations in the outer years of the Outlook that were included in the FY 2017-2021 Outlook (in addition to the fire stations previously noted)

IBA-Identified Potential Priority Expenditures cont'd

- Support for recent City Council budget actions: such as continuation of the 7% “Penny for the Arts” funding level
- Contractual obligations: including the final payment due to replace synthetic turf at Pershing Middle School
- Other recent budget/service priorities including:
 - 311 – Customer Experience and Service Delivery Program
 - Expanded recreation center hours
 - Officer recruitment and retention

IBA-Identified Potential Priority Expenditures cont'd

- The Mayor also discussed, but did not provide cost projections for, projected street and storm water permit requirement expenditures
- *While these needs are capital in nature, some General Fund support for slurry seal and significant General Fund support for storm water compliance efforts is expected to be necessary over the Outlook, which could further increase the deficit*

Capital Expenditures that May Impact General Fund

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Slurry Seal Work	\$ -	\$ 19,170,614	\$ 22,480,057	\$ 25,766,496	\$ 25,058,039
Storm Water Permit Compliance Funding Gap	\$ 59,557,784	\$ 70,105,497	\$ 49,891,063	\$ 69,629,963	\$ 91,207,638
Total	\$ 59,557,784	\$ 89,276,111	\$ 72,371,120	\$ 95,396,459	\$ 116,265,677

Potential Resources and Mitigation Actions

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

- City Reserves Options:
 - Modifying reserve funding targets or timing of when funding targets are achieved
 - Funds from Pension Payment Stabilization Reserve
 - Public Liability and Long-Term Disability reserves that are in excess of targets
- Use of fund balance (Excess Equity)
- CIP cash management review

Potential Resources and Mitigation Actions cont'd

- FY 2018 budget reduction of 3.5% for General Fund departments and funds with a General Fund impact
- Cannabis Tax Revenue - dependent upon policy direction for the program
- Increased revenues due to the addition of audit staff for TOT tax compliance
- Use of Infrastructure Fund to support Baseline or critical infrastructure expenditures

Recommendations for Council

Accept the Mayor's Outlook

- The Outlook is a planning tool, not a budget. Council can review issues and provide direction for FY 2018:
 - Council can consider bringing critical items to committees for discussion, prior to issuance of the Mayor's budget
 - How critical are these items?
 - Are there other pathways to accomplishing these programs and projects?
 - What would the impact to City services be if there was a change in the program or funding?
 - Address Councilmember concerns or issues in upcoming Budget Priority memoranda